

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

FORM 10-Q

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

For the quarterly period ended June 30, 2021

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

Commission File Number: 001-36853

ZILLOW GROUP, INC.

(Exact name of registrant as specified in its charter)

Washington
(State or other jurisdiction of
incorporation or organization)

47-1645716
(I.R.S. Employer
Identification No.)

1301 Second Avenue, Floor 31,
Seattle, Washington 98101
(Address of principal executive offices) (Zip Code)
(206) 470-7000
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A Common Stock, par value \$0.0001 per share	ZG	The Nasdaq Global Select Market
Class C Capital Stock, par value \$0.0001 per share	Z	The Nasdaq Global Select Market

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

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of July 29, 2021, 61,349,554 shares of Class A common stock, 6,217,447 shares of Class B common stock, and 185,989,162 shares of Class C capital stock were outstanding.

ZILLOW GROUP, INC.
Quarterly Report on Form 10-Q
For the Three Months Ended June 30, 2021
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As used in this Quarterly Report on Form 10-Q, the terms “Zillow Group,” “the Company,” “we,” “us” and “our” refer to Zillow Group, Inc., unless the context indicates otherwise.

NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those risks, uncertainties and assumptions described in Part I, Item 1A (Risk Factors) in our Annual Report on Form 10-K for the year ended December 31, 2020, including, but not limited to:

- the impact of the COVID-19 pandemic (including variants) or other public health crises and any associated economic downturn on our future financial position, operations and financial performance;
- the magnitude, duration and severity of the COVID-19 pandemic and the availability and widespread distribution and use of effective vaccines;
- the impact of actions taken by governments, businesses and individuals in response to the COVID-19 pandemic, including changes in laws or regulations that limit our ability to operate;
- the current and future health and stability of the economy, financial conditions and residential housing market, including any extended slowdown in the real estate markets as a result of the COVID-19 pandemic;
- changes in laws or regulations applicable to our business, employees, products or services, including current and future laws, regulations and orders that limit our ability to operate in light of the COVID-19 pandemic;
- the satisfaction of conditions precedent to the closing of Zillow Group’s proposed acquisition of ShowingTime.com, Inc., including expiration or termination of any applicable waiting period under the Hart-Scott-Rodino Act or Zillow Group’s timing agreement with ShowingTime.com, Inc. and the U.S. Federal Trade Commission;
- changes in general economic and financial conditions that reduce demand for our products and services, lower our profitability or reduce our access to credit;
- 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;
- acquisitions, strategic partnerships, joint ventures, capital-raising activities or other corporate transactions or commitments by us or our competitors;
- actual or anticipated changes in technology, products, markets or services by us or our competitors;
- ability to obtain or maintain licenses and permits to support our current and future businesses;
- ability to comply with MLS rules and requirements to access and use listing data, and to maintain or establish relationships with listings and data providers;
- ability to operate our mortgage originations business, including the ability to obtain sufficient financing;
- fluctuations in the valuation of companies perceived by investors to be comparable to us;
- the impact of natural disasters and other catastrophic events;
- the impact of pending or future litigation; and
- issuance of new or updated research or reports by securities analysts.

Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the effect of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this report may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

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

WHERE YOU CAN FIND MORE INFORMATION

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

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

- Zillow Group Investor Relations Webpage (<http://investors.zillowgroup.com>)
- Zillow Group Investor Relations Blog (<http://www.zillowgroup.com/ir-blog>)
- Zillow Group Twitter Account (<https://twitter.com/zillowgroup>)

The information Zillow Group posts through these channels may be deemed material. Accordingly, investors should monitor these channels, in addition to following Zillow Group’s press releases, SEC filings and public conference calls and webcasts. This list may be updated from time to time. The information we post through these channels is not a part of this Quarterly Report on Form 10-Q or any other document we file with the SEC, and the inclusion of our website addresses and Twitter account are as inactive textual references only.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

ZILLOW GROUP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share data, unaudited)

	June 30, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,713,156	\$ 1,703,130
Short-term investments	880,875	2,218,108
Accounts receivable, net of allowance for doubtful accounts of \$3,955 and \$3,427 at June 30, 2021 and December 31, 2020, respectively	101,927	69,940
Mortgage loans held for sale	171,450	330,758
Inventory	1,169,601	491,293
Prepaid expenses and other current assets	107,687	75,846
Restricted cash	141,024	75,805
Total current assets	6,285,720	4,964,880
Contract cost assets	47,938	50,719
Property and equipment, net	189,950	196,152
Right of use assets	175,058	187,960
Goodwill	1,984,907	1,984,907
Intangible assets, net	81,362	94,767
Other assets	10,486	7,175
Total assets	<u>\$ 8,775,421</u>	<u>\$ 7,486,560</u>
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	\$ 15,640	\$ 18,974
Accrued expenses and other current liabilities	175,876	94,487
Accrued compensation and benefits	55,564	47,666
Borrowings under credit facilities	987,832	670,209
Deferred revenue	53,547	48,995
Lease liabilities, current portion	27,963	28,310
Convertible senior notes, current portion	330,095	—
Total current liabilities	1,646,517	908,641
Lease liabilities, net of current portion	193,891	207,723
Convertible senior notes, net of current portion	1,276,487	1,613,523
Other long-term liabilities	14,411	14,857
Total liabilities	3,131,306	2,744,744
Commitments and contingencies (Note 16)		
Shareholders' equity:		
Preferred stock, \$0.0001 par value; 30,000,000 shares authorized; no shares issued and outstanding	—	—
Class A common stock, \$0.0001 par value; 1,245,000,000 shares authorized; 61,349,434 and 61,101,303 shares issued and outstanding as of June 30, 2021 and December 31, 2020, respectively	6	6
Class B common stock, \$0.0001 par value; 15,000,000 shares authorized; 6,217,447 shares issued and outstanding	1	1
Class C capital stock, \$0.0001 par value; 600,000,000 shares authorized; 181,296,050 and 173,207,170 shares issued and outstanding as of June 30, 2021 and December 31, 2020, respectively	18	17
Additional paid-in capital	6,721,435	5,880,883
Accumulated other comprehensive income	305	164
Accumulated deficit	(1,077,650)	(1,139,255)
Total shareholders' equity	<u>5,644,115</u>	<u>4,741,816</u>
Total liabilities and shareholders' equity	<u>\$ 8,775,421</u>	<u>\$ 7,486,560</u>

See accompanying notes to the condensed consolidated financial statements.

ZILLOW GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data, unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Revenue:				
Homes	\$ 777,145	\$ 454,252	\$ 1,481,297	\$ 1,224,125
IMT	476,090	280,339	922,418	611,005
Mortgages	56,745	33,761	124,705	59,043
Total revenue	<u>1,309,980</u>	<u>768,352</u>	<u>2,528,420</u>	<u>1,894,173</u>
Cost of revenue:				
Homes	707,522	434,900	1,352,125	1,170,659
IMT	43,444	45,354	90,481	95,407
Mortgages	20,619	7,229	40,299	13,815
Total cost of revenue	<u>771,585</u>	<u>487,483</u>	<u>1,482,905</u>	<u>1,279,881</u>
Gross profit	<u>538,395</u>	<u>280,869</u>	<u>1,045,515</u>	<u>614,292</u>
Operating expenses:				
Sales and marketing	229,434	160,667	427,389	369,111
Technology and development	128,463	97,507	248,764	197,988
General and administrative	115,102	85,380	215,556	177,580
Impairment costs	—	—	—	76,800
Acquisition-related costs	3,671	—	4,488	—
Total operating expenses	<u>476,670</u>	<u>343,554</u>	<u>896,197</u>	<u>821,479</u>
Income (loss) from operations	61,725	(62,685)	149,318	(207,187)
Gain (loss) on extinguishment of debt	(931)	6,391	(2,334)	6,391
Other income	1,587	10,115	4,026	19,708
Interest expense	(39,430)	(37,590)	(78,985)	(75,182)
Income (loss) before income taxes	22,951	(83,769)	72,025	(256,270)
Income tax benefit (expense)	(13,310)	(679)	(10,420)	8,549
Net income (loss)	<u>\$ 9,641</u>	<u>\$ (84,448)</u>	<u>\$ 61,605</u>	<u>\$ (247,721)</u>
Net income (loss) per share:				
Basic	\$ 0.04	\$ (0.38)	\$ 0.25	\$ (1.15)
Diluted	\$ 0.04	\$ (0.38)	\$ 0.24	\$ (1.15)
Weighted-average shares outstanding:				
Basic	248,152	219,467	245,763	215,070
Diluted	261,496	219,467	260,484	215,070

See accompanying notes to the condensed consolidated financial statements.

ZILLOW GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands, unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2021	2020	2021	2020
Net income (loss)	\$ 9,641	\$ (84,448)	\$ 61,605	\$ (247,721)
Other comprehensive income (loss):				
Unrealized gains (losses) on investments	(178)	(2,806)	83	796
Reclassification adjustment for net investment (gains) losses included in net loss	—	(62)	—	372
Net unrealized gains (losses) on investments	(178)	(2,868)	83	1,168
Currency translation adjustments	29	107	58	17
Total other comprehensive income (loss)	(149)	(2,761)	141	1,185
Comprehensive income (loss)	<u>\$ 9,492</u>	<u>\$ (87,209)</u>	<u>\$ 61,746</u>	<u>\$ (246,536)</u>

See accompanying notes to the condensed consolidated financial statements.

ZILLOW GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands, except share data, unaudited)

	Class A Common Stock, Class B Common Stock and Class C Capital Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Shareholders' Equity
	Shares	Amount				
Balance at April 1, 2021	247,307,862	\$ 25	\$ 6,596,850	\$ (1,087,291)	\$ 454	\$ 5,510,038
Issuance of common and capital stock upon exercise of stock options	388,564	—	14,536	—	—	14,536
Vesting of restricted stock units	779,093	—	—	—	—	—
Restricted stock units withheld for tax liability	(19)	—	(2)	—	—	(2)
Share-based compensation expense	—	—	93,347	—	—	93,347
Settlement of convertible senior notes	387,431	—	16,704	—	—	16,704
Net income	—	—	—	9,641	—	9,641
Other comprehensive loss	—	—	—	—	(149)	(149)
Balance at June 30, 2021	248,862,931	\$ 25	\$ 6,721,435	\$ (1,077,650)	\$ 305	\$ 5,644,115

	Class A Common Stock, Class B Common Stock and Class C Capital Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Shareholders' Equity
	Shares	Amount				
Balance at April 1, 2020	212,913,139	\$ 22	\$ 4,551,866	\$ (1,140,413)	\$ 4,286	\$ 3,415,761
Issuance of common and capital stock upon exercise of stock options	3,117,483	—	92,783	—	—	92,783
Vesting of restricted stock units	775,249	—	—	—	—	—
Restricted stock units withheld for tax liability	(6)	—	—	—	—	—
Share-based compensation expense	—	—	57,171	—	—	57,171
Issuance of Class C capital stock in connection with equity offering, net of issuance costs	8,800,000	1	411,522	—	—	411,523
Equity component of issuance of convertible senior notes maturing in 2025, net of issuance costs	—	—	154,813	—	—	154,813
Settlement of convertible senior notes	753,936	—	(21,784)	—	—	(21,784)
Unwind of capped call transactions	(317,865)	—	—	—	—	—
Net loss	—	—	—	(84,448)	—	(84,448)
Other comprehensive loss	—	—	—	—	(2,761)	(2,761)
Balance at June 30, 2020	226,041,936	\$ 23	\$ 5,246,371	\$ (1,224,861)	\$ 1,525	\$ 4,023,058

	Class A Common Stock, Class B Common Stock and Class C Capital Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Shareholders' Equity
	Shares	Amount				
Balance at January 1, 2021	240,525,920	\$ 24	\$ 5,880,883	\$ (1,139,255)	\$ 164	\$ 4,741,816
Issuance of common and capital stock upon exercise of stock options	1,991,460	—	75,685	—	—	75,685
Vesting of restricted stock units	1,592,564	—	—	—	—	—
Restricted stock units withheld for tax liability	(641)	—	(126)	—	—	(126)
Share-based compensation expense	—	—	160,733	—	—	160,733
Issuance of Class C capital stock in connection with equity offering, net of issuance costs	3,163,502	1	544,557	—	—	544,558
Settlement of convertible senior notes	1,590,151	—	59,703	—	—	59,703
Unwind of capped call transactions	(25)	—	—	—	—	—
Net income	—	—	—	61,605	—	61,605
Other comprehensive income	—	—	—	—	141	141
Balance at June 30, 2021	248,862,931	\$ 25	\$ 6,721,435	\$ (1,077,650)	\$ 305	\$ 5,644,115

	Class A Common Stock, Class B Common Stock and Class C Capital Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Shareholders' Equity
	Shares	Amount				
Balance at January 1, 2020	209,066,855	\$ 21	\$ 4,412,200	\$ (977,140)	\$ 340	\$ 3,435,421
Issuance of common and capital stock upon exercise of stock options	6,324,858	1	184,984	—	—	184,985
Vesting of restricted stock units	1,414,158	—	—	—	—	—
Restricted stock units withheld for tax liability	(6)	—	—	—	—	—
Share-based compensation expense	—	—	104,636	—	—	104,636
Issuance of Class C capital stock in connection with equity offering, net of issuance costs	8,800,000	1	411,522	—	—	411,523
Equity component of issuance of convertible senior notes maturing in 2025, net of issuance costs	—	—	154,813	—	—	154,813
Settlement of convertible senior notes	753,936	—	(21,784)	—	—	(21,784)
Unwind of capped call transactions	(317,865)	—	—	—	—	—
Net loss	—	—	—	(247,721)	—	(247,721)
Other comprehensive income	—	—	—	—	1,185	1,185
Balance at June 30, 2020	226,041,936	\$ 23	\$ 5,246,371	\$ (1,224,861)	\$ 1,525	\$ 4,023,058

See accompanying notes to the condensed consolidated financial statements.

ZILLOW GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands, unaudited)

	Six Months Ended June 30,	
	2021	2020
Operating activities		
Net income (loss)	\$ 61,605	\$ (247,721)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	57,882	55,199
Share-based compensation	152,068	96,146
Amortization of right of use assets	12,902	12,731
Amortization of contract cost assets	20,188	17,070
Amortization of debt discount and debt issuance costs	50,372	47,746
Loss (gain) on extinguishment of debt	2,334	(6,391)
Impairment costs	—	76,800
Deferred income taxes	—	(8,549)
Other adjustments to reconcile net income (loss) to cash provided by (used in) operating activities	8,271	(975)
Changes in operating assets and liabilities:		
Accounts receivable	(32,811)	(1,487)
Mortgage loans held for sale	159,308	(38,514)
Inventory	(677,746)	701,145
Prepaid expenses and other assets	(35,788)	(771)
Contract cost assets	(17,407)	(19,608)
Lease liabilities	(14,179)	(495)
Accounts payable	2,676	7,504
Accrued expenses and other current liabilities	80,819	(8,741)
Accrued compensation and benefits	7,898	(3,285)
Deferred revenue	4,552	4,767
Other long-term liabilities	(446)	10,049
Net cash provided by (used in) operating activities	(157,502)	692,620
Investing activities		
Proceeds from maturities of investments	1,329,552	701,266
Proceeds from sales of investments	—	116,394
Purchases of investments	—	(1,026,233)
Purchases of property and equipment	(24,137)	(54,653)
Purchases of intangible assets	(10,407)	(11,408)
Proceeds from sale of equity investment	—	10,000
Net cash provided by (used in) investing activities	1,295,008	(264,634)
Financing activities		
Proceeds from issuance of convertible senior notes, net of issuance costs	—	553,282
Proceeds from issuance of Class C capital stock, net of issuance costs	544,557	411,522
Proceeds from borrowings on credit facilities	610,118	43,200
Repayments of borrowings on credit facilities	(146,839)	(617,506)
Net borrowings (repayments) on warehouse line of credit and repurchase agreements	(145,656)	39,387
Repurchase of convertible senior notes	—	(194,670)
Proceeds from exercise of stock options	75,685	184,984
Value of equity awards withheld for tax liability	(126)	—
Net cash provided by financing activities	937,739	420,199
Net increase in cash, cash equivalents and restricted cash during period	2,075,245	848,185
Cash, cash equivalents and restricted cash at beginning of period	1,778,935	1,230,909
Cash, cash equivalents and restricted cash at end of period	\$ 3,854,180	\$ 2,079,094
Supplemental disclosures of cash flow information		
Cash paid for interest	\$ 27,773	\$ 29,201
Noncash transactions:		
Capitalized share-based compensation	\$ 8,665	\$ 8,490
Write-off of fully depreciated property and equipment	\$ 24,345	\$ 6,942
Write-off of fully amortized intangible assets	\$ 3,782	\$ —
Property and equipment purchased on account	\$ 1,352	\$ 5,305

See accompanying notes to the condensed consolidated financial statements.

ZILLOW GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note 1. Organization and Description of Business

Zillow Group, Inc. is reimagining real estate to make it easier to unlock life's next chapter. As the most visited real estate website in the United States, Zillow and its affiliates offer customers an on-demand experience for selling, buying, renting or financing with transparency and nearly seamless end-to-end service. Zillow Offers buys and sells homes directly in dozens of markets across the country, allowing sellers control over their timeline. Zillow Home Loans, our affiliate lender, provides our customers with an easy option to get pre-approved and secure financing for their next home purchase. In September 2020, Zillow launched Zillow Homes, Inc., a licensed brokerage entity, to streamline Zillow Offers transactions.

Other consumer brands include Trulia, StreetEasy, HotPads and Out East. In addition, Zillow Group provides a comprehensive suite of marketing software and technology solutions which include Mortech, dotloop, Bridge Interactive and New Home Feed. Zillow, Inc. was incorporated as a Washington corporation in December 2004, and we launched the initial version of our website, Zillow.com, in February 2006. Zillow Group, Inc. was incorporated as a Washington corporation in July 2014 in connection with our acquisition of Trulia, Inc. ("Trulia"), and upon the closing of the Trulia acquisition in February 2015, each of Zillow, Inc. and Trulia became wholly owned subsidiaries of Zillow Group, Inc.

Certain Significant Risks and Uncertainties

We operate in a dynamic industry and, accordingly, can be affected by a variety of factors. For example, we believe that changes in any of the following areas could have a significant negative effect on us in terms of our future financial position, results of operations or cash flows: public health crises, like the COVID-19 pandemic (including variants) and the availability and widespread distribution and use of effective vaccines; rates of revenue growth; our ability to successfully integrate and realize the benefits of our past or future strategic acquisitions or investments; the satisfaction of conditions precedent to the closing of our proposed acquisition of ShowingTime.com, Inc., including expiration or termination of any applicable waiting period under the Hart-Scott-Rodino Act or Zillow Group's timing agreement with ShowingTime.com, Inc. and the U.S. Federal Trade Commission; our ability to manage advertising inventory or pricing; engagement and usage of our products; our investment of resources to pursue strategies that may not prove effective; competition in our markets; the stability of the residential real estate market and the impact of interest rate changes; changes in technology, products, markets or services by us or our competitors; addition or loss of significant customers; our ability to maintain or establish relationships with listings and data providers; our ability to obtain or maintain licenses and permits to support our current and future businesses; actual or anticipated changes to our products and services; changes in government regulation affecting our business; outcomes of legal proceedings; natural disasters and catastrophic events; scaling and adaptation of existing technology and network infrastructure; management of our growth; our ability to attract and retain qualified employees and key personnel; protection of customers' information and other privacy concerns; protection of our brand and intellectual property; and intellectual property infringement and other claims, among other things.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying condensed consolidated financial statements include Zillow Group, Inc. and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. These condensed consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP") and applicable rules and regulations of the Securities and Exchange Commission ("SEC") regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Accordingly, these interim condensed consolidated financial statements should be read in conjunction with the audited financial statements and accompanying notes included in Zillow Group, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2020, which was filed with the SEC on February 12, 2021. The condensed consolidated balance sheet as of December 31, 2020, included herein, was derived from the audited financial statements of Zillow Group, Inc. as of that date.

The unaudited condensed consolidated interim financial statements, in the opinion of management, reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly our financial position as of June 30, 2021 and our results of operations, comprehensive income (loss) and shareholders' equity for the three and six month periods ended June 30, 2021 and 2020, and our cash flows for the six month periods ended June 30, 2021 and 2020. The results for the three and six months ended June 30, 2021 are not necessarily indicative of the results to be expected for the year ending December 31, 2021 or for any interim period or for any other future year.

Reclassifications

Certain reclassifications have been made in the condensed consolidated statements of operations to conform data for prior periods to the current format. Beginning with the three and six month periods ended June 30, 2021, we present a gross profit subtotal in our condensed consolidated statements of operations, which requires certain depreciation expense and amortization expense to be included within cost of revenue. We believe the presentation of gross profit is preferable as it facilitates investors' ability to model across our segments and enhances comparability with our public company peers. To effect the presentation of gross profit, we present the amortization expense for certain intangible assets and data acquisition costs within cost of revenue and have reclassified certain amounts in prior periods in the condensed consolidated statements of operations from technology and development expenses to cost of revenue. Additionally, we reclassified the amortization expense for trade names and trademarks and customer relationship intangible assets from technology and development expenses to sales and marketing expenses. This change has no impact on income (loss) from operations or net income (loss).

Amounts previously reported in the condensed consolidated statements of operations for the periods presented were revised herein as shown below (in thousands):

	Three Months Ended June 30, 2020			Six Months Ended June 30, 2020		
	As Reported	As Revised	Effect of Change	As Reported	As Revised	Effect of Change
Cost of revenue:						
Homes	\$ 431,788	\$ 434,900	\$ 3,112	\$ 1,163,987	\$ 1,170,659	\$ 6,672
IMT	23,387	45,354	21,967	47,705	95,407	47,702
Mortgages	5,896	7,229	1,333	11,051	13,815	2,764
Total cost of revenue	461,071	487,483	26,412	1,222,743	1,279,881	57,138
Operating expenses:						
Sales and marketing	155,598	160,667	5,069	360,246	369,111	8,865
Technology and development	128,857	97,507	(31,350)	263,775	197,988	(65,787)
General and administrative	85,511	85,380	(131)	177,796	177,580	(216)

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and the related disclosures at the date of the financial statements, as well as the reported amounts of revenue and expenses during the periods presented. On an ongoing basis, we evaluate our estimates, including those related to the accounting for certain revenue offerings, the net realizable value of inventory, amortization period and recoverability of contract cost assets, website and software development costs, recoverability of long-lived assets and intangible assets, share-based compensation, income taxes, business combinations and the recoverability of goodwill, among others. To the extent there are material differences between these estimates, judgments or assumptions and actual results, our financial statements will be affected. The COVID-19 pandemic has introduced additional uncertainty with respect to estimates, judgments and assumptions, which may materially impact the estimates previously listed, among others.

Recently Issued Accounting Standards Not Yet Adopted

In August 2020, the Financial Accounting Standards Board (“FASB”) issued guidance which simplifies the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts in an entity’s own equity. Among other changes, the guidance removes the liability and equity separation models for convertible instruments. Instead, entities will account for convertible debt instruments wholly as debt unless convertible instruments contain features that require bifurcation as a derivative or that result in substantial premiums accounted for as paid-in capital. The guidance also requires the application of the if-converted method to calculate the impact of convertible instruments on diluted earnings per share. The guidance is effective for fiscal years beginning after December 15, 2021, with early adoption permitted for fiscal years beginning after December 15, 2020, and can be adopted on either a retrospective or modified retrospective basis. We expect to adopt this guidance on January 1, 2022. Although we continue to evaluate the method of adoption and impact of this guidance on our financial position and results of operations, upon adoption we expect this guidance to result in a reclassification of conversion feature balances from additional paid-in capital to debt and to decrease reported interest expense for our convertible senior notes.

In March 2020, the FASB issued guidance which provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions that reference the London Inter-Bank Offered Rate (“LIBOR”) or another reference rate expected to be discontinued because of reference rate reform. This guidance is optional for a limited period of time to ease the potential burden in accounting for, or recognizing the effects of, reference rate reform on financial reporting. This guidance is effective from March 12, 2020 through December 31, 2022. Entities may elect to adopt the amendments for contract modifications as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020, or prospectively from a date within an interim period that includes or is subsequent to March 12, 2020, up to the date that the financial statements are available to be issued. We expect to apply some of the expedients and exceptions provided in this guidance to our credit facilities, warehouse line of credit and master repurchase agreements, all of which reference the one-month LIBOR in the applicable interest rate, as publication of the one-month LIBOR is expected to cease after June 30, 2023. We expect to amend our facility agreements prior to that date. As the goal of the reference rate reform transition is for it to be economically neutral to entities, we do not believe the adoption of this guidance will have a material impact on our financial position, results of operations or cash flows.

Note 3. Fair Value Measurements

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

Cash equivalents — The fair value measurement of money market funds is based on quoted market prices in active markets (Level 1). The fair value measurement of other cash equivalents is based on observable market-based inputs principally derived from or corroborated by observable market data (Level 2).

Short-term investments — The fair value measurement of our short-term investments is based on observable market-based inputs or inputs that are derived principally from or corroborated by observable market data by correlation or other means (Level 2).

Restricted cash — The carrying value of restricted cash approximates fair value due to the short period of time amounts are borrowed on our credit facilities, home sales proceeds are held in restricted accounts for repayment of our credit facilities and amounts are held in escrow (Level 1).

Mortgage loans held for sale — The fair value of mortgage loans held for sale is generally calculated by reference to quoted prices in secondary markets for commitments to sell mortgage loans with similar characteristics (Level 2).

Interest rate lock commitments — The fair value of interest rate lock commitments (“IRLCs”) is calculated by reference to quoted prices in secondary markets for commitments to sell mortgage loans with similar characteristics. Expired commitments are excluded from the fair value measurement. Since not all IRLCs will become closed loans, we adjust our fair value measurements for the estimated amount of IRLCs that will not close. This adjustment is effected through the pull-through rate, which represents the probability that an interest rate lock commitment will ultimately result in a closed loan (Level 3).

The following table presents the range and weighted-average pull-through rates used in determining the fair value of IRLCs as of the dates presented:

	June 30, 2021	December 31, 2020
Range	47% - 100%	47% - 100%
Weighted-average	79%	75%

Forward contracts — The fair value of mandatory loan sales commitments and derivative instruments such as forward sales of mortgage-backed securities that are utilized as economic hedging instruments is calculated by reference to quoted prices for similar assets (Level 2).

The following tables present the balances of assets and liabilities measured at fair value on a recurring basis, by level within the fair value hierarchy, as of the dates presented (in thousands):

	June 30, 2021			
	Total	Level 1	Level 2	Level 3
Cash equivalents:				
Money market funds	\$ 3,494,642	\$ 3,494,642	\$ —	\$ —
Short-term investments:				
U.S. government agency securities	829,925	—	829,925	—
Treasury bills	44,988	—	44,988	—
Municipal securities	5,962	—	5,962	—
Mortgage origination-related:				
Mortgage loans held for sale	171,450	—	171,450	—
IRLCs	6,413	—	—	6,413
Forward contracts - other current assets	69	—	69	—
Forward contracts - other current liabilities	(686)	—	(686)	—
Total	<u>\$ 4,552,763</u>	<u>\$ 3,494,642</u>	<u>\$ 1,051,708</u>	<u>\$ 6,413</u>

	December 31, 2020			
	Total	Level 1	Level 2	Level 3
Cash equivalents:				
Money market funds	\$ 1,486,384	\$ 1,486,384	\$ —	\$ —
Municipal securities	3,228	—	3,228	—
Short-term investments:				
Treasury bills	1,163,813	—	1,163,813	—
U.S. government agency securities	1,037,577	—	1,037,577	—
Municipal securities	16,220	—	16,220	—
Certificates of deposit	498	—	498	—
Mortgage origination-related:				
Mortgage loans held for sale	330,758	—	330,758	—
IRLCs	12,342	—	—	12,342
Forward contracts - other current liabilities	(2,608)	—	(2,608)	—
Total	<u>\$ 4,048,212</u>	<u>\$ 1,486,384</u>	<u>\$ 2,549,486</u>	<u>\$ 12,342</u>

The following table presents the changes in our IRLCs for the periods presented (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020 (1)
Balance, beginning of the period	\$ 5,002	\$ 2,225	\$ 12,342	\$ 937
Issuances	16,120	10,142	34,421	15,507
Transfers	(16,041)	(8,586)	(40,439)	(13,142)
Fair value changes recognized in earnings	1,332	1,310	89	1,789
Balance, end of period	\$ 6,413	\$ 5,091	\$ 6,413	\$ 5,091

(1) Beginning balance represents transfers of IRLCs from Level 2 to Level 3 within the fair value hierarchy as of January 1, 2020.

At June 30, 2021, the notional amounts of the hedging instruments related to our mortgage loans held for sale were \$355.0 million and \$479.3 million for our IRLCs and forward contracts, respectively. At December 31, 2020, the notional amounts of the hedging instruments related to our mortgage loans held for sale were \$378.1 million and \$652.1 million for our IRLCs and forward contracts, respectively. We do not have the right to offset our derivative positions.

See Note 11 for the carrying amount and estimated fair value of our convertible senior notes.

Note 4. Cash and Cash Equivalents, Short-term Investments and Restricted Cash

The following tables present the amortized cost, gross unrealized gains and losses and estimated fair market value of our cash and cash equivalents, short-term investments and restricted cash as of the dates presented (in thousands):

	June 30, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Market Value
Cash	\$ 218,514	\$ —	\$ —	\$ 218,514
Cash equivalents:				
Money market funds	3,494,642	—	—	3,494,642
Short-term investments:				
U. S. government agency securities	829,791	134	—	829,925
Treasury bills	44,975	13	—	44,988
Municipal securities	5,962	—	—	5,962
Restricted cash	141,024	—	—	141,024
Total	\$ 4,734,908	\$ 147	\$ —	\$ 4,735,055

	December 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Market Value
Cash	\$ 213,518	\$ —	\$ —	\$ 213,518
Cash equivalents:				
Money market funds	1,486,384	—	—	1,486,384
Municipal securities	3,229	—	(1)	3,228
Short-term investments:				
Treasury bills	1,163,748	65	—	1,163,813
U.S. government agency securities	1,037,572	57	(52)	1,037,577
Municipal securities	16,226	—	(6)	16,220
Certificates of deposit	498	—	—	498
Restricted cash	75,805	—	—	75,805
Total	<u>\$ 3,996,980</u>	<u>\$ 122</u>	<u>\$ (59)</u>	<u>\$ 3,997,043</u>

All short-term investments as of June 30, 2021 have a contractual maturity date of one year or less.

Note 5. Inventory

The following table presents the components of inventory, net of applicable lower of cost or net realizable value adjustments, as of the dates presented (in thousands):

	June 30, 2021	December 31, 2020
Finished goods	\$ 731,555	\$ 339,372
Work-in-process	438,046	151,921
Inventory	<u>\$ 1,169,601</u>	<u>\$ 491,293</u>

Note 6. Contract Balances

Contract assets were \$50.0 million and \$20.8 million as of June 30, 2021 and December 31, 2020, respectively. Contract assets are recorded within prepaid expenses and other current assets in our condensed consolidated balance sheets.

For the three months ended June 30, 2021 and 2020, we recognized revenue of \$51.9 million and \$33.8 million, respectively, that was included in the deferred revenue balance at the beginning of the related period. For the six months ended June 30, 2021 and 2020, we recognized revenue of \$47.8 million and \$36.6 million, respectively, that was included in the deferred revenue balance at the beginning of the related period.

Note 7. Contract Cost Assets

As of June 30, 2021 and December 31, 2020, we had \$47.9 million and \$50.7 million, respectively, of contract cost assets. For the three and six months ended June 30, 2021 and 2020, we did not incur any impairment losses to our contract cost assets. We recorded amortization expense related to contract cost assets of \$10.1 million and \$8.7 million for the three months ended June 30, 2021 and 2020, respectively, and \$20.2 million and \$17.1 million for the six months ended June 30, 2021 and 2020, respectively.

Note 8. Property and Equipment, net

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

	June 30, 2021	December 31, 2020
Website development costs	\$ 115,198	\$ 95,466
Leasehold improvements	102,204	110,280
Office equipment, furniture and fixtures	34,080	39,607
Construction-in-progress	31,939	44,151
Computer equipment	19,091	20,433
Property and equipment	302,512	309,937
Less: accumulated amortization and depreciation	(112,562)	(113,785)
Property and equipment, net	\$ 189,950	\$ 196,152

We recorded depreciation expense related to property and equipment (other than website development costs) of \$7.1 million and \$7.1 million for the three months ended June 30, 2021 and 2020, respectively, and \$15.0 million and \$18.9 million for the six months ended June 30, 2021 and 2020, respectively.

We capitalized \$14.1 million and \$15.4 million in website development costs for the three months ended June 30, 2021 and 2020, respectively, and \$26.5 million and \$27.9 million for the six months ended June 30, 2021 and 2020, respectively. Amortization expense for website development costs included in cost of revenue was \$8.4 million and \$6.0 million for the three months ended June 30, 2021 and 2020, respectively, and \$16.4 million and \$11.4 million for the six months ended June 30, 2021 and 2020, respectively.

Note 9. Equity Investment

In October 2016, we purchased a 10% equity interest in a privately held variable interest entity within the real estate industry for \$10.0 million. In March 2020, we recognized a non-cash impairment charge of \$5.3 million related to this investment. The impairment charge is included in impairment costs within our IMT segment for the six months ended June 30, 2020. In June 2020, we sold our 10% equity interest for \$10.0 million in cash. We recorded a gain on the sale of the investment of \$5.3 million for the three and six month periods ended June 30, 2020 which is classified within other income in our condensed consolidated statements of operations.

Note 10. Intangible Assets, net

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

	June 30, 2021		
	Cost	Accumulated Amortization	Net
Trade names and trademarks	\$ 36,500	\$ (6,389)	\$ 30,111
Software	34,431	(13,733)	20,698
Intangibles-in-progress	11,945	—	11,945
Developed technology	86,064	(76,744)	9,320
Customer relationships	87,600	(79,557)	8,043
Purchased content	51,360	(50,115)	1,245
Total	\$ 307,900	\$ (226,538)	\$ 81,362

	December 31, 2020		
	Cost	Accumulated Amortization	Net
Trade names and trademarks	\$ 36,500	\$ (3,822)	\$ 32,678
Software	28,515	(11,483)	17,032
Developed technology	86,064	(70,270)	15,794
Customer relationships	87,600	(73,301)	14,299
Intangibles-in-progress	11,863	—	11,863
Purchased content	47,930	(44,829)	3,101
Total	\$ 298,472	\$ (203,705)	\$ 94,767

Amortization expense recorded for intangible assets for the three months ended June 30, 2021 and 2020 was \$13.4 million and \$13.1 million, respectively, and \$26.3 million and \$24.9 million for the six months ended June 30, 2021 and 2020, respectively. Amortization expense for trade names and trademarks and customer relationships intangible assets is included in sales and marketing expenses. Amortization expense for all other intangible assets is included in cost of revenue.

We did not record any impairment costs related to our intangible assets for the six months ended June 30, 2021. For the six months ended June 30, 2020, we recognized a non-cash impairment charge of \$71.5 million related to our Trulia trade names and trademarks intangible asset, which historically had not been subject to amortization. The impairment charge is included in impairment costs within our IMT and Mortgages segments. In March 2020, we identified factors directly related to the COVID-19 pandemic that led us to conclude it was more likely than not that the \$108.0 million carrying value of the asset exceeded its fair value. Accordingly, with the assistance of a third-party valuation specialist, we performed a quantitative analysis to determine the fair value of the intangible asset and concluded that our best estimate of its fair value was \$36.5 million. The remaining carrying value of the intangible asset is amortized on an accelerated basis commensurate with the projected cash flows expected to be generated by the intangible asset over a useful life of 10 years. For additional details regarding this impairment, see Note 11 in the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

Note 11. Debt

The following table presents the carrying values of Zillow Group's debt as of the dates presented (in thousands):

	June 30, 2021	December 31, 2020
Homes segment		
Credit facilities:		
Goldman Sachs Bank USA	\$ 183,373	\$ 145,825
Citibank, N.A.	219,989	87,103
Credit Suisse AG, Cayman Islands	421,083	128,238
Total Homes segment debt	<u>824,445</u>	<u>361,166</u>
Mortgages segment		
Repurchase agreements:		
Credit Suisse AG, Cayman Islands	99,706	149,913
Citibank, N.A.	21,332	90,227
Warehouse line of credit:		
Comerica Bank	42,349	68,903
Total Mortgages segment debt	<u>163,387</u>	<u>309,043</u>
Convertible senior notes		
1.375% convertible senior notes due 2026	357,531	347,566
2.75% convertible senior notes due 2025	428,830	414,888
0.75% convertible senior notes due 2024	490,126	524,273
1.50% convertible senior notes due 2023	330,095	326,796
Total convertible senior notes	<u>1,606,582</u>	<u>1,613,523</u>
Total debt	<u>\$ 2,594,414</u>	<u>\$ 2,283,732</u>

Homes Segment

To provide capital for Zillow Offers, we utilize credit facilities that are classified as current liabilities in our condensed consolidated balance sheets. We classify these credit facilities as current liabilities as amounts drawn to purchase homes are typically due as homes are sold, which we expect to be within one year, if not replaced by new real estate inventory of equal or greater value. The following table summarizes certain details related to our credit facilities (in thousands, except interest rates):

Lender	Final Maturity Date	Maximum Borrowing Capacity	Weighted-Average Interest Rate
Goldman Sachs Bank USA	April 21, 2023	\$ 500,000	2.90 %
Citibank, N.A.	December 9, 2023	500,000	2.84 %
Credit Suisse AG, Cayman Islands	December 31, 2022	500,000	2.84 %
Total		<u>\$ 1,500,000</u>	

On April 7, 2021, certain wholly owned subsidiaries of Zillow Group amended and restated the credit agreement with Credit Suisse AG, Cayman Islands, in order to facilitate a titling trust structure.

On April 14, 2021, certain wholly owned subsidiaries of Zillow Group amended and restated the credit agreement with Goldman Sachs Bank USA previously maturing on April 20, 2022 in order to facilitate a titling trust structure and extend the final maturity date to April 21, 2023.

On June 11, 2021, certain wholly owned subsidiaries of Zillow Group amended the credit agreement with Citibank, N.A. previously maturing on November 30, 2021 such that it now has a final maturity date of December 9, 2023.

Undrawn amounts available under the credit facilities included in the table above are not committed, meaning the applicable lender is not committed to, but may in its discretion, advance loan funds in excess of the outstanding borrowings. The final maturity dates are inclusive of extensions which are subject to agreement by the respective lender.

In the first half of 2021, certain wholly owned subsidiaries of Zillow Group amended and restated the Homes segment credit agreements in order to facilitate a titling trust structure. In March 2021, Zillow Group, through Zillow Offers, began buying and selling homes through a titling trust. The titling trust facilitates the allocation of beneficial ownership of properties to special purpose entities (each, an “SPE”), which SPEs are then party to agreements to finance the properties. Zillow Group initially formed these SPEs to purchase and sell residential properties through Zillow Offers, and subsequent to the creation of the titling trust, these SPEs hold beneficial interests in homes purchased by the titling trust, which the SPEs subsequently finance. Each SPE is a wholly owned subsidiary of Zillow Group and a separate legal entity, and neither the assets nor credit of any such SPE are available to satisfy the debts and other obligations of any affiliate or other entity. The credit facilities are secured by the assets and equity of one or more SPEs. These SPEs and titling trust are variable interest entities and Zillow Group is the primary beneficiary as it has the power to control the activities that most significantly impact the SPEs’ and titling trust’s economic performance and the obligation to absorb losses of the SPEs and titling trust or the right to receive benefits that could potentially be significant to the SPEs and titling trust. The SPEs and titling trust are consolidated within Zillow Group’s condensed consolidated financial statements. As of June 30, 2021 and December 31, 2020, the total assets of the SPEs and titling trust were \$1.3 billion and \$551.2 million, respectively, of which \$1.2 billion and \$491.3 million are inventory, respectively, \$77.6 million and \$53.0 million are restricted cash, respectively, and \$22.2 million and \$3.9 million are accounts receivable, respectively. As of June 30, 2021 and December 31, 2020, the total liabilities of the SPEs and titling trust were \$847.6 million and \$372.5 million, respectively, of which \$824.4 million and \$361.2 million are credit facility borrowings, respectively, and \$22.1 million and \$10.8 million are accrued expenses, respectively.

Outstanding amounts drawn under each credit facility are required to be repaid on the facility maturity date or earlier if accelerated due to an event of default. Further, each SPE is required to repay any resulting shortfall if the value of the eligible properties owned by such SPE falls below a certain percentage of the principal amount outstanding under the applicable credit facility. Continued inclusion of properties in each credit facility is subject to various eligibility criteria. For example, aging criteria limit the inclusion in the borrowing base of properties owned longer than a specified number of days, and properties owned for longer than one year are generally ineligible.

The stated interest rate on our credit facilities is one-month LIBOR plus an applicable margin, and in certain cases includes a LIBOR floor, as defined in the respective credit agreements. Our credit facilities include customary representations and warranties, provisions regarding events of default and covenants. The terms of these credit facilities and related financing documents require Zillow Group and certain of its subsidiaries, as applicable, to comply with a number of customary financial and other covenants, such as maintaining certain levels of liquidity, tangible net worth and leverage ratios. As of June 30, 2021, Zillow Group was in compliance with all financial covenants and no event of default had occurred. Except for certain limited circumstances, the credit facilities are non-recourse to Zillow Group. Our credit facilities require that we establish, maintain and in certain circumstances that Zillow Group fund specified reserve accounts. These reserve accounts include, but are not limited to, interest reserves, insurance reserves, tax reserves, renovation cost reserves and reserves for specially permitted liens. Amounts funded to these reserve accounts and the collection accounts have been classified within our condensed consolidated balance sheets as restricted cash.

Mortgages Segment

To provide capital for Zillow Home Loans, we utilize master repurchase agreements and a warehouse line of credit which are classified as current liabilities in our condensed consolidated balance sheets. The repurchase agreements and warehouse line of credit provide short-term financing between the issuance of a mortgage loan and when Zillow Home Loans sells the loan to an investor or directly to an agency. The following table summarizes certain details related to our repurchase agreements and warehouse line of credit (in thousands, except interest rates):

Lender	Maturity Date	Maximum Borrowing Capacity	Weighted-Average Interest Rate
Credit Suisse AG, Cayman Islands	March 18, 2022	\$ 300,000	2.50 %
Citibank, N.A.	June 10, 2022	100,000	1.85 %
Comerica Bank	June 25, 2022	60,000	2.70 %
	Total	\$ 460,000	

On June 11, 2021, Zillow Home Loans amended its Citibank, N.A. master repurchase agreement previously maturing on October 26, 2021 such that it now matures on June 10, 2022.

On June 26, 2021, Zillow Home Loans amended its Comerica Bank warehouse line of credit previously maturing on June 26, 2021 such that it now matures on June 25, 2022 and provides an uncommitted total maximum borrowing capacity of \$60.0 million. The Comerica Bank warehouse line of credit previously provided a committed total maximum borrowing capacity of \$100.0 million.

In accordance with the master repurchase agreements, Credit Suisse and Citibank, N.A. (together the “Lenders”) have agreed to pay Zillow Home Loans a negotiated purchase price for eligible loans, and Zillow Home Loans has simultaneously agreed to repurchase such loans from the Lenders under a specified timeframe at an agreed upon price that includes interest. The master repurchase agreements contain margin call provisions that provide the Lenders with certain rights in the event of a decline in the market value of the assets purchased under the master repurchase agreements. As of June 30, 2021 and December 31, 2020, \$126.2 million and \$240.1 million, respectively, in mortgage loans held for sale were pledged as collateral under the master repurchase agreements.

Borrowings on the repurchase agreements and warehouse line of credit bear interest at the one-month LIBOR plus an applicable margin, and in certain cases include a LIBOR floor, as defined in the governing agreements, and are secured by residential mortgage loans held for sale. The repurchase agreements and warehouse line of credit include customary representations and warranties, covenants and provisions regarding events of default. As of June 30, 2021, Zillow Home Loans was in compliance with all financial covenants and no event of default had occurred. The repurchase agreements and warehouse line of credit are recourse to Zillow Home Loans, and have no recourse to Zillow Group or any of its other subsidiaries.

For additional details related to our warehouse line of credit and repurchase agreements, see Note 14 in the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

Convertible Senior Notes

The following tables summarize certain details related to our outstanding convertible senior notes as of the dates presented or for the periods ended (in thousands, except interest rates):

Maturity Date	Aggregate Principal Amount	Stated Interest Rate	Effective Interest Rate	First Interest Payment Date	Semi-Annual Interest Payment Dates	June 30, 2021		December 31, 2020	
						Unamortized Debt Discount and Debt Issuance Costs	Fair Value	Unamortized Debt Discount and Debt Issuance Costs	Fair Value
September 1, 2026	\$ 498,800	1.375 %	8.10 %	March 1, 2020	March 1; September 1	\$ 141,269	\$ 1,434,100	\$ 152,434	\$ 1,508,675
May 15, 2025	565,000	2.75 %	10.32 %	November 15, 2020	May 15; November 15	136,170	1,132,718	150,112	1,168,855
September 1, 2024	608,382	0.75 %	7.68 %	March 1, 2020	March 1; September 1	118,256	1,665,403	148,727	2,023,280
July 1, 2023	367,678	1.50 %	6.99 %	January 1, 2019	January 1; July 1	37,583	568,397	46,954	633,039
Total	\$ 2,039,860					\$ 433,278	\$ 4,800,618	\$ 498,227	\$ 5,333,849

Maturity Date	Three Months Ended June 30, 2021				Three Months Ended June 30, 2020			
	Contractual Coupon Interest	Amortization of Debt Discount	Amortization of Debt Issuance Costs	Interest Expense	Contractual Coupon Interest	Amortization of Debt Discount	Amortization of Debt Issuance Costs	Interest Expense
September 1, 2026	\$ 1,715	\$ 5,323	\$ 131	\$ 7,169	\$ 1,719	\$ 4,922	\$ 120	\$ 6,761
May 15, 2025	3,884	6,702	358	10,944	2,007	3,148	168	5,323
September 1, 2024	1,143	7,917	270	9,330	1,262	8,095	278	9,635
July 1, 2023	1,398	4,008	392	5,798	1,402	3,749	366	5,517
December 1, 2021	—	—	—	—	1,803	3,945	408	6,156
December 15, 2020	—	—	—	—	66	—	—	66
Total	\$ 8,140	\$ 23,950	\$ 1,151	\$ 33,241	\$ 8,259	\$ 23,859	\$ 1,340	\$ 33,458

Maturity Date	Six Months Ended June 30, 2021				Six Months Ended June 30, 2020			
	Contractual Coupon Interest	Amortization of Debt Discount	Amortization of Debt Issuance Costs	Interest Expense	Contractual Coupon Interest	Amortization of Debt Discount	Amortization of Debt Issuance Costs	Interest Expense
September 1, 2026	\$ 3,432	\$ 10,549	\$ 259	\$ 14,240	\$ 3,438	\$ 9,746	\$ 238	\$ 13,422
May 15, 2025	7,768	13,235	707	21,710	2,007	3,148	168	5,323
September 1, 2024	2,381	16,327	559	19,267	2,510	15,956	545	19,011
July 1, 2023	2,799	7,958	778	11,535	2,804	7,446	727	10,977
December 1, 2021	—	—	—	—	4,103	8,856	916	13,875
December 15, 2020	—	—	—	—	132	—	—	132
Total	\$ 16,380	\$ 48,069	\$ 2,303	\$ 66,752	\$ 14,994	\$ 45,152	\$ 2,594	\$ 62,740

The convertible notes are senior unsecured obligations. The convertible senior notes maturing in 2026 (“2026 Notes”), 2025 (“2025 Notes”) and 2024 (“2024 Notes”) are classified as long-term debt in our condensed consolidated balance sheets based on their contractual maturity dates. The convertible senior notes maturing in 2023 (“2023 Notes”) are classified as current debt in our condensed consolidated balance sheet as of June 30, 2021, as they were redeemed by us on July 6, 2021, if not earlier converted by the holders. The 2023 Notes are classified as long-term debt in our condensed consolidated balance sheet as of December 31, 2020 based on the contractual maturity date of the 2023 Notes as of December 31, 2020. Interest on the convertible notes is paid semi-annually in arrears. The estimated fair value of the convertible senior notes was determined through consideration of quoted market prices. The fair value is classified as Level 3 due to the limited trading activity for each of the convertible senior notes.

On May 26, 2021, we submitted notice to the trustee to exercise our right to redeem the remaining \$372.8 million in aggregate principal amount of the 2023 Notes on July 6, 2021 (the “Redemption Date”). Holders of the 2023 Notes had the option to convert their 2023 Notes in whole or in part into shares of Class C capital stock prior to the Redemption Date. If all holders of the 2023 Notes elected to convert their 2023 Notes into shares of Class C capital stock, the Company would be required to issue approximately 4.8 million shares of Class C capital stock and pay cash in lieu of fractional shares, in full satisfaction of the 2023 Notes. For any holder of the 2023 Notes that did not elect to convert their 2023 Notes into shares of Class C capital stock, we redeemed the 2023 Notes in cash at a redemption price equal to 100% of the principal amount of the 2023 Notes redeemed, plus accrued and unpaid interest to, but excluding, the Redemption Date. The 2026 Notes, 2025 Notes and 2024 Notes are convertible into cash, shares of Class C capital stock or a combination thereof, at our election, and may be settled as described below. They will mature on their respective maturity date, unless earlier repurchased, redeemed or converted in accordance with their terms.

The following table summarizes the conversion and redemption options with respect to the 2026 Notes, 2025 Notes, 2024 Notes and 2023 Notes (together, the “Notes”):

Maturity Date	Early Conversion Date	Conversion Rate	Conversion Price	Optional Redemption Date
September 1, 2026	March 1, 2026	22.9830	\$ 43.51	September 5, 2023
May 15, 2025	November 15, 2024	14.8810	67.20	May 22, 2023
September 1, 2024	March 1, 2024	22.9830	43.51	September 5, 2022
July 1, 2023	April 1, 2023	12.7592	78.37	July 6, 2021

The following table summarizes certain details related to the capped call confirmations with respect to certain of the convertible senior notes:

Maturity Date	Initial Cap Price	Cap Price Premium
September 1, 2026	\$ 80.5750	150 %
September 1, 2024	72.5175	125 %
July 1, 2023	105.45	85 %
December 1, 2021	69.19	85 %

Each series of the Notes was convertible during the three months ended June 30, 2021, at the option of the holders. During the three months ended June 30, 2021, holders of the 2023 Notes elected to convert \$5.1 million aggregate principal amount of 2023 Notes. During the three months ended June 30, 2021, holders of the 2024 Notes elected to convert \$14.0 million aggregate principal amount of the 2024 Notes. During the three months ended June 30, 2020, we used a portion of the net proceeds from the issuance of the 2025 Notes to repurchase \$194.7 million aggregate principal of the convertible senior notes due 2021 (the “2021 Notes”) in privately negotiated transactions. The following table summarizes the activity for our convertible senior notes for the periods presented (in thousands, except for share amounts):

	Three Months Ended June 30, 2021			Three Months Ended June 30, 2020	
	2023 Notes	2024 Notes	Total	2021 Notes	
Aggregate principal amount settled	\$ 5,147	\$ 14,000	\$ 19,147	\$	194,670
Cash paid	—	—	—		194,670
Shares of Class C capital stock issued	65,669	321,762	387,431		753,936
Total fair value of consideration transferred (1)	\$ 8,081	\$ 46,553	\$ 54,634	\$	230,859
(Gain) loss on extinguishment of debt:					
Consideration allocated to the liability component (2)	\$ 4,807	\$ 11,848	\$ 16,655	\$	172,886
Carrying value of the liability component, net of unamortized debt discount and debt issuance costs	4,619	11,105	15,724		179,277
(Gain) loss on extinguishment of debt	\$ 188	\$ 743	\$ 931	\$	(6,391)
Consideration allocated to the equity component	\$ 3,274	\$ 34,705	\$ 37,979	\$	57,973

	Six Months Ended June 30, 2021			Six Months Ended June 30, 2020	
	2023 Notes	2024 Notes	2026 Notes	Total	2021 Notes
Aggregate principal amount settled	\$ 6,072	\$ 64,618	\$ 1,200	\$ 71,890	\$ 194,670
Cash paid	—	—	—	—	194,670
Shares of Class C capital stock issued	77,458	1,485,114	27,579	1,590,151	753,936
Total fair value of consideration transferred (1)	\$ 9,724	\$ 200,478	\$ 4,204	\$ 214,406	\$ 230,859
(Gain) loss on extinguishment of debt:					
Consideration allocated to the liability component (2)	\$ 5,648	\$ 53,115	\$ 883	\$ 59,646	\$ 172,886
Carrying value of the liability component, net of unamortized debt discount and debt issuance costs	5,437	51,032	843	57,312	179,277
(Gain) loss on extinguishment of debt	\$ 211	\$ 2,083	\$ 40	\$ 2,334	\$ (6,391)
Consideration allocated to the equity component	\$ 4,076	\$ 147,363	\$ 3,321	\$ 154,760	\$ 57,973

(1) For convertible senior notes converted by note holders, the total fair value of consideration transferred includes the value of shares transferred to note holders using the daily volume weighted-average price of our Class C capital stock on the conversion date and an immaterial amount of cash paid in lieu of fractional shares. For convertible senior notes repurchased in the three months ended June 30, 2021, the total value of consideration transferred includes the value of shares transferred to note holders using the daily volume weighted-average price of our Class C capital stock on the date of transfer as well as cash transferred to note holders to settle the related notes.

(2) Consideration allocated to the liability component is based on the fair value of the liability component immediately prior to settlement, which was calculated using a discounted cash flow analysis with a market interest rate of a similar liability that does not have an associated convertible feature.

For more than 20 trading days during the 30 consecutive trading days ended June 30, 2021, the last reported sale price of our Class C capital stock exceeded 130% of the conversion price of each series of the Notes. Accordingly, each series of the Notes is convertible at the option of the holders from July 1 through September 30, 2021, unless earlier repurchased or redeemed. The 2026 Notes and 2024 Notes were first convertible during the three months ended September 30, 2020, and the 2025 Notes and 2023 Notes were first convertible during the three months ended March 31, 2021.

For additional details related to our convertible senior notes, see Note 14 in the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

Note 12. Income Taxes

We are subject to federal and state income taxes in the U.S. and federal and provincial income taxes in Canada. As of June 30, 2021 and December 31, 2020, we have provided a valuation allowance against our net deferred tax assets that we believe, based on the weight of available evidence, are not more likely than not to be realized. We have accumulated federal tax losses of approximately \$1.7 billion as of December 31, 2020, which are available to reduce future taxable income. We have accumulated state tax losses of approximately \$53.2 million (tax effected) as of December 31, 2020.

We recorded income tax expense of \$13.3 million for the three months ended June 30, 2021 and income tax expense of \$10.4 million for the six months ended June 30, 2021, primarily related to state income taxes. We recorded income tax expense of \$0.7 million for the three months ended June 30, 2020 and an income tax benefit of \$8.5 million for the six months ended June 30, 2020. The income tax benefit for the six months ended June 30, 2020 was primarily a result of a \$9.7 million income tax benefit related to the \$71.5 million non-cash impairment we recorded during the three months ended March 31, 2020 related to the Trulia trade names and trademarks intangible asset. For additional information about the non-cash impairment, see Note 10 of our condensed consolidated financial statements.

Note 13. Shareholders' Equity

Preferred Stock

Our board of directors has the authority to fix and determine and to amend the number of shares of any series of preferred stock that is wholly unissued or to be established and to fix and determine and to amend the designation, preferences, voting powers and limitations and the relative, participating, optional or other rights, of any series of shares of preferred stock that is wholly unissued or to be established, subject in each case to certain approval rights of holders of our outstanding Class B common stock. There was no preferred stock issued and outstanding as of June 30, 2021 or December 31, 2020.

Common and Capital Stock

Our Class A common stock has no preferences or privileges and is not redeemable. Holders of Class A common stock are entitled to one vote for each share.

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

Our Class C capital stock has no preferences or privileges, is not redeemable and, except in limited circumstances, is non-voting.

Equity Distribution Agreement

On February 17, 2021, we entered into an equity distribution agreement with certain sales agents and/or principals (the "Managers"), pursuant to which we may offer and sell from time to time, through the Managers, shares of our Class C capital stock, having an aggregate gross sales price of up to \$1.0 billion, in such share amounts as we may specify by notice to the Managers, in accordance with the terms and conditions set forth in the equity distribution agreement.

There were no shares issued under the equity distribution agreement during the three months ended June 30, 2021.

The following table summarizes the activity pursuant to the equity distribution agreement for the period presented (in thousands, except share and per share amounts):

	Six Months Ended June 30, 2021	
Shares of Class C capital stock issued		3,163,502
Weighted-average issuance price per share	\$	174.0511
Gross proceeds (1)	\$	550,611

(1) Net proceeds were \$544.6 million after deducting \$6.1 million of commissions and other offering expenses incurred.

Note 14. Share-Based Awards
Option Awards

The following table summarizes option award activity for the six months ended June 30, 2021:

	Number of Shares Subject to Existing Options	Weighted- Average Exercise Price Per Share	Weighted- Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2021	20,051,051	\$ 42.68	7.22	\$ 1,751,105
Granted	8,438,476	133.48		
Exercised	(1,991,460)	38.00		
Forfeited or cancelled	(602,382)	64.27		
Outstanding at June 30, 2021	25,895,685	72.12	7.76	1,405,360
Vested and exercisable at June 30, 2021	10,615,442	44.43	6.16	832,504

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Expected volatility	56%	51%	52%-56%	45%-51%
Expected dividend yield	—	—	—	—
Risk-free interest rate	0.74%	0.33%	0.57%-0.90%	0.33%-0.93%
Weighted-average expected life	4.50 years	5.00 years	4.50-5.75 years	5.00-5.50 years
Weighted-average fair value of options granted	\$53.16	\$20.21	\$59.58	\$20.69

As of June 30, 2021, there was a total of \$586.9 million in unrecognized compensation cost related to unvested stock options.

Restricted Stock Units

The following table summarizes activity for restricted stock units for the six months ended June 30, 2021:

	Restricted Stock Units	Weighted- Average Grant- Date Fair Value
Unvested outstanding at January 1, 2021	7,316,557	\$ 48.14
Granted	1,155,375	134.02
Vested	(1,592,564)	47.76
Forfeited	(404,654)	55.93
Unvested outstanding at June 30, 2021	6,474,714	63.08

As of June 30, 2021, there was a total of \$382.8 million in unrecognized compensation cost related to unvested restricted stock units.

Share-Based Compensation Expense

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Cost of revenue	\$ 2,972	\$ 1,364	\$ 5,660	\$ 2,766
Sales and marketing	13,350	9,116	23,237	16,109
Technology and development	34,951	21,421	61,042	40,109
General and administrative	37,122	20,450	62,129	37,162
Total	\$ 88,395	\$ 52,351	\$ 152,068	\$ 96,146

Note 15. Net Income (Loss) Per Share

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

Diluted net income (loss) per share is computed by dividing net income (loss) by the weighted-average number of shares (including Class A common stock, Class B common stock and Class C capital stock) outstanding during the period and potentially dilutive Class A common stock and Class C capital stock equivalents, except in cases where the effect of the Class A common stock or Class C capital stock equivalent would be antidilutive. Potential Class A common stock and Class C capital stock equivalents consist of Class A common stock and Class C capital stock issuable upon exercise of stock options and Class A common stock and Class C capital stock underlying unvested restricted stock units using the treasury stock method. Potential Class A common stock equivalents also include Class A common stock issuable upon conversion of the convertible notes due in 2020 using the if-converted method through the date of their last conversion in December 2020.

Prior to the second half of 2020, we intended to settle the principal amount of our outstanding convertible senior notes in cash and therefore used the treasury stock method to calculate any potential dilutive effect of the conversion spread on diluted net income per share, if applicable.

Effective July 1, 2020, we can no longer assume cash settlement of the principal amount of these outstanding convertible notes, therefore share settlement is now presumed. On a prospective basis we have applied the if-converted method for calculating any potential dilutive effect of the conversion of the outstanding convertible notes on diluted net income per share, if applicable. The following table presents the maximum number of shares and conversion price per share of Class C capital stock for each of the Notes based on the aggregate principal amount outstanding as of June 30, 2021 (in thousands, except per share amounts):

Maturity Date	Shares	Conversion Price per Share
September 1, 2026	11,464	\$ 43.51
May 15, 2025	8,408	67.20
September 1, 2024	13,983	43.51
July 1, 2023	4,692	78.37

For the periods presented, the following table reconciles the denominators used in the basic and diluted net income (loss) per share calculations (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Denominator for basic calculation	248,152	219,467	245,763	215,070
Effect of dilutive securities:				
Option awards	10,472	—	11,450	—
Unvested restricted stock units	2,872	—	3,271	—
Denominator for dilutive calculation	261,496	219,467	260,484	215,070

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Weighted-average Class A common stock and Class C capital stock option awards outstanding	245	25,202	1,389	22,649
Weighted-average Class C capital stock restricted stock units outstanding	984	9,086	645	8,354
Class A common stock issuable upon conversion of the convertible notes maturing in 2020	—	400	—	400
Class C capital stock issuable upon conversion of the 2021 Notes, 2023 Notes, 2024 Notes, 2025 Notes and 2026 Notes	38,641	7,232	38,796	7,316
Total Class A common stock and Class C capital stock equivalents	39,870	41,920	40,830	38,719

Note 16. Commitments and Contingencies

Interest Rate Lock Commitments

We have entered into IRLCs with prospective borrowers under our mortgage origination business whereby we commit to lend a certain loan amount under specific terms and at a specific interest rate to the borrower. These commitments are treated as derivatives and are carried at fair value. For additional information regarding our IRLCs, see Note 3 of our notes to condensed consolidated financial statements.

Lease Commitments

We have entered into various non-cancelable operating lease agreements for certain of our office space and equipment with original lease periods expiring between 2021 and 2030. For additional information regarding our lease agreements, see Note 13 in the Notes to the Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

Purchase Commitments

Purchase commitments primarily include various non-cancelable agreements to purchase content related to our mobile applications and websites and certain cloud computing services as well as homes we are under contract to purchase through Zillow Offers but that have not closed as of the respective date. As of June 30, 2021, the value of homes under contract that have not closed was \$1.2 billion.

Letters of Credit

As of June 30, 2021, we have outstanding letters of credit of approximately \$16.9 million, which secure our lease obligations in connection with certain of our office space operating leases.

Surety Bonds

In the course of business, we are required to provide financial commitments in the form of surety bonds to third parties as a guarantee of our performance on and our compliance with certain obligations. If we were to fail to perform or comply with these obligations, any draws upon surety bonds issued on our behalf would then trigger our payment obligation to the surety bond issuer. We have outstanding surety bonds issued for our benefit of approximately \$10.6 million and \$10.1 million, respectively, as of June 30, 2021 and December 31, 2020.

Legal Proceedings

We are involved in a number of legal proceedings concerning matters arising in connection with the conduct of our business activities, some of which are at preliminary stages and some of which seek an indeterminate amount of damages. We regularly evaluate the status of legal proceedings in which we are involved to assess whether a loss is probable or there is a reasonable possibility that a loss or additional loss may have been incurred to determine if accruals are appropriate. We further evaluate each legal proceeding to assess whether an estimate of possible loss or range of loss can be made if accruals are not appropriate. For certain cases described below, management is unable to provide a meaningful estimate of the possible loss or range of possible loss because, among other reasons, (i) the proceedings are in preliminary stages; (ii) specific damages have not been sought; (iii) damages sought are, in our view, unsupported and/or exaggerated; (iv) there is uncertainty as to the outcome of pending appeals or motions; (v) there are significant factual issues to be resolved; and/or (vi) there are novel legal issues or unsettled legal theories presented. For these cases, however, management does not believe, based on currently available information, that the outcomes of these proceedings will have a material effect on our financial position, results of operations or cash flow. For the matters discussed below, we have not recorded any material accruals as of June 30, 2021 or December 31, 2020.

In August and September 2017, two purported class action lawsuits were filed against us and certain of our executive officers, alleging, among other things, violations of federal securities laws on behalf of a class of those who purchased our common stock between February 12, 2016 and August 8, 2017. One of those purported class actions, captioned *Vargosko v. Zillow Group, Inc. et al.*, was brought in the U.S. District Court for the Central District of California. The other purported class action lawsuit, captioned *Shotwell v. Zillow Group, Inc. et al.*, was brought in the U.S. District Court for the Western District of Washington. The complaints allege, among other things, that during the period between February 12, 2016 and August 8, 2017, we issued materially false and misleading statements regarding our business practices. The complaints seek to recover, among other things, alleged damages sustained by the purported class members as a result of the alleged misconduct. In November 2017, an amended complaint was filed against us and certain of our executive officers in the *Shotwell v. Zillow Group* purported class action lawsuit, extending the beginning of the class period to November 17, 2014. In January 2018, the *Vargosko v. Zillow Group* purported class action lawsuit was transferred to the U.S. District Court for the Western District of Washington and consolidated with the *Shotwell v. Zillow Group* purported class action lawsuit. In February 2018, the plaintiffs filed a consolidated amended complaint, and in April 2018, we filed our motion to dismiss the consolidated amended complaint. In October 2018, our motion to dismiss was granted without prejudice, and in November 2018, the plaintiffs filed a second consolidated amended complaint, which we moved to dismiss in December 2018. On April 19, 2019, our motion to dismiss the second consolidated amended complaint was denied, and we filed our answer to the second amended complaint on May 3, 2019. On October 11, 2019, plaintiffs filed a motion for class certification which was granted by the District Court on October 28, 2020. On February 17, 2021, the Ninth Circuit Court of Appeals denied our petition for review of that decision. We have denied the allegations of wrongdoing and intend to vigorously defend the claims in this lawsuit. We do not believe that there is a reasonable possibility that a material loss will be incurred related to this lawsuit.

In October and November 2017 and January and February 2018, four shareholder derivative lawsuits were filed in the U.S. District Court for the Western District of Washington and the Superior Court of the State of Washington, King County, against certain of our executive officers and directors seeking unspecified damages on behalf of the Company and certain other relief, such as reform to corporate governance practices. The plaintiffs in the derivative suits (in which the Company is a nominal defendant) allege, among other things, that the defendants breached their fiduciary duties in connection with oversight of the Company's public statements and legal compliance, and as a result of the breach of such fiduciary duties, the Company was damaged, and defendants were unjustly enriched. Certain of the plaintiffs also allege, among other things, violations of Section 14(a) of the Securities Exchange Act of 1934 and waste of corporate assets. On February 5, 2018, the U.S. District Court for the Western District of Washington consolidated the two federal shareholder derivative lawsuits pending in that court. On February 16, 2018, the Superior Court of the State of Washington, King County, consolidated the two shareholder derivative lawsuits pending in that court. All four of the shareholder derivative lawsuits were stayed until our motion to dismiss the second consolidated amended complaint in the securities class action lawsuit discussed above was denied in April 2019. On July 8, 2019, the plaintiffs in the consolidated federal derivative lawsuit filed a consolidated shareholder derivative complaint, which we moved to dismiss on August 22, 2019. On February 28, 2020, our motion to dismiss the consolidated federal shareholder derivative complaint was denied. On May 18, 2020, we filed an answer in the consolidated federal derivative lawsuit. On August 24, 2020, we filed an answer in the consolidated state derivative matter. On February 16, 2021, the court in the consolidated state derivative matter stayed the action. On March 5, 2021, a new shareholder derivative lawsuit was filed in the U.S. District Court for the Western District of Washington against certain of our executive officers and directors seeking unspecified damages on behalf of the Company and certain other relief, such as reform to corporate governance practices, alleging, among other things, violations of federal securities laws. The U.S. District Court for the Western District of Washington formally consolidated the new lawsuit with the four other federal shareholder derivative lawsuits pending in that court on June 15, 2021. The defendants intend to deny the allegations of wrongdoing and vigorously defend the claims in this consolidated lawsuit. We do not believe that there is a reasonable possibility that a material loss will be incurred related to these derivative matters.

On September 17, 2019, International Business Machines Corporation ("IBM") filed a complaint against us in the U.S. District Court for the Central District of California, alleging, among other things, that the Company has infringed and continues to willfully infringe seven patents held by IBM and seeks unspecified damages, including a request that the amount of compensatory damages be trebled, injunctive relief and costs and reasonable attorneys' fees. On November 8, 2019, we filed a motion to transfer venue and/or to dismiss the complaint. On December 2, 2019, IBM filed an amended complaint, and on December 16, 2019, we filed a renewed motion to transfer venue and/or to dismiss the complaint. The Company's motion to transfer venue to the U.S. District Court for the Western District of Washington was granted on May 28, 2020. We filed our answer with counterclaims in response to the amended complaint on June 11, 2020. On July 2, 2020, IBM filed a motion to dismiss our counterclaims. In response to IBM's motion, on July 22, 2020, we filed an amended answer with counterclaims. On August 12, 2020, IBM filed its answer to our counterclaims. On September 18, 2020, we filed four inter partes review ("IPR") petitions before the U.S. Patent and Trial Appeal Board ("PTAB") seeking the Board's review of the patentability with respect to three of the patents asserted by IBM in the lawsuit. On March 15, 2021, the PTAB instituted inter partes review proceedings with respect to two of the three patents for which we filed petitions. On March 22, 2021, the PTAB denied institution with respect to the last of the three patents for which we filed an IPR. On April 21, 2021, we filed a request for rehearing of the PTAB decision denying institution. Our request for a rehearing was denied by the court on May 27, 2021. On January 22, 2021, the court partially stayed the action with respect to all patents for which we filed an IPR and set forth a motion schedule. On March 8, 2021, IBM filed its second amended complaint. On March 25, 2021, we filed an amended motion for judgment on the pleadings. On July 15, 2021, the court rendered an order in connection with the motion for judgment on the pleadings finding in our favor on two of the four patents on which we filed our motion. On July 28, 2021, we filed our answer, affirmative defenses and counterclaims to IBM's second amended complaint. We deny the allegations of any wrongdoing and intend to vigorously defend the claims in the lawsuit. There is a reasonable possibility that a loss may be incurred related to these IBM complaints; however, the possible loss or range of loss is not estimable.

On July 21, 2020, IBM filed a second action against us in the U.S. District Court for the Western District of Washington, alleging, among other things that the Company has infringed and continues to willfully infringe five patents held by IBM and seeks unspecified damages. On September 14, 2020, we filed a motion to dismiss the complaint filed in the action, to which IBM responded by the filing of an amended complaint on November 5, 2020. On December 18, 2020, we filed a motion to dismiss IBM's first amended complaint. On December 23, 2020, the Court issued a written order staying this case in full. On July 23, 2021, we filed for inter partes review with the United States Patent and Trademark Office with respect to a patent included in the second lawsuit. We deny the allegations of any wrongdoing and intend to vigorously defend the claims in the lawsuit. There is a reasonable possibility that a loss may be incurred related to these IBM complaints; however, the possible loss or range of loss is not estimable.

In addition to the matters discussed above, from time to time, we are involved in litigation and claims that arise in the ordinary course of business. Although we cannot be certain of the outcome of any 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.

Indemnifications

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

Note 17. Employee Benefit Plan

We have a defined contribution 401(k) retirement plan covering Zillow Group employees who have met certain eligibility requirements (the “Zillow Group 401(k) Plan”). Eligible employees may contribute pretax compensation up to a maximum amount allowable under the Internal Revenue Service limitations. Employee contributions and earnings thereon vest immediately. We currently match up to 4% of employee contributions under the Zillow Group 401(k) Plan. The total expense related to the Zillow Group 401(k) Plan was \$8.0 million and \$6.4 million, respectively, for the three months ended June 30, 2021 and 2020, and \$15.7 million and \$12.8 million, respectively, for the six months ended June 30, 2021 and 2020.

Note 18. Segment Information and Revenue

We have three operating and reportable segments, which have been identified based on the way in which our chief operating decision-maker manages our business, makes operating decisions and evaluates operating performance. The chief executive officer acts as the chief operating decision-maker and reviews financial and operational information for the Homes, Internet, Media & Technology (“IMT”) and Mortgages segments.

The Homes segment includes the financial results from Zillow Group’s purchase and sale of homes directly through Zillow Offers and the financial results from title and escrow services through Zillow Closing Services. The IMT segment includes the financial results for the Premier Agent, rentals and new construction marketplaces, dotloop and display, as well as revenue from the sale of various other marketing and business products and services to real estate professionals. The Mortgages segment primarily includes financial results for mortgage originations and the sale of mortgages on the secondary market through Zillow Home Loans and advertising sold to mortgage lenders and other mortgage professionals.

Revenue and costs are directly attributed to our segments when possible. However, due to the integrated structure of our business, certain costs incurred by one segment may benefit the other segments. These costs primarily include headcount-related expenses, general and administrative expenses including executive, finance, accounting, legal, human resources, recruiting and facilities costs, product development and data acquisition costs, costs related to operating our mobile applications and websites, and marketing and advertising costs. These costs are allocated to each segment based on the estimated benefit each segment receives from such expenditures.

The chief executive officer reviews information about our revenue categories as well as statement of operations data inclusive of income (loss) before income taxes by segment. This information is included in the following tables for the periods presented (in thousands) and prior period amounts have been recast to conform to the current format (see Note 2 for additional details regarding the reclassifications):

	Three Months Ended June 30, 2021			Three Months Ended June 30, 2020		
	Homes	IMT	Mortgages	Homes	IMT	Mortgages
Revenue:						
Zillow Offers	\$ 772,030	\$ —	\$ —	\$ 453,816	\$ —	\$ —
Premier Agent	—	348,754	—	—	191,962	—
Other	5,115	127,336	—	436	88,377	—
Mortgages	—	—	56,745	—	—	33,761
Total revenue	777,145	476,090	56,745	454,252	280,339	33,761
Cost of revenue (1)	707,522	43,444	20,619	434,900	45,354	7,229
Gross profit	69,623	432,646	36,126	19,352	234,985	26,532
Operating expenses (1):						
Sales and marketing	65,791	136,620	27,023	47,539	101,458	11,670
Technology and development	30,328	89,838	8,297	26,155	65,890	5,462
General and administrative	27,824	68,944	18,334	21,891	53,771	9,718
Acquisition-related costs	—	3,671	—	—	—	—
Total operating expenses	123,943	299,073	53,654	95,585	221,119	26,850
Income (loss) from operations	(54,320)	133,573	(17,528)	(76,233)	13,866	(318)
Segment other income	—	—	1,006	—	5,300	385
Segment interest expense	(5,026)	—	(1,163)	(3,825)	—	(307)
Income (loss) before income taxes (2)	\$ (59,346)	\$ 133,573	\$ (17,685)	\$ (80,058)	\$ 19,166	\$ (240)

	Six Months Ended June 30, 2021			Six Months Ended June 30, 2020		
	Homes	IMT	Mortgages	Homes	IMT	Mortgages
Revenue:						
Zillow Offers	\$ 1,473,004	\$ —	\$ —	\$ 1,222,928	\$ —	\$ —
Premier Agent	—	683,072	—	—	434,068	—
Other	8,293	239,346	—	1,197	176,937	—
Mortgages	—	—	124,705	—	—	59,043
Total revenue	1,481,297	922,418	124,705	1,224,125	611,005	59,043
Cost of revenue (1)	1,352,125	90,481	40,299	1,170,659	95,407	13,815
Gross profit	129,172	831,937	84,406	53,466	515,598	45,228
Operating expenses (1):						
Sales and marketing	120,810	254,227	52,352	119,457	225,019	24,635
Technology and development	63,497	168,482	16,785	54,815	131,865	11,308
General and administrative	53,347	127,592	34,617	45,301	112,455	19,824
Impairment costs	—	—	—	—	73,900	2,900
Acquisition-related costs	—	4,488	—	—	—	—
Total operating expenses	237,654	554,789	103,754	219,573	543,239	58,667
Income (loss) from operations	(108,482)	277,148	(19,348)	(166,107)	(27,641)	(13,439)
Segment other income	—	—	2,738	—	5,300	587
Segment interest expense	(9,338)	—	(2,895)	(11,909)	—	(533)
Income (loss) before income taxes (2)	\$ (117,820)	\$ 277,148	\$ (19,505)	\$ (178,016)	\$ (22,341)	\$ (13,385)

(1) The following table presents depreciation and amortization expense and share-based compensation expense for each of our segments for the periods presented (in thousands):

	Three Months Ended June 30, 2021			Three Months Ended June 30, 2020		
	Homes	IMT	Mortgages	Homes	IMT	Mortgages
Depreciation and amortization expense	\$ 4,733	\$ 22,157	\$ 2,093	\$ 2,597	\$ 22,038	\$ 1,538
Share-based compensation expense	\$ 20,495	\$ 58,362	\$ 9,538	\$ 12,728	\$ 35,958	\$ 3,665

	Six Months Ended June 30, 2021			Six Months Ended June 30, 2020		
	Homes	IMT	Mortgages	Homes	IMT	Mortgages
Depreciation and amortization expense	\$ 9,026	\$ 44,956	\$ 3,900	\$ 6,172	\$ 45,815	\$ 3,212
Share-based compensation expense	\$ 36,416	\$ 99,754	\$ 15,898	\$ 24,032	\$ 65,505	\$ 6,609

(2) The following table presents the reconciliation of total segment income (loss) before income taxes to consolidated income (loss) before income taxes for the periods presented (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Total segment income (loss) before income taxes	\$ 56,542	\$ (61,132)	\$ 139,823	\$ (213,742)
Corporate interest expense	(33,241)	(33,458)	(66,752)	(62,740)
Corporate other income	581	4,430	1,288	13,821
Gain (loss) on extinguishment of debt	(931)	6,391	(2,334)	6,391
Consolidated income (loss) before income taxes	\$ 22,951	\$ (83,769)	\$ 72,025	\$ (256,270)

Certain corporate items are not directly attributable to any of our segments, including the gain (loss) on extinguishment of debt, interest income earned on our short-term investments included in other income and interest costs on our convertible senior notes included in interest expense.

Note 19. Subsequent Events

Redemption of 2023 Notes

On May 26, 2021, we submitted notice to the trustee to exercise our right to redeem the remaining \$372.8 million in aggregate principal amount of the 2023 Notes on the Redemption Date. Holders of the 2023 Notes had the option to convert their 2023 Notes in whole or in part into shares of Class C capital stock prior to the Redemption Date. Subsequent to June 30, 2021, holders of the 2023 Notes elected to convert \$366.4 million of aggregate principal amount prior to the Redemption Date. We satisfied these conversions through the issuance of approximately 4.7 million shares of Class C capital stock in July 2021 and payment of an immaterial amount of cash in lieu of fractional shares. The remaining \$1.3 million of aggregate principal amount was redeemed on July 6, 2021 for \$1.3 million in cash, plus accrued and unpaid interest. Settlement of the 2023 Notes will be accounted for as a debt extinguishment.

Amendment of Credit Facility Agreement

On July 29, 2021, certain wholly owned subsidiaries of Zillow Group amended the credit agreement with Goldman Sachs Bank USA to increase the total maximum borrowing capacity to \$750.0 million. The credit facility will continue to be classified within current liabilities in our condensed consolidated balance sheets.

Pricing of Securitization Transaction

On August 3, 2021, the Company priced a securitization transaction for its Zillow Offers business involving the issuance and sale to third parties of revolving single-family homes notes secured by a loan to a special purpose subsidiary of the Company secured by a beneficial interest in a revolving pool of single-family homes that are owned by the titling trust established by the Company. The Company anticipates gross proceeds from the sale of the notes of approximately \$450.0 million. The loan will have a term of 30 months with a scheduled reinvestment period of 24 months during which new homes may be financed. Except for certain limited circumstances, the loan is non-recourse to Zillow Group. The weighted-average interest rate for the notes is 2.43%. The transaction is expected to close on or about August 11, 2021.

The notes will not be registered under the Securities Act of 1933, as amended (the “Securities Act”), and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements. This Quarterly Report on Form 10-Q shall not constitute an offer to sell or the solicitation of any offer to buy nor shall there be any sale of the notes in any jurisdiction in which such offer, solicitation or sale would be unlawful under the laws of such jurisdiction.

Item 2. 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 condensed consolidated financial statements and the related notes included elsewhere in this Quarterly Report on Form 10-Q. 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 described 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 Quarterly Report on Form 10-Q, including in the section titled "Note Regarding Forward-Looking Statements," and also those factors discussed in Part I, Item 1A (Risk Factors) of our Annual Report on Form 10-K for the year ended December 31, 2020.

Overview of our Business

Zillow Group, Inc. is reimagining real estate to make it easier to unlock life's next chapter. As the most visited real estate website in the United States, Zillow and its affiliates offer customers an on-demand experience for selling, buying, renting or financing with transparency and nearly seamless end-to-end service. Zillow Offers buys and sells homes directly in dozens of markets across the country, allowing sellers control over their timeline. Zillow Home Loans, our affiliate lender, provides our customers with an easy option to get pre-approved and secure financing for their next home purchase. In September 2020, Zillow launched Zillow Homes, Inc., a licensed brokerage entity, to streamline Zillow Offers transactions.

Other consumer brands include Trulia, StreetEasy, HotPads and Out East. In addition, Zillow Group provides a comprehensive suite of marketing software and technology solutions which include Mortech, dotloop, Bridge Interactive and New Home Feed.

Reportable Segments and Revenue Overview

Zillow Group has three reportable segments: the Homes segment, the Internet, Media & Technology ("IMT") segment and the Mortgages segment. The Homes segment includes the financial results from Zillow Group's purchase and sale of homes directly through the Zillow Offers service and the financial results from the title and escrow services provided through Zillow Closing Services. The IMT segment includes the financial results for the Premier Agent, rentals and new construction marketplaces, as well as dotloop, display and other advertising and business software solutions. The Mortgages segment primarily includes financial results for mortgage originations through Zillow Home Loans and advertising sold to mortgage lenders and other mortgage professionals.

The Homes segment primarily generates revenue through our Zillow Offers service from the resale of homes. Other Homes revenue relates to revenue associated with title and escrow services provided through Zillow Closing Services.

Premier Agent revenue is generated by the sale of advertising services, as well as marketing and technology products and services, to help real estate agents and brokers grow and manage their businesses. We offer these products and services through our Premier Agent and Premier Broker programs. Premier Agent and Premier Broker advertising products, which include the delivery of validated consumer connections, or leads, are primarily offered on a share of voice basis. Connections are distributed to Premier Agents and Premier Brokers in proportion to their share of voice, or an agent advertiser's share of total advertising purchased in a particular zip code. Connections are delivered when consumer contact information is provided to Premier Agents and Premier Brokers. Connections are provided as part of our suite of advertising services for Premier Agent and Premier Brokers; we do not charge a separate fee for these consumer leads.

We also offer a pay for performance pricing model called "Flex" for Premier Agent and Premier Broker advertising services in limited markets. We offer this pricing model to select partners and provide it alongside our legacy market-based pricing model. With the Flex model, Premier Agents and Premier Brokers are provided with validated leads at no upfront cost and pay a performance advertising fee only when a real estate transaction is closed with one of the leads.

Other IMT revenue includes revenue generated by rentals, new construction and display advertising, as well as revenue from the sale of various other advertising and business technology solutions for real estate professionals, including dotloop. Rentals revenue includes advertising sold to property managers, landlords and other rental professionals on a cost per lead, cost per click, cost per lease, cost per listing or cost per impression basis. Rentals revenue also includes revenue generated from our rental applications product, through which potential renters can submit applications to multiple properties for a flat service fee. New construction revenue primarily includes advertising services sold to home builders on a cost per residential community or cost per impression basis. Display revenue consists of graphical mobile and web advertising sold on a cost per impression or cost per click basis to advertisers promoting their brands on our mobile applications and websites.

In our Mortgages segment, we primarily generate revenue through mortgage originations and the related sale of mortgages on the secondary market through Zillow Home Loans and from advertising sold to mortgage lenders and other mortgage professionals on a cost per lead basis, including our Custom Quote and Connect services.

As of June 30, 2021, we had 6,420 full-time employees compared to 5,504 full-time employees as of December 31, 2020.

Financial Highlights

During the three months ended June 30, 2021 and 2020, we generated total revenue of \$1.3 billion and \$0.8 billion, respectively, representing year-over-year growth of 70%. The increase in total revenue was primarily attributable to the following:

- Zillow Offers revenue increased by \$318.2 million to \$772.0 million for the three months ended June 30, 2021 due to the sale of 2,086 homes at an average selling price of \$370.1 thousand per home. For the three months ended June 30, 2020, Zillow Offers revenue was \$453.8 million due to the sale of 1,437 homes at an average selling price of \$315.8 thousand per home.
- Premier Agent revenue increased by \$156.8 million to \$348.8 million for the three months ended June 30, 2021 compared to \$192.0 million for the three months ended June 30, 2020.
- Other IMT revenue increased by \$39.0 million to \$127.3 million for the year ended June 30, 2021 compared to \$88.4 million for the three months ended June 30, 2020, primarily due to a 42% increase in rentals revenue.
- Mortgages segment revenue increased by \$23.0 million to \$56.7 million for the three months ended June 30, 2021 compared to \$33.8 million for the three months ended June 30, 2020, driven by increases in revenue generated by Zillow Home Loans and Custom Quote and Connect advertising services.
- Visits for the three months ended June 30, 2021 and 2020 were 2,750.2 million and 2,491.1 million, respectively, representing year-over-year growth of 10%. The increase in visits increased the number of events we monetized across our revenue categories.
- Average monthly unique users of our mobile applications and websites for the three months ended June 30, 2021 and 2020 were 228.8 million and 218.1 million, respectively, representing year-over-year growth of 5%.

During the three months ended June 30, 2021 and 2020, we generated total gross profit of \$538.4 million and \$280.9 million, respectively, representing year-over-year growth of 92%.

COVID-19 Impact

In December 2019, COVID-19 was reported and subsequently spread worldwide. On March 11, 2020, the World Health Organization declared COVID-19 a pandemic. The COVID-19 pandemic and resulting global and economic disruptions have affected our business, as well as those of our customers and real estate partners. In response to the COVID-19 pandemic, we have taken certain measures intended to serve the needs of our customers and real estate partners, while also protecting our business and the safety of our employees, our customers and the communities in which we operate.

We have taken meaningful actions to support our customers and partners throughout the pandemic. In 2020, we implemented a variety of relief initiatives to help them navigate their financial challenges. This included discounts provided to our Premier Agent advertisers and on certain of our other IMT and Mortgage marketplace products. In addition, we temporarily paused home buying in early 2020 in all markets in response to local public health orders and to help protect the safety and health of our employees, customers and partners. By early August 2020, we had resumed home buying in all paused Zillow Offers markets with enhanced health and safety protocols and increased usage of virtual technology. For more details on these initiatives, see Part II Item 7 (Management's Discussion and Analysis of Financial Condition and Results of Operations) of our Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

We have also taken action to promote the health and safety of our employees during the COVID-19 pandemic and we quickly transitioned the majority of our employees to work remotely and announced that most employees will have flexibility to work from home indefinitely. We have started re-opening our offices to employees on an as-needed basis and will begin welcoming employees to use certain office locations more widely in September 2021. We believe our offices will continue to provide our distributed workforce with a place to work, learn and collaborate in the future.

To preserve our liquidity in response to the COVID-19 pandemic, we temporarily paused hiring for non-critical roles, paused the majority of our advertising spending and reduced other discretionary spending during the first half of 2020. As our financial position has strengthened, we have gradually increased our hiring and marketing and advertising activities, and on March 11, 2021, we announced our plan to hire more than 2,000 employees nationwide in 2021.

Our liquidity has also been positively impacted by certain provisions included in the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) that was signed into law on March 27, 2020 and provides tax provisions and other stimulus measures to affected companies. Under the CARES Act, we are able to defer certain 2020 employer payroll tax payments until the fourth quarter of 2021 and 2022.

The effect and extent of the impact of the COVID-19 pandemic on our business continues to be uncertain and difficult to predict. While we have seen recovery in our business and the businesses of our customers and real estate partners from the initial economic effects of the pandemic, the impact of the COVID-19 pandemic (including variants) may continue to affect our financial results in 2021. The extent to which COVID-19 (including any variants) continues to impact our results and financial position will depend on future developments, which are uncertain and difficult to predict.

Key Metrics

Management has identified visits, unique users, the number of homes sold through Zillow Offers and the volume of loans originated through Zillow Home Loans as relevant to investors’ and others’ assessment of our financial condition and results of operations.

Visits

The number of visits is an important metric because it is an indicator of consumers’ level of engagement with our mobile applications, websites and other services. We believe highly engaged consumers are more likely to participate in our Zillow Offers program, use Zillow Homes Loans or be transaction-ready real estate market participants and therefore are more sought-after by our Premier Agent and Premier Broker real estate partners.

We define a visit as a group of interactions by users with the Zillow, Trulia and StreetEasy mobile applications and websites. A single visit can contain multiple page views and actions, and a single user can open multiple visits across domains, web browsers, desktop or mobile devices. Visits can occur on the same day, or over several days, weeks or months.

Zillow and StreetEasy measure visits with Google Analytics, and Trulia measures visits with Adobe Analytics. Visits to Trulia end after thirty minutes of user inactivity. Visits to Zillow and StreetEasy end either: (i) after thirty minutes of user inactivity or at midnight; or (ii) through a campaign change. A visit ends through a campaign change if a visitor arrives via one campaign or source (for example, via a search engine or referring link on a third-party website), leaves the mobile application or website, and then returns via another campaign or source.

The following table presents the number of visits to our mobile applications and websites for the periods presented (in millions):

	Three Months Ended		2020 to 2021	
	June 30,			
	2021	2020		
Visits	2,750.2	2,491.1	10	%

Unique Users

Measuring unique users is important to us because much of our revenue depends in part on our ability to connect home buyers and sellers, renters and individuals with or looking for a mortgage to real estate, rental and mortgage professionals, products and services. Growth in consumer traffic to our mobile applications and websites increases the number of impressions, clicks, connections, leads and other events we can monetize to generate revenue. For example, our Homes segment and Mortgages segment revenue depend in part on users accessing our mobile applications and websites to engage in the sale, purchase and financing of homes with Zillow Offers and Zillow Home Loans, and our Premier Agent revenue and display revenue depend on advertisements being served to users of our mobile applications and websites.

We count a unique user the first time an individual accesses one of our mobile applications using a mobile device during a calendar month and the first time an individual accesses one of our websites using a web browser during a calendar month. If an individual accesses our mobile applications using different mobile devices within a given month, the first instance of access by each such mobile device is counted as a separate unique user. If an individual accesses more than one of our mobile applications within a given month, the first access to each mobile application is counted as a separate unique user. If an individual accesses our websites using different web browsers within a given month, the first access by each such web browser is counted as a separate unique user. If an individual accesses more than one of our websites in a single month, the first access to each website is counted as a separate unique user since unique users are tracked separately for each domain. Zillow, StreetEasy and HotPads measure unique users with Google Analytics, and Trulia measures unique users with Adobe Analytics.

Due to third-party technological limitations, user software settings, or user behavior, Google Analytics may assign a unique cookie to different instances of access by the same individual to our mobile applications and websites. In such instances, Google Analytics would count different instances of access by the same individual as separate unique users. Accordingly, reliance on the number of unique users counted by Google Analytics may overstate the actual number of unique users who access our mobile applications and websites during the period.

The following table presents our average monthly unique users for the periods presented (in millions):

	Three Months Ended June 30,		2020 to 2021 % Change	
	2021	2020		
Average monthly unique users	228.8	218.1	5	%

Homes Sold

The number of homes sold through Zillow Offers is an important metric as it is an indicator of customers' adoption of the Zillow Offers service as well as our ability to generate revenue through the service. Growth in the number of homes sold through Zillow Offers suggests increased adoption of the service by home buyers and generally results in growth in Homes segment revenue.

The following table presents the number of homes sold through Zillow Offers for the periods presented:

	Three Months Ended June 30,		2020 to 2021 % Change	
	2021	2020		
Number of homes sold	2,086	1,437	45	%

Loan Origination Volume

Loan origination volume is an important metric as it is a measure of how successful we are at growing originations and subsequent sales of mortgage loan products through our mortgage origination business, Zillow Home Loans, which directly impacts our Mortgages segment revenue. Loan origination volume represents the total value of mortgage loan originations closed through Zillow Home Loans during the period.

The following table presents loan origination volume by purpose and in total for Zillow Home Loans for the periods presented (in thousands):

	Three Months Ended June 30,		2020 to 2021 % Change	
	2021	2020		
Purchase loan origination volume	\$ 230,012	\$ 120,831	90	%
Refinance loan origination volume	657,928	147,475	346	%
Total loan origination volume	\$ 887,940	\$ 268,306	231	%

Results of Operations

Given the remaining uncertainty surrounding the COVID-19 pandemic, financial performance for prior and current periods may not be indicative of future performance.

Revenue

	Three Months Ended June 30,		2020 to 2021		% of Total Revenue Three Months Ended June 30,	
	2021	2020	\$ Change	% Change	2021	2020
	(in thousands, unaudited)					
Revenue:						
Homes segment:						
Zillow Offers	\$ 772,030	\$ 453,816	\$ 318,214	70 %	59 %	59 %
Other	5,115	436	4,679	1,073	—	—
Total Homes segment revenue	777,145	454,252	322,893	71	59	59
IMT segment:						
Premier Agent	348,754	191,962	156,792	82	27	25
Other	127,336	88,377	38,959	44	10	12
Total IMT segment revenue	476,090	280,339	195,751	70	36	36
Mortgages segment	56,745	33,761	22,984	68	4	4
Total revenue	\$ 1,309,980	\$ 768,352	\$ 541,628	70 %	100 %	100 %

	Six Months Ended June 30,		2020 to 2021		% of Total Revenue Six Months Ended June 30,	
	2021	2020	\$ Change	% Change	2021	2020
	(in thousands, unaudited)					
Revenue:						
Homes segment:						
Zillow Offers	\$ 1,473,004	\$ 1,222,928	\$ 250,076	20 %	58 %	65 %
Other	8,293	1,197	7,096	593	—	—
Total Homes segment revenue	1,481,297	1,224,125	257,172	21	59	65
IMT segment:						
Premier Agent	683,072	434,068	249,004	57	27	23
Other	239,346	176,937	62,409	35	9	9
Total IMT segment revenue	922,418	611,005	311,413	51	36	32
Mortgages segment	124,705	59,043	65,662	111	5	3
Total revenue	\$ 2,528,420	\$ 1,894,173	\$ 634,247	33 %	100 %	100 %

Three months ended June 30, 2021 compared to the three months ended June 30, 2020

Total revenue increased \$541.6 million, or 70%, to \$1.3 billion:

- Homes segment revenue increased 71% to \$777.1 million, primarily due to an increase of \$318.2 million, or 70%, in Zillow Offers revenue. Zillow Offers revenue increased to \$772.0 million due to the sale of 2,086 homes at an average selling price of \$370.1 thousand per home, as compared to the sale of 1,437 homes at an average selling price of \$315.8 thousand per home in the comparable prior year period. Homes segment revenue for the three months ended June 30, 2020 was negatively impacted by the temporary pause in home buying activities in Zillow Offers markets in response to the COVID-19 pandemic. We resumed home buying activities in all markets in the third quarter of 2020 and have since significantly grown our acquisition and resale volumes, driving a year-over-year increase in revenue. We expect Zillow Offers revenue to increase in future periods as we continue to increase our home buying and home selling activities.
- IMT segment revenue increased 70% to \$476.1 million due to a \$156.8 million, or 82%, increase in Premier Agent revenue and a \$39.0 million, or 44%, increase in Other IMT revenue. Premier Agent revenue was positively impacted by an increase in visits, which increased 10% to 2.8 billion. Premier Agent revenue per visit increased by 65% to \$0.127 for the three months ended June 30, 2021 from \$0.077 for the three months ended June 30, 2020. We calculate Premier Agent revenue per visit by dividing the revenue generated by our Premier Agent and Premier Broker programs by the number of visits in the period. The increase in Premier Agent revenue per visit was driven primarily by continued strong demand across the residential real estate industry and increased consumer engagement across our mobile applications and websites. Additionally, Premier Agent revenue was negatively impacted in the three months ended June 30, 2020 due to temporary discounts offered to our Premier Agent partners in response to the COVID-19 pandemic. Other IMT revenue increased primarily due to a 42% increase in revenue generated by our rentals marketplace. This was attributable to increased revenue from our pay per listing, pay per contact and rental applications products. We expect IMT segment revenue to increase in absolute dollars in future periods as a result of the expected continued expansion of our Flex pricing model.
- Mortgages segment revenue increased 68% to \$56.7 million due to growth in mortgage originations revenue which drove 52% of the increase in Mortgages segment revenue, and growth in our Custom Quote and Connect advertising services revenue accounted for 46% of the increase in Mortgages segment revenue. The increase in mortgage originations revenue was primarily driven by an increase in loan origination volume from \$268.3 million to \$887.9 million, or 231%. We believe low interest rates have supported strong refinance activity during the three months ended June 30, 2021. This increase was partially offset by a 44% decrease in gain on sale margin driven by industry margin compression. In the event interest rates increase in future periods, refinance activity may decrease as a percentage of total loan origination volume which may result in a decrease in absolute dollars in mortgage segment revenue in future periods. Gain on sale margin represents the net gain on sale of mortgage loans divided by total loan origination volume for the period. Net gain on sale of mortgage loans includes all components related to the origination and sale of mortgage loans, including the net gain on sale of loans into the secondary market, loan origination fees, unrealized gains and losses associated with changes in fair value of interest rate lock commitments and mortgage loans held for sale, realized and unrealized gains or losses from derivative financial instruments and the provision for losses relating to representations and warranties. The increase in our Custom Quote and Connect advertising revenue was primarily due to a 26% increase in leads generated from marketing products sold to mortgage professionals.

Six months ended June 30, 2021 compared to the six months ended June 30, 2020

Total revenue increased \$634.2 million, or 33%, to \$2.5 billion:

- IMT segment revenue increased 51% to \$922.4 million due to a \$249.0 million, or 57%, increase in Premier Agent revenue and a \$62.4 million, or 35%, increase in Other IMT revenue. Premier Agent revenue was positively impacted by an increase in visits, which increased 15% to 5.3 billion for the six months ended June 30, 2021 from 4.6 billion for the six months ended June 30, 2020. The increase in visits increased the number of impressions and leads we could monetize in our Premier Agent marketplace. Additionally, Premier Agent revenue for the six months ended June 30, 2020 was negatively impacted by discounts offered to our Premier Agent partners in response to the COVID-19 pandemic, as discussed above. Other IMT revenue increased primarily due to a 44% increase in revenue generated by our rentals marketplace. This was attributable to increased revenue from our pay per listing, pay per contact and rental applications products.

- Homes segment revenue increased 21% to \$1.5 billion, primarily due to an increase of \$250.1 million, or 20%, in Zillow Offers revenue. Zillow Offers revenue increased to \$1.5 billion due to the sale of 4,051 homes at an average selling price of \$363.6 thousand per home, as compared to the sale of 3,831 homes at an average selling price of \$319.2 thousand per home in the comparable prior year period. Homes segment revenue for the six months ended June 30, 2020 was negatively impacted by the temporary pause in home buying activities in response to the COVID-19 pandemic, as discussed above, driving a year-over-year increase in revenue.
- Mortgages segment revenue increased 111% to \$124.7 million primarily due to growth in mortgage originations revenue which drove 71% of the increase in Mortgages segment revenue, while growth in our Custom Quote and Connect advertising services revenue accounted for 28% of the increase in Mortgages segment revenue. The increase in mortgage originations revenue was primarily driven by an increase in loan origination volume from \$405.3 million to \$2.1 billion, or 407%. We believe low interest rates have supported strong refinance activity during the six months ended June 30, 2021. This was partially offset by a 30% decrease in gain on sale margin driven by industry margin compression. The increase in our Custom Quote and Connect advertising revenue was primarily due to a 36% increase in leads generated from marketing products sold to mortgage professionals.

Income (Loss) Before Income Taxes

	Three Months Ended June 30,		2020 to 2021		% of Revenue Three Months Ended June 30,	
	2021	2020	\$ Change	% Change	2021	2020
	(in thousands, unaudited)					
Income (loss) before income taxes:						
Homes segment	\$ (59,346)	\$ (80,058)	\$ 20,712	26 %	(8)%	(18)%
IMT segment	133,573	19,166	114,407	597	28	7
Mortgages segment	(17,685)	(240)	(17,445)	(7,269)	(31)	(1)
Corporate items (1)	(33,591)	(22,637)	(10,954)	(48)	N/A	N/A
Total income (loss) before income taxes	\$ 22,951	\$ (83,769)	\$ 106,720	127 %	2 %	(11)%

	Six Months Ended June 30,		2020 to 2021		% of Revenue Six Months Ended June 30,	
	2021	2020	\$ Change	% Change	2021	2020
	(in thousands, unaudited)					
Income (loss) before income taxes:						
Homes segment	\$ (117,820)	\$ (178,016)	\$ 60,196	34 %	(8)%	(15)%
IMT segment	277,148	(22,341)	299,489	1,341	30	(4)
Mortgages segment	(19,505)	(13,385)	(6,120)	(46)	(16)	(23)
Corporate items (1)	(67,798)	(42,528)	(25,270)	(59)	N/A	N/A
Total income (loss) before income taxes	\$ 72,025	\$ (256,270)	\$ 328,295	128 %	3 %	(14)%

(1) Certain corporate items are not directly attributable to any of our segments, including the gain (loss) on extinguishment of debt, interest income earned on our short-term investments included in other income and interest costs on our convertible senior notes included in interest expense.

Adjusted EBITDA

	Three Months Ended June 30,		2020 to 2021		% of Revenue Three Months Ended June 30,	
	2021	2020	\$ Change	% Change	2021	2020
	(in thousands, unaudited)					
Net income (loss)	\$ 9,641	\$ (84,448)	\$ 94,089	111 %	1 %	(11)%
Adjusted EBITDA:						
Homes segment	\$ (29,092)	\$ (60,908)	\$ 31,816	52 %	(4)%	(13)%
IMT segment	217,763	71,862	145,901	203	46	26
Mortgages segment	(5,897)	4,885	(10,782)	(221)	(10)	14
Total Adjusted EBITDA	\$ 182,774	\$ 15,839	\$ 166,935	1,054 %	14 %	2 %

	Six Months Ended June 30,		2020 to 2021		% of Revenue Six Months Ended June 30,	
	2021	2020	\$ Change	% Change	2021	2020
	(in thousands, unaudited)					
Net income (loss)	\$ 61,605	\$ (247,721)	\$ 309,326	125 %	2 %	(13)%
Adjusted EBITDA:						
Homes segment	\$ (63,040)	\$ (135,903)	\$ 72,863	54 %	(4)%	(11)%
IMT segment	426,346	157,579	268,767	171	46	26
Mortgages segment	450	(718)	1,168	163	—	(1)
Total Adjusted EBITDA	\$ 363,756	\$ 20,958	\$ 342,798	1,636 %	14 %	1 %

To provide investors with additional information regarding our financial results, we have disclosed Adjusted EBITDA in total and for each segment, each a non-GAAP financial measure, within this Quarterly Report on Form 10-Q. We have provided a reconciliation below of Adjusted EBITDA in total to net income (loss) and Adjusted EBITDA by segment to income (loss) before income taxes for each segment, the most directly comparable GAAP financial measures.

We have included Adjusted EBITDA in total and for each segment in this Quarterly Report on Form 10-Q as they are key metrics 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 in total and for each segment has limitations as an analytical tool, and you should not consider these measures 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 impairment costs;
- Adjusted EBITDA does not reflect acquisition-related costs;
- Adjusted EBITDA does not reflect the gain (loss) on extinguishment of debt;
- Adjusted EBITDA does not reflect interest expense or other income;
- Adjusted EBITDA does not reflect income taxes; 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 in total and for each segment alongside other financial performance measures, including various cash flow metrics, net income (loss), income (loss) before income taxes for each segment, and our other GAAP results.

The following tables present a reconciliation of Adjusted EBITDA to the most directly comparable GAAP financial measure, which is net income (loss) on a consolidated basis and income (loss) before income taxes for each segment, for each of the periods presented (in thousands, unaudited):

	Three Months Ended June 30, 2021				
	Homes	IMT	Mortgages	Corporate Items (2)	Consolidated
Reconciliation of Adjusted EBITDA to Net Income and Income (Loss) Before Income Taxes:					
Net income (1)	N/A	N/A	N/A	N/A	\$ 9,641
Income taxes	N/A	N/A	N/A	N/A	13,310
Income (loss) before income taxes	\$ (59,346)	\$ 133,573	\$ (17,685)	\$ (33,591)	\$ 22,951
Other income	—	—	(1,006)	(581)	(1,587)
Depreciation and amortization	4,733	22,157	2,093	—	28,983
Share-based compensation	20,495	58,362	9,538	—	88,395
Acquisition-related costs	—	3,671	—	—	3,671
Loss on extinguishment of debt	—	—	—	931	931
Interest expense	5,026	—	1,163	33,241	39,430
Adjusted EBITDA	\$ (29,092)	\$ 217,763	\$ (5,897)	\$ —	\$ 182,774

	Three Months Ended June 30, 2020				
	Homes	IMT	Mortgages	Corporate Items (2)	Consolidated
Reconciliation of Adjusted EBITDA to Net Loss and Income (Loss) Before Income Taxes:					
Net loss (1)	N/A	N/A	N/A	N/A	\$ (84,448)
Income taxes	N/A	N/A	N/A	N/A	679
Income (loss) before income taxes	\$ (80,058)	\$ 19,166	\$ (240)	\$ (22,637)	\$ (83,769)
Other income	—	(5,300)	(385)	(4,430)	(10,115)
Depreciation and amortization	2,597	22,038	1,538	—	26,173
Share-based compensation	12,728	35,958	3,665	—	52,351
Gain on extinguishment of debt	—	—	—	(6,391)	(6,391)
Interest expense	3,825	—	307	33,458	37,590
Adjusted EBITDA	\$ (60,908)	\$ 71,862	\$ 4,885	\$ —	\$ 15,839

	Six Months Ended June 30, 2021				
	Homes	IMT	Mortgages	Corporate Items (2)	Consolidated
Reconciliation of Adjusted EBITDA to Net Income and Income (Loss) Before Income Taxes:					
Net income (1)	N/A	N/A	N/A	N/A	\$ 61,605
Income taxes	N/A	N/A	N/A	N/A	10,420
Income (loss) before income taxes	\$ (117,820)	\$ 277,148	\$ (19,505)	\$ (67,798)	\$ 72,025
Other income	—	—	(2,738)	(1,288)	(4,026)
Depreciation and amortization	9,026	44,956	3,900	—	57,882
Share-based compensation	36,416	99,754	15,898	—	152,068
Acquisition-related costs	—	4,488	—	—	4,488
Loss on extinguishment of debt	—	—	—	2,334	2,334
Interest expense	9,338	—	2,895	66,752	78,985
Adjusted EBITDA	<u>\$ (63,040)</u>	<u>\$ 426,346</u>	<u>\$ 450</u>	<u>\$ —</u>	<u>\$ 363,756</u>

	Six Months Ended June 30, 2020				
	Homes	IMT	Mortgages	Corporate Items (2)	Consolidated
Reconciliation of Adjusted EBITDA to Net Loss and Loss Before Income Taxes:					
Net loss (1)	N/A	N/A	N/A	N/A	\$ (247,721)
Income taxes	N/A	N/A	N/A	N/A	(8,549)
Loss before income taxes	\$ (178,016)	\$ (22,341)	\$ (13,385)	\$ (42,528)	\$ (256,270)
Other income	—	(5,300)	(587)	(13,821)	(19,708)
Depreciation and amortization	6,172	45,815	3,212	—	55,199
Share-based compensation	24,032	65,505	6,609	—	96,146
Gain on extinguishment of debt	—	—	—	(6,391)	(6,391)
Impairment costs	—	73,900	2,900	—	76,800
Interest expense	11,909	—	533	62,740	75,182
Adjusted EBITDA	<u>\$ (135,903)</u>	<u>\$ 157,579</u>	<u>\$ (718)</u>	<u>\$ —</u>	<u>\$ 20,958</u>

(1) We use income (loss) before income taxes as our profitability measure in making operating decisions and assessing the performance of our segments, therefore, net income (loss) and income tax benefit (expense) are calculated and presented only on a consolidated basis within our financial statements.

(2) Certain corporate items are not directly attributable to any of our segments, including the gain (loss) on extinguishment of debt, interest income earned on our short-term investments included in other income and interest costs on our convertible senior notes included in interest expense.

Costs and Expenses, Gross Profit and Other Items

	Three Months Ended		2020 to 2021		% of Total Revenue	
	June 30,				Three Months Ended	
	2021	2020	\$ Change	% Change	2021	2020
	(in thousands, unaudited)					
Cost of revenue	\$ 771,585	\$ 487,483	\$ 284,102	58 %	59 %	63 %
Gross profit	538,395	280,869	257,526	92	41	37
Operating expenses:						
Sales and marketing	229,434	160,667	68,767	43	18	21
Technology and development	128,463	97,507	30,956	32	10	13
General and administrative	115,102	85,380	29,722	35	9	11
Acquisition-related costs	3,671	—	3,671	N/A	—	—
Total operating expenses	476,670	343,554	133,116	39	36	45
Gain (loss) on extinguishment of debt	(931)	6,391	(7,322)	(115)	—	1
Other income	1,587	10,115	(8,528)	(84)	—	1
Interest expense	(39,430)	(37,590)	(1,840)	(5)	(3)	(5)
Income tax expense	(13,310)	(679)	(12,631)	(1,860)	(1)	—

	Six Months Ended		2020 to 2021		% of Total Revenue	
	June 30,				Six Months Ended	
	2021	2020	\$ Change	% Change	2021	2020
	(in thousands, unaudited)					
Cost of revenue	\$ 1,482,905	\$ 1,279,881	\$ 203,024	16 %	59 %	68 %
Gross profit	1,045,515	614,292	431,223	70	41	32
Operating expenses						
Sales and marketing	427,389	369,111	58,278	16	17	19
Technology and development	248,764	197,988	50,776	26	10	10
General and administrative	215,556	177,580	37,976	21	9	9
Impairment costs	—	76,800	(76,800)	(100)	—	4
Acquisition-related costs	4,488	—	4,488	N/A	—	—
Total operating expenses	896,197	821,479	74,718	9	35	43
Gain (loss) on extinguishment of debt	(2,334)	6,391	(8,725)	(137)	—	—
Other income	4,026	19,708	(15,682)	(80)	—	1
Interest expense	(78,985)	(75,182)	(3,803)	(5)	(3)	(4)
Income tax benefit (expense)	(10,420)	8,549	(18,969)	(222)	—	—

Cost of Revenue

Cost of revenue consists of expenses related to operating our mobile applications and websites, including associated headcount-related expenses, such as salaries, benefits, bonuses and share-based compensation expense, as well as revenue-sharing costs related to our commercial business relationships, depreciation expense, and costs associated with hosting our mobile applications and websites. Cost of revenue also includes amortization costs related to capitalized website and development activities, amortization of software, amortization of certain intangible assets and other costs to obtain data used to populate our mobile applications and websites, and amortization of certain intangible assets recorded in connection with acquisitions, including developed technology. For our Homes segment, our cost of revenue also consists of the consideration paid to acquire and make certain repairs and updates to each home, including associated overhead costs, as well as inventory valuation adjustments. For our IMT and Mortgages segments, cost of revenue also includes credit card fees and ad serving costs paid to third parties. For our Mortgages segment, our cost of revenue also consists of direct costs to originate loans, including underwriting and processing costs.

Three months ended June 30, 2021 compared to the three months ended June 30, 2020

Cost of revenue increased by \$284.1 million, or 58%, due to an increase of \$272.6 million in our Homes segment and an increase of \$13.4 million in our Mortgages segment, partially offset by a decrease of \$1.9 million within the IMT segment.

- The increase in cost of revenue in our Homes segment was driven primarily by an increase of \$268.0 million in home acquisition costs due to the increase in the number of homes sold from 1,437 during the three months ended June 30, 2020 to 2,086 during the three months ended June 30, 2021. We expect cost of revenue for the Homes segment to increase in absolute dollars in future periods as we accelerate home buying and selling through our Zillow Offers business.
- The increase in cost of revenue in the Mortgages segment was primarily attributable to an increase in headcount-related expenses of \$5.5 million and an increase in lead acquisition costs of \$4.9 million associated with growth in our Zillow Home Loans business. We expect cost of revenue for our Mortgages segment to increase in absolute dollars in future periods due to increases in lead acquisition costs and variable headcount costs to support the growth of our Zillow Home Loans business.
- The decrease in cost of revenue in our IMT segment was primarily attributable to a decrease of \$12.0 million in data acquisition costs, partially offset by an increase of \$4.0 million in direct product costs, an increase of \$1.8 million in headcount-related expenses, and an increase of \$1.7 million in depreciation and amortization expense. We expect cost of revenue for our IMT segment to increase in absolute dollars in future periods to support the expected growth in revenue as discussed above.

Six months ended June 30, 2021 compared to the six months ended June 30, 2020

Cost of revenue increased by \$203.0 million, or 16%, due to an increase of \$181.5 million in our Homes segment and an increase of \$26.5 million in our Mortgages segment, partially offset by a decrease of \$4.9 million in our IMT segment.

- The increase in cost of revenue in our Homes segment was primarily attributable an increase of \$190.9 million in home acquisition costs due to the increase in the number of homes sold from 3,831 during the six months ended June 30, 2020 to 4,051 during the six months ended June 30, 2021.
- The increase in cost of revenue in our Mortgages segment was primarily attributable to an increase in headcount-related expenses of \$11.2 million and an increase in lead acquisition costs of \$9.6 million associated with growth in our Zillow Home Loans business.
- The decrease in cost of revenue in our IMT segment was primarily attributable to a decrease of \$20.6 million in data acquisition costs, partially offset by an increase of \$6.1 million in direct product costs, an increase in depreciation and amortization expense of \$4.3 million and an increase of headcount-related expenses of \$3.2 million.

Gross Profit

Gross profit is calculated as revenue less cost of revenue. Gross margin is gross profit expressed as a percentage of revenue. Our gross profit has and will continue to be affected by a number of factors, including the mix of revenue from our relatively higher gross margin segments, IMT and Mortgages, and our relatively lower gross margin Homes segment.

Three months ended June 30, 2021 compared to the three months ended June 30, 2020

Gross profit increased by \$257.5 million, or 92%, due to increases in gross profit of \$197.7 million in our IMT segment, \$50.3 million in our Homes segment and \$9.6 million in our Mortgages segment. Total gross margin improved from 37% to 41%.

- The increase in IMT segment gross profit was driven by an improvement in gross margin from 84% to 91%, primarily associated with increased revenue, discussed above.
- The increase in Homes segment gross profit was driven by an improvement in gross margin from 4% to 9%, primarily due to growth in revenue outpacing growth in cost of revenue due to home price appreciation in Zillow Offers markets and cost management driven by operational improvements.
- The increase in Mortgages segment gross profit was driven by a corresponding increase in revenue, discussed above. Gross margin declined from 79% to 64%, driven by increases in cost of revenue, primarily associated with additional headcount-related expenses and lead acquisition costs as a result of increased origination volume, which outpaced the growth in revenue primarily due to industry margin compression.

Six months ended June 30, 2021 compared to the six months ended June 30, 2020

Gross profit increased by \$431.2 million, or 70%, due to increases of \$316.3 million in our IMT segment, \$75.7 million in our Homes segment and \$39.2 million in our Mortgages segment. Total gross margin improved from 32% to 41%.

- The increase in IMT segment gross profit was driven by an improvement in gross margin from 84% to 90%, primarily associated with increased revenue, discussed above.
- The increase in Homes segment gross profit was driven by an improvement in gross margin from 4% to 9%, due to growth in revenue outpacing growth in cost of revenue due to home price appreciation in Zillow Offers markets and cost management driven by operational improvements.
- The increase in Mortgages segment gross profit was driven by increased revenue, discussed above. Gross margin declined from 77% to 68%, driven by an increase in cost of revenue, primarily associated with additional headcount-related expenses and lead acquisition costs as a result of increased origination volume, which outpaced the growth in revenue primarily due to industry margin compression.

Sales and Marketing

Sales and marketing expenses consist of advertising costs and other sales expenses related to promotional and marketing activities, headcount-related expenses, including salaries, commissions, benefits, bonuses and share-based compensation expense for sales, sales support, customer support, including the customer connections team, marketing and public relations employees, depreciation expense and amortization of certain intangible assets recorded in connection with acquisitions, including trade names and trademarks and customer relationships. For our Homes segment, sales and marketing expenses also consist of selling costs, such as real estate agent commissions, escrow and title fees, and staging costs, as well as holding costs incurred during the period that homes are listed for sale, including utilities, taxes and maintenance. For our Mortgages segment, sales and marketing expenses include headcount-related expenses for loan officers and specialists supporting Zillow Home Loans.

Three months ended June 30, 2021 compared to the three months ended June 30, 2020

Sales and marketing expenses increased \$68.8 million, or 43%, due to increases of \$35.2 million in our IMT segment, \$18.3 million in our Homes segment and \$15.4 million in our Mortgages segment.

- The increase in sales and marketing expenses in the IMT segment was primarily attributable to a \$26.1 million increase in marketing and advertising costs and a \$9.0 million increase in headcount-related expenses. Marketing and advertising costs for the three months ended June 30, 2021 were higher than the comparable prior year period due to our pause of most discretionary spending in the first half of 2020 in response to the COVID-19 pandemic. We expect IMT sales and marketing expenses to increase in absolute dollars in future periods as we continue to increase our marketing and advertising activities.
- The increase in sales and marketing expenses in the Homes segment was primarily attributable to a \$10.8 million increase in home holding and selling costs driven by the increase in the number of homes sold during the three months ended June 30, 2021 compared to the three months ended June 30, 2020. Home holding and selling costs for the three months ended June 30, 2020 were impacted by our pause in home buying activities in the second quarter of 2020. The increase in sales and marketing expenses was also attributable to a \$5.2 million increase in marketing and advertising expenses. We expect sales and marketing expenses within the Homes segment to increase in absolute dollars in future periods as we continue to accelerate our Zillow Offers business. Sales and marketing expenses in our Homes segment included \$5.3 million and \$2.6 million in holding costs for the three months ended June 30, 2021 and 2020, respectively.
- The increase in sales and marketing expenses in the Mortgages segment was primarily attributable to an \$8.6 million increase in headcount-related expenses and a \$6.1 million increase in marketing and advertising expenses associated with growth of our Zillow Home Loans business. We expect sales and marketing expenses for our Mortgages segment to increase in absolute dollars in future periods due to expected growth in loan origination volumes driving increased commissions costs as we continue to accelerate our Zillow Home Loans business.

Six months ended June 30, 2021 compared to the six months ended June 30, 2020

Sales and marketing expenses increased \$58.3 million, or 16%, due to increases of \$29.2 million in our IMT segment, \$27.7 million in our Mortgages segment and \$1.4 million in our Homes segment.

- The increase in sales and marketing expenses in the IMT segment was primarily attributable to a \$17.8 million increase in marketing and advertising costs and a \$16.1 million increase in headcount-related expenses, partially offset by a \$3.4 million decrease in depreciation and amortization expense and a \$2.3 million decrease in travel expenses. Marketing and advertising costs for the six months ended June 30, 2021 were higher than the comparable prior year period primarily due to our pause in most discretionary spending in the six months ended June 30, 2020 in response to the COVID-19 pandemic.
- The increase in sales and marketing expenses in the Mortgages segment was primarily attributable to a \$19.0 million increase in headcount-related expenses and an \$8.4 million increase in marketing and advertising expenses associated with growth of our Zillow Home Loans business.
- The increase in sales and marketing expenses in the Homes segment was primarily attributable to increases of \$5.2 million in marketing and advertising costs and \$2.7 million in home holding and selling costs driven by the increase in the number of homes sold during the six months ended June 30, 2021 compared to the six months ended June 30, 2020, discussed above. During the six months ended June 30, 2020, Homes segment sales and marketing expenses included \$5.7 million in expenses attributable to our efforts to pause home buying in response to the COVID-19 pandemic, which partially offset the aforementioned increases as no comparable costs were incurred during the six months ended June 30, 2021. Sales and marketing expenses in our Homes segment included \$9.2 million and \$7.9 million in holding costs for the six months ended June 30, 2021 and 2020, respectively.

Technology and Development

Technology and development expenses consist of headcount-related expenses, including salaries, benefits, bonuses and share-based compensation expense for individuals engaged in the design, development and testing of our products, mobile applications and websites and the tools and applications that support our products. Technology and development expenses also include equipment and maintenance costs and depreciation expense.

Three months ended June 30, 2021 compared to the three months ended June 30, 2020

Technology and development expenses increased \$31.0 million, or 32%, due to increases of \$23.9 million in our IMT segment, \$4.2 million in our Homes segment and \$2.8 million in our Mortgages segment.

The increase in technology and development expenses for each of our segments was primarily attributable to increases in headcount-related expenses, including share-based compensation expense, of \$22.7 million, \$3.7 million and \$2.6 million for our IMT, Homes and Mortgages segments, respectively, as we continue to invest in human capital to grow our businesses.

Six months ended June 30, 2021 compared to the six months ended June 30, 2020

Technology and development expenses increased \$50.8 million, or 26%, due to increases of \$36.6 million in our IMT segment, \$8.7 million in our Homes segment and \$5.5 million in our Mortgages segment.

The increase in technology and development expenses for each of our segments was primarily attributable to increases in headcount-related expenses, including share-based compensation expense, of \$37.4 million, \$8.5 million and \$4.2 million for our IMT, Homes and Mortgages segments, respectively, as we continue to invest in human capital to grow our businesses.

General and Administrative

General and administrative expenses consist of headcount-related expenses, including salaries, benefits, bonuses and share-based compensation expense for executive, finance, accounting, legal, human resources, recruiting, corporate information technology costs and other administrative support. General and administrative expenses also include legal settlement costs and estimated legal liabilities, legal, accounting and other third-party professional service fees, rent expense, depreciation expense and bad debt expense.

Three months ended June 30, 2021 compared to the three months ended June 30, 2020

General and administrative expenses increased \$29.7 million, or 35%, due to increases of \$15.2 million in our IMT segment, \$8.6 million in our Mortgages segment and \$5.9 million in our Homes segment.

The increase in general and administrative expenses for each of our segments was primarily attributable to increases in headcount-related expenses, including share-based compensation expense, of \$12.2 million, \$6.2 million and \$5.1 million for our IMT, Mortgages and Homes segments, respectively, as we continue to invest in human capital to grow our businesses.

Six months ended June 30, 2021 compared to the six months ended June 30, 2020

General and administrative expenses increased \$38.0 million, or 21%, due to increases of \$15.1 million in our IMT segment, \$14.8 million in our Mortgages segment and \$8.0 million in our Homes segment.

The increase in general and administrative expenses for each of our segments was primarily due to increases in headcount-related expenses, including share-based compensation expense, of \$18.4 million, \$11.3 million and \$6.9 million for our IMT, Mortgages and Homes segments, respectively, as we continue to invest in human capital to grow our businesses.

Impairment Costs

We did not record any impairment costs for the three and six months ended June 30, 2021. Impairment costs for the six months ended June 30, 2020 consist of a \$71.5 million non-cash impairment related to the Trulia trade names and trademarks intangible asset, of which \$68.6 million was recorded to the IMT segment and \$2.9 million was recorded to the Mortgages segment, and a \$5.3 million non-cash impairment related to our October 2016 equity investment recorded to the IMT segment. For additional information about the impairments, see Note 9 and Note 10 in our Notes to Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q.

Gain (Loss) on Extinguishment of Debt

We recorded a \$0.9 million loss on extinguishment of debt during the three months ended June 30, 2021, associated with conversions of the convertible senior notes maturing in 2023 (“2023 Notes”) and 2024 (“2024 Notes”). We recorded a \$2.3 million loss on extinguishment of debt during the six months ended June 30, 2021, associated with conversions of the 2023 Notes, 2024 Notes and convertible senior notes maturing in 2026 (“2026 Notes”). During the three and six months ended June 30, 2020, we recorded a \$6.4 million gain on extinguishment of debt associated with the partial repurchase of the convertible senior notes maturing in 2021 (“2021 Notes”). For additional information on the gain (loss) on extinguishment, see Note 11 of our Notes to Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q.

Other Income

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

Other income decreased \$8.5 million, or 84%, and \$15.7 million, or 80%, during the three and six months ended June 30, 2021, respectively. The decrease in other income is primarily due to corporate other income not directly attributable to our segments driven by a greater mix of lower risk investments with generally lower yields and lower market yields on our cash and investments. Additionally, for the three and six months ended June 30, 2020, other income for our IMT segment included a \$5.3 million gain on the sale of our October 2016 equity investment. For additional information on the gain on sale, see Note 9 in our Notes to Condensed Consolidated Financial Statements in Part I of this Quarterly Report on Form 10-Q. We expect other income related to investment portfolio returns to remain relatively low for the foreseeable future as interest rates are currently projected to remain low.

Acquisition-Related Costs

Acquisition-related costs consist of investment banking, legal, accounting, tax and regulatory filing fees associated with effecting acquisitions.

Acquisition-related costs were \$3.7 million and \$4.5 million for the three and six months ended June 30, 2021, respectively, primarily as a result of our pending acquisition of ShowingTime.com, Inc. We did not record any acquisition-related costs for the three and six months ended June 30, 2020.

Interest Expense

Our corporate interest expense consists of interest on our convertible senior notes and also includes the amortization of the debt discount and deferred issuance costs for the convertible senior notes. Refer to Note 11 of our Notes to Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q for stated interest rates and interest payment dates for each of our convertible senior notes.

For our Homes segment, interest expense includes interest on borrowings, funding fees and other fees, including the amortization of deferred issuance costs, on the credit facilities related to our Zillow Offers business. Borrowings on these credit facilities bear interest at the one-month London Inter-Bank Offered Rate (“LIBOR”) plus an applicable margin, and in certain cases are subject to a LIBOR floor, as defined in the credit agreements.

For our Mortgages segment, interest expense includes interest on the warehouse line of credit and interest on the master repurchase agreements related to our Zillow Home Loans business. Borrowings on the warehouse line of credit and master repurchase agreements bear interest at the one-month LIBOR plus an applicable margin, and in certain cases are subject to a LIBOR floor, as defined in the agreements.

Three months ended June 30, 2021 compared to the three months ended June 30, 2020

Interest expense increased \$1.8 million, or 5%, primarily due to a \$1.2 million increase in interest expense related to our Homes segment, while corporate interest expense not attributable to any of our segments remained relatively flat year-over-year.

The increase in Homes segment interest expense was primarily attributable to the increased number of homes financed on our credit facilities, as described above. We expect interest expense to remain relatively flat in the near-term due to expected growth in our homes inventory offset by the settlement of our 2023 Notes, but increase in absolute dollars in the longer-term due to expected continued growth of our Zillow Offers business. For more information on the settlement of the 2023 Notes, refer to Note 19 of our Notes to Consolidated Financial Statements of this Quarterly Report on Form 10-Q.

Six months ended June 30, 2021 compared to the six months ended June 30, 2020

Interest expense increased \$3.8 million, or 5%, due to a \$4.0 million increase in corporate interest expense not attributable to any of our segments and a \$2.4 million increase in interest expense related to our Mortgages segment, partially offset by a \$2.6 million decrease in interest expense related to our Homes segment.

The increase in corporate interest expense not attributable to any of our segments was primarily due to the May 2020 issuance of the 2025 Notes, partially offset by the settlement of the convertible senior notes due in 2020 (the “2020 Notes”) and the 2021 Notes in the three months ended December 31, 2020 and the settlement of the 2023 Notes, 2024 Notes and 2026 Notes during the six months ended June 30, 2021. The increase in Mortgages segment interest expense was attributable to borrowings on our repurchase agreements and warehouse line of credit to support the growth of Zillow Home Loans. The decrease in Homes segment interest expense was due to a lower number of homes financed on our credit facilities as we continue to grow our homes inventory after our pause in home buying in response to the COVID-19 pandemic and lower weighted average interest rates on our credit facilities.

Income Taxes

We are subject to federal and state income taxes in the U.S. and federal and provincial income taxes in Canada. As of June 30, 2021 and December 31, 2020, we have provided a valuation allowance against our net deferred tax assets that we believe, based on the weight of available evidence, are not more likely than not to be realized. We have accumulated federal tax losses of approximately \$1.7 billion as of December 31, 2020, which are available to reduce future taxable income. We have accumulated state tax losses of approximately \$53.2 million (tax effected) as of December 31, 2020.

We recorded income tax expense of \$13.3 million for the three months ended June 30, 2021 and income tax expense of \$10.4 million for the six months ended June 30, 2021, primarily related to state income taxes. We recorded income tax expense of \$0.7 million for the three months ended June 30, 2020 and an income tax benefit of \$8.5 million for the six months ended June 30, 2020. The income tax benefit for the six months ended June 30, 2020 was primarily a result of a \$9.7 million income tax benefit related to the \$71.5 million non-cash impairment we recorded during the three months ended March 31, 2020 related to the Trulia trade names and trademarks intangible asset. For additional information about the non-cash impairment, see Note 10 of our Notes to Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q.

Liquidity and Capital Resources

As of June 30, 2021 and December 31, 2020, we had cash and cash equivalents, investments and restricted cash of \$4.7 billion and \$4.0 billion, respectively. Cash and cash equivalents balances consist of operating cash on deposit with financial institutions, money market funds and municipal securities. Investments consist of fixed income securities, which include U.S. government agency securities, municipal securities, treasury bills and certificates of deposit. Restricted cash consists of amounts funded to the reserve and collection accounts related to our credit facilities, amounts held in escrow related to funding home purchases in our mortgage origination business and amounts held in escrow related to our Zillow Closing Services business. Amounts on deposit with third-party financial institutions exceed the Federal Deposit Insurance Corporation and the Securities Investor Protection Corporation insurance limits, as applicable. As of June 30, 2021, Zillow Group and its subsidiaries were in compliance with all debt covenants specified in the facilities described below.

To preserve our liquidity in response to the COVID-19 pandemic, we temporarily paused hiring for non-critical roles, paused the majority of our advertising spending and reduced other discretionary spending during the first half of 2020. As our financial position has strengthened, we have gradually increased our hiring and marketing and advertising activities, and on March 11, 2021, we announced our plan to hire more than 2,000 employees nationwide in 2021. Additionally, we temporarily paused home buying through Zillow Offers in the first half of 2020 and resumed home buying activities in all markets in early August 2020.

Our liquidity has been positively impacted by certain provisions included in the CARES Act which provides tax provisions and other stimulus measures to affected companies. Under the CARES Act, we expect to defer certain 2020 employer payroll tax payments until the fourth quarter of 2021 and 2022. During 2020, we deferred a total of \$23.8 million of such payments.

On February 17, 2021, we entered into an equity distribution agreement with certain sales agents and/or principals (the “Managers”), pursuant to which we may offer and sell from time to time, through the Managers, shares of our Class C capital stock, having an aggregate gross sales price of up to \$1.0 billion, in such share amounts as we may specify by notice to the Managers, in accordance with the terms and conditions set forth in the equity distribution agreement. During the six months ended June 30, 2021, we issued and sold 3,163,502 shares of our Class C capital stock for total proceeds of \$550.6 million and net proceeds of \$544.6 million, after deducting \$6.1 million of commissions and other offering expenses incurred. For additional information regarding the equity distribution agreement, see Note 13 in our Notes to Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q.

In February 2021, we entered into a definitive agreement to acquire ShowingTime.com, Inc. (“ShowingTime”), a real estate showing software provider, for \$500.0 million in cash, subject to adjustments, payable upon the closing of the acquisition. On April 19, 2021, each of Zillow Group and ShowingTime received a request from the U.S. Federal Trade Commission (the “FTC”) for additional information and documentary material (commonly referred to as a “Second Request”) pursuant to the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (the “HSR Act”) in connection with our proposed acquisition of ShowingTime. The FTC’s Second Request extended the waiting period imposed under the HSR Act until 30 days after both Zillow Group and ShowingTime have substantially complied with the Second Request, unless the waiting period is terminated earlier by the FTC or voluntarily extended by mutual agreement. To facilitate the FTC’s review, Zillow Group and ShowingTime have entered into a timing agreement with the FTC (“Timing Agreement”). Under the Timing Agreement, Zillow Group and ShowingTime agreed not to consummate the proposed acquisition until 53 days after both Zillow Group and ShowingTime have substantially complied with the Second Request. The Timing Agreement does not prevent the parties from consummating the proposed acquisition sooner if the FTC grants early termination of the HSR Act waiting period or if the FTC otherwise closes its investigation after the expiration of the HSR Act waiting period. We continue to cooperate with the FTC in its review of the proposed acquisition.

Zillow Group’s purchase of homes through the Zillow Offers program and sale of homes has a significant impact on our liquidity and capital resources as a cash and inventory intensive business. We primarily use debt financing through credit facilities to fund a portion of the purchase price of homes and certain related costs. We expect home financing to accelerate in future periods as we continue to grow our home buying in all Zillow Offers markets. As of June 30, 2021, we have \$824.4 million of total outstanding borrowings on credit facilities to provide capital for Zillow Offers with a total maximum borrowing capacity of \$1.5 billion.

Zillow Home Loans continues to impact our liquidity and capital resources as a cash intensive business that funds mortgage loans originated for resale in the secondary market. We primarily use debt financing to fund mortgage loan originations. As of June 30, 2021, we have \$163.4 million of total outstanding borrowings on our warehouse line of credit and master repurchase agreements with a total maximum borrowing capacity of \$460.0 million.

As of June 30, 2021, we have outstanding a total of \$2.0 billion aggregate principal of convertible senior notes. The convertible notes are senior unsecured obligations, and interest on the convertible notes is paid semi-annually. On May 26, 2021, we submitted notice to the trustee to exercise our right to redeem the remaining \$372.8 million in aggregate principal amount of the 2023 Notes on July 6, 2021 (the “Redemption Date”). Holders of the 2023 Notes had the option to convert their 2023 Notes in whole or in part into shares of Class C capital stock prior to the Redemption Date. During the three months ended June 30, 2021, holders of the 2023 Notes elected to convert \$5.1 million aggregate principal amount of 2023 Notes. We satisfied these conversions through the issuance of approximately 65.7 thousand shares of Class C capital stock. Subsequent to June 30, 2021, holders of the 2023 Notes elected to convert \$366.4 million of aggregate principal amount prior to the Redemption Date. We satisfied these conversions through the issuance of approximately 4.7 million shares of Class C capital stock in July 2021. The remaining \$1.3 million of aggregate principal amount was redeemed on July 6, 2021 for \$1.3 million in cash, plus accrued and unpaid interest.

For additional information regarding our debt, refer to Note 11 and Note 19 of our Notes to Condensed Consolidated Financial Statements in Part I of this Quarterly Report on Form 10-Q.

We believe that cash from operations and cash and cash equivalents and investment balances will be sufficient to meet our ongoing operating activities, working capital, capital expenditures and other capital requirements for at least the next 12 months.

The following table presents selected cash flow data for the periods presented (in thousands, unaudited):

	Six Months Ended June 30,	
	2021	2020
Cash Flow Data:		
Net cash provided by (used in) operating activities	\$ (157,502)	\$ 692,620
Net cash provided by (used in) investing activities	1,295,008	(264,634)
Net cash provided by financing activities	937,739	420,199

Cash Flows Provided By (Used In) Operating Activities

Our operating cash flows result primarily from cash received from real estate professionals, rental professionals, mortgage professionals and brand advertisers, as well as cash received from customers for sales of homes through Zillow Offers and sales of mortgages originated by Zillow Home Loans. Our primary uses of cash from operating activities include payments for homes purchased through Zillow Offers, marketing and advertising activities, mortgages funded through Zillow Home Loans and employee compensation and benefits. Additionally, uses of cash from operating activities include costs associated with operating our mobile applications and websites and other general corporate expenditures.

For the six months ended June 30, 2021, net cash used in operating activities was \$157.5 million. This was primarily driven by net income of \$61.6 million, adjusted by share-based compensation expense of \$152.1 million, depreciation and amortization expense of \$57.9 million, amortization of debt discount and debt issuance costs of \$50.4 million, amortization of contract cost assets of \$20.2 million, amortization of right of use assets of \$12.9 million, a loss on extinguishment of debt of \$2.3 million, and \$8.3 million in other adjustments to reconcile net income to net cash used in operating activities. Changes in operating assets and liabilities offset these adjustments by \$523.1 million. The changes in operating assets and liabilities are primarily related to a \$677.7 million increase in inventory due to home purchases outpacing the sale of homes through Zillow Offers for the six months ended June 30, 2021, a \$35.8 million increase in prepaid expenses and other current assets due to the timing of payments and an increase in contract assets driven by increased revenue from our Premier Agent Flex pricing model, a \$32.8 million increase in accounts receivable due to an increase in revenue from products and services billed in arrears, a \$17.4 million increase in contract cost assets due primarily to capitalized sales commissions, and a \$14.2 million decrease in lease liabilities. These changes were partially offset by a \$159.3 million decrease in mortgage loans held for sale driven by rising interest rates and the resulting reduction in refinance volume, an \$80.8 million increase in accrued expenses and other liabilities driven by the timing of payments, a \$7.9 million increase in accrued compensation and benefits, a \$4.6 million increase in deferred revenue and a \$2.7 million increase in accounts payable.

For the six months ended June 30, 2020, net cash provided by operating activities was \$692.6 million. This was primarily driven by a net loss of \$247.7 million, adjusted by share-based compensation expense of \$96.1 million, non-cash impairment costs of \$76.8 million, depreciation and amortization expense of \$55.2 million, amortization of debt discount and debt issuance costs of \$47.7 million, amortization of contract cost assets of \$17.1 million and amortization of right of use assets of \$12.7 million. This was offset by an \$8.5 million change in deferred income taxes, a gain on extinguishment of debt of \$6.4 million and a \$1.0 million change in other adjustments to reconcile net loss to cash provided by operating activities for the six months ended June 30, 2020. Changes in operating assets and liabilities increased cash provided by operating activities by \$650.6 million. The changes in operating assets and liabilities are primarily related to a \$701.1 million decrease in inventory due to the sale of homes and a decrease in home purchases through Zillow Offers during the six months ended June 30, 2020, a \$10.0 million increase in other long-term liabilities, a \$7.5 million increase in accounts payable and a \$4.8 million increase in deferred revenue. These changes were partially offset by a \$38.5 million increase in mortgage loans held for sale, a \$19.6 million increase in contract cost assets due primarily to the capitalization of sales commissions, an \$8.7 million decrease in accrued expenses and other liabilities driven by the timing of payments, a \$3.3 million decrease in accrued compensation and benefits, and a \$1.5 million increase in accounts receivable due primarily to an increase in revenue from products and services which we bill in arrears.

Cash Flows Provided By (Used In) Investing Activities

Our primary investing activities include the purchase and sale or maturity of investments and the purchase of property and equipment and intangible assets.

For the six months ended June 30, 2021, net cash provided by investing activities was \$1.3 billion. This was the result of \$1.3 billion of proceeds from the maturity of investments, partially offset by \$34.5 million of purchases of property and equipment and intangible assets.

For the six months ended June 30, 2020, net cash used in investing activities was \$264.6 million. This was the result of \$208.6 million of net purchases of investments in connection with investment of a portion of the net proceeds from our May 2020 issuance of the 2025 Notes and offering of our Class C capital stock, and \$66.1 million of purchases for property and equipment and intangible assets, partially offset by \$10.0 million in proceeds from the sale of an equity investment.

Cash Flows Provided By Financing Activities

Net cash provided by financing activities has primarily resulted from net proceeds from the issuance of convertible notes, net proceeds from equity offerings, the exercise of employee option awards and equity awards withheld for tax liabilities, proceeds from and repayments of borrowings on our credit facilities related to Zillow Offers and proceeds from borrowings on our warehouse line of credit and the master repurchase agreements related to Zillow Home Loans.

For the six months ended June 30, 2021, cash provided by financing activities was \$937.7 million, which was primarily related to \$544.6 million in proceeds from the sale of 3,163,502 shares of Class C capital stock under our equity distribution agreement, \$463.3 million of net borrowings on our credit facilities related to Zillow Offers, and \$75.7 million of proceeds from the exercise of option awards. These cash inflows were partially offset by \$145.7 million of net repayments on our warehouse line of credit and master repurchase agreements related to Zillow Home Loans.

For the six months ended June 30, 2020, cash provided by financing activities was \$420.2 million, which was primarily related to net proceeds from the issuance of the 2025 Notes of \$553.3 million, net proceeds from the public offering of our Class C capital stock of \$411.5 million, \$185.0 million of proceeds from the exercise of option awards and \$39.4 million of net borrowings on our warehouse line of credit and master repurchase agreement related to Zillow Home Loans. These cash inflows were partially offset by \$617.5 million of net repayments of borrowings on our credit facilities related to Zillow Offers and \$194.7 million of cash paid for the partial repurchase of the 2021 Notes.

Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements other than outstanding surety bonds issued for our benefit of approximately \$10.6 million as of June 30, 2021. We do not believe that the surety bonds will have a material effect on our liquidity, capital resources, market risk support or credit risk support. For additional information regarding the surety bonds, see Note 16 of our Notes to Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q under the subsection titled "Surety Bonds".

Contractual Obligations and Other Commitments

There have been no material changes outside the ordinary course of business in our commitments under contractual obligations as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2020, except for the categories of contractual obligations included in the table below, which have been updated to reflect our contractual obligations as of June 30, 2021 (in thousands, unaudited):

	Payments Due By Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Convertible senior notes (1)	\$ 2,039,860	\$ 367,678	\$ —	\$ 1,173,382	\$ 498,800
Interest on convertible senior notes (2)	118,626	29,743	53,918	31,536	3,429
Homes segment credit facilities (3)	824,445	824,445	—	—	—
Mortgages segment credit facilities (4)	163,387	163,387	—	—	—
Homes under contract (5)	1,153,306	1,153,306	—	—	—
Total contractual obligations	<u>\$ 4,299,624</u>	<u>\$ 2,538,559</u>	<u>\$ 53,918</u>	<u>\$ 1,204,918</u>	<u>\$ 502,229</u>

(1) Includes the aggregate principal amounts of the 2024 Notes, 2025 Notes and 2026 Notes due on their contractual maturity dates and \$367.7 million in aggregate principal amount of the 2023 Notes redeemed on the Redemption Date. Refer to Note 11 and Note 19 of our Notes to Condensed Consolidated Financial Statements in Part I of this Quarterly Report on Form 10-Q for maturity dates and additional information on our convertible senior notes.

(2) Includes the coupon interest on the convertible senior notes, including \$2.8 million in coupon interest on the 2023 Notes due prior to the Redemption Date. Refer to Note 11 and Note 19 of our Notes to Condensed Consolidated Financial Statements in Part I of this Quarterly Report on Form 10-Q for stated interest rates and additional information on our convertible senior notes.

(3) Includes principal amounts due for amounts borrowed under the credit facilities used to provide capital for our Zillow Offers business. Amounts exclude an immaterial amount of estimated interest payments.

(4) Includes principal amounts due for amounts borrowed under the warehouse line of credit and master repurchase agreements to finance mortgages originated through Zillow Home Loans. Amounts exclude an immaterial amount of estimated interest payments.

(5) We have obligations to purchase homes under contract through our Zillow Offers business.

As of June 30, 2021, we have outstanding letters of credit of approximately \$16.9 million, which secure our lease obligations in connection with certain of the operating leases of our office spaces.

In the course of business, we are required to provide financial commitments in the form of surety bonds to third parties as a guarantee of our performance on and our compliance with certain obligations. If we were to fail to perform or comply with these obligations, any draws upon surety bonds issued on our behalf would then trigger our payment obligation to the surety bond issuer. We have outstanding surety bonds issued for our benefit of approximately \$10.6 million and \$10.1 million as of June 30, 2021 and December 31, 2020, respectively.

Critical Accounting Policies and Estimates

Our condensed consolidated 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, judgments and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses and related disclosures. We evaluate our estimates, judgments 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, and the COVID-19 pandemic has introduced significant additional uncertainty with respect to estimates, judgments and assumptions, which may materially impact our estimates. For information on our critical accounting policies and estimates, see Part II Item 7 (Management's Discussion and Analysis of Financial Condition and Results of Operations) of our Annual Report on Form 10-K for the fiscal year ended December 31, 2020. There have been no material changes to our critical accounting policies and estimates as previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Interest Rate Risk

Under our current investment policy, we invest our excess cash in money market funds, municipal securities, U.S. government agency securities, treasury bills, investment grade corporate securities and certificates of deposit. Our current investment policy seeks first to preserve principal, second to provide liquidity for our operating and capital needs and third to maximize yield without putting our principal at risk.

Our investments are exposed to market risk due to the fluctuation of prevailing interest rates that may reduce the yield on our investments or their fair value. As our investment portfolio is short-term in nature, we do not believe an immediate 10% increase in interest rates would have a material effect on the fair market value of our portfolio.

Our convertible senior notes bear interest at fixed rates. Thus, we have no related direct financial statement risk associated with changes in interest rates. However, the fair values of the convertible senior notes change primarily when the market price of our stock fluctuates or interest rates change. The following table summarizes our outstanding convertible senior notes as of June 30, 2021 (in thousands, except interest rates):

Maturity Date	Aggregate Principal Amount	Stated Interest Rate
September 1, 2026	\$ 498,800	1.375 %
May 15, 2025	565,000	2.75 %
September 1, 2024	608,382	0.75 %
July 1, 2023 (1)	367,678	1.50 %
	<u>\$ 2,039,860</u>	

(1) On May 26, 2021, we submitted notice to the trustee that we would redeem the remaining \$372.8 million in aggregate principal amount of the 2023 Notes on July 6, 2021 if not earlier converted by the holders. For additional information, see Note 11 and Note 19 of our Notes to Condensed Consolidated Financial Statements in Part I of this Quarterly Report on Form 10-Q.

We are subject to market risk by way of changes in interest rates on borrowings under our credit facilities that provide capital for Zillow Offers. As of June 30, 2021 and December 31, 2020, we had outstanding \$824.4 million and \$361.2 million, respectively, of borrowings on these credit facilities which bear interest at a floating rate based on the one-month LIBOR plus an applicable margin, and in certain cases a LIBOR floor. Accordingly, fluctuations in market interest rates may increase or decrease our interest expense. Assuming no change in the outstanding borrowings on our credit facilities, we estimate that a one percentage point increase in LIBOR would increase our annual interest expense by approximately \$8.2 million and \$3.6 million as of June 30, 2021 and December 31, 2020, respectively.

We are also subject to market risk by way of changes in interest rates on borrowings under our warehouse line of credit and master repurchase agreements that provide capital for Zillow Home Loans. As of June 30, 2021 and December 31, 2020, we had outstanding \$163.4 million and \$309.0 million, respectively, of borrowings on our warehouse line of credit and master repurchase agreements which bear interest at a floating rate based on LIBOR plus an applicable margin, and in certain cases include a LIBOR floor. We manage the interest rate risk associated with our mortgage loan origination services through the use of forward sales of mortgage-backed securities. Assuming no change in the outstanding borrowings on the warehouse line of credit and master repurchase agreements, we estimate that a one percentage point increase in LIBOR would increase our annual interest expense associated with the warehouse line of credit and master repurchase agreements by approximately \$1.6 million and \$3.1 million as of June 30, 2021 and December 31, 2020, respectively.

As described above, we utilize debt facilities that bear interest at a floating rate based on LIBOR, which is expected to be phased out as a reference rate in future periods. We do not expect the eventual transition away from LIBOR to have a material impact on our financial position, results of operations or cash flows.

Inflation Risk

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

Foreign Currency Exchange Risk

We do not believe that foreign currency exchange risk has had a material effect on our business, results of operations or financial condition. As we do not maintain a significant balance of foreign currency, we do not believe an immediate 10% increase or decrease in foreign currency exchange rates relative to the U.S. dollar would have a material effect on our business, results of operations or financial condition.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures (as defined under Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended). Management, under the supervision and with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b) as of June 30, 2021. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that these disclosure controls and procedures were effective as of June 30, 2021.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the three months ended June 30, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

For information regarding legal proceedings in which we are involved, see Note 16 under the subsection titled “Legal Proceedings” in our Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors

There have not been any material changes to the risk factors affecting our business, financial condition or future results from those set forth in Part I, Item 1A (Risk Factors) in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020. However, you should carefully consider the factors discussed in our Annual Report on Form 10-K, which could materially affect our business, financial condition or future results. Additional 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/or operating results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Unregistered Sales of Equity Securities

There were no unregistered sales of equity securities during the three months ended June 30, 2021.

Item 6. Exhibits

The exhibits listed below are filed as part of this Quarterly Report on Form 10-Q.

Exhibit Number	Description
10.1*	Amended Zillow Group, Inc. Executive Severance Plan and Summary Plan Description.
31.1	Certification of Chief Executive Officer pursuant to Rule 13-14(a) of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Rule 13-14(a) of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the inline XBRL document).
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (embedded within the inline XBRL document).
*	Indicates a management contract or compensatory plan or arrangement.

**ZILLOW GROUP, INC.
EXECUTIVE SEVERANCE PLAN
AND SUMMARY PLAN DESCRIPTION**

1. **Introduction.** The purpose of this Zillow Group, Inc. Executive Severance Plan is to provide assurances of specified benefits to certain employees of the Company and its wholly-owned subsidiaries whose employment is subject to being involuntarily terminated other than for death, Disability, or Cause or voluntarily terminated for Good Reason under the circumstances described in the Plan (as defined below). This Plan is an “employee welfare benefit plan,” as defined in Section 3(1) of ERISA. This document constitutes both the written instrument under which the Plan is maintained and the required summary plan description for the Plan.

2. **Important Terms.** The following words and phrases, when the initial letter of the term is capitalized, will have the meanings set forth in this Section 2, unless a different meaning is plainly required by the context:

2.1. **“Administrator”** means the Company, acting through the Compensation Committee or another duly constituted committee of members of the Board, or any person to whom the Administrator has delegated any authority or responsibility with respect to the Plan pursuant to Section 11, but only to the extent of such delegation.

2.2. **“Arbitration Agreement”** means the Mutual Agreement to Arbitrate Claims or any similar or successor agreement between the Company and a Participant.

2.3. **“Board”** means the Board of Directors of the Company.

2.4. **“Cause”** means, with respect to a Participant, one or more of the following events:

(a) willful misconduct, insubordination or dishonesty in the performance of Participant’s duties or a knowing and material violation of the Company’s or the Successor Company’s policies and procedures in effect from time to time which results in a material adverse effect on the Company or the Successor Company;

(b) the continued failure of Participant to satisfactorily perform the Participant’s duties after receipt of written notice that identifies the areas in which Participant’s performance is deficient;

(c) willful actions in bad faith or intentional failures to act in good faith by Participant with respect to the Company or the Successor Company that materially impair the Company’s or the Successor Company’s business, goodwill or reputation;

(d) conviction of Participant of a felony or misdemeanor, conduct by Participant that the Company reasonably believes violates any statute, rule or regulation governing the Company, or conduct by Participant that the Company reasonably believes constitutes unethical practices, dishonesty or disloyalty and that results in a material adverse effect on the Company or the Successor Company;

(e) current use by Participant of illegal substances; or

(f) any material violation by Participant of this Agreement or the Confidentiality Agreement.

2.5. **“Confidentiality Agreement”** means the Company’s Confidential Information, Inventions, (Noncompetition) and Nonsolicitation Agreement, the Company’s Proprietary Rights Agreement, or any similar or successor agreement between the Company and a Participant.

2.6. **“Code”** means the Internal Revenue Code of 1986, as amended.

2.7. **“Company”** means Zillow Group, Inc., a Delaware corporation, its wholly-owned subsidiaries and any Successor Company that assumes the obligations of the Company under the Plan, by way of a Company Transaction.

2.8. “**Company Transaction**” means consummation of:

(a) a merger or consolidation of the Company with or into any other company;

(b) a statutory share exchange pursuant to which all of the Company’s outstanding shares are acquired or a sale in one transaction or a series of transactions undertaken with a common purpose of all of the Company’s outstanding voting securities; or

(c) a sale, lease, exchange or other transfer in one transaction or a series of related transactions undertaken with a common purpose of all or substantially all of the Company’s assets, excluding, however, in each case, any such transaction pursuant to which

(i) the Entities who are the beneficial owners of the Outstanding Company Voting Securities immediately prior to such transaction will beneficially own, directly or indirectly, at least 50% of the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors of the Successor Company in substantially the same proportions as their ownership, immediately prior to such transaction, of the Outstanding Company Voting Securities;

(ii) no Entity (other than the Company, any employee benefit plan (or related trust) of the Company, a Related Company or a Successor Company) will beneficially own, directly or indirectly, more than 50% of the combined voting power of the outstanding voting securities of the Successor Company entitled to vote generally in the election of directors unless such ownership resulted solely from ownership of securities of the Company prior to such transaction; and

(iii) individuals who were members of the Incumbent Board will immediately after the consummation of such transaction constitute at least a majority of the members of the board of directors of the Successor Company.

Where a series of transactions undertaken with a common purpose is deemed to be a Company Transaction, the date of such Company Transaction shall be the date on which the last of such transactions is consummated.

2.9. “**Compensation Committee**” means the Compensation Committee of the Board.

2.10. “**Director**” means a member of the Board who is not an employee of the Company. Directors are not eligible for Severance Benefits.

2.11. “**Disability**” shall mean, with respect to a Participant, “Disability” as defined in the Company’s long-term disability plan or policy then in effect with respect to that Participant, as such plan or policy may be in effect from time to time, and, if there is no such plan or policy, a total and permanent disability as defined in Code Section 22(e)(3).

2.12. “**Entity**” means any individual, entity or group (within the meaning of Section 13(d)(3) or Section 14(d)(2) of the Exchange Act).

2.13. “**Equity Awards**” means a Participant’s outstanding stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance stock units and any other Company equity compensation awards.

2.14. “**ERISA**” means the Employee Retirement Income Security Act of 1974, as amended.

2.15. “**Exchange Act**” means the U.S. Securities Exchange Act of 1934, as amended.

2.16. “**Good Reason**” means the occurrence of one or more of the following without the Participant’s express written consent:

(a) incurred a material reduction in authority, duties or responsibilities at the Company;

- (b) incurred a material reduction in Participant's annual base salary (except for reductions in connection with a general reduction in annual base salary for all Participants of the Company by an average percentage that is not less than the percentage reduction of Participant's annual base salary);
- (c) suffered a material breach of any employment agreement (including an offer letter) by the Company; or
- (d) been required to relocate more than fifty (50) miles from Participant's then current place of residence, in order to continue to perform the duties and responsibilities of Participant's position (not including expected and customary travel as may be required by the nature of Participant's position).

Notwithstanding the foregoing, termination of employment by Participant will not be for Good Reason unless (1) Participant notifies the Company in writing of the existence of the condition which Participant believes constitutes Good Reason within thirty (30) days of the initial existence of such condition (which notice specifically identifies such condition), (2) the Company fails to remedy such condition within thirty (30) days after the date on which it receives such notice (the "**Remedial Period**"), and (3) Participant actually terminates employment within thirty (30) days after the expiration of the Remedial Period and before the Company remedies such condition. If Participant terminates employment before the expiration of the Remedial Period or after the Company remedies the condition (even if after the end of the Remedial Period), then Participant's termination will not be considered to be for Good Reason.

2.17. "**Incumbent Board**" means the composition of the Board during any two-year period such that the individuals who, as of the beginning of such two-year period, constitute the Board.

2.18. "**Involuntary Termination**" shall mean (a) a Participant terminates the Participant's employment with the Company (or any parent or subsidiary of the Company) for Good Reason, or (b) the Company (or any parent or subsidiary of the Company) terminates the Participant's employment for a reason other than Cause, the Participant's death or Disability. For the avoidance of doubt, a Participant's transfer of employment between members of the Company (that is, among the Company, any of its wholly-owned subsidiaries, or the Successor Company) will not constitute an Involuntary Termination.

2.19. "**Outstanding Company Voting Securities**" means the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of members of the Board.

2.20. "**Parent Company**" means a company or other entity which as a result of a Company Transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more intermediaries.

2.21. "**Participant**" means an employee of the Company who is serving in one of the positions included in the definition of Tier as set forth in Section 2.27.

2.22. "**Plan**" means the Zillow Group, Inc. Executive Severance Plan, as set forth in this document, and as hereafter amended from time to time.

2.23. "**Related Company**" means any entity that is directly or indirectly controlled by, in control of or under common control with the Company.

2.24. "**Section 409A Limit**" means 2 times the lesser of: (i) the Participant's annualized compensation based upon the annual rate of pay paid to the Participant during the Participant's taxable year preceding the Participant's taxable year of the Participant's termination of employment as determined under, and with such adjustments as are set forth in, Treasury Regulation 1.409A-1(b)(9)(iii)(A)(1) and any Internal Revenue Service guidance issued with respect thereto; or (ii) the maximum amount that may be taken into account under a qualified plan pursuant to Section 401(a)(17) of the Code for the year in which the Participant's employment is terminated.

2.25. "**Severance Benefits**" means the compensation and other benefits that the Participant will be provided in the circumstances described in Section 4.

2.26. “**Successor Company**” means the surviving company, the successor company or Parent Company, as applicable, in connection with a Company Transaction.

2.27. “**Tier**” means the tier of Severance Benefits a Participant is entitled to receive under the Plan pursuant to Section 4, depending on the rank and title of the Participant on the date the right to Severance Benefits is triggered, as set forth below:

- (a) “**Tier 1**” applies to employees of the Company serving in “Executive 6” level and with the title of “Chief Executive Officer.”
- (b) “**Tier 2**” applies to employees of the Company serving in “Executive 5” level and with a title that starts with “Chief” or “President.”
- (c) “**Tier 3**” applies to employees of the Company serving in “Executive 4” level and with the title of “Senior Vice President.”
- (d) “**Tier 4**” applies to employees of the Company serving in “Executive” level and with the title of “Vice President.”

3. **Eligibility for Severance Benefits.** A Participant is eligible for Severance Benefits, as described in Section 4, only if the Participant experiences an Involuntary Termination. An individual serving solely in the capacity as a Director is not eligible for Severance Benefits.

4. **Involuntary Termination.** Upon an Involuntary Termination, then, subject to the Participant’s compliance with Section 6, the Participant will be eligible to receive the following Severance Benefits:

4.1. **Cash Severance Benefits.** Continuing payments of severance equal to the Participant’s annual base salary as in effect immediately prior to the Participant’s Involuntary Termination payable in cash in accordance with the Company’s normal payroll procedures and the terms and conditions of this Plan, including, without limitation, Section 7 hereof, for the following periods after the Participant’s Involuntary Termination:

- (a) Tiers 1 - 3: six (6) months;
- (b) Tier 4: four (4) months

4.2. **Continued Medical Benefits.** If the Participant, and any spouse and dependents of the Participant (“**Family Members**”) has or have coverage on the date of the Participant’s Involuntary Termination under a group health plan sponsored by the Company, the total applicable premium cost for continued group health plan coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended (“**COBRA**”) during the period of time following the Participant’s Involuntary Termination as set forth below, regardless of whether the Participant elects COBRA continuation coverage for Participant and Participant’s Family Members (the “**COBRA Severance**”). The COBRA Severance will be paid ratably each month in an amount equal to the monthly COBRA premium that the Participant would be required to pay to continue the group health coverage in effect on the date of the Participant’s Involuntary Termination (which amount will be based on the premium for the first month of COBRA coverage) over the number of months set forth below following the Involuntary Termination. Furthermore, for any Participant who, due to non-U.S. local law considerations, is covered by a health plan that is not subject to COBRA, the Company may (in its discretion) instead provide cash or continued coverage in a manner intended to replicate the benefits of this Section 4.2 and to comply with applicable local law considerations. The period over which the COBRA Severance will be paid following the Participant’s Involuntary Termination is as follows:

- (a) Tiers 1 - 3: six (6) months;
- (b) Tier 4: four (4) months

4.3. **Equity Award Vesting Acceleration Benefit.** All or a portion of the Participant's Equity Awards that are to vest solely based on continued service will vest and, to the extent applicable, become immediately exercisable as to the portion of such awards that were scheduled to vest during the period following the date of such Involuntary Termination as follows (it being understood that forfeiture of any Equity Awards due to the Participant's Involuntary Termination will be tolled to the extent necessary to implement this Section 4.3):

- (a) Tiers 1 - 2: twelve (12) months;
- (b) Tier 3: six (6) months;
- (c) Tier 4: three (3) months

If an outstanding Equity Award is to vest and/or the amount of the award to vest is to be determined based on the achievement of performance criteria, then the Equity Award will be treated in accordance with the plan under which it was granted and the award agreement memorializing the Equity Award.

Notwithstanding the foregoing, if the Involuntary Termination occurs on or following a Company Transaction, then 100% of the Participant's then outstanding and unvested Equity Awards will vest, and if applicable, become exercisable.

4.4. **Extended Post-Termination Exercise Period.** The Participant will have until the expiration of the period following the date of the Participant's Involuntary Termination set forth below in which to exercise any Equity Awards (if applicable); provided, however, that such post-termination exercise period will not extend beyond the original maximum term of the Equity Award.

- (a) Tier 1: twenty-four (24) months;
- (b) Tier 2: eighteen (18) months;
- (c) Tier 3: nine (9) months;
- (d) Tier 4: six (6) months

5. **Limitation on Payments.** In the event that the severance and other benefits provided for in this Plan or otherwise payable to a Participant (i) constitute "parachute payments" within the meaning of Section 280G of the Code ("**280G Payments**"), and (ii) but for this Section 5, would be subject to the excise tax imposed by Section 4999 of the Code (the "**Excise Tax**"), then the 280G Payments will be either:

- (a) delivered in full, or

(b) delivered as to such lesser extent which would result in no portion of such benefits being subject to the Excise Tax, whichever of the foregoing amounts, taking into account the applicable federal, state and local income taxes and the excise tax imposed by Section 4999, results in the receipt by Participant on an after-tax basis, of the greatest amount of benefits, notwithstanding that all or some portion of such benefits may be taxable under Section 4999 of the Code. If a reduction in the 280G Payments is necessary so that no portion of such benefits are subject to the Excise Tax, reduction will occur in the following order: (i) cancellation of awards granted "contingent on a change in ownership or control" (within the meaning of Code Section 280G); (ii) a pro rata reduction of (A) cash payments that are subject to Section 409A as deferred compensation and (B) cash payments not subject to Section 409A of the Code; (iii) a pro rata reduction of (A) employee benefits that are subject to Section 409A as deferred compensation and (B) employee benefits not subject to Section 409A; and (iv) a pro rata cancellation of (A) accelerated vesting equity awards that are subject to Section 409A as deferred compensation and (B) equity awards not subject to Section 409A. In the event that acceleration of vesting of equity awards is to be cancelled, such acceleration of vesting will be cancelled in the reverse order of the date of grant of a Participant's equity awards.

Unless Participant and the Company otherwise agree in writing, any determination required under this Section 5 will be made in writing by the Company's independent public accountants immediately prior to the change in control of the Company or such other person or entity to which the parties mutually agree (the "**Firm**"), whose determination will be conclusive and binding upon Participant and the Company. For purposes of making the calculations required by this Section 5 the Firm may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code. Participant and the Company will furnish to the Firm such information and documents as the Firm may reasonably request in order to make a determination under this Section 5. The Company will bear all costs the Firm may incur in connection with any calculations contemplated by this Section 5.

6. **Conditions to Receipt of Severance.**

6.1. **Release Agreement.** As a condition to receiving the Severance Benefits, each Participant will be required to sign and not revoke a separation and release of claims agreement in a form reasonably satisfactory to the Company (the "**Release**"). In all cases, the Release must become effective and irrevocable the earlier of (1) the date set forth in the Release, or (2) the 60th day following the Participant's Involuntary Termination (the "**Release Deadline Date**"). If the Release does not become effective and irrevocable by the Release Deadline Date, the Participant will forfeit any right to the Severance Benefits. In no event will the Severance Benefits be paid or provided until the Release becomes effective and irrevocable.

6.2. **Confidentiality Agreement.** A Participant's receipt of Severance Benefits will be subject to the Participant continuing to comply with the terms of the Confidentiality Agreement between the Company and the Participant.

6.3. **Non-Disparagement.** Subject to Section 6.4, as a condition to receiving Severance Benefits under this Plan during the Participant's employment with the Company, the Participant will not knowingly and materially disparage, libel, slander, or otherwise make any materially derogatory statements regarding the Company or any of its officers or directors. Notwithstanding the foregoing, nothing contained in the Plan will be deemed to restrict the Participant from providing information to any governmental, administrative, judicial, legislative, or regulatory agency or body (or in any way limit the content of any such information) to the extent the Participant is required to provide such information pursuant to a subpoena, or upon written request from an administrative agency or the legislature, or as otherwise required by applicable law or regulation, or in accordance with any governmental investigation or audit relating to the Company. Similarly, nothing in this Plan is intended to limit a Participant's rights as an employee to discuss the terms, wages, and working conditions of Participant's employment, including any rights a Participant may have under Section 7 of the National Labor Relations Act, nor to deny a Participant the right to disclose information pertaining to sexual harassment or any unlawful or potentially unlawful conduct, as protected by applicable law.

6.4. **Protected Activity Not Prohibited.** Nothing in this Plan will in any way limit or prohibit the Participant from engaging in any Protected Activity. Protected Activity includes filing and/or pursuing a charge, complaint, or report with, or otherwise communicating, cooperating, or participating in any investigation or proceeding that may be conducted by any federal, state or local government agency or commission, including the Securities and Exchange Commission, the Equal Employment Opportunity Commission, the Occupational Safety and Health Administration, and the National Labor Relations Board ("**Government Agencies**"). In connection with a Protected Activity, the Participant is permitted to disclose documents or other information as permitted by law, without giving notice to, or receiving authorization from, the Company. Notwithstanding the foregoing, the Participant agrees to take all reasonable precautions to prevent any unauthorized use or disclosure of any information that may constitute Company confidential information under the Confidentiality Agreement to any parties other than the Government Agencies. The Participant further understands that "Protected Activity" does not include the disclosure of any Company attorney-client privileged communications or attorney work product. Any language in the Confidentiality Agreement regarding the Participant's right to engage in Protected Activity that conflicts with, or is contrary to, this section is superseded by this Section 6.4. In addition, pursuant to the Defend Trade Secrets Act of 2016, the Participant is notified that an individual will not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that (i) is made in confidence to a federal, state, or local government official (directly or indirectly) or to an attorney *solely* for the purpose of reporting or investigating a suspected violation of law, or (ii) is made in a complaint or other document filed in a lawsuit or other proceeding, if (and only if) such filing is made under seal. In addition, an individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to the individual's attorney and use the trade secret information in the court proceeding, if the individual files any document containing the trade secret under seal and does not disclose the trade secret, except pursuant to court order.

6.5. **Other Requirements.** Severance Benefits under this Plan shall terminate immediately for a Participant if such Participant, at any time, violates any such agreement and/or the provisions of this Section 6.

7. **Timing of Severance Benefits.** Provided that the Release becomes effective and irrevocable by the Release Deadline Date and subject to Section 9, the Severance Benefits will be paid, or in the case of installments, will commence, on the first Company payroll date following the Release Deadline Date (such payment date, the “**Severance Start Date**”), and any Severance Benefits otherwise payable to the Participant during the period immediately following the Participant’s Involuntary Termination through the Severance Start Date will be paid in a lump sum to the Participant on the Severance Start Date, with any remaining payments to be made as provided in this Plan.

8. **Non-Duplication of Benefits; Survival of Other Benefits.** Notwithstanding any other provision in the Plan to the contrary, if the Participant is entitled to any severance, change in control or similar benefits outside of the Plan by operation of applicable law or under another Company-sponsored plan, policy, contract, or arrangement, the Participant’s Severance Benefits under the Plan will be reduced by the value of the severance, change in control or similar benefits that the Participant receives by operation of applicable law or under any Company-sponsored plan, policy, contract, or arrangement, all as determined by the Administrator in the Administrator’s discretion. Subject to the foregoing, this Plan is not intended to amend, modify, terminate, or supersede any severance, change in control or similar benefits provided under any contract with any Participant, and to the extent any such contract offers severance, change in control or similar benefits that are more advantageous to the Participant than the terms hereof, the Participant will continue to be entitled to such benefits.

9. **Section 409A.**

9.1. Notwithstanding anything to the contrary in this Plan, no Severance Benefits to be paid or provided to a Participant, if any, under this Plan that, when considered together with any other severance payments or separation benefits, are considered deferred compensation under Section 409A of the Code, and the final regulations and any guidance promulgated thereunder (“**Section 409A**”) (together, the “**Deferred Payments**”) will be paid or provided until the Participant has a “separation from service” within the meaning of Section 409A. Similarly, no Severance Benefits payable to a Participant, if any, under this Plan that otherwise would be exempt from Section 409A pursuant to Treasury Regulation Section 1.409A-1(b)(9) will be payable until the Participant has a “separation from service” within the meaning of Section 409A.

9.2. It is intended that none of the Severance Benefits will constitute Deferred Payments but rather will be exempt from Section 409A as a payment that would fall within the “short-term deferral period” as described in Section 9.4 or resulting from an involuntary separation from service as described in Section 9.5. In no event will a Participant have discretion to determine the taxable year of payment of any Deferred Payment.

9.3. Notwithstanding anything to the contrary in this Plan, if a Participant is a “specified employee” within the meaning of Section 409A at the time of the Participant’s separation from service (other than due to death), then the Deferred Payments, if any, that are payable within the first 6 months following the Participant’s separation from service, will become payable on the date 6 months and 1 day following the date of the Participant’s separation from service. All subsequent Deferred Payments, if any, will be payable in accordance with the payment schedule applicable to each payment or benefit. Notwithstanding anything herein to the contrary, in the event of the Participant’s death following the Participant’s separation from service, but before the 6 month anniversary of the separation from service, then any payments delayed in accordance with this paragraph will be payable in a lump sum as soon as administratively practicable after the date of the Participant’s death and all other Deferred Payments will be payable in accordance with the payment schedule applicable to each payment or benefit. Each payment and benefit payable under this Plan is intended to constitute a separate payment under Section 1.409A-2(b)(2) of the Treasury Regulations.

9.4. Any amount paid under this Plan that satisfies the requirements of the “short-term deferral” rule set forth in Section 1.409A-1(b)(4) of the Treasury Regulations will not constitute Deferred Payments for purposes of this Section 9.

9.5. Any amount paid under this Plan that qualifies as a payment made as a result of an involuntary separation from service pursuant to Section 1.409A-1(b)(9)(iii) of the Treasury Regulations that does not exceed the Section 409A Limit will not constitute Deferred Payments for purposes of this Section 9.

9.6. The foregoing provisions are intended to comply with or be exempt from the requirements of Section 409A so that none of the Severance Benefits will be subject to the additional tax imposed under Section 409A, and any ambiguities herein will be interpreted to so comply or be exempt. Notwithstanding anything to the contrary in the Plan, including but not limited to Sections 11 and 13, the Company reserves the right to amend the Plan as it deems necessary or advisable, in its sole discretion and without the consent of the Participants, to comply with Section 409A or to avoid income recognition under Section 409A prior to the actual payment of Severance Benefits or imposition of any additional tax. In no event will the Company reimburse a Participant for any taxes or other costs that may be imposed on the Participant as result of Section 409A.

10. **Withholdings.** The Company will withhold from any Severance Benefits all applicable U.S. federal, state, local and non-U.S. taxes required to be withheld and any other required payroll deductions.

11. **Administration.** The Company is the administrator of the Plan (within the meaning of section 3(16)(A) of ERISA). The Plan will be administered and interpreted by the Administrator (in the Administrator's sole discretion). The Administrator is the "named fiduciary" of the Plan for purposes of ERISA and will be subject to the fiduciary standards of ERISA when acting in such capacity. Any decision made or other action taken by the Administrator with respect to the Plan, and any interpretation by the Administrator of any term or condition of the Plan, or any related document, will be conclusive and binding on all persons and be given the maximum possible deference allowed by law. In accordance with Section 2.1, the Administrator (a) may, in its sole discretion and on such terms and conditions as it may provide, delegate in writing to one or more officers of the Company all or any portion of its authority or responsibility with respect to the Plan, and (b) has the authority to act for the Company (in a non-fiduciary capacity) as to any matter pertaining to the Plan; *provided, however*, that any Plan amendment or termination or any other action that reasonably could be expected to increase materially the cost of the Plan must be approved by the Board.

12. **Eligibility to Participate.** To the extent that the Administrator has delegated administrative authority or responsibility to one or more officers of the Company in accordance with Sections 2.1 and 11, each such officer will not be excluded from participating in the Plan if otherwise eligible, but such individual(s) will not be entitled to act upon or make determinations regarding any matters pertaining specifically to the individual's own benefit or eligibility under the Plan. The Administrator will act upon and make determinations regarding any matters pertaining specifically to the benefit or eligibility of each such officer under the Plan.

13. **Amendment or Termination.** The Company, by action of the Administrator, reserves the right to amend or terminate the Plan or the benefits provided hereunder at any time, subject to the provisions of this Section 13. Any amendment or termination of the Plan will be in writing. Once a Participant has incurred an Involuntary Termination, no amendment or termination of the Plan may, without that Participant's written consent, reduce or alter to the detriment of the Participant, the Severance Benefits payable to the Participant. In addition and notwithstanding the preceding provisions of this paragraph, beginning on the date that the Company executes a definitive agreement, which if consummated would result in a Company Transaction, the Company may not, without a Participant's written consent, amend or terminate the Plan in any way, nor take any other action under the Plan, which (i) prevents that Participant from becoming eligible for Severance Benefits, or (ii) reduces or alters to the detriment of the Participant the Severance Benefits payable, or potentially payable, to the Participant (including, without limitation, imposing additional conditions). The provisions of the preceding sentence will no longer apply if the definitive agreement is terminated without the Company Transaction having been consummated. Any action of the Company in amending or terminating the Plan will be taken in a non-fiduciary capacity.

14. **Claims and Appeals.**

14.1. **Claims Procedure.** Any employee or other person who believes that they are entitled to any Severance Benefits may submit a claim in writing to the Administrator within 90 days of the earlier of (i) the date the claimant learned the amount of the claimant's Severance Benefits or (ii) the date the claimant learned that claimant will not be entitled to any Severance Benefits. If the claim is denied (in full or in part), the claimant will be provided a written notice explaining the specific reasons for the denial and referring to the provisions of the Plan on which the denial is based. The notice also will describe any additional information needed to support the claim and the Plan's procedures for appealing the denial. The denial notice will be provided within 90 days after the claim is received. If special circumstances require an extension of time (up to 90 days), written notice of the extension will be given within the initial 90 day period. This notice of extension will indicate the special circumstances requiring the extension of time and the date by which the Administrator expects to render its decision on the claim.

14.2. **Appeal Procedure.** If the claimant's claim is denied, the claimant (or the claimant's authorized representative) may apply in writing to the Administrator for a review of the decision denying the claim. Review must be requested within 60 days following the date the claimant received the written notice of the claimant's claim denial or else the claimant loses the right to review. The claimant (or representative) then has the right to review and obtain copies of all documents and other information relevant to the claim, upon request and at no charge, and to submit issues and comments in writing. The Administrator will provide written notice of its decision on review within 60 days after it receives a review request. If additional time (up to 60 days) is needed to review the request, the claimant (or representative) will be given written notice of the reason for the delay. This notice of extension will indicate the special circumstances requiring the extension of time and the date by which the Administrator expects to render its decision. If the claim is denied (in full or in part), the claimant will be provided a written notice explaining the specific reasons for the denial and referring to the provisions of the Plan on which the denial is based. The notice also will include a statement that the claimant will be provided, upon request and free of charge, reasonable access to, and copies of, all documents and other information relevant to the claim and a statement regarding the claimant's right to bring an action under Section 502(a) of ERISA.

15. **Attorneys' Fees.** The parties shall each bear their own expenses, legal fees and other fees incurred in connection with this Plan.

16. **Source of Payments.** All payments under the Plan will be paid from the general funds of the Company; no separate fund will be established under the Plan, and the Plan will have no assets. No right of any person to receive any payment under the Plan will be any greater than the right of any other general unsecured creditor of the Company.

17. **Inalienability.** In no event may any current or former employee of the Company or any of its subsidiaries or affiliates sell, transfer, anticipate, assign or otherwise dispose of any right or interest under the Plan. At no time will any such right or interest be subject to the claims of creditors nor liable to attachment, execution or other legal process.

18. **No Enlargement of Employment Rights.** Neither the establishment or maintenance or amendment of the Plan, nor the making of any benefit payment hereunder, will be construed to confer upon any individual any right to continue to be an employee of the Company. The Plan in no way alters Participant's at will employment arrangement with Company and Company expressly reserves the right to discharge any of its employees, including Participant, at any time, with or without cause. However, as described in the Plan, a Participant may be entitled to Severance Benefits depending upon the circumstances of the Participant's termination of employment. The Plan is not intended in any way to supersede a Participant's Confidentiality Agreement. Please note that a Participant's Arbitration Agreement will not be applicable with respect to claims made with respect to the Plan, which will be handled as set forth in the Plan, but the Arbitration Agreement will continue to apply for all other purposes as set forth in the Arbitration Agreement, including, but not limited to, any claims that may arise with respect to a Release that is executed as a condition to the receipt of Severance Benefits under the Plan.

19. **Successors.** Any successor to the Company of all or substantially all of the Company's business and/or assets (whether direct or indirect and whether by purchase, merger, consolidation, liquidation or other transaction) will assume the obligations under the Plan and agree expressly to perform the obligations under the Plan in the same manner and to the same extent as the Company would be required to perform such obligations in the absence of a succession. For all purposes under the Plan, the term "Company" will include any successor to the Company's business and/or assets which become bound by the terms of the Plan by operation of law, or otherwise.

20. **Applicable Law.** The provisions of the Plan will be construed, administered and enforced in accordance with ERISA and, to the extent applicable, the internal substantive laws of the state of Washington (but not its conflict of laws provisions).

21. **Severability.** If any provision of the Plan is held invalid or unenforceable, its invalidity or unenforceability will not affect any other provision of the Plan, and the Plan will be construed and enforced as if such provision had not been included.

22. **Headings.** Headings in this Plan document are for purposes of reference only and will not limit or otherwise affect the meaning hereof.

23. **Indemnification.** The Company hereby agrees to indemnify and hold harmless the officers and employees of the Company, and the members of its Board, from all losses, claims, costs or other liabilities arising from their acts or omissions in connection with the administration, amendment or termination of the Plan, to the maximum extent permitted by applicable law. This indemnity will cover all such liabilities, including judgments, settlements and costs of defense. The Company will provide this indemnity from its own funds to the extent that insurance does not cover such liabilities. This indemnity is in addition to and not in lieu of any other indemnity provided to such person by the Company.

24. **Additional Information.**

Plan Name: Zillow Group, Inc. Executive Severance Plan

Plan Sponsor: Zillow Group, Inc.
1301 Second Avenue, Floor 31
Seattle, WA 98101
(206) 470-7000

Identification Numbers: **EIN:**
PLAN:

Plan Year: Company's fiscal year

Plan Year: Zillow Group, Inc.
Attention: Administrator of the Zillow Group, Inc. Severance Plan
1301 Second Avenue, Floor 31
Seattle, WA 98101
(206) 470-7000

Agent for Service of Legal Process: Zillow Group, Inc.
Attention: General Counsel
1301 Second Avenue, Floor 31
Seattle, WA 98101
(206) 470-7000
Service of process also may be made upon the Administrator.

Type of Plan: Severance Plan/Employee Welfare Benefit Plan

Plan Costs: The cost of the Plan is paid by the Company.

25. **Statement of ERISA Rights.**

As a Participant under the Plan, you have certain rights and protections under ERISA:

- (a) You may examine (without charge) all Plan documents, including any amendments and copies of all documents filed with the U.S. Department of Labor. These documents are available for your review upon written request to the Administrator.
- (b) You may obtain copies of all Plan documents and other Plan information upon written request to the Administrator. A reasonable charge may be made for such copies.

In addition to creating rights for Participants, ERISA imposes duties upon the people who are responsible for the operation of the Plan. The people who operate the Plan (called "fiduciaries") have a duty to do so prudently and in the interests of you and the other Participants. No one, including the Company or any other person, may fire you or otherwise discriminate against you in any way to prevent you from obtaining a benefit under the Plan or exercising your rights under ERISA. If your claim for a severance benefit is denied, in whole or in part, you must receive a written explanation of the reason for the denial. You have the right to have the denial of your claim reviewed. (The claim review procedure is explained in Section 14 above.)

Under ERISA, there are steps you can take to enforce the above rights. For example, if you request materials and do not receive them within 30 days, you may file suit in a federal court. In such a case, the court may require the Administrator to provide the materials and to pay you up to \$110 a day until you receive the materials, unless the materials were not sent due to reasons beyond the control of the Administrator. If you have a claim which is denied or ignored, in whole or in part, you may file suit in a federal court. If it should happen that you are discriminated against for asserting your rights, you may seek assistance from the U.S. Department of Labor, or you may file suit in a federal court.

In any case, the court will decide who will pay court costs and legal fees. If you are successful, the court may order the person you have sued to pay these costs and fees. If you lose, the court may order you to pay these costs and fees, for example, if it finds that your claim is frivolous. Please note that your Arbitration Agreement will not be applicable with respect to claims made with respect to the Plan, but it will continue to apply for all other purposes as set forth in the Arbitration Agreement, including, but not limited to, any claims that may arise with respect to a Release that is executed as a condition to the receipt of Severance Benefits under the Plan.

If you have any questions regarding the Plan, please contact the Administrator. If you have any questions about this statement or about your rights under ERISA, you may contact the nearest area office of the Employee Benefits Security Administration (formerly the Pension and Welfare Benefits Administration), U.S. Department of Labor, listed in your telephone directory, or the Division of Technical Assistance and Inquiries, Employee Benefits Security Administration, U.S. Department of Labor, 200 Constitution Avenue, N.W. Washington, D.C. 20210. You also may obtain certain publications about your rights and responsibilities under ERISA by calling the publications hotline of the Employee Benefits Security Administration.

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Zillow Group, Inc. (the "Company") for the fiscal quarter ended June 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Allen Parker, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ ALLEN PARKER
Name: Allen Parker
Title: Chief Financial Officer
Date: August 5, 2021