
**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 September 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 October 26, 2021, 61,373,807 shares of Class A common stock, 6,217,447 shares of Class B common stock, and 187,212,368 shares of Class C capital

stock were outstanding.

ZILLOW GROUP, INC.

Quarterly Report on Form 10-Q

For the Three Months Ended September 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 and in Part II, Item 1A (Risk Factors) in this Quarterly Report on Form 10-Q, including, but not limited to:

- disruptions in operations (including in our ability to complete the purchase of homes currently under contract and renovate, market and close on the sale of homes in inventory), and relationships with customers, suppliers, vendors, broker partners, contractors, employees, lenders and consumers given our decision to wind down Zillow Offers operations;
- unanticipated developments that may prevent, delay or increase the costs associated with our wind down activities;
- our access to and the availability of financing on terms acceptable to us to finance the purchase of homes through Zillow Offers during the wind down of Zillow Offers;
- 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;
- 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 Zillow Offers and mortgage origination businesses, 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 Blog (<https://www.zillowgroup.com/news/>)
- 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 and reflects current updated channels as of the date of this Quarterly Report on Form 10-Q. 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)

	September 30, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,195,366	\$ 1,703,130
Short-term investments	1,020,083	2,218,108
Accounts receivable, net of allowance for doubtful accounts of \$4,500 and \$3,427 at September 30, 2021 and December 31, 2020, respectively	161,080	69,940
Mortgage loans held for sale	221,390	330,758
Inventory	3,758,207	491,293
Prepaid expenses and other current assets	143,756	75,846
Restricted cash	331,019	75,805
Total current assets	7,830,901	4,964,880
Contract cost assets	41,225	50,719
Beneficial interest in securitization	24,902	—
Property and equipment, net	202,450	196,152
Right of use assets	158,841	187,960
Goodwill	2,374,801	1,984,907
Intangible assets, net	195,038	94,767
Other assets	9,481	7,175
Total assets	\$ 10,837,639	\$ 7,486,560
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	\$ 30,891	\$ 18,974
Accrued expenses and other current liabilities	261,547	94,487
Accrued compensation and benefits	59,858	47,666
Borrowings under credit facilities	2,674,335	670,209
Deferred revenue	54,200	48,995
Lease liabilities, current portion	29,437	28,310
Total current liabilities	3,110,268	908,641
Lease liabilities, net of current portion	174,433	207,723
Long-term debt	1,766,238	1,613,523
Other long-term liabilities	15,714	14,857
Total liabilities	5,066,653	2,744,744
Commitments and contingencies (Note 17)		
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; 61,373,807 and 61,101,303 shares issued and outstanding as of September 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; 187,190,702 and 173,207,170 shares issued and outstanding as of September 30, 2021 and December 31, 2020, respectively	19	17
Additional paid-in capital	7,176,633	5,880,883
Accumulated other comprehensive income	151	164
Accumulated deficit	(1,405,824)	(1,139,255)
Total shareholders' equity	5,770,986	4,741,816
Total liabilities and shareholders' equity	\$ 10,837,639	\$ 7,486,560

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 September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Revenue:				
Homes	\$ 1,186,158	\$ 187,105	\$ 2,667,455	\$ 1,411,230
IMT	480,195	415,389	1,402,613	1,026,394
Mortgages	70,290	54,198	194,995	113,241
Total revenue	1,736,643	656,692	4,265,063	2,550,865
Cost of revenue:				
Homes	1,422,899	183,056	2,775,024	1,353,715
IMT	51,371	49,992	141,852	145,399
Mortgages	21,790	10,725	62,089	24,540
Total cost of revenue	1,496,060	243,773	2,978,965	1,523,654
Gross profit	240,583	412,919	1,286,098	1,027,211
Operating expenses:				
Sales and marketing	294,354	155,894	721,743	525,005
Technology and development	111,491	94,774	360,255	292,762
General and administrative	113,130	85,804	328,686	263,384
Impairment costs	—	—	—	76,800
Acquisition-related costs	3,235	—	7,723	—
Total operating expenses	522,210	336,472	1,418,407	1,157,951
Income (loss) from operations	(281,627)	76,447	(132,309)	(130,740)
Gain (loss) on extinguishment of debt	(14,785)	—	(17,119)	6,391
Other income	1,964	3,018	5,990	22,726
Interest expense	(44,737)	(39,470)	(123,722)	(114,652)
Income (loss) before income taxes	(339,185)	39,995	(267,160)	(216,275)
Income tax benefit (expense)	11,011	(425)	591	8,124
Net income (loss)	\$ (328,174)	\$ 39,570	\$ (266,569)	\$ (208,151)
Net income (loss) per share:				
Basic	\$ (1.29)	\$ 0.17	\$ (1.07)	\$ (0.95)
Diluted	\$ (1.29)	\$ 0.16	\$ (1.07)	\$ (0.95)
Weighted-average shares outstanding:				
Basic	254,074	229,719	248,564	219,989
Diluted	254,074	242,632	248,564	219,989

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 September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net income (loss)	\$ (328,174)	\$ 39,570	\$ (266,569)	\$ (208,151)
Other comprehensive income (loss):				
Unrealized losses on investments	(88)	(1,122)	(5)	(326)
Reclassification adjustment for net investment losses included in net loss	—	—	—	372
Net unrealized gains (losses) on investments	(88)	(1,122)	(5)	46
Currency translation adjustments	(66)	58	(8)	75
Total other comprehensive income (loss)	(154)	(1,064)	(13)	121
Comprehensive income (loss)	<u>\$ (328,328)</u>	<u>\$ 38,506</u>	<u>\$ (266,582)</u>	<u>\$ (208,030)</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 July 1, 2021	248,862,931	\$ 25	\$ 6,721,435	\$ (1,077,650)	\$ 305	\$ 5,644,115
Issuance of common and capital stock upon exercise of stock options	532,710	—	21,865	—	—	21,865
Vesting of restricted stock units	711,560	—	—	—	—	—
Restricted stock units withheld for tax liability	(19)	—	(2)	—	—	(2)
Share-based compensation expense	—	—	89,746	—	—	89,746
Settlement of convertible senior notes	4,674,774	1	343,589	—	—	343,590
Net loss	—	—	—	(328,174)	—	(328,174)
Other comprehensive loss	—	—	—	—	(154)	(154)
Balance at September 30, 2021	254,781,956	\$ 26	\$ 7,176,633	\$ (1,405,824)	\$ 151	\$ 5,770,986

	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 July 1, 2020	226,041,936	\$ 23	\$ 5,246,371	\$ (1,224,861)	\$ 1,525	\$ 4,023,058
Issuance of common and capital stock upon exercise of stock options	5,454,246	1	186,242	—	—	186,243
Vesting of restricted stock units	777,561	—	—	—	—	—
Restricted stock units withheld for tax liability	(26)	—	(2)	—	—	(2)
Share-based compensation expense	—	—	53,489	—	—	53,489
Settlement of convertible senior notes	85,106	—	2,061	—	—	2,061
Net income	—	—	—	39,570	—	39,570
Other comprehensive loss	—	—	—	—	(1,064)	(1,064)
Balance at September 30, 2020	232,358,823	\$ 24	\$ 5,488,161	\$ (1,185,291)	\$ 461	\$ 4,303,355

	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	2,524,170	—	97,550	—	—	97,550
Vesting of restricted stock units	2,304,124	—	—	—	—	—
Restricted stock units withheld for tax liability	(660)	—	(128)	—	—	(128)
Share-based compensation expense	—	—	250,479	—	—	250,479
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	6,264,925	1	403,292	—	—	403,293
Unwind of capped call transactions	(25)	—	—	—	—	—
Net loss	—	—	—	(266,569)	—	(266,569)
Other comprehensive loss	—	—	—	—	(13)	(13)
Balance at September 30, 2021	254,781,956	\$ 26	\$ 7,176,633	\$ (1,405,824)	\$ 151	\$ 5,770,986

	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	11,779,104	2	371,226	—	—	371,228
Vesting of restricted stock units	2,191,719	—	—	—	—	—
Restricted stock units withheld for tax liability	(32)	—	(2)	—	—	(2)
Share-based compensation expense	—	—	158,125	—	—	158,125
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	839,042	—	(19,723)	—	—	(19,723)
Unwind of capped call transactions	(317,865)	—	—	—	—	—
Net loss	—	—	—	(208,151)	—	(208,151)
Other comprehensive income	—	—	—	—	121	121
Balance at September 30, 2020	232,358,823	\$ 24	\$ 5,488,161	\$ (1,185,291)	\$ 461	\$ 4,303,355

See accompanying notes to the condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2021	2020
Operating activities		
Net loss	\$ (266,569)	\$ (208,151)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	88,128	81,977
Share-based compensation	231,473	145,105
Amortization of right of use assets	17,610	18,364
Amortization of contract cost assets	31,874	26,554
Amortization of debt discount and debt issuance costs	72,215	75,414
Loss (gain) on extinguishment of debt	17,119	(6,391)
Impairment costs	—	76,800
Inventory valuation adjustment	304,359	—
Deferred income taxes	(3,200)	(8,124)
Other adjustments to reconcile net loss to cash provided by (used in) operating activities	12,813	948
Changes in operating assets and liabilities:		
Accounts receivable	(88,618)	(14,483)
Mortgage loans held for sale	109,368	(88,817)
Inventory	(3,570,079)	643,265
Prepaid expenses and other assets	(70,254)	(16,385)
Contract cost assets	(22,380)	(31,833)
Lease liabilities	(20,675)	4,773
Accounts payable	17,891	12,239
Accrued expenses and other current liabilities	162,984	14,499
Accrued compensation and benefits	10,977	(2,331)
Deferred revenue	3,505	9,406
Other long-term liabilities	138	17,329
Net cash provided by (used in) operating activities	(2,961,321)	750,158
Investing activities		
Proceeds from maturities of investments	1,696,077	1,160,271
Proceeds from sales of investments	—	116,394
Purchases of investments	(509,022)	(1,881,002)
Purchases of property and equipment	(45,441)	(72,420)
Purchases of intangible assets	(24,309)	(17,226)
Proceeds from sale of equity investment	—	10,000
Cash paid for acquisition, net	(496,741)	—
Net cash provided by (used in) investing activities	620,564	(683,983)
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 issuance of term loan, net of issuance costs	443,399	—
Proceeds from borrowings on credit facilities	2,639,468	97,437
Repayments of borrowings on credit facilities	(534,625)	(674,658)
Net borrowings (repayments) on warehouse line of credit and repurchase agreements	(100,717)	87,667
Settlement of convertible senior notes	(1,297)	(194,670)
Proceeds from exercise of stock options	97,550	371,226
Value of equity awards withheld for tax liability	(128)	(2)
Net cash provided by financing activities	3,088,207	651,804
Net increase in cash, cash equivalents and restricted cash during period	747,450	717,979
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	<u>\$ 2,526,385</u>	<u>\$ 1,948,888</u>
Supplemental disclosures of cash flow information		
Cash paid for interest	\$ 58,190	\$ 36,787
Noncash transactions:		
Write-off of fully amortized intangible assets	\$ 55,099	\$ —
Write-off of fully depreciated property and equipment	37,606	13,100
Beneficial interest in securitization	24,558	—

Capitalized share-based compensation	19,006	13,020
Derecognition of operating right of use assets and lease liabilities	11,919	—
Property and equipment purchased on account	2,272	1,645

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, New Home Feed and ShowingTime. 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: disruptions in operations (including in our ability to complete the purchase of homes currently under contract and renovate, market and close on the sale of homes in inventory), and relationships with customers, suppliers, vendors, broker partners, contractors, employees, lenders and consumers given our decision to wind down Zillow Offers operations; unanticipated developments that may prevent, delay or increase the costs associated with our wind down activities; our access to and the availability of financing on terms acceptable to us to finance the purchase of homes through Zillow Offers during the wind down of Zillow Offers; 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; 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 September 30, 2021 and our results of operations, comprehensive income (loss) and shareholders' equity for the three and nine month periods ended September 30, 2021 and 2020, and our cash flows for the nine month periods ended September 30, 2021 and 2020. The results for the three and nine months ended September 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 presented 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 September 30, 2020			Nine Months Ended September 30, 2020		
	As Reported	As Revised	Effect of Change	As Reported	As Revised	Effect of Change
Cost of revenue:						
Homes	\$ 179,804	\$ 183,056	\$ 3,252	\$ 1,343,791	\$ 1,353,715	\$ 9,924
IMT	28,448	49,992	21,544	76,153	145,399	69,246
Mortgages	7,972	10,725	2,753	19,023	24,540	5,517
Total cost of revenue	216,224	243,773	27,549	1,438,967	1,523,654	84,687
Operating expenses:						
Sales and marketing	150,826	155,894	5,068	511,072	525,005	13,933
Technology and development	127,300	94,774	(32,526)	391,075	292,762	(98,313)
General and administrative	85,895	85,804	(91)	263,691	263,384	(307)

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 using the modified retrospective approach. Although we continue to evaluate the 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, securitization variable funding line, warehouse line of credit and master repurchase agreements 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 associated with our credit facilities and securitization, 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).

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).

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:

	September 30, 2021	December 31, 2020
Range	38% - 100%	47% - 100%
Weighted-average	86%	75%

Beneficial interest in securitization — Zillow Group sponsored a securitization transaction for Zillow Offers in August 2021. As the sponsor of the transaction, Zillow Group is required to retain at least a 5% interest in the credit risk of the asset-backed securities issued. This interest is presented as a beneficial interest in securitization in our condensed consolidated balance sheet as of September 30, 2021. This investment is classified as an available-for-sale debt security and is measured at fair value on a recurring basis with unrealized gains and losses reported within our condensed consolidated statements of other comprehensive loss. The fair value of the beneficial interest in securitization is calculated using a discounted cash flow methodology. We rely on significant unobservable valuation inputs, as the investment does not trade in active markets with readily observable prices and there is limited observable market data for reference. The primary unobservable inputs include the assumption of no prepayments and a discount rate of approximately 8% applied to the projected cash flows. An increase in the discount rate, in isolation, would result in a decrease in the fair value measurement (Level 3).

The beneficial interest in securitization accretes interest income over the expected life using the effective yield method which reflects a portion of the overall fair value adjustment recorded each period on the investment. We reevaluate the cash flow estimates over the life of the beneficial interest on a quarterly basis to determine if a change to the accretable yield is required on a prospective basis.

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):

	September 30, 2021			
	Total	Level 1	Level 2	Level 3
Cash equivalents:				
Money market funds	\$ 1,811,382	\$ 1,811,382	\$ —	\$ —
Short-term investments:				
U.S. government agency securities	933,247	—	933,247	—
Treasury bills	44,996	—	44,996	—
Corporate bonds	25,978	—	25,978	—
Commercial paper	9,987	—	9,987	—
Municipal securities	5,875	—	5,875	—
Beneficial interest in securitization	24,902	—	—	24,902
Mortgage origination-related:				
Mortgage loans held for sale	221,390	—	221,390	—
IRLCs	6,888	—	—	6,888
Forward contracts - other current assets	2,692	—	2,692	—
Forward contracts - other current liabilities	(109)	—	(109)	—
Total	<u>\$ 3,087,228</u>	<u>\$ 1,811,382</u>	<u>\$ 1,244,056</u>	<u>\$ 31,790</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 changes in our beneficial interest in securitization were not material for the three and nine month periods ended September 30, 2021. The following table presents the changes in our IRLCs for the periods presented (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020 (1)
Balance, beginning of the period	\$ 6,413	\$ 5,091	\$ 12,342	\$ 937
Issuances	23,006	19,232	57,427	34,739
Transfers	(23,426)	(18,725)	(63,865)	(31,867)
Fair value changes recognized in earnings	895	3,822	984	5,611
Balance, end of period	<u>\$ 6,888</u>	<u>\$ 9,420</u>	<u>\$ 6,888</u>	<u>\$ 9,420</u>

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

At September 30, 2021, the notional amounts of the hedging instruments related to our mortgage loans held for sale were \$453.4 million and \$637.4 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 12 for the carrying amount and estimated fair value of our convertible senior notes and term loan.

Note 4. Cash and Cash Equivalents, 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, investments and restricted cash as of the dates presented (in thousands):

September 30, 2021				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Market Value
Cash	\$ 383,984	\$ —	\$ —	\$ 383,984
Cash equivalents:				
Money market funds	1,811,382	—	—	1,811,382
Short-term investments:				
U. S. government agency securities	933,253	49	(55)	933,247
Treasury bills	44,988	8	—	44,996
Corporate bonds	25,988	—	(10)	25,978
Commercial paper	9,987	—	—	9,987
Municipal securities	5,878	—	(3)	5,875
Restricted cash	331,019	—	—	331,019
Beneficial interest in securitization	24,833	69	—	24,902
Total	<u>\$ 3,571,312</u>	<u>\$ 126</u>	<u>\$ (68)</u>	<u>\$ 3,571,370</u>

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>

The following table presents available-for-sale investments by contractual maturity date as of September 30, 2021 (in thousands):

	Amortized Cost	Estimated Fair Market Value
Due in one year or less	\$ 587,120	\$ 587,164
Due after one year	457,807	457,821
Total	<u>\$ 1,044,927</u>	<u>\$ 1,044,985</u>

All short-term investments as of December 31, 2020 had 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):

	September 30, 2021	December 31, 2020
Finished goods	\$ 2,039,284	\$ 339,372
Work-in-process	1,718,923	151,921
Inventory	<u>\$ 3,758,207</u>	<u>\$ 491,293</u>

During the three months ended September 30, 2021, we identified that a large portion of homes in our inventory as of September 30, 2021 had a cost exceeding net realizable value as a result of purchasing homes at higher prices than the Company's current estimates of future selling prices after selling costs. As a result, we recorded a write-down of \$304.4 million to inventory with a corresponding increase to cost of revenue in our condensed consolidated statements of operations for the three and nine month periods ended September 30, 2021. Prior to the three months ended September 30, 2021, we did not record any material write-downs to inventory.

Note 6. Contract Balances

Contract assets were \$67.1 million and \$20.8 million as of September 30, 2021 and December 31, 2020, respectively. Contract assets represent amounts for which we have recognized revenue for contracts that have not yet been invoiced to our customers. Contract assets are primarily related to our Premier Agent Flex and rentals pay per lease offerings, whereby we estimate variable consideration based on the expected number of real estate transactions to be closed for Premier Agent Flex and qualified leases to be secured for rentals pay per lease and recognize revenue when we satisfy our performance obligations under the corresponding contracts. Contract assets are recorded within prepaid expenses and other current assets in our condensed consolidated balance sheets.

For the three months ended September 30, 2021 and 2020, we recognized revenue of \$50.8 million and \$43.2 million, respectively, that was included in the deferred revenue balance at the beginning of the respective period. For the nine months ended September 30, 2021 and 2020, we recognized revenue of \$48.2 million and \$37.0 million, respectively, that was included in the deferred revenue balance at the beginning of the respective period.

Note 7. Contract Cost Assets

As of September 30, 2021 and December 31, 2020, we had \$41.2 million and \$50.7 million, respectively, of contract cost assets. For the three and nine months ended September 30, 2021 and 2020, we did not incur any material impairment losses to our contract cost assets.

We recorded amortization expense related to contract cost assets of \$11.7 million and \$9.5 million for the three months ended September 30, 2021 and 2020, respectively, and \$31.9 million and \$26.6 million for the nine months ended September 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):

	September 30, 2021	December 31, 2020
Website development costs	\$ 150,457	\$ 95,466
Leasehold improvements	103,142	110,280
Office equipment, furniture and fixtures	31,482	39,607
Computer equipment	19,445	20,433
Construction-in-progress	13,273	44,151
Property and equipment	317,799	309,937
Less: accumulated amortization and depreciation	(115,349)	(113,785)
Property and equipment, net	\$ 202,450	\$ 196,152

We recorded depreciation expense related to property and equipment (other than website development costs) of \$8.6 million and \$7.3 million for the three months ended September 30, 2021 and 2020, respectively, and \$23.6 million and \$26.2 million for the nine months ended September 30, 2021 and 2020, respectively.

We capitalized \$27.5 million and \$15.0 million in website development costs for the three months ended September 30, 2021 and 2020, respectively, and \$54.0 million and \$42.9 million for the nine months ended September 30, 2021 and 2020, respectively. Amortization expense for website development costs included in cost of revenue was \$8.3 million and \$6.2 million for the three months ended September 30, 2021 and 2020, respectively, and \$24.7 million and \$17.6 million for the nine months ended September 30, 2021 and 2020, respectively.

Note 9. Acquisition and Equity Investment

Acquisition of ShowingTime.com, Inc.

On September 30, 2021, Zillow Group acquired ShowingTime.com, Inc. ("ShowingTime") in exchange for approximately \$511.7 million in cash, subject to certain adjustments. Our acquisition of ShowingTime has been accounted for as a business combination, and assets acquired and liabilities assumed were recorded at their preliminary estimated fair values as of September 30, 2021. Goodwill, which represents the expected synergies from combining the acquired assets and the operations of the acquirer, as well as intangible assets that do not qualify for separate recognition, is measured as of the acquisition date as the excess of consideration transferred, which is also measured at fair value, and the net of the fair values of the assets acquired and the liabilities assumed as of the acquisition date. The goodwill recognized in conjunction with this business combination has been included in our Internet, Media & Technology ("IMT") segment.

The total preliminary purchase price has been allocated to the assets acquired and liabilities assumed, including identifiable intangible assets, based on their respective fair values at the acquisition date. The total preliminary purchase price was allocated as follows (in thousands):

Cash and cash equivalents	\$ 14,973
Identifiable intangible assets	111,100
Goodwill	389,894
Other acquired assets	6,119
Deferred tax liability	(3,920)
Other assumed liabilities	(6,452)
Total preliminary estimated purchase price	\$ 511,714

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

	Preliminary Estimated Fair Value	Estimated Weighted-Average Useful Life (in years)
Customer relationships	\$ 54,500	8
Developed technology	47,600	4
Trade names and trademarks	9,000	10
Total	<u>\$ 111,100</u>	

We used an income approach to measure the fair value of the customer relationships based on the excess earnings method, whereby the fair value is estimated based upon the present value of cash flows that the applicable asset is expected to generate. We used an income approach to measure the fair value of the developed technology and the trade names and trademarks based on the relief-from-royalty method. These fair value measurements were based on Level 3 inputs under the fair value hierarchy.

Our estimates and assumptions related to the purchase price allocation are preliminary and subject to change during the measurement period (up to one year from the acquisition date) as we finalize the amount of assets and liabilities recorded in connection with the acquisition.

Acquisition-related costs incurred, which primarily included legal, accounting and other external costs directly related to the acquisition, are included within acquisition-related costs within our condensed consolidated statements of operations and were expensed as incurred.

On an unaudited pro forma basis, consolidated revenue would have been approximately 1% higher for the three and nine months ended September 30, 2021 and approximately 2% higher for the three and nine months ended September 30, 2020 if the acquisition would have been consummated as of January 1, 2020. Unaudited pro forma earnings information has not been presented as the effects were not material to our consolidated financial statements.

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 nine months ended September 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 nine months ended September 30, 2020, which is classified within other income in our condensed consolidated statements of operations.

Note 10. Goodwill

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 following table presents goodwill by reportable segment as of September 30, 2021 and December 31, 2020 (in thousands):

	September 30, 2021	December 31, 2020
IMT	\$ 2,176,310	\$ 1,786,416
Mortgages	198,491	198,491
Total	<u>\$ 2,374,801</u>	<u>\$ 1,984,907</u>

There is no goodwill attributable to the Homes segment. The goodwill recorded in connection with the acquisition of ShowingTime, which includes intangible assets that do not qualify for separate recognition, is not deductible for tax purposes and is included within the IMT segment.

Note 11. Intangible Assets, net

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

	September 30, 2021		
	Cost	Accumulated Amortization	Net
Customer relationships	\$ 138,500	\$ (79,035)	\$ 59,465
Developed technology	133,664	(79,981)	53,683
Software	57,803	(15,458)	42,345
Trade names and trademarks	45,500	(7,672)	37,828
Intangibles-in-progress	1,319	—	1,319
Purchased content	2,557	(2,159)	398
Total	<u>\$ 379,343</u>	<u>\$ (184,305)</u>	<u>\$ 195,038</u>

	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	<u>\$ 298,472</u>	<u>\$ (203,705)</u>	<u>\$ 94,767</u>

Amortization expense recorded for intangible assets for the three months ended September 30, 2021 and 2020 was \$13.2 million and \$12.8 million, respectively, and \$39.5 million and \$37.7 million for the nine months ended September 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 nine months ended September 30, 2021. For the nine months ended September 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 12. Debt

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

	September 30, 2021	December 31, 2020
Homes segment		
Credit facilities:		
Goldman Sachs Bank USA	\$ 752,731	\$ 145,825
Citibank, N.A.	955,000	87,103
Credit Suisse AG, Cayman Islands	725,763	128,238
Securitization:		
2021-1 variable funding line	32,515	—
2021-1 term loan	468,613	—
Total Homes segment debt	2,934,622	361,166
Mortgages segment		
Repurchase agreements:		
Credit Suisse AG, Cayman Islands	128,177	149,913
Citibank, N.A.	28,475	90,227
Warehouse line of credit:		
Comerica Bank	51,674	68,903
Total Mortgages segment debt	208,326	309,043
Convertible senior notes		
1.375% convertible senior notes due 2026	363,096	347,566
2.75% convertible senior notes due 2025	436,074	414,888
0.75% convertible senior notes due 2024	498,455	524,273
1.50% convertible senior notes due 2023	—	326,796
Total convertible senior notes	1,297,625	1,613,523
Total debt	\$ 4,440,573	\$ 2,283,732

Homes Segment

Variable Interest Entities

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 outside of these SPEs. The financings executed by the SPEs 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 September 30, 2021 and December 31, 2020, the total assets of the SPEs and titling trust were \$4.1 billion and \$551.2 million, respectively, of which \$3.8 billion and \$491.3 million are inventory, respectively, \$232.0 million and \$53.0 million are restricted cash, respectively, and \$74.7 million and \$3.9 million are accounts receivable, respectively. As of September 30, 2021 and December 31, 2020, the total liabilities of the SPEs and titling trust were \$3.0 billion and \$372.5 million, respectively, of which \$2.9 billion and \$361.2 million are credit facility and securitization-related borrowings, respectively, and \$56.9 million and \$10.8 million are accrued expenses, respectively.

Credit Facilities

To provide capital for Zillow Offers, we utilize revolving 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	\$ 1,250,000	2.90 %
Citibank, N.A.	June 9, 2023	1,000,000	2.83 %
Credit Suisse AG, Cayman Islands	December 31, 2022	1,500,000	2.86 %
	Total	<u>\$ 3,750,000</u>	

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 Goldman Sachs credit facility previously provided a total maximum borrowing capacity of \$500.0 million. On September 27, 2021, certain wholly owned subsidiaries of Zillow Group amended the credit agreement with Goldman Sachs Bank USA to temporarily increase the total maximum borrowing capacity to \$1.25 billion through December 27, 2021.

On August 24, 2021, certain wholly owned subsidiaries of Zillow Group amended the credit agreement with Citibank, N.A. to increase the total maximum borrowing capacity to \$1.0 billion. The Citibank credit facility previously provided a total maximum borrowing capacity of \$500.0 million.

On September 17, 2021, certain wholly owned subsidiaries of Zillow Group amended the credit agreement with Credit Suisse AG, Cayman Islands to increase the total maximum borrowing capacity to \$1.5 billion. The Credit Suisse credit facility previously provided a total maximum borrowing capacity of \$500.0 million.

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.

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 beneficially 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 September 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.

Securitization Transaction

On August 11, 2021, we closed the 2021-1 securitization transaction for Zillow Offers. To effect the transaction, an SPE of the Company (the “Borrower”) entered into a non-revolving term loan with a third-party lender. The term loan consists of a single componentized promissory note evidencing a monthly-pay loan with an initial principal balance of \$480.0 million having two fixed rate components and a single principal-only component. The term loan is secured by a beneficial interest in a revolving pool of single-family homes that are owned by our titling trust. The term loan was immediately sold by the third-party lender to a subsidiary of the Company (the “Depositor”) and then sold to a Real Estate Mortgage Investment Conduit (“REMIC”) trust in exchange for revolving notes which are secured by the term loan. The principal amount of each class of notes corresponds to the corresponding principal amount of the term loan components with an additional class that holds the residual REMIC interest. Upon receipt of the notes, the Depositor sold \$450.0 million of principal of the notes to third-party investors for gross proceeds of \$450.0 million. Total debt issuance costs associated with the term loan were \$6.6 million. Zillow Group retained \$30.0 million in principal amount of non-interest-bearing notes as the sponsor of the transaction. Proceeds received by the Depositor from the sale of the notes were used as consideration to purchase the term loan from the third-party lender. The retained notes are presented as a beneficial interest in securitization in our condensed consolidated balance sheet as of September 30, 2021.

The Depositor entity is a variable interest entity for which Zillow Group is the primary beneficiary, as it has the power to control the activities that most significantly impact the entity’s economic performance and the obligation to absorb losses of the Depositor or the right to receive benefits that could potentially be significant to the Depositor. We have evaluated our interest in the REMIC trust, including our interest in the retained notes, and have concluded that we do not have a variable interest in the REMIC trust and therefore do not consolidate the entity.

In conjunction with the securitization, we entered into a variable funding line with Credit Suisse AG, Cayman Islands for an uncommitted maximum borrowing capacity of \$65.0 million which bears interest at one-month LIBOR plus an applicable margin. As of September 30, 2021, we borrowed \$32.5 million on the variable funding line with a weighted average interest rate of 2.83%. The variable funding line is classified as a current liability in our condensed consolidated balance sheet.

The term loan and variable funding line (together the “Borrower Loans”) are required to be repaid on the maturity date of February 9, 2024, or earlier if accelerated due to an event of default. The term loan has a scheduled reinvestment period of 24 months during which additional homes may be financed as existing homes are sold and is classified as long-term debt in our condensed consolidated balance sheet. Voluntary prepayments of the term loan within the first year are subject to a prepayment fee. The Borrower is required to repay any resulting shortfall if the value of the eligible properties held in the collateral pool falls below a certain percentage of the principal amount outstanding under the Borrower Loans. Continued inclusion of properties in the collateral pool 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. In addition, continued ability to operate the Borrower Loans requires a certain minimum amount of proceeds to be generated monthly from resale of properties in the collateral pool.

The Borrower Loans include customary representations and warranties, provisions regarding events of default and covenants. The Borrower Loans 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 September 30, 2021, Zillow Group was in compliance with all financial covenants and no event of default had occurred. Except for certain limited circumstances, the Borrower Loans are non-recourse to Zillow Group.

The two fixed rate components of the term loan have stated interest rates of 2.3425% and 3.3524%, respectively, and principal amounts of \$370.5 million and \$79.5 million, respectively, as of September 30, 2021 and the first interest payment date was September 9, 2021. The principal-only component has a principal amount of \$30.0 million as of September 30, 2021. The following tables summarize certain additional details related to our term loan as of the dates presented or for the periods ended (in thousands, except interest rates):

Securitization	Weighted Average Effective Interest Rate (1)	September 30, 2021	
		Unamortized Debt Discount and Debt Issuance Costs	Fair Value (2)
2021-1 term loan	3.41 %	\$ 11,387	\$ 475,076

(1) The weighted average effective interest rate is calculated using the outstanding principal amounts and effective interest rates for the two fixed rate components and the single principal-only component of the term loan. Debt discount and debt issuance costs have been allocated to the term loan components and will be amortized over the stated term of the term loan using the effective interest method with the amortization classified as a component of interest expense.

(2) The estimated fair value of the term loan was calculated using a discounted cash flow methodology. The fair value is classified as Level 3 due to reliance on significant unobservable valuation inputs.

Securitization	Three and Nine Months Ended September 30, 2021			
	Contractual Coupon Interest	Amortization of Debt Discount	Amortization of Debt Issuance Costs	Interest Expense
2021-1 term loan	\$ 1,607	\$ 297	\$ 360	\$ 2,264

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	1.83 %
Comerica Bank	June 25, 2022	60,000	2.53 %
Total		\$ 460,000	

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 September 30, 2021 and December 31, 2020, \$166.3 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 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 September 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	September 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	\$ 135,704	\$ 1,029,633	\$ 152,434	\$ 1,508,675
May 15, 2025	565,000	2.75 %	10.32 %	November 15, 2020	May 15; November 15	128,926	882,683	150,112	1,168,855
September 1, 2024	608,382	0.75 %	7.68 %	March 1, 2020	March 1; September 1	109,927	1,281,830	148,727	2,023,280
July 1, 2023	—	1.50 %	6.99 %	January 1, 2019	January 1; July 1	—	—	46,954	633,039
Total	\$ 1,672,182					\$ 374,557	\$ 3,194,146	\$ 498,227	\$ 5,333,849

Maturity Date	Three Months Ended September 30, 2021				Three Months Ended September 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	\$ 5,432	\$ 133	\$ 7,280	\$ 1,719	\$ 5,022	\$ 123	\$ 6,864
May 15, 2025	3,884	6,877	367	11,128	3,884	6,205	331	10,420
September 1, 2024	1,141	8,053	276	9,470	1,262	8,251	283	9,796
July 1, 2023	20	—	—	20	1,402	3,814	373	5,589
December 1, 2021	—	—	—	—	1,326	2,960	306	4,592
December 15, 2020	—	—	—	—	59	—	—	59
Total	\$ 6,760	\$ 20,362	\$ 776	\$ 27,898	\$ 9,652	\$ 26,252	\$ 1,416	\$ 37,320

Maturity Date	Nine Months Ended September 30, 2021				Nine Months Ended September 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	\$ 5,147	\$ 15,981	\$ 392	\$ 21,520	\$ 5,157	\$ 14,768	\$ 361	\$ 20,286
May 15, 2025	11,652	20,112	1,074	32,838	5,891	9,353	499	15,743
September 1, 2024	3,522	24,380	835	28,737	3,772	24,207	828	28,807
July 1, 2023	2,819	7,958	778	11,555	4,206	11,260	1,100	16,566
December 1, 2021	—	—	—	—	5,429	11,816	1,222	18,467
December 15, 2020	—	—	—	—	191	—	—	191
Total	\$ 23,140	\$ 68,431	\$ 3,079	\$ 94,650	\$ 24,646	\$ 71,404	\$ 4,010	\$ 100,060

The convertible notes are senior unsecured obligations. The convertible senior notes maturing in 2026 (“2026 Notes”), 2025 (“2025 Notes”), 2024 (“2024 Notes”) and 2023 (“2023 Notes”) are classified as long-term debt in our condensed consolidated balance sheets based on their contractual maturity dates. 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.

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 and 2024 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

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 %

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 at a conversion rate of 12.7592 shares of Class C capital stock per \$1,000 principal amount of the 2023 Notes, equal to a conversion price of \$78.37 per share. During the three months ended September 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 and an immaterial amount of cash in lieu of fractional shares 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. Settlement of the 2023 Notes was accounted for as a debt extinguishment. The 2023 Notes would have otherwise matured on July 1, 2023.

Each outstanding series of the Notes was convertible during the three months ended September 30, 2021, at the option of the holders. During the nine months ended September 30, 2021, holders of the 2024 Notes and 2026 Notes elected to convert \$64.6 million and \$1.2 million aggregate principal amount of the 2024 Notes and 2026 Notes, respectively. During the nine months ended September 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 tables summarizes the activity for our convertible senior notes for the periods presented (in thousands, except for share amounts):

	Three Months Ended September 30, 2021				
	2023 Notes				
Aggregate principal amount settled	\$				367,678
Cash paid	\$				1,297
Shares of Class C capital stock issued					4,674,774
Total fair value of consideration transferred (1)	\$				562,173
Loss on extinguishment of debt:					
Consideration allocated to the liability component (2)	\$				343,593
Carrying value of the liability component, net of unamortized debt discount and debt issuance costs					328,808
Loss on extinguishment of debt	\$				14,785
Consideration allocated to the equity component	\$				218,580

	Nine Months Ended September 30, 2021				Nine Months Ended September 30, 2020
	2023 Notes	2024 Notes	2026 Notes	Total	2021 Notes
Aggregate principal amount settled	\$ 373,750	\$ 64,618	\$ 1,200	\$ 439,568	\$ 194,670
Cash paid	1,297	—	—	1,297	194,670
Shares of Class C capital stock issued	4,752,232	1,485,114	27,579	6,264,925	753,936
Total fair value of consideration transferred (1)	\$ 571,897	\$ 200,478	\$ 4,204	\$ 776,579	\$ 230,859
(Gain) loss on extinguishment of debt:					
Consideration allocated to the liability component (2)	\$ 349,241	\$ 53,115	\$ 883	\$ 403,239	\$ 172,886
Carrying value of the liability component, net of unamortized debt discount and debt issuance costs	334,245	51,032	843	386,120	179,277
(Gain) loss on extinguishment of debt	\$ 14,996	\$ 2,083	\$ 40	\$ 17,119	\$ (6,391)
Consideration allocated to the equity component	\$ 222,656	\$ 147,363	\$ 3,321	\$ 373,340	\$ 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 redeemed, the total fair value of consideration transferred comprises cash transferred to note holders to settle the related notes. For convertible senior notes repurchased in the nine months ended September 30, 2020, 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 September 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 October 1 through December 31, 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 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 13. 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 September 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 an income tax benefit of \$11.0 million for the three months ended September 30, 2021 and an income tax benefit of \$0.6 million for the nine months ended September 30, 2021, primarily related to state income taxes and a decrease in the valuation allowance associated with our September 2021 acquisition of ShowingTime. We recorded income tax expense of \$0.4 million for the three months ended September 30, 2020 and an income tax benefit of \$8.1 million for the nine months ended September 30, 2020. The income tax benefit for the nine months ended September 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 11 of our condensed consolidated financial statements.

Note 14. 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 September 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 September 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):

	Nine Months Ended September 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 15. Share-Based Awards

Option Awards

The following table summarizes option award activity for the nine months ended September 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	8,821,381	131.98		
Exercised	(2,524,170)	38.65		
Forfeited or cancelled	(910,178)	74.84		
Outstanding at September 30, 2021	25,438,084	72.89	7.55	774,667
Vested and exercisable at September 30, 2021	11,590,546	48.58	6.17	505,804

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 September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Expected volatility	55%	52%	52%-56%	45%-52%
Expected dividend yield	—	—	—	—
Risk-free interest rate	0.76%	0.22%	0.57%-0.90%	0.22%-0.93%
Weighted-average expected life	4.75 years	4.50 years	4.50-5.75 years	4.50-5.50 years
Weighted-average fair value of options granted	\$45.40	\$37.09	\$58.96	\$21.35

As of September 30, 2021, there was a total of \$541.5 million in unrecognized compensation cost related to unvested stock options.

Restricted Stock Units

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

	Restricted Stock Units	Weighted- Average Grant- Date Fair Value
Unvested outstanding at January 1, 2021	7,316,557	\$ 48.14
Granted	1,558,892	124.70
Vested	(2,304,124)	49.54
Forfeited	(699,512)	58.88
Unvested outstanding at September 30, 2021	5,871,813	66.64

As of September 30, 2021, there was a total of \$364.4 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 September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Cost of revenue	\$ 2,573	\$ 1,855	\$ 8,233	\$ 4,621
Sales and marketing	12,733	8,631	35,970	24,740
Technology and development	28,077	19,555	89,119	59,664
General and administrative	36,022	18,918	98,151	56,080
Total	<u>\$ 79,405</u>	<u>\$ 48,959</u>	<u>\$ 231,473</u>	<u>\$ 145,105</u>

Note 16. 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 September 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

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 September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Denominator for basic calculation	254,074	229,719	248,564	219,989
Effect of dilutive securities:				
Option awards	—	8,933	—	—
Unvested restricted stock units	—	3,980	—	—
Denominator for dilutive calculation	254,074	242,632	248,564	219,989

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 September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Weighted-average Class A common stock and Class C capital stock option awards outstanding	17,339	518	18,218	27,333
Weighted-average Class C capital stock restricted stock units outstanding	6,151	62	6,735	8,367
Class A common stock issuable upon conversion of the convertible notes maturing in 2020	—	314	—	374
Class C capital stock issuable upon conversion of the 2021 Notes, 2023 Notes, 2024 Notes, 2025 Notes and 2026 Notes	33,927	45,203	38,026	17,580
Total Class A common stock and Class C capital stock equivalents	57,417	46,097	62,979	53,654

Note 17. 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. Purchase commitments also include homes we are under contract to purchase through Zillow Offers but that have not closed as of the respective date, though we can cancel these contracts without significant penalty. As of September 30, 2021, the value of the homes under contract that have not closed was \$3.3 billion. Non-refundable escrow amounts on homes under contract totaled \$7.7 million as of September 30, 2021.

Letters of Credit

As of September 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 \$10.9 million and \$10.1 million, respectively, as of September 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 September 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 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 other consolidated federal shareholder derivative lawsuit 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. 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. On August 31, 2021, the court granted judgment with respect to the two patents for which it previously denied judgment on the pleadings, and vacated the stay with respect to one of the three patents for which Zillow filed an IPR, which was denied by the PTAB. On September 23, 2021, IBM filed a notice of appeal with the United States Court of Appeals for the Federal Circuit with respect to the August 31, 2021 judgment entered. 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 an IPR with the United States Patent and Trademark Office with respect to one patent included in the second lawsuit. On October 6, 2021, the stay of this action was lifted, except for proceeds relating to the one patent for which we filed an IPR. 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 18. 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 \$8.3 million and \$6.1 million, respectively, for the three months ended September 30, 2021 and 2020, and \$24.0 million and \$18.9 million, respectively, for the nine months ended September 30, 2021 and 2020.

Note 19. 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, 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. As a result of the decision to wind down Zillow Offers operations, the Company plans to report Zillow Offers as a discontinued operation beginning with the period during which disposition of the business is complete. 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 the 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 September 30, 2021			Three Months Ended September 30, 2020		
	Homes	IMT	Mortgages	Homes	IMT	Mortgages
Revenue:						
Zillow Offers	\$ 1,172,693	\$ —	\$ —	\$ 185,904	\$ —	\$ —
Premier Agent	—	358,852	—	—	298,673	—
Other	13,465	121,343	—	1,201	116,716	—
Mortgages	—	—	70,290	—	—	54,198
Total revenue	1,186,158	480,195	70,290	187,105	415,389	54,198
Cost of revenue (1)	1,422,899	51,371	21,790	183,056	49,992	10,725
Gross profit	(236,741)	428,824	48,500	4,049	365,397	43,473
Operating expenses (1):						
Sales and marketing	106,877	158,665	28,812	32,714	107,900	15,280
Technology and development	28,884	75,051	7,556	25,028	64,075	5,671
General and administrative	33,647	61,722	17,761	20,327	53,466	12,011
Acquisition-related costs	—	3,235	—	—	—	—
Total operating expenses	169,408	298,673	54,129	78,069	225,441	32,962
Income (loss) from operations	(406,149)	130,151	(5,629)	(74,020)	139,956	10,511
Segment other income	274	—	1,096	—	—	636
Segment interest expense	(15,729)	—	(1,110)	(1,597)	—	(553)
Income (loss) before income taxes (2)	\$ (421,604)	\$ 130,151	\$ (5,643)	\$ (75,617)	\$ 139,956	\$ 10,594

	Nine Months Ended September 30, 2021			Nine Months Ended September 30, 2020		
	Homes	IMT	Mortgages	Homes	IMT	Mortgages
Revenue:						
Zillow Offers	\$ 2,645,697	\$ —	\$ —	\$ 1,408,832	\$ —	\$ —
Premier Agent	—	1,041,924	—	—	732,741	—
Other	21,758	360,689	—	2,398	293,653	—
Mortgages	—	—	194,995	—	—	113,241
Total revenue	2,667,455	1,402,613	194,995	1,411,230	1,026,394	113,241
Cost of revenue (1)	2,775,024	141,852	62,089	1,353,715	145,399	24,540
Gross profit	(107,569)	1,260,761	132,906	57,515	880,995	88,701
Operating expenses (1):						
Sales and marketing	227,687	412,892	81,164	152,171	332,919	39,915
Technology and development	92,381	243,533	24,341	79,843	195,940	16,979
General and administrative	86,994	189,314	52,378	65,628	165,921	31,835
Impairment costs	—	—	—	—	73,900	2,900
Acquisition-related costs	—	7,723	—	—	—	—
Total operating expenses	407,062	853,462	157,883	297,642	768,680	91,629
Income (loss) from operations	(514,631)	407,299	(24,977)	(240,127)	112,315	(2,928)
Segment other income	274	—	3,834	—	5,300	1,223
Segment interest expense	(25,067)	—	(4,005)	(13,506)	—	(1,086)
Income (loss) before income taxes (2)	\$ (539,424)	\$ 407,299	\$ (25,148)	\$ (253,633)	\$ 117,615	\$ (2,791)

(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 September 30, 2021			Three Months Ended September 30, 2020		
	Homes	IMT	Mortgages	Homes	IMT	Mortgages
Depreciation and amortization expense	\$ 5,357	\$ 22,747	\$ 2,142	\$ 3,029	\$ 22,074	\$ 1,675
Share-based compensation expense	\$ 20,009	\$ 50,737	\$ 8,659	\$ 11,815	\$ 33,435	\$ 3,709

	Nine Months Ended September 30, 2021			Nine Months Ended September 30, 2020		
	Homes	IMT	Mortgages	Homes	IMT	Mortgages
Depreciation and amortization expense	\$ 14,383	\$ 67,703	\$ 6,042	\$ 9,201	\$ 67,889	\$ 4,887
Share-based compensation expense	\$ 56,425	\$ 150,491	\$ 24,557	\$ 35,847	\$ 98,940	\$ 10,318

(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 September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Total segment income (loss) before income taxes	\$ (297,096)	\$ 74,933	\$ (157,273)	\$ (138,809)
Corporate interest expense	(27,898)	(37,320)	(94,650)	(100,060)
Corporate other income	594	2,382	1,882	16,203
Gain (loss) on extinguishment of debt	(14,785)	—	(17,119)	6,391
Consolidated income (loss) before income taxes	\$ (339,185)	\$ 39,995	\$ (267,160)	\$ (216,275)

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 20. Subsequent Events

Closing of Securitization Transaction

On October 1, 2021, we closed our 2021-2 securitization transaction for Zillow Offers involving the issuance and sale to third parties of revolving notes secured by a non-revolving term 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. Gross proceeds from the sale of the notes to third parties was approximately \$700.0 million. The loan has a term of 36 months with a scheduled reinvestment period of 30 months during which additional homes may be financed as existing homes are sold. Except for certain limited circumstances, the loan is non-recourse to Zillow Group. The term loan consists of a single componentized promissory note representing a monthly-pay loan with an initial principal balance of \$749.0 million comprised of two fixed rate components totaling \$700.0 million and a single principal-only component of \$49.0 million. The weighted-average interest rate for the fixed rate components is 2.63%. In conjunction with the securitization, we entered into a variable funding line with Credit Suisse AG, Cayman Islands for an uncommitted maximum borrowing capacity of \$75.0 million which bears interest at one-month LIBOR plus an applicable margin. The term loan and any balances drawn on the variable funding line will be accounted for as debt in our condensed consolidated balance sheets. We retained \$49.0 million in principal amount of non-interest-bearing notes as the sponsor of the transaction, which will be presented as a beneficial interest in securitization in our condensed consolidated balance sheets.

Zillow Offers Suspension of Entering into New Contracts

On October 18, 2021, the Company issued a press release announcing that Zillow Offers would not sign any new, additional contracts to buy homes through the end of 2021. The Company paused new contracts in light of renovation and operational capacity constraints and to enable Zillow Offers to focus operations on purchasing homes with already-signed contracts and reducing the renovation pipeline for homes in inventory.

Wind Down of Zillow Offers Operations

On November 2, 2021, the Board of Directors of the Company made the determination to wind down Zillow Offers operations. This decision was made in light of home pricing unpredictability, capacity constraints and other operational challenges faced by Zillow Offers that were exacerbated by an unprecedented housing market, a global pandemic and a difficult labor and supply chain environment. The wind down is expected to take several quarters and result in approximately a 25% reduction of the Company's workforce. During the wind down period, the Company expects to continue to complete the purchase of homes currently under contract and renovate and sell properties currently in inventory. As a result of the decision to wind down Zillow Offers operations, the Company plans to report Zillow Offers as a discontinued operation beginning with the period during which disposition of the business is complete. In connection with the preparation of financial statements for the three months ended September, 30, 2021, the Company recorded a \$304.4 million write-down of inventory associated with Zillow Offers as a result of purchasing homes during the third quarter at higher prices than the Company's current estimates of the future selling prices after selling costs.

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, and in Part II, Item 1A (Risk Factors) in this Quarterly Report on Form 10-Q.

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, New Home Feed and ShowingTime.

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. In future periods, the IMT segment will also include the financial results associated with our acquisition of ShowingTime, Inc. ("ShowingTime"), which closed on September 30, 2021. For additional information regarding the acquisition, see Note 9 in our Notes to Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q. 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. As a result of the decision to wind down Zillow Offers operations, the Company plans to report Zillow Offers as a discontinued operation beginning with the period during which disposition of the business is complete.

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, click, lease, listing or impression basis or for a fixed fee for certain advertising packages. 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 September 30, 2021, we had 7,999 full-time employees compared to 5,504 full-time employees as of December 31, 2020.

Financial Highlights

During the three months ended September 30, 2021 and 2020, we generated total revenue of \$1.7 billion and \$0.7 billion, respectively, representing year-over-year growth of 164%. The increase in total revenue was primarily attributable to the following:

- Zillow Offers revenue increased by \$986.8 million to \$1.2 billion for the three months ended September 30, 2021 due to the sale of 3,032 homes at an average selling price of \$386.8 thousand per home. For the three months ended September 30, 2020, Zillow Offers revenue was \$185.9 million due to the sale of 583 homes at an average selling price of \$318.8 thousand per home.
- Premier Agent revenue increased by \$60.2 million to \$358.9 million for the three months ended September 30, 2021 compared to \$298.7 million for the three months ended September 30, 2020. The increase in Premier Agent revenue was primarily due to a 26% increase in Premier Agent revenue per visit, driven primarily by continued strong demand across the residential real estate industry and growth in monetization of our impressions and leads.
- Mortgages segment revenue increased by \$16.1 million to \$70.3 million for the three months ended September 30, 2021 compared to \$54.2 million for the three months ended September 30, 2020, driven by an increase in revenue generated by Zillow Home Loans, as total loan origination volumes increased 115%, and an increase in revenue from Custom Quote and Connect advertising services.

During the three months ended September 30, 2021 and 2020, we generated total gross profit of \$240.6 million and \$412.9 million, respectively, representing a year-over-year decrease of 42%. Gross profit was negatively impacted during the three months ended September 30, 2021 by a write-down for Homes inventory lower of cost or net realizable value adjustment of \$304.4 million. This adjustment was primarily due to purchasing homes at higher prices than the Company's current estimates of future selling prices.

Zillow Offers Suspension of Entering into New Contracts

On October 18, 2021, the Company issued a press release announcing that Zillow Offers would not sign any new, additional contracts to buy homes through the end of 2021. The Company paused new contracts in light of renovation and operational capacity constraints and to enable Zillow Offers to focus operations on purchasing homes with already-signed contracts and reducing the renovation pipeline for homes in inventory.

Wind Down of Zillow Offers Operations

On November 2, 2021, the Board of Directors of the Company made the determination to wind down Zillow Offers operations. This decision was made in light of home pricing unpredictability, capacity constraints and other operational challenges faced by Zillow Offers that were exacerbated by an unprecedented housing market, a global pandemic and a difficult labor and supply chain environment. The wind down is expected to take several quarters and result in approximately a 25% reduction of the Company's workforce. During the wind down period, the Company expects to continue to complete the purchase of homes currently under contract and renovate and sell properties currently in inventory. As a result of the decision to wind down Zillow Offers operations, the Company plans to report Zillow Offers as a discontinued operation beginning with the period during which disposition of the business is complete. In connection with the preparation of financial statements for the three months ended September 30, 2021, the Company recorded a \$304.4 million write-down of inventory associated with

Zillow Offers as a result of purchasing homes during the third quarter at higher prices than the Company's current estimates of the future selling prices after selling costs.

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 Agents 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. We quickly transitioned the majority of our employees to work remotely and announced that most employees will have flexibility to work from home indefinitely. In September 2021, we enabled voluntary office access to certain office locations and continue to adhere to the guidelines issued by health authorities. We believe our physical offices will continue to provide our distributed workforce with another opportunity to work, learn and collaborate in-person in the future.

To preserve our liquidity in response to the COVID-19 pandemic, during the first half of 2020 we temporarily paused hiring for non-critical roles, paused the majority of our advertising spending and reduced other discretionary spending. As our financial position strengthened, we increased our hiring and marketing and advertising activities.

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 September 30,		2020 to 2021 % Change	
	2021	2020		
Visits	2,661.7	2,786.2	(4)	%

During the three months ended September 30, 2021, visits decreased 4% compared to the three months ended September 30, 2020, driven primarily by strong residential real estate industry recovery in the comparable prior year period coupled with more normalized seasonality impacts during the three months ended September 30, 2021 compared to the three months ended September 30, 2020.

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.

During the three months ended September 30, 2021, unique users decreased 4% compared to the three months ended September 30, 2020, driven primarily by strong residential real estate industry recovery in the comparable prior year period coupled with more normalized seasonality impacts during the three months ended September 30, 2021 compared to the three months ended September 30, 2020.

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

	Three Months Ended September 30,		2020 to 2021 % Change
	2021	2020	
Average monthly unique users	226.6	236.2	(4) %

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 September 30,		2020 to 2021 % Change
	2021	2020	
Number of homes sold	3,032	583	420 %

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 September 30,		2020 to 2021 % Change
	2021	2020	
Purchase loan origination volume	\$ 358,924	\$ 163,728	119 %
Refinance loan origination volume	753,629	353,360	113 %
Total loan origination volume	<u>\$ 1,112,553</u>	<u>\$ 517,088</u>	115 %

Results of Operations

Given the remaining uncertainty surrounding the COVID-19 pandemic and our plans to wind down the Zillow Offers business, financial performance for prior and current periods may not be indicative of future performance.

Revenue

	Three Months Ended September 30,		2020 to 2021		% of Total Revenue Three Months Ended September 30,	
	2021	2020	\$ Change	% Change	2021	2020
(in thousands, unaudited)						
Revenue:						
Homes segment:						
Zillow Offers	\$ 1,172,693	\$ 185,904	\$ 986,789	531 %	68 %	28 %
Other	13,465	1,201	12,264	1,021	1	—
Total Homes segment revenue	1,186,158	187,105	999,053	534	68	28
IMT segment:						
Premier Agent	358,852	298,673	60,179	20	21	45
Other	121,343	116,716	4,627	4	7	18
Total IMT segment revenue	480,195	415,389	64,806	16	28	63
Mortgages segment	70,290	54,198	16,092	30	4	8
Total revenue	\$ 1,736,643	\$ 656,692	\$ 1,079,951	164 %	100 %	100 %

	Nine Months Ended September 30,		2020 to 2021		% of Total Revenue Nine Months Ended September 30,	
	2021	2020	\$ Change	% Change	2021	2020
(in thousands, unaudited)						
Revenue:						
Homes segment:						
Zillow Offers	\$ 2,645,697	\$ 1,408,832	\$ 1,236,865	88 %	62 %	55 %
Other	21,758	2,398	19,360	807	1	—
Total Homes segment revenue	2,667,455	1,411,230	1,256,225	89	63	55
IMT segment:						
Premier Agent	1,041,924	732,741	309,183	42	24	29
Other	360,689	293,653	67,036	23	8	12
Total IMT segment revenue	1,402,613	1,026,394	376,219	37	33	40
Mortgages segment	194,995	113,241	81,754	72	5	4
Total revenue	\$ 4,265,063	\$ 2,550,865	\$ 1,714,198	67 %	100 %	100 %

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

Total revenue increased \$1.1 billion, or 164%, to \$1.7 billion:

- Homes segment revenue increased 534% to \$1.2 billion, primarily due to an increase of \$986.8 million, or 531%, in Zillow Offers revenue. Zillow Offers revenue increased to \$1.2 billion due to the sale of 3,032 homes at an average selling price of \$386.8 thousand per home, as compared to the sale of 583 homes at an average selling price of \$318.8 thousand per home in the comparable prior year period. The pause in home buying activities in Zillow Offers in response to the COVID-19 pandemic in the first half of 2020 resulted in lower inventory available for resale during the three months ended September 30, 2020. We resumed home buying activities in all markets by early August 2020 and have since significantly grown our acquisition and resale volumes, driving the year-over-year increase in revenue. We expect Zillow Offers inventory growth during the three months ended September 30, 2021 to result in increased revenue during the three months ending December 31, 2021 and March 31, 2022. However, as a result of the pause in entering into additional contracts to buy homes beginning in October 2021 and our subsequent decision to wind down Zillow Offers operations, we expect Zillow Offers revenue will decrease beginning with the three months ending June 30, 2022.
- IMT segment revenue increased 16% to \$480.2 million due primarily to a \$60.2 million, or 20%, increase in Premier Agent revenue. The increase in Premier Agent revenue was primarily driven by an increase in Premier Agent revenue per visit, which increased by 26% to \$0.135 for the three months ended September 30, 2021 from \$0.107 for the three months ended September 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 growth in monetization of our impressions and leads.
- Mortgages segment revenue increased 30% to \$70.3 million due to growth in mortgage originations revenue which drove 54% of the increase in Mortgages segment revenue, and growth in our Custom Quote and Connect advertising services revenue which accounted for 43% of the increase in Mortgages segment revenue. The increase in mortgage originations revenue was primarily due to an increase in loan origination volume from \$517.1 million to \$1.1 billion, or 115%, as we continued to grow our mortgage originations business. This increase was partially offset by a 40% decrease in gain on sale margin driven by industry margin compression. 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 5% increase in leads generated from marketing products sold to mortgage professionals. We expect Mortgages segment revenue to decrease in absolute dollars in future periods due to expected decreased refinance activity driven by interest rate impacts and decreased purchase activity due to seasonality and the wind down of Zillow Offers operations.

Nine months ended September 30, 2021 compared to the nine months ended September 30, 2020

Total revenue increased \$1.7 billion, or 67%, to \$4.3 billion:

- Homes segment revenue increased 89% to \$2.7 billion, primarily due to an increase of \$1.2 billion, or 88%, in Zillow Offers revenue. Zillow Offers revenue increased to \$2.6 billion due to the sale of 7,083 homes at an average selling price of \$373.5 thousand per home, as compared to the sale of 4,414 homes at an average selling price of \$319.1 thousand per home in the comparable prior year period. Homes segment revenue for the nine months ended September 30, 2020 was negatively impacted by the temporary pause in home buying activities in response to the COVID-19 pandemic, as discussed above, contributing to the year-over-year increase in revenue.

- IMT segment revenue increased 37% to \$1.4 billion due to a \$309.2 million, or 42%, increase in Premier Agent revenue and a \$67.0 million, or 23%, increase in Other IMT revenue. Premier Agent revenue was positively impacted by an increase in visits, which increased 8% to 7.9 billion for the nine months ended September 30, 2021 from 7.4 billion for the nine months ended September 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 nine months ended September 30, 2020 was negatively impacted by discounts offered to our Premier Agent partners in response to the COVID-19 pandemic. Other IMT revenue increased primarily due to a 26% increase in revenue generated by our rentals marketplace, including our flat fee, pay per listing and rental applications products.
- Mortgages segment revenue increased 72% to \$195.0 million primarily due to growth in mortgage originations revenue which drove 68% of the increase in Mortgages segment revenue, while growth in our Custom Quote and Connect advertising services revenue accounted for 31% of the increase in Mortgages segment revenue. The increase in mortgage originations revenue was primarily driven by an increase in loan origination volume from \$922.4 million to \$3.2 billion, an increase of 243%. We believe low interest rates coupled with growth of our mortgage originations business have supported strong refinance and home purchase activity during the nine months ended September 30, 2021. This was partially offset by a 38% 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 24% increase in leads generated from marketing products sold to mortgage professionals.

Income (Loss) Before Income Taxes

	Three Months Ended September 30,				% of Revenue	
	2021		2020		Three Months Ended September 30,	
	</					

(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 September 30,		2020 to 2021		% of Revenue	
					Three Months Ended September 30,	
	2021	2020	\$ Change	% Change	2021	2020
(in thousands, unaudited)						
Net income (loss)	\$ (328,174)	\$ 39,570	\$ (367,744)	(929)%	(19)%	6 %
Adjusted EBITDA:						
Homes segment	\$ (380,783)	\$ (59,176)	\$ (321,607)	(543)%	(32)%	(32)%
IMT segment	206,870	195,465	11,405	6	43	47
Mortgages segment	5,172	15,895	(10,723)	(67)	7	29
Total Adjusted EBITDA	<u>\$ (168,741)</u>	<u>\$ 152,184</u>	<u>\$ (320,925)</u>	<u>(211)%</u>	<u>(10)%</u>	<u>23 %</u>

	Nine Months Ended September 30,		2020 to 2021		% of Revenue	
					Nine Months Ended September 30,	
	2021	2020	\$ Change	% Change	2021	2020
(in thousands, unaudited)						
Net loss	\$ (266,569)	\$ (208,151)	\$ (58,418)	(28)%	(6)%	(8)%
Adjusted EBITDA:						
Homes segment	\$ (443,823)	\$ (195,079)	\$ (248,744)	(128)%	(17)%	(14)%
IMT segment	633,216	353,044	280,172	79	45	34
Mortgages segment	5,622	15,177	(9,555)	(63)	3	13
Total Adjusted EBITDA	<u>\$ 195,015</u>	<u>\$ 173,142</u>	<u>\$ 21,873</u>	<u>13 %</u>	<u>5 %</u>	<u>7 %</u>

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 September 30, 2021					
	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	\$ (328,174)
Income taxes	N/A	N/A	N/A	N/A	(11,011)
Income (loss) before income taxes	\$ (421,604)	\$ 130,151	\$ (5,643)	\$ (42,089)	\$ (339,185)
Other income	(274)	—	(1,096)	(594)	(1,964)
Depreciation and amortization	5,357	22,747	2,142	—	30,246
Share-based compensation	20,009	50,737	8,659	—	79,405
Acquisition-related costs	—	3,235	—	—	3,235
Loss on extinguishment of debt	—	—	—	14,785	14,785
Interest expense	15,729	—	1,110	27,898	44,737
Adjusted EBITDA	<u>\$ (380,783)</u>	<u>\$ 206,870</u>	<u>\$ 5,172</u>	<u>\$ —</u>	<u>\$ (168,741)</u>

Three Months Ended September 30, 2020					
	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	\$ 39,570
Income taxes	N/A	N/A	N/A	N/A	425
Income (loss) before income taxes	\$ (75,617)	\$ 139,956	\$ 10,594	\$ (34,938)	\$ 39,995
Other income	—	—	(636)	(2,382)	(3,018)
Depreciation and amortization	3,029	22,074	1,675	—	26,778
Share-based compensation	11,815	33,435	3,709	—	48,959
Interest expense	1,597	—	553	37,320	39,470
Adjusted EBITDA	<u>\$ (59,176)</u>	<u>\$ 195,465</u>	<u>\$ 15,895</u>	<u>\$ —</u>	<u>\$ 152,184</u>

Nine Months Ended September 30, 2021					
	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	\$ (266,569)
Income taxes	N/A	N/A	N/A	N/A	(591)
Income (loss) before income taxes	\$ (539,424)	\$ 407,299	\$ (25,148)	\$ (109,887)	\$ (267,160)
Other income	(274)	—	(3,834)	(1,882)	(5,990)
Depreciation and amortization	14,383	67,703	6,042	—	88,128
Share-based compensation	56,425	150,491	24,557	—	231,473
Acquisition-related costs	—	7,723	—	—	7,723
Loss on extinguishment of debt	—	—	—	17,119	17,119
Interest expense	25,067	—	4,005	94,650	123,722
Adjusted EBITDA	<u>\$ (443,823)</u>	<u>\$ 633,216</u>	<u>\$ 5,622</u>	<u>\$ —</u>	<u>\$ 195,015</u>

Nine Months Ended September 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	\$ (208,151)
Income taxes	N/A	N/A	N/A	N/A	(8,124)
Income (loss) before income taxes	\$ (253,633)	\$ 117,615	\$ (2,791)	\$ (77,466)	\$ (216,275)
Other income	—	(5,300)	(1,223)	(16,203)	(22,726)
Depreciation and amortization	9,201	67,889	4,887	—	81,977
Share-based compensation	35,847	98,940	10,318	—	145,105
Gain on extinguishment of debt	—	—	—	(6,391)	(6,391)
Impairment costs	—	73,900	2,900	—	76,800
Interest expense	13,506	—	1,086	100,060	114,652
Adjusted EBITDA	<u>\$ (195,079)</u>	<u>\$ 353,044</u>	<u>\$ 15,177</u>	<u>\$ —</u>	<u>\$ 173,142</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 September 30,		2020 to 2021		% of Total Revenue Three Months Ended September 30,	
	2021	2020	\$ Change	% Change	2021	2020
	(in thousands, unaudited)					
Cost of revenue	\$ 1,496,060	\$ 243,773	\$ 1,252,287	514 %	86 %	37 %
Gross profit	240,583	412,919	(172,336)	(42)	14	63
Operating expenses:						
Sales and marketing	294,354	155,894	138,460	89	17	24
Technology and development	111,491	94,774	16,717	18	6	14
General and administrative	113,130	85,804	27,326	32	7	13
Acquisition-related costs	3,235	—	3,235	N/A	—	—
Total operating expenses	522,210	336,472	185,738	55	30	51
Loss on extinguishment of debt	(14,785)	—	(14,785)	N/A	(1)	—
Other income	1,964	3,018	(1,054)	(35)	—	—
Interest expense	(44,737)	(39,470)	(5,267)	(13)	(3)	(6)
Income tax benefit (expense)	11,011	(425)	11,436	2,691	1	—

	Nine Months Ended September 30,		2020 to 2021		% of Total Revenue Nine Months Ended September 30,	
	2021	2020	\$ Change	% Change	2021	2020
	(in thousands, unaudited)					
Cost of revenue	\$ 2,978,965	\$ 1,523,654	\$ 1,455,311	96 %	70 %	60 %
Gross profit	1,286,098	1,027,211	258,887	25	30	40
Operating expenses						
Sales and marketing	721,743	525,005	196,738	37	17	21
Technology and development	360,255	292,762	67,493	23	8	11
General and administrative	328,686	263,384	65,302	25	8	10
Impairment costs	—	76,800	(76,800)	(100)	—	3
Acquisition-related costs	7,723	—	7,723	N/A	—	—
Total operating expenses	1,418,407	1,157,951	260,456	22	33	45
Gain (loss) on extinguishment of debt	(17,119)	6,391	(23,510)	(368)	—	—
Other income	5,990	22,726	(16,736)	(74)	—	1
Interest expense	(123,722)	(114,652)	(9,070)	(8)	(3)	(4)
Income tax benefit	591	8,124	(7,533)	(93)	—	—

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, 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, cost of revenue also consists of direct costs to originate loans, including underwriting and processing costs.

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

Cost of revenue increased by \$1.3 billion, or 514%, due primarily to an increase of \$1.2 billion in our Homes segment.

- The increase in cost of revenue in our Homes segment was driven primarily by an increase of \$905.0 million in home acquisition costs due to the increase in the number of homes sold from 583 during the three months ended September 30, 2020 to 3,032 during the three months ended September 30, 2021. The increase in cost of revenue was also attributable to the write-down of \$304.4 million related to homes in inventory as of September 30, 2021 with a carrying value exceeding their net realizable value as a result of purchasing homes at higher prices than our current estimates of future selling prices. We expect Zillow Offers inventory growth during the three months ended September 30, 2021 to result in increased cost of revenue for the Homes segment for the three months ending December 31, 2021 and March 31, 2022 as homes in inventory are sold. Additionally, we expect the recognition of losses on homes we were under contract to purchase as of the end of the third quarter to materially contribute to the increase in cost of revenue for the three months ending December 31, 2021. Further, as a result of the pause in entering into additional contracts to buy homes beginning in October 2021 and our subsequent decision to wind down Zillow Offers operations, we expect cost of revenue to decrease beginning with the three months ending June 30, 2022.
- There was an \$11.1 million increase in cost of revenue in the Mortgages segment that was primarily attributable to an increase in lead acquisition costs of \$5.1 million associated with growth in our Zillow Home Loans business, as well as an increase in headcount-related expenses, including share-based compensation expense, of \$4.8 million.

Nine months ended September 30, 2021 compared to the nine months ended September 30, 2020

Cost of revenue increased by \$1.5 billion, or 96%, due to an increase of \$1.4 billion in our Homes segment and an increase of \$37.5 million in our Mortgages segment.

- The increase in cost of revenue in our Homes segment was primarily attributable to an increase of \$1.1 billion in home acquisition costs due to the increase in the number of homes sold from 4,414 during the nine months ended September 30, 2020 to 7,083 during the nine months ended September 30, 2021. The increase in cost of revenue was also attributable to the write-down of \$304.4 million discussed above.
- The increase in cost of revenue in our Mortgages segment was primarily attributable to an increase in headcount-related expenses, including share-based compensation expense, of \$16.0 million, an increase in lead acquisition costs of \$14.7 million associated with growth in our Zillow Home Loans business, and an increase in mortgage loan processing costs of \$3.4 million corresponding with the increase in loan origination volume.

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 September 30, 2021 compared to the three months ended September 30, 2020

Gross profit decreased by \$172.3 million, or 42%, primarily due to a decrease in gross profit of \$240.8 million in our Homes segment, partially offset by increases in gross profit of \$63.4 million in our IMT segment and \$5.0 million in our Mortgages segment. Total gross margin decreased from 63% to 14%.

- The decrease in Homes segment gross profit was primarily driven by a \$304.4 million inventory write-down, discussed above. Gross margin decreased from 2% for the three months ended September 30, 2020 to (20)% for the three months ended September 30, 2021.
- The increase in IMT segment gross profit was driven by an improvement in gross margin from 88% to 89%, primarily associated with increased revenue, discussed above.
- The increase in Mortgages segment gross profit was driven by an increase in revenue, discussed above. However, gross margin declined from 80% to 69%, driven by increases in cost of revenue, primarily associated with additional lead acquisition costs and headcount-related expenses as a result of increased origination volume, which outpaced the growth in revenue primarily due to industry margin compression.

Nine months ended September 30, 2021 compared to the nine months ended September 30, 2020

Gross profit increased by \$258.9 million, or 25%, due to increases of \$379.8 million in our IMT segment and \$44.2 million in our Mortgages segment, partially offset by a decrease of \$165.1 million in our Homes segment. Total gross margin decreased from 40% to 30%.

- The increase in IMT segment gross profit was driven by an improvement in gross margin from 86% to 90%, primarily associated with increased revenue, discussed above.
- The increase in Mortgages segment gross profit was driven by increased revenue, discussed above. Gross margin declined from 78% 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.
- The decrease in Homes segment gross profit was driven by the inventory write down discussed above. Gross margin decreased from 4% for the nine months ended September 30, 2020 to (4)% for the nine months ended September 30, 2021.

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 September 30, 2021 compared to the three months ended September 30, 2020

Sales and marketing expenses increased \$138.5 million, or 89%, due to increases of \$74.2 million in our Homes segment, \$50.8 million in our IMT segment and \$13.5 million in our Mortgages segment.

- The increase in sales and marketing expenses in the Homes segment was primarily attributable to a \$50.8 million increase in home holding and selling costs driven by the increase in the number of homes sold during the three months ended September 30, 2021 compared to the three months ended September 30, 2020. Home holding and selling costs for the three months ended September 30, 2020 were impacted by our pause in home buying activities in the first half of 2020, which resulted in lower inventory available for resale during the three months ended September 30, 2020. The increase in sales and marketing expenses was also attributable to an increase in headcount-related expenses, including share-based compensation expense, of \$11.4 million, and a \$7.9 million increase in marketing and advertising expenses. Sales and marketing expenses in our Homes segment included \$17.8 million and \$1.0 million in holding costs for the three months ended September 30, 2021 and 2020, respectively. We expect sales and marketing expenses within the Homes segment to decrease throughout 2022 due to the wind down of Zillow Offers operations.
- The increase in sales and marketing expenses in the IMT segment was primarily attributable to a \$38.7 million increase in marketing and advertising costs and an increase in headcount-related expenses, including share-based compensation expense, of \$13.5 million. Marketing and advertising costs for the three months ended September 30, 2021 were higher than the comparable prior year period due to our pause in most discretionary spending associated with liquidity preservation in response to the COVID-19 pandemic in the comparable prior year period. We expect IMT sales and marketing expenses to decrease in absolute dollars for the three months ending December 31, 2021 due to the seasonality of advertising and marketing spend.
- The increase in sales and marketing expenses in the Mortgages segment was primarily attributable to an increase in headcount-related expenses, including share-based compensation expense, of \$8.5 million, and a \$4.0 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 decrease in absolute dollars in future periods corresponding with the expected decrease in revenue.

Nine months ended September 30, 2021 compared to the nine months ended September 30, 2020

Sales and marketing expenses increased \$196.7 million, or 37%, due to increases of \$80.0 million in our IMT segment, \$75.5 million in our Homes segment and \$41.2 million in our Mortgages segment.

- The increase in sales and marketing expenses in the IMT segment was primarily attributable to a \$56.5 million increase in marketing and advertising costs and an increase in headcount-related expenses, including share-based compensation expense, of \$29.7 million, partially offset by a \$4.3 million decrease in depreciation and amortization expense. Marketing and advertising costs for the nine months ended September 30, 2021 were higher than the comparable prior year period primarily due to our pause in most discretionary spending in the nine months ended September 30, 2020 in response to the COVID-19 pandemic.
- The increase in sales and marketing expenses in the Homes segment was primarily attributable to an increase of \$53.6 million in home holding and selling costs driven by the increase in the number of homes sold during the nine months ended September 30, 2021 compared to the nine months ended September 30, 2020, discussed above, an increase of \$13.0 million in marketing and advertising costs, and an increase in headcount-related expenses, including share-based compensation expense, of \$9.2 million. During the nine months ended September 30, 2020, Homes segment sales and marketing expenses included \$5.5 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 nine months ended September 30, 2021. Sales and marketing expenses in our Homes segment included \$27.0 million and \$8.9 million in holding costs for the nine months ended September 30, 2021 and 2020, respectively.
- The increase in sales and marketing expenses in the Mortgages segment was primarily attributable to an increase in headcount-related expenses, including share-based compensation expense, of \$27.5 million, and a \$12.4 million increase in marketing and advertising expenses associated with growth of our Zillow Home Loans business.

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 September 30, 2021 compared to the three months ended September 30, 2020

Technology and development expenses increased \$16.7 million, or 18%, due primarily to increases of \$11.0 million in our IMT segment and \$3.9 million in our Homes segment.

The increases in technology and development expenses for the IMT and Homes segments were primarily attributable to increases in headcount-related expenses, including share-based compensation expense, of \$10.3 million and \$2.5 million for our IMT and Homes segments, respectively, as we have continued to invest in human capital to grow our businesses. We expect technology and development expenses within the Homes segment to decrease throughout 2022 due to the wind down of Zillow Offers operations.

Nine months ended September 30, 2021 compared to the nine months ended September 30, 2020

Technology and development expenses increased \$67.5 million, or 23%, due to increases of \$47.6 million in our IMT segment, \$12.5 million in our Homes segment and \$7.4 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 \$47.7 million, \$11.0 million and \$5.0 million for our IMT, Homes and Mortgages segments, respectively, as we have continued 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 September 30, 2021 compared to the three months ended September 30, 2020

General and administrative expenses increased \$27.3 million, or 32%, due to increases of \$13.3 million in our Homes segment, \$8.3 million in our IMT segment and \$5.8 million in our Mortgages 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 \$8.7 million, \$10.6 million and \$4.1 million for our Homes, IMT and Mortgages segments, respectively, as we have continued to invest in human capital to grow our businesses. We expect general and administrative expenses within the Homes segment to decrease throughout 2022 due to the wind down of Zillow Offers operations.

Nine months ended September 30, 2021 compared to the nine months ended September 30, 2020

General and administrative expenses increased \$65.3 million, or 25%, due to increases of \$23.4 million in our IMT segment, \$21.4 million in our Homes segment and \$20.5 million in our Mortgages 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 \$28.1 million, \$15.5 million and \$15.2 million for our IMT, Homes and Mortgages 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 nine months ended September 30, 2021. Impairment costs for the nine months ended September 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 11 in our Notes to Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q.

Acquisition-Related Costs

Acquisition-related costs consist of investment banking, legal, accounting and tax associated with effecting acquisitions. Acquisition-related costs were \$3.2 million and \$7.7 million for the three and nine months ended September 30, 2021, respectively, primarily as a result of our September 2021 acquisition of ShowingTime. We did not record any acquisition-related costs for the three and nine months ended September 30, 2020.

Gain (Loss) on Extinguishment of Debt

We recorded a \$14.8 million loss on extinguishment of debt during the three months ended September 30, 2021 associated with the conversion of \$366.4 million of aggregate principal of the convertible senior notes maturing in 2023 (“2023 Notes”) and the redemption of the remaining \$1.3 million of aggregate principal of the 2023 Notes. We recorded a \$17.1 million loss on extinguishment of debt during the nine months ended September 30, 2021 associated with conversions of the 2023 Notes, convertible notes maturing in 2024 (“2024 Notes”) and 2026 (“2026 Notes”). During the nine months ended September 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 12 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 \$1.1 million, or 35%, and \$16.7 million, or 74%, during the three and nine months ended September 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 nine months ended September 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.

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 12 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 Zillow Offers. 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. Beginning in August 2021, interest expense also includes interest on the term loan and variable funding line associated with our 2021-1 securitization transaction, including the amortization of the debt discount for the term loan and the amortization of deferred issuance costs for the term loan and variable funding line. The term loan bears interest at a fixed rate and the variable funding line bears interest at LIBOR plus an applicable margin. Refer to Note 12 and Note 20 of our Notes to Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q for additional information on Homes segment financing.

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 September 30, 2021 compared to the three months ended September 30, 2020

Interest expense increased \$5.3 million, or 13%, primarily due to a \$14.1 million increase in interest expense related to our Homes segment, partially offset by a \$9.4 million decrease in corporate interest expense not attributable to any of our segments.

The increase in Homes segment interest expense was primarily attributable to the increased number of homes financed on our credit facilities and through our securitization transaction, as described above. We expect interest expense for the Homes segment to increase for the three months ending December 31, 2021 due to Zillow Offers inventory growth and to decrease throughout 2022 as we wind down Zillow Offers operations.

The decrease in corporate interest expense not attributable to any of our segments was primarily due to settlements of the 2021 Notes, 2023 Notes, 2024 Notes and 2026 Notes since September 30, 2020 which resulted in a reduction in the outstanding principal amounts upon which interest was incurred during the three months ended September 30, 2021 as compared to the three months ended September 30, 2020. Refer to Note 12 of our Notes to Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q for details of the settlement activity associated with our convertible senior notes.

Nine months ended September 30, 2021 compared to the nine months ended September 30, 2020

Interest expense increased \$9.1 million, or 8%, due to an \$11.6 million increase in interest expense related to our Homes segment and a \$2.9 million increase in interest expense related to our Mortgages segment, partially offset by a \$5.4 million decrease in corporate interest expense not attributable to any of our segments.

The increase in Homes segment interest expense was due to a higher number of homes financed on our credit facilities as we have continued to grow our homes inventory after our 2020 pause in home buying in response to the COVID-19 pandemic. The increase in Mortgages segment interest expense was attributable to increased borrowings on our repurchase agreements and warehouse line of credit to support the growth of Zillow Home Loans.

The decrease in corporate interest expense not attributable to any of our segments was primarily attributable to the settlement of the convertible senior notes due in 2020 (the “2020 Notes”) and the 2021 Notes during the three months ended December 31, 2020 and the settlement of the 2023 Notes, 2024 Notes and 2026 Notes during the nine months ended September 30, 2021 which decreased the outstanding principal balances of our convertible senior notes upon which interest was incurred. The decrease in corporate interest expense was partially offset by the impact of additional interest for the May 2020 issuance of the convertible senior notes due in 2025 (the “2025 Notes”).

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 September 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 an income tax benefit of \$11.0 million for the three months ended September 30, 2021 and an income tax benefit of \$0.6 million for the nine months ended September 30, 2021, primarily related to state income taxes and a decrease in the valuation allowance associated with our September 2021 acquisition of ShowingTime. We recorded income tax expense of \$0.4 million for the three months ended September 30, 2020 and an income tax benefit of \$8.1 million for the nine months ended September 30, 2020. The income tax benefit for the nine months ended September 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 11 of our Notes to Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q.

Liquidity and Capital Resources

As of September 30, 2021 and December 31, 2020, we had cash and cash equivalents, investments and restricted cash of \$3.6 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, and the beneficial interest in our Homes segment securitization transaction. Restricted cash consists of amounts funded to the reserve and collection accounts related to our credit facilities, home sales proceeds held in restricted accounts associated with our credit facilities and securitization, 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 September 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, during the first half of 2020 we temporarily paused hiring for non-critical roles, paused the majority of our advertising spending and reduced other discretionary spending. As our financial position strengthened, we increased our hiring and marketing and advertising activities. 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. During 2020, we deferred a total of \$23.8 million of certain employer payroll tax payments under the CARES Act. We expect to pay \$11.9 million of the deferred cash payments in the fourth quarter of 2021 and the remaining \$11.9 million in the fourth quarter of 2022.

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 nine months ended September 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 14 in our Notes to Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q.

On September 30, 2021, Zillow Group closed its acquisition of ShowingTime in exchange for approximately \$511.7 million in cash, subject to certain adjustments, after the expiration of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (the “HSR Act”) and the timing agreement between Zillow Group, ShowingTime and the U.S. Federal Trade Commission (the “FTC”). In connection with the closing, on September 27, 2021, the FTC sent a form letter to Zillow Group indicating that its investigation of the proposed acquisition of ShowingTime was continuing, the FTC reserves the right to take further action with respect to the transaction after the closing, and additional information requests may be forthcoming. This letter is consistent with the HSR Act and the FTC’s recently announced practice of sending such letters to parties making filings under the HSR Act. For additional information regarding our acquisition of ShowingTime, see Note 9 in our Notes to Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q.

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 use credit facilities, and beginning in August 2021, an asset-backed securitization, to fund a portion of the purchase price of homes and certain related costs. As of September 30, 2021, we have \$2.9 billion of total borrowings on our credit facilities and 2021-1 securitization to provide capital for Zillow Offers with a total maximum borrowing capacity of \$4.3 billion. On October 18, 2021, Zillow Group announced that Zillow Offers would not sign any new, additional contracts to buy homes through the end of 2021. Subsequently, on November 2, 2021, the Board of Directors of Zillow Group made the determination to wind down Zillow Offers. As a result, we expect home financing to decrease beginning in 2022 as we wind down our home buying activities. In the meantime, if we are unable to continue financing the purchase of homes, we may be required to use cash and cash equivalents to fund the purchase price of homes and certain related costs.

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 September 30, 2021, we have \$208.3 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 September 30, 2021, we have outstanding a total of \$1.7 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 September 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 12 and Note 20 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):

	Nine Months Ended September 30,	
	2021	2020
Cash Flow Data:		
Net cash provided by (used in) operating activities	\$ (2,961,321)	\$ 750,158
Net cash provided by (used in) investing activities	620,564	(683,983)
Net cash provided by financing activities	3,088,207	651,804

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 nine months ended September 30, 2021, net cash used in operating activities was \$3.0 billion. This was primarily driven by a net loss of \$266.6 million, adjusted by an inventory valuation adjustment of \$304.4 million, share-based compensation expense of \$231.5 million, depreciation and amortization expense of \$88.1 million, amortization of debt discount and debt issuance costs of \$72.2 million, amortization of contract cost assets of \$31.9 million, amortization of right of use assets of \$17.6 million, a loss on extinguishment of debt of \$17.1 million, and \$9.6 million in other adjustments to reconcile net loss to net cash used in operating activities. Changes in operating assets and liabilities offset these adjustments by \$3.5 billion. The changes in operating assets and liabilities are primarily related to a \$3.6 billion increase in inventory due to home purchases outpacing the sale of homes through Zillow Offers for the nine months ended September 30, 2021, an \$88.6 million increase in accounts receivable due primarily to an increase in revenue from products and services billed in arrears, a \$70.3 million increase in prepaid expenses and other current assets due to the timing of payments, an increase in contract assets driven by increased revenue from our Premier Agent Flex pricing model, a \$22.4 million increase in contract cost assets due primarily to capitalized sales commissions, and a \$20.7 million decrease in lease liabilities. These changes were partially offset by a \$163.0 million increase in accrued expenses and other liabilities driven by the timing of payments, a \$109.4 million decrease in mortgage loans held for sale, a \$17.9 million increase in accounts payable driven by the timing of payments, an \$11.0 million increase in accrued compensation and benefits, and a \$3.5 million increase in deferred revenue.

For the nine months ended September 30, 2020, net cash provided by operating activities was \$750.2 million. This was primarily driven by a net loss of \$208.2 million, adjusted by share-based compensation expense of \$145.1 million, depreciation and amortization expense of \$82.0 million, non-cash impairment costs of \$76.8 million, amortization of debt discount and debt issuance costs of \$75.4 million, amortization of contract cost assets of \$26.6 million, amortization of right of use assets of \$18.4 million and \$0.9 million in other adjustments to reconcile net loss to cash provided by operating activities. This was offset by an \$8.1 million change in deferred income taxes and a gain on extinguishment of debt of \$6.4 million. Changes in operating assets and liabilities increased cash provided by operating activities by \$547.7 million. The changes in operating assets and liabilities are primarily related to a \$643.3 million decrease in inventory due to the sale of homes and a decrease in home purchases through Zillow Offers during the nine months ended September 30, 2020, a \$17.3 million increase in other long-term liabilities, a \$14.5 million increase in accrued expenses and other liabilities driven by the timing of payments, a \$12.2 million increase in accounts payable, a \$9.4 million increase in deferred revenue and a \$4.8 million increase in lease liabilities. These changes were partially offset by an \$88.8 million increase in mortgage loans held for sale, a \$31.8 million increase in contract cost assets due primarily to the capitalization of sales commissions, a \$16.4 million increase in prepaid expenses and other current assets due primarily to timing of payments and growth in our contract assets, a \$14.5 million increase in accounts receivable due to an increase in revenue from products and services billed in arrears, and a \$2.3 million decrease in accrued compensation and benefits.

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 and net cash paid in connection with an acquisition.

For the nine months ended September 30, 2021, net cash provided by investing activities was \$620.6 million. This was the result of \$1.2 billion of net proceeds from the maturity of investments, partially offset by \$496.7 million of net cash paid for our September 2021 acquisition of ShowingTime, and \$69.8 million of purchases of property and equipment and intangible assets.

For the nine months ended September 30, 2020, net cash used in investing activities was \$684.0 million. This was the result of \$604.3 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 \$89.6 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 our securitization transaction and 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 nine months ended September 30, 2021, cash provided by financing activities was \$3.1 billion, which was primarily related to \$2.1 billion of net borrowings on our credit facilities related to Zillow Offers, \$544.6 million in proceeds from the sale of 3,163,502 shares of Class C capital stock under our equity distribution agreement, \$443.4 million in proceeds from the issuance of the 2021-1 term loan, net of issuance costs, and \$97.6 million of proceeds from the exercise of option awards. These cash inflows were partially offset by \$100.7 million of net repayments on our warehouse line of credit and master repurchase agreements related to Zillow Home Loans.

For the nine months ended September 30, 2020, cash provided by financing activities was \$651.8 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, \$371.2 million of proceeds from the exercise of option awards and \$87.7 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 \$577.2 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 \$10.9 million as of September 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 17 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 September 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)	\$ 1,672,182	\$ —	\$ 608,382	\$ 1,063,800	\$ —
Interest on convertible senior notes (2)	110,133	26,960	53,918	29,255	—
Homes segment credit facilities (3)	2,433,494	2,433,494	—	—	—
Homes segment securitization (4)	512,515	32,515	480,000	—	—
Interest on Homes segment securitization (5)	23,511	10,682	12,829	—	—
Mortgages segment credit facilities (6)	208,326	208,326	—	—	—
Escrow on homes under contract (7)	7,700	7,700	—	—	—
Total contractual obligations	<u>\$ 4,967,861</u>	<u>\$ 2,719,677</u>	<u>\$ 1,155,129</u>	<u>\$ 1,093,055</u>	<u>\$ —</u>

(1) Includes the aggregate principal amounts of the 2024 Notes, 2025 Notes and 2026 Notes due on their contractual maturity dates. Refer to Note 12 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. Refer to Note 12 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 the principal amount of the 2021-1 term loan due on its contractual maturity date and the principal amount due for amounts borrowed on the 2021-1 variable funding line associated with our Homes segment securitization. Refer to Note 12 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 2021-1 term loan and variable funding line.

(5) Includes the coupon interest on the 2021-1 term loan associated with our Homes segment securitization. Amounts exclude an immaterial amount of estimated interest payments on amount borrowed on the 2021-1 variable funding line. Refer to Note 12 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 2021-1 term loan.

(6) 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.

(7) Includes non-refundable escrow amounts on homes under contract. We have excluded from the table above contractual obligations related to homes under contract totaling \$3.3 billion, as we can cancel these contracts without significant penalty.

As of September 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 \$10.9 million and \$10.1 million as of September 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 and our plans to wind down Zillow Offers operations have 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 short-term 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. The fair value of our beneficial interest in securitization is subject to changes in market value through the impact of interest rates on the effective yield of the investment. For our investment portfolio, 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 and term loan associated with our Homes segment securitization 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 September 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 %
	<u>\$ 1,672,182</u>	

We are subject to market risk by way of changes in interest rates on borrowings under our credit facilities and variable funding line that provide capital for Zillow Offers. As of September 30, 2021 and December 31, 2020, we had outstanding \$2.5 billion and \$361.2 million, respectively, of borrowings on these 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 and variable funding line, we estimate that a one percentage point increase in LIBOR would increase our annual interest expense by approximately \$24.7 million and \$3.6 million as of September 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 September 30, 2021 and December 31, 2020, we had outstanding \$208.3 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 \$2.1 million and \$3.1 million as of September 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 September 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 September 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 September 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 17 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

Our business is subject to numerous risks. You should carefully consider the following risk factor, in addition to those set forth in Part I, Item 1A (Risk Factors) in our Annual Report on Form 10-K for the year ended December 31, 2020, as any of these risks could harm our business, results of operations, and future financial performance. Recovery pursuant to our insurance policies may not be available due to policy definitions of covered losses or other factors, and available insurance may be insufficient to compensate for damages, expenses, fines, penalties, and other losses we may incur as a result of these and other risks. In addition, risks and uncertainties not currently known to us or that we currently deem to be immaterial may materially adversely affect our business, financial condition and operating results. If any of these risks occur, the trading price of our common and capital stock could decline, and you could lose all or part of your investment.

The wind down plan for our Zillow Offers operations may adversely impact our business, results of operations, financial performance and reputation.

There are risks and uncertainties inherent to the wind down of Zillow Offers operations that could adversely impact our overall business, results of operations, financial performance and reputation, including, but not limited to:

- We primarily utilize debt financing arrangements, including uncommitted credit facilities, to finance the purchase of homes through Zillow Offers. Our access to and the ongoing availability of financing on acceptable terms may be adversely impacted by the wind down, which could require us to utilize cash and current investments to finance the purchase of homes already under contract. We may also be subject to prepayment and other penalties under existing arrangements as a result of the wind down. For more information on the impact of the wind down of Zillow Offers operations on our liquidity position and outlook, see the subsection titled “Liquidity and Capital Resources” in Part I, Item 2 (Management’s Discussion and Analysis of Financial Condition and Results of Operations) in this Quarterly Report on Form 10-Q.
- Our ability to operate Zillow Offers during the wind down period, including our ability to complete the purchase of homes currently under contract and renovate, market and close on the sale of homes in inventory, may be adversely impacted by disruptions in relationships with customers, suppliers, vendors, broker partners, contractors, utility providers, employees, lenders, real estate investment trusts and consumers, which may lead to longer hold times for homes in inventory, increased holding, renovation and transactions costs, and/or a decrease in profitability.
- The wind down may create unintended staffing challenges and/or adversely impact workforce morale, create a distraction affecting the focus of our workforce, impact our ability to recruit going forward, and/or result in failure to retain key employees, contingent workers, and/or critical functions during the wind down period and beyond, which could, among other things, negatively impact our ability to operate other non-Zillow Offers business lines, corporate functions, or critical technology systems, and our ability to maintain necessary state broker or entity-level licenses and manage renovations, transactions, and closings and support other critical functions necessary to maintain Zillow Offers operations through the wind down period and the broader company going forward.
- Our financial projections and financial performance may be adversely impacted by, among other things, the accuracy of the estimates and assumptions related to the wind down of Zillow Offers operations on which the Company’s projections are based; other facts we discover that could require us to incur additional expense and/or record additional charges that may be materially different from our initial expectations about the costs of the wind down; our ability to realize benefits from cost improvement efforts including avoided costs and restructuring plans; our ability to assess and manage any loss of synergies that Zillow Offers had with our other lines of business; unanticipated changes to management’s estimates (including, but not limited to, the accounting for the estimated net realizable value of inventory), reserves or allowances and future costs we incur, such as those related to warranty or consumer claims.

The extent to which the wind down will impact our operations will depend on future developments, which are highly uncertain and cannot be predicted at this time. Any of these risks could delay the wind down of Zillow Offers operations, increase costs and charges associated with the wind down and disrupt the operations of our other businesses, any of which may adversely impact our business, results of operations, financial performance and reputation.

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 September 30, 2021.

Item 6. Exhibits

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

Exhibit Number	Description
31.1	<u>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.</u>
31.2	<u>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.</u>
32.1	<u>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.</u>
32.2	<u>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.</u>
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).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: November 2, 2021

ZILLOW GROUP, INC.

By: /s/ JENNIFER ROCK
Name: Jennifer Rock
Title: Chief Accounting Officer

**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**

I, Richard Barton, certify that:

1. I have reviewed this report on Form 10-Q of Zillow Group, Inc. for the fiscal quarter ended September 30, 2021;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ RICHARD BARTON
Name: Richard Barton
Title: Chief Executive Officer
Date: November 2, 2021

**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**

I, Allen Parker, certify that:

1. I have reviewed this report on Form 10-Q of Zillow Group, Inc. for the fiscal quarter ended September 30, 2021;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ ALLEN PARKER
Name: Allen Parker
Title: Chief Financial Officer
Date: November 2, 2021

**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 September 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Richard Barton, Chief Executive 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:	<u>/s/ RICHARD BARTON</u>
Name:	Richard Barton
Title:	Chief Executive Officer
Date:	November 2, 2021

**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 September 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:	<u>/s/ ALLEN PARKER</u>
Name:	Allen Parker
Title:	Chief Financial Officer
Date:	November 2, 2021