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, 2020

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

Commission File Number: 001-36853

ZILLOW GROUP, INC.
(Exact name of registrant as specified in its charter)

Washington	**47-1645716**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification 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	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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 29, 2020, 60,567,704 shares of Class A common stock, 6,217,447 shares of Class B common stock, and 165,887,630 shares of Class C capital stock were outstanding.

ZILLOW GROUP, INC.

Quarterly Report on Form 10-Q

For the Three Months Ended September 30, 2020

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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, 2019 and in Part II, Item 1A (Risk Factors) in this Quarterly Report on Form 10-Q, including, but not limited to:

- the impact of the COVID-19 pandemic 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;
- the impact of actions taken by governments, businesses, and individuals in response to the COVID-19 pandemic;
- the current and future health and stability of the economy and residential housing market, including any extended slowdown in the real estate markets as a result of COVID-19;
- 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 COVID-19;
- changes in general economic and financial conditions that reduce demand for our products and services, lower our profit margins 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;
- actual or anticipated changes to our products and services;
- ability to maintain or establish relationships with listings and data providers;
- 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 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 web page (http://investors.zillowgroup.com)
- Zillow Group Investor Relations Blog (http://www.zillowgroup.com/ir-blog)
- Zillow Group Twitter Account (https://twitter.com/zillowgroup)

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

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

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

	September 30, 2020	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	$ 1,904,785	$ 1,141,263
Short-term investments	1,885,385	1,280,989
Accounts receivable, net of allowance for doubtful accounts of $2,739 and $4,522 at September 30, 2020 and December 31, 2019, respectively	79,642	67,005
Mortgage loans held for sale	125,324	36,507
Inventory	193,283	836,627
Prepaid expenses and other current assets	73,604	58,117
Restricted cash	44,103	89,646
Total current assets	4,306,126	3,510,154
Contract cost assets	50,488	45,209
Property and equipment, net	198,243	170,489
Right of use assets	193,789	212,153
Goodwill	1,984,907	1,984,907
Intangible assets, net	100,649	190,567
Other assets	9,373	18,494
Total assets	$ 6,843,575	$ 6,131,973
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	$ 19,352	$ 8,343
Accrued expenses and other current liabilities	93,901	85,442
Accrued compensation and benefits	35,474	37,805
Borrowings under credit facilities	232,397	721,951
Deferred revenue	49,153	39,747
Lease liabilities, current portion	28,307	17,592
Convertible senior notes, current portion	7,584	9,637
Total current liabilities	466,168	920,517
Lease liabilities, net of current portion	214,503	220,445
Convertible senior notes, net of current portion	1,838,010	1,543,402
Deferred tax liabilities and other long-term liabilities	21,539	12,188
Total liabilities	2,540,220	2,696,552
Commitments and contingencies (Note 16)		
Shareholders' equity:		
Preferred stock, $0.0001 par value; 30,000,000 shares authorized; no shares issued and outstanding	—	—
Class A common stock, $0.0001 par value; 1,245,000,000 shares authorized; 60,567,136 and 58,739,989 shares issued and outstanding as of September 30, 2020 and December 31, 2019, 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; 165,574,240 and 144,109,419 shares issued and outstanding as of September 30, 2020 and December 31, 2019, respectively	17	14
Additional paid-in capital	5,488,161	4,412,200
Accumulated other comprehensive income	461	340
Accumulated deficit	(1,185,291)	(977,140)
Total shareholders' equity	4,303,355	3,435,421
Total liabilities and shareholders' equity	$ 6,843,575	$ 6,131,973

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,	
	2020	2019	2020	2019
Revenue:				
Homes	$ 187,105	$ 384,626	$ 1,411,230	$ 762,022
IMT	415,389	335,290	1,026,394	957,231
Mortgages	54,198	25,292	113,241	79,637
Total revenue	656,692	745,208	2,550,865	1,798,890
Cost of revenue (exclusive of amortization) (1):				
Homes	179,804	370,796	1,343,791	733,947
IMT	28,448	24,318	76,153	74,628
Mortgages	7,972	4,721	19,023	13,829
Total cost of revenue	216,224	399,835	1,438,967	822,404
Sales and marketing	150,826	181,347	511,072	530,367
Technology and development	127,300	123,974	391,075	352,074
General and administrative	85,895	88,493	263,691	267,106
Impairment costs	—	—	76,800	—
Integration costs	—	5	—	650
Total costs and expenses	580,245	793,654	2,681,605	1,972,601
Income (loss) from operations	76,447	(48,446)	(130,740)	(173,711)
Gain on partial extinguishment of 2021 Notes	—	—	6,391	—
Other income	3,018	8,999	22,726	27,625
Interest expense	(39,470)	(26,502)	(114,652)	(61,865)
Income (loss) before income taxes	39,995	(65,949)	(216,275)	(207,951)
Income tax benefit (expense)	(425)	1,300	8,124	3,800
Net income (loss)	$ 39,570	$ (64,649)	$ (208,151)	$ (204,151)
Net income (loss) per share:				
Basic	$ 0.17	$ (0.31)	$ (0.95)	$ (0.99)
Diluted	$ 0.16	$ (0.31)	$ (0.95)	$ (0.99)
Weighted-average shares outstanding:				
Basic	229,719	207,002	219,989	205,766
Diluted	242,632	207,002	219,989	205,766

(1) Amortization of website development costs and intangible assets included in technology and development	$ 19,245	$ 15,835	$ 55,286	$ 44,891

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,	
	2020	2019	2020	2019
Net income (loss)	$ 39,570	$ (64,649)	$ (208,151)	$ (204,151)
Other comprehensive income (loss):				
Unrealized gains (losses) on investments	(1,122)	(132)	(326)	1,763
Reclassification adjustment for net investment (gains) losses included in net loss	—	(11)	372	(11)
Net unrealized gains (losses) on investments	(1,122)	(143)	46	1,752
Currency translation adjustments	58	31	75	(63)
Total other comprehensive income (loss)	(1,064)	(112)	121	1,689
Comprehensive income (loss)	$ 38,506	$ (64,761)	$ (208,030)	$ (202,462)

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, 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
Partial conversion of 2020 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 July 1, 2019	206,513,636	$ 21	$ 4,088,470	$ (811,281)	$ 896	$ 3,278,106
Issuance of common and capital stock upon exercise of stock options	347,261	—	8,017	—	—	8,017
Vesting of restricted stock units	568,355	—	—	—	—	—
Restricted stock units withheld for tax liability	(6)	—	—	—	—	—
Share-based compensation expense	—	—	45,192	—	—	45,192
Premiums paid for capped call confirmations	—	—	(150,530)	—	—	(150,530)
Equity component of issuance of 2024 Notes and 2026 Notes, net of issuance costs of $4,430	—	—	335,854	—	—	335,854
Net loss	—	—	—	(64,649)	—	(64,649)
Other comprehensive loss	—	—	—	—	(112)	(112)
Balance at September 30, 2019	207,429,246	$ 21	$ 4,327,003	$ (875,930)	$ 784	$ 3,451,878

	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 of $10,877	8,800,000	1	411,522	—	—	411,523
Equity component of issuance of 2025 Notes, net of issuance costs of $3,279	—	—	154,813	—	—	154,813
Partial repurchase of 2021 Notes	753,936	—	(21,784)	—	—	(21,784)
Partial unwind of capped call transactions for 2021 Notes	(317,865)	—	—	—	—	—
Partial conversion of 2020 Notes	85,106	—	2,061	—	—	2,061
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

	Class A Common Stock, Class B Common Stock and Class C Capital Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount				
Balance at January 1, 2019	203,904,265	$ 21	$ 3,939,842	$ (671,779)	$ (905)	$ 3,267,179
Issuance of common and capital stock upon exercise of stock options	1,891,111	—	41,014	—	—	41,014
Vesting of restricted stock units	1,633,962	—	—	—	—	—
Restricted stock units withheld for tax liability	(92)	—	(3)	—	—	(3)
Share-based compensation expense	—	—	160,826	—	—	160,826
Premiums paid for capped call confirmations	—	—	(150,530)	—	—	(150,530)
Equity component of issuance of 2024 Notes and 2026 Notes, net of issuance costs of $4,430	—	—	335,854	—	—	335,854
Net loss	—	—	—	(204,151)	—	(204,151)
Other comprehensive income	—	—	—	—	1,689	1,689
Balance at September 30, 2019	207,429,246	$ 21	$ 4,327,003	$ (875,930)	$ 784	$ 3,451,878

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, 2020	Nine Months Ended September 30, 2019
Operating activities		
Net loss	$ (208,151)	$ (204,151)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	81,977	63,888
Share-based compensation expense	145,105	151,884
Amortization of right of use assets	18,364	16,710
Amortization of contract cost assets	26,554	26,722
Amortization of discount and issuance costs on convertible senior notes maturing in 2021, 2023, 2024, 2025 and 2026	75,414	29,868
Gain on partial extinguishment of 2021 Notes	(6,391)	—
Impairment costs	76,800	—
Deferred income taxes	(8,124)	(3,800)
Loss (gain) on disposal of property and equipment and other assets	(1,032)	5,755
Credit loss expense	1,846	1,894
Net loss (gain) on investment securities	372	(11)
Accretion of bond discount	(238)	(5,241)
Changes in operating assets and liabilities:		
Accounts receivable	(14,483)	(13,485)
Mortgage loans held for sale	(88,817)	(1,353)
Inventory	643,265	(716,524)
Prepaid expenses and other assets	(16,385)	(5,848)
Contract cost assets	(31,833)	(26,950)
Lease liabilities	4,773	(15,029)
Accounts payable	12,239	2,999
Accrued expenses and other current liabilities	14,499	12,241
Accrued compensation and benefits	(2,331)	2,152
Deferred revenue	9,406	7,875
Other long-term liabilities	17,329	122
Net cash provided by (used in) operating activities	750,158	(670,282)
Investing activities		
Proceeds from maturities of investments	1,160,271	859,142
Proceeds from sales of investments	116,394	—
Purchases of investments	(1,881,002)	(479,963)
Purchases of property and equipment	(72,420)	(45,140)
Purchases of intangible assets	(17,226)	(15,123)
Proceeds from sale of equity investment	10,000	—
Net cash provided by (used in) investing activities	(683,983)	318,916
Financing activities		
Proceeds from issuance of convertible notes, net of issuance costs	553,282	1,085,686
Premiums paid for capped call confirmations	—	(150,530)
Proceeds from issuance of Class C capital stock, net of issuance costs	411,522	—
Partial extinguishment of 2021 Notes	(194,670)	—
Proceeds from borrowings on credit facilities	97,437	581,580
Repayments of borrowings on credit facilities	(674,658)	—
Net borrowings (repayments) on warehouse lines of credit and repurchase agreement	87,667	(2,902)
Proceeds from exercise of stock options	371,226	41,014
Value of equity awards withheld for tax liability	(2)	(3)
Net cash provided by financing activities	651,804	1,554,845
Net increase in cash, cash equivalents and restricted cash during period	717,979	1,203,479
Cash, cash equivalents and restricted cash at beginning of period	1,230,909	663,443
Cash, cash equivalents and restricted cash at end of period	$ 1,948,888	$ 1,866,922
Supplemental disclosures of cash flow information		
Cash paid for interest	$ 36,787	$ 25,837
Noncash transactions:		
Capitalized share-based compensation	$ 13,020	$ 8,942
Write-off of fully depreciated property and equipment	$ 13,100	$ 28,951

Write-off of fully amortized intangible assets	$ —	$ 9,959
Property and equipment purchased on account	$ 1,645	$ 4,606

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 U.S., 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. Zillow recently launched Zillow Homes, Inc., a licensed brokerage entity, to streamline Zillow Offers transactions.

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

Certain Significant Risks and Uncertainties

We operate in a dynamic industry and, accordingly, can be affected by a variety of factors. For example, we believe that changes in any of the following areas could have a significant negative effect on us in terms of our future financial position, results of operations or cash flows: public health crises, like the COVID-19 pandemic; rates of revenue growth; 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 market; 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; our ability to successfully integrate and realize the benefits of our past or future strategic acquisitions or investments; 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, 2019, which was filed with the SEC on February 19, 2020. The condensed consolidated balance sheet as of December 31, 2019, 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, 2020, our results of operations, comprehensive income (loss) and shareholders' equity for the three and nine month periods ended September 30, 2020 and 2019, and our cash flows for the nine month periods ended September 30, 2020 and 2019. The results of the three and nine month periods ended September 30, 2020 are not necessarily indicative of the results to be expected for the year ending December 31, 2020 or for any interim period or for any other future year.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and the related disclosures at the date of the financial statements, as well as the reported amounts of revenue and expenses during the periods presented. On an ongoing basis, we evaluate our estimates, including those related to 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 with definite lives, 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 significant 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. Although we continue to evaluate the timing and method of adoption and impact of this guidance on our financial position, results of operations and cash flows, upon adoption we expect this guidance to result in a reclassification of conversion feature balances from additional paid-in capital to debt and to decrease reported interest expense for our convertible senior notes.

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

In December 2019, the FASB issued guidance which is intended to simplify accounting for income taxes. It removes certain exceptions to the general principles and clarifies and amends existing guidance to improve consistent application. This guidance is effective for interim and annual periods beginning after December 15, 2020, and early adoption is permitted. We expect to adopt this guidance on January 1, 2021 and do not expect the adoption of this guidance to have a material impact on our financial position, results of operations or cash flows. The method of adoption for this guidance varies based on the amendment, but we expect the relevant amendments will be applied on a prospective basis.

Note 3. Fair Value Measurements

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

- Level 1 — Quoted prices in active markets for identical assets or liabilities.
- Level 2 — Assets and liabilities valued based on observable market data for similar instruments, such as quoted prices for similar assets or liabilities.

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

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

Cash equivalents — The fair value measurement of money market funds is based on quoted market prices in active markets. The fair value measurement of treasury bills, U.S. government agency securities and certificates of deposit 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.

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.

Restricted cash — Restricted cash consists of cash received from the resale of homes through Zillow Offers which may be used to repay amounts borrowed on our credit facilities (see Note 11), 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. The carrying value of restricted cash approximates fair value due to the short period of time amounts borrowed on the credit facilities are outstanding and amounts are held in escrow.

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.

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. We generally only issue IRLCs for products that meet specific purchaser guidelines. 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.

The pull-through rate is based on estimated changes in market conditions, loan stage and historical borrower behavior. Pull-through rates are directly related to the fair value of IRLCs as an increase in the pull-through rate, in isolation, would result in an increase in the fair value measurement. Conversely, a decrease in the pull-through rate, in isolation, would result in a decrease in the fair value measurement. Changes in the fair value of IRLCs are included within Mortgages revenue in our condensed consolidated statements of operations.

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, 2020	**December 31, 2019**
Range	41% - 100%	56% - 100%
Weighted average	67%	78%

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 are calculated by reference to quoted prices for similar assets.

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, 2020			
	Total	Level 1	Level 2	Level 3
Cash equivalents:				
Money market funds	$ 1,747,818	$ 1,747,818	$ —	$ —
Treasury bills	5,000	—	5,000	—
U.S. government agency securities	1,162		1,162	—
Certificates of deposit	249	—	249	—
Short-term investments:				
Treasury bills	1,360,084	—	1,360,084	—
U.S. government agency securities	499,991	—	499,991	—
Corporate notes and bonds	15,635	—	15,635	—
Municipal securities	8,679	—	8,679	—
Certificates of deposit	996	—	996	—
Mortgage origination-related:				
Mortgage loans held for sale	125,324	—	125,324	—
IRLCs	9,420	—	—	9,420
Forward contracts - other current assets	110	—	110	—
Forward contracts - other current liabilities	(671)	—	(671)	—
Total	$ 3,773,797	$ 1,747,818	$ 2,016,559	$ 9,420

	December 31, 2019		
	Total	Level 1	Level 2
Cash equivalents:			
Money market funds	$ 872,431	$ 872,431	$ —
U.S. government agency securities	35,009	—	35,009
Commercial paper	31,113	—	31,113
Treasury bills	6,441	—	6,441
Corporate notes and bonds	1,065	—	1,065
Certificates of deposit	249	—	249
Short-term investments:			
U.S. government agency securities	862,154	—	862,154
Corporate notes and bonds	159,431	—	159,431
Commercial paper	150,267	—	150,267
Treasury bills	80,003	—	80,003
Municipal securities	27,889	—	27,889
Certificates of deposit	1,245	—	1,245
Mortgage origination-related:			
Mortgage loans held for sale	36,507	—	36,507
IRLCs	937	—	937
Forward contracts - other current assets	7	—	7
Forward contracts - other current liabilities	(60)	—	(60)
Total	$ 2,264,688	$ 872,431	$ 1,392,257

The following table presents the changes in our IRLCs during the three and nine month periods ended September 30, 2020 (in thousands, unaudited):

	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2020
Balance, beginning of the period	$ 5,091	$ 937
Issuances	19,232	34,739
Transfers	(18,725)	(31,867)
Fair value changes recognized in earnings	3,822	5,611
Balance, end of period	$ 9,420	$ 9,420

(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, 2020, the notional amounts of the hedging instruments related to our mortgage loans held for sale were $256.6 million and $329.9 million for our IRLCs and forward contracts, respectively. At December 31, 2019, the notional amounts of the hedging instruments related to our mortgage loans held for sale were $34.3 million and $64.7 million for our IRLCs and forward contracts, respectively. We do not have the right to offset our forward contract derivative positions.

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

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

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

	September 30, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Market Value
Cash	$ 150,556	$ —	$ —	$ 150,556
Cash equivalents:				
Money market funds	1,747,818	—	—	1,747,818
Treasury bills	5,000	—	—	5,000
U.S. government agency securities	1,162	—	—	1,162
Certificates of deposit	249	—	—	249
Short-term investments:				
Treasury bills	1,360,011	76	(3)	1,360,084
U.S. government agency securities	499,494	514	(17)	499,991
Corporate notes and bonds	15,611	24	—	15,635
Municipal securities	8,676	3	—	8,679
Certificates of deposit	996	—	—	996
Restricted cash	44,103	—	—	44,103
Total	$ 3,833,676	$ 617	$ (20)	$ 3,834,273

	December 31, 2019							
	Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses		Estimated Fair Market Value	
Cash	$	194,955	$	—	$	—	$	194,955
Cash equivalents:								
Money market funds		872,431		—		—		872,431
U.S. government agency securities		35,011		—		(2)		35,009
Commercial paper		31,113		—		—		31,113
Treasury bills		6,441		—		—		6,441
Corporate notes and bonds		1,065		—		—		1,065
Certificates of deposit		249		—		—		249
Short-term investments:								
U.S. government agency securities		861,862		365		(73)		862,154
Corporate notes and bonds		159,382		91		(42)		159,431
Commercial paper		150,267		—		—		150,267
Treasury bills		79,989		14		—		80,003
Municipal securities		27,836		56		(3)		27,889
Certificates of deposit		1,245		—		—		1,245
Restricted cash		89,646		—		—		89,646
Total	$	2,511,492	$	526	$	(120)	$	2,511,898

All available-for-sale investments as of September 30, 2020 have a contractual maturity date of one year or less.

Note 5. Inventory

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

	September 30, 2020		December 31, 2019	
Work-in-process	$	73,176	$	152,171
Finished goods		120,107		684,456
Inventory	$	193,283	$	836,627

Note 6. Contract Balances

Accounts receivable represent our unconditional right to consideration. Accounts receivable are generally due within 30 days and are recorded net of the allowance for doubtful accounts.

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. We do not believe that a significant reversal in the amount of cumulative revenue recognized will occur once the uncertainty related to the number of real estate transactions to be closed and qualified leases to be secured is subsequently resolved. Total contract assets were $13.6 million as of September 30, 2020. We had an immaterial amount recorded as of December 31, 2019. Contract assets are recorded within Prepaids and other current assets in our condensed consolidated balance sheets.

Contract liabilities consist of deferred revenue, which relates to payments received in advance of performance under the contract, primarily related to our Premier Agent market-based pricing offering. Such amounts are generally recognized as revenue over the related contractual period. For the three months ended September 30, 2020 and 2019, we recognized revenue of $43.2 million and $34.2 million, respectively, that was included in the deferred revenue balance at the beginning of the related period. For the nine months ended September 30, 2020 and 2019, we recognized revenue of $37.0 million and $31.5 million, respectively, that was included in the deferred revenue balance at the beginning of the related period.

Note 7. Contract Cost Assets

During the three and nine month periods ended September 30, 2020 and 2019, we did not incur any impairment losses to our contract cost assets. We recorded amortization expense related to contract cost assets of $9.5 million and $8.8 million during the three months ended September 30, 2020 and 2019, respectively, and $26.6 million and $26.7 million during the nine months ended September 30, 2020 and 2019, 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, 2020	December 31, 2019
Website development costs	$ 165,950	$ 149,648
Leasehold improvements	120,259	81,981
Office equipment, furniture and fixtures	43,311	36,582
Construction-in-progress	39,730	45,337
Computer equipment	30,560	31,942
Property and equipment	399,810	345,490
Less: accumulated amortization and depreciation	(201,567)	(175,001)
Property and equipment, net	$ 198,243	$ 170,489

We recorded depreciation expense related to property and equipment (other than website development costs) of $7.3 million and $6.1 million during the three months ended September 30, 2020 and 2019, respectively, and $26.2 million and $18.5 million during the nine months ended September 30, 2020 and 2019, respectively.

We capitalized $15.0 million and $10.8 million in website development costs during the three months ended September 30, 2020 and 2019, respectively, and $42.9 million and $31.1 million during the nine months ended September 30, 2020 and 2019, respectively. Amortization expense for website development costs included in technology and development expenses was $6.2 million and $4.8 million during the three months ended September 30, 2020 and 2019, respectively, and $17.6 million and $11.8 million during the nine months ended September 30, 2020 and 2019, respectively.

Note 9. Equity Investment

In October 2016, we purchased a 10% equity interest in a privately held variable interest entity within the real estate industry for $10.0 million. In March 2020, we recognized a non-cash impairment charge of $5.3 million related to this investment. The impairment charge is included in Impairment costs within our IMT segment for the 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 during the nine months ended September 30, 2020, which is classified in Other income within our IMT segment in our condensed consolidated statements of operations.

Note 10. Intangible Assets, net

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

	September 30, 2020		
	Cost	Accumulated Amortization	Net
Trade names and trademarks	$ 36,500	$ (2,548)	$ 33,952
Software	45,820	(27,156)	18,664
Customer relationships	102,600	(85,173)	17,427
Developed technology	107,200	(90,319)	16,881
Intangibles-in-progress	9,574	—	9,574
Purchased content	52,440	(48,322)	4,118
Lender licenses	400	(367)	33
Total	$ 354,534	$ (253,885)	$ 100,649

	December 31, 2019		
	Cost	Accumulated Amortization	Net
Customer relationships	$ 102,600	$ (73,770)	$ 28,830
Developed technology	107,200	(81,383)	25,817
Software	35,527	(20,843)	14,684
Purchased content	47,298	(40,636)	6,662
Intangibles-in-progress	6,391	—	6,391
Lender licenses	400	(217)	183
Total	$ 299,416	$ (216,849)	$ 82,567

Amortization expense recorded for intangible assets for the three months ended September 30, 2020 and 2019 was $12.8 million and $11.1 million, respectively, and $37.7 million and $33.1 million for the nine months ended September 30, 2020 and 2019, respectively. These amounts are included in technology and development expenses.

During March 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 for the nine months ended September 30, 2020. 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. The most significant of such factors was a shortfall in projected revenue related to the Trulia brand compared to previous projections used to determine the carrying value of the intangible asset, primarily driven by a reduction in expected future marketing and advertising spend for Trulia. 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 valuation was prepared using an income approach based on the relief-from-royalty method and relied on inputs with unobservable market prices including projected revenue, royalty rate, discount rate, and estimated tax rate, and therefore is considered a Level 3 measurement under the fair value hierarchy. In connection with this impairment analysis, we evaluated our expected future reduced marketing and advertising spend related to the Trulia trade names and trademarks intangible asset and concluded that this asset no longer has an indefinite life. In April 2020, we began amortizing the remaining $36.5 million carrying value 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. The carrying value of the Trulia trade names and trademarks intangible asset was $34.0 million as of September 30, 2020 and $108.0 million as of December 31, 2019.

Note 11. Debt

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

	September 30, 2020	December 31, 2019
Homes Segment		
Credit facilities:		
Goldman Sachs Bank USA	$ 22,460	$ 39,244
Citibank, N.A.	28,512	296,369
Credit Suisse AG, Cayman Islands	63,331	355,911
Total Homes Segment debt	114,303	691,524
Mortgages Segment		
Repurchase agreement:		
Citibank, N.A.	58,859	394
Warehouse line of credit:		
Comerica Bank	59,235	30,033
Total Mortgages Segment debt	118,094	30,427
Convertible Senior Notes		
1.375% convertible senior notes due 2026	342,316	327,187
2.75% convertible senior notes due 2025	408,323	—
0.75% convertible senior notes due 2024	515,573	490,538
1.50% convertible senior notes due 2023	322,535	310,175
2.00% convertible senior notes due 2021	249,263	415,502
2.75% convertible senior notes due 2020	7,584	9,637
Total convertible senior notes	1,845,594	1,553,039
Total	$ 2,077,991	$ 2,274,990

Homes Segment

To provide capital for Zillow Offers, we utilize credit facilities that are classified as current liabilities in our condensed consolidated balance sheets. We classify these credit facilities as current liabilities as amounts drawn to purchase homes are typically repaid as homes are sold, which we expect to be within one year. 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 20, 2022	$ 500,000	3.15 %
Citibank, N.A.	January 31, 2022	500,000	3.67 %
Credit Suisse AG, Cayman Islands	July 31, 2021	500,000	3.97 %
	Total	$ 1,500,000	

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.

Zillow Group formed certain special purpose entities (each, an “SPE”) to purchase and sell residential properties through Zillow Offers. Each SPE is a wholly owned subsidiary of Zillow Group and a separate legal entity, and neither the assets nor credit of any such SPE are available to satisfy the debts and other obligations of any affiliate or other entity. The credit facilities are secured by the assets and equity of one or more SPEs. These SPEs 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’ economic performance and the obligation to absorb losses of the SPEs or the right to receive benefits from the SPEs that could potentially be significant to the SPEs. The SPEs are consolidated within Zillow Group’s condensed consolidated financial statements. The collective inventory and credit facility borrowings of the SPEs were $193.3 million and $114.3 million, respectively, as of September 30, 2020, and $836.6 million and $691.5 million, respectively, as of December 31, 2019.

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

The stated interest rate on our credit facilities is one-month LIBOR plus an applicable margin, and in certain cases include 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, 2020, Zillow Group was in compliance with all financial covenants and no event of default had occurred. Except for certain limited circumstances, the credit facilities are non-recourse to Zillow Group. Our credit facilities require that we establish, maintain and in certain circumstances that Zillow Group fund specified reserve accounts. These reserve accounts include, but are not limited to, interest reserves, insurance reserves, tax reserves, renovation cost reserves and reserves for specially permitted liens. Amounts funded to these reserve accounts and the collection accounts have been classified within our condensed consolidated balance sheets as restricted cash.

Mortgages Segment

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

Lender	Maturity Date	Maximum Borrowing Capacity	Weighted Average Interest Rate
Citibank, N.A.	October 27, 2020	$ 75,000	1.65 %
Comerica Bank	June 26, 2021	75,000	1.01 %
	Total	$ 150,000	

On September 25, 2020, Zillow Home Loans amended its Comerica Bank warehouse line of credit to provide for a temporary maximum borrowing capacity increase of $25.0 million, such that the total maximum borrowing capacity of the facility is increased to $75.0 million until February 16, 2021. The warehouse line of credit with Comerica Bank is committed.

The repurchase agreement with Citibank, N.A. includes a committed amount of $25.0 million. As of September 30, 2020 and December 31, 2019, $58.9 million and $0.4 million, respectively, in mortgage loans held for sale were pledged as collateral under the Citibank, N.A. facility.

Borrowings on the warehouse line of credit and repurchase agreement bear interest at the one-month LIBOR plus an applicable margin, and in certain cases include a LIBOR floor, as defined in the governing agreements, and are secured by residential mortgage loans held for sale. The repurchase agreement contains margin call provisions that provide Citibank, N.A. with certain rights in the event of a decline in the market value of the assets purchased under the repurchase agreement.

The warehouse line of credit and repurchase agreement include customary representations and warranties, covenants and provisions regarding events of default. As of September 30, 2020, Zillow Home Loans was in compliance with all financial covenants and no event of default had occurred. The warehouse line of credit and repurchase agreement 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 agreement, see Note 15 in the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019.

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):

						September 30, 2020		December 31, 2019	
Maturity Date	**Aggregate Principal Amount**	**Stated Interest Rate**	**Effective Interest Rate**	**First Interest Payment Date**	**Semi-Annual Interest Payment Dates**	**Unamortized Debt Discount and Debt Issuance Costs**	**Fair Value**	**Unamortized Debt Discount and Debt Issuance Costs**	**Fair Value**
September 1, 2026	$ 500,000	1.375 %	8.10 %	March 1, 2020	March 1; September 1	$ 157,684	$ 1,190,750	$ 172,813	$ 597,380
May 15, 2025	565,000	2.75 %	10.32 %	November 15, 2020	May 15; November 15	156,677	978,863	—	—
September 1, 2024	673,000	0.75 %	7.68 %	March 1, 2020	March 1; September 1	157,427	1,597,480	182,462	819,378
July 1, 2023	373,750	1.50 %	6.99 %	January 1, 2019	January 1; July 1	51,215	535,771	63,575	356,464
December 1, 2021	265,330	2.00 %	7.43 %	June 1, 2017	June 1; December 1	16,067	512,949	44,498	514,312
December 15, 2020	7,584	2.75 %	N/A	N/A	June 15; December 15	—	13,254	—	16,842
Total	$ 2,384,664					$ 539,070	$ 4,829,067	$ 463,348	$ 2,304,376

	Three Months Ended September 30, 2020				Three Months Ended September 30, 2019			
Maturity Date	**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	$ 1,719	$ 5,022	$ 123	$ 6,864	$ 420	$ 1,142	$ 28	$ 1,590
May 15, 2025	3,884	6,205	331	10,420	—	—	—	—
September 1, 2024	1,262	8,251	283	9,796	275	1,681	57	2,013
July 1, 2023	1,402	3,814	373	5,589	1,402	3,557	348	5,307
December 1, 2021	1,326	2,960	306	4,592	2,300	4,763	493	7,556
December 15, 2020	59	—	—	59	67	—	—	67
Total	$ 9,652	$ 26,252	$ 1,416	$ 37,320	$ 4,464	$ 11,143	$ 926	$ 16,533

Maturity Date	Nine Months Ended September 30, 2020 Contractual Coupon Interest	Amortization of Debt Discount	Amortization of Debt Issuance Costs	Interest Expense	Nine Months Ended September 30, 2019 Contractual Coupon Interest	Amortization of Debt Discount	Amortization of Debt Issuance Costs	Interest Expense
September 1, 2026	$ 5,157	$ 14,768	$ 361	$ 20,286	$ 420	$ 1,142	$ 28	$ 1,590
May 15, 2025	5,891	9,353	499	15,743	—	—	—	—
September 1, 2024	3,772	24,207	828	28,807	275	1,681	57	2,013
July 1, 2023	4,206	11,260	1,100	16,566	4,206	10,441	1,026	15,673
December 1, 2021	5,429	11,816	1,222	18,467	6,900	14,024	1,452	22,376
December 15, 2020	191	—	—	191	199	—	—	199
Total	$ 24,646	$ 71,404	$ 4,010	$ 100,060	$ 12,000	$ 27,288	$ 2,563	$ 41,851

The convertible notes are senior unsecured obligations. The convertible senior notes maturing in 2021, 2023, 2024, 2025 and 2026 (the “Notes”) are classified as long-term debt based on their contractual maturity dates in our condensed consolidated balance sheets. The convertible senior notes maturing in 2020 are classified within current liabilities.

For more than 20 trading days during the 30 consecutive trading days ended September 30, 2020, the last reported sale price of our Class C capital stock exceeded 130% of the conversion price of the convertible senior notes due in 2021, 2024 and 2026 (the “2021 Notes,” “2024 Notes” and “2026 Notes,” respectively). Accordingly, the 2021 Notes, 2024 Notes and 2026 Notes became convertible at the option of the holders from October 1 through December 31, 2020. The 2021 Notes are also redeemable, at our option, as of September 30, 2020. The 2024 Notes and 2026 Notes were first convertible during the three months ended September 30, 2020. The convertible senior notes maturing in 2023 and 2025 are not redeemable or convertible as of September 30, 2020. The convertible senior notes maturing in 2020 (the “2020 Notes”) are convertible, at the option of the holder, and redeemable, at our option, as of September 30, 2020.

Interest on the convertible notes is paid semi-annually in arrears. The estimated fair value of the convertible senior notes was determined through consideration of quoted market prices. The fair value is classified as Level 3 due to the limited trading activity for each of the convertible senior notes.

The 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. The Notes 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 Notes:

Maturity Date	Early Conversion Date	Conversion Rate	Conversion Price	Optional Redemption Date
September 1, 2026	March 1, 2026	22.9830	$ 43.51	September 5, 2023
May 15, 2025	November 15, 2024	14.8810	67.20	May 22, 2023
September 1, 2024	March 1, 2024	22.9830	43.51	September 5, 2022
July 1, 2023	April 1, 2023	12.7592	78.37	July 6, 2021
December 1, 2021	September 1, 2021	19.0985	52.36	December 6, 2019

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 15, 2020, we issued $500.0 million aggregate principal amount of 2.75% Convertible Senior Notes due 2025 (the “Initial 2025 Notes”) and on May 19, 2020 we issued $65.0 million aggregate principal amount of 2.75% Convertible Senior Notes due 2025 (the “Additional Notes” and, together with the Initial 2025 Notes, the “2025 Notes”). The Additional Notes were sold pursuant to the underwriters’ option to purchase additional 2025 Notes granted in connection with the offering of the Initial 2025 Notes. The net proceeds from the issuance of the 2025 Notes were approximately $553.3 million, after deducting underwriting discounts and commissions and offering expenses paid by Zillow Group.

In May 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 2021 Notes in privately negotiated transactions. The 2021 Notes were repurchased for $194.7 million in cash and 753,936 shares of Class C capital stock for an aggregate purchase price of $230.9 million. The repurchase of the 2021 Notes was accounted for as a debt extinguishment. We allocated $172.9 million of the repurchase price to the liability component based on the fair value of the liability component immediately prior to settlement. The fair value of the liability component 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. The remaining consideration of $58.0 million was allocated to the equity component. As a result, we recognized a $179.3 million reduction to long-term debt representing the carrying value of the liability component as of the date of the partial repurchase of the 2021 Notes, a $58.0 million reduction to additional paid-in capital representing the equity component of the partially repurchased 2021 Notes and a $6.4 million gain on partial extinguishment of 2021 Notes representing the excess of the carrying value of the liability component over the fair value of the liability component of the repurchased 2021 Notes during the nine months ended September 30, 2020.

In connection with the repurchase of a portion of the 2021 Notes, we partially terminated the capped call transactions entered into in connection with the issuance of the 2021 Notes for an amount corresponding to the aggregate principal amount of the 2021 Notes that were repurchased. As a result of the partial settlement of the capped call transactions, we received 317,865 shares of our Class C capital stock equal to a value of approximately $14.8 million based on the trading price of our Class C capital stock at the time of the unwind. Under applicable Washington State law, the acquisition of a corporation’s own shares is not disclosed separately as treasury stock in the financial statements and such shares are treated as authorized but unissued shares. We record acquisitions of our shares of capital stock as a reduction to capital stock at the par value of the shares reacquired, then to additional paid-in capital until it is depleted to a nominal amount, with any further excess recorded to retained earnings. We recorded an offsetting increase to additional paid-in capital for the partial unwind of the capped call transactions.

Prior to the close of business on the business day immediately preceding November 15, 2024, the 2025 Notes are convertible at the option of the holders of the 2025 Notes only under certain conditions. On or after November 15, 2024, until the close of business on the second scheduled trading day immediately preceding May 15, 2025, holders of the 2025 Notes may convert the 2025 Notes at their option at the conversion rate then in effect, irrespective of these conditions. Zillow Group may redeem for cash all or part of the 2025 Notes, at its option, on or after May 22, 2023, under certain circumstances, at a redemption price equal to 100% of the principal amount of the 2025 Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date (as defined in the indenture governing the 2025 Notes, the “Indenture”). We may not redeem the 2025 Notes prior to May 22, 2023. We may redeem, for cash, all or any portion of the 2025 Notes, at our option, on or after May 22, 2023 if the last reported sale price per share of our Class C capital stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period. The conversion option does not meet the criteria for separate accounting as a derivative as it is indexed to our own stock. There are no financial covenants associated with the 2025 Notes.

In accounting for the issuance of the 2025 Notes, we separated the 2025 Notes into liability and equity components. The carrying amount of the liability component was calculated by measuring the fair value of a similar liability that does not have an associated convertible feature. The carrying amount of the equity component, representing the conversion option, was determined by deducting the fair value of the liability component from the par value of the 2025 Notes. The difference between the principal amount of the 2025 Notes and the liability component represents the debt discount, which is recorded as a direct deduction from the related debt liability in the condensed consolidated balance sheet and amortized to interest expense using the effective interest method over the term of the 2025 Notes. The equity component of the 2025 Notes of approximately $154.8 million, net of issuance costs of $3.3 million, is included in additional paid-in capital in the condensed consolidated balance sheet and is not remeasured as long as it continues to meet the conditions for equity classification.

For additional details related to our convertible senior notes, see Note 15 in the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019.

Note 12. Income Taxes

We are subject to federal and state income taxes in the United States and federal and provincial income taxes in Canada. As of September 30, 2020 and December 31, 2019, 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. Therefore, no material current tax liability or expense has been recorded in the condensed consolidated financial statements. We have accumulated federal tax losses of approximately $1,137.6 million as of December 31, 2019, which are available to reduce future taxable income. We have accumulated state tax losses of approximately $34.3 million (tax effected) as of December 31, 2019.

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 nine months ended September 30, 2020 related to the Trulia trade names and trademarks intangible asset. For additional information about the non-cash impairment, see Note 10 to our condensed consolidated financial statements. This income tax benefit was partially offset by an immaterial amount of state income tax expense recorded for the nine months ended September 30, 2020.

Note 13. Shareholders' Equity

Preferred Stock

Our board of directors has the authority to fix and determine and to amend the number of shares of any series of preferred stock that are 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, 2020 or December 31, 2019.

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.

On May 15, 2020, Zillow Group issued and sold 8,000,000 shares of Class C capital stock, and on May 19, 2020, issued and sold an additional 800,000 shares of Class C capital stock pursuant to the exercise of the underwriters' option to purchase additional shares. The 8,800,000 shares of Class C capital stock were issued and sold at a public offering price of $48.00 per share. We received net proceeds of $411.5 million after deducting underwriting discounts and commissions and offering expenses paid by us.

In connection with the May 2020 partial repurchase of the 2021 Notes, we issued 753,936 shares of Class C capital stock at a price of $48.00 per share with a total value of $36.2 million to settle the conversion spread for the notes repurchased. Additionally, we unwound a portion of the capped call transactions related to the 2021 Notes whereby we received 317,865 shares of our Class C capital stock equal to a value of approximately $14.8 million based on the trading price of our Class C capital stock at the time of the unwind. See Note 11 for further discussion of the partial repurchase of the 2021 Notes and the corresponding capped call unwind.

Note 14. Share-Based Awards

Zillow Group, Inc. 2020 Incentive Plan

On June 9, 2020, the Zillow Group, Inc. 2020 Incentive Plan (the "2020 Plan") became effective, which replaces the Zillow Group, Inc. Amended and Restated 2011 Incentive Plan (the "2011 Plan"). 12,400,000 shares of Class C capital stock are authorized and available for issuance under the 2020 Plan. In addition, shares previously available for new grants under the 2011 Plan as of June 9, 2020 and shares subject to outstanding awards under the 2011 Plan as of June 9, 2020 that on or after that date cease to be subject to such awards (other than by reason of exercise or settlement of the awards in vested or nonforfeitable shares) are also available for issuance under the 2020 Plan. The number of shares authorized under the 2020 Plan will be increased on the first day of each calendar year, beginning January 1, 2021 and ending on (and including) January 1, 2030, by an amount equal to the lesser of (a) 5% of our outstanding Class A common stock, Class B common stock and Class C capital stock on a fully diluted basis as of the end of the immediately preceding calendar year and (b) a number of shares determined by our board of directors. The 2020 Plan is administered by the compensation committee of the board of directors. Under the terms of the 2020 Plan, the compensation committee may grant equity awards, including incentive stock options, nonqualified stock options, restricted stock, restricted stock units, restricted units, stock appreciation rights, performance shares or performance units to employees, officers, directors, consultants, agents, advisors and independent contractors of Zillow Group and its subsidiaries. The board of directors has also authorized certain senior executive officers to grant equity awards under the 2020 Plan, within limits prescribed by our board of directors. The 2020 Plan provides that in the event of a stock dividend, stock split or similar event, the maximum number and kind of securities available for issuance under the plan will be proportionally adjusted.

Options under the 2020 Plan are granted with an exercise price per share not less than 100% of the fair market value of our Class C capital stock on the grant date, with the exception of substituted option awards granted in connection with acquisitions, and are exercisable at such times and under such conditions as determined by the compensation committee. Any portion of an option that is not vested and exercisable on the date of a participant's termination of service expires on such date. Employees generally forfeit their rights to exercise vested options three months following their termination of employment or 12 months following termination by reason of death, disability or retirement. Options granted under the 2020 Plan expire no later than ten years from the grant date and typically vest either 25% after 12 months and quarterly thereafter over the next three years or quarterly over a period of four years.

Restricted stock units granted under the 2020 Plan typically vest either 25% after 12 months and quarterly thereafter over the next three years or quarterly over a period of four years. Any portion of a restricted stock unit that is not vested on the date of a participant's termination of service expires on such date.

Options and restricted stock units that remain outstanding under the 2011 Plan have vesting and exercisability terms consistent with those described above for awards granted under the 2020 Plan.

Option Awards

The following table summarizes option award activity for the nine months ended September 30, 2020:

	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, 2020	29,634,296	$ 35.95	6.28	$ 331,107
Granted	5,037,920	50.76		
Exercised	(11,779,104)	31.52		
Forfeited or cancelled	(916,931)	42.00		
Outstanding at September 30, 2020	21,976,181	41.47	7.16	1,321,219
Vested and exercisable at September 30, 2020	10,490,317	37.59	5.56	671,352

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,	
	2020	2019	2020	2019
Expected volatility	52%	45%	45%-52%	45%-47%
Expected dividend yield	—	—	—	—
Risk-free interest rate	0.22%	1.61%	0.22%-0.93%	1.61%-2.53%
Weighted-average expected life	4.50 years	5.00 years	4.50-5.50 years	4.75-5.25 years
Weighted-average fair value of options granted	$37.09	$14.15	$21.35	$16.55

As of September 30, 2020, there was a total of $199.4 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, 2020:

	Restricted Stock Units	Weighted-Average Grant-Date Fair Value
Unvested outstanding at January 1, 2020	7,052,767	$ 40.01
Granted	3,958,518	52.15
Vested	(2,191,719)	41.17
Forfeited	(726,398)	41.93
Unvested outstanding at September 30, 2020	8,093,168	45.46

As of September 30, 2020, there was a total of $341.0 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, unaudited):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Cost of revenue	$ 1,617	$ 1,062	$ 3,909	$ 2,878
Sales and marketing	8,631	6,588	24,740	19,039
Technology and development	19,793	18,034	60,376	51,942
General and administrative	18,918	16,444	56,080	78,025
Total	$ 48,959	$ 42,128	$ 145,105	$ 151,884

On February 21, 2019, Zillow Group announced the appointment of Richard N. Barton as Zillow Group's Chief Executive Officer, effective February 21, 2019. Mr. Barton succeeded Spencer Rascoff, who served as Zillow Group's Chief Executive Officer since 2010. In connection with Mr. Rascoff's resignation as Chief Executive Officer, Zillow Group entered into an Executive Departure Agreement and Release (the "Agreement") with Mr. Rascoff. Pursuant to the Agreement, Mr. Rascoff received, among other things, a change in the exercise period of his vested stock options outstanding as well as accelerated vesting of outstanding stock options, which have been accounted for as equity modifications. We recorded $26.4 million of share-based compensation expense associated with the modifications during the nine months ended September 30, 2019. For additional details, see Note 18 in the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019.

Note 15. Net Income (Loss) Per Share

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

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

Prior to the three months ended September 30, 2020, we intended to settle the principal amount of the outstanding Notes in cash and therefore used the treasury stock method for calculating any potential dilutive effect of the conversion spread on diluted net income per share, if applicable. Beginning with the three months ended September 30, 2020, we can no longer assert cash settlement of the principal amount of the outstanding Notes, therefore share settlement is now presumed. Thus, on a prospective basis we apply the if-converted method for calculating any potential dilutive effect of the conversion of the outstanding 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 (in thousands, except per share amounts):

Maturity Date	Shares	Conversion Price per Share
September 1, 2026	11,492	$ 43.51
May 15, 2025	8,408	67.20
September 1, 2024	15,468	43.51
July 1, 2023	4,769	78.37
December 1, 2021	5,067	52.36

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Denominator for basic calculation	229,719	207,002	219,989	205,766
Effect of dilutive securities:				
Option awards	8,933	—	—	—
Unvested restricted stock units	3,980	—	—	—
Denominator for dilutive calculation	242,632	207,002	219,989	205,766

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, unaudited):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Weighted-average Class A common stock and Class C capital stock option awards outstanding	518	18,900	27,333	19,394
Weighted-average Class A common stock and Class C capital stock restricted stock units outstanding	62	6,964	8,367	6,690
Class A common stock issuable upon conversion of the convertible notes maturing in 2020	314	424	374	424
Class C capital stock issuable upon conversion of the convertible notes maturing in 2021, 2023, 2024, 2025 and 2026	45,203	—	17,580	—
Total Class A common stock and Class C capital stock equivalents	46,097	26,288	53,654	26,508

Note 16. Commitments and Contingencies

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 2020 and 2030. For additional information regarding our lease agreements, see Note 14 in our Notes to Consolidated Financial Statements in the Annual Report on Form 10-K for the year ended December 31, 2019.

Purchase Commitments

Purchase commitments primarily include various non-cancelable agreements to purchase content related to our mobile applications and websites and certain cloud computing services as well as homes we are under contract to purchase through Zillow Offers but that have not closed as of the respective date. The amounts due for non-cancelable purchase commitments, excluding homes under contract, as of September 30, 2020, are as follows (in thousands, unaudited):

	Purchase Obligations
2020	$ 5,646
2021	19,895
2022	4,812
2023	1,004
2024	394
2025	60
Total future purchase commitments	$ 31,811

As of September 30, 2020, the value of homes under contract that have not closed was $182.6 million.

Letters of Credit

As of September 30, 2020, 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 $10.1 million and $10.2 million, respectively, as of September 30, 2020 and December 31, 2019.

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, 2020 or December 31, 2019.

In July 2015, VHT, Inc. (“VHT”) filed a complaint against us in the United States District Court for the Western District of Washington alleging copyright infringement of VHT’s images on the Zillow Digs site. In January 2016, VHT filed an amended complaint alleging copyright infringement of VHT’s images on the Zillow Digs site as well as the Zillow listing site. In December 2016, the court granted a motion for partial summary judgment that dismissed VHT’s claims with respect to the Zillow listing site. On February 9, 2017, a jury trial returned a verdict finding that the Company had infringed VHT’s copyrights in images displayed or saved to the Digs site. The jury awarded VHT $79,875 in actual damages and approximately $8.2 million in statutory damages. On June 20, 2017, the District Court granted certain of our post-trial motions, finding that VHT failed to present sufficient evidence to prove direct copyright infringement for a portion of the images, reducing the total damages to approximately $4.1 million. On March 15, 2019, after we filed an appeal with the Ninth Circuit Court of Appeals seeking review of the final judgment and certain prior rulings entered by the District Court, the Ninth Circuit Court of Appeals issued an opinion that, among other things, (i) affirmed the District Court’s grant of summary judgment in favor of Zillow on direct infringement of images on Zillow’s listing site, (ii) affirmed the district court’s grant in favor of Zillow of judgment notwithstanding the verdict on certain images that were displayed on the Zillow Digs site, (iii) remanded consideration of the issue whether VHT’s images on the Zillow Digs site were part of a compilation or individual photos, and (iv) vacated the jury’s finding of willful infringement. On October 7, 2019, the United States Supreme Court denied VHT’s petition for writ of certiorari seeking review of certain rulings by the Ninth Circuit Court of Appeals. On December 6, 2019, the Company filed a motion for summary judgment with the District Court seeking a ruling that VHT’s images are a compilation, or in the alternative, seeking a dismissal of the case based on a recent United States Supreme Court ruling. On May 8, 2020, the District Court denied the Company’s motion for summary judgment and granted VHT’s motion for summary judgment on the issue of whether the remaining photos were a compilation. We do not believe there is a reasonable possibility that a material loss will be incurred related to this lawsuit.

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

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. We do not believe a loss is probable related to these lawsuits.

On September 17, 2019, International Business Machines Corporation ("IBM") filed a complaint against us in the United States 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 United States 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 petitions before the United States Patent and Trademark Office seeking the Board's review of the patentability with respect to three of the patents asserted by IBM in the lawsuit. We deny the allegations of any wrongdoing and intend to vigorously defend the claims in the lawsuit. There is a reasonable possibility that a loss may be incurred related to this complaint; however, the possible loss or range of loss is not estimable.

On July 21, 2020, IBM filed a second action against us in the United States 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. We deny the allegations of any wrongdoing and intend to vigorously defend the claims in the lawsuit. We do not believe a loss related to this lawsuit is probable.

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

Indemnifications

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

Note 17. Employee Benefit Plan

We have a defined contribution 401(k) retirement plan covering Zillow Group employees who have met certain eligibility requirements (the “Zillow Group 401(k) Plan”). Eligible employees may contribute pretax compensation up to a maximum amount allowable under the Internal Revenue Service limitations. Employee contributions and earnings thereon vest immediately. We currently match up to 4% of employee contributions under the Zillow Group 401(k) Plan. The total expense related to the Zillow Group 401(k) Plan was $6.1 million and $5.6 million, respectively, for the three months ended September 30, 2020 and 2019, and $18.9 million and $15.7 million, respectively, for the nine months ended September 30, 2020 and 2019.

Note 18. Segment Information and Revenue

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

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

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 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, unaudited):

	Three Months Ended September 30, 2020			Three Months Ended September 30, 2019		
	Homes	IMT	Mortgages	Homes	IMT	Mortgages
Revenue:						
Zillow Offers	$ 185,904	$ —	$ —	$ 384,626	$ —	$ —
Premier Agent	—	298,673	—	—	240,698	—
Other	1,201	116,716	—	—	94,592	—
Mortgages	—	—	54,198	—	—	25,292
Total revenue	187,105	415,389	54,198	384,626	335,290	25,292
Costs and expenses:						
Cost of revenue	179,804	28,448	7,972	370,796	24,318	4,721
Sales and marketing	32,714	102,902	15,210	49,186	118,514	13,647
Technology and development	28,273	90,536	8,491	20,651	94,656	8,667
General and administrative	20,334	53,547	12,014	22,174	55,749	10,570
Integration costs	—	—	—	—	—	5
Total costs and expenses (1)	261,125	275,433	43,687	462,807	293,237	37,610
Income (loss) from operations	(74,020)	139,956	10,511	(78,181)	42,053	(12,318)
Segment other income	—	—	636	—	—	344
Segment interest expense	(1,597)	—	(553)	(9,689)	—	(280)
Income (loss) before income taxes (2)	$ (75,617)	$ 139,956	$ 10,594	$ (87,870)	$ 42,053	$ (12,254)

	Nine Months Ended September 30, 2020			Nine Months Ended September 30, 2019		
	Homes	IMT	Mortgages	Homes	IMT	Mortgages
Revenue:						
Zillow Offers	$ 1,408,832	$ —	$ —	$ 762,022	$ —	$ —
Premier Agent	—	732,741	—	—	690,394	—
Other	2,398	293,653	—	—	266,837	—
Mortgages	—	—	113,241	—	—	79,637
Total revenue	1,411,230	1,026,394	113,241	762,022	957,231	79,637
Costs and expenses:						
Cost of revenue	1,343,791	76,153	19,023	733,947	74,628	13,829
Sales and marketing	152,180	319,101	39,791	107,457	380,608	42,302
Technology and development	89,729	278,740	22,606	51,130	276,886	24,058
General and administrative	65,657	166,185	31,849	54,339	181,270	31,497
Impairment costs	—	73,900	2,900	—	—	—
Integration costs	—	—	—	—	—	650
Total costs and expenses (1)	1,651,357	914,079	116,169	946,873	913,392	112,336
Income (loss) from operations	(240,127)	112,315	(2,928)	(184,851)	43,839	(32,699)
Segment other income	—	5,300	1,223	—	—	1,059
Segment interest expense	(13,506)	—	(1,086)	(19,346)	—	(668)
Income (loss) before income taxes (2)	$ (253,633)	$ 117,615	$ (2,791)	$ (204,197)	$ 43,839	$ (32,308)

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

	Three Months Ended September 30, 2020			Three Months Ended September 30, 2019		
	Homes	IMT	Mortgages	Homes	IMT	Mortgages
Depreciation and amortization expense	$ 3,029	$ 22,074	$ 1,675	$ 2,331	$ 18,362	$ 1,467
Share-based compensation expense	$ 11,815	$ 33,435	$ 3,709	$ 8,025	$ 30,687	$ 3,416

	Nine Months Ended September 30, 2020			Nine Months Ended September 30, 2019		
	Homes	IMT	Mortgages	Homes	IMT	Mortgages
Depreciation and amortization expense	$ 9,201	$ 67,889	$ 4,887	$ 5,384	$ 54,264	$ 4,240
Share-based compensation expense	$ 35,847	$ 98,940	$ 10,318	$ 20,666	$ 118,101	$ 13,117

(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, unaudited):

	Three Months Ended September 30,		Nine Months Ended September 30, 2020	
	2020	2019	2020	2019
Total segment income (loss) before income taxes	$ 74,933	$ (58,071)	$ (138,809)	$ (192,666)
Corporate interest expense	(37,320)	(16,533)	(100,060)	(41,851)
Corporate other income	2,382	8,655	16,203	26,566
Gain on partial extinguishment of 2021 Notes	—	—	6,391	—
Consolidated income (loss) before income taxes	$ 39,995	$ (65,949)	$ (216,275)	$ (207,951)

Certain corporate items are not directly attributable to any of our segments, including the gain on the partial extinguishment of the 2021 Notes, interest income earned on our short-term investments included in Other income and interest costs on our convertible senior notes included in Interest expense.

Note 19. Subsequent Events

Amendment of Master Repurchase Agreement

On October 27, 2020, Zillow Home Loans amended its Citibank, N.A. repurchase agreement previously maturing on October 27, 2020 such that it now matures on October 26, 2021 and provides for an increased maximum borrowing capacity of $100.0 million. The Citibank, N.A. repurchase agreement will continue to be classified within current liabilities in our consolidated balance sheets.

Redemption of 2021 Notes

On November 4, 2020, we submitted notice to the trustee to exercise our right to redeem the remaining $265.3 million in aggregate principal amount of the 2021 Notes on December 18, 2020 (the "Redemption Date"). Holders of the 2021 Notes have the option to convert their 2021 Notes in whole or in part into shares of Class C capital stock prior to the Redemption Date at a conversion rate of 19.0985 shares of Class C capital stock per $1,000 principal amount of the 2021 Notes, equal to a conversion price of $52.3601 per share. If all holders of the 2021 Notes elect to convert their 2021 Notes into shares of Class C capital stock, the Company will issue approximately 5.1 million shares of Class C capital stock in full satisfaction of the 2021 Notes. For any holder of the 2021 Notes that does not elect to convert their 2021 Notes into shares of Class C capital stock, we will be required to redeem the 2021 Notes in cash at a redemption price equal to 100% of the principal amount of 2021 Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the Redemption Date. We have not yet determined the impact this redemption will have on our financial statements.

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, 2019 as well as in Part II, Item 1A (Risk Factors) of 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 U.S., 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. Zillow recently launched Zillow Homes, Inc., a licensed brokerage entity, to streamline Zillow Offers transactions.

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

Reportable Segments and Revenue Overview

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

The Homes segment primarily generates revenue through our Zillow Offers service from the resale of homes. We began buying homes through Zillow Offers in April 2018, and we began selling homes in July 2018. Other Homes revenue relates to revenue associated with title and escrow services provided through Zillow Closing Services which launched in the second half of 2019.

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 impressions and validated consumer connections, or leads, are primarily sold on a share of voice basis. Impressions and leads 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. Impressions are delivered when an advertisement of a Premier Agent or Premier Broker appears on pages viewed by users of our mobile applications and websites and connections are delivered when consumer contact information is provided to Premier Agents and Premier Brokers. Connections and impressions are each provided as part of our advertising services for Premier Agent and Premier Brokers; we do not charge a separate fee for these consumer leads.

In October 2018, we began testing a new Flex pricing model for Premier Agent and Premier Broker advertising services in limited markets. We now offer this pricing model to certain high-performing partners, and provide it alongside our legacy market-based pricing model. With the Flex model, Premier Agents and Premier Brokers are provided with impressions and connections at no upfront cost, and they pay a performance advertising fee only when a real estate transaction is closed with one of those validated leads.

Other IMT revenue includes revenue generated by rentals, new construction and display advertising, as well as revenue from the sale of various other advertising and business technology solutions for real estate professionals, including dotloop. Rentals revenue includes advertising sold to property managers, landlords and other rental professionals on a cost per lead, cost per click, cost per lease or cost per listing basis. Rentals revenue also includes revenue generated through our rental applications product, whereby 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 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 Connect and Custom Quote services. We also generate revenue from Mortech, which provides subscription-based mortgage software solutions, including a product and pricing engine and lead management platform.

During the three months ended September 30, 2020, we generated total revenue of $656.7 million, as compared to $745.2 million during the three months ended September 30, 2019, a decrease of $88.5 million, or 12%. As further described below, our total revenue was negatively impacted by the effects of COVID-19 during the three months ended September 30, 2020, largely due to the pause in home buying activities in our Zillow Offers business in the first half of 2020 which resulted in lower inventory available for resale. The number of homes sold through Zillow Offers decreased 52% to 583 homes for the three months ended September 30, 2020 from 1,211 homes for the three months ended September 30, 2019, resulting in a $197.5 million, or 51%, decrease in Homes segment revenue. This decrease was partially offset by an $80.1 million, or 24%, increase in IMT segment revenue driven by a $58.0 million, or 24%, increase in Premier Agent revenue, a $22.1 million, or 23%, increase in Other IMT revenue primarily due to increases in rentals revenue, and a $28.9 million, or 114%, increase in Mortgages segment revenue primarily due to an increase in revenue generated by Zillow Home Loans. Visits increased 32% to 2,786.2 million for the three months ended September 30, 2020 from 2,104.9 million for the three months ended September 30, 2019. There were approximately 236.2 million average monthly unique users of our mobile applications and websites for the three months ended September 30, 2020, representing year-over-year growth of 21%.

As of September 30, 2020, we had 5,409 full-time employees compared to 5,249 full-time employees as of December 31, 2019.

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, including implementing a variety of relief initiatives to help them navigate their financial challenges. Effective March 23, 2020, we began offering Premier Agent advertisers who participate in our market-based pricing program a 50% discount on their subsequent monthly bill. This discount also applied to any new bookings through April 22, 2020. Additionally, we provided other targeted market-based discounts and offered temporary discounts on certain of our other IMT and Mortgage marketplace products throughout the second quarter, and in limited cases during the third quarter. We experienced year-over-year growth in IMT segment revenue for the three months ended September 30, 2020, including Premier Agent revenue and Other IMT segment revenue, driven primarily by faster-than-expected residential real estate industry recovery leading to increased consumer engagement across our mobile applications and websites as visits increased 32% to 2,786.2 million for the three months ended September 30, 2020. In addition, we experienced year-over-year growth in Mortgages segment revenue for the three months ended September 30, 2020, primarily as a result of relatively low interest rates and a strong refinance market.

On March 23, 2020, we announced that Zillow Offers would temporarily pause home buying in all markets in response to local public health orders and to help protect the safety and health of our employees, customers and partners. Where able, we continued to make updates to, list and sell homes in inventory. 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 example, buyers can use virtual tools on the Zillow mobile application or website to view a home if they do not want to visit in person, and all Zillow-owned homes have 3D home tours and floor plans, including room dimensions, on the listing. Zillow Offers is available in 25 markets as of September 30, 2020. Revenue generated by the Homes segment for the three months ended September 30, 2020 was negatively impacted by our previous pause in home buying activities for Zillow Offers, which led to lower than anticipated inventory levels entering the three months ended September 30, 2020 resulting in less homes available for resale during the period.

To preserve our liquidity in response to the COVID-19 pandemic, we temporarily paused hiring for non-critical roles, paused the majority of our advertising spending and reduced other discretionary spending. During the three months ended September 30, 2020, we began to increase our hiring and marketing and advertising activities and expect to continue to increase these activities throughout the remainder of 2020. In May of 2020, we strengthened our financial position through our issuance of $565.0 million aggregate principal amount of convertible senior notes due in 2025 (“2025 Notes”) for net proceeds of $553.3 million, of which we used $194.7 million to repurchase certain of our 2021 Notes, and we issued 8,800,000 shares of Class C capital stock for net proceeds of $411.5 million. We also expect our liquidity to be 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 expect to defer certain employer payroll tax payments until 2021 and 2022. We deferred a total of $18.1 million of such payments as of September 30, 2020. The impact of the CARES Act was otherwise immaterial to our results of operations for the three and nine month periods ended September 30, 2020.

We have also taken action to promote the health and safety of our employees during the COVID-19 pandemic, and we quickly transitioned the majority of our employees to work remotely in March 2020. We subsequently announced that most employees will have flexibility to work from home indefinitely. Beginning in September 2020, we started re-opening our offices to employees on an as-needed basis. We expect office re-openings to be a gradual process over many months beginning in 2020 and gradually increasing over time and believe our offices will continue to provide our distributed workforce with a place to work, learn and collaborate.

As reflected in the discussion below, the impact of the pandemic and actions taken in response to it had varying effects on our key metrics and results of operations for the three and nine month periods ended September 30, 2020. The effect of the COVID-19 pandemic will not be fully reflected in our results of operations and overall financial performance until future periods as the extent of the impact of COVID-19 on our business continues to be uncertain and difficult to predict. While we have begun to see our business and the business of our customers and real estate partners recover from the initial economic effects of the pandemic, we expect the impact of the COVID-19 pandemic to continue to affect our financial results for the foreseeable future. The extent to which COVID-19 continues to impact our results and financial position will depend on future developments, which are uncertain and cannot be predicted, including new information that may emerge concerning the severity of the COVID-19 pandemic and the actions taken to contain it or address its impact.

Key Metrics

Management has identified visits, unique users and the number of homes sold through Zillow Offers as relevant to investors’ and others’ assessment of our financial condition and results of operations. Although there was an increase in both visits and unique users for the three months ended September 30, 2020 as compared to the three months ended September 30, 2019, both metrics were adversely impacted by the COVID-19 pandemic in the first half of 2020. While visits and unique users stabilized during the three months ended September 30, 2020, COVID-19 may adversely impact the number of visits and unique users to our mobile applications and websites in future periods.

As discussed above, on March 23, 2020, we announced that Zillow Offers would temporarily pause home buying in all markets in response to local public health orders and to help protect the safety and health of our employees, customers and partners. Where able, we continued to make updates to, list and sell homes in inventory. By early August 2020, we had resumed home buying in all 24 Zillow Offers markets and Zillow Offers is now available in 25 markets. While we have resumed home buying in all Zillow Offers markets, a decline in home buying and other potential effects of COVID-19 on residential real estate transactions may adversely impact the number of homes sold in future periods, which could result in a decline in revenue in future periods.

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,		2019 to 2020
	2020	2019	% Change
Visits	2,786.2	2,104.9	32 %

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 revenue depends in part on users accessing our mobile applications and websites to engage in the sale and purchase of homes with Zillow Offers, and 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, HotPads and Naked Apartments measure unique users with Google Analytics, and Trulia measures unique users with Adobe Analytics.

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

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

	Three Months Ended September 30,		2019 to 2020
	2020	2019	% Change
Average Monthly Unique Users	236.2	195.6	21 %

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,		2019 to 2020
	2020	2019	% Change
Number of Homes Sold	583	1,211	(52) %

Basis of Presentation

Revenue

We recognize revenue when or as we satisfy our performance obligations by transferring control of promised products or services to our customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those products or services.

In our Homes segment, we generate revenue from the resale of homes and through our title and escrow services. Our two revenue categories within our Homes segment are Zillow Offers and Other.

In our IMT segment, we generate revenue from the sale of advertising services and our suite of marketing software and technology solutions to residential real estate businesses, professionals and consumers. These professionals include real estate, rental and new construction brand advertisers, professionals and consumers. Our two revenue categories within our IMT segment are Premier Agent and Other.

In our Mortgages segment, we generate revenue from mortgage originations and the related sale of mortgages on the secondary market through Zillow Home Loans, the sale of advertising services to mortgage lenders and other mortgage professionals, as well as Mortech mortgage software solutions.

Homes Segment

Zillow Offers Revenue. Zillow Offers revenue is derived from the resale of homes. We recognize revenue at the time of the closing of the home sale when title to and possession of the property are transferred to the buyer. The amount of revenue recognized for each home sale is equal to the full sales price of the home net of resale concessions and credits to the buyer and does not reflect real estate agent commissions, closing or other costs associated with the transaction.

Other Revenue. Other Homes revenue is primarily generated through Zillow Closing Services, which offers title and escrow services to home buyers and sellers, including title search procedures for title insurance policies, escrow and other closing services. Title insurance, which is recorded net of amounts remitted to third-party underwriters, and title and escrow closing fees, are recognized as revenue upon closing of the underlying real estate transaction.

IMT Segment

Premier Agent Revenue. Premier Agent revenue is derived from our Premier Agent and Premier Broker programs. Our Premier Agent and Premier Broker programs offer a suite of marketing and business technology products and services to help real estate agents and brokers achieve their advertising goals while growing and managing their businesses and brands. All Premier Agents and Premier Brokers receive access to a dashboard portal on our mobile application and website that provides individualized program performance analytics, our customer relationship management, or CRM, tool that captures detailed information about each contact made with a Premier Agent or Premier Broker through our mobile and web platforms and our account management tools. The marketing and business technology products and services promised to Premier Agents and Premier Brokers are delivered over time, as the customer simultaneously receives and consumes the benefit of the performance obligations.

Premier Agent and Premier Broker advertising products, which include the delivery of impressions and validated consumer connections, or leads, are primarily offered on a share of voice basis. Payment is received prior to the delivery of impressions and connections. Impressions are delivered when an advertisement appears on pages viewed by users of our mobile applications and websites and connections are delivered when consumer contact information is provided to Premier Agents and Premier Brokers. We do not promise any minimum or maximum number of impressions or connections to customers, but instead control when and how many impressions and connections to deliver based on a customer's share of voice. We determine the number of impressions and connections to deliver to Premier Agents and Premier Brokers in each zip code using a market-based pricing method in consideration of the total amount spent by Premier Agents and Premier Brokers to purchase impressions and connections in the zip code during the month. This results in the delivery of impressions and connections over time in proportion to each Premier Agent's and Premier Broker's share of voice. A Premier Agent's or Premier Broker's share of voice in a zip code is determined by their proportional monthly prepaid spend in that zip code as a percentage of the total monthly prepaid spend of all Premier Agents and Premier Brokers in that zip code, and includes both the share of impressions delivered as advertisements appearing on pages viewed by users of our mobile applications and websites, as well as the proportion of consumer connections a Premier Agent or Premier Broker receives. The number of impressions and connections delivered for a given spend level is dynamic - as demand for advertising in a zip code increases or decreases, the number of impressions and connections delivered to a Premier Agent or Premier Broker in that zip code decreases or increases accordingly.

We primarily recognize revenue related to the Premier Agent and Premier Broker products and services based on the monthly prepaid spend recognized on a straight-line basis during the monthly billing period over which the products and services are provided. This methodology best depicts how we satisfy our performance obligations to customers, as we continuously transfer control of the performance obligations to the customer over time. Given a Premier Agent or Premier Broker typically prepays their monthly spend and the monthly spend is refunded on a pro-rata basis upon cancellation of the contract by a customer at any point in time, we have determined that Premier Agent and Premier Broker contracts are effectively daily contracts, and each performance obligation is satisfied over time as each day lapses. We have not allocated the transaction price to each performance obligation within our Premier Agent and Premier Broker arrangements, as the amounts recognized would be the same irrespective of any allocation.

In October 2018, we began testing a new pricing model, Flex, for Premier Agent and Premier Broker advertising services in limited markets. We now offer this pricing model to certain high-performing 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. With this pricing model, the transaction price represents variable consideration, as the amount to which we expect to be entitled varies based on the number of validated leads that convert into real estate transactions and the value of those transactions. Beginning in the three months ended September 30, 2020, we believe we have sufficient historical data available and therefore estimate variable consideration and record revenue as performance obligations, or validated leads, are transferred. We do not believe that a significant reversal in the amount of cumulative revenue recognized will occur once the uncertainty related to the number of transactions closed is subsequently resolved. Prior to the three months ended September 30, 2020, we recognized revenue for validated leads when we received payment for a real estate transaction closed with a Flex lead.

Other Revenue. Other IMT revenue primarily includes revenue generated by rentals, new construction and display, as well as revenue from the sale of various other marketing and business products and services to real estate professionals. Rentals revenue includes the sale of advertising and a suite of tools to rental professionals, landlords and other market participants. Rentals revenue primarily includes revenue generated by advertising sold to property managers, landlords and other rental professionals on a cost per lead, cost per click, cost per lease, cost per listing or cost per impression basis. We recognize revenue as leads, clicks and impressions are provided to rental professionals, or as rental listings are published on our mobile applications and websites, which is the amount for which we have the right to invoice. The number of leases generated through our rentals pay per lease product during the period is accounted for as variable consideration, and we estimate the amount of variable consideration based on the expected number of qualified leases secured during the period. We do not believe that a significant reversal in the amount of cumulative revenue recognized will occur once the uncertainty related to the number of leases secured is subsequently resolved.

Rentals revenue also includes revenue generated from our rental applications product through which potential renters can submit applications to multiple rental properties over a 30-day period for a flat service fee. We recognize revenue for the rental applications product on a straight-line basis during the contractual period over which the customer has the right to access and submit the rental application.

Our new construction marketing solutions allow home builders to showcase their available inventory to home shoppers. New construction revenue primarily includes revenue generated by advertising sold to builders on a cost per residential community basis whereby we recognize revenue on a straight-line basis during the contractual period over which the communities are advertised on our mobile applications and websites. New construction revenue also includes revenue generated on a cost per impression basis whereby we recognize revenue as impressions are delivered to users interacting with our mobile applications and websites, which is the amount for which we have the right to invoice. Consideration for new construction products is billed in arrears. Display revenue primarily consists of graphical mobile and web advertising sold on a cost per thousand impressions or cost per click basis to advertisers promoting their brands on our mobile applications and websites. We recognize display revenue as clicks occur or as impressions are delivered to users interacting with our mobile applications or websites, which is the amount for which we have the right to invoice.

Mortgages Segment

Mortgages Revenue. Mortgages revenue includes revenue generated by Zillow Home Loans, our affiliated mortgage lender, marketing products sold to mortgage professionals on a cost per lead basis, including our Custom Quote and Connect services, and revenue generated by Mortech. Zillow Group operates Custom Quote and Connect through its wholly owned subsidiary, Zillow Group Marketplace, Inc., a licensed mortgage broker. For our Connect and Custom Quote cost per lead marketing products, participating qualified mortgage professionals typically make a prepayment to gain access to consumers interested in connecting with mortgage professionals. Mortgage professionals who exhaust their initial prepayment prepay additional funds to continue to participate in the marketplace. In Zillow Group’s Connect platform, consumers answer a series of questions to find a local lender, and mortgage professionals receive consumer contact information, or leads, when the consumer chooses to share their information with a lender. Consumers who request rates for mortgage loans in Custom Quotes are presented with customized quotes from participating mortgage professionals. For our cost per lead mortgages products, we recognize revenue when a user contacts a mortgage professional through our mortgages platform, which is the amount for which we have the right to invoice.

Mortgage origination revenue recorded within our Mortgages segment reflects origination fees on purchase or refinanced mortgages and the corresponding sale, or expected future sale, of a loan. When an interest rate lock commitment is made to a customer, we record the expected gain on sale of the mortgage, plus the estimated earnings from the expected sale of the associated servicing rights, adjusted for a pull-through percentage (which is defined as the likelihood that an interest rate lock commitment will be originated), as revenue. Revenue from loan origination fees is recognized at the time the related purchase or refinance transactions are completed, usually upon the close of escrow and when we fund the purchase or refinance mortgage loans. Once funded, mortgage loans held for sale are recorded at fair value based on either sale commitments or current market quotes and are adjusted for subsequent changes in fair value until the loan is sold. Origination costs associated with originating mortgage loans are recognized as incurred. We sell substantially all of the mortgages we originate and the related servicing rights to third-party purchasers.

Mortgages revenue also includes revenue generated by Mortech, which provides subscription-based mortgage software solutions, including a product and pricing engine and lead management platform, for which we recognize revenue on a straight-line basis during the contractual period over which the services are provided.

Costs and Expenses

Cost of Revenue. Our cost of revenue consists of expenses related to operating our mobile applications and websites, including associated headcount expenses, such as salaries, 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. For our Homes segment, our cost of revenue also consists of the consideration paid to acquire and make certain repairs and updates to each home, including associated overhead costs, as well as inventory valuation adjustments. For our IMT and Mortgages segments, cost of revenue also includes credit card fees and ad serving costs paid to third parties. For our Mortgages segment, our cost of revenue also consists of direct costs to originate loans, including underwriting and processing costs.

Sales and Marketing. Sales and marketing expenses consist of advertising costs and other sales expenses related to promotional and marketing activities, headcount 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 and depreciation expense. 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. During the nine months ended September 30, 2020, Homes segment sales and marketing expenses also include certain expenses attributable to our efforts to pause home buying in response to the COVID-19 pandemic. For our Mortgages segment, sales and marketing expenses include headcount expenses for loan officers and specialists supporting Zillow Home Loans.

Technology and Development. Technology and development expenses consist of headcount 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 amortization costs related to capitalized website and development activities, amortization of software, amortization of certain intangibles and other data agreement costs related to the purchase of data used to populate our mobile applications and websites, amortization of intangible assets recorded in connection with acquisitions, including trade names and trademarks, developed technology and customer relationships, amongst others, equipment and maintenance costs and depreciation expense.

General and Administrative. General and administrative expenses consist of headcount 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.

Impairment Costs. 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 and a $5.3 million non-cash impairment related to our October 2016 equity investment. For additional information about the impairments, see Note 9 and Note 10 to our condensed consolidated financial statements.

Integration Costs. Integration costs consist of expenses incurred to incorporate operations, systems, technology and rights and responsibilities of acquired companies, during both pre-closing and post-closing periods, into Zillow Group's business. For the three and nine month periods ended September 30, 2019, integration costs primarily include consulting-related expenses incurred in connection with the integration of Zillow Home Loans.

Gain on Partial Extinguishment of 2021 Notes

The gain on the partial extinguishment of the 2021 Notes recorded for the nine months ended September 30, 2020 relates to the partial repurchase of the 2021 Notes in May 2020 in connection with the issuance of the 2025 Notes. For additional information on the repurchase, see Note 11 to our condensed consolidated financial statements.

Other Income

Other income consists primarily of interest income earned on our cash, cash equivalents and short-term investments. 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 sale, see Note 9 to our condensed consolidated financial statements. For our Mortgages segment, Other income includes interest income earned on mortgage loans held for sale.

Interest Expense

Our corporate interest expense consists of interest on the convertible senior notes due in 2021, 2023, 2024, 2025 and 2026 and interest on Trulia's convertible senior notes due in 2020 that we guaranteed in connection with our February 2015 acquisition of Trulia. Our corporate interest expense also includes the amortization of the debt discount and deferred issuance costs for the convertible senior notes due in 2021, 2023, 2024, 2025 and 2026. Refer to Note 11 of our Notes to Condensed Consolidated Financial Statements in Part I of this Quarterly Report on Form 10-Q for stated interest rates and interest payment dates for each of our convertible senior notes.

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

For our Mortgages segment, interest expense includes interest on the warehouse lines of credit and beginning in the fourth quarter of 2019, interest on the master repurchase agreement, related to our Zillow Home Loans business. Borrowings on the warehouse lines of credit and master repurchase agreement 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.

Income Taxes

We are subject to federal and state income taxes in the United States and federal and provincial income taxes in Canada. As of September 30, 2020 and December 31, 2019, 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. Therefore, no material current tax liability or expense has been recorded in the condensed consolidated financial statements. We have accumulated federal tax losses of approximately $1,137.6 million as of December 31, 2019, which are available to reduce future taxable income. We have accumulated state tax losses of approximately $34.3 million (tax effected) as of December 31, 2019.

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 nine months ended September 30, 2020 related to the Trulia trade names and trademarks intangible asset. For additional information about the non-cash impairment, see Note 10 to our condensed consolidated financial statements. This income tax benefit was partially offset by an immaterial amount of state income tax expense recorded for the nine months ended September 30, 2020.

Results of Operations

Given the uncertainty surrounding COVID-19, including the unknown duration and severity of the pandemic and related economic disruption and the unknown overall impact on customer demand, we are unable to forecast the full impact on our business. As a result, financial performance for prior and current periods may not be indicative of future performance.

Revenue

	Three Months Ended September 30,		2019 to 2020		% of Total Revenue Three Months Ended September 30,	
	2020	**2019**	**$ Change**	**% Change**	**2020**	**2019**
	(in thousands, unaudited)					
Revenue:						
Homes segment:						
Zillow Offers	$ 185,904	$ 384,626	$ (198,722)	(52) %	28 %	52 %
Other	1,201	—	1,201	N/A	—	0
Total Homes segment revenue	187,105	384,626	(197,521)	(51)	28	52
IMT segment:						
Premier Agent	298,673	240,698	57,975	24	45	32
Other	116,716	94,592	22,124	23	18	13
Total IMT segment revenue	415,389	335,290	80,099	24	63	45
Mortgages segment	54,198	25,292	28,906	114	8	3
Total revenue	$ 656,692	$ 745,208	$ (88,516)	(12) %	100 %	100 %

	Nine Months Ended September 30,		2019 to 2020		% of Total Revenue Nine Months Ended September 30,	
	2020	2019	$ Change	% Change	2020	2019
	(in thousands, unaudited)					
Revenue:						
Homes segment:						
Zillow Offers	$ 1,408,832	$ 762,022	$ 646,810	85 %	55 %	42 %
Other	2,398	—	2,398	N/A	—	0
Total Homes segment revenue	1,411,230	762,022	649,208	85	55	42
IMT segment:						
Premier Agent	732,741	690,394	42,347	6	29	38
Other	293,653	266,837	26,816	10	12	15
Total IMT segment revenue	1,026,394	957,231	69,163	7	40	53
Mortgages segment	113,241	79,637	33,604	42	4	4
Total revenue	$ 2,550,865	$ 1,798,890	$ 751,975	42 %	100 %	100 %

Three months ended September 30, 2020 compared to the three months ended September 30, 2019

Total revenue decreased $88.5 million, or 12%, to $656.7 million:

- Homes segment revenue decreased 51% to $187.1 million, primarily due to a decrease of $198.7 million, or 52%, in Zillow Offers revenue. Zillow Offers revenue declined to $185.9 million due to the sale of 583 homes at an average selling price of $318.8 thousand per home, as compared to the sale of 1,211 homes at an average selling price of $317.6 thousand per home in the comparable prior year period. Although we resumed home buying in all Zillow Offers markets by early August 2020, the pause in home buying activities in our Zillow Offers business in the first half of 2020 resulted in lower inventory available for resale during the three months ended September 30, 2020. We expect Zillow Offers revenue to increase in future periods as we expect to continue to increase our home buying and home selling activities across all markets. However, given the unknown duration and severity of the COVID-19 pandemic and related economic disruption, we do not know whether we will have to make further adjustments to our operations or how quickly the business will re-accelerate now that we have resumed home buying activities.

- IMT segment revenue increased 24% to $415.4 million due to a $58.0 million, or 24%, increase in Premier Agent revenue and a $22.1 million, or 23%, increase in Other IMT revenue. Premier Agent revenue was positively impacted by an increase in visits, which increased 32% to 2,786.2 million. Premier Agent revenue per visit decreased by 6% to $0.107 for the three months ended September 30, 2020 from $0.114 for the three months ended September 30, 2019. 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 decrease in Premier Agent revenue per visit was driven by the increase in visits outpacing the increase in Premier Agent revenue for the three months ended September 30, 2020 as strong residential real estate industry recovery in the third quarter lead to increased consumer engagement across our mobile applications and websites. Other IMT revenue increased primarily due to 50% growth in rentals revenue driven by increased rental advertising revenue and increased adoption of our rentals applications product, partially offset by a 36% decrease in display revenue as many display advertisers decreased discretionary marketing spend during the COVID-19 pandemic.

- Mortgages segment revenue increased 114% to $54.2 million primarily due to an increase in revenue generated by Zillow Home Loans due to higher sales volume reflective of market demand as low interest rates have supported strong refinance activity and expanded industry margins on selling mortgages into the secondary market.

Nine months ended September 30, 2020 compared to the nine months ended September 30, 2019

Total revenue increased $752.0 million, or 42%, to $2,550.9 million:

- Homes segment revenue increased 85% to $1,411.2 million, primarily due to an increase in Zillow Offers revenue of $646.8 million, or 85%. Zillow Offers revenue increased to $1,408.8 million due to the sale of 4,414 homes at an average selling price of $319.1 thousand per home as compared to the sale of 2,411 homes at an average selling price of $316.0 thousand per home in the comparable prior year period. Although Zillow Offers revenue increased for the nine months ended September 30, 2020 as compared to the comparable prior year period, revenue for the nine months ended September 30, 2020 was negatively impacted by the COVID-19 pandemic due to the pause in home buying activities by our Zillow Offers business beginning in March of 2020, as discussed above. Although we resumed home buying in all Zillow Offers markets by early August 2020, the pause in home buying activities in our Zillow Offers business in the first half of 2020 resulted in lower inventory available for resale during the third quarter.

- IMT segment revenue increased 7% to $1,026.4 million, primarily due to an increase of $42.3 million, or 6%, in Premier Agent revenue. Premier Agent revenue was positively impacted by an increase in visits, which increased 17% to 7,353.6 million for the nine months ended September 30, 2020 from 6,306.0 million in the comparable prior year period. Temporary discounts offered to our Premier Agent partners in response to the COVID-19 pandemic partially offset the growth in Premier Agent revenue, resulting in lower revenue per visit when compared to the prior year. Other IMT revenue increased $26.8 million, or 10%, primarily due to a 30% increase in revenue generated by our rentals marketplace attributable to increased advertising revenue and increased adoption of our rentals application product, partially offset by the impact of COVID-19 related discounts offered during the first half of 2020, as well as a 45% decrease in display revenue, as many display advertisers decreased discretionary marketing spend during the COVID-19 pandemic.

- Mortgages segment revenue increased 42% to $113.2 million. The increase in mortgages revenue is primarily due to an increase in revenue generated by Zillow Home Loans due to increased sales volume reflective of market demand as low interest rates have supported strong refinance activity.

Income (Loss) Before Income Taxes

	Three Months Ended September 30,		2019 to 2020		% of Revenue Three Months Ended September 30,	
	2020	**2019**	**$ Change**	**% Change**	**2020**	**2019**
	(in thousands, unaudited)					
Income (loss) before income taxes:						
Homes segment	$ (75,617)	$ (87,870)	$ 12,253	14 %	(40)%	(23)%
IMT segment	139,956	42,053	97,903	233	34	13
Mortgages segment	10,594	(12,254)	22,848	186	20	(48)
Corporate items (1)	(34,938)	(7,878)	(27,060)	(343)	N/A	N/A
Total income (loss) before income taxes	$ 39,995	$ (65,949)	$ 105,944	161 %	6 %	(9)%

	Nine Months Ended September 30,		2019 to 2020		% of Revenue Nine Months Ended September 30,	
	2020	2019	$ Change	% Change	2020	2019
	(in thousands, unaudited)					
Income (loss) before income taxes:						
Homes segment	$ (253,633)	$ (204,197)	$ (49,436)	(24)%	(18)%	(27)%
IMT segment	117,615	43,839	73,776	168	11	5
Mortgages segment	(2,791)	(32,308)	29,517	91	(2)	(41)
Corporate items (1)	(77,466)	(15,285)	(62,181)	(407)	N/A	N/A
Total loss before income taxes	$ (216,275)	$ (207,951)	$ (8,324)	(4)%	(8)%	(12)%

(1) Certain corporate items are not directly attributable to any of our segments, including the gain on the partial extinguishment of the 2021 Notes, interest income earned on our short-term investments included in Other income and interest costs on our convertible senior notes included in Interest expense.

Three months ended September 30, 2020 compared to the three months ended September 30, 2019

Income (loss) before income taxes increased $105.9 million, or 161%, to $40.0 million, driven by:

- An increase in IMT segment income before income taxes of $97.9 million, or 233%. This was the result of an increase in IMT segment revenue of $80.1 million and a decrease in costs and expenses of $17.8 million. The increase in IMT segment revenue was primarily the result of increases in Premier Agent and rentals revenue, as discussed above. Decreases in marketing and advertising expenses drove the majority of the decline in total costs and expenses.

- An increase in Mortgages segment income before income taxes of $22.8 million, or 186%, primarily due to an increase in Mortgages segment revenue of $28.9 million driven primarily by higher sales volume within our Zillow Home Loans business, as discussed above. This was partially offset by an increase in Mortgages segment costs and expenses of $6.1 million, driven primarily by increased headcount-related costs to support the growth in our Zillow Home Loans business.

- A decrease in Homes segment loss before income taxes of $12.3 million, or 14%. This was the result of a $197.5 million decrease in Homes segment revenue, a $201.7 million decrease in total operating costs and expenses and an $8.1 million decrease in interest expense. These declines were primarily the result of the pause in home buying activities in the first half of 2020 in response to the COVID-19 pandemic, which led to less homes held and sold in the three months ended September 30, 2020 when compared to the comparable prior year period.

- An increase in loss before income taxes for corporate items by $27.1 million to $34.9 million, driven primarily by an increase in interest expense associated with our May 2020 issuance of the convertible senior notes due in 2025.

Nine months ended September 30, 2020 compared to the nine months ended September 30, 2019

Loss before income taxes increased $8.3 million, or 4%, to a loss before income taxes of $216.3 million, driven by:

- An increase in loss before income taxes for corporate items of $62.2 million, primarily driven by a $58.2 million increase in interest expense associated with our May 2020 issuance of the convertible senior notes due in 2025.

- An increase in Homes segment loss before income taxes of $49.4 million, or 24%, resulting from an increase in Homes segment costs and expenses of $704.5 million, an increase of $5.8 million in interest expense, partially offset by an increase of $649.2 million in Homes segment revenue. The increase in these items was primarily driven by the sale of 2,003 additional homes and an increased investment in headcount during the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019 as we continued to expand our Zillow Offers business.

- An increase in IMT segment income before income taxes of $73.8 million, or 168%, primarily due to an increase in IMT segment revenue of $69.2 million, as discussed above, and a $62.3 million decrease in marketing and advertising expenses, partially offset by $73.9 million in impairment costs, as discussed further below.

- A decrease in Mortgages segment loss before income taxes of $29.5 million, or 91%, to a loss before income taxes of $2.8 million, primarily due to an increase in Mortgages segment revenue of $33.6 million, partially offset by an increase in Mortgages segment costs and expenses of $3.8 million. Increased Mortgages segment revenue was primarily a result of higher sales volume within our Zillow Home Loans business. The increased total costs and expenses were primarily the result of increased headcount-related costs to support the growth in our Zillow Home Loans business.

Adjusted EBITDA

	Three Months Ended September 30,		2019 to 2020		% of Revenue Three Months Ended September 30,	
	2020	2019	$ Change	% Change	2020	2019
	(in thousands, unaudited)					
Net income (loss)	$ 39,570	$ (64,649)	$ 104,219	161 %	6 %	(9)%
Adjusted EBITDA:						
Homes segment	$ (59,176)	$ (67,825)	$ 8,649	13 %	(32)%	(18)%
IMT segment	195,465	91,102	104,363	115	47	27
Mortgages segment	15,895	(7,435)	23,330	314	29	(29)
Total Adjusted EBITDA	$ 152,184	$ 15,842	$ 136,342	861 %	23 %	2 %

	Nine Months Ended September 30,		2019 to 2020		% of Revenue Nine Months Ended September 30,	
	2020	2019	$ Change	% Change	2020	2019
	(in thousands, unaudited)					
Net loss	$ (208,151)	$ (204,151)	$ (4,000)	(2) %	(8)%	(11)%
Adjusted EBITDA:						
Homes segment	$ (195,079)	$ (158,801)	$ (36,278)	(23) %	(14)%	(21)%
IMT segment	353,044	216,204	136,840	63	34	23
Mortgages segment	15,177	(15,342)	30,519	199	13	(19)
Total Adjusted EBITDA	$ 173,142	$ 42,061	$ 131,081	312 %	7 %	2 %

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 the gain on the partial extinguishment of the 2021 Notes;
- 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, 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 tax expense	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 expense	3,029	22,074	1,675	—	26,778
Share-based compensation expense	11,815	33,435	3,709	—	48,959
Interest expense	1,597	—	553	37,320	39,470
Adjusted EBITDA	$ (59,176)	$ 195,465	$ 15,895	$ —	$ 152,184

	Three Months Ended September 30, 2019				
	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	$ (64,649)
Income tax benefit	N/A	N/A	N/A	N/A	(1,300)
Income (loss) before income taxes	$ (87,870)	$ 42,053	$ (12,254)	$ (7,878)	$ (65,949)
Other income	—	—	(344)	(8,655)	(8,999)
Depreciation and amortization expense	2,331	18,362	1,467	—	22,160
Share-based compensation expense	8,025	30,687	3,416	—	42,128
Interest expense	9,689	—	280	16,533	26,502
Adjusted EBITDA	$ (67,825)	$ 91,102	$ (7,435)	$ —	$ 15,842

	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 tax benefit	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 expense	9,201	67,889	4,887	—	81,977
Share-based compensation expense	35,847	98,940	10,318	—	145,105
Gain on partial extinguishment of 2021 Notes	—	—	—	(6,391)	(6,391)
Impairment costs	—	73,900	2,900	—	76,800
Interest expense	13,506	—	1,086	100,060	114,652
Adjusted EBITDA	$ (195,079)	$ 353,044	$ 15,177	$ —	$ 173,142

	Nine Months Ended September 30, 2019				
	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	$ (204,151)
Income tax benefit	N/A	N/A	N/A	N/A	(3,800)
Income (loss) before income taxes	$ (204,197)	$ 43,839	$ (32,308)	$ (15,285)	$ (207,951)
Other income	—	—	(1,059)	(26,566)	(27,625)
Depreciation and amortization expense	5,384	54,264	4,240	—	63,888
Share-based compensation expense	20,666	118,101	13,117	—	151,884
Interest expense	19,346	—	668	41,851	61,865
Adjusted EBITDA	$ (158,801)	$ 216,204	$ (15,342)	$ —	$ 42,061

(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 on the partial extinguishment of the 2021 Notes, 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 and Other Items

	Three Months Ended September 30,		2019 to 2020		% of Total Revenue Three Months Ended September 30,	
	2020	2019	$ Change	% Change	2020	2019
	(in thousands, unaudited)					
Cost of revenue (exclusive of amortization) (1)	$ 216,224	$ 399,835	$ (183,611)	(46) %	33 %	54 %
Sales and marketing	150,826	181,347	(30,521)	(17)	23	24
Technology and development	127,300	123,974	3,326	3	19	17
General and administrative	85,895	88,493	(2,598)	(3)	13	12
Integration costs	—	5	(5)	N/A	0	—
Total costs and expenses	580,245	793,654	(213,409)	(27)	88	107
Other income	3,018	8,999	(5,981)	(66)	0	1
Interest expense	(39,470)	(26,502)	(12,968)	(49)	(6)	(4)

	Nine Months Ended September 30,		2019 to 2020		% of Total Revenue Nine Months Ended September 30,	
	2020	2019	$ Change	% Change	2020	2019
	(in thousands, unaudited)					
Cost of revenue (exclusive of amortization) (1)	$ 1,438,967	$ 822,404	$ 616,563	75 %	56 %	46 %
Sales and marketing	511,072	530,367	(19,295)	(4)	20	29
Technology and development	391,075	352,074	39,001	11	15	20
General and administrative	263,691	267,106	(3,415)	(1)	10	15
Impairment costs	76,800	—	76,800	N/A	3	0
Integration costs	—	650	(650)	N/A	0	—
Total costs and expenses	2,681,605	1,972,601	709,004	36	105	110
Gain on partial extinguishment of 2021 Notes	6,391	—	6,391	N/A	0	0
Other income	22,726	27,625	(4,899)	(18)	1	2
Interest expense	(114,652)	(61,865)	(52,787)	(85)	(4)	(3)

(1) Amortization of website development costs and intangible assets included in technology and development was $19.2 million and $15.8 million for the three months ended September 30, 2020 and 2019, respectively, and $55.3 million and $44.9 million for the nine months ended September 30, 2020 and 2019, respectively.

Cost of Revenue

Three months ended September 30, 2020 compared to the three months ended September 30, 2019

Cost of revenue decreased by $183.6 million, or 46%, due primarily to a decrease of $191.0 million in our Homes segment, partially offset by increases of $4.1 million and $3.3 million within the IMT and Mortgages segments, respectively.

The decrease in cost of revenue in our Homes segment was driven primarily by a decrease of $192.9 million in home acquisition and renovation costs due to the decrease in homes sold during the period from 1,211 homes sold during the three months ended September 30, 2019 to 583 homes sold during the three months ended September 30, 2020. The decrease in homes sold was the result of the pause in home buying activities in our Zillow Offers business in the first half of 2020, which resulted in lower inventory available for resale during the three months ended September 30, 2020. We expect cost of revenue for the Homes segment to increase in absolute dollars in future periods as we re-accelerate home buying and selling and expand into new markets.

We expect cost of revenue within our Mortgages segment to increase in absolute dollars in future periods as we continue to incur expenses associated with growth in revenue and expansion of Zillow Home Loans.

Nine months ended September 30, 2020 compared to the nine months ended September 30, 2019

Cost of revenue increased $616.6 million, or 75%, due primarily to an increase of $609.8 million in our Homes segment, $5.2 million in our Mortgages segment and $1.5 million in our IMT segment. The increase in Homes segment cost of revenue was primarily driven by a $603.0 million increase in home acquisition and renovation costs due to the increase in homes sold during the period from 2,411 homes sold during the nine months ended September 30, 2019 to 4,414 homes sold during the three months ended September 30, 2020.

Sales and Marketing

Three months ended September 30, 2020 compared to the three months ended September 30, 2019

Sales and marketing expenses decreased $30.5 million, or 17%, due primarily to decreases of $16.5 million in our Homes segment and $15.6 million in our IMT segment, partially offset by a $1.6 million increase in our Mortgages segment. The decrease in sales and marketing expenses within the Homes segment was primarily the result of a $15.9 million decline in home holding and selling costs driven by the reduction in homes sold during the three months ended September 30, 2020 compared to the three months ended September 30, 2019, as discussed above. We expect sales and marketing expenses within the Homes segment to increase in absolute dollars in future periods as we re-accelerate our Zillow Offers business. Sales and marketing expenses in our Homes segment included $1.0 million and $7.7 million in holding costs for the three months ended September 30, 2020 and 2019, respectively.

The decrease in IMT segment sales and marketing expenses was driven primarily by a $16.5 million reduction in marketing and advertising costs and a related $3.4 million decline in travel expenses as we paused non-essential employee travel in response to the COVID-19 pandemic. These decreases in IMT segment sales and marketing expenses were partially offset by an increase in headcount-related expenses of approximately $4.1 million. Marketing and advertising costs for the three months ended September 30, 2020 were lower than the comparable prior year period due our pause in most discretionary spending associated with liquidity preservation in response to the COVID-19 pandemic in the first half of 2020. We gradually began to increase our marketing and advertising costs again during the three months ended September 30, 2020. We expect IMT sales and marketing expenses to increase in absolute dollars in future periods as we continue to increase our marketing and advertising activities.

We expect sales and marketing expenses in the Mortgages segment to increase in absolute dollars in future periods due to increased marketing and headcount related spend associated with growth in revenue and expansion of Zillow Home Loans.

Nine months ended September 30, 2020 compared to the nine months ended September 30, 2019

Sales and marketing expenses decreased $19.3 million, or 4%, due primarily to a decrease of $61.5 million in our IMT segment and $2.5 million in our Mortgages segment, partially offset by a $44.7 million increase in our Homes segment.

The decrease in sales and marketing expense in the IMT segment was primarily attributable to decreases of $62.3 million in marketing and advertising expenses, $8.1 million in travel expenses and $5.1 million of related trade show and event-related costs as we paused non-essential discretionary spending in the first half of 2020 in response to the COVID-19 pandemic. The decrease in sales and marketing expenses was partially offset by increases of $9.1 million in headcount-related expenses, including share-based compensation expense, as we continue to grow our teams, and $4.8 million in depreciation expense.

The increase in Homes segment sales and marketing expenses was primarily attributable to increases of $27.8 million in selling expenses attributable to the resale of homes, $21.9 million in headcount-related expenses, including share-based compensation expense, as we have grown our teams to support the expected continued growth in our Homes segment and $5.5 million attributable to our efforts to pause home buying in response to the COVID-19 pandemic. These increases were partially offset by a decrease in holding costs of $5.5 million due to relatively low homes inventory throughout the third quarter as we continue to re-accelerate the Zillow Offers business after our temporary pause in home buying activities during the first half of 2020. Sales and marketing expenses for the Homes segment include $8.9 million and $14.3 million in holding costs for the nine months ended September 30, 2020 and 2019, respectively.

Technology and Development

Three months ended September 30, 2020 compared to the three months ended September 30, 2019

Technology and development expenses increased $3.3 million, or 3%. The increase in technology and development expenses was the result of an increase in headcount expenses of $4.5 million as we continue to grow our teams to support the Homes segment and an increase in depreciation and amortization expense of $4.1 million, partially offset by a decrease in data acquisition costs of $4.3 million.

Nine months ended September 30, 2020 compared to the nine months ended September 30, 2019

Technology and development expenses increased $39.0 million, or 11%, due to increases of $38.6 million in our Homes segment and $1.9 million in our IMT segment, partially offset by a $1.5 million decrease in our Mortgages segment. The increase in technology and development expenses within the Homes segment was primarily attributable to an increase of $32.4 million in headcount-related expenses, including share-based compensation expense, as we have grown our teams to support the continued expected growth in the Homes segment, and a $4.6 million increase in in depreciation and amortization expense.

General and Administrative

Three months ended September 30, 2020 compared to the three months ended September 30, 2019

General and administrative expenses decreased $2.6 million, or 3%, due to decreases of $2.2 million in our IMT segment general and administrative expenses and $1.8 million in our Homes segment general and administrative expenses, partially offset by a $1.4 million increase in our Mortgages segment general and administrative expenses. General and administrative expenses remained relatively consistent as we focused on maintaining spending levels in response to the COVID-19 pandemic. We expect general and administrative expenses for the Homes segment to increase in absolute dollars in future periods as we expect to increase headcount to support the continued expected growth in the Homes segment.

Nine months ended September 30, 2020 compared to the nine months ended September 30, 2019

General and administrative expenses decreased $3.4 million, or 1%, due to a $15.1 million decrease in our IMT segment general and administrative expenses, partially offset by an increase of $11.3 million in our Homes segment general and administrative expenses.

The decrease in IMT segment general and administrative expenses was primarily due to a $20.5 million decrease in headcount-related expenses driven primarily by the recognition of $23.3 million of share-based compensation expense in the IMT segment in 2019 in connection with the modification of certain outstanding equity awards related to the departure of Spencer Rascoff in February 2019, who served as Zillow Group's Chief Executive Officer beginning in 2010. For additional information regarding the equity modification, see Note 14 in our Notes to Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q. Additionally, there was a $2.3 million decrease in travel expenses as we paused non-essential travel for workers in response to the COVID-19 pandemic. The decreases in IMT segment general and administrative expenses were partially offset by increases in estimated legal liabilities of approximately $3.4 million and a $2.0 million increase in business taxes.

The increase in Homes segment general and administrative expenses was primarily due to a $9.1 million increase in headcount-related expenses, including share-based compensation expense, as we have grown our teams to support the Homes segment. In addition, there was a $2.2 million increase in building lease-related expenses including rent, utilities and insurance.

Impairment Costs

Nine months ended September 30, 2020 compared to the nine months ended September 30, 2019

Impairment costs recorded for the nine months ended September 30, 2020 consist of the $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. Additionally, impairment costs include a $5.3 million non-cash impairment related to our October 2016 equity investment, the entirety of which was recorded to the IMT segment. For additional information about these impairments, see Note 9 and Note 10 in our Notes to Condensed Consolidated Financial Statements in Part I of this Quarterly Report on Form 10-Q.

Gain on Partial Extinguishment of 2021 Notes

Nine months ended September 30, 2020 compared to the nine months ended September 30, 2019

We recorded a $6.4 million gain on the partial extinguishment of the 2021 Notes during the nine months ended September 30, 2020. For additional information on the extinguishment, see Note 11 of our Notes to Condensed Consolidated Financial Statements in Part I of this Quarterly Report on Form 10-Q.

Other Income

Three months ended September 30, 2020 compared to the three months ended September 30, 2019

Other income decreased $6.0 million, or 66%, primarily due to a decrease in corporate other income not directly attributable to our segments driven by a rebalancing of our investment portfolio to lower risk investments with generally lower yields in light of the COVID-19 pandemic. 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.

Nine months ended September 30, 2020 compared to the nine months ended September 30, 2019

Other income decreased $4.9 million, or 18%, primarily due to a decrease of $10.4 million in corporate other income not directly attributable to our segments driven primarily by lower interest rates decreasing money market fund yields and a rebalancing of our investment portfolio to lower risk investments with generally lower yields in light of the COVID-19 pandemic. This decrease was partially offset by an increase of $5.3 million in Other income in our IMT segment related to the $5.3 million gain recognized 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.

Interest Expense

Three months ended September 30, 2020 compared to the three months ended September 30, 2019

Interest expense increased $13.0 million, or 49%, due to a $20.8 million increase in corporate interest expense not attributable to any of our segments, partially offset by an $8.1 million decrease in interest expense related to our Homes segment.

The increase in corporate interest expense not attributable to any of our segments was primarily due to the September 2019 issuance of the convertible senior notes due in 2026, the September 2019 and October 2019 issuances of the convertible senior notes due in 2024, and the May 2020 issuance of the 2025 Notes. For additional information regarding the convertible senior notes, see Note 11 of our Notes to Condensed Consolidated Financial Statements in Part I of this Quarterly Report on Form 10-Q. We expect interest expense to decrease in absolute dollars in future periods as we expect to redeem the remaining $265.3 million in aggregate principal amount of our convertible senior notes due in 2021 in the fourth quarter of 2020.

The Homes segment interest expense decrease was primarily attributable to the reduced number of homes financed on our credit facilities as a result of lower inventory levels due to the pause in Zillow Offers home buying activities in the first half of 2020. We expect interest expense to increase in absolute dollars in future periods as we expect to continue to increase our homes inventory.

Nine months ended September 30, 2020 compared to the nine months ended September 30, 2019

Interest expense increased $52.8 million, or 85%, due to a $58.2 million increase in corporate interest expense not attributable to any of our segments, partially offset by a $5.8 million decrease related to our Homes segment. The increase in corporate interest expense not attributable to any of our segments was primarily due to the convertible senior note issuances described above. The decrease in interest expense in our Homes segment was attributable to the reduced number of homes financed on our credit facilities as described above.

Liquidity and Capital Resources

As of September 30, 2020 and December 31, 2019, we had cash and cash equivalents, investments and restricted cash of $3,834.3 million and $2,511.9 million, respectively. Cash and cash equivalents balances consist of operating cash on deposit with financial institutions, money market funds, U.S. government agency securities, certificates of deposit and treasury bills. Investments consist of fixed income securities, which include U.S. government agency securities, corporate notes and bonds, commercial paper, municipal securities, certificates of deposit and treasury bills. Restricted cash consists of amounts funded to the reserve and collection accounts related to our credit facilities, amounts held in escrow related to funding home purchases in our mortgage origination business and amounts held in escrow related to our Zillow Closing Services business. Amounts on deposit with third-party financial institutions exceed the Federal Deposit Insurance Corporation and the Securities Investor Protection Corporation insurance limits, as applicable. As of September 30, 2020, Zillow Group and its subsidiaries were in compliance with all debt covenants specified in the facilities described below.

To preserve our liquidity in response to the COVID-19 pandemic, we temporarily paused hiring for non-critical roles, paused the majority of our advertising spending and reduced other discretionary spending. During the three months ended September 30, 2020, we began to increase our hiring and marketing and advertising activities and expect to continue to increase these activities throughout the remainder of 2020. Additionally, we temporarily paused home buying through Zillow Offers in March of 2020 and resumed home buying activities in all markets by early August 2020. As of September 30, 2020, Zillow Offers is now available in 25 markets. In May of 2020, we strengthened our financial position through our issuance of $565.0 million aggregate principal amount of the 2025 Notes for net proceeds of $553.3 million, with which we repurchased $194.7 million aggregate principal amount of our 2021 Notes, and we issued 8,800,000 shares of Class C capital stock at a public offering price of $48.00 per share for net proceeds of $411.5 million. In addition, we expect our liquidity to be positively impacted by certain provisions included in the CARES Act which provides tax provisions and other stimulus measures to affected companies. Under the CARES Act, we expect to defer certain employer payroll tax payments until 2021 and 2022. We deferred a total of $18.1 million of such payments as of September 30, 2020. As previously noted, the COVID-19 pandemic and related economic disruptions have resulted in significant uncertainty and the extent of the impact of COVID-19 on our business continues to be difficult to predict. The COVID-19 pandemic has and will continue to disrupt our revenue and operating cash flow levels and may disrupt future access to capital through debt or equity markets.

The expansion of Zillow Group’s purchase of homes through the Zillow Offers program and sale of homes has continued to have a significant impact on our liquidity and capital resources as a cash and inventory intensive business. We primarily use debt financing through credit facilities to fund a portion of the purchase price of homes and certain related costs. As previously noted, due to the pause in Zillow Offers home buying activities in response to the COVID-19 pandemic, we temporarily experienced a decrease in the amounts drawn on our credit facilities as we reduced the number of homes financed. We expect home financing to accelerate in future periods as we have restarted home buying in all Zillow Offers markets. As of September 30, 2020, we have $114.3 million of total outstanding borrowings on credit facilities to provide capital for Zillow Offers with a total maximum borrowing capacity of $1,500.0 million.

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, 2020, we have $118.1 million of total outstanding borrowings on our warehouse line of credit and master repurchase agreement with a total maximum borrowing capacity of $150.0 million.

As of September 30, 2020, we have outstanding a total of $2,384.7 million aggregate principal of convertible senior notes. The convertible notes are senior unsecured obligations, and interest on the convertible notes is paid semi-annually.

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

We 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,	
	2020	2019
Cash Flow Data:		
Net cash provided by (used in) operating activities	$ 750,158	$ (670,282)
Net cash provided by (used in) investing activities	(683,983)	318,916
Net cash provided by financing activities	651,804	1,554,845

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, 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 the discount and issuance costs on the convertible notes maturing in 2021, 2023, 2024, 2025 and 2026 of $75.4 million, amortization of contract cost assets of $26.6 million, amortization of right of use assets of $18.4 million and credit loss expense of $1.8 million. This was offset by an $8.1 million change in deferred income taxes, a gain on the partial extinguishment of the 2021 Notes of $6.4 million, and a gain on disposal of property and equipment and other assets of $1.0 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.

For the nine months ended September 30, 2019, net cash used in operating activities was $670.3 million. This was primarily driven by a net loss of $204.2 million, adjusted by share-based compensation expense of $151.9 million, depreciation and amortization expense of $63.9 million, amortization of the discount and issuance costs on the convertible notes maturing in 2021, 2023, 2024 and 2026 of $29.9 million, amortization of contract cost assets of $26.7 million, amortization of right of use assets of $16.7 million, a loss on disposal of property and equipment of $5.8 million, accretion of bond discount of $5.2 million and a $3.8 million change in deferred income taxes. Changes in operating assets and liabilities increased cash used in operating activities by $753.8 million. The changes in operating assets and liabilities are primarily due to a $716.5 million increase in inventory due to the purchase of homes through Zillow Offers, a $27.0 million increase in contract cost assets due primarily to the capitalization of sales commissions, a $15.0 million decrease in lease liabilities, a $13.5 million increase in accounts receivable due primarily to an increase in revenue, a $5.8 million increase in prepaid expenses and other assets driven primarily by the timing of payments and a $1.4 million increase in mortgage loans held for sale, partially offset by a $12.2 million increase in accrued expenses and other current liabilities driven primarily by the timing of payments and a $7.9 million increase in deferred revenue.

Cash Flows Provided By (Used In) Investing Activities

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

For the 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.

For the nine months ended September 30, 2019, net cash provided by investing activities was $318.9 million. This was primarily the result of $379.2 million of net proceeds from maturities of investments and $60.3 million of purchases for property and equipment and intangible assets.

Cash Flows Provided By Financing Activities

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

For the nine months ended September 30, 2019, cash provided by financing activities was $1,554.8 million, which primarily resulted from the net proceeds from the September 2019 issuance of the convertible senior notes due in 2024 and 2026 of $1,085.7 million, partially offset by $150.5 million paid in premiums for the related capped call confirmations. Cash provided by financing activities also included $581.6 million of proceeds from borrowings on our revolving credit facilities related to Zillow Offers and $41.0 million of proceeds from the exercise of option awards, partially offset by $2.9 million of net repayments of borrowings on our warehouse lines of credit related to Zillow Home Loans.

Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements other than outstanding surety bonds issued for our benefit of approximately $10.1 million as of September 30, 2020. We do not believe that the surety bonds will have a material effect on our liquidity, capital resources, market risk support or credit risk support. For additional information regarding the surety bonds, see Note 16 of our Notes to Condensed Consolidated Financial Statements in Part I 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, 2019, 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, 2020 (in thousands, unaudited):

	Payments Due By Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
2025 Notes (1)	$ 565,000	$ —	$ —	$ 565,000	$ —
Interest on 2025 Notes (2)	71,817	15,537	31,075	25,205	—
2021 Notes (3)	265,330	—	265,330	—	—
Interest on 2021 Notes (4)	6,191	5,307	884	—	—
2020 Notes (5)	7,584	7,584	—	—	—
Interest on 2020 Notes (6)	104	104	—	—	—
Homes segment credit facilities (7)	114,303	114,303	—	—	—
Mortgages segment credit facilities (8)	118,094	118,094	—	—	—
Purchase obligations (9)	31,811	22,841	8,367	603	—
Homes under contract (10)	182,569	182,569	—	—	—

(1) The aggregate principal amount of the 2025 Notes is due on May 15, 2025 if not earlier converted or redeemed.
(2) The stated interest rate on the 2025 Notes is 2.75%.
(3) The aggregate principal amount of the 2021 Notes is due on December 1, 2021 if not earlier converted or redeemed. Subsequent to September 30, 2020, we provided notice to the trustee that we will redeem the remaining $265.3 million in aggregate principal amount of the 2021 Notes on December 18, 2020. For additional information, see Note 19 of our Notes to Condensed Consolidated Financial Statements in Part I of this Quarterly Report on Form 10-Q.
(4) The stated interest rate on the 2021 Notes is 2.00%.
(5) The aggregate principal amount of the convertible senior notes due in 2020 (the "2020 Notes") is due on December 15, 2020.
(6) The stated interest rate on the 2020 Notes is 2.75%.
(7) 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.
(8) Includes principal amounts due for amounts borrowed under the warehouse line of credit and master repurchase agreement to finance mortgages originated through Zillow Home Loans. Amounts exclude an immaterial amount of estimated interest payments.
(9) We have noncancellable purchase obligations for content related to our mobile applications and websites and certain cloud computing costs. For additional information regarding our purchase obligations, see Note 16 of our Notes to Condensed Consolidated Financial Statements in Part I of this Quarterly Report on Form 10-Q.
(10) We have obligations to purchase homes under contract through our Zillow Offers business.

As of September 30, 2020, 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 $10.1 million as of September 30, 2020.

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 and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses and related disclosures. We evaluate our estimates and assumptions on an ongoing basis. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our actual results could differ from these estimates. For information on our critical accounting policies and estimates, see Item 2 (Management's Discussion and Analysis of Financial Condition and Results of Operations) of our Quarterly Report on Form 10-Q for the three months ended March 31, 2020. There have been no material changes to our critical accounting policies and estimates as previously disclosed in our Quarterly Report on Form 10-Q for the three months ended March 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, certificates of deposit, U.S. government agency securities, treasury bills, municipal securities and corporate notes and bonds. Our current investment policy seeks first to preserve principal, second to provide liquidity for our operating and capital needs and third to maximize yield without putting our principal at risk.

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

Our convertible senior notes bear interest at fixed rates. Thus, we have no related direct financial statement risk associated with changes in interest rates. However, the fair values of the convertible senior notes change primarily when the market price of our stock fluctuates or interest rates change. The following table summarizes our outstanding convertible senior notes as of September 30, 2020 (in thousands, except interest rates):

Maturity Date	Aggregate Principal Amount	Stated Interest Rate
September 1, 2026	$ 500,000	1.375 %
May 15, 2025	565,000	2.75 %
September 1, 2024	673,000	0.75 %
July 1, 2023	373,750	1.50 %
December 1, 2021	265,330	2.00 %
December 15, 2020	7,584	2.75 %
	$ 2,384,664	

Since the convertible senior notes bear interest at fixed rates, we have no direct financial statement risk associated with changes in interest rates as of September 30, 2020. However, the fair values of the convertible senior notes change primarily when the market price of our stock fluctuates or interest rates change.

We are subject to market risk by way of changes in interest rates on borrowings under our credit facilities that provide capital for Zillow Offers. As of September 30, 2020 and December 31, 2019, we had outstanding $114.3 million and $691.5 million, respectively, of borrowings on these credit facilities which bear interest at a floating rate based on the one-month London Interbank Offered Rate (“LIBOR”) plus an applicable margin, and in certain cases a LIBOR floor. Accordingly, fluctuations in market interest rates may increase or decrease our interest expense. Assuming no change in the outstanding borrowings on our credit facilities, we estimate that a one percentage point increase in LIBOR would increase our annual interest expense by approximately $1.1 million and $6.9 million as of September 30, 2020 and December 31, 2019, 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 agreement that provide capital for Zillow Home Loans. As of September 30, 2020 and December 31, 2019, we had outstanding $118.1 million and $30.4 million, respectively, of borrowings on our warehouse line of credit and master repurchase agreement 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 agreement, 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 agreement by $1.2 million as of September 30, 2020 and by an insignificant amount as of December 31, 2019.

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, 2020. 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, 2020.

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, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

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, 2019, 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.

COVID-19 has impacted our business and the extent to which it will continue to impact our business, financial condition and results of operations will depend on future developments, which are highly uncertain and cannot be predicted.

The current COVID-19 pandemic, its broad impact and preventive measures taken to contain or mitigate the pandemic have had, and are likely to continue to have, significant negative effects on the United States and global economy, employment levels, employee productivity, residential real estate and financial markets. This, in turn, has and may increasingly have a negative impact on our real estate partners, suppliers, demand for our products and services, the ability of customers to effectuate real estate transactions, profitability, the value of collateral securing loans, our ability to resell loans on the secondary market, access to credit and our ability to operate our business.

Earlier this year, in response to these unprecedented circumstances, we temporarily paused home buying activities through Zillow Offers, provided certain product discounts, temporarily closed offices, paused hiring for non-critical roles, paused the majority of our marketing and advertising activities and reduced discretionary spending. Although we have, among other things, resumed home buying in all Zillow Offers markets and began to increase our hiring, marketing and advertising activities, we cannot predict the scope and duration of the pandemic, actions taken by governmental authorities in response to the pandemic, or whether and to what extent we will have to implement additional operational changes in light of COVID-19 in the future.

In addition, our ability to fund our liquidity requirements and operate our business depends on our cash flows from operations as well as our ability to access capital markets and borrow on our existing credit facilities. For example, the provision of certain product discounts and pause of home buying activities through Zillow Offers has and may continue to disrupt our revenue and operating cash flow levels. Further, our access to and the availability of financing on acceptable terms may be adversely impacted by the pandemic. For more information on the impact the COVID-19 pandemic has had on our liquidity position and outlook, please see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources.”

As a result of these and other consequences, the pandemic has and may continue to adversely affect our business, results of operations and financial condition, likely significantly. The extent to which COVID-19 will impact our operations will depend on future developments, which are highly uncertain and cannot be predicted at this time, and include the magnitude, duration and severity of COVID-19, the actions taken to contain or mitigate the outbreak and any associated economic downturn or extended slowdown in the real estate markets.

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, 2020.

Item 6. Exhibits

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

Exhibit Number	Description
10.1*	Zillow Group, Inc. Executive Severance Plan (Filed as Exhibit 10.1 to Zillow Group, Inc's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 17, 2020, and incorporated herein by reference).
10.2*	Form of Proprietary Rights Agreement for certain officers of Zillow Group, Inc.
10.3*	Stock Option Grant Program for Nonemployee Directors under the Zillow Group, Inc. 2020 Incentive Plan (Filed as Exhibit 10.1 to Zillow Group, Inc's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 15, 2020, and incorporated herein by reference).
31.1	Certification of Chief Executive Officer pursuant to Rule 13-14(a) of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Rule 13-14(a) of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the inline XBRL document).
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (embedded within the inline XBRL document).
*	Indicates a management contract or compensatory plan or arrangement.

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 5, 2020	**ZILLOW GROUP, INC.**	
	By:	/s/ JENNIFER ROCK
	Name:	Jennifer Rock
	Title:	Chief Accounting Officer

Exhibit 10.2

ZILLOW, INC.

Proprietary Rights Agreement

This Proprietary Rights Agreement (the "***Agreement***") is entered into and between me and Zillow, Inc., a Washington corporation, for and on behalf of Zillow, Inc. and its parents, subsidiaries, affiliates, successors, and assigns (such affiliated entities are included within the term "***Company***" and "***Zillow***" herein). In consideration of my offer of new or continued employment with the Company, the compensation paid to me, including but not limited to any stock, restricted stock units, or stock options which may be granted to me, and other good and valuable consideration, the receipt and sufficiency of which I hereby acknowledge, I agree to the following terms:[1]

Section 1. Definitions

1.1 "***Person***" means any individual, corporation, partnership, trust, association, governmental authority, educational institution, or other entity.

1.2 "***Intellectual Property***" means any patent, copyright, trade secret, trademark, trade name, service mark, maskwork, original works of authorship, domain names, inventions, concepts, improvements, processes, methods, Invention, or other protected intellectual property right in any Confidential Information, whether or not patentable or registrable under copyright or similar laws, that I may solely or jointly conceive or develop or reduce to practice, or cause to be conceived or developed or reduced to practice, during my employment with the Company.

1.3 "***Invention***" means any product, device, technique, article of manufacture, composition of matter, know-how, machine, computer program, algorithm, method, process, procedure, improvement, discovery, invention or new uses for any of the preceding items, whether or not patentable or copyrightable and whether or not reduced to practice, that (a) is within the scope of the Company's business, research or investigations or results from or is suggested by any work performed by me for the Company and (b) is created, conceived, reduced to practice, developed, discovered, invented or made by me during my employment with the Company, whether solely or jointly with others, and whether or not while engaged in performing work for the Company, except as otherwise provided herein.

1.4 "***Material***" means any product, prototype, model, document, diskette, tape, picture, design, recording, writing or other tangible item which contains or manifests, whether in printed, handwritten, coded, magnetic or other form, any Confidential Information, Invention or Intellectual Property.

1.5 "***Confidential Information***" means any Company proprietary information, technical data, trade secrets or know-how, including, but not limited to, research, business plans, product plans, products, services, customer lists and customers (including, but not limited to, customers of the Company on whom I called or with whom I became acquainted during my employment with the Company), market research, methods of operations, techniques, personnel information, works of original authorship, intellectual property (including, but not limited to, unpublished works and undisclosed patents), photographs, negatives, digital images, software, computer programs, algorithms, tools, ideas, developments, inventions

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[1] Appendix A hereto contains important limitations for persons employed by the Company in certain jobs, as well as state specific modifications for employees working in certain states. You are encouraged to read Appendix A first so you understand which provisions of this Agreement apply to you currently and which may apply to you in the future should you relocate during employment with the Company.

(whether or not patentable), processes, formulas, technology, designs, drawings, forecasts, strategies, marketing plans, legal affairs that are privileged or work product protected, finances, suppliers, clients, prospects, opportunities, contracts or assets of the Company, or other business information disclosed to me by the Company either directly or indirectly in writing, orally or by drawings or observation or inspection of parts or equipment. Confidential Information does not include any of the foregoing items that has become publicly known and made generally available through no wrongful act of mine or of others who were under confidentiality obligations as to the item or items involved. Confidential Information also does not include my own compensation if disclosed by me, or information lawfully acquired by a non-management employee about wages, hours or other terms and conditions of employment when used for purposes protected by §7 of the National Labor Relations Act. For purpose of clarity, it shall still be a violation of this Agreement for a non-management employee to wrongfully share any Confidential Information about other employees' compensation and benefits which was obtained through the course of employment with the Company for purposes of assisting a Competing Business in soliciting Company employees.

1.6 "*Competing Business*" means any (a) real estate technology or advertising company, (b) iBuyer engaged in the purchase or sale of real estate, or (c) real estate brokerage that offers products or services in competition with products or services which are, during the period of my employment with the Company, either (i) produced, marketed or otherwise commercially exploited by the Company (including any parent, subsidiary, or affiliate) or (ii) in actual or demonstrably anticipated research or development by the Company (including any parent, subsidiary or affiliate), and as to which I have or had business-related involvement or about which I possess or received Confidential Information during the Look Back Period.

1.7 "*Territory*" will depend upon my position as follows: (i) if I am in a position where my responsibilities are not geographically limited to an assigned location or territory (such as, by way of example but not limitation, senior management positions) and where I am provided Confidential Information that is not geographically limited to an assigned location or territory (such as, by way of example but not limitation, executives, directors, and management positions), then Territory means the United States and any other countries in which the Company is doing business during the Look Back Period (including state and state-equivalents and county and county-equivalents within the United States and such other countries); (ii) if I am in a position with responsibilities and Confidential Information that are limited to an assigned territory or territories during the Look Back Period, then Territory shall be the specific geographic territory or territories assigned to me during the Look Back Period; and (iii) in the rare event that neither (i) nor (ii) apply, then the Territory is the county or counties that I performed services in or on behalf of the Company during the Look Back Period.

1.8 "*Look Back Period*" means the last three years of my employment or such shorter period of time as I have been employed.

1.9 "*Earnings*" means the compensation reflected on box 1 of your United States Internal Revenue Service Form W-2 from the Company that is paid to you over the prior year, or portion thereof for which you were employed, annualized and calculated as of the earlier of the date that enforcement of the noncompetition covenant is sought or the date of separation from employment.

Section 2. Ownership and Use

2.1 Ownership. The Company will be the exclusive owner of all Confidential Information, Inventions, Materials and Intellectual Property. To the extent applicable, all Materials will constitute "works for hire" under applicable copyright laws.

2.2 Duty to the Company. I will promptly disclose to the Company all Confidential Information, Inventions, Materials or Intellectual Property, as well as any business opportunity which comes to my attention during my employment with the Company and which relates to the business of the Company or which arises as a result of my employment with the Company. I will not take advantage of or divert any such opportunity for the benefit of myself or anyone else either during or after my employment with the Company without the prior written consent of the Company.

2.3 Assignment of Intellectual Property. I will promptly make full written disclosure to the Company, will hold in trust for the sole right and benefit of the Company, and hereby assign and transfer to the Company, or its designee, all my rights, title, interest, ownership and/or any appurtenant goodwill in and to any Intellectual Property that I may solely or jointly conceive or develop or reduce to practice, or cause to be conceived or developed or reduced to practice, during the period of time I am in the service of the Company and that (i) are developed using the equipment, supplies, facilities or Confidential Information of the Company, (ii) result from or are suggested by work performed by me for the Company, or (iii) relate to the Company business or to the actual or demonstrably anticipated research or development of the Company. The Intellectual Property will be the sole and exclusive property of the Company. I further acknowledge that all original works of authorship that are made by me (solely or jointly with others) within the scope of and during the period of my employment with the Company and that are protectable by copyright are "works made for hire," as that term is defined in the United States Copyright Act. To the extent that any Intellectual Property is not deemed to be work made for hire, I hereby assign all my rights, title, interest, ownership and/or any appurtenant goodwill in and to such Intellectual Property to the Company, except as provided in Section 2.8.

2.4 Patent and Copyright Registrations. I agree to assist the Company, or its designee, at the Company's expense, in every proper way to secure the Company's rights in the Intellectual Property and any copyrights, patents, trademarks, domain names or other intellectual property rights relating thereto in any and all countries, including the disclosure to the Company of all pertinent information and data with respect thereto and the execution of all applications, specifications, oaths, assignments and other instruments that the Company shall deem necessary in order to apply for and obtain such rights and in order to assign and convey to the Company and its successors, assigns and nominees the sole and exclusive right, title and interest in and to such Intellectual Property and any copyrights, patents, trademarks, domain names or other intellectual property rights relating thereto. I further agree that my obligation to execute or cause to be executed, when it is in my power to do so, any such instrument or papers shall continue after the termination of my employment with the Company. If the Company is unable because of my mental or physical incapacity or for any other reason to secure my assistance in perfecting the rights transferred in this Agreement, then I hereby irrevocably designate and appoint the Company and its duly authorized officers and agents as my agent and attorney in fact, to act for and in my behalf and stead to execute and file any such applications and to do all other lawfully permitted acts to further the prosecution and issuance of letters patent and copyright, trademark or domain name registrations thereon with the same legal force and effect as if executed by me. The designation and appointment of the Company and its duly authorized officers and agents as my agent and attorney in fact shall be deemed to be coupled with an interest and therefore irrevocable.

2.5 Maintenance of Records. I agree to keep and maintain adequate and current written records of all inventions and Intellectual Property during my employment. The records will be in the form of notes, sketches, drawings, and any other format that may be specified by the Company. The records will be available to and remain the sole property of the Company at all times. I will not contest the validity of any Intellectual Property, or aid or encourage any third party to contest the validity of any Intellectual Property of the Company.

2.6 Non-Disclosure or Use. Except as required for performance of my work for the Company or as authorized in writing by the Company, I will not (a) use, disclose, publish or distribute any Confidential Information, Inventions, Materials or Intellectual Property or (b) remove any Materials from the Company's premises. If I have any questions about what constitutes Confidential Information I agree to contact the Company's Legal Department prior to use, disclosure, publication, or distribution of such information. The Company and I also recognize that state law provides additional protection for statutorily defined trade secrets and this Agreement does not waive, alter, or reduce any such additional protections. Likewise, the Company and I agree that this Agreement does not alter, reduce or modify any obligations I owe to the Company under any other applicable statute or the common law. However, nothing in this Agreement prohibits me from (1) disclosing sexual harassment or sexual assault occurring in the workplace, at work-related events coordinated by or through the Company, or between employees, or between the Company and an employee, off the workplace premises; or (2) reporting possible violations of law or regulation to any governmental agency or entity, including but not limited to the Department of Justice, the Securities and Exchange Commission, the Congress, and any agency Inspector General, or making other disclosures that are protected under the whistleblower provisions of any law or regulation. I do not need the prior authorization of the Company to make any such reports or disclosures and I am not required to notify the Company that I have made such reports or disclosures. I am hereby provided notice that under the 2016 Defend Trade Secrets Act (DTSA): (1) no individual (consultant, contractor or employee) will be held criminally or civilly liable under Federal or State trade secret law for the disclosure of a trade secret (as defined in the Economic Espionage Act) that: (A) is made in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney; and made solely for the purpose of reporting or investigating a suspected violation of law; or, (B) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal so that it is not made public; and, (2) an individual (consultant, contractor or employee) who pursues a lawsuit for retaliation by an employer for reporting a suspected violation of the law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding, if the individual files any document containing the trade secret under seal, and does not disclose the trade secret, except as permitted by court order. In the event that I file a trade secret of the Company under seal in a matter in which the Company is not a party, I agree to provide notice to the Company contemporaneously with the filing of the trade secret under seal so that the Company can take whatever additional efforts are necessary to maintain the confidentiality of the trade secret information.

2.7 Intellectual Property Retained and Licensed. I will identify on Exhibit A all original works of authorship, inventions, developments, improvements, trademarks, designs, domain names, processes, methods and trade secrets that were made by me prior to my employment with the Company (collectively referred to as "*Prior Intellectual Property*"), that belong to me, that relate to the Company's proposed business, products or research and development, and that are not assigned to the Company hereunder; or, if no such list is attached, I represent that there is no such Prior Intellectual Property. If in the course of my employment with the Company, I incorporate into Company property any Prior Intellectual Property owned by me or in which I have an interest, the Company is hereby granted and shall have a nonexclusive, royalty-free, irrevocable, perpetual, worldwide license to make, have made, modify, use and sell such Prior Intellectual Property as part of or in connection with such Company property.

2.8 Exception to Assignments. This Agreement's assignment provisions are limited to only those inventions that can be lawfully assigned by an employee to an employer. Some examples of state laws limiting the scope of assignable inventions are: Delaware Code Title 19 Section 805; Kansas Statutes Section 44-130; Minnesota Statutes 13A Section 181.78; North Carolina General Statutes Article 10A, Chapter 66, Commerce and Business, Section 66-57.1; Utah Code Sections 34-39-l through 34-39-3, "Employment Inventions Act"; Washington Rev. Code, Title 49 RCW: Labor Regulations, Chapter 49.44.140. NOTICE: I acknowledge notice that to the extent one of the foregoing laws applies, my invention assignment agreement will not apply to an invention for which no equipment, supplies, facility or trade secret information of the Company was used and which was developed entirely on my own time, unless: (1) the invention relates directly to the business of the Company or to the Company's actual or demonstrably anticipated research or development; or (2) the invention results from any work performed by me for the Company. Similarly, to the extent California Labor Code Section 2870, or Illinois 765ILCS1060/1-3, "Employees Patent Act", controls then the same notice will apply absent the word "directly" in part (1).

Section 3. Further Obligations

3.1 My execution, delivery and performance of this Agreement and the performance of my other obligations and duties to the Company will not cause any breach, default or violation of any other employment, nondisclosure, confidentiality, consulting or other agreement to which I am a party or by which I may be bound. Attached as Exhibit B is a list of all prior agreements now in effect under which I have agreed to keep information confidential or not to compete or solicit employees of any Person.

3.2 I will not use in performance of my work for the Company or disclose to the Company any trade secret, confidential or proprietary information of any prior employer or other Person if and to the extent that such use or disclosure may cause a breach, default or violation of any obligation or duty that I owe to such other Person (e.g., under any agreement or applicable law). My compliance with this paragraph, which is an essential term of my employment with the Company, will not prohibit, restrict or impair the performance of my work, obligations and duties to the Company.

3.3 I recognize that the Company has received and in the future will receive from third parties their confidential or proprietary information subject to a duty on the Company's part to maintain the confidentiality of such information and to use it only for certain limited purposes. I agree to hold all such confidential or proprietary information in the strictest confidence and not to disclose it to any person, firm or corporation or to use it except as necessary in carrying out my work for the Company consistent with the Company's agreement with such third party.

Section 4. Restrictive Covenants

4.1 Employee Non-Solicitation. I agree that during the period of my employment with the Company and for a period of twelve (12) months thereafter, I will not, directly or indirectly, use or disclose the Company's trade secrets to solicit any person who shall then be employed by the Company (as an employee or consultant) or who shall have been employed by the Company (as an employee or consultant) within the prior twelve (12) month period, on behalf of myself or any other person, firm, corporation, association or other entity, for the purpose of: (a) soliciting such employee to terminate his or her employment by the Company; or (b) encouraging such person to go to work for a Competing Business. The foregoing employee non-solicitation provision shall be limited to the solicitation of individuals: (i) who are uniquely essential to the management, organization, sales, research and development, or service of the business, or similar role; and (ii) with whom I am working or have worked, as to whom I have or have had supervisory responsibilities, or regarding whom I received Confidential Information, in each case during the Look Back Period. In the event the Company loses an employee due, in whole or in part, to conduct by me that violates this Agreement prior to the issuance of injunctive relief, I shall pay the Company a sum equal to thirty percent (30%) of the annual wages of the person(s) who were improperly solicited and left the Company, based on such person's last rate of pay with the Company. This payment shall not preclude or act as a substitute for any remedy that would otherwise be available, including but not limited to, injunctive relief to prevent further violations. Nothing herein is intended or to be construed as a prohibition against general advertising such as "help wanted" ads that are not targeted at the Company's employees. This provision also does not preclude conduct protected by Section 7 of the National Labor Relations Act (NLRA) such as joining or forming a union, engaging in collective bargaining, or engaging in other concerted activity for mutual aid and protection. **I acknowledge that I have read Appendix A of this Agreement and understand that the applicability of this Section may be limited and / or may be subject to change, depending on the location of my work.**

4.2 Customer Non-Solicitation. I agree that, during the period of my employment with the Company and for a period of twelve (12) months thereafter, I will not, directly or indirectly, attempt to solicit for, divert to, appropriate to, or accept on behalf of, any Competing Business, any business from any customer or actively sought prospective customer of the Company with which I have or have had material business-related dealings, or whose dealings with the Company have been supervised by me, or about which I have acquired Confidential Information during the Look Back Period. This provision does not preclude conduct protected by Section 7 of the NLRA such as joining or forming a union, engaging in collective bargaining, or engaging in other concerted activity for mutual aid and protection. I acknowledge that I have read Appendix A of this Agreement and understand that the applicability of this Section may be limited and / or may be subject to change, depending on the location of my work.

4.3 Non-Competition. I agree that I will not, (a) during the period of my employment with the Company, and (b) if my Earnings are or become equal to or greater than $100,000 (or if this dollar amount has been adjusted in accordance with Chapter 299, Washington State Laws of 2019, enacted May 8, 2019, then the then-current dollar amount will apply), then for a period of twelve (12) months after my employment with the Company ends: within the Territory or for the benefit of a Competing Business's operations within the Territory, directly or indirectly, engage in, be employed by, perform services for, participate in the ownership, management, control or operation of, or otherwise be connected with, any Competing Business, in a capacity that is the same as or similar to the capacity in which I performed services for the Company during the Look Back Period or any such other capacities that would result in the use or disclosure of Confidential Information. I acknowledge and agree that engaging in conduct while employed that violates this Section 4.3 would create a conflict of interest with the Company. For purposes of this paragraph, I will not be considered to be connected with any Competing Business solely on account of: my ownership of less than five percent of the outstanding capital stock or other equity interests in any Person carrying on the Competing Business. The Company, in its sole discretion, may determine to waive the noncompetition provisions of this Section 4.3 in whole or in part. Any such waiver shall not constitute a waiver of any noncompetition or forfeiture provisions of any other agreement between the Company and me or anyone else. I agree that, during my employment with the Company, I will notify the Company prior to engaging in (i) any other employment, occupation, consulting or other business activity related to the business in which the Company is now involved or becomes involved during the term of my employment, or (ii) in any other activities that may conflict with my obligations to the Company. I acknowledge that I have read Appendix A of this Agreement and understand that the applicability of this Section may be limited and / or may be subject to change, depending on the location of my work and my annualized Compensation.

4.4 Direct or Indirect Violations. I acknowledge and agree that I will be in violation of Sections 4.1, 4.2, and/or 4.3 if I engage in any or all of the activities set forth in those Sections directly as an individual on my own account, or indirectly for, through, or with assistance from, any other person or entity, whether as partner, joint venturer, employee, agent, salesperson, employee, officer, manager and/or director of any person or entity, or as an equity holder of any person or entity in which I or my spouse, child, or parent owns, directly or indirectly, any of the outstanding equity interests.

4.5 Reasonableness of Restrictions. I acknowledge and agree that, given the electronic and global nature of the environment in which the Company conducts business, a broad geographic limitation to the above restrictions is reasonable to protect the Company's interests. I further acknowledge and agree that the length of the time periods applicable to the restrictive covenants are appropriate and reasonable, in view of the nature of the Company's business and my employment with the Company and knowledge of its business. I acknowledge that I have carefully considered the terms of this Agreement, including the restrictive covenants contained herein, and acknowledge that if this Agreement is enforced according to its terms, I will be able to earn a reasonable living in commercial activities in locations satisfactory to me. I also acknowledge that the restrictive covenants set forth herein are a vital part of and intrinsic to the ongoing operations of the Company, in light of the nature of the business and my unique position, skills, and knowledge with and of the Company.

4.6 Tolling of Covenants. I acknowledge and agree that if it is judicially determined that I have violated any of my obligations under Sections 4.1, 4.2, and/or 4.3, then the period applicable to each obligation that I have been determined to have violated shall automatically toll from the date of the first breach, and all subsequent breaches, until the resolution of the breach through private settlement, judicial or other action, including all appeals.

Section 5. Termination of Employment

5.1 I agree that, at the time of leaving the service of the Company, I will deliver to the Company (and will not keep in my possession, recreate or deliver to anyone else) any and all works of original authorship, domain names, original registration certificates, photographs, negatives, digital images, devices, records, data, notes, reports, proposals, lists, correspondence, specifications, drawings, blueprints, sketches, materials, equipment or other documents or property, or reproductions of any aforementioned items, and any and all Confidential Information, developed by me pursuant to my employment with the Company or otherwise belonging to the Company or its successors or assigns. I agree to sign and deliver the "***Termination Certification***" attached as Exhibit C.

5.2 At the end of my employment with the Company, I agree to provide the name of my new employer, if any, and consent to notification by the Company to my new employer about my rights and obligations under this Agreement in the form of Exhibit D.

Section 6. Employment At Will

Except as provided for in this Section 6, I agree that my employment is "at will," which means that it can be terminated at any time by the Company or by me, with or without cause and with or without notice. I agree that any promise or obligation that my employment be on any other basis than "at will" is invalid unless in writing signed by the Chief Executive Officer of the Company. I agree to abide by the Company's rules, regulations, policies and practices as revised from time to time.

Section 7. Miscellaneous

7.1 Survival; Subsidiaries and Affiliates. I agree that my obligations under this Agreement will survive the end of my employment with the Company. I understand and agree that this Agreement is executed by Zillow, Inc. on its own behalf and on behalf of each of its parents, subsidiaries, affiliates, successors, or assignees, that my obligations under this Agreement shall apply equally to each of Zillow, Inc.'s parent companies, subsidiaries, affiliates, successors, or assignees, and that such entities may enforce this Agreement in their own name as if they were parties to this Agreement.

7.2 Assignability. I understand and agree that this Agreement will be binding upon my heirs, executors, assigns, administrators, agents, and other legal representatives, and will be for the benefit of the Company, its successors, and its assigns. Without limiting the foregoing, the Company may assign this Agreement and its rights and obligations under this Agreement to any successor to any of the Company's relevant assets, whether by merger, consolidation, reorganization, reincorporation, sale of assets or stock, or otherwise.

7.3 Injunctive Relief; Costs. I acknowledge that my obligations under this Agreement are important to the Company, and that the Company would not employ or continue to employ me without my agreement to such obligations. I also acknowledge that if I do not abide by my obligations in this Agreement, the Company will suffer immediate and irreparable harm, and that the damage to the Company will be difficult to measure and financial relief will be incomplete. Accordingly, the Company will be entitled to injunctive relief and other equitable remedies in the event of a breach by me of any obligation under this Agreement. Furthermore, no bond need be posted in conjunction with the application for, or issuance of, an injunction (which requirement I hereby specifically and expressly waive) (however, if a court or arbitrator requires a bond notwithstanding the foregoing waiver, the parties agree that $1,000 is an adequate amount of bond that need be posted). The rights and remedies of the Company under this section are in addition to all other remedies. Further, in any legal action or other proceeding in connection with this Agreement (*e.g.*, to recover damages or other relief), the prevailing party will be entitled to recover its reasonable attorneys' fees and other costs incurred.

7.4 Severability and Modification. This Agreement will be enforced to the fullest extent permitted by applicable law. If for any reason any provision of this Agreement is held to be invalid or unenforceable to any extent (including with respect to scope, duration, territory, or terms of restrictive covenants), then I agree that (a) the court or arbitrator making such determination shall have the power to reduce or modify the scope, duration, territory, and/or terms of such provision, and to delete specific words or phrases in such provision, so that the provision is enforceable by the court or arbitrator, and such provision as amended shall be enforced by the court or arbitrator; (b) such invalidity or unenforceability will not affect any other provision of this Agreement or any other agreement between the Company and me; and (c) that I will abide by the Agreement as modified by the court or arbitrator.

7.5 Governing Law. Except as provided in this Agreement, the Federal Arbitration Act shall govern the interpretation, enforcement and all proceedings pursuant to this Agreement. To the extent that the Federal Arbitration Act is inapplicable, the law of the state in which I last regularly worked for the Company governs.

7.6 Venue and Personal Jurisdiction The parties acknowledge the Mutual Agreement to Arbitrate Claims entered into by the parties and the fact that the Mutual Agreement to Arbitrate Claims excludes claims for temporary equitable relief in aid of arbitration ("Temporary Injunction Proceedings"). To the maximum extent permitted by law, the parties expressly agree to submit to the exclusive jurisdiction and exclusive venue of courts located in the state where I last regularly worked for the Company for Temporary Injunction Proceedings. I waive any right to have any Temporary Injunction Proceedings decided in any other jurisdiction or venue.

7.7 Entire Agreement. This Agreement sets forth the entire agreement and understanding between the Company and me relating to the subject matter herein and merges all prior discussions between us, subject to the Mutual Agreement to Arbitrate Claims entered into by the parties which shall be enforced to the maximum extent permitted by applicable law (after application of Federal Arbitration Act preemption principles). No modification of or amendment to this Agreement, or any waiver of any rights under this Agreement, will be effective unless in writing signed by the party to be charged or is by order of a court of competent jurisdiction or duly-appointed arbitrator. Any subsequent change or changes in my duties, salary or compensation will not affect the validity or scope of this Agreement.

7.8 Waivers. No waiver of any breach shall be considered valid unless in writing signed by the party against whom waiver is asserted, and no waiver shall be a waiver of any subsequent breach.

7.9 Acknowledgment. I have carefully read all of the provisions of this Agreement and agree that (a) the same are necessary for the reasonable and proper protection of the Company's business, (b) the Company has been induced to enter into and/or continue its relationship with me in reliance upon my compliance with the provisions of this Agreement, (c) every provision of this Agreement is reasonable with respect to its scope and duration, (d) I have executed this Agreement without duress or coercion from any source, and (e) I have received a copy of this Agreement.

This Agreement shall be effective as of ______________________________.
(Date)

____
Signature

____
FULL NAME (print or type)

ACCEPTED:

ZILLOW, INC.

By
Its Chief People Officer

APPENDIX A

<u>Interns:</u>

If I am employed by the Company as an intern, Section 4.3 shall only apply during the period of time I am employed by the Company (and not post-employment). In addition, any applicable state specific modifications provided for below shall also apply while I am employed by the Company as an intern (and not post-employment).

<u>Attorneys</u>:

The parties agree that Section 4.3 shall not apply to restrict any attorney from the practice of law on behalf of any future client, subject to the applicable Rules of Professional Conduct. In addition, any applicable state specific modifications provided for below shall also apply.

<u>Alabama:</u>

If I reside in Alabama, for so long as I reside in Alabama and am subject to Alabama law, then the following applies to me: Section 4.2 shall apply only to current customers and shall not apply to prospective customers.

Arizona:

If I reside in Arizona, for so long as I reside in Arizona and am subject to Arizona law, then the following applies to me: (a) the obligations under Section 4.2 are limited to the Territory; and (b) with respect to Confidential Information which (1) is a Trade Secret, my confidentiality obligations shall continue indefinitely until the information is no longer considered a Trade Secret under applicable law; or (2) is not a Trade Secret, my confidentiality obligations shall continue in duration until the first to occur of the following: (i) three (3) years has elapsed since termination of my employment with the Company for any reason, or (ii) the Confidential Information has been made generally available to the public either by the Company or by a third party with the Company's consent and through no wrongful action by me.

Arkansas, Connecticut, Montana:

If I reside in Arkansas, Connecticut, or Montana, for so long as I reside in Arkansas , Connecticut, or Montana and am subject to Arkansas, Connecticut, or Montana law, then the following applies to me: with respect to Confidential Information which (1) is a Trade Secret, my confidentiality obligations shall continue indefinitely until the information is no longer considered a Trade Secret under applicable law; or (2) is not a Trade Secret, my confidentiality obligations shall continue in duration until the first to occur of the following: (i) three (3) years has elapsed since termination of my employment with the Company for any reason, or (ii) the Confidential Information has been made generally available to the public either by the Company or by a third party with the Company's consent and through no wrongful action by me.

California:

To the extent my employment or potential employment is governed by and subject to the laws of the State of California: (a) Section 4.1 shall only apply during the period of time I am employed by the Company (and not post-employment) and I acknowledge and agree that engaging in conduct while employed that violates Section 4.1 would create a conflict of interest with the Company; (b) Section 4.2 shall be limited to situations where I am aided in my conduct by the use or disclosure of the Company's trade secrets (as defined by California law); (c) Section 4.3 shall only apply during the period of time that I am employed by the Company (and not post-employment,); and (d) Sections 7.5 and 7.6 shall not apply.

Louisiana, Massachusetts, North Dakota:

If I reside in Louisiana, Massachusetts, or North Dakota, for so long as I reside in Louisiana, Massachusetts, or North Dakota and am subject to Louisiana, Massachusetts, or North Dakota law, then the following applies to me: Section 4.3 shall only apply during the period of time that I am employed by the Company (and not post-employment).

Nebraska:

If I reside in Nebraska, for so long as I reside in Nebraska and am subject to Nebraska law, then the following applies to me: (a) the Look Back Period in Section 1.6 is revised to mean the last two years of my employment or such shorter period of time as I have been employed; (b) Section 4.2 is limited to customers with whom the Company did business and as to which I had personal business-related contact during the Look Back Period; and (c) Section 4.3 shall only apply during the period of time that I am employed by the Company (and not post-employment.).

Nevada:

If I reside in Nevada, for so long as I reside in Nevada and am subject to Nevada law, then Section 4.2 does not preclude me from providing services to any former client or customer of the Company if: (a) I did not solicit the former customer or client; (b) the customer or client voluntarily chose to leave and seek services from me; and (c) I am otherwise complying with the limitations in this Agreement as to time and scope of activity to be restrained.

New York:

If I reside in New York, for so long as I reside in New York and am subject to New York law, then the following applies to me: Section 4.2 shall be modified so that it excludes those customers who became a customer of the Company as a result of my independent contact and business development efforts with the customer prior to and independent from the customer's employment with the Company.

North Carolina:

If I reside in North Carolina, for so long as I reside in North Carolina and am subject to North Carolina law, then the following applies to me: the Look Back Period shall be two years and shall be calculated looking back two years from the date of enforcement and not from the date employment ends.

Oklahoma:

If I reside in Oklahoma, for so long as I reside in Oklahoma and am subject to Oklahoma law, then the following applies to me: (i) Section 4.2 is rewritten is follows: "I agree that, during the period of my Relationship with the Company and for a period of twelve (12) months thereafter, I will not directly solicit the established clients of the Company for the purpose of doing any business that would compete with the Company's business. The foregoing shall be limited to clients with which I have or have had material business-related dealings, or whose dealings with the Company have been supervised by me, or about which I have acquired Confidential Information during the Look Back Period. This provision does not preclude conduct protected by Section 7 of the NLRA such as joining or forming a union, engaging in collective bargaining, or engaging in other concerted activity for mutual aid and protection."; and (ii) Section 4.3 shall only apply during the period of time that I am employed by the Company (and not post-employment).

Oregon:

If I reside in Oregon, for so long as I reside in Oregon and am subject to Oregon law, then the following applies to me: the post-employment restrictions in Section 4.3 shall only apply if I: (a) am engaged in administrative, executive or professional work and perform predominantly intellectual, managerial, or creative tasks, exercise discretion and independent judgment and earn a salary or am otherwise exempt from Oregon's minimum wage and overtime laws; and (b) the Company has a "protectable interest" (meaning, access to trade secrets or competitively sensitive confidential business or professional information). However, if I do not meet the requirements of (a), the Company may, on a case-by-case basis, decide to make Section 4.3 enforceable as to me (as allowed by Oregon law), by paying me during the period of time I am restrained from competing the greater of: (i) compensation equal to at least 50 percent of my annual gross base salary and commissions at the time of my termination; or (ii) fifty percent of the median family income for a four-person family, as determined by the United

States Census Bureau for the most recent year available at the time of my termination.

Wisconsin:

If I reside in Wisconsin, for so long as I reside in Wisconsin and am subject to Wisconsin law, then the following applies to me: (a) with respect to Confidential Information which (1) is a Trade Secret, my confidentiality obligations shall continue indefinitely until the information is no longer considered a Trade Secret under applicable law; or (2) is not a Trade Secret, my confidentiality obligations shall continue in duration until the first to occur of the following: (i) three (3) years has elapsed since termination of my employment with the Company for any reason, or (ii) the Confidential Information has been made generally available to the public either by the Company or by a third party with the Company's consent and through no wrongful action by me; and (b) Section 4.6 shall not apply.

EXHIBIT A

LIST OF PRIOR INVENTIONS AND ORIGINAL WORKS OF AUTHORSHIP

Title	Date	Identifying Number or Brief Description

__________ No inventions or improvements

__________ Additional sheets attached

Signature of Employee: ____

Print Name of Employee: ____

Date: __________________________

EXHIBIT B

The following is a list of all prior agreements with former employers or others to which I am a party in which I agreed to maintain the confidentiality of the information of, or not to compete with or solicit the employees or customers of, a third party.

__________ No Agreements
__________ See below
__________ Additional sheets attached

I hereby acknowledge and affirm that I have complied with, and will comply with, my obligations under the agreements identified in this Exhibit B, including but not limited to any confidentiality, non-compete, and non-solicit obligations I owe or owed to any former employers or others, and that I do not reasonably anticipate that my employment with the Company may violate any existing obligations I have under the agreements.

Signature of Employee: ____

Print Name of Employee: ____

Date: __________________________

EXHIBIT C

TERMINATION CERTIFICATION

This is to certify that I do not have in my possession, and I have not failed to return, any Materials or other property belonging to Zillow, Inc., its subsidiaries, affiliates, successors or assigns (together, the “Company”).

I further certify that I have complied with all the terms of the Company’s Proprietary Rights Agreement signed by me, including the reporting of any Inventions conceived or made by me (solely or jointly with others) covered by that Agreement.

I understand that I will continue to be subject to written post-employment obligations that I entered into with the Company, which prohibit me from engaging in certain conduct. This prohibited conduct may include, but not be limited to, restrictions on my ability to use, disclose, publish, or distribute certain information, inventions, and intellectual property, to solicit employees and consultants, to solicit customers or prospective customers of the Company, or, during a defined time period post-employment, to enter into certain employment and other relationships.

Signature of Employee: ____________________________________

Print Name of Employee: ____________________________________

Date: ________________________

EXHIBIT D

NOTIFICATION TO NEW EMPLOYERS

Dear **[**name of new employer's president**]**:

We understand that our former employee, **[**name of employee**]**, has accepted employment with your company. This letter is to advise you that **[**name of employee**]** signed a Proprietary Rights Agreement with Zillow, Inc. that remains in full force and effect. At the time **[**name of employee**]** left our company, we advised **[**him/her**]** of **[**his/her**]** continuing obligations under the Agreement and **[**name of employee**]** signed a Termination Certificate affirming **[**his/her**]** obligations under the Agreement. A copy of the Termination Certificate, dated __________, 20__, is enclosed so that any conflict with these obligations can be avoided during **[**his/her**]** employment with you.

Very truly yours,

____

[Typed name]

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO RULE 13-14(A) OF THE SECURITIES EXCHANGE ACT OF 1934 AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

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, 2020;
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 5, 2020

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO RULE 13-14(A) OF THE SECURITIES EXCHANGE ACT OF 1934 AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

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, 2020;
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 5, 2020

EXHIBIT 32.1

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, 2020 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:	/s/ RICHARD BARTON
Name:	Richard Barton
Title:	Chief Executive Officer
Date:	November 5, 2020

EXHIBIT 32.2

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

In connection with the Quarterly Report on Form 10-Q of Zillow Group, Inc. (the "Company") for the fiscal quarter ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Allen Parker, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By:	/s/ ALLEN PARKER
Name:	Allen Parker
Title:	Chief Financial Officer
Date:	November 5, 2020