

1 Laurence M. Rosen, Esq. (SBN 219683)
2 **THE ROSEN LAW FIRM, P.A.**
3 355 South Grand Avenue, Suite 2450
4 Los Angeles, CA 90071
5 Telephone: (213) 785-2610
6 Facsimile: (213) 226-4684
7 Email: lrosen@rosenlegal.com

8 Counsel for Plaintiff

9 **UNITED STATES DISTRICT COURT**
10 **CENTRAL DISTRICT OF CALIFORNIA**

11 , Individually
12 and on behalf of all others similarly
13 situated,

14 Plaintiff,

15 v.

16 ZILLOW GROUP, INC., SPENCER M.
17 RASCOFF, and KATHLEEN PHILIPS,

18 Defendants.

Case No.

**CLASS ACTION COMPLAINT FOR
VIOLATION OF THE FEDERAL
SECURITIES LAWS**

JURY TRIAL DEMANDED

19
20 Plaintiff (“Plaintiff”), individually and on behalf of all
21 other persons similarly situated, by Plaintiff’s undersigned attorneys, for Plaintiff’s
22 complaint against Defendants (defined below), alleges the following based upon
23 personal knowledge as to Plaintiff and Plaintiff’s own acts, and information and
24 belief as to all other matters, based upon, *inter alia*, the investigation conducted by
25 and through Plaintiff’s attorneys, which included, among other things, a review of
26 the defendants’ public documents, conference calls and announcements made by
27 defendants, United States Securities and Exchange Commission (“SEC”) filings,
28

1 wire and press releases published by and regarding Zillow Group, Inc. (“Zillow” or
2 the “Company”), analysts’ reports and advisories about the Company, and
3 information readily obtainable on the Internet. Plaintiff believes that substantial
4 evidentiary support will exist for the allegations set forth herein after a reasonable
5 opportunity for discovery.

6 **NATURE OF THE ACTION**

7 1. This is a federal securities class action on behalf of a class consisting of
8 all persons and entities other than Defendants who purchased or otherwise acquired
9 the publicly traded securities of Zillow from February 12, 2016 through August 8,
10 2017, both dates inclusive (the “Class Period”). Plaintiff seeks to recover
11 compensable damages caused by Defendants’ violations of the federal securities laws
12 and to pursue remedies under Sections 10(b) and 20(a) of the Securities Exchange
13 Act of 1934 (the “Exchange Act”) and Rule 10b-5 promulgated thereunder.

14 **JURISDICTION AND VENUE**

15 2. The claims asserted herein arise under and pursuant to §§10(b) and 20(a)
16 of the Exchange Act (15 U.S.C. §§78j(b) and §78t(a)) and Rule 10b-5 promulgated
17 thereunder by the SEC (17 C.F.R. §240.10b-5).

18 3. This Court has jurisdiction over the subject matter of this action under
19 28 U.S.C. §1331 and §27 of the Exchange Act.

20 4. Venue is proper in this judicial district pursuant to §27 of the Exchange
21 Act (15 U.S.C. §78aa) and 28 U.S.C. §1391(b) as the Company conducts business in
22 this judicial district.

23 5. In connection with the acts, conduct and other wrongs alleged in this
24 Complaint, Defendants, directly or indirectly, used the means and instrumentalities of
25 interstate commerce, including but not limited to, the United States mail, interstate
26 telephone communications and the facilities of the national securities exchange.

PARTIES

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2 6. Plaintiff, as set forth in the accompanying Certification, purchased
3 Zillow securities at artificially inflated prices during the Class Period and was
4 damaged upon the revelation of the alleged corrective disclosure.

5 7. Defendant Zillow operates real estate and home-related information
6 marketplaces on mobile and the Web in the United States. The Company is
7 incorporated in Washington and headquartered at 1301 Second Avenue, Floor 31,
8 Seattle, Washington. The Company maintains an office in Irvine, California. The
9 Company's securities are traded on The Nasdaq Global Select Market ("NASDAQ")
10 under the ticker symbol "Z."

11 8. Defendant Spencer M. Rascoff ("Rascoff") has been the Company's
12 Chief Executive Officer ("CEO") throughout the Class Period.

13 9. Defendant Kathleen Philips ("Philips") has been the Company's Chief
14 Financial Officer ("CFO") throughout the Class Period.

15 10. Defendants Rascoff and Philips are sometimes referred to herein as the
16 "Individual Defendants."

17 11. Each of the Individual Defendants:

- 18 (a) directly participated in the management of the Company;
19 (b) was directly involved in the day-to-day operations of the Company at the
20 highest levels;
21 (c) was privy to confidential proprietary information concerning the
22 Company and its business and operations;
23 (d) was directly or indirectly involved in drafting, producing, reviewing
24 and/or disseminating the false and misleading statements and
25 information alleged herein;
26 (e) was directly or indirectly involved in the oversight or implementation of
27 the Company's internal controls;
28

1 (f) was aware of or recklessly disregarded the fact that the false and
2 misleading statements were being issued concerning the Company;
3 and/or

4 (g) approved or ratified these statements in violation of the federal securities
5 laws.

6 12. The Company is liable for the acts of the Individual Defendants and its
7 employees under the doctrine of *respondeat superior* and common law principles of
8 agency because all of the wrongful acts complained of herein were carried out within
9 the scope of their employment.

10 13. The scienter of the Individual Defendants and other employees and
11 agents of the Company is similarly imputed to the Company under *respondeat*
12 *superior* and agency principles.

13 14. The Company and the Individual Defendants are referred to herein,
14 collectively, as the “Defendants.”

15 **SUBSTANTIVE ALLEGATIONS**

16 **Background**

17 15. The Company’s co-marketing program allows mortgage lenders to pay
18 for portions of realty agents’ monthly advertising costs on Zillow websites.

19 **Materially False and Misleading Statements**

20 16. On February 12, 2016, the Company filed a Form 10-K for the fiscal
21 year ended December 31, 2015 (“2015 10-K”) with the SEC, which provided the
22 Company’s annual financial results and position. The 2015 10-K was signed by
23 Defendants Rascoff and Philips. The 2015 10-K also contained signed certifications
24 pursuant to the Sarbanes-Oxley Act of 2002 (“SOX”) by Defendants Rascoff and
25 Philips attesting to the accuracy of financial reporting, the disclosure of any material
26 changes to the Company’s internal controls over financial reporting, and the
27 disclosure of all fraud.

28

1 17. The 2015 10-K stated the following regarding the Company's adherence
2 to government regulations:

3 **Government Regulation**

4 We are affected by laws and regulations that apply to businesses in
5 general, as well as to businesses operating on the Internet and through
6 mobile applications. This includes a continually expanding and evolving
7 range of laws, regulations and standards that address information
8 security, data protection, privacy, consent and advertising, among other
9 things. We are also subject to laws governing marketing and advertising
10 activities conducted by telephone, email, mobile devices, and the
11 Internet, including the Telephone Consumer Protect Act, the
12 Telemarketing Sales Rule, the CAN-SPAM Act, and similar state laws.
13 In addition, some of our mortgage advertising products are operated by
14 our wholly owned subsidiary, Zillow Group Mortgages, Inc., a licensed
15 mortgage broker, pursuant to a support services agreement. Though we
do not take mortgage applications or make loans or credit decisions in
connection with loans, Zillow Group Mortgages, Inc. is subject to
stringent state and federal laws and regulations and to the scrutiny of
state and federal government agencies as a licensed mortgage broker.

16 By providing a medium through which users can post content and
17 communicate with one another, we may also be subject to laws
18 governing intellectual property ownership, obscenity, libel, and privacy,
19 among other issues. In addition, the real estate agents, mortgage
20 professionals, banks, property managers, rental agents and some of our
21 other customers and advertisers on our mobile applications and websites
22 are subject to various state and federal laws and regulations relating to
23 real estate, rentals and mortgages. *We endeavor to ensure that any
24 content created by Zillow is consistent with such laws and regulations
25 by obtaining assurances of compliance from our advertisers and
26 consumers for their activities through, and the content they provide on,
27 our mobile applications and websites.* The real estate, mortgages, and
28 rentals industries are subject to significant state and federal regulation;
though we provide advertising services and technology solutions to real
estate, mortgages, and rentals professionals, certain of our activities may
be deemed to be covered by these industry regulations. Since the laws
and regulations governing real estate, rentals and mortgages are
constantly evolving, it is possible that we may have to materially alter

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the way we conduct some parts of our business activities or be prohibited from conducting such activities altogether at some point in the future.

(Emphasis added).

18. On February 2, 2017, the Company filed a Form 10-K for the fiscal year ended December 31, 2016 (“2016 10-K”) with the SEC, which provided the Company’s annual financial results and position. The 2016 10-K was signed by Defendants Rascoff and Philips. The 2016 10-K also contained signed SOX certifications by Defendants Rascoff and Philips attesting to the accuracy of financial reporting, the disclosure of any material changes to the Company's internal controls over financial reporting, and the disclosure of all fraud.

19. The 2016 10-K stated the following regarding the Company’s adherence to government regulations:

Government Regulation

We are affected by laws and regulations that apply to businesses in general, as well as to businesses operating on the internet and through mobile applications. This includes a continually expanding and evolving range of laws, regulations and standards that address information security, data protection, privacy, consent and advertising, among other things. We are also subject to laws governing marketing and advertising activities conducted by telephone, email, mobile devices, and the internet, including the Telephone Consumer Protect Act, the Telemarketing Sales Rule, the CAN-SPAM Act, and similar state laws. In addition, some of our mortgage advertising products are operated by our wholly owned subsidiary, Zillow Group Mortgages, Inc., a licensed mortgage broker, pursuant to a support services agreement. Though we do not take mortgage applications or make loans or credit decisions in connection with loans, Zillow Group Mortgages, Inc. is subject to stringent state and federal laws and regulations and to the scrutiny of state and federal government agencies as a licensed mortgage broker.

By providing a medium through which users can post content and communicate with one another, we may also be subject to laws

1 governing intellectual property ownership, obscenity, libel, and privacy,
2 among other issues. In addition, the real estate agents, mortgage
3 professionals, banks, property managers, rental agents and some of our
4 other customers and advertisers on our mobile applications and websites
5 are subject to various state and federal laws and regulations relating to
6 real estate, rentals and mortgages. ***We endeavor to ensure that any
7 content created by Zillow Group is consistent with such laws and
8 regulations by obtaining assurances of compliance from our
9 advertisers*** and consumers for their activities through, and the content
10 they provide on, our mobile applications and websites. The real estate,
11 mortgages, and rentals industries are subject to significant state and
12 federal regulation; though we provide advertising services and
13 technology solutions to real estate, mortgages, and rentals professionals,
14 certain of our activities may be deemed to be covered by these industry
15 regulations. Since the laws and regulations governing real estate, rentals
16 and mortgages are constantly evolving, it is possible that we may have to
17 materially alter the way we conduct some parts of our business activities
18 or be prohibited from conducting such activities altogether at some point
19 in the future.

20 (Emphasis added).

21 20. On May 4, 2017, the Company filed a Form 10-Q for the quarterly
22 period ended March 31, 2017 (“2017 Q1 10-Q”) with the SEC, which provided the
23 Company’s quarterly financial results and position. The 2017 Q1 10-Q was signed by
24 Defendant and Philips. The 2017 Q1 10-Q also contained signed SOX certifications
25 by Defendants Rascoff and Philips attesting to the accuracy of financial reporting, the
26 disclosure of any material changes to the Company's internal controls over financial
27 reporting, and the disclosure of all fraud.

28 21. The statements referenced in ¶¶ 16 - 20 above were materially false
and/or misleading because they misrepresented and failed to disclose the following
adverse facts pertaining to the Company’s business, operational and financial results,
which were known to Defendants or recklessly disregarded by them. Specifically,
Defendants made false and/or misleading statements and/or failed to disclose that:

1 (1) the Company’s co-marketing program did not comply with the Real Estate
2 Settlement Procedures Act; and (2) as a result, the Company’s public statements were
3 materially false and misleading at all relevant times.

4 **The Truth Emerges**

5 22. On August 8, 2017, the Company filed a Form 10-Q for the quarterly
6 period ended June 30, 2017, stating in relevant part:

7 In April 2017, we received a Civil Investigative Demand from the
8 Consumer Financial Protection Bureau (“CFPB”) requesting
9 information related to our March 2017 response to the CFPB’s
10 February 2017 Notice and Opportunity to Respond and Advise
11 (“NORA”) letter. The NORA letter notified us that the CFPB’s
12 Office of Enforcement was considering whether to recommend that
13 the CFPB take legal action against us, alleging that we violated
14 Section 8 of the Real Estate Settlement Procedures Act (“RESPA”)
15 and Section 1036 of the Consumer Financial Protection Act
16 (“CFPA”). This notice stemmed from an inquiry that commenced in
17 2015 when we received and responded to an initial Civil
18 Investigative Demand from the CFPB. We continue to cooperate with
19 the CFPB in connection with requests for information. Based on
20 correspondence from the CFPB in August 2017, we understand that it
21 has concluded its investigation. The CFPB has invited us to discuss a
22 possible settlement and indicated that it intends to pursue further
23 action if those discussions do not result in a settlement. We continue
24 to believe that our acts and practices are lawful and that our co-
25 marketing program allows lenders and agents to comply with
26 RESPA, and we will vigorously defend against any allegations to the
27 contrary. Should the CFPB commence an action against us, it may
28 seek restitution, disgorgement, civil monetary penalties, injunctive
relief or other corrective action. We cannot provide assurance that the
CFPB will not commence a legal action against us in this matter, nor
are we able to predict the likely outcome of any such action. We have
not recorded an accrual related to this matter as of June 30, 2017 or
December 31, 2016. There is a reasonable possibility that a loss may
be incurred; however, the possible loss or range of loss is not
estimable.

1 28. Plaintiff will fairly and adequately protect the interests of the members
2 of the Class and has retained counsel competent and experienced in class and
3 securities litigation. Plaintiff has no interests antagonistic to or in conflict with those
4 of the Class.

5 29. Common questions of law and fact exist as to all members of the Class
6 and predominate over any questions solely affecting individual members of the Class.

7 Among the questions of law and fact common to the Class are:

- 8 (a) whether Defendants' acts as alleged violated the federal securities laws;
- 9 (b) whether Defendants' statements to the investing public during the Class
10 Period misrepresented material facts about the financial condition,
11 business, operations, and management of the Company;
- 12 (c) whether Defendants' statements to the investing public during the Class
13 Period omitted material facts necessary to make the statements made, in
14 light of the circumstances under which they were made, not misleading;
- 15 (d) whether the Individual Defendants caused the Company to issue false
16 and misleading SEC filings and public statements during the Class
17 Period;
- 18 (e) whether Defendants acted knowingly or recklessly in issuing false and
19 misleading SEC filings and public statements during the Class Period;
- 20 (f) whether the prices of the Company's securities during the Class Period
21 were artificially inflated because of the Defendants' conduct complained
22 of herein; and
- 23 (g) whether the members of the Class have sustained damages and, if so,
24 what is the proper measure of damages.

25 30. A class action is superior to all other available methods for the fair and
26 efficient adjudication of this controversy since joinder of all members is
27 impracticable. Furthermore, as the damages suffered by individual Class members
28 may be relatively small, the expense and burden of individual litigation make it

1 impossible for members of the Class to individually redress the wrongs done to them.
2 There will be no difficulty in the management of this action as a class action.

3 31. Plaintiff will rely, in part, upon the presumption of reliance established
4 by the fraud-on-the-market doctrine in that:

5 (a) Defendants made public misrepresentations or failed to disclose material
6 facts during the Class Period;

7 (b) the omissions and misrepresentations were material;

8 (c) the Company's securities are traded in efficient markets;

9 (d) the Company's securities were liquid and traded with moderate to heavy
10 volume during the Class Period;

11 (e) the Company traded on the NASDAQ, and was covered by multiple
12 analysts;

13 (f) the misrepresentations and omissions alleged would tend to induce a
14 reasonable investor to misjudge the value of the Company's securities;
15 Plaintiff and members of the Class purchased and/or sold the Company's
16 securities between the time the Defendants failed to disclose or
17 misrepresented material facts and the time the true facts were disclosed,
18 without knowledge of the omitted or misrepresented facts; and

19 (g) Unexpected material news about the Company was rapidly reflected in
20 and incorporated into the Company's stock price during the Class
21 Period.

22 32. Based upon the foregoing, Plaintiff and the members of the Class are
23 entitled to a presumption of reliance upon the integrity of the market.

24 33. Alternatively, Plaintiff and the members of the Class are entitled to the
25 presumption of reliance established by the Supreme Court in *Affiliated Ute Citizens of*
26 *the State of Utah v. United States*, 406 U.S. 128, 92 S. Ct. 2430 (1972), as Defendants
27 omitted material information in their Class Period statements in violation of a duty to
28 disclose such information, as detailed above.

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COUNT I

**Violation of Section 10(b) of The Exchange Act and Rule 10b-5
Against All Defendants**

34. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

35. This Count is asserted against the Company and the Individual Defendants and is based upon Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5 promulgated thereunder by the SEC.

36. During the Class Period, the Company and the Individual Defendants, individually and in concert, directly or indirectly, disseminated or approved the false statements specified above, which they knew or deliberately disregarded were misleading in that they contained misrepresentations and failed to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

37. The Company and the Individual Defendants violated §10(b) of the 1934 Act and Rule 10b-5 in that they: employed devices, schemes and artifices to defraud; made untrue statements of material facts or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and/or engaged in acts, practices and a course of business that operated as a fraud or deceit upon plaintiff and others similarly situated in connection with their purchases of the Company's securities during the Class Period.

38. The Company and the Individual Defendants acted with scienter in that they knew that the public documents and statements issued or disseminated in the name of the Company were materially false and misleading; knew that such statements or documents would be issued or disseminated to the investing public; and knowingly and substantially participated, or acquiesced in the issuance or dissemination of such statements or documents as primary violations of the securities laws. These defendants by virtue of their receipt of information reflecting the true

1 facts of the Company, their control over, and/or receipt and/or modification of the
2 Company's allegedly materially misleading statements, and/or their associations with
3 the Company which made them privy to confidential proprietary information
4 concerning the Company, participated in the fraudulent scheme alleged herein.

5 39. Individual Defendants, who are the senior officers and/or directors of
6 the Company, had actual knowledge of the material omissions and/or the falsity of
7 the material statements set forth above, and intended to deceive Plaintiff and the other
8 members of the Class, or, in the alternative, acted with reckless disregard for the truth
9 when they failed to ascertain and disclose the true facts in the statements made by
10 them or other personnel of the Company to members of the investing public,
11 including Plaintiff and the Class.

12 40. As a result of the foregoing, the market price of the Company's
13 securities was artificially inflated during the Class Period. In ignorance of the falsity
14 of the Company's and the Individual Defendants' statements, Plaintiff and the other
15 members of the Class relied on the statements described above and/or the integrity of
16 the market price of the Company's securities during the Class Period in purchasing
17 the Company's securities at prices that were artificially inflated as a result of the
18 Company's and the Individual Defendants' false and misleading statements.

19 41. Had Plaintiff and the other members of the Class been aware that the
20 market price of the Company's securities had been artificially and falsely inflated by
21 the Company's and the Individual Defendants' misleading statements and by the
22 material adverse information which the Company's and the Individual Defendants did
23 not disclose, they would not have purchased the Company's securities at the
24 artificially inflated prices that they did, or at all.

25 42. As a result of the wrongful conduct alleged herein, Plaintiff and other
26 members of the Class have suffered damages in an amount to be established at trial.

27 43. By reason of the foregoing, the Company and the Individual Defendants
28 have violated Section 10(b) of the 1934 Act and Rule 10b-5 promulgated thereunder

1 and are liable to the Plaintiff and the other members of the Class for substantial
2 damages which they suffered in connection with their purchases of the Company's
3 securities during the Class Period.

4
5 **COUNT II**

6 **Violation of Section 20(a) of The Exchange Act**
7 **Against The Individual Defendants**

8 44. Plaintiff repeats and realleges each and every allegation contained in the
9 foregoing paragraphs as if fully set forth herein.

10 45. During the Class Period, the Individual Defendants participated in the
11 operation and management of the Company, and conducted and participated, directly
12 and indirectly, in the conduct of the Company's business affairs. Because of their
13 senior positions, they knew the adverse non-public information regarding the
14 Company's business practices.

15 46. As officers and/or directors of a publicly owned company, the Individual
16 Defendants had a duty to disseminate accurate and truthful information with respect
17 to the Company's financial condition and results of operations, and to correct
18 promptly any public statements issued by the Company which had become materially
19 false or misleading.

20 47. Because of their positions of control and authority as senior officers, the
21 Individual Defendants were able to, and did, control the contents of the various
22 reports, press releases and public filings which the Company disseminated in the
23 marketplace during the Class Period. Throughout the Class Period, the Individual
24 Defendants exercised their power and authority to cause the Company to engage in
25 the wrongful acts complained of herein. The Individual Defendants therefore, were
26 "controlling persons" of the Company within the meaning of Section 20(a) of the
27 Exchange Act. In this capacity, they participated in the unlawful conduct alleged
28 which artificially inflated the market price of the Company's securities.

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By: _____
Laurence M. Rosen, Esq. (SBN 219683)
355 S. Grand Avenue, Suite 2450
Los Angeles, CA 90071
Telephone: (213) 785-2610
Facsimile: (213) 226-4684
Email: lrosen@rosenlegal.com

Counsel for Plaintiff