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

FORM 10-Q

(Mark One)

☑ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended **September 30, 2018**

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________ to __________

Commission File Number: **001-38160**

Redfin Corporation

(Exact name of registrant as specific in its charter)

Delaware	**74-3064240**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1099 Stewart Street, Suite 600 Seattle, WA	**98101**
(Address of principal executive offices)	(Zip Code)

(206) 576-8333
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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 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 November 1, 2018, there were 89,526,072 shares of the registrant's common stock outstanding.

Redfin Corporation
Quarterly Report on Form 10-Q
For the Three Months Ended September 30, 2018
TABLE OF CONTENTS

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements. All statements contained in this report other than statements of historical fact, including statements regarding our future operating results and financial position, our business strategy and plans, our market growth and trends, and our objectives for future operations, are forward-looking statements. The words “believe,” “may,” “will,” “estimate,” “continue,” “anticipate,” “intend,” “expect,” “could,” “would,” “project,” “plan,” “potentially,” “preliminary,” “likely,” and similar expressions are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives, and financial needs. These forward-looking statements are subject to a number of risks, uncertainties, and assumptions, including those described under Part I. Item 1A. “Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 and Part II. Item 1A. “Risk Factors” of this report. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the effect of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties, and assumptions, the future events and trends 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. Accordingly, 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, performance, or events and circumstances reflected in the forward-looking statements will be achieved or occur. We undertake no obligation to update any of these forward-looking statements for any reason after the date of this report or to conform these statements to actual results or revised expectations.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

Redfin Corporation and Subsidiaries
Condensed Consolidated Balance Sheets
(in thousands, except share and per share amounts, unaudited)

	September 30, 2018	December 31, 2017
Assets:		
Current assets:		
Cash and cash equivalents	$ 448,968	$ 208,342
Restricted cash	11,968	4,316
Prepaid expenses	5,933	8,613
Accrued revenue, net	13,254	13,334
Inventory	25,161	3,382
Loans held for sale	5,921	1,891
Other current assets	989	328
Total current assets	512,194	240,206
Property and equipment, net	23,361	22,318
Intangible assets, net	2,928	3,294
Goodwill	9,186	9,186
Other assets	7,248	6,951
Total assets	554,917	281,955
Liabilities and stockholders' equity:		
Current liabilities:		
Accounts payable	2,601	1,901
Accrued liabilities	37,532	26,605
Other payables	12,167	4,068
Loan facility	5,790	2,016
Current portion of deferred rent	1,691	1,267
Total current liabilities	59,781	35,857
Deferred rent, net of current portion	10,258	10,668
Convertible senior notes, net	112,130	—
Total liabilities	182,169	46,525
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Common stock—par value $0.001 per share; 500,000,000 shares authorized; 89,234,819 and 81,468,891 shares issued and outstanding, respectively	89	81
Preferred stock—par value $0.001 per share; 10,000,000 shares authorized and no shares issued and outstanding	—	—
Additional paid-in capital	531,418	364,352
Accumulated deficit	(158,759)	(129,003)
Total stockholders' equity	372,748	235,430
Total liabilities and stockholders' equity	$ 554,917	$ 281,955

The accompanying notes are an integral part of these condensed consolidated financial statements.

Redfin Corporation and Subsidiaries
Condensed Consolidated Statements of Operations
(in thousands, except share and per share amounts, unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue	$ 140,255	$ 109,479	$ 362,791	$ 274,282
Cost of revenue	97,950	70,166	269,576	191,633
Gross profit	42,305	39,313	93,215	82,649
Operating expenses:				
Technology and development	14,310	11,483	40,105	31,245
Marketing	8,236	5,588	36,006	26,179
General and administrative	16,470	11,995	48,532	38,828
Total operating expenses	39,016	29,066	124,643	96,252
Income (loss) from operations	3,289	10,247	(31,428)	(13,603)
Interest income	1,775	311	3,082	387
Interest expense	(1,610)	—	(1,610)	—
Other income, net	21	—	200	13
Net income (loss)	$ 3,475	$ 10,558	$ (29,756)	$ (13,203)
Accretion of redeemable convertible preferred stock	$ —	$ (40,224)	$ —	$ (175,915)
Net income (loss) attributable to common stock - basic and diluted	$ 3,475	$ (29,666)	$ (29,756)	$ (189,118)
Net income (loss) per share attributable to common stock - basic	$ 0.04	$ (0.50)	$ (0.35)	$ (6.37)
Net income (loss) per share attributable to common stock - diluted	$ 0.04	$ (0.50)	$ (0.35)	$ (6.37)
Weighted average shares - basic	87,743,223	58,868,903	84,327,266	29,678,082
Weighted average shares - diluted	94,642,463	58,868,903	84,327,266	29,678,082

The accompanying notes are an integral part of these condensed consolidated financial statements.

Redfin Corporation and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(in thousands, unaudited)

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Operating activities:		
Net loss	$ (29,756)	$ (13,203)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	6,123	5,326
Stock-based compensation	14,472	8,028
Amortization of debt discount and issuance costs	1,128	—
Change in assets and liabilities:		
Prepaid expenses	2,680	(84)
Accrued revenue	80	(2,712)
Inventory	(21,779)	(5,399)
Other current assets	(576)	8,556
Other long-term assets	(296)	244
Accounts payable	702	1,228
Accrued liabilities	10,943	8,513
Deferred lease liability	(913)	1,001
Accrued expenses	414	—
Origination of loans held for sale	(56,157)	(5,755)
Proceeds from sale of loans originated as held for sale	52,127	5,030
Net cash provided by (used in) operating activities	(20,808)	10,773
Investing activities:		
Maturities and sales of short-term investments	—	1,484
Purchases of short-term investments	—	(993)
Purchases of property and equipment	(5,528)	(10,499)
Net cash used in investing activities	(5,528)	(10,008)
Financing activities:		
Proceeds from issuance of convertible senior notes, net	138,953	—
Proceeds from follow-on offering, net	107,593	—
Proceeds from issuance of common stock	17,314	2,519
Tax payment related to net share settlements on restricted stock units	(705)	—
Proceeds from initial public offering, net of underwriting discounts	—	148,088
Payment of initial public offering costs	—	(3,449)
Borrowings from warehouse credit facilities	54,806	5,603
Repayments of warehouse credit facilities	(51,031)	(4,898)
Other payables - customer escrow deposits related to title services	7,684	6,065
Net cash provided by financing activities	274,614	153,928
Net change in cash, cash equivalents, and restricted cash	248,278	154,693
Cash, cash equivalents, and restricted cash:		
Beginning of period	212,658	67,845
End of period	$ 460,936	$ 222,538
Supplemental disclosure of non-cash investing and financing activities:		
Accretion of redeemable convertible preferred stock	$ —	$ (175,915)
Stock-based compensation capitalized in property and equipment	$ (363)	$ (194)
Initial public offering cost accruals	$ —	$ (200)
Property and equipment additions in accounts payable and accrued expenses	$ (25)	$ —
Leasehold improvements paid directly by lessor	$ (926)	$ (104)
Cash in transit for exercised stock options	$ (85)	$ —

The accompanying notes are an integral part of these condensed consolidated financial statements.

Redfin Corporation and Subsidiaries
Condensed Consolidated Statements of Changes in Redeemable Convertible Preferred Stock and Stockholders’ Equity
(in thousands, except for shares, unaudited)

	Redeemable Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			
Balance, January 1, 2017	55,422,002	$ 655,416	14,687,024	$ 15	$ —	$ (563,749)	$ (563,734)
Cumulative stock-based compensation adjustment	—	—	—	—	522	(522)	—
Proceeds from initial public offering, net of underwriters' discounts	—	—	10,615,650	10	148,078	—	148,088
Initial public offering costs	—	—	—	—	(3,708)	—	(3,708)
Exercise of stock options	—	—	744,215	1	3,000	—	3,001
Stock-based compensation	—	—	—	—	11,369	—	11,369
Accretion of redeemable convertible preferred stock		175,915	—	—	(8,690)	(167,225)	(175,915)
Conversion of redeemable convertible preferred stock to common stock	(55,422,002)	(831,331)	55,422,002	55	213,781	617,495	831,331
Net loss	—	—	—	—	—	(15,002)	(15,002)
Balance, December 31, 2017	—	$ —	81,468,891	$ 81	$ 364,352	$ (129,003)	$ 235,430
Issuance of common stock pursuant to employee stock purchase program	—	—	187,076	—	3,672	—	3,672
Exercise of stock options	—	—	2,653,008	3	13,725	—	13,728
Issuance of common stock pursuant to restricted stock units	—	—	127,746	—	—	—	—
Restricted stock surrendered for employees' tax liability	—	—	(38,238)	—	(705)	—	(705)
Issuance of common stock related to follow-on offering, net	—	—	4,836,336	5	107,588	—	107,593
Equity component of convertible senior notes, net	—	—	—	—	27,951	—	27,951
Stock-based compensation	—	—	—	—	14,835	—	14,835
Net loss	—	—	—	—		(29,756)	(29,756)
Balance, September 30, 2018	—	$ —	89,234,819	$ 89	$ 531,418	$ (158,759)	$ 372,748

The accompanying notes are an integral part of these condensed consolidated financial statements.

Notes to Condensed Consolidated Financial Statements
(in thousands, except for shares and per share amounts, unaudited)

Note 1: Description of Business and Summary of Significant Accounting Policies

Description of Business—Redfin Corporation ("Redfin" or the "Company") was incorporated in October 2002 and is headquartered in Seattle, Washington. The Company operates an online real estate marketplace and provides real estate services, including assisting individuals in the purchase or sale of their residential property. The Company also provides title and settlement services, originates and sells mortgages, and buys and sells residential properties via wholly owned subsidiaries. The Company has operations located in multiple states nationwide.

Initial Public Offering—On August 2, 2017, the Company completed an initial public offering (the "IPO") whereby 10,615,650 shares of common stock were sold at a price of $15.00 per share, which included 1,384,650 shares pursuant to the underwriters' option to purchase additional shares. The Company received net proceeds of approximately $144,380 after deducting the underwriting discount and offering expenses directly attributable to the IPO. Upon the closing of the IPO, all shares of the outstanding redeemable convertible preferred stock automatically converted into 55,422,002 shares of common stock on a one-for-one basis.

Initial Public Offering Costs—Costs, including legal, accounting and other fees and costs relating to the IPO, were accounted for as a reduction in additional paid-in capital. Aggregate offering expenses totaled $3,708.

Follow-on Offerings—On July 23, 2018, the Company completed follow-on public offerings of 4,836,336 shares of common stock (including 630,826 shares pursuant to the underwriters' option to purchase additional shares) and $143,750 aggregate principal amount of 1.75% Convertible Senior Notes due 2023 (the "Notes") (including $18,750 principal amount of Notes sold pursuant to the underwriters' option to purchase additional Notes). The public offering price for our common stock offering was $23.50 per share. The Company received net proceeds of approximately $107,593 from the common stock offering and $138,953 from the Notes offering, in each case after deducting the underwriting discounts and issuance costs directly attributable to each offering.

Follow-on Offerings Costs—Costs include legal, accounting and other fees and costs relating to both the common stock offering and the Notes offering. Aggregate issuance costs totaled $862.

Basis of Presentation—The consolidated financial statements and accompanying notes have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP"). The Company had no components of other comprehensive income (loss) during any of the periods presented, as such, a consolidated statement of comprehensive income (loss) is not presented. All amounts are presented in thousands, except share and per share data.

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 the Company's financial position as of September 30, 2018, the Company's results of operations for the three and nine months ended September 30, 2018 and 2017, and the Company's cash flows for the nine months ended September 30, 2018 and 2017. The results for the three and nine months ended September 30, 2018 are not necessarily indicative of the results to be expected for the year ending December 31, 2018 or for any interim period or for any other future year.

Principles of Consolidation—The unaudited condensed consolidated interim financial statements include the accounts of Redfin and its wholly owned subsidiaries. Intercompany transactions and balances have been eliminated.

Certain Significant Risks and Business Uncertainties—The Company is subject to the risks and challenges associated with companies at a similar stage of development. These include dependence on key individuals, successful development and marketing of its offerings, and competition with larger companies with greater financial, technical, and marketing resources. Further, to achieve substantially higher revenue in order to become profitable, the Company may require additional funds that may not be available or may not be on terms that are acceptable to the Company.

The Company operates in the online real estate marketplace and, accordingly, can be affected by a variety of factors. For example, management of the Company believes that any of the following factors could have a significant negative effect on the Company's future financial position, results of operations, and cash flows: unanticipated fluctuations in operating results due to seasonality and cyclicality in the real estate industry, changes in home sale prices and transaction volumes, the Company's ability to increase market share, competition and U.S. economic conditions. Since inception through September 30, 2018, the Company has incurred losses from operations and accumulated a deficit of $158,759, during which it has been dependent on equity financing to fund operations.

Use of Estimates—The preparation of consolidated financial statements, in conformity with GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and results of operations during the respective periods. The Company's more significant estimates include, but are not limited to, valuation of deferred income taxes, stock-based compensation, net realizable value of inventory, prior to its conversion on August 2, 2017 the fair value of common stock and redeemable convertible preferred stock, capitalization of website development costs, recoverability of intangible assets with finite lives, fair value of reporting units for purposes of evaluating goodwill for impairment, and the fair value of the convertible feature related to the Notes (see Note 15). The amounts ultimately realized from the affected assets or ultimately recognized as liabilities will depend on, among other factors, general business conditions and could differ materially in the near term from the carrying amounts reflected in the consolidated financial statements.

Significant Accounting Policies—There have been no material changes to the Company's significant accounting policies during the nine months ended September 30, 2018, from the significant accounting policies included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, except as noted below.

Recently Adopted Accounting Pronouncements—In May 2014, the Financial Accounting Standards Board ("FASB") issued a new Accounting Standard Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)* . This guidance provides that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance also requires more detailed disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Company adopted ASU 2014-09 and its related amendments (collectively known as ASC 606) effective on January 1, 2018, using the modified retrospective adoption methodology. Real estate services, properties and other revenue contain single performance obligations and the Company believes the timing of the satisfaction of the performance obligations, triggering the recognition of revenue, did not differ from the Company's timing for recognizing revenue prior to adopting this pronouncement. Further description of the impact of this pronouncement is included in Note 2: Revenue from Contracts with Customers.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230).* This guidance impacts the classification of certain cash receipts and cash payments in the statement of cash flows. The new standard made eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. The Company adopted the new standard on a retrospective basis on January 1, 2018. The adoption of this standard had no impact on the Company's statement of cash flows.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* . This guidance impacts the classification and presentation of changes in restricted cash on the statement of cash flows. This guidance is effective for interim and annual reporting periods beginning after December 15, 2017, and early adoption is permitted. The adoption of this guidance requires a retrospective transition method to each period presented. The Company early adopted this guidance on

October 1, 2017. Upon adoption, the following balances were reclassified: restricted cash to the reconciliation of change in cash, cash equivalents and restricted cash, and other payables related to cash held in escrow on behalf of customers to financing activities. In the Company’s capacity as fiduciary, the cash receipt is a function of providing the customer with a service (title). Therefore, the escrow funds payable are akin to a repayment of debt, a financing activity, whereby the Company in its role as fiduciary is temporarily holding cash in its restricted accounts on behalf of its customers and subsequently releases the cash to settle the customers' contractual obligation. This reclassification will maintain an accurate reflection of the Company's cash flows from operating and financing activities. The reconciliation of amounts previously reported to the revised amounts upon adoption are as follows:

Nine Months Ended September 30, 2017	Previously reported	Adjustments	As revised
Cash provided by operating activities	$ 10,551	$ 222	$ 10,773
Cash provided by financing activities	$ 147,863	$ 6,065	$ 153,928
Net change in cash, cash equivalents, and restricted cash (1)	$ 148,406	$ 6,287	$ 154,693

(1) Previously titled: net change in cash and cash equivalents

Recently Issued Accounting Pronouncements—In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This standard requires the recognition of a right-of-use asset and lease liability on the balance sheet for all leases. This standard also requires more detailed disclosures to enable users of financial statements to understand the amount, timing, and uncertainty of cash flows arising from leases. This guidance is effective for interim and annual reporting periods beginning after December 15, 2018.

In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842)* providing an optional alternative transition method to the modified retrospective approach whereby under this optional transition method an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. In addition, this ASU provides a practical expedient, by class of underlying asset, to not separate non-lease components from the associated lease and instead account for the lease as a single component if both the timing and pattern of transfer of the non-lease component(s) are the same, and if the lease would be classified as an operating lease. These amendments have the same effective date as ASU 2016-02. Early adoption is permitted for both ASU 2016-02 and 2018-11.

The Company plans to elect the optional transition method on the adoption date of January 1, 2019. The Company is in the process of evaluating the impact of adoption of the ASU on its consolidated financial statements, including implementing changes to its systems, processes, and internal controls. It is believed the most significant change will relate to the recognition of right-of-use assets and lease liabilities on the Company’s balance sheet for real estate leases that are currently accounted for as operating leases, as well as the accompanying disclosures. The Company is unable to estimate the impact at this time but believes it will be material.

In August 2018, the Securities and Exchange Commission (the "SEC") adopted the final rule under SEC Release No. 33-10532, *Disclosure Update and Simplification*, amending certain disclosure requirements that were redundant, duplicative, overlapping, outdated or superseded. In addition, the amendments expanded the disclosure requirements on the analysis of stockholders' equity for interim financial statements. Under the amendments, an analysis of changes in each caption of stockholders' equity presented in the balance sheet must be provided in a note or separate statement. The analysis should present a reconciliation of the beginning balance to the ending balance of each period for which a statement of comprehensive income is required to be filed. This final rule became effective on November 5, 2018, but the staff of the SEC provided relief on the effective date of the rule with respect to the analysis of stockholders' equity until the Company's Form 10-Q for its fiscal quarter ending March 31, 2019. The Company is in the process of evaluating the impact of the final rule on its condensed consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820)*, which modifies the disclosures on fair value measurements by removing the requirement to disclose the amount and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy and the policy for timing of such transfers. The ASU expands the disclosure requirements for Level 3 fair value measurements, primarily focused on changes in unrealized gains and losses included in other comprehensive income. The ASU is effective for public entities for fiscal years beginning after December 15, 2019, with early adoption permitted. The Company has not yet completed its assessment of the impact of the new standard on the Company's Consolidated Financial Statements.

In August 2018, the FASB issued authoritative guidance under ASU 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software: Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract*. The ASU requires implementation costs incurred by customers in cloud computing arrangements (i.e., hosting arrangements) to be capitalized under the same premises of authoritative guidance for internal-use software, and deferred over the noncancellable term of the cloud computing arrangements plus any option renewal periods that are reasonably certain to be exercised by the customer or for which the exercise is controlled by the service provider. The ASU is effective in the first quarter of fiscal 2021. The Company is currently in the process of evaluating the impact of the final rule on its consolidated financial statements.

Note 2: Revenue from Contracts with Customers

Revenue Recognition—The Company applies the provisions of ASC 606-10, Revenue from Contracts with Customers ("ASC 606"), and all related appropriate guidance. The Company recognizes revenue under the core principle to depict the transfer of control to the Company's customers in an amount reflecting the consideration the Company expects to be entitled. In order to achieve that core principle, the Company applies the following five step approach: (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when a performance obligation is satisfied.

The Company's revenue primarily consists of commissions and fees charged on each real estate services transaction completed by the Company or its partner agents. The Company's key revenue components are brokerage revenue, partner revenue, property sales revenue, and other revenue. Revenue earned but not received is recorded as accrued revenue on the accompanying consolidated balance sheets, net of an allowance for doubtful accounts. The Company does not separately disclose the amounts of product and service revenue.

Cost of Revenue—Cost of revenue consists primarily of personnel costs (including base pay, benefits, and stock-based compensation), transaction bonuses, home-touring and field expenses, listing expenses, property costs related to our properties segment, office and occupancy expenses, and depreciation and amortization related to fixed assets and acquired intangible assets. Property costs related to our properties segment include the property purchase price, capitalized improvements, selling expenses directly attributable to the transaction, and property maintenance expenses.

Nature and Disaggregation of Revenue

Real Estate Services

Brokerage Revenue—The Company recognizes commission-based brokerage revenue upon closing of a real estate services transaction, net of any commission refund or any closing-cost reduction. Brokerage revenue includes the Company's offer and listing services, representing homebuyers and home sellers. The transaction price is calculated by taking the agreed upon commission rate and applying that to the home's selling price. Brokerage revenue contains a single performance obligation that is satisfied upon the closing of a real estate services transaction, at which point the entire transaction price is earned. The Company is not entitled to any commission until the performance obligation is satisfied and is not owed any commission for unsuccessful transactions, even if services have been provided.

Partner Revenue—Partner revenue consists of fees earned by referring customers to partner agents. Partner revenue is earned and recognized when partner agents close referred transactions, net of any refunds provided to customers. The transaction price is a fixed percentage of the partner agent's commission. The partner agent directly remits the referral fee revenue to the Company. The Company is not entitled to any referral fee revenue until the related referred real estate services transaction closes, at which point the entire transaction price is earned and recognized as revenue.

Properties

Properties Revenue—Properties revenue consists of revenue earned when the Company sells homes that it previously bought directly from homeowners. Properties revenue is recorded at closing on a gross basis, representing the sales price of the home. The Company does not offer warranties for sold homes, and there are no continuing performance obligations following the transaction close date.

Other

Other Revenue—Substantially all fees and revenue from other services are recognized when the service is provided. Other services revenue includes fees earned from mortgage banking services, title settlement services, Walk Score data services, and advertising. Mortgage banking services are not subject to the guidance in ASC 606 as the scope of the standard does not apply to revenue on contracts accounted for under *Transfers and Servicing (Topic 860)* but are included in other services revenue to reconcile total revenue presented on the condensed consolidated statements of operations to the disaggregation of revenue table below.

The Company's revenue from contracts with customers for the various revenue categories is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Real estate services				
Brokerage revenue	$ 118,809	$ 97,787	$ 312,306	$ 247,327
Partner revenue	7,456	6,077	19,741	15,567
Total real estate services revenue	126,265	103,864	332,047	262,894
Properties revenue	11,350	3,364	23,388	5,345
Other revenue	2,640	2,251	7,356	6,043
Total revenue	$ 140,255	$ 109,479	$ 362,791	$ 274,282

Other Considerations—The Company’s contracts with customers do not contain significant estimates or judgment. For both the real estate services and properties businesses, the Company's contracts with customers contain a single performance obligation that is recognized upon a transaction closing. The Company has utilized the practical expedient in ASC 606 and elected not to capitalize contract costs for contracts with customers with durations less than one year. The Company does not have significant remaining performance obligations or contract balances.

Accrued Revenue and Allowance for Doubtful Accounts—The Company establishes an allowance for doubtful accounts after reviewing historical experience, age of accounts receivable balances and any other known conditions that may affect collectability. The majority of the Company’s transactions are processed through escrow and collectability is not a significant risk. Accrued revenue related to real estate services and properties transactions represents closed transactions for which the cash has not yet been received. Properties had no balances in these accounts as of September 30, 2018. The following table presents the activity in the allowance for doubtful accounts for the period presented:

	Nine Months Ended September 30, 2018
Allowance for doubtful accounts:	
Balance, December 31, 2017	$ 160
Charges	(28)
Write-offs	25
Balance, September 30, 2018	$ 157
Accrued revenue as of September 30, 2018:	
Accrued revenue	$ 13,411
Less: Allowance for doubtful accounts	157
Accrued revenue, net	$ 13,254

Note 3: Fair Value of Financial Instruments

The Company accounts for certain assets and liabilities at fair value. Fair value is defined as the exchange price that would be received for an asset or an exit price paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The current accounting guidance for fair value measurements defines a three-level valuation hierarchy for disclosures as follows:

Level 1—Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2—Inputs other than quoted prices included within Level 1 that are observable, unadjusted quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3—Unobservable inputs that are supported by little or no market activity, requiring the Company to develop its own assumptions. The Company's interest rate lock commitments are measured at fair value on a recurring basis. The Company estimates the fair value of an interest rate lock commitment based on quoted investor prices, net of origination costs and fees and the probability that the mortgage loan will be purchased within the terms of the interest rate lock commitment.

The categorization of a financial instrument within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The Company’s financial instruments consist of Level 1, Level 2 and Level 3 assets and (liabilities). Level 1 assets include highly liquid money market funds, Level 2 assets and (liabilities) include forward sales commitments, and Level 3 assets and (liabilities) include interest rate lock commitments. As of September 30, 2018, forward sales commitments and interest rate lock commitments were broken out between Other asset and Other payables, as well as interest rate lock commitments were reclassified to Level 3.

A summary of assets and (liabilities) at September 30, 2018 and December 31, 2017, related to the Company's financial instruments, measured at fair value on a recurring basis, is set forth below:

			Fair Value	
Financial Instrument	**Balance sheet location**		**September 30, 2018**	**December 31, 2017**
Money market funds	Cash and cash equivalents	Level 1	$ 440,216	$ 177,235
Forward sales commitments	Other current assets	Level 2	71	9
Forward sales commitments	Accrued liabilities	Level 2	(6)	(2)
Interest rate lock commitments	Other current assets	Level 3	120	29
Interest rate lock commitments	Accrued liabilities	Level 3	(25)	(4)

The changes in the Level 3 financial instruments that are measured at fair value on a recurring basis were immaterial during the periods presented.

See Note 15 for the carrying amount and estimated fair value of the Notes.

Note 4: Property and Equipment

A summary of property and equipment at September 30, 2018 and December 31, 2017 is as follows:

	Useful Lives (Years)	September 30, 2018	December 31, 2017
Leasehold improvements	Shorter of lease term or economic life	$ 17,610	$ 16,039
Website and software development costs	1-3	18,153	14,501
Computer and office equipment	3	2,678	2,192
Software	3	594	685
Furniture	7	3,636	3,039
Property and equipment, gross		42,671	36,456
Accumulated depreciation and amortization		(19,310)	(14,138)
Property and equipment, net		$ 23,361	$ 22,318

Depreciation and amortization expense for property and equipment amounted to $2,099 and $1,665 for the three months ended September 30, 2018 and 2017, respectively, and $5,757 and $4,960 for the nine months ended September 30, 2018 and 2017, respectively.

Note 5: Acquired Intangible Assets

The following table presents details of the Company's intangible assets subject to amortization as of the dates presented:

		As of September 30, 2018			As of December 31, 2017		
	Useful Live (years)	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Trade names	10	$ 1,040	$ (416)	$ 624	$ 1,040	$ (338)	$ 702
Developed technology	10	2,980	(1,192)	1,788	2,980	(968)	2,012
Customer relationships	10	860	(344)	516	860	(280)	580
		$ 4,880	$ (1,952)	$ 2,928	$ 4,880	$ (1,586)	$ 3,294

Acquired intangible assets are amortized using the straight-line method over their estimated useful life, which approximates the expected use of these assets. Amortization expense amounted to $122 and $366 for the three and nine months ended September 30, 2018 and 2017, respectively. Amortization expense of $2,440 will be recognized over the next five years, or $488 per year.

Note 6: Segment Reporting

In its operation of the business, the Company's management, including its chief operating decision maker, who is also the Chief Executive Officer, evaluates the performance of the Company's operating segments based on revenue and gross profit. The Company does not analyze discrete segment balance sheet information related to long-term assets, all of which are located in the United States. All other financial information is presented on a consolidated basis. The Company has five operating segments and two reportable segments, real estate services and properties.

The Company's reportable segments and other segments are described below:

Real estate services

Real estate services revenue is derived from commissions and fees charged on real estate services transactions closed by the Company or its partner agents.

Properties

Properties was a new reportable segment as of June 30, 2018. Prior to June 30, 2018, the properties segment results were included as part of the Company's other segment. Properties revenue is earned when the Company sells homes that it previously bought directly from homeowners.

Other

Other services revenue includes fees earned from mortgage banking services, title settlement services, Walk Score data services, and advertising. Included in other are all operating segments and revenue not otherwise included in reportable operating segments.

Information on each of the reportable and other segments and reconciliation to consolidated net income (loss) is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Real estate services				
Revenue	$ 126,265	$ 103,864	$ 332,047	$ 262,894
Cost of revenue	83,274	64,258	236,775	178,850
Gross profit	$ 42,991	$ 39,606	$ 95,272	$ 84,044
Properties				
Revenue	$ 11,350	$ 3,364	$ 23,388	$ 5,345
Cost of revenue	11,656	3,326	24,086	5,361
Gross profit	$ (306)	$ 38	$ (698)	$ (16)
Other				
Revenue	$ 2,640	$ 2,251	$ 7,356	$ 6,043
Cost of revenue	3,020	2,582	8,715	7,422
Gross profit	$ (380)	$ (331)	$ (1,359)	$ (1,379)
Consolidated				
Revenue	$ 140,255	$ 109,479	$ 362,791	$ 274,282
Cost of revenue	97,950	70,166	269,576	191,633
Gross profit	$ 42,305	$ 39,313	$ 93,215	$ 82,649
Operating expenses	39,016	29,066	124,643	96,252
Interest income	1,775	311	3,082	387
Interest expense	(1,610)	—	(1,610)	—
Other income, net	21	—	200	13
Net income (loss)	$ 3,475	$ 10,558	$ (29,756)	$ (13,203)

Note 7: Redeemable Convertible Preferred Stock and Stockholders' Equity

Redeemable Convertible Preferred Stock—The Company's redeemable convertible preferred stock automatically converted into common stock at a rate of one-for-one on the closing of the Company's IPO on August 2, 2017. Therefore, no shares of redeemable convertible preferred stock were authorized, issued and outstanding as of September 30, 2018.

Please see Note 6 to the Company's consolidated financial statements in its Annual Report on Form 10-K for the fiscal year ended December 31, 2017 for a description of the terms of the redeemable convertible preferred stock.

Accretion Expense—Accretion represents the increase in the redemption value of the Company's redeemable convertible preferred stock. The recognized accretion expense related to the increase in the redemption value of the redeemable convertible preferred stock was reclassed upon the successful completion of the IPO, which occurred during 2017.

The following table presents the accretion expense of the redeemable convertible preferred stock to its redemption value recorded within the consolidated statements of changes in redeemable convertible preferred stock and stockholders' equity during the three and nine months ended September 30, 2017:

	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
Series A-1	$ (1,119)	$ (4,904)
Series A-2	(28)	(123)
Series A-3	(2,349)	(10,192)
Series B	(9,284)	(40,336)
Series C	(8,530)	(37,062)
Series D	(7,300)	(31,717)
Series E	(2,948)	(12,884)
Series F	(4,541)	(20,184)
Series G	(4,125)	(18,513)
Total	$ (40,224)	$ (175,915)

Common Stock—At September 30, 2018 and December 31, 2017, the Company was authorized to issue 500,000,000 shares of common stock with a par value of $0.001 per share.

The Company has reserved shares of common stock, on an as-converted basis, for future issuance as follows:

	September 30, 2018	December 31, 2017
Equity Incentive Plans:		
Stock options issued and outstanding	10,150,522	13,180,950
Restricted stock units outstanding	2,081,173	981,276
Shares available for future equity grants	6,214,739	7,026,071
Total	18,446,434	21,188,297
2017 Employee Stock Purchase Plan:		
Shares issued under employee stock purchase plan	187,076	—
Shares available for future purchases under employee stock purchase plan	2,227,612	1,600,000
Total	2,414,688	1,600,000

Preferred Stock—As of September 30, 2018 and December 31, 2017, the Company had authorized 10,000,000 shares of preferred stock, par value $0.001, of which no shares were issued and outstanding.

Note 8: Stock-based Compensation

2017 Employee Stock Purchase Plan—The Company's 2017 Employee Stock Purchase Plan ("2017 ESPP") became effective on July 27, 2017 and enables eligible employees to purchase shares of the Company's common stock at a discount. Purchases are accomplished through participation in discrete offering periods which last 6 months each, and begin every January 1 and July 1. The Company initially reserved 1,600,000 shares of common stock for issuance under the 2017 ESPP. The number of shares reserved for issuance under the 2017 ESPP will increase automatically on January 1 of each calendar year beginning after the first offering date and continuing through January 1, 2028 by the number of shares equal to the lesser of 1% of the total outstanding shares of the Company's common stock as of the immediately preceding December 31 or an amount determined by the board of directors. On February 22, 2018, the board of directors determined to increase to the number of shares reserved for issuance under the 2017 ESPP by 814,688 shares. On each purchase date, participating employees purchase the Company's common stock at a price per share equal to 85% of the lesser of (1) the fair market value of the Company's common stock on the first trading day of the offering period, and (2) the fair market value of the Company's common stock on the purchase date.

During the three months ended September 30, 2018, no shares of common stock were purchased under the 2017 ESPP. The fair value of common shares to be issued under the 2017 ESPP were calculated using the Black-Scholes-Merton option-pricing model with the following assumptions:

	For the Offering Period beginning July 1, 2018
Expected life	0.5 years
Volatility	39.25%
Risk-free interest rate	2.14%
Dividend yield	—%
Weighted-average grant date fair value	$5.94

2017 Equity Incentive Plan—The Company's 2017 Equity Incentive Plan ("2017 EIP") became effective on July 26, 2017, and provides for the issuance of incentive and nonqualified common stock options and restricted stock units to employees, directors, officers, and consultants of the Company. The Company initially reserved 7,898,159 shares of common stock for issuance under the 2017 EIP. The number of shares reserved for issuance under the 2017 EIP will increase automatically on January 1 of each calendar year beginning on January 1, 2018 and continuing through January 1, 2028, by the number of shares equal to the lesser of 5% of the total outstanding shares of the Company's common stock as of the immediately preceding December 31 or an amount determined by the board of directors. On December 22, 2017, the board of directors determined that there would be no increase to the number of shares reserved for issuance under the 2017 EIP on January 1, 2018. The term of each restricted stock unit under the plan shall be no more than 10 years and generally vest over a four-year period. The term of each option grant shall be no more than 10 years and generally vest over a four-year period.

Amended and Restated 2004 Equity Incentive Plan-The Company granted options under its Amended and Restated 2004 Equity Incentive Plan, as amended ("2004 Plan"), until July 26, 2017, when the plan was terminated in connection with the Company's IPO. Accordingly, no shares are available for future issuance under this plan. The 2004 Plan continues to govern outstanding equity awards granted thereunder.

Options to Purchase Common Stock—The Company did not issue any options to purchase common stock during the three and nine months ended September 30, 2018 and the three months ended September 30, 2017. The fair value of the options issued under the Amended and Restated 2004 Equity Incentive Plan for the nine months ended September 30, 2017 were calculated using the Black-Scholes-Merton option-pricing model with the following assumptions:

	Nine Months Ended September 30, 2017
Expected life	7 years
Volatility	37.88%-40.97%
Risk-free interest rate	1.96%-2.26%
Dividend yield	—%
Weighted-average grant date fair value	4.86

The following table presents information regarding options granted, exercised, forfeited, or canceled for the periods presented:

	Number Of Options	Weighted- Average Exercise Price	Weighted-Average Remaining Contractual Life (years)	Aggregate Intrinsic Value
Outstanding at December 31, 2017	13,180,950	$ 6.30	7.02	$ 329,786
Options granted	—	—		
Options exercised	(2,653,008)	5.17		
Options forfeited	(367,541)	9.45		
Options canceled	(9,879)	8.26		
Outstanding at September 30, 2018	10,150,522	6.48	6.27	124,054
Options exercisable at September 30, 2018	7,750,226	$ 5.67	5.79	$ 100,976

The grant date fair value of options to purchase common stock is recorded as stock-based compensation over the vesting period. As of September 30, 2018, there was $10,221 of total unrecognized compensation cost related to options to purchase common stock, which is expected to be recognized over a weighted-average period of 1.71 years.

Restricted Stock Units—The following table summarizes activity for restricted stock units for the nine months ended September 30, 2018 :

	Restricted Stock Units	Weighted Average Grant-Date Fair Value
Unvested outstanding at December 31, 2017	981,276	$ 22.78
Granted	1,400,212	21.17
Vested	(127,746)	22.57
Forfeited or canceled	(172,569)	21.86
Unvested outstanding at September 30, 2018	2,081,173	$ 21.79

The grant date fair value of restricted stock units is recorded as stock-based compensation over the vesting period. As of September 30, 2018, there was $41,148 of total unrecognized compensation cost related to restricted stock units, which is expected to be recognized over a weighted-average period of 3.28 years.

During the three months ended September 30, 2018, the Company granted 8,913 restricted stock units subject to performance conditions at 100% of the target level. As of September 30, 2018, there were outstanding 143,890 restricted stock units subject to performance conditions (the "2018 Performance RSUs") at 100% of the target level. Depending on the Company's achievement of the performance conditions, the actual amount of shares of common stock issuable upon vesting of the 2018 Performance RSUs will range from 0% to 200% of the target amount of restricted stock units. For each recipient of the 2018 Performance RSUs, the award will vest, subject to the recipient continuing to provide service to the Company, upon the Company's board of directors, or its compensation committee, certifying that the Company achieved certain financial targets for the three-year period from January 1, 2018 to December 31, 2020. Share-based compensation expense for 2018 Performance RSUs will be recognized when it is probable that the performance conditions will be achieved. As of September 30, 2018, $379 of share-based compensation expense was recognized for the 2018 Performance RSUs.

Compensation Cost—The following table presents detail of stock-based compensation, net of the amount capitalized in internally developed software, included in the Company's condensed consolidated statements of operations for the periods indicated below

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Cost of revenue	$ 1,370	$ 715	$ 4,061	$ 2,129
Technology and development	2,135	819	5,334	2,301
Marketing	155	121	431	362
General and administrative	1,838	1,054	4,646	3,236
Total stock-based compensation	$ 5,498	$ 2,709	$ 14,472	$ 8,028

Note 9: Net Income (Loss) per Share Attributable to Common Stock

Net income (loss) per share attributable to common stock is computed by dividing the net income (loss) attributable to common stock by the weighted-average number of common shares outstanding. The Company has outstanding stock options, restricted stock units, employee stock purchase plan shares, Notes, and previously had redeemable convertible preferred stock, which are considered in the calculation of diluted net income (loss) attributable to common stock per share whenever doing so would be dilutive.

The Company calculates basic and diluted net income (loss) per share attributable to common stock in conformity with the two-class method required for companies with participating securities. The Company considers all series of redeemable convertible preferred stock to be participating securities. Under the two-class method, net income (loss) attributable to common stock is not allocated to the redeemable convertible preferred stock as the holders of redeemable convertible preferred stock do not have a contractual obligation to share in losses. Upon the conversion of the redeemable convertible preferred stock to common stock on the date of the IPO, or August 2, 2017, the Company only had one class of participating security, common stock. Diluted net income (loss) per share attributable to common stock is computed by giving effect to all potential dilutive common stock equivalents outstanding for the period.

The following table sets forth the calculation of basic and diluted net income (loss) per share attributable to common stock during the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Numerator:				
Net income (loss)	$ 3,475	$ 10,558	$ (29,756)	$ (13,203)
Accretion of preferred stock	—	(40,224)	—	(175,915)
Net income (loss) attributable to common stock - basic and diluted	$ 3,475	$ (29,666)	$ (29,756)	$ (189,118)
Denominator:				
Weighted average shares:				
Basic	87,743,223	58,868,903	84,327,266	29,678,082
Dilutive shares from stock plans	6,899,240	—	—	—
Diluted	94,642,463	58,868,903	84,327,266	29,678,082
Net income (loss) per share:				
Net income (loss) per share attributable to common stock - basic	$ 0.04	$ (0.50)	$ (0.35)	$ (6.37)
Net income (loss) per share attributable to common stock - diluted	$ 0.04	$ (0.50)	$ (0.35)	$ (6.37)

The following outstanding shares of common stock equivalents as of September 30, 2018 and 2017 were excluded from the computation of the diluted net income (loss) per share attributable to common stock for the periods presented because their effect would have been anti-dilutive:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Redeemable convertible preferred stock	—	55,422,002	—	55,422,002
Options to purchase common stock	—	13,298,339	10,150,522	13,298,339
Restricted stock units	238,668	—	2,081,173	—
Total	238,668	68,720,341	12,231,695	68,720,341

The Company considered the impact of the Notes on its diluted net income per share for the three months ended September 30, 2018 based on the treasury stock method as the Company has the ability, and intends, to settle any conversions of the Notes solely in cash. The treasury stock method requires that the dilutive effect of common stock issuable upon conversion of the Notes be computed in the periods in which it reports net income. For the three months ended September 30, 2018, there was no dilutive effect from the Notes.

Note 10: Income Taxes

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the “Tax Act”). The Tax Act incorporates broad and complex changes to the U.S. tax code. The main provision of the Tax Act that is applicable to the Company is the reduction of a maximum federal tax rate of 35% to a flat tax rate of 21%, effective January 1, 2018. The Company incorporated the change in federal tax rates in its annual tax provision for the period ended December 31, 2017. The net impact to the Company’s tax expense was $0. As of December 31, 2017, the Company completed and recorded the adjustments necessary under Staff Accounting Bulletin No. 118 related to the Tax Act.

The Company’s effective tax rate for the three and nine months ended September 30, 2018 and 2017 was 0% as a result of the Company recording a full valuation allowance against the deferred tax assets.

In determining the realizability of the net U.S. federal and state deferred tax assets, the Company considers numerous factors including historical profitability, estimated future taxable income, prudent and feasible tax planning strategies and the industry in which it operates. Management reassesses the realization of the deferred tax assets each reporting period, which resulted in a valuation allowance against the full amount of the Company’s U.S. deferred tax assets for the three and nine month ended September 30, 2018 and 2017. To the extent that the financial results of the U.S. operations improve in the future and the deferred tax assets become realizable, the Company will reduce the valuation allowance through earnings.

Under Section 382 of the Internal Revenue Code of 1986, as amended, substantial changes in the Company's ownership may limit the amount of net operating loss carryforwards that could be utilized annually in the future to offset taxable income. Any such annual limitation may significantly reduce the utilization of the net operating losses before they expire. A Section 382 limitation study performed as of March 31, 2017 determined there was an ownership change in 2006 and $1,538 of the 2006 net operating loss is unavailable.

Net operating loss carryforwards are available to offset federal taxable income and begin to expire in 2025. As of December 31, 2017 the Company has accumulated approximately $87,071 of federal tax losses, and approximately $4,231 (tax effected) of state losses.

The Company’s material income tax jurisdiction is the United States (federal). As a result of net operating loss carryforwards, the Company is subject to audit for tax years 2005 and forward for federal purposes. There are tax years which remain subject to examination in various other jurisdictions that are not material to the Company’s financial statements.

Note 11: Commitments and Contingencies

Legal Proceedings—From time to time the Company is involved in litigation, claims and other proceedings arising in the ordinary course of business. This litigation and other proceedings may include, but are not limited to, actions relating to employment law, independent contractor misclassification, intellectual property, commercial or contractual claims, brokerage or real estate disputes, claims related to the Real Estate Settlement Procedures Act of 1974, the Fair Housing Act of 1968, or other consumer protection statutes, claims related to real or perceived conflicts of interest or failure to satisfy duties to our customers, real estate disputes like the failure to disclose property defects, commission disputes, and vicarious liability based upon conduct of individuals or entities outside of the Company's control, including partner agents and third-party contractor agents. Litigation and other disputes are inherently unpredictable and subject to substantial uncertainties and unfavorable resolutions could occur. Often these cases raise complex factual and legal issues, which are subject to risks and uncertainties and could require significant management time and resources.

Facility Leases and Other Commitments —The Company leases its office space under noncancelable operating leases with terms ranging from one to 11 years. Generally, the leases require a fixed minimum rent with contractual minimum rent increases over the lease term, and certain leases include escalation provisions. Rent expense totaled $2,015 and $1,705 for the three months ended September 30, 2018 and 2017, respectively, and $5,859 and $6,030 for the nine months ended September 30, 2018 and 2017, respectively. Other commitments relate to homes that the Company is under contract to purchase through RedfinNow but that have not closed, and network infrastructure for the Company’s data operations. Future minimum payments due under these agreements as of September 30, 2018 are as follows:

	September 30, 2018	
	Facility Leases	Other Commitments
2018	$ 2,256	$ 4,556
2019	9,940	2,386
2020	9,668	218
2021	9,040	83
2022 and thereafter	34,922	0
Total minimum lease payments	$ 65,826	$ 7,243

Mortgage Warehouse and Master Repurchase Agreements—In December 2016, Redfin Mortgage, LLC ("Redfin Mortgage") entered into a Mortgage Warehouse Agreement with Texas Capital Bank, National Association (“Texas Capital”), which was amended and restated in December 2017. In June 2017, Redfin Mortgage entered into a Master Repurchase Agreement, which was amended in September 2018, with Western Alliance Bank. Pursuant to each of the Mortgage Warehouse Agreement and Master Repurchase Agreement, Texas Capital and Western Alliance Bank, respectively, agree to fund loans originated by Redfin Mortgage, in its discretion, up to $10,000 and to take a security interest in such loans. The per annum interest rate payable to Texas Capital is a fixed rate equal to the rate of interest accruing on the outstanding principal balance of the loan, minus 0.5%, or 3.0%, whichever is higher. The per annum interest rate payable to Western Alliance Bank is a fixed rate equal to the LIBOR rate plus 2.75%, or 3.50%, whichever is higher. For each loan in which Texas Capital elects to purchase a participation interest, it will acquire an undivided 97% participation interest, by paying as the purchase price an amount equal to the participation interest multiplied by the principal balance of the loan. For each loan in which Western Alliance Bank elects to purchase, it will acquire an undivided 98% participation interest, by paying as the purchase price an amount equal to the participation interest multiplied by the principal balance of the loan. If a loan is not sold to a correspondent lender, Texas Capital and Western Alliance Bank's participation interests in the loans are to be repurchased in whole or in part by Redfin Mortgage. The Company has guaranteed Redfin Mortgage’s obligations under the Mortgage Warehouse and Master Repurchase Agreements.

The Mortgage Warehouse Agreement and Master Repurchase Agreement each requires Redfin

Mortgage to maintain certain financial covenants and to provide periodic financial and compliance reports. Redfin Mortgage failed to satisfy certain financial covenants contained in each of the Mortgage Warehouse Agreement and Master Repurchase Agreement as of September 30, 2018, but neither Texas Capital nor Western Alliance Bank, respectively, has enforced its remedies under the agreement. As of September 30, 2018 there was $5,791 outstanding under the Mortgage Warehouse Agreement and $0 outstanding on the Master Repurchase Agreement. As of December 31, 2017 there was $833 outstanding under the Mortgage Warehouse Agreement and $1,184 outstanding on the Master Repurchase Agreement. The Mortgage Warehouse Agreement expires on March 22, 2019 and the Master Repurchase Agreement expires on June 15, 2019.

Note 12: Accrued Liabilities

The following table presents the detail of accrued liabilities as of the dates presented:

	September 30, 2018	December 31, 2017
Accrued compensation and benefits	$ 29,370	$ 19,543
Legal fees and settlements	270	2,230
Miscellaneous accrued liabilities	7,892	4,832
Total accrued liabilities:	$ 37,532	$ 26,605

Note 13: Other Payables

Other payables consists primarily of customer deposits for cash held in escrow on behalf of real estate buyers using the Company's title and settlement services. Since the Company does not have rights to the cash the customer deposits are recorded as a liability with a corresponding asset in the same amount recorded within restricted cash. The following table presents the detail of other payables as of the dates presented:

	September 30, 2018	December 31, 2017
Customer deposits	$ 11,773	$ 4,068
Miscellaneous payables	394	—
Total other payables:	$ 12,167	$ 4,068

Note 14: Retirement Plan

The Company adopted a 401(k) profit sharing plan effective January 2005. The plan covers eligible employees as of their hire date. The 401(k) component of the plan allows employees to elect to defer from 1% to 100% of their eligible compensation up to the federal limit per year. Company-matching and profit-sharing contributions are discretionary and are determined annually by Company management and approved by the board of directors. No matching or profit-sharing contributions were declared for the three and nine months ended September 30, 2018 and 2017.

Note 15: Convertible Senior Notes

On July 23, 2018, the Company issued $143,750 aggregate principal amount of Notes, from which it received $138,953 in net proceeds after deducting the underwriting discount and other issuance costs.

The Notes are senior, unsecured obligations of Redfin, and bear interest at a fixed rate of 1.75% per year, payable semi-annually in arrears on January 15 and July 15. The Notes mature on July 15, 2023, unless earlier repurchased, redeemed or converted. Prior to April 15, 2023, the Notes are convertible at the option of holders during certain periods, upon satisfaction of certain conditions. Thereafter, the Notes are convertible at any time until the close of business on the second scheduled trading day immediately preceding the maturity date. Redfin may redeem for cash all or any portion of the notes, at its option, on or after July 20, 2021, upon satisfaction of certain conditions at a redemption price equal to 100% of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest. Redfin will settle conversions of the Notes by paying or delivering, as the case may be, cash, shares of its common stock, or a combination of cash and shares of its common stock, at its election. The Company has the ability, and intends, to settle any conversions solely in cash.

Holders of the Notes have the right to require Redfin to repurchase for cash all or a portion of their Notes at 100% of their principal amount, plus any accrued and unpaid interest, upon the occurrence of a fundamental change (as defined in the indenture relating to the Notes). Redfin is required to increase the conversion rate for holders who convert their notes in connection with certain fundamental changes occurring prior to the maturity date or following Redfin's issuance of a notice of redemption.

The initial conversion rate of the Notes is 32.7332 shares of common stock per $1,000 principal amount of Notes, equivalent to an initial conversion price of approximately $30.55 per share of common stock. The initial conversion price represents a premium of approximately 30% to the $23.50 per share public offering price for the common stock offering.

In accounting for the issuance of the Notes, the value was allocated to liability and equity components. The carrying amount of the liability component was determined 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 calculated by deducting the fair value of the liability component from the principal amount of the Notes as a whole. The difference between the principal amount of the Notes and the liability component (the debt discount) is amortized to interest expense in the condensed consolidated statements of operations using the effective interest method over the term of the Notes. The equity component of the Notes is included in additional paid-in capital in the condensed consolidated balance sheets and is not remeasured as long as it continues to meet the conditions for equity classification.

The Company incurred total debt issuance costs of $4,797, of which approximately $3,832 was allocated to the Notes and approximately $965 was allocated to additional paid-in capital.

The Notes consisted of the following:

		As of September 30, 2018
Liability:		
Principal	$	143,750
Less: debt discount, net of amortization		(27,919)
Less: debt issuance costs, net of amortization		(3,701)
Net carrying amount of the Notes	$	112,130
Stockholders' equity:		
Allocated value of the conversion feature	$	28,916
Less: debt issuance costs		(965)
Additional paid-in capital	$	27,951

The following table sets forth total interest expense recognized related to the Notes for the period presented:

	Three Months Ended September 30, 2018
Amortization of debt discount	$ 997
Amortization of debt issuance costs	131
Total amortization of debt issuance costs and accretion of equity portion	1,128
Contractual interest expense	482
Total interest expense related to the Notes	$ 1,610
Effective interest rate of the liability component	7.10 %

The total estimated fair value of the Notes as of September 30, 2018 was approximately $129,195 based on the closing trading price of the Notes on last day of trading for the period. The fair value has been classified as Level 2 within the fair value hierarchy given the limited trading activity of the Notes.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of our financial condition and results of operations should be read together with our condensed consolidated financial statements, the accompanying notes, other information included elsewhere in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the fiscal year ended December 31, 2017. In particular, the disclosure contained in Part I, Item 1A. "Risk Factors" in our Annual Report, as updated by Part II, Item 1A. "Risk Factors" in this Quarterly Report, may reflect trends, demands, commitments, events, or uncertainties that could materially impact our results of operations and liquidity and capital resources.

The following discussion contains forward-looking statements, such as statements regarding our future operating results and financial position, our business strategy and plans, our market growth and trends, and our objectives for future operations. Please see "Special Note Regarding Forward-Looking Statements" for more information about relying on these forward-looking statements. The following discussion also contains information using industry publications that generally state that the information contained therein has been obtained from sources believed to be reliable, but such information may not be accurate or complete. While we are not aware of any misstatements regarding the information from these industry publications, we have not independently verified any of the data from third-party sources nor have we ascertained the underlying economic assumptions relied on therein.

When we use the term "basis points" in the following discussion, we refer to units of one-hundredth of one percent.

Prior to our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2018, we had one reportable segment ("real estate") that reflected revenue derived from commissions and fees charged on real estate services transactions closed by us or partner agents representing customers in buying and selling homes. Beginning with our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2018, we recognized a new reportable segment ("properties") that reflects revenue from when we sell homes that we previously bought directly from homeowners. Concurrent with our recognition of the new "properties" segment, we changed the name of our "real estate" segment to "real estate services." Prior to our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2018, we included the results from our "properties" segment as part of our "other" segment.

Overview

Redfin is the technology-powered residential real estate brokerage. We represent people buying and selling homes in over 80 markets throughout the United States. Our mission is to redefine real estate in the consumer's favor. In a commission-driven industry, we put the customer first. We do this by pairing our own agents with our own technology to create a service that is faster, better, and costs less.

In the first quarter of 2017, we began testing an experimental new service called RedfinNow, where we buy homes directly from homeowners and resell them to homebuyers. In July 2018, we expanded our RedfinNow service from an experiment to an ongoing customer offering. For the three months ended September 30, 2018, we limited ourselves to no more than $35.0 million in RedfinNow capital at any point in time, including inventory and properties that we are committed to purchase, which is up from our $25.0 million limit in our prior quarter. RedfinNow is included in our properties segment.

On August 2, 2017, we completed our initial public offering, or IPO, in which we issued and sold 10,615,650 shares of our common stock (including 1,384,650 shares pursuant to the underwriters' option to purchase additional shares) at a public offering price of $15.00 per share. Upon the closing of the IPO, all of the outstanding shares of our redeemable convertible preferred stock automatically converted into 55,422,002 shares of common stock on a one-for-one basis. Subsequent to the closing of the IPO, there are no shares of preferred stock outstanding.

On July 23, 2018, we completed follow-on public offerings of 4,836,336 shares of our common stock (including 630,826 shares pursuant to the underwriters' option to purchase additional shares) and $143,750,000 aggregate principal amount of our 1.75% Convertible Senior Notes due 2023, or convertible senior notes (including $18,750,000 principal amount of convertible senior notes sold pursuant to the underwriters' option to purchase additional notes). The public offering price for our common stock offering was $23.50 per share.

Key Business Metrics

In addition to the measures presented in our consolidated financial statements, we use the following key metrics to evaluate our business, develop financial forecasts, and make strategic decisions.

	Three Months Ended								
	Sep. 30, 2018	Jun. 30, 2018	Mar. 31, 2018	Dec. 31, 2017	Sep. 30, 2017	Jun. 30, 2017	Mar. 31, 2017	Dec. 31, 2016	Sep. 30, 2016
Monthly average visitors (in thousands)	29,236	28,777	25,820	21,377	24,518	24,400	20,162	16,058	17,795
Real estate services transactions:									
Brokerage	12,876	12,971	7,285	8,598	10,527	10,221	5,692	6,432	7,934
Partner	3,333	3,289	2,237	2,739	3,101	2,874	2,041	2,281	2,663
Total	16,209	16,260	9,522	11,337	13,628	13,095	7,733	8,713	10,597
Real estate services revenue per transaction:									
Brokerage	$ 9,227	$ 9,510	$ 9,628	$ 9,659	$ 9,289	$ 9,301	$ 9,570	$ 9,428	$ 9,333
Partner	2,237	2,281	2,137	2,056	1,960	1,945	1,911	1,991	1,932
Aggregate	$ 7,790	$ 8,048	$ 7,869	$ 7,822	$ 7,621	$ 7,687	$ 7,548	$ 7,481	$ 7,474
Aggregate home value of real estate services transactions (in millions)	$ 7,653	$ 7,910	$ 4,424	$ 5,350	$ 6,341	$ 6,119	$ 3,470	$ 4,018	$ 4,898
U.S. market share by value	0.85 %	0.83 %	0.73 %	0.71 %	0.71 %	0.64 %	0.58 %	0.56 %	0.57 %
Revenue from top-10 Redfin markets as a percentage of real estate services revenue	66 %	68 %	66 %	69 %	69 %	69 %	68 %	71 %	72 %
Average number of lead agents	1,397	1,415	1,327	1,118	1,028	1,010	935	796	756

Monthly Average Visitors

The number of, and growth in, visitors to our website and mobile application are important leading indicators of our business activity because these channels are the primary ways we meet customers. For a particular period, monthly average visitors refers to the average of the number of unique visitors to our website and mobile application for each of the months in that period. Monthly average visitors are influenced by market conditions that affect interest in buying or selling homes, the level and success of our marketing programs, and seasonality. We believe we can continue to increase monthly visitors, which helps our growth.

Given the lengthy process to buy or sell a home, a visitor during one month may not convert to a revenue-generating customer until many months later, if at all.

When we refer to "monthly average visitors" for a particular period, we are referring to the average number of unique visitors to our website and our mobile application for each of the months in that period, as measured by Google Analytics, a product that provides digital marketing intelligence. Visitors are tracked by Google Analytics using cookies, with a unique cookie being assigned to each browser or mobile application on a device. For any given month, we count all of the unique cookies that visited our website or either our iOS or Android mobile application during that month; each such unique cookie is a unique visitor. If a person accesses our mobile application using different devices within a given month, each such mobile device is counted as a separate visitor for that month. If the same person accesses our website using an anonymous browser, or clears or resets cookies on his or her device, each access with a new cookie is counted as a new unique visitor for that month.

Real Estate Services Transactions

Increasing the number of real estate services transactions in which we or our partner agents represent homebuyers and home sellers is critical to increasing our revenue and, in turn, to achieving profitability. Real estate services transaction volume is influenced by the pricing and quality of our services as well as market conditions that affect home sales, such as local inventory levels and mortgage interest rates. Real estate services transaction volume is also affected by seasonality and macroeconomic factors. We include a single transaction twice when we or our partner agents serve both the homebuyer and the home seller of a home.

Real Estate Services Revenue per Transaction

Real estate services revenue per transaction, together with the number of real estate services transactions, is a factor in evaluating business growth and determining pricing. Changes in real estate services revenue per transaction can be affected by our pricing, the mix of transactions from homebuyers and home sellers, changes in the value of homes in the markets we serve, the geographic mix of our transactions, and the transactions we refer to partner agents.

We calculate real estate services revenue per transaction by dividing brokerage, partner, or aggregate revenue, as applicable, by the corresponding number of real estate services transactions in any period.

Aggregate Home Value of Real Estate Services Transactions

The aggregate home value of real estate services transactions completed by our lead agents and of the real estate services transactions we refer to partner agents is an important indicator of the health of our business, because our revenue is largely based on a percentage of each home's sale price. This metric is affected chiefly by the number of customers we serve, but also by changes in home values in the markets we serve. We include the value of a single transaction twice when we or our partner agents serve both the homebuyer and home seller of a transaction.

U.S. Market Share by Value

Increasing our U.S. market share by value is critical to our ability to grow our business and achieve profitability over the long term. We believe there is a significant opportunity to increase our share in the markets we currently serve.

We calculate the aggregate value of U.S. home sales by multiplying the total number of U.S. home sales by the mean sale price of these sales, each as reported by the National Association of Realtors, or NAR. We calculate our market share by aggregating the home value of real estate services transactions conducted by our lead agents or our partner agents. Then, in order to account for both the sell- and buy-side components of each transaction, we divide that value by two-times the estimated aggregate value of U.S. home sales.

Revenue from Top-10 Markets as a Percentage of Real Estate Services Revenue

Our top-10 markets by real estate services revenue are the metropolitan areas of Boston, Chicago, Denver (including Boulder and Colorado Springs), Los Angeles (including Santa Barbara), Maryland, Northern Virginia, Portland (including Bend), San Diego, San Francisco, and Seattle. We expect our revenue from top-10 markets to decline as a percentage of our real estate services revenue over time.

Average Number of Lead Agents

The average number of lead agents, in combination with our other key metrics such as the number of brokerage transactions, is a basis for calculating agent productivity and is one indicator of the potential future growth of our business. We systematically evaluate traffic to our website and mobile application and customer activity to anticipate changes in customer demand, helping determine when and where to hire lead agents.

We calculate the average number of lead agents by taking the average of the number of lead agents at the end of each month included in the period.

Components of Our Results of Operations

Revenue

We generate revenue primarily from commissions and fees charged on real estate services transactions closed by our lead agents or partner agents.

Real Estate Services Revenue

Brokerage Revenue—Brokerage revenue consists of commissions earned on real estate services transactions closed by our lead agents. We recognize commission-based revenue on the closing of a transaction, less the amount of any commission refund or any closing-cost reduction, commission discount, or transaction-fee adjustment. Brokerage revenue is affected by the number of real estate services transactions we close, the mix of brokerage transactions, home-sale prices, commission rates, and the amount we give to customers.

From time to time, we may change the commission rates charged homebuyers and home sellers. Price increases for one are generally offset by decreases for the other, and while the mix of transactions may change, real estate services revenue per transaction remains relatively consistent.

Partner Revenue—Partner revenue consists of fees partner agents pay us when they close referred transactions, less the amount of any payments we make to customers. We recognize these fees as revenue on the closing of a transaction. Partner revenue is affected by the number of partner transactions closed, home-sale prices, commission rates, and the amount we give to customers.

In December 2017, we stopped giving any portion of our referral fee to the customer.

Properties Revenue

Properties revenue is earned when we sell homes that we previously bought directly from homeowners. Properties revenue is recorded at closing on a gross basis, representing the sales price of the home. RedfinNow is our primary properties offering.

Other Revenue

Other services revenue includes fees earned from mortgage banking services, title settlement services, Walk Score data services, and advertising.

Cost of Revenue and Gross Margin

Cost of revenue consists primarily of personnel costs (including base pay, benefits, and stock-based compensation), transaction bonuses, home-touring and field expenses, listing expenses, property costs related to our properties segment, office and occupancy expenses, and depreciation and amortization related to fixed assets and acquired intangible assets. Property costs related to our properties segment include the property purchase price, capitalized improvements, selling expenses directly attributable to the transaction, and property maintenance expenses.

Gross profit is revenue less cost of revenue. Gross margin is gross profit expressed as a percentage of revenue. Our gross margin has and will continue to be affected by a number of factors, but the most important are real estate services revenue per transaction, agent and support-staff productivity, personnel costs and transaction bonuses, and, for properties, the cost of homes.

Operating Expenses

Technology and Development

Our primary technology and development expenses are building software for our customers, lead agents, and support staff to work together on a transaction, and building a website and mobile application to meet customers looking to move. These expenses consist primarily of personnel costs including stock-based compensation, data-license expenses, software costs, and equipment and infrastructure costs, such as for data centers and hosted services. Technology and development expenses also include amortization of capitalized internal-use software and website and mobile application development costs.

Marketing

Marketing expenses consist primarily of media costs for online and offline advertising, as well as personnel costs including stock-based compensation. We expect to increase offline advertising media costs by approximately $27 million to $47 million in 2019, compared to 2018.

General and Administrative

General and administrative expenses consist primarily of personnel costs including stock-based compensation, facilities costs and related expenses for our executive, finance, human resources, and legal organizations, depreciation related to our fixed assets, and fees for outside services. Outside services are principally comprised of external legal, audit, and tax services.

Interest Income

Interest income consists primarily of interest earned on our cash and cash equivalents.

Interest Expense

Interest expense consists of interest payable on our convertible senior notes. Interest is payable on the notes at the rate of 1.75% semiannually in arrears on January 15 and July 15, commencing on January 15, 2019. Interest expense also includes the amortization of debt discount and issuance costs related to the notes.

Results of Operations

The following tables set forth our results of operations for the periods presented and as a percentage of our revenue for those periods. The period-to-period comparisons of our historical results are not necessarily indicative of the results that may be expected in the future.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Revenue	$ 140,255	$ 109,479	$ 362,791	$ 274,282
Cost of revenue[(1)]	97,950	70,166	269,576	191,633
Gross profit	42,305	39,313	93,215	82,649
Operating expenses:				
Technology and development[(1)]	14,310	11,483	40,105	31,245
Marketing[(1)]	8,236	5,588	36,006	26,179
General and administrative[(1)]	16,470	11,995	48,532	38,828
Total operating expenses	39,016	29,066	124,643	96,252
Income (loss) from operations	3,289	10,247	(31,428)	(13,603)
Interest income	1,775	311	3,082	387
Interest expense	(1,610)	—	(1,610)	—
Other income, net	21	—	200	13
Net income (loss)	$ 3,475	$ 10,558	$ (29,756)	$ (13,203)

[(1)] Includes stock-based compensation as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Stock-based compensation:				
Cost of revenue	$ 1,370	$ 715	$ 4,061	$ 2,129
Technology and development	2,135	819	5,334	2,301
Marketing	155	121	431	362
General and administrative	1,838	1,054	4,646	3,236
Total	$ 5,498	$ 2,709	$ 14,472	$ 8,028

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(as a percentage of revenue)			
Revenue	100.0 %	100.0%	100.0 %	100.0 %
Cost of revenue[(1)]	69.8	64.1	74.3	69.9
Gross profit	30.2	35.9	25.7	30.1
Operating expenses:				
Technology and development[(1)]	10.2	10.5	11.1	11.4
Marketing[(1)]	5.9	5.1	9.9	9.5
General and administrative[(1)]	11.7	11.0	13.4	14.2
Total operating expenses	27.8	26.6	34.4	35.1
Income (loss) from operations	2.4	9.3	(8.7)	(5.0)
Interest income	1.3	0.3	0.8	0.1
Interest expense	(1.1)	0.0	(0.4)	0.0
Other income, net	0.0	0.0	0.1	0.0
Net income (loss)	2.6 %	9.6%	(8.2)%	(4.9)%

(1) Includes stock-based compensation as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(as a percentage of revenue)			
Stock-based compensation:				
Cost of revenue	1.0%	0.7%	1.1%	0.8%
Technology and development	1.5	0.7	1.5	0.8
Marketing	0.1	0.1	0.1	0.1
General and administrative	1.3	1.0	1.3	1.2
Total	3.9%	2.5%	4.0%	2.9%

Comparison of the Three Months Ended September 30, 2018 and 2017

Revenue

	Three Months Ended September 30,		Change	
	2018	2017	Dollars	Percentage
	(in thousands, except percentages)			
Real estate services revenue:				
Brokerage revenue	$ 118,809	$ 97,787	$ 21,022	21%
Partner revenue	7,456	6,077	1,379	23
Total real estate services revenue	126,265	103,864	22,401	22
Properties revenue	11,350	3,364	7,986	237
Other revenue	2,640	2,251	389	17
Revenue	$ 140,255	$ 109,479	$ 30,776	28
Percentage of revenue				
Real estate services revenue:				
Brokerage	84.7%	89.3%		
Partner revenue	5.3	5.6		
Total real estate services revenue	90.0	94.9		
Properties revenue	8.1	3.0		
Other revenue	1.9	2.1		
Revenue	100.0%	100.0%		

In the three months ended September 30, 2018, revenue increased by $30.8 million, or 28%, as compared with the same period in 2017. Brokerage revenue represented $21.0 million, or 68%, of the increase. Brokerage revenue grew 21% during the period, driven by a 22% increase in brokerage transactions offset partially by a 1% decrease in real estate services revenue per transaction. We believe this increase in brokerage transactions was attributable to higher levels of customer awareness of Redfin and increasing customer demand. Properties revenue grew $8.0 million, or 237% as compared with the same period in 2017, driven by a 270% increase in the number of properties sold. Other revenue increased $0.4 million, or 17%, as compared with the same period in 2017.

Cost of Revenue and Gross Margin

	Three Months Ended September 30,		Change	
	2018	2017	Dollars	Percentage
	(in thousands, except percentages)			
Cost of revenue:				
Real estate services	$ 83,274	$ 64,258	$ 19,016	30 %
Properties	11,656	3,326	8,330	250
Other	3,020	2,582	438	17
Total cost of revenue	$ 97,950	$ 70,166	$ 27,784	40
Gross profit:				
Real estate services	$ 42,991	$ 39,606	$ 3,385	9 %
Properties	(306)	38	(344)	(905)
Other	(380)	(331)	(49)	(15)
Total gross profit	$ 42,305	$ 39,313	$ 2,992	8
Gross margin (percentage of revenue):				
Real estate services	34.0 %	38.1 %		
Properties	(2.7)	1.1		
Other	(14.4)	(14.7)		
Total gross margin	30.2	35.9		

In the three months ended September 30, 2018, total cost of revenue increased by $27.8 million, or 40%, as compared with the same period in 2017. This increase in cost of revenue was primarily attributable to a $8.6 million increase in personnel costs including stock-based compensation due to increased headcount, a $7.4 million increase in the cost of properties from growth of our properties business, a $5.4 million increase in transaction bonuses from increased brokerage transactions, and a $3.6 million increase in home-touring and field costs from serving more brokerage customers.

Total gross margin decreased 570 basis points for the three months ended September 30, 2018, as compared with the same period in 2017.

Real estate services gross margin decreased 410 basis points for the three months ended September 30, 2018, as compared with the same period in 2017. This was primarily attributable to a 180 basis-point increase in personnel costs including stock-based compensation due to increased headcount, a 100 basis-point increase in transaction bonuses, and an 80 basis-point increase in tours and field events, each as a percentage of revenue.

Properties gross margin decreased 380 basis points for the three months ended September 30, 2018, as compared with the same period in 2017. This was primarily attributable to a 140 basis-point increase in personnel costs including stock-based compensation due to increased headcount, a 120 basis-point increase in the cost of properties, and a 70 basis-point increase in transaction bonuses, each as a percentage of revenue.

Other gross margin increased 30 basis points for the three months ended September 30, 2018, as compared with the same period in 2017.

Operating Expenses

	Three Months Ended September 30,		Change	
	2018	2017	Dollars	Percentage
	(in thousands, except percentages)			
Technology and development	$ 14,310	$ 11,483	$ 2,827	25 %
Marketing	8,236	5,588	2,648	47
General and administrative	16,470	11,995	4,475	37
Total operating expenses	$ 39,016	$ 29,066	$ 9,950	34
Percentage of revenue				
Technology and development	10.2 %	10.5 %		
Marketing	5.9	5.1		
General and administrative	11.7	11.0		
Total operating expenses	27.8 %	26.6 %		

In the three months ended September 30, 2018, technology and development expenses increased by $2.8 million, or 25%, as compared with the same period in 2017. The increase was primarily attributable to a $2.7 million increase in personnel costs including stock-based compensation due to increased headcount.

In the three months ended September 30, 2018, marketing expenses increased by $2.6 million, or 47%, as compared with the same period in 2017. The increase was attributable to a $2.2 million increase in marketing media costs as we expanded advertising.

In the three months ended September 30, 2018, general and administrative expenses increased by $4.5 million, or 37%, as compared with the same period in 2017. The increase was primarily attributable to a $2.4 million increase in personnel costs including stock-based compensation, largely the result of increases in headcount to support continued growth, and a $1.5 million increase in outside services expenses driven by public-company compliance requirements.

Comparison of the Nine Months Ended September 30, 2018 and 2017

Revenue

	Nine Months Ended September 30,		Change	
	2018	2017	Dollars	Percentage
	(in thousands, except percentages)			
Real estate services revenue:				
Brokerage revenue	$ 312,306	$ 247,327	$ 64,979	26%
Partner revenue	19,741	15,567	4,174	27
Total real estate services revenue	332,047	262,894	69,153	26
Properties revenue	23,388	5,345	18,043	338
Other revenue	7,356	6,043	1,313	22
Revenue	$ 362,791	$ 274,282	$ 88,509	32
Percentage of revenue				
Real estate services revenue:				
Brokerage	86.2 %	90.2 %		
Partner revenue	5.4	5.7		
Total real estate services revenue	91.6	95.9		
Properties revenue	6.4	1.9		
Other revenue	2.0	2.2		
Revenue	100.0 %	100.0 %		

In the nine months ended September 30, 2018 , revenue increased by $88.5 million, or 32%, as compared with the same period in 2017. Brokerage revenue represented $65.0 million, or 73%, of the increase. Brokerage revenue grew 26% during the period, driven by a 25% increase in brokerage transactions and a 1% increase in real estate services revenue per brokerage transaction. We believe this increase in brokerage transactions was attributable to higher levels of customer awareness of Redfin and increasing customer demand. Properties revenue grew $18.0 million, or 338% as compared with the same period in 2017, driven by a 371% increase in the number of properties sold. Other revenue increased $1.3 million, or 22%, as compared with the same period in 2017.

Cost of Revenue and Gross Margin

	Nine Months Ended September 30,		Change	
	2018	2017	Dollars	Percentage
	(in thousands, except percentages)			
Cost of revenue:				
Real estate services	$ 236,775	$ 178,850	$ 57,925	32 %
Properties	24,086	5,361	18,725	349
Other	8,715	7,422	1,293	17
Total cost of revenue	$ 269,576	$ 191,633	$ 77,943	41
Gross profit:				
Real estate services	$ 95,272	$ 84,044	$ 11,228	13 %
Properties	(698)	(16)	(682)	4,263
Other	(1,359)	(1,379)	20	(1)
Total gross profit	$ 93,215	$ 82,649	$ 10,566	13
Gross margin (percentage of revenue):				
Real estate services	28.7 %	32.0 %		
Properties	(3.0)	(0.3)		
Other	(18.5)	(22.8)		
Total gross margin	25.7	30.1		

In the nine months ended September 30, 2018 , total cost of revenue increased by $77.9 million, or 41%, as compared with the same period in 2017. This increase in cost of revenue was primarily attributable to a $26.0 million increase in personnel costs including stock-based compensation due to increased headcount, a $16.2 million increase in transaction bonuses from increased brokerage transactions, a $16.7 million increase in the cost of properties from growth in our properties business, and a $10.6 million increase in home-touring and field costs from serving more brokerage customers.

Total gross margin decreased 440 basis points for the nine months ended September 30, 2018 , as compared with the same period in 2017.

Real estate services gross margin decreased 330 basis points for the nine months ended September 30, 2018 , as compared with the same period in 2017. This was primarily attributable to a 150 basis-point increase in personnel costs including stock-based compensation due to increased headcount, a 100 basis-point increase in transaction bonuses, and a 50 basis-point increase in home-touring and field costs, each as a percentage of revenue.

Properties gross margin decreased 270 basis points for the nine months ended September 30, 2018 , as compared with the same period in 2017. This was primarily attributable to a 90 basis-point increase in the cost of properties, a 70 basis-point increase in personnel costs including stock-based compensation, and a 60 basis-point increase in transaction bonuses, each as a percentage of revenue.

Other gross margin increased 430 basis points for the nine months ended September 30, 2018 , as compared with the same period in 2017. This was primarily attributable to a 310 basis-point decrease in operating expenses, a 160 basis-point decrease in depreciation and amortization, and a 50 basis-point decrease in office and occupancy expenses, each as a percentage of revenue. This was partially offset by a 180 basis-point increase in personnel costs including stock-based compensation.

Operating Expenses

	Nine Months Ended September 30,		Change	
	2018	2017	Dollars	Percentage
	(in thousands, except percentages)			
Technology and development	$ 40,105	$ 31,245	$ 8,860	28%
Marketing	36,006	26,179	9,827	38
General and administrative	48,532	38,828	9,704	25
Total operating expenses	$ 124,643	$ 96,252	$ 28,391	29
Percentage of revenue				
Technology and development	32.2%	32.5%		
Marketing	28.9	27.2		
General and administrative	38.9	40.3		
Total operating expenses	100.0%	100.0%		

In the nine months ended September 30, 2018 , technology and development expenses increased by $8.9 million, or 28%, as compared with the same period in 2017. The increase was primarily attributable to a $8.5 million increase in personnel costs including stock-based compensation due to increase in headcount.

In the nine months ended September 30, 2018 , marketing expenses increased by $9.8 million, or 38%, as compared with the same period in 2017. The increase was attributable to a $9.7 million increase in marketing media costs as we expanded advertising.

In the nine months ended September 30, 2018 , general and administrative expenses increased by $9.7 million, or 25%, as compared with the same period in 2017. The increase was primarily attributable to a $5.8 million increase in personnel costs including stock-based compensation, largely the result of an increase in headcount, and a $2.9 million increase in outside services expenses primarily driven by public-company compliance requirements.

Liquidity and Capital Resources

As of September 30, 2018, we had cash and cash equivalents of $449.0 million, which consist of operating cash on deposit with financial institutions and money market funds.

On July 23, 2018, we completed follow-on public offerings of 4,836,336 shares of our common stock and $143,750,000 aggregate principal amount of our convertible senior notes. We received approximately $107.6 million in proceeds from the common stock offering and approximately $139.0 million in proceeds from the convertible senior notes offering, in each case after deducting underwriting discounts and other issuance costs. We intend to use the net proceeds for working capital and other general corporate purposes, including technology development and marketing activities, general and administrative expenses, and capital expenditures. We may also use a portion of the net proceeds to invest in or acquire third-party businesses, products, services, technologies, or other assets. However, we do not currently have any definitive or preliminary plans with respect to the use of proceeds for such purposes. The convertible senior notes mature on July 15, 2023, unless earlier repurchased, redeemed or converted. Interest is payable in arrears on January 15 and July 15 of each year, commencing on January 15, 2019.

We believe that our existing cash and cash equivalents, together with cash to be generated from future operations, will provide sufficient liquidity to meet our operational needs and fulfill our debt obligations. However, our liquidity assumptions may change or prove to be incorrect, and we could exhaust our available financial resources sooner than we currently expect. As a result, we may elect to raise additional funds at any time through equity, equity-linked, or debt financing arrangements. We cannot assure you that any additional financing will be available to us on acceptable terms or at all.

Cash Flows

The following table summarizes our cash flows for the periods indicated:

	Nine Months Ended September 30,	
	2018	2017
	(in thousands)	
Net cash used in operating activities	$ (20,808)	$ 10,773
Net cash used in investing activities	(5,528)	(10,008)
Net cash provided by financing activities	$ 274,614	$ 153,928

Net cash used in operating activities was $20.8 million for the nine months ended September 30, 2018 , primarily attributable to a net loss of $29.8 million, offset by $14.5 million of stock based compensation expense and $6.1 million of depreciation and amortization expense. Changes in assets and liabilities increased cash used in operating activities by $12.8 million driven primarily by an increase of $21.8 million in inventory related to our properties business. This was partially offset by a $10.9 million increase in accrued expenses due primarily to $8.7 million of payroll liabilities, and a $2.0 million increase in our employee stock purchase plan liability.

Net cash used in investing activities was $5.5 million for the nine months ended September 30, 2018 , primarily attributable to $3.6 million of capitalized software development expenses.

Net cash provided by financing activities was $274.6 million for the nine months ended September 30, 2018 , primarily attributable to net proceeds from our follow-on offerings of common stock and convertible senior notes. The net proceeds consisted of $107.6 million from the issuance of common stock and $139.0 million from the issuance of notes.

Net cash used in operating activities in the nine months ended September 30, 2017 consisted of $13.2 million of net losses, a $13.4 million positive impact from non-cash items, a $9.7 million net increase in accrued expenses and accounts payable due to the timing of when amounts came due, and an $8.4 million reduction in miscellaneous receivables when the landlord for our Seattle headquarters office reimbursed us for tenant improvements. These were partially offset by $5.4 million in home purchases from testing RedfinNow and a $2.7 million increase in accrued revenue due to the timing of real estate transactions.

Net cash used in investing activities in the nine months ended September 30, 2017 consisted of $10.5 million of fixed asset purchases, including $6.5 million of leasehold improvements for our new Seattle headquarters office space and $3.3 million of capitalized software development expenses.

Net cash used in financing activities in the nine months ended September 30, 2017 consisted of $148.1 million in proceeds from our IPO, $3.4 million of payments of direct IPO costs, and $2.5 million in proceeds from the exercise of stock options.

Critical Accounting Policies and Estimates

Discussion and analysis of our financial condition and results of operations are based on our financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities and related disclosure of contingent assets and liabilities, revenue, and expenses at the date of the financial statements. Generally, we base our estimates on historical experience and on various other assumptions in accordance with GAAP that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies and estimates are those that we consider the most important to the portrayal of our financial condition and results of operations because they require our most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Our critical accounting policies and estimates are described in Note 1 to our condensed consolidated financial statements.

There have been no material changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, except as related to ASC 606 as described in Note 2 and to our valuation of the convertible feature related to the convertible senior notes as described in Note 15 to our condensed consolidated financial statements.

Recent Accounting Standards

See Note 1 to our condensed consolidated financial statements for recently adopted accounting pronouncements and recently issued accounting pronouncements not yet adopted.

Item 3. Qualitative and Quantitative Disclosures About Market Risk.

The principal market risk we face is interest rate risk. We had cash and cash equivalents of $449.0 million and $208.3 million at September 30, 2018 and December 31, 2017, respectively. The goals of our investment policy are liquidity and capital preservation. We do not enter into investments for trading or speculative purposes. Our investment policy allows us to maintain a portfolio of cash equivalents and investments in a variety of securities, including U.S. government treasury and agency issues, bank certificates of deposit that are 100% Federal Deposit Insurance Corporation insured, and SEC-registered money market funds that consist of a minimum of $1 billion in assets and meet the above requirements. We believe that we do not have any material exposure to changes in the fair value of these assets as a result of changes in interest rates due to the short term nature of our cash and cash equivalents. Declines in interest rates, however, would reduce future investment income. A 100 basis-point decline in interest rates, occurring during and sustained throughout any of the periods presented, would not have been material.

We do not currently have any operations outside of the United States and, as a result, we do not face significant risk with respect to foreign currency exchange rates.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our principal executive officer and principal financial officer have concluded that as of such date, our disclosure controls and procedures were effective at the reasonable assurance level described below.

Changes in Internal Control

There were no changes in our internal control over financial reporting in connection with the evaluation required by Rule 13a-15(d) under the Exchange Act that occurred during the period covered by this Quarterly Report on Form 10-Q that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

Except as discussed in Part II, Item 1 of our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2018, there have not been any material legal proceedings in addition to, or any material developments to, the legal proceedings reported in Part I, Item 3 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

Item 1A. Risk Factors.

Except as discussed below, there have not been any material changes from the risk factors included in Part I, Item 1A. of our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

Our failure to adapt to any substantial shift in the relative percentage of residential housing transactions from our historical top markets to other markets in the United States could adversely affect our financial performance.

For the three months ended September 30, 2018, our top-10 markets consisted of the metropolitan areas of Boston, Chicago, Denver (including Boulder and Colorado Springs), Los Angeles (including Santa Barbara), Maryland, Northern Virginia, Portland (including Bend), San Diego, San Francisco, and Seattle. Nine of these metropolitan areas were also part of our top-10 markets for the years ended December 31, 2015, 2016, and 2017.

Due to the higher home prices in these markets, our real estate services revenue and gross margin are generally higher in these markets than in our smaller markets. To the extent people migrate to cities outside of these markets due to lower home prices or other factors, and this migration becomes a long-term trend, then the relative percentage of residential housing transactions may shift away from our historical top markets where we have historically generated most of our revenue. If we are unable to effectively adapt to any shift, including failing to increase revenue from other markets, then our financial performance may be harmed.

Conversion of our convertible senior notes may dilute the ownership interest of our stockholders or may otherwise depress the price of our common stock.

The conversion of some or all of our convertible senior notes may dilute the ownership interests of our stockholders. Upon conversion of our convertible senior notes, we have the option to pay or deliver, as the case may be, cash, shares of our common stock, or a combination of cash and shares of our common stock. If we elect to settle our conversion obligation in shares of our common stock or a combination of cash and shares of our common stock, any sales in the public market of our common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock. In addition, the existence of the notes may encourage short selling by market participants because the conversion of the notes could be used to satisfy short positions, or anticipated conversion of the notes into shares of our common stock could depress the price of our common stock.

Certain provisions in the indenture governing our convertible senior notes may delay or prevent an otherwise beneficial takeover attempt of us.

Certain provisions in the indenture governing our convertible senior notes may make it more difficult or expensive for a third party to acquire us. For example, the indenture will require us to repurchase our convertible senior notes for cash upon the occurrence of a fundamental change (as defined in the indenture) of us and, in certain circumstances, to increase the conversion rate for a holder that converts its notes in connection with a make-whole fundamental change. A takeover of us may trigger the requirement that we repurchase our convertible senior notes and/or increase the conversion rate, which could make it more costly for a potential acquirer to engage in such takeover. Such additional costs may have the effect of delaying or preventing a takeover of us that would otherwise be beneficial to investors.

Servicing our debt, including our convertible senior notes, will require a significant amount of cash. We may not have sufficient cash flow to make payments on our debt, and we may not have the ability to raise the funds necessary to settle conversions of our convertible senior notes or to repurchase our convertible senior notes upon a fundamental change, which could adversely affect our business, financial condition and results of operations.

Our ability to make scheduled payments of the principal of, to pay interest on, or to refinance our indebtedness, including our senior convertible notes, depends on our future performance, which is subject to economic, financial, competitive and other factors that may be beyond our control. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our indebtedness will depend on the capital markets and our financial condition and business performance at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations, including our convertible senior notes or otherwise.

In addition, holders of our convertible senior notes have the right to require us to repurchase their notes upon the occurrence of a fundamental change at a repurchase price equal to 100% of the principal amount of the notes to be repurchased, plus accrued and unpaid interest. Upon conversion of our convertible senior notes, unless we elect to deliver solely shares of our common stock to settle such conversion (other than paying cash in lieu of delivering any fractional share), we will be required to make cash payments in respect of the notes being converted. We may not have enough available cash or be able to obtain financing at the time we are required to make repurchases of the notes surrendered therefor or at the time the notes are being converted. Our failure to repurchase our convertible senior notes at a time when the repurchase is required by the indenture or to pay any cash payable on future conversions of the notes would constitute an event of default. If the repayment of any indebtedness were to be accelerated because of such event of default (whether under the notes or otherwise), we may not have sufficient funds to repay the indebtedness and repurchase the notes or make cash payments upon conversions thereof. An event of default under the indenture may lead to an acceleration of our convertible senior notes. Any such acceleration could result in our bankruptcy. In a bankruptcy, the holders of our convertible senior notes would have a claim to our assets that is senior to the claims of our equity holders.

In addition, our significant indebtedness, combined with our other financial obligations and contractual commitments, could have other important consequences. For example, it could:

- make us more vulnerable to adverse changes in general U.S. and worldwide economic, industry and competitive conditions and adverse changes in government regulation;
- limit our flexibility in planning for, or reacting to, changes in our business and our industry;
- place us at a disadvantage compared to our competitors who have less debt; and
- limit our ability to borrow additional amounts for working capital and other general corporate purposes, including to fund possible acquisitions of, or investments in, complementary businesses, products, services and technologies.

Any of these factors could materially and adversely affect our business, financial condition and results of operations. In addition, if we incur additional indebtedness, the risks related to our business and our ability to service or repay our indebtedness would increase.

The conditional conversion feature of our convertible senior notes, if triggered, may adversely affect our financial condition and operating results.

In the event the conditional conversion feature of our convertible senior notes is triggered, holders of notes will be entitled to convert the notes at any time during specified periods at their option. If one or more holders elect to convert their notes, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock (other than paying cash in lieu of delivering any fractional share), we would be required to settle a portion or all of our conversion obligation through the payment of cash, which could adversely affect our liquidity. In addition, even if holders do not elect to convert their notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the notes as a current rather than long-term liability, which would result in a material reduction of our net working capital.

The accounting method for convertible debt securities that may be settled in cash at the option of the issuer, such as our convertible senior notes, could have a material effect on our reported financial results. In May 2008, the Financial Accounting Standards Board issued Staff Position No. APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement)*, which has subsequently been codified as Accounting Standards Codification 470-20, *Debt with Conversion and Other Options*, or ASC 470-20.

Under ASC 470-20, an entity must separately account for the liability and equity components of the convertible debt instruments (such as our convertible senior notes) that may be settled entirely or partially in cash upon conversion in a manner that reflects the issuer's economic interest cost. The effect of ASC 470-20 on the accounting for our convertible senior notes is that the equity component is required to be included in the additional paid-in capital section of stockholders' equity on our consolidated balance sheet at issuance, and the value of the equity component would be treated as original issue discount for purposes of accounting for the debt component. As a result, we will be required to record a greater amount of non-cash interest expense as a result of the amortization of the discounted carrying value of the notes to their face amount over the term of the notes. We will report lower net income or greater loss in our financial results because ASC 470-20 will require interest to include both the amortization of the debt discount and the instrument's coupon interest, which could adversely affect our reported or future financial results, the trading price of our common stock and the trading price of the notes.

In addition, under certain circumstances, convertible debt instruments (such as our convertible senior notes) that may be settled entirely or partly in cash at the option of the issuer are currently accounted for utilizing the treasury stock method, the effect of which is that the shares issuable upon conversion of the notes are not included in the calculation of diluted earnings per share except to the extent that the conversion value of the notes exceeds their principal amount. Under the treasury stock method, for diluted earnings per share purposes, the transaction is accounted for as if the number of shares of common stock that would be necessary to settle such excess, if we elected to settle such excess in shares, are issued. We cannot be sure that the accounting standards in the future will continue to permit the use of the treasury stock method. If we are unable or otherwise elect not to use the treasury stock method in accounting for the shares issuable upon conversion of the notes, then our diluted earnings per share would be adversely affected.

We may still incur substantially more debt or take other actions which would intensify the risks discussed above.

We and our subsidiaries may incur substantial additional debt in the future, some of which may be secured debt. For instance, we may enter into additional loans or sources of capital to finance the operations of RedfinNow. We will not be restricted under the terms of the indenture governing our convertible senior notes from incurring additional debt, securing existing or future debt, recapitalizing our debt or taking a number of other actions that are not limited by the terms of the indenture governing the notes that could have the effect of diminishing our ability to make payments on the notes when due.

Our investment in RedfinNow as a long-term business could fail to produce the desired or predicted results.

In the first quarter of 2017, we began testing an experimental new offering called RedfinNow, where we buy homes directly from homeowners and resell them to homebuyers. In July 2018, we transitioned RedfinNow from an experimental offering to part of our long-term business. Beginning with our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2018, we reported RedfinNow's financial results as part of our properties segment.

Our estimates of what a home is worth and the algorithm we use to inform those estimates may not be accurate and we may pay more for homes than their resale value. To determine whether a particular home meets our purchase criteria we make a number of additional assumptions, including the estimated time of possession, market conditions and proceeds on resale, renovation costs, and holding costs. These assumptions may not be accurate, particularly because homes vary widely in terms of quality, location, need for renovation, and property hazards. Unknown defects in any acquired properties may also affect their resale value. As a result, we may pay more to buy these homes than we can resell them for, may need to invest more in repairs or improvements than we anticipate, and may not be able to resell them for more than we paid or at all. Homes that we own might suffer losses in value due to rapidly changing market conditions, natural disasters, or other forces outside our control.

RedfinNow may also fail to attract customers, reduce customer confidence in our brokerage and other non-brokerage services, undermine our customer-first reputation, create real or perceived conflicts of interest between us and our customers, expose us to increased market risks, subject us to claims related to undisclosed defects in homes that we sell, or result in other disputes with our customers or regulatory enforcement actions. Any of these events could harm our reputation or mean that RedfinNow will harm our business.

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

On July 27, 2017, the SEC declared effective the Registration Statement on Form S-1 (file no. 333-219093) for our IPO. There has been no change to the information provided under "Use of Proceeds" in Part II, Item 2. of our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2017.

Item 6. Exhibits.

		Incorporated by Reference				
Exhibit Number	Exhibit Description	Form	File No.	Exhibit	Filing Date	Filed Herewith
4.1	Indenture, dated as of July 23, 2018, between Redfin Corporation and Wells Fargo Bank, National Association	8-K	001-38160	4.1	July 23, 2018	
4.2	Form of Senior Convertible Note (included in Exhibit 4.1)	8-K	001-38160	4.2	July 23, 2018	
31.1	Certification of Principal Executive Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
31.2	Certification of Principal Financial Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
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					X
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					X
101.INS	XBRL Taxonomy Extension Presentation Linkbase Document					X
101.SCH	XBRL Taxonomy Extension Presentation Linkbase Document					X
101.CAL	XBRL Taxonomy Extension Presentation Linkbase Document					X
101.DEF	XBRL Taxonomy Extension Presentation Linkbase Document					X
101.LAB	XBRL Taxonomy Extension Presentation Linkbase Document					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document					X

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.

Redfin Corporation
(Registrant)

November 8, 2018	/s/ Glenn Kelman
(Date)	Glenn Kelman President and Chief Executive Officer *(Duly Authorized Officer)*
November 8, 2018	/s/ Chris Nielsen
(Date)	Chris Nielsen Chief Financial Officer *(Principal Financial Officer)*

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Glenn Kelman, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Redfin Corporation;

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)) 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) 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

(c) 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.

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.

Date: November 8, 2018

/s/ Glenn Kelman
Glenn Kelman
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Chris Nielsen, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Redfin Corporation;

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)) 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) 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

(c) 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.

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.

Date: November 8, 2018

/s/ Chris Nielsen
Chris Nielsen
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

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

I, Glenn Kelman, Chief Executive Officer of Redfin Corporation (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, to my knowledge, the Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended September 30, 2018 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Glenn Kelman
Glenn Kelman
Chief Executive Officer
November 8, 2018

Exhibit 32.2

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

I, Chris Nielsen, Chief Financial Officer of Redfin Corporation (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, to my knowledge, the Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended September 30, 2018 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Chris Nielsen
Chris Nielsen
Chief Financial Officer
November 8, 2018