COSTAR GROUP INC
Form 10-K/A
March 04, 2010

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

FORM 10-K/A

Amendment No. 1

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

For the fiscal year ended December 31, 2009

Commission file number 0-24531

CoStar Group, Inc.
(Exact name of registrant as specified in its charter)

Delaware	52-2091509
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2 Bethesda Metro Center, 10th Floor, Bethesda, Maryland 20814
(Address of principal executive offices) (zip code)

(301) 215-8300
Registrant's telephone number, including area code

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $.01 par value	NASDAQ Global Select Market

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No x

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that registrant was required to submit and post such files.) Yes o   No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Securities Exchange Act of 1934.

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o	Smaller reporting company o

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

Based on the closing price of the common stock on June 30, 2009 on the Nasdaq Stock Market, Nasdaq Global Select Market, the aggregate market value of registrant's common stock held by non-affiliates of the registrant was approximately $641 million.

As of February 19, 2010, there were 20,581,462 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement, which is expected to be filed with the Securities and Exchange Commission within 120 days after the end of the registrant's fiscal year ended December 31, 2009, are incorporated by reference into Part III of this Report.

Explanatory Note

This Amendment No. 1 to the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2009, which was filed with the U.S. Securities and Exchange Commission on February 26, 2010 (the "Original Filing"), is filed solely to correct a typographical error that resulted in the independent registered public accounting firm's report included in Part II, Item 8 truncating the following words from the final paragraph of the financial statement opinion: "an unqualified opinion thereon." This Amendment No. 1 corrects the audit report to properly include the words "an unqualified opinion thereon" at the end of the final paragraph of the financial statement opinion. Except as described above, no other amendments are being made to the Original Filing. This Amendment No. 1 does not reflect events occurring after the Original Filing or modify or update the disclosure contained therein in any way other than as required to reflect the amendment discussed above. Pursuant to Rule 12b-15 promulgated under the Securities Exchange Act of 1934, as amended, the complete text of Item 8, as amended, is repeated in this Amendment No. 1.

PART II

Item 8. Financial Statements and Supplementary Data

COSTAR GROUP, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS, FINANCIAL STATEMENT SCHEDULE AND SUPPLEMENTARY FINANCIAL INFORMATION

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of CoStar Group, Inc.

We have audited the accompanying consolidated balance sheets of CoStar Group, Inc. as of December 31, 2009 and 2008, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2009. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of CoStar Group, Inc. at December 31, 2009 and 2008, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As also discussed in Note 9 to the consolidated financial statements, under the heading Income Taxes, the Company adopted FASB authoritative guidance regarding Accounting for Uncertainty in Income Taxes effective January 1, 2007.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), CoStar Group Inc.'s internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 25, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

McLean, Virginia

February 25, 2010

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of CoStar Group, Inc.

We have audited CoStar Group, Inc.'s ("CoStar") internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). CoStar's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, CoStar maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets as of December 31, 2009 and 2008 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2009 of CoStar Group, Inc. and our report dated February 25, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

McLean, Virginia

February 25, 2010

4

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

	Year Ended December 31, 2007	2008	2009
Revenues	$192,805	$212,428	$209,659
Cost of revenues	76,704	73,408	73,714
Gross margin	116,101	139,020	135,945
Operating expenses:			
Selling and marketing	51,777	41,705	42,508
Software development	12,453	12,759	13,942
General and administrative	36,569	39,888	44,248
Gain on lease settlement, net	(7,613)	¾	¾
Purchase amortization	5,063	4,880	3,412
	98,249	99,232	104,110
Income from operations	17,852	39,788	31,835
Interest income, net	8,045	4,914	1,253
Income before income taxes	25,897	44,702	33,088
Income tax expense, net	9,946	20,079	14,395
Net income	$15,951	$24,623	$18,693
Net income per share ¾ basic	$0.84	$1.27	$0.95
Net income per share ¾ diluted	$0.82	$1.26	$0.94
Weighted average outstanding shares ¾ basic	19,044	19,372	19,780
Weighted average outstanding shares ¾ diluted	19,404	19,550	19,925

See accompanying notes.

COSTAR GROUP, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands except per share data)

	December 31, 2008	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$159,982	$205,786
Short-term investments	35,268	20,188
Accounts receivable, less allowance for doubtful accounts of approximately $3,213 and $2,863 as of December 31, 2008 and 2009, respectively	12,294	12,855
Deferred income taxes, net	2,036	3,450
Prepaid expenses and other current assets	2,903	5,128
Total current assets	212,483	247,407
Long-term investments	29,340	29,724
Deferred income taxes, net	3,392	1,978
Property and equipment, net	16,876	19,162
Goodwill	54,328	80,321
Intangibles and other assets, net	16,421	23,390
Deposits and other assets	1,544	2,597
Total assets	$334,384	$404,579
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$1,636	$3,667
Accrued wages and commissions	7,217	9,696
Accrued expenses	7,754	14,167
Income taxes payable	1,907	¾
Deferred revenue	9,442	14,840
Deferred rent	1,180	1,377
Total current liabilities	29,136	43,747
Deferred income taxes, net	132	¾
Income taxes payable	1,695	1,826
Commitments and contingencies	¾	¾
Stockholders' equity:		
Preferred stock, $0.01 par value; 2,000 shares authorized; none outstanding	¾	¾
Common stock, $0.01 par value; 30,000 shares authorized; 19,733 and 20,617 issued and outstanding as of December 31, 2008 and 2009, respectively	197	206
Additional paid-in capital	333,983	364,635
Accumulated other comprehensive loss	(13,796)	(7,565)
Retained earnings (accumulated deficit)	(16,963)	1,730
Total stockholders' equity	303,421	359,006
Total liabilities and stockholders' equity	$334,384	$404,579

See accompanying notes.

COSTAR GROUP, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)

	Comprehensive Income	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Total Stockholders' Equity
Balance at December 31, 2006		19,081	$ 191	$ 302,936	$ 4,520	$ (57,537)	$ 250,110
Tax benefit adjustment		¾	¾	26	¾	¾	26
Balance at January 1, 2007		19,081	191	302,962	4,520	(57,537)	250,136
Net income	15,951	¾	¾	¾	¾	15,951	15,951
Foreign currency translation adjustment	873	¾	¾	¾	873	¾	873
Net unrealized gain on investments	233	¾	¾	¾	233	¾	233
Comprehensive income	$ 17,057						
Exercise of stock options		289	3	8,127	¾	¾	8,130
Restricted stock grants		131	1	(1)	¾	¾	¾
Restricted stock grants surrendered		(58)	¾	(635)	¾	¾	(635)
Consideration for Propex		22	¾	1,010	¾	¾	1,010
Stock compensation expense, net of forfeitures		¾	¾	5,399	¾	¾	5,399
ESPP		9	¾	448	¾	¾	448
Excess tax benefit for exercised stock options		¾	¾	260	¾	¾	260
Balance at December 31, 2007		19,474	195	317,570	5,626	(41,586)	281,805
Net income	24,623	¾	¾	¾	¾	24,623	24,623
Foreign currency translation adjustment	(14,061)	¾	¾	¾	(14,061)	¾	(14,061)

Net unrealized loss on investments	(5,361)	¾	¾	¾	(5,361)	¾	(5,361)
Comprehensive income	$ 5,201						
Exercise of stock options		198	2	6,555	¾	¾	6,557
Restricted stock grants		102	1	¾	¾	¾	1
Restricted stock grants surrendered		(49)	(1)	(695)	¾	¾	(696)
Stock compensation expense, net of forfeitures		¾	¾	4,907	¾	¾	4,907
ESPP		8	¾	329	¾	¾	329
Excess tax benefit for exercised stock options		¾	¾	5,317	¾	¾	5,317
Balance at December 31, 2008		19,733	197	333,983	(13,796)	(16,963)	303,421
Net income	18,693	¾	¾	¾	¾	18,693	18,693
Foreign currency translation adjustment	3,671	¾	¾	¾	3,671	¾	3,671
Net unrealized gain on investments	2,560	¾	¾	¾	2,560	¾	2,560
Comprehensive income	$ 24,924						
Exercise of stock options		85	¾	2,232	¾	¾	2,232
Restricted stock grants		237	2	¾	¾	¾	2
Restricted stock grants surrendered		(44)	¾	(672)	¾	¾	(672)
Stock compensation expense, net of forfeitures		¾	¾	6,438	¾	¾	6,438
ESPP		7	¾	230	¾	¾	230
Consideration for PPR		573	6	20,897	¾	¾	20,903
Consideration for Resolve Technology		26	1	1,124	¾	¾	1,125
		¾	¾	403	¾	¾	403

Excess tax benefit for exercised stock options											
Balance at December 31, 2009	20,617	$	206	$	364,635	$	(7,565	)	$	1,730	359,006

See accompanying notes.

COSTAR GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31, 2007	2008	2009
Operating activities:			
Net income	$15,951	$24,623	$18,693
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	7,778	8,360	7,583
Amortization	8,369	8,441	7,093
Deferred income tax expense, net	9,946	2,148	(2,428)
Provision for losses on accounts receivable	2,464	4,042	4,172
Excess tax benefit from stock options	(260)	(5,317)	(403)
Stock-based compensation expense	5,440	4,940	6,460
Leasehold write-off	¾	¾	603
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	(2,944)	(6,196)	(1,610)
Interest receivable	(67)	533	97
Prepaid expenses and other current assets	(755)	1,464	(1,521)
Deposits and other assets	(670)	652	(1,013)
Accounts payable and other liabilities	6,981	(3,044)	2,655
Deferred revenue	(501)	262	(812)
Net cash provided by operating activities	51,732	40,908	39,569
Investing activities:			
Purchases of investments	(116,609)	(4,839)	¾
Sales of investments	107,286	63,949	17,159
Purchases of property and equipment and other assets	(14,271)	(3,656)	(10,544)
Acquisitions, net of cash acquired	(16,737)	(3,024)	(3,207)
Net cash (used in) provided by investing activities	(40,331)	52,430	3,408
Financing activities:			
Excess tax benefit from stock options	260	5,317	403
Repurchase of restricted stock to satisfy tax withholding obligations	(635)	(695)	(672)
Proceeds from exercise of stock options	8,536	6,853	2,441
Net cash provided by financing activities	8,161	11,475	2,172
Effect of foreign currency exchange rates on cash and cash equivalents	64	(2,616)	655
Net increase in cash and cash equivalents	19,626	102,197	45,804
Cash and cash equivalents at beginning of year	38,159	57,785	159,982
Cash and cash equivalents at end of year	$57,785	$159,982	$205,786

See accompanying notes.

COSTAR GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

1. ORGANIZATION

CoStar Group, Inc. (the "Company") has created a comprehensive, proprietary database of commercial real estate information covering the United States, as well as parts of the United Kingdom and France. Based on its unique database, the Company provides information, marketing and analytic services to the commercial real estate and related business community and operates within two segments, U.S. and International. The Company's information, marketing and analytic services are typically distributed to its clients under subscription-based license agreements, which typically have a minimum term of one year and renew automatically.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. Accounting policies are consistent for each operating segment.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications

Certain previously reported amounts on the consolidated statements of cash flows have been reclassified to conform to the Company's current presentation.

Revenue Recognition

The Company primarily derives revenues from providing access to its proprietary database of commercial real estate information. The Company generally charges a fixed monthly amount for its subscription-based services. Subscription contract rates are based on the number of sites, number of users, organization size, the client's business focus and the number of services to which a client subscribes. Subscription-based license agreements typically have a minimum term of one year and renew automatically.

Revenue is recognized when (1) there is persuasive evidence of an arrangement, (2) the fee is fixed and determinable, (3) services have been rendered and payment has been contractually earned and (4) collectability is reasonably assured.

Revenues from subscription-based services are recognized on a straight-line basis over the term of the agreement. Deferred revenue results from advance cash receipts from customers or amounts billed in advance to customers from the sales of subscription licenses and is recognized over the term of the license agreement.

Cost of Revenues

Cost of revenues principally consists of salaries and related expenses for the Company's researchers who collect and analyze the commercial real estate data that is the basis for the Company's information, marketing and analytic services. Additionally, cost of revenues includes the cost of data from third party data sources, which is expensed as incurred, and the amortization of database technology.

COSTAR GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (CONTINUED)

Significant Customers

No single customer accounted for more than 5% of the Company's revenues for each of the years ended December 31, 2007, 2008 and 2009.

Foreign Currency Translation

The Company's functional currency in its foreign locations is the local currency. Assets and liabilities are translated into U.S. dollars as of the balance sheet date. Revenues, expenses, gains and losses are translated at the average exchange rates in effect during each period. Gains and losses resulting from translation are included in accumulated other comprehensive income (loss). Net gains or losses resulting from foreign currency exchange transactions are included in the consolidated statements of operations. There were no material gains or losses from foreign currency exchange transactions for the years ended December 31, 2009 and 2008.

Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss were as follows (in thousands):

	Year Ended December 31,	
	2008	2009
Foreign currency translation adjustment	$(8,521)	$(4,850)
Accumulated net unrealized loss on investments, net of tax	(5,275)	(2,715)
Total accumulated other comprehensive loss	$(13,796)	$(7,565)

Advertising Costs

The Company expenses advertising costs as incurred. Advertising expenses were approximately $2.3 million, $2.8 million and $3.3 million for the years ended December 31, 2007, 2008 and 2009, respectively.

Income Taxes

Deferred income taxes result from temporary differences between the tax basis of assets and liabilities and the basis reported in the Company's consolidated financial statements. Deferred tax liabilities and assets are determined based on the difference between the financial statement and the tax basis of assets and liabilities using enacted rates expected to be in effect during the year in which the differences reverse. Valuation allowances are provided against assets, including net operating losses, if it is anticipated that some or all of an asset may not be realized through future taxable earnings or implementation of tax planning strategies.

Net Income Per Share

Net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the period on a basic and diluted basis. The Company's potentially dilutive securities include stock options and restricted stock. Diluted net income per share considers the impact of potentially dilutive securities except in periods in which there is a net loss, as the inclusion of the potential common shares would have an anti-dilutive effect.

Stock-Based Compensation

Equity instruments issued in exchange for employee services are accounted for using a fair-value based method and the fair value of such equity instruments is recognized as expense in the consolidated statements of operations.

COSTAR GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (CONTINUED)

Stock-Based Compensation — (Continued)

Stock-based compensation cost is measured at the grant date of the share-based awards based on their fair values, and is recognized on a straight line basis as expense over the vesting periods of the awards, net of an estimated forfeiture rate.

Cash flows resulting from excess tax benefits are classified as part of cash flows from operating and financing activities. Excess tax benefits represent tax benefits related to stock based compensation in excess of the associated deferred tax asset for such equity compensation. Net cash proceeds from the exercise of stock options were approximately $8.5 million; $6.9 million and $2.4 million for the years ended December 31, 2007, 2008 and 2009, respectively. There were approximately $260,000, $5.3 million and $403,000 of excess tax benefits realized from stock option exercises for the years ended December 31, 2007, 2008 and 2009.

Stock-based compensation expense for stock options, restricted stock and the employee stock purchase plan included in the Company's results of operations for the years ended December 31, was as follows (in thousands):

	Year Ended December 31,		
	2007	2008	2009
Cost of revenues	$926	$547	$888
Selling and marketing	1,118	400	1,125
Software development	340	423	588
General and administrative	3,056	3,570	3,859
Total	$5,440	$4,940	$6,460

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents consist of money market fund investments and U.S. Government Securities. As of December 31, 2008 and 2009, cash of approximately $518,000 and $519,000, respectively, was held to support letters of credit for security deposits.

Investments

The Company determines the appropriate classification of debt and equity investments at the time of purchase and reevaluates such designation as of each balance sheet date. The Company considers all of its investments to be available-for-sale. Short-term investments consist of commercial paper, government/federal notes and bonds and corporate obligations with maturities greater than 90 days at the time of purchase. Available-for-sale short-term investments with contractual maturities beyond one year are classified as current in the Company's consolidated balance sheets because they represent the investment of cash that is available for current operations. Long-term investments consist of auction rate securities. Investments are carried at fair market value.

Concentration of Credit Risk and Financial Instruments

The Company performs ongoing credit evaluations of its customers' financial condition and generally does not require that its customers' obligations to the Company be secured. The Company maintains reserves for credit losses, and such losses have been within management's expectations. The large size and widespread nature of the Company's customer base and lack of dependence on individual customers mitigate the risk of nonpayment of the Company's accounts receivable. The carrying amount of the accounts receivable approximates the net realizable value. The carrying value of the Company's financial instruments including cash and cash equivalents, short-term investments, long-term investments, accounts receivable, accounts payable, and accrued expenses approximates fair value.

COSTAR GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (CONTINUED)

Allowance for Doubtful Accounts

The allowance for doubtful accounts is based on the Company's assessment of the collectability of customer accounts. The Company regularly reviews the allowance by considering factors such as historical experience, the aging of the balances, and current economic conditions that may affect a customer's ability to pay.

Property and Equipment

Property and equipment are stated at cost. All repairs and maintenance costs are expensed as incurred. Depreciation and amortization are calculated on a straight-line basis over the following estimated useful lives of the assets:

Leasehold improvements	Shorter of lease term or useful life
Furniture and office equipment	Five to seven years
Research vehicles	Five years
Computer hardware and software	Two to five years

Qualifying internal-use software costs incurred during the application development stage, which consist primarily of outside services and purchased software license costs, are capitalized and amortized over the estimated useful life of the asset. All other costs are expensed as incurred.

Goodwill, Intangibles and Other Assets

Goodwill represents the excess of costs over the fair value of assets of businesses acquired. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually by reporting unit. The Company's operating segments, U.S. and International, are the reporting units tested for potential impairment. The goodwill impairment test is a two-step process. The first step is to determine the fair value of each reporting unit. The estimate of the fair value of each reporting unit is based on a projected discounted cash flow model that includes significant assumptions and estimates including the Company's future financial performance and a weighted average cost of capital. The fair value of each reporting unit is compared to the carrying amount of the reporting unit. If the carrying value of the reporting unit exceeds the fair value, then the second step of the process is performed to measure the impairment loss. The impairment loss is measured based on a projected discounted cash flow method using a discount rate determined by the Company's management to be commensurate with the risk in its current business model.

Intangible assets with estimable useful lives that arose from acquisitions on or after July 1, 2001, are amortized over their respective estimated useful lives using a method of amortization that reflects the pattern in which the economic benefits of the intangible assets are consumed or otherwise used up, and reviewed for impairment.

Acquired database technology, customer base and trade names and other are related to the Company's acquisitions (See Notes 3, 7 and 8). Acquired database technology and trade names and other are amortized on a straight-line basis over periods ranging from two to ten years. The acquired intangible asset characterized as customer base consists of one distinct intangible asset composed of acquired customer contracts and the related customer relationships. Acquired customer bases that arose from acquisitions prior to July 1, 2001 are amortized on a straight-line basis principally over a period of ten years. Acquired customer bases that arose from acquisitions on or after July 1, 2001 are amortized on a 125% declining balance method over ten years. The cost of capitalized building photography is amortized on a straight-line basis over five years.

COSTAR GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (CONTINUED)

Long-Lived Assets

Long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimate undiscounted future cash flows expected to be generated by the asset or asset group. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount for which the carrying amount of the asset exceeds the fair value of the asset.

Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and would no longer be depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

Recent Accounting Pronouncements

In February 2007, the FASB issued authoritative guidance on the fair value option for financial assets and financial liabilities, which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. This guidance is effective for fiscal years beginning on or after December 31, 2007. The Company adopted this guidance on January 1, 2008 and has not elected to apply the fair value option to any of its financial instruments. The adoption of this guidance did not have a material impact on the Company's results of operations or financial position.

In December 2007, the FASB issued authoritative guidance on business combinations, which changes the accounting for any business combination the Company enters into with an acquisition date after December 31, 2008. Under this guidance, an acquiring entity is required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition date fair value with limited exceptions. This guidance changes the accounting treatment and disclosure for certain specific items in a business combination. The Company adopted this guidance on January 1, 2009 and has recorded assets acquired and liabilities assumed at fair value.

In December 2007, the FASB issued authoritative guidance on non-controlling interest, which establishes new accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. This guidance is effective for fiscal years beginning on or after December 15, 2008. The Company adopted this guidance on January 1, 2009. The adoption of this guidance did not have a material impact on the Company's results of operations or financial position.

In April 2008, the FASB issued authoritative guidance on existing intangibles or expected future cash flows from those intangibles, which is effective for all fiscal years and interim periods beginning after December 15, 2008. Early adoption of this guidance is not permitted. This guidance requires additional footnote disclosures about the impact of the Company's ability or intent to renew or extend agreements related to existing intangibles or expected future cash flows from those intangibles, how the Company accounts for costs incurred to renew or extend such agreements, the time until the next renewal or extension period by asset class, and the amount of renewal or extension costs capitalized, if any. For any intangibles acquired after December 31, 2008, this guidance requires that the Company consider its experience regarding renewal and extensions of similar arrangements in determining the useful life of such intangibles. If the Company does not have experience with similar arrangements, this guidance requires that the

Company use the assumptions of a market participant putting the intangible to its highest and best use in determining the useful life. The Company adopted this guidance on January 1, 2009. The adoption of this guidance did not have a material impact on the Company's results of operations or financial position.

COSTAR GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (CONTINUED)

Recent Accounting Pronouncements— (Continued)

In June 2008, the FASB issued authoritative guidance related to determining whether instruments granted in share-based payment transactions are participating securities. This guidance clarifies that unvested share-based payment awards with a right to receive non-forfeitable dividends are participating securities. This guidance is effective for all annual and interim periods beginning after December 15, 2008. Adoption of this standard will require the two-class method of calculating basic earnings per share to the extent that unvested share-based payments have the right to receive non-forfeitable dividends. The Company adopted this guidance on January 1, 2009. The adoption of this guidance did not have a material impact on the Company's results of operations or financial position.

In April 2009, the FASB issued authoritative guidance related to the initial recognition, measurement and subsequent accounting for assets and liabilities arising from pre-acquisition contingencies in a business combination. It requires that such assets acquired or liabilities assumed be initially recognized at fair value at the acquisition date if fair value can be determined during the measurement period. When fair value cannot be determined, companies should typically account for the acquired contingencies using existing guidance. This guidance requires that companies expense acquisition and deal-related costs that were previously allowed to be capitalized. This guidance also requires that a systematic and rational basis for subsequently measuring and accounting for the assets or liabilities be developed depending on their nature. This guidance was effective for contingent assets or liabilities arising from business combinations with an acquisition date on or after January 1, 2009. The adoption of this guidance changes the accounting treatment and disclosure for certain specific items in a business combination with an acquisition date subsequent to December 31, 2008. The Company adopted this guidance on January 1, 2009, and expensed acquisition and deal-related costs of approximately $700,000 associated primarily with the acquisitions of Property and Portfolio Research, Inc. ("PPR") and Resolve Technology, Inc. ("Resolve Technology").

In April 2009, the FASB issued authoritative guidance for determining whether a market is active or inactive, and whether a transaction is distressed. This guidance is applicable to all assets and liabilities (financial and non-financial) and will require enhanced disclosures. The Company adopted this guidance for its interim period ending June 30, 2009. The adoption of this guidance did not have a material impact on the Company's results of operations or financial position, but did require additional disclosures in the Company's financial statements.

In April 2009, the FASB issued authoritative guidance requiring disclosures in interim reporting periods concerning the fair value of financial instruments that were previously only required in the annual financial statements. The Company adopted the provisions of this guidance for the interim period ending June 30, 2009. The adoption of this guidance did not have a material impact on the Company's results of operations or financial position, but did require additional disclosures in the Company's financial statements.

In April 2009, the FASB issued authoritative guidance that redefines what constitutes an other-than-temporary impairment, defines credit and non-credit components of an other-than-temporary impairment, prescribes their financial statement treatment, and requires enhanced disclosures relating to such impairments. The Company adopted this guidance for the interim period ending June 30, 2009. The adoption of this guidance did not have a material impact on the Company's results of operations or financial position, but did require additional disclosures in the Company's financial statements.

In May 2009, the FASB issued authoritative guidance which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. This guidance was effective for all interim and annual reporting periods ending after June 15, 2009. This guidance has not and is not expected to result in significant changes in the subsequent events that the Company reports, either through recognition or disclosure, in its financial statements.

COSTAR GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (CONTINUED)

Recent Accounting Pronouncements— (Continued)

In June 2009, the FASB issued authoritative guidance to amend the manner in which entities evaluate whether consolidation is required for variable interest entities (VIE). Previously, variable interest holders were required to determine whether they had a controlling financial interest in a VIE based on a quantitative analysis of the expected gains and/or losses of the entity. The new guidance requires an enterprise with a variable interest in a VIE to qualitatively assess whether it has a controlling financial interest in the entity, and if so, whether it is the primary beneficiary. This guidance also requires that companies continually evaluate VIEs for consolidation, rather than assessing whether consolidation is required based upon the occurrence of triggering events. This guidance enhances disclosures to provide financial statement users with greater transparency about transfers of financial assets and a transferor's continuing involvement with transferred financial assets. This guidance will be effective for the first annual reporting period beginning after November 15, 2009. This guidance is not expected to materially impact the Company's results of operations, financial position or related disclosures.

In June 2009, the FASB issued authoritative guidance which replaced the previous hierarchy of U.S. GAAP and establishes the FASB Codification as the single source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. This guidance is effective for financial statements issued for interim and annual periods ending after September 15, 2009. This guidance did not materially impact the Company's results of operations or financial position, but did require changes to the disclosures in the Company's financial statements.

In July 2009, the FASB issued authoritative guidance to improve the consistency with which companies apply fair value measurements guidance to liabilities. This guidance is effective for interim and annual periods beginning after September 30, 2009. This guidance is not expected to materially impact the Company's results of operations, financial position or related disclosures.

In October 2009, the FASB issued authoritative guidance that amends existing guidance for identifying separate deliverables in a revenue-generating transaction where multiple deliverables exist, and provides guidance for measuring and allocating revenue to one or more units of accounting. In addition, the FASB issued authoritative guidance on arrangements that include software elements. Under this guidance, tangible products containing software components and non-software components that are essential to the functionality of the tangible product will no longer be within the scope of the software revenue recognition guidance. This guidance is effective using the prospective application or the retrospective application for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010 with earlier application permitted. The Company is currently assessing the impacts adoption of this guidance may have on its financial statements.

In January 2010, the FASB issued authoritative guidance that amends the disclosure requirements related to recurring and nonrecurring fair value measurements. This guidance requires new disclosures on the transfers of assets and liabilities between Level 1 (assets and liabilities measured using observable inputs such as quoted prices in active markets) and Level 2 (assets and liabilities measured using inputs other than quoted prices in active markets that are either directly or indirectly observable) of the fair value measurement hierarchy, including the amount and reason of the transfers. Additionally, this guidance requires a roll forward of activities on purchases, sales, issuance, and settlements of the assets and liabilities measured using significant unobservable inputs (Level 3 fair value measurements). This guidance is effective for interim and annual reporting periods beginning after December 15, 2009, with the exception of the additional disclosure for Level 3 assets and liabilities, which is effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. This guidance is not expected to materially impact the Company's results of operations or financial position, but will require changes to the disclosures in its interim and annual financial statements.

COSTAR GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

3. ACQUISITIONS

On April 1, 2008, the Company acquired certain assets of First CLS, Inc. (doing business as the Dorey Companies and DoreyPRO), an Atlanta-based provider of local commercial real estate information for $3.0 million in initial cash consideration and deferred consideration of $1.7 million paid during the third quarter of 2009.

On July 17, 2009, the Company acquired all of the issued and outstanding equity securities of PPR, and its wholly owned subsidiary Property and Portfolio Research Ltd., providers of real estate analysis, market forecasts and credit risk analytics to the commercial real estate industry. The Company acquired PPR from DMG Information, Inc. ("DMGI") in exchange for 572,999 shares of CoStar common stock, which had an aggregate value of approximately $20.9 million as of the closing date. On July 17, 2009, 433,667 shares of the Company's common stock were issued to DMGI, and the remaining 139,332 shares were issued to DMGI on September 28, 2009 after taking into account post-closing purchase price adjustments. The purchase accounting is preliminary and is subject to change upon completion of the purchase accounting.

The purchase price for the PPR acquisition was allocated as follows (in thousands):

Working capital	$(5,479)
Acquired trade names and other	810
Acquired customer base	5,300
Acquired database technology	3,700
Goodwill	16,572
Total purchase consideration	$20,903

On October 19, 2009, the Company acquired all of the outstanding capital stock of Resolve Technology, a Delaware corporation, for approximately $4.5 million, consisting of approximately $3.4 million in cash and 25,886 shares, or approximately $1.1 million, of CoStar common stock, which shares are subject to a three-year lockup. Additionally, the seller may be entitled to receive (i) a potential deferred cash payout two years after closing based on the incremental growth of Resolve Technology's revenue, and (ii) other potential deferred cash payouts for successful completion of operational and sales milestones during the period from closing through June 30, 2013, which period may be subject to extension to a date no later than December 31, 2014. The purchase accounting is preliminary and is subject to change upon completion of the purchase accounting.

The purchase price for the Resolve acquisition was allocated as follows (in thousands):

Purchase price in cash and stock	$4,499
Deferred consideration	3,052
Total purchase consideration	$7,551

Working capital	$(550)
Acquired trade names and other	430
Acquired customer base	890
Acquired database technology	1,200
Goodwill	5,581

Total purchase consideration	$7,551

16

COSTAR GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

3. ACQUISITIONS — (CONTINUED)

These acquisitions were accounted for using purchase accounting. The purchase price for the First CLS, Inc. acquisition was primarily allocated to acquired customer base and goodwill. For each of the PPR and Resolve Technology acquisitions, the purchase price was allocated to various working capital accounts, developed technology, customer base, trademarks, non-competition agreements and goodwill. The acquired customer base for the acquisitions, which consists of one distinct intangible asset for each acquisition and is composed of acquired customer contracts and the related customer relationships, is being amortized on a 125% declining balance method over ten years. The identified intangibles will be amortized over their estimated useful lives. Goodwill for these acquisitions will not be amortized, but is subject to annual impairment tests. Goodwill is comprised of acquired workforce. The results of operations of First CLS, Inc., PPR, and Resolve Technology have been consolidated with those of the Company since the respective dates of the acquisitions and are not considered material to the Company's consolidated financial statements. Accordingly, pro forma financial information has not been presented for any of the acquisitions.

4. INVESTMENTS

The Company determines the appropriate classification of debt and equity investments at the time of purchase and reevaluates such designation as of each balance sheet date. The Company considers all of its investments to be available-for-sale. Short-term investments consist of commercial paper, government/federal notes and bonds and corporate obligations with maturities greater than 90 days at the time of purchase. Available-for-sale short-term investments with contractual maturities beyond one year are classified as current in the Company's consolidated balance sheets because they represent the investment of cash that is available for current operations. Long-term investments consist of auction rate securities. Investments are carried at fair market value.

Scheduled maturities of investments classified as available-for-sale as of December 31, 2009 are as follows (in thousands):

Maturity	Fair Value
Due in:	
2010	$3,072
2011-2014	16,634
2015-2019	106
2020 and thereafter	30,100
Available-for-sale investments	$49,912

The realized gains on the Company's investments for the years ended December 31, 2008 and 2009 were approximately $329,000 and $4,000, respectively. The realized losses on the Company's investments for the years ended December 31, 2008 and 2009 were approximately $489,000 and $5,000, respectively.

Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a separate component of accumulated other comprehensive income (loss) in stockholders' equity until realized. Realized gains and losses from the sale of available-for-sale securities are determined on a specific-identification basis. A decline in market value of any available-for-sale security below cost that is deemed to be other than temporary results in a reduction in carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. Dividend and interest income are recognized when earned.

17

COSTAR GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

4. INVESTMENTS — (CONTINUED)

As of December 31, 2009, the amortized cost basis and fair value of investments classified as available-for-sale are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Collateralized debt obligations	$ 12,987	$ 5	$ (14)	$ 12,978
Corporate debt securities	6,396	331	¾	6,727
Residential mortgage-backed securities	394	¾	(7)	387
Government-sponsored enterprise obligations	97	¾	(1)	96
Auction rate securities	32,750	¾	(3,026)	29,724
Available-for-sale investments	$ 52,624	$ 336	$ (3,048)	$ 49,912

The unrealized losses on the Company's investments as of December 31, 2008 and 2009 were generated primarily from changes in interest rates. The losses are considered temporary, as the contractual terms of these investments do not permit the issuer to settle the security at a price less than the amortized cost of the investment. Because the Company does not intend to sell these instruments and it is not more likely than not that the Company will be required to sell these instruments prior to anticipated recovery, which may be maturity, it does not consider these investments to be other-than-temporarily impaired as of December 31, 2008 and 2009. See Note 5 to the consolidated financial statements for further discussion on the fair value of the Company's financial assets.

The components of the investments in an unrealized loss position for more than twelve months consists of the following (in thousands):

	December 31,			
	2008		2009	
	Aggregate Fair Value	Gross Unrealized Losses	Aggregate Fair Value	Gross Unrealized Losses
Collateralized debt obligations	$19,151	$(1,323)	$7,578	$ (14)
Corporate debt securities	2,558	(156)	¾	¾
Residential mortgage-backed securities	427	(15)	387	(7)
Government-sponsored enterprise obligations	¾	¾	96	(1)
Auction rate securities	¾	¾	29,724	(3,026)
	$22,136	$(1,494)	$37,785	$ (3,048)

The components of the investments in an unrealized loss position for less than twelve months consists of the following (in thousands):

	December 31,			
	2008		2009	
	Aggregate Fair Value	Gross Unrealized Losses	Aggregate Fair Value	Gross Unrealized Losses
Collateralized debt obligations	$3,022	$(84)	$¾	$ ¾

Corporate debt securities	3,807	(268)	¾	¾
Residential mortgage-backed securities	36	(1)	¾	¾
Government-sponsored enterprise obligations	130	(14)	¾	¾
Auction rate securities	29,340	(3,710)	¾	¾
	$36,335	$(4,077)	$¾	$ ¾

18

COSTAR GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

4. INVESTMENTS — (CONTINUED)

The gross unrealized gains on the Company's investments as of December 31, 2008 and 2009 were approximately $128,000 and $336,000, respectively.

5. FAIR VALUE

In September 2006, the FASB issued authoritative guidance which defines fair value, establishes a framework for measuring fair value in accordance with GAAP and expands disclosures about fair value measurements. The Company adopted this guidance as of January 1, 2008 for financial instruments. Although the adoption of the guidance did not materially impact its financial position, results of operations, or cash flow, the Company is now required to provide additional disclosures as part of its financial statements.

There is a three-tier fair value hierarchy, which categorizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The following table represents the Company's fair value hierarchy for its financial assets (cash, cash equivalents and investments) and liabilities measured at fair value on a recurring basis as of December 31, 2009 (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
Cash	$38,721	$¾	$¾	$38,721
Money market funds	167,065	¾	¾	167,065
Collateralized debt obligations	¾	12,978	¾	12,978
Corporate debt securities	¾	6,727	¾	6,727
Residential mortgage-backed securities	¾	387	¾	387
Government-sponsored enterprise obligations	¾	96	¾	96
Auction rate securities	¾	¾	29,724	29,724
Total assets measured at fair value	$205,786	$20,188	$29,724	$255,698
Liabilities:				
Deferred consideration	$¾	$¾	$3,082	$3,082
Total liabilities measured at fair value	$¾	$¾	$3,082	$3,082

The Company's Level 2 assets consist of collateralized debt obligations, corporate debt securities, residential mortgage-backed securities and government-sponsored enterprise obligations, which do not have directly observable quoted prices in active markets. The Company's Level 2 assets are valued using matrix pricing.

The Company's Level 3 assets consist of auction rate securities ("ARS"), whose underlying assets are primarily student loan securities supported by guarantees from the Federal Family Education Loan Program ("FFELP") of the U.S. Department of Education.

COSTAR GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

5. FAIR VALUE — (CONTINUED)

The following table summarizes changes in fair value of the Company's Level 3 assets from December 31, 2007 to December 31, 2009 (in thousands):

	Auction Rate Securities
Balance at December 31, 2007	$53,975
Unrealized loss included in other comprehensive loss	(3,710)
Net settlements	(20,925)
Balance at December 31, 2008	$29,340
Unrealized gain included in other comprehensive loss	684
Net settlements	(300)
Balance at December 31, 2009	$29,724

ARS are variable rate debt instruments whose interest rates are reset approximately every 28 days. The underlying securities have contractual maturities greater than twenty years. The ARS are recorded at fair value.

As of December 31, 2009, the Company held ARS with $32.8 million par value, all of which failed to settle at auction. The majority of these investments are of high credit quality with AAA credit ratings and are primarily student loan securities supported by guarantees from the FFELP of the U.S. Department of Education. The Company may not be able to liquidate and fully recover the carrying value of the ARS in the near term. As a result, these securities are classified as long-term investments in the Company's consolidated balance sheet as of December 31, 2009.

While the Company continues to earn interest on its ARS investments at the contractual rate, these investments are not currently trading and therefore do not currently have a readily determinable market value. Accordingly, the estimated fair value of the ARS no longer approximates par value. The Company has used a discounted cash flow model to determine the estimated fair value of its investment in ARS as of December 31, 2009. The assumptions used in preparing the discounted cash flow model include estimates for interest rates, credit spreads, timing and amount of cash flows, liquidity risk premiums, expected holding periods, and default risk. Based on this assessment of fair value, as of December 31, 2009, the Company determined there was a decline in the fair value of its ARS investments of approximately $3.0 million. The decline was deemed to be a temporary impairment and recorded as an unrealized loss in accumulated other comprehensive loss in stockholders' equity. In addition, while a majority of the ARS are currently rated AAA, if the issuers are unable to successfully close future auctions and their credit ratings deteriorate, the Company may be required to record additional unrealized losses in accumulated other comprehensive loss or an other-than-temporary impairment charge to earnings on these investments.

The Company's Level 3 liabilities consist of a $3.1 million liability for deferred consideration related to the October 19, 2009 acquisition of Resolve Technology. The deferred consideration is for (i) a potential deferred cash payout two years after closing based on the incremental growth of Resolve Technology's revenue, and (ii) other potential deferred cash payouts for successful completion of operational and sales milestones during the period from closing through June 30, 2013, which period may be subject to extension to a date no later than December 31, 2014.

The following table summarizes changes in fair value of the Company's Level 3 liabilities from December 31, 2008 to December 31, 2009 (in thousands):

	Deferred Consideration
Balance at December 31, 2008	$ ¾
Deferred consideration upon acquisition	3,052
Accretion for 2009	30
Balance at December 31, 2009	$ 3,082

COSTAR GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

5. FAIR VALUE — (CONTINUED)

The Company has used a discounted cash flow model to determine the estimated fair value of its Level 3 liabilities as of December 31, 2009. The significant assumptions used in preparing the discounted cash flow model include the discount rate, estimates for future incremental revenue growth and probabilities for completion of operational and sales milestones.

6. PROPERTY AND EQUIPMENT

Property and equipment consists of the following (in thousands):

	December 31, 2008	December 31, 2009
Leasehold improvements	$7,808	$10,333
Furniture, office equipment and research vehicles	19,305	20,279
Computer hardware and software	27,938	28,259
	55,051	58,871
Accumulated depreciation and amortization	(38,175)	(39,709)
Property and equipment, net	$16,876	$19,162

7. GOODWILL

The changes in the carrying amount of goodwill by operating segment consist of the following (in thousands):

	United States	International	Total
Goodwill, December 31, 2007	$ 30,428	$ 31,426	$ 61,854
Acquisitions	1,119	¾	1,119
Effect of foreign currency translation	¾	(8,645)	(8,645)
Goodwill, December 31, 2008	31,547	22,781	54,328
Acquisitions	23,858	¾	23,858
Effect of foreign currency translation	¾	2,280	2,280
Purchase accounting adjustment	(145)	¾	(145)
Goodwill, December 31, 2009	$ 55,260	$ 25,061	$ 80,321

The Company recorded goodwill of approximately $1.1 million in connection with the First CLS, Inc. acquisition in April 2008, which was decreased by $145,000 in 2009, upon completion of purchase accounting. Approximately $1.7 million in additional goodwill was recorded in connection with the First CLS, Inc. acquisition as a result of the payment of deferred consideration of $1.7 million in August 2009. The Company recorded goodwill of approximately $16.6 million in connection with the July 2009 acquisition of PPR. Initially in July 2009, the Company had recorded $12.1 million in goodwill for the PPR acquisition, that was increased by $4.5 million in December 2009 upon completion of the Company's review of the income tax attributes and deferred taxes related to the PPR.purchase accounting. The Company recorded goodwill of approximately $5.6 million in connection with the Resolve Technology acquisition in October 2009

During the fourth quarters of 2008 and 2009, the Company completed the annual impairment test of goodwill and concluded that goodwill was not impaired.

COSTAR GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

8. INTANGIBLES AND OTHER ASSETS

Intangibles and other assets consist of the following (in thousands, except amortization period data):

	December 31, 2008	December 31, 2009	Weighted-Average Amortization Period (in years)
Building photography	$11,011	$11,504	5
Accumulated amortization	(7,711)	(9,089)	
Building photography, net	3,300	2,415	
Acquired database technology	20,711	25,790	4
Accumulated amortization	(20,361)	(21,144)	
Acquired database technology, net	350	4,646	
Acquired customer base	48,198	55,770	