

COSTAR GROUP INC  
Form 10-Q  
July 30, 2015

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

FORM 10-Q

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

For the quarterly period ended June 30, 2015

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 0-24531

CoStar Group, Inc.  
(Exact name of registrant as specified in its charter)  
Delaware  
(State or other jurisdiction of incorporation or  
organization)

52-2091509  
(I.R.S. Employer Identification No.)

1331 L Street, NW  
Washington, DC 20005  
(Address of principal executive offices) (zip code)

(202) 346-6500  
(Registrant's telephone number, including area code)

(877) 739-0486  
(Registrant's facsimile number, including area code)

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

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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

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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 July 24, 2015, there were 32,470,507 shares of the registrant’s common stock outstanding.

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COSTAR GROUP, INC.

TABLE OF CONTENTS

PART I FINANCIAL INFORMATION

|                           |                                                                                              |           |
|---------------------------|----------------------------------------------------------------------------------------------|-----------|
| Item 1.                   | <u>Financial Statements</u>                                                                  | <u>3</u>  |
|                           | <u>Condensed Consolidated Statements of Operations</u>                                       | <u>3</u>  |
|                           | <u>Condensed Consolidated Statements of Comprehensive Income (Loss)</u>                      | <u>4</u>  |
|                           | <u>Condensed Consolidated Balance Sheets</u>                                                 | <u>5</u>  |
|                           | <u>Condensed Consolidated Statements of Cash Flows</u>                                       | <u>6</u>  |
|                           | <u>Notes to Condensed Consolidated Financial Statements</u>                                  | <u>7</u>  |
| Item 2.                   | <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>24</u> |
| Item 3.                   | <u>Quantitative and Qualitative Disclosures About Market Risk</u>                            | <u>41</u> |
| Item 4.                   | <u>Controls and Procedures</u>                                                               | <u>41</u> |
| PART II OTHER INFORMATION |                                                                                              |           |
| Item 1.                   | <u>Legal Proceedings</u>                                                                     | <u>43</u> |
| Item 1A.                  | <u>Risk Factors</u>                                                                          | <u>43</u> |
| Item 2.                   | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>                           | <u>44</u> |
| Item 3.                   | <u>Defaults Upon Senior Securities</u>                                                       | <u>44</u> |
| Item 4.                   | <u>Mine Safety Disclosures</u>                                                               | <u>44</u> |
| Item 5.                   | <u>Other Information</u>                                                                     | <u>44</u> |
| Item 6.                   | <u>Exhibits</u>                                                                              | <u>44</u> |
|                           | <u>Signatures</u>                                                                            | <u>45</u> |

## PART I — FINANCIAL INFORMATION

## Item 1. Financial Statements

## COSTAR GROUP, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(unaudited)

|                                               | Three Months Ended |            | Six Months Ended |            |
|-----------------------------------------------|--------------------|------------|------------------|------------|
|                                               | June 30,           |            | June 30,         |            |
|                                               | 2015               | 2014       | 2015             | 2014       |
| Revenues                                      | \$ 170,657         | \$ 147,708 | \$ 329,677       | \$ 266,784 |
| Cost of revenues                              | 44,634             | 39,481     | 90,030           | 73,124     |
| Gross margin                                  | 126,023            | 108,227    | 239,647          | 193,660    |
| Operating expenses:                           |                    |            |                  |            |
| Selling and marketing                         | 92,434             | 40,889     | 161,912          | 68,634     |
| Software development                          | 16,844             | 15,143     | 31,992           | 27,494     |
| General and administrative                    | 29,909             | 26,250     | 55,272           | 51,147     |
| Purchase amortization                         | 6,965              | 9,036      | 14,107           | 12,335     |
|                                               | 146,152            | 91,318     | 263,283          | 159,610    |
| Income (loss) from operations                 | (20,129 )          | 16,909     | (23,636 )        | 34,050     |
| Interest and other income                     | 137                | 62         | 431              | 199        |
| Interest and other expense                    | (2,354 )           | (3,753 )   | (4,697 )         | (5,368 )   |
| Income (loss) before income taxes             | (22,346 )          | 13,218     | (27,902 )        | 28,881     |
| Income tax expense (benefit), net             | (7,380 )           | 4,969      | (6,809 )         | 10,892     |
| Net income (loss)                             | \$(14,966 )        | \$ 8,249   | \$(21,093 )      | \$ 17,989  |
| Net income (loss) per share — basic           | \$(0.47 )          | \$ 0.28    | \$(0.66 )        | \$ 0.63    |
| Net income (loss) per share — diluted         | \$(0.47 )          | \$ 0.28    | \$(0.66 )        | \$ 0.62    |
| Weighted average outstanding shares — basic   | 31,991             | 29,061     | 31,911           | 28,667     |
| Weighted average outstanding shares — diluted | 31,991             | 29,486     | 31,911           | 29,163     |

See accompanying notes.

COSTAR GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

(unaudited)

|                                                | Three Months Ended |           | Six Months Ended |            |
|------------------------------------------------|--------------------|-----------|------------------|------------|
|                                                | June 30,           |           | June 30,         |            |
|                                                | 2015               | 2014      | 2015             | 2014       |
| Net income (loss)                              | \$(14,966          | ) \$8,249 | \$(21,093        | ) \$17,989 |
| Other comprehensive income, net of tax         |                    |           |                  |            |
| Foreign currency translation adjustment        | 1,507              | 702       | 246              | 961        |
| Net decrease in unrealized loss on investments | 80                 | 21        | 248              | 199        |
| Total other comprehensive income               | 1,587              | 723       | 494              | 1,160      |
| Total comprehensive income (loss)              | \$(13,379          | ) \$8,972 | \$(20,599        | ) \$19,149 |

See accompanying notes.

COSTAR GROUP, INC.  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (in thousands)

|                                                                                                                                                          | June 30,<br>2015<br>(unaudited) | December 31,<br>2014 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|----------------------|
| <b>ASSETS</b>                                                                                                                                            |                                 |                      |
| Current assets:                                                                                                                                          |                                 |                      |
| Cash and cash equivalents                                                                                                                                | \$351,781                       | \$527,012            |
| Accounts receivable, net of allowance for doubtful accounts of approximately \$7,160 and \$4,815 as of June 30, 2015 and December 31, 2014, respectively | 54,382                          | 38,694               |
| Deferred and other income taxes, net                                                                                                                     | 28,509                          | 20,007               |
| Income tax receivable                                                                                                                                    | 1,027                           | 1,027                |
| Prepaid expenses and other current assets                                                                                                                | 11,351                          | 9,736                |
| Debt issuance costs, net                                                                                                                                 | 3,298                           | 3,335                |
| Total current assets                                                                                                                                     | 450,348                         | 599,811              |
| Long-term investments                                                                                                                                    | 16,049                          | 17,151               |
| Property and equipment, net                                                                                                                              | 85,442                          | 73,753               |
| Goodwill                                                                                                                                                 | 1,246,789                       | 1,138,805            |
| Intangible assets, net                                                                                                                                   | 263,831                         | 241,622              |
| Deposits and other assets                                                                                                                                | 3,243                           | 2,676                |
| Debt issuance costs, net                                                                                                                                 | 8,245                           | 9,864                |
| Total assets                                                                                                                                             | \$2,073,947                     | \$2,083,682          |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                                              |                                 |                      |
| Current liabilities:                                                                                                                                     |                                 |                      |
| Current portion of long-term debt                                                                                                                        | \$20,000                        | \$20,000             |
| Accounts payable                                                                                                                                         | 6,778                           | 8,608                |
| Accrued wages and commissions                                                                                                                            | 24,666                          | 23,155               |
| Accrued expenses                                                                                                                                         | 48,166                          | 27,001               |
| Deferred gain on the sale of building                                                                                                                    | 2,523                           | 2,523                |
| Deferred revenue                                                                                                                                         | 39,185                          | 38,003               |
| Total current liabilities                                                                                                                                | 141,318                         | 119,290              |
| Long-term debt, less current portion                                                                                                                     | 355,000                         | 365,000              |
| Deferred gain on the sale of building                                                                                                                    | 22,501                          | 23,762               |
| Deferred rent                                                                                                                                            | 30,131                          | 27,032               |
| Deferred income taxes, net                                                                                                                               | 14,069                          | 30,349               |
| Income taxes payable                                                                                                                                     | 4,775                           | 4,703                |
| Total liabilities                                                                                                                                        | 567,794                         | 570,136              |
| Total stockholders' equity                                                                                                                               | 1,506,153                       | 1,513,546            |
| Total liabilities and stockholders' equity                                                                                                               | \$2,073,947                     | \$2,083,682          |
| See accompanying notes.                                                                                                                                  |                                 |                      |

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

|                                                                                          | Six Months Ended |            |
|------------------------------------------------------------------------------------------|------------------|------------|
|                                                                                          | June 30,         |            |
|                                                                                          | 2015             | 2014       |
| Operating activities:                                                                    |                  |            |
| Net income (loss)                                                                        | \$(21,093        | ) \$17,989 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |                  |            |
| Depreciation                                                                             | 9,184            | 7,161      |
| Amortization                                                                             | 27,303           | 23,360     |
| Amortization of debt issuance costs                                                      | 1,656            | 1,555      |
| Impairment loss                                                                          | 2,778            | 1,053      |
| Excess tax benefit from stock-based compensation                                         | (7,552           | ) (26,819  |
| Stock-based compensation expense                                                         | 15,857           | 14,259     |
| Deferred income tax expense (benefit), net                                               | (15,784          | ) 2,433    |
| Provision for losses on accounts receivable                                              | 3,550            | 2,036      |
| Changes in operating assets and liabilities, net of acquisitions:                        |                  |            |
| Accounts receivable                                                                      | (14,650          | ) (10,358  |
| Prepaid expenses and other current assets                                                | (723             | ) (3,206   |
| Deposits and other assets                                                                | 109              | (133       |
| Accounts payable and other liabilities                                                   | 25,812           | 11,078     |
| Deferred revenue                                                                         | 509              | 2,926      |
| Net cash provided by operating activities                                                | 26,956           | 43,334     |
| Investing activities:                                                                    |                  |            |
| Proceeds from sale and settlement of investments                                         | 1,350            | 550        |
| Purchases of property and equipment and other assets                                     | (17,930          | ) (11,437  |
| Acquisition, net of cash acquired                                                        | (172,667         | ) (584,218 |
| Net cash used in investing activities                                                    | (189,247         | ) (595,105 |
| Financing activities:                                                                    |                  |            |
| Proceeds from long-term debt                                                             | —                | 550,000    |
| Payments of long-term debt                                                               | (10,000          | ) (308,125 |
| Payments of debt issuance costs                                                          | —                | (9,969     |
| Payments of deferred consideration                                                       | —                | (1,344     |
| Excess tax benefit from stock-based compensation                                         | 7,552            | 26,819     |
| Repurchase of restricted stock to satisfy tax withholding obligations                    | (15,373          | ) (49,755  |
| Proceeds from equity offering, net of transaction costs                                  | —                | 529,360    |
| Proceeds from exercise of stock options and employee stock purchase plan                 | 4,704            | 3,547      |
| Net cash provided by (used in) financing activities                                      | (13,117          | ) 740,533  |
| Effect of foreign currency exchange rates on cash and cash equivalents                   | 177              | 142        |
| Net increase (decrease) in cash and cash equivalents                                     | (175,231         | ) 188,904  |
| Cash and cash equivalents at the beginning of period                                     | 527,012          | 255,953    |
| Cash and cash equivalents at the end of period                                           | \$351,781        | \$444,857  |

See accompanying notes.

6

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COSTAR GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

## 1. ORGANIZATION

CoStar Group, Inc. (the “Company” or “CoStar”) provides information, analytics and online marketplace services to the commercial real estate and related business community through its comprehensive, proprietary database of commercial real estate information covering the United States (“U.S.”), the United Kingdom (“U.K.”), Toronto, Canada and parts of France. The Company provides online marketplaces for commercial real estate listings, apartment rentals, lands for sale and businesses for sale. The Company operates within two operating segments, North America and International, and its services are typically distributed to its clients under subscription-based license agreements that renew automatically, a majority of which have a term of one year.