

COSTAR GROUP INC  
Form 10-Q  
May 09, 2008

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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 March 31, 2008

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.)

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)

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

Indicate by check mark whether the registrant 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   
Non-accelerated filer

Accelerated filer   
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 May 1, 2008, there were 19,527,967 shares of the registrant's common stock outstanding.

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COSTAR GROUP, INC.

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## 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 March 31,	
	2008	2007
Revenues	\$ 52,264	\$ 44,831
Cost of revenues	19,721	17,826
Gross margin	32,543	27,005
Operating expenses:		
Selling and marketing	10,873	13,166
Software development	3,414	3,070
General and administrative	9,805	8,063
Purchase amortization	1,221	1,270
	25,313	25,569
Income from operations	7,230	1,436
Interest and other income, net	1,938	1,862
Income before income taxes	9,168	3,298
Income tax expense, net	4,126	1,484
Net income	\$ 5,042	\$ 1,814
Net income per share <sup>3</sup> / <sub>4</sub> basic	\$ 0.26	\$ 0.10
Net income per share <sup>3</sup> / <sub>4</sub> diluted	\$ 0.26	\$ 0.09
Weighted average outstanding shares <sup>3</sup> / <sub>4</sub> basic	19,217	18,896
Weighted average outstanding shares <sup>3</sup> / <sub>4</sub> diluted	19,369	19,207

See accompanying notes.

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

ASSETS	March 31, 2008 (unaudited)	December 31, 2007
Current assets:		
Cash and cash equivalents	\$ 94,706	\$ 57,785
Short-term investments	66,855	129,641
Accounts receivable, less allowance for doubtful accounts of approximately \$3,455 and \$2,959 as of March 31, 2008 and December 31, 2007, respectively	11,708	10,875
Deferred income taxes, net	2,097	2,716
Prepaid expenses and other current assets	3,371	4,661
Total current assets	178,737	205,678
Long-term investments	31,532	¾
Deferred income taxes, net	3,335	2,233
Property and equipment, net	22,714	24,045
Goodwill	61,819	61,854
Intangibles and other assets, net	23,892	25,711
Deposits and other assets	1,485	2,322
Total assets	\$ 323,514	\$ 321,843
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,883	\$ 3,299
Accrued wages and commissions	5,894	7,489
Accrued expenses and deferred rent	11,890	16,884
Deferred revenue	10,723	10,374
Income taxes payable	5,167	191
Total current liabilities	35,557	38,237
Deferred income taxes, net	1,089	1,801
Total stockholders' equity	286,868	281,805
Total liabilities and stockholders' equity	\$ 323,514	\$ 321,843

See accompanying notes.

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

	Three Months Ended March 31,	
	2008	2007
Operating activities:		
Net income	\$ 5,042	\$ 1,814
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,163	1,744
Amortization	2,119	1,866
Stock-based compensation expense	1,243	1,529
Deferred income tax expense, net	4,126	1,484
Provision for losses on accounts receivable	946	517
Changes in operating assets and liabilities, net of acquisitions	(7,557)	2,189
Net cash provided by operating activities	8,082	11,143
Investing activities:		
Purchases of investments	(1,490)	(26,382)
Sales of investments	31,172	39,225
Purchases of property and equipment and other assets	(1,189)	(2,581)
Acquisition, net of cash acquired	¾	(16,737)
Net cash provided by (used in) investing activities	28,493	(6,475)
Financing activities:		
Proceeds from exercise of stock options	412	362
Net cash provided by financing activities	412	362
Effect of foreign currency exchange rates on cash and cash equivalents	(66)	(71)
Net increase in cash and cash equivalents	36,921	4,959
Cash and cash equivalents at the beginning of period	57,785	38,159
Cash and cash equivalents at the end of period	\$ 94,706	\$ 43,118

See accompanying notes.





COSTAR GROUP, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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 services to the commercial real estate and related business community and operates within two segments, U.S. and International. The Company’s information 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.

Interim Financial Statements

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles (“GAAP”) in the United States of America for interim financial information. In the opinion of the Company’s management, the financial statements reflect all adjustments necessary to present fairly the Company’s financial position at March 31, 2008, the results of its operations and its cash flows for the three months ended March 31, 2008 and 2007. These adjustments are of a normal recurring nature.

Certain notes and other information have been condensed or omitted from the interim financial statements presented in this Quarterly Report on Form 10-Q. Therefore, these financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2007.

The results of operations for the three months ended March 31, 2008 are not necessarily indicative of future financial results.

Use of Estimates

The preparation of financial statements in conformity with GAAP 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 have been reclassified to conform to the Company’s current presentation.

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. 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 three months ended March 31, 2008 and 2007.

## COSTAR GROUP, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) — (CONTINUED)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (CONTINUED)

## Comprehensive Income

The components of comprehensive income are as follows (in thousands):

	Three Months Ended March 31, 2008      2007 (unaudited)	
Net income	\$ 5,042	\$ 1,814
Foreign currency translation adjustment	(64)	(11)
Net unrealized (loss) gain on investments, net of tax	(1,570)	84
Comprehensive income	\$ 3,408	\$ 1,887

The components of accumulated other comprehensive income are as follows (in thousands):

	March 31, 2008 (unaudited)	December 31, 2007
Foreign currency translation adjustment	\$ 5,476	\$ 5,540
Accumulated net unrealized (loss) gain on investments, net of tax	(1,484)	86
Total accumulated other comprehensive income	\$ 3,992	\$ 5,626

## 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 potentially dilutive common shares would have an anti-dilutive effect.

COSTAR GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) — (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (CONTINUED)

Net Income Per Share — (CONTINUED)

The following table sets forth the calculation of basic and diluted net income per share (in thousands, except per share data):

	Three Months Ended March 31,	
2008		2007