

COSTAR GROUP INC
Form 10-Q
October 29, 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 September 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 October 23, 2015, there were 32,488,830 shares of the registrant’s common stock outstanding.

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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues	\$189,078	\$153,056	\$518,755	\$419,840
Cost of revenues	53,728	40,932	143,758	114,056
Gross margin	135,350	112,124	374,997	305,784
Operating expenses:				
Selling and marketing	80,506	40,668	242,418	109,302
Software development	17,048	14,227	49,040	41,721
General and administrative	31,074	25,388	86,346	76,535
Purchase amortization	7,153	8,361	21,260	20,696
	135,781	88,644	399,064	248,254
Income (loss) from operations	(431)	23,480	(24,067)	57,530
Interest and other income	42	46	473	245
Interest and other expense	(2,363)	(2,698)	(7,060)	(8,066)
Income (loss) before income taxes	(2,752)	20,828	(30,654)	49,709
Income tax expense (benefit), net	2,610	7,871	(4,199)	18,763
Net income (loss)	\$(5,362)	\$12,957	\$(26,455)	\$30,946
Net income (loss) per share — basic	\$(0.17)	\$0.41	\$(0.83)	\$1.04
Net income (loss) per share — diluted	\$(0.17)	\$0.40	\$(0.83)	\$1.03
Weighted average outstanding shares — basic	31,980	31,742	31,934	29,692
Weighted average outstanding shares — diluted	31,980	32,075	31,934	30,134

See accompanying notes.

COSTAR GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income (loss)	\$ (5,362	) \$ 12,957	\$ (26,455	) \$ 30,946
Other comprehensive loss, net of tax				
Foreign currency translation adjustment	(965	) (1,413	) (719	) (452
Net decrease in unrealized loss on investments	8	42	256	241
Total other comprehensive loss	(957	) (1,371	) (463	) (211
Total comprehensive income (loss)	\$ (6,319	) \$ 11,586	\$ (26,918	) \$ 30,735

See accompanying notes.

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

	September 30, 2015 (unaudited)	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$375,509	\$527,012
Accounts receivable, net of allowance for doubtful accounts of approximately \$7,627 and \$4,815 as of September 30, 2015 and December 31, 2014, respectively	51,066	38,694
Deferred and other income taxes, net	35,246	20,007
Income tax receivable	1,027	1,027
Prepaid expenses and other current assets	10,350	9,736
Debt issuance costs, net	3,276	3,335
Total current assets	476,474	599,811
Long-term investments	15,507	17,151
Property and equipment, net	87,627	73,753
Goodwill	1,249,945	1,138,805
Intangible assets, net	250,813	241,622
Deposits and other assets	2,933	2,676
Debt issuance costs, net	7,437	9,864
Total assets	\$2,090,736	\$2,083,682
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$20,000	\$20,000
Accounts payable	14,210	8,608
Accrued wages and commissions	30,197	23,155
Accrued expenses	39,272	27,001
Deferred gain on the sale of building	2,523	2,523
Income taxes payable	11,702	—
Deferred rent	1,104	—
Deferred revenue	43,910	38,003
Total current liabilities	162,918	119,290
Long-term debt, less current portion	350,000	365,000
Deferred gain on the sale of building	21,870	23,762
Deferred rent	29,927	27,032
Deferred income taxes, net	11,262	30,349
Income taxes payable	4,801	4,703
Total liabilities	580,778	570,136
Total stockholders' equity	1,509,958	1,513,546
Total liabilities and stockholders' equity	\$2,090,736	\$2,083,682
See accompanying notes.		

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

	Nine Months Ended September 30,	
	2015	2014
Operating activities:		
Net income (loss)	\$(26,455	) \$30,946
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	14,445	11,089
Amortization	44,562	39,644
Amortization of debt issuance costs	2,486	2,459
Impairment loss	2,778	1,799
Excess tax benefit from stock-based compensation	(7,970	) (28,167
Stock-based compensation expense	25,169	20,906
Deferred income tax benefit, net	(13,702	) (1,236
Provision for losses on accounts receivable	5,490	3,798
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(13,279	) (11,575
Prepaid expenses and other current assets	263	(2,306
Deposits and other assets	411	(68
Accounts payable and other liabilities	30,085	24,712
Deferred revenue	5,433	4,035
Net cash provided by operating activities	69,716	96,036
Investing activities:		
Proceeds from sale and settlement of investments	1,900	1,150
Purchases of property and equipment and other assets	(27,953	) (20,865
Acquisitions, net of cash acquired	(177,476	) (584,218
Net cash used in investing activities	(203,529	) (603,933
Financing activities:		
Proceeds from long-term debt	—	550,000
Payments of long-term debt	(15,000	) (313,125
Payments of debt issuance costs	—	(9,969
Payments of deferred consideration	—	(1,344
Excess tax benefit from stock-based compensation	7,970	28,167
Repurchase of restricted stock to satisfy tax withholding obligations	(15,816	) (49,998
Proceeds from equity offering, net of transaction costs	—	529,360
Proceeds from exercise of stock options and employee stock purchase plan	5,350	5,157
Net cash provided by (used in) financing activities	(17,496	) 738,248
Effect of foreign currency exchange rates on cash and cash equivalents	(194	) (109
Net increase (decrease) in cash and cash equivalents	(151,503	) 230,242
Cash and cash equivalents at the beginning of period	527,012	255,953
Cash and cash equivalents at the end of period	\$375,509	\$486,195