COSTAR GROUP INC
Form 10-Q
July 28, 2016

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

FORM 10-Q

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

For the quarterly period ended June 30, 2016

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 | 52-2091509 |
| (State or other jurisdiction of incorporation or organization) | (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

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 x | Accelerated filer o |
| Non-accelerated filer o<br>(Do not check if a smaller reporting company) | 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

As of July 22, 2016, there were 32,602,734 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 June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Revenues | $206,869 | $170,657 | $406,608 | $329,677 |
| Cost of revenues | 42,679 | 44,634 | 85,579 | 90,030 |
| Gross margin | 164,190 | 126,023 | 321,029 | 239,647 |
| Operating expenses: | | | | |
| Selling and marketing | 80,468 | 92,434 | 155,672 | 161,912 |
| Software development | 19,547 | 16,844 | 37,182 | 31,992 |
| General and administrative | 30,227 | 29,909 | 57,703 | 55,272 |
| Purchase amortization | 5,829 | 6,965 | 12,052 | 14,107 |
| | 136,071 | 146,152 | 262,609 | 263,283 |
| Income (loss) from operations | 28,119 | (20,129) | 58,420 | (23,636) |
| Interest and other income | 159 | 137 | 243 | 431 |
| Interest and other expense | (2,455) | (2,354) | (4,964) | (4,697) |
| Income (loss) before income taxes | 25,823 | (22,346) | 53,699 | (27,902) |
| Income tax expense (benefit), net | 10,247 | (7,380) | 21,402 | (6,809) |
| Net income (loss) | $15,576 | $(14,966) | $32,297 | $(21,093) |
| Net income (loss) per share — basic | $0.48 | $(0.47) | $1.01 | $(0.66) |
| Net income (loss) per share — diluted | $0.48 | $(0.47) | $1.00 | $(0.66) |
| Weighted average outstanding shares — basic | 32,186 | 31,991 | 32,135 | 31,911 |
| Weighted average outstanding shares — diluted | 32,448 | 31,991 | 32,415 | 31,911 |

See accompanying notes.

COSTAR GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands)
(unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Net income (loss) | $15,576 | $(14,966) | $32,297 | $(21,093) |
| Other comprehensive income (loss), net of tax | | | | |
| Foreign currency translation adjustment | (1,925) | 1,507 | (2,458) | 246 |
| Net decrease in unrealized loss on investments | — | 80 | 229 | 248 |
| Total other comprehensive income (loss) | (1,925) | 1,587 | (2,229) | 494 |
| Total comprehensive income (loss) | $13,651 | $(13,379) | $30,068 | $(20,599) |

See accompanying notes.

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

| | June 30, 2016 (unaudited) | December 31, 2015 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $464,151 | $ 421,818 |
| Short-term investments | 1,130 | — |
| Accounts receivable, net of allowance for doubtful accounts of approximately $8,588 and $7,478 as of June 30, 2016 and December 31, 2015, respectively | 45,890 | 40,276 |
| Income tax receivable | 154 | 430 |
| Prepaid expenses and other current assets | 12,894 | 10,209 |
| Total current assets | 524,219 | 472,733 |
| | | |
| Long-term investments | 9,906 | 15,507 |
| Deferred income taxes, net | 8,581 | 9,107 |
| Property and equipment, net | 86,508 | 88,311 |
| Goodwill | 1,256,940 | 1,252,945 |
| Intangible assets, net | 218,501 | 238,318 |
| Deposits and other assets | 2,579 | 2,650 |
| Total assets | $2,107,234 | $ 2,079,571 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Current portion of long-term debt | $11,812 | $ 16,746 |
| Accounts payable | 14,038 | 9,673 |
| Accrued wages and commissions | 22,349 | 31,045 |
| Accrued expenses | 38,568 | 31,469 |
| Deferred gain on the sale of building | 2,523 | 2,523 |
| Deferred rent | 2,278 | 1,687 |
| Deferred revenue | 41,262 | 42,138 |
| Total current liabilities | 132,830 | 135,281 |
| | | |
| Long-term debt, less current portion | 324,910 | 338,366 |
| Deferred gain on the sale of building | 19,977 | 21,239 |
| Deferred rent | 29,238 | 29,628 |
| Deferred income taxes, net | 7,533 | 4,585 |
| Income taxes payable | 6,805 | 6,692 |
| Total liabilities | 521,293 | 535,791 |
| | | |
| Total stockholders' equity | 1,585,941 | 1,543,780 |
| Total liabilities and stockholders' equity | $2,107,234 | $ 2,079,571 |

See accompanying notes.

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

| | Six Months Ended June 30, | |
|---|---|---|
| | 2016 | 2015 |
| Operating activities: | | |
| Net income (loss) | $32,297 | $(21,093) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation | 11,257 | 9,184 |
| Amortization | 23,704 | 27,303 |
| Amortization of debt issuance costs | 1,610 | 1,656 |
| Impairment loss | — | 2,778 |
| Excess tax benefit from stock-based compensation | (4,330) | (7,552) |
| Stock-based compensation expense | 17,670 | 15,857 |
| Deferred income tax expense (benefit), net | 3,474 | (15,784) |
| Provision for losses on accounts receivable | 5,108 | 3,550 |
| Changes in operating assets and liabilities, net of acquisitions: | | |
| Accounts receivable | (10,868) | (14,650) |
| Prepaid expenses and other current assets | (2,616) | (723) |
| Deposits and other assets | 482 | 109 |
| Accounts payable and other liabilities | 4,956 | 25,812 |
| Deferred revenue | (380) | 509 |
| Net cash provided by operating activities | 82,364 | 26,956 |
| Investing activities: | | |
| Proceeds from sale and settlement of investments | 4,700 | 1,350 |
| Purchases of property and equipment and other assets | (7,394) | (17,930) |
| Acquisitions, net of cash acquired | (10,795) | (172,667) |
| Net cash used in investing activities | (13,489) | (189,247) |
| Financing activities: | | |
| Payments of long-term debt | (20,000) | (10,000) |
| Excess tax benefit from stock-based compensation | 4,330 | 7,552 |
| Repurchase of restricted stock to satisfy tax withholding obligations | (13,967) | (15,373) |
| Proceeds from exercise of stock options and employee stock purchase plan | 3,837 | 4,704 |
| Net cash used in financing activities | (25,800) | (13,117) |
| Effect of foreign currency exchange rates on cash and cash equivalents | (742) | 177 |
| Net increase (decrease) in cash and cash equivalents | 42,333 | (175,231) |
| Cash and cash equivalents at the beginning of period | 421,818 | 527,012 |
| Cash and cash equivalents at the end of period | $464,151 | $351,781 |

See accompanying notes.

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."), and parts of the United Kingdom ("U.K."), Canada, Spain, Germany and France. The Company provides online marketplaces for commercial real estate, 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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Presentation

The condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All 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 U.S. generally accepted accounting principles ("GAAP") 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 June 30, 2016 and December 31, 2015, the results of its operations for the three and six months ended June 30, 2016 and 2015, its comprehensive income (loss) for the three and six months ended June 30, 2016 and 2015, and its cash flows for the six months ended June 30, 2016 and 2015. 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, 2015.

The results of operations for the three and six months ended June 30, 2016 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. On an ongoing basis, the Company evaluates its estimates and assumptions, including those related to revenue recognition, allowance for doubtful accounts, useful lives of property and equipment and intangible assets, recoverability of long-lived assets and intangible assets with definite lives, goodwill, income taxes, fair value of equity instruments, fair value of auction rate securities, accounting for business combinations and contingencies, among others. The Company bases these estimates on historical and anticipated results, trends, and various other assumptions that it believes are reasonable, including assumptions as to future events. These estimates form the basis for making judgments about the carrying values of assets and liabilities and recorded revenue and expenses. Actual results could differ from these estimates.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising costs include e-commerce, television, radio, print and other media advertising. Advertising costs were approximately $34 million and $44 million for the three months ended June 30, 2016 and 2015, respectively. Advertising costs were approximately $68 million and $79 million for the six months ended June 30, 2016 and 2015, respectively.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (CONTINUED)

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 using the exchange rates as of the balance sheet dates. 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 loss. Net gains or losses resulting from foreign currency exchange transactions are included in the condensed consolidated statements of operations. There were no material gains or losses from foreign currency exchange transactions for the three and six months ended June 30, 2016 and 2015.

Accumulated Other Comprehensive Loss

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

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Foreign currency translation adjustment | $(9,617) | $ (7,159) |
| Accumulated net unrealized loss on investments, net of tax | (206) | (435) |
| Total accumulated other comprehensive loss | $(9,823) | $ (7,594) |

There were no amounts reclassified out of accumulated other comprehensive loss to the condensed consolidated statements of operations for the three and six months ended June 30, 2016 and 2015.

Net Income (Loss) Per Share

Net income (loss) per share is computed by dividing net income (loss) 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 (loss) 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.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Numerator: | | | | |
| Net income (loss) | $15,576 | $(14,966) | $32,297 | $(21,093) |
| Denominator: | | | | |
| Denominator for basic net income (loss) per share — weighted-average outstanding shares | 32,186 | 31,991 | 32,135 | 31,911 |
| Effect of dilutive securities: | | | | |
| Stock options and restricted stock | 262 | — | 280 | — |
| Denominator for diluted net income (loss) per share — weighted-average outstanding shares | 32,448 | 31,991 | 32,415 | 31,911 |
| Net income (loss) per share — basic | $0.48 | $(0.47) | $1.01 | $(0.66) |

| | | | | |
|---|---|---|---|---|
| Net income (loss) per share — diluted | $0.48 | $(0.47 ) | $1.00 | $(0.66 ) |

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (CONTINUED)

Net Income (Loss) Per Share — (Continued)

Stock options to purchase approximately 227,000 and 231,000 shares that were outstanding for the three and six months ended June 30, 2016, respectively, were not included in the computation of diluted net income per share because the inclusion would have an anti-dilutive effect. The Company did not consider the impact of potentially dilutive securities for the three and six months ended June 30, 2015 when calculating the diluted net loss per share because the inclusion of the potentially dilutive common shares would have an anti-dilutive effect. Shares underlying restricted common stock awards and restricted stock units that vest based on Company performance and/or service conditions that have not been achieved as of the end of the period are not included in the computation of basic or diluted earnings per share. The following table summarizes the shares underlying the performance-based restricted stock awards and service-based restricted stock units excluded from the basic and diluted calculation (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Performance-based restricted stock awards | 72 | 55 | 72 | 55 |
| Service-based restricted stock units | 1 | 1 | 1 | 1 |
| Total shares excluded from computation | 73 | 56 | 73 | 56 |

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 condensed consolidated statements of operations.

Stock-based compensation expense is measured at the grant date of the stock-based awards that vest over set time periods 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. For equity instruments that vest based on performance, the Company assesses the probability of the achievement of the performance conditions at the end of each reporting period, or more frequently based upon the occurrence of events that may change the probability of whether the performance conditions would be met. If the Company's initial estimates of the achievement of the performance conditions change, the related stock-based compensation expense and timing of recognition may fluctuate from period to period based on those estimates. For equity instruments that vest based on a performance condition and a market condition, the Company estimates the fair value of each equity instrument granted on the date of grant using a Monte-Carlo simulation model. This pricing model uses multiple simulations to evaluate the probability of achieving the market condition to calculate the fair value of the awards. Stock-based compensation expense is updated based on the expected achievement of the related performance conditions at the end of each reporting period. If the performance conditions are not met, no stock-based compensation expense will be recognized, and any previously recognized stock-based compensation expense will be reversed.

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 for stock-based compensation in excess of the associated deferred tax asset for such equity compensation recorded as an increase to stockholders' equity. Net cash proceeds from the exercise of stock options and the purchase of shares under the Employee Stock Purchase Plan (“ESPP”) were approximately $3 million and $649,000 for the three months ended June 30, 2016 and 2015, respectively. Net cash proceeds from the exercise of stock options and the purchase of shares under the ESPP were approximately $4 million and $5 million for the six months ended June 30, 2016 and 2015, respectively. The Company realized approximately $4 million and $5 million of excess tax benefits from stock options exercised and restricted stock awards vested during the three months ended June 30, 2016 and 2015, respectively. The Company realized approximately $4 million and $8 million of excess tax benefits from stock options exercised and restricted stock awards vested during the six months ended June 30, 2016 and 2015, respectively.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (CONTINUED)

Stock-Based Compensation — (Continued)

Stock-based compensation expense for stock options and restricted stock issued under equity incentive plans and stock purchases under the ESPP included in the Company's results of operations were as follows (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Cost of revenues | $1,432 | $1,339 | $2,813 | $2,709 |
| Selling and marketing | 1,733 | 1,202 | 3,244 | 2,184 |
| Software development | 1,684 | 1,446 | 3,218 | 2,716 |
| General and administrative | 4,490 | 4,428 | 8,395 | 8,248 |
| Total stock-based compensation | $9,339 | $8,415 | $17,670 | $15,857 |

Options to purchase 16,211 and 2,617 shares were exercised during the three months ended June 30, 2016 and 2015, respectively. Options to purchase 20,711 and 41,068 shares were exercised during the six months ended June 30, 2016 and 2015, respectively.

Debt Issuance Costs

Costs incurred in connection with the issuance of long-term debt are capitalized and amortized as interest expense over the term of the related debt using the effective interest method. These amounts are reflected in the consolidated balance sheets as direct deductions from a combination of the current and long-term portions of debt. Upon a refinancing, previously capitalized debt issuance costs are expensed and included in loss on extinguishment of debt if the Company determines that there has been a substantial modification of the related debt. If the Company determines that there has not been a substantial modification of the related debt, any previously capitalized debt issuance costs are amortized as interest expense over the term of the new debt instrument using the effective interest method. The Company had capitalized debt issuance costs, net of amortization, of approximately $8 million and $10 million as of June 30, 2016 and December 31, 2015, respectively. The debt issuance costs are associated with the financing commitment received from JPMorgan Chase Bank, N.A. ("J.P. Morgan Bank") on April 27, 2011, the subsequent term loan facility and revolving credit facility established under a credit agreement dated February 16, 2012 (the "2012 Credit Agreement"), the financing commitment received from J.P. Morgan Bank, Bank of America, N.A., SunTrust Bank and Wells Fargo Bank, National Association on February 28, 2014, and the subsequent term loan facility and revolving credit facility established under a credit agreement dated April 1, 2014 (the "2014 Credit Agreement"). See Note 8 for additional information regarding the term loan facility and revolving credit facility. The Company amortized debt issuance costs of approximately $799,000 and $829,000 for the three months ended June 30, 2016 and 2015, respectively. The Company amortized debt issuance costs of approximately $2 million for each of the six months ended June 30, 2016 and 2015.

Business Combinations

The Company allocates the purchase consideration to the tangible assets acquired, liabilities assumed and intangible assets acquired based on their estimated fair values. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. Such valuations require management to make significant estimates and assumptions, especially with respect to intangible assets. Significant estimates in valuing certain intangible assets include, but are not limited to, future expected cash flows from acquired customer bases, acquired database technology, and acquired trade names from a market participant's perspective, useful lives and discount rates. During the measurement period, the Company may record adjustments to the assets acquired and liabilities assumed. Any adjustments to provisional amounts that are identified during the measurement period are recorded in the reporting period in which the adjustment amounts are determined. Upon the conclusion of the measurement period, any subsequent adjustments are recorded to earnings. See Note 3 for additional information regarding the Company's recent business combinations.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (CONTINUED)

Recent Accounting Pronouncements

There have been no developments to the Recent Accounting Pronouncements discussion included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, including the expected dates of adoption and estimated effects on the Company's condensed consolidated financial statements, except for the following:

In May 2014, the Financial Accounting Standards Board ("FASB") and International Accounting Standards Board ("IASB") jointly issued a new revenue recognition standard that is designed to improve financial reporting by creating common recognition guidance for U.S. GAAP and International Financial Reporting Standards ("IFRS"). This guidance provides a robust framework for addressing revenue issues, improves the comparability of revenue recognition practices across industries, provides useful information to users of financial statements through improved disclosure requirements and simplifies the presentation of financial statements. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. From March to May of 2016, amendments to the new revenue recognition standard were issued to clarify numerous accounting topics, including, but not limited to (i) the implementation guidance on principal versus agent considerations, (ii) the identification of performance obligations, (iii) the licensing implementation guidance, (iv) the objective of the collectibility criterion and (v) the application of the variable consideration guidance and modified retrospective transition method. This guidance permits the use of either a full retrospective method or a modified retrospective approach. The modified retrospective approach would be applied only to the most current period presented along with a cumulative-effect adjustment at the date of adoption. This guidance will be effective for annual reporting periods beginning after December 15, 2017, although companies may adopt the standard as early as annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The Company has not yet determined when it will adopt the standard or selected a transition method and is currently evaluating the impact this guidance will have on its financial statements.

In February 2016, the FASB issued authoritative lease guidance to increase transparency and comparability among organizations. The guidance requires a company to recognize lease assets and lease liabilities on the balance sheet as well as disclose key information about leasing arrangements. This guidance is effective on a modified retrospective basis for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period. Early application is permitted. The Company is currently evaluating the impact this guidance will have on its financial statements and related disclosures.

In March 2016, the FASB issued authoritative guidance to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification of share-based payment transactions on the statement of cash flows. The guidance requires a company to (i) recognize all excess tax benefits and tax deficiencies as income tax expense or benefit in the statement of operations using a prospective transition method, (ii) recognize excess tax benefits in the current period regardless of whether the benefit reduces taxes payable using a modified retrospective transition method, and (iii) classify all excess tax benefits as operating activities within the statement of cash flows using either a prospective transition method or a retrospective transition method. The guidance also allows a company to (i) elect whether to estimate the number of awards expected to vest or account for forfeitures when they occur, and (ii) withhold up to the maximum statutory tax rate in the applicable jurisdiction for awards, both of which should be applied using a modified retrospective transition method. Finally, the guidance requires a company to classify the cash paid by an employer when directly withholding shares for tax withholding purposes as a financing activity within the statement of cash flows using a retrospective transition method. This guidance is effective for annual reporting periods beginning after

December 15, 2016, including interim periods within that reporting period. Early application is permitted. The Company is currently evaluating the impact this guidance will have on its financial statements and related disclosures.

In June 2016, the FASB issued authoritative guidance designed to provide financial statement users with more information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. When determining such expected credit losses, the guidance requires companies to apply a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. This guidance is effective on a modified retrospective basis for annual reporting periods beginning after December 15, 2019, including interim periods within that reporting period. Companies may adopt the standard as early as annual reporting periods beginning after December 15, 2018. The Company is currently evaluating the impact this guidance will have on its financial statements and related disclosures.

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

3. ACQUISITION

Apartment Finder

Pursuant to the definitive agreement and plan of merger with Network Communications, Inc. (“NCI”) dated April 27, 2015 (the “Merger Agreement”), on June 1, 2015, the Company acquired 100% of the outstanding stock of NCI and the related Apartment Finder business (collectively referred to as “Apartment Finder”) from the former stockholders of NCI. Apartment Finder provides lead generation, advertising and Internet marketing solutions to property managers and owners through its main service, ApartmentFinder.com™. The acquisition furthered the Company's expansion into the multifamily vertical.

In consideration for the purchase of Apartment Finder, on June 1, 2015, the Company paid $173 million in cash, including an estimated $3 million in connection with a preliminary adjustment for net working capital as of the closing date. Pursuant to the terms of the Merger Agreement, the purchase price was increased by approximately $21,000 following the final determination of the net working capital of NCI as of the closing date, and this amount was paid to NCI in the third quarter of 2015.

The Company applied the acquisition method to account for the Apartment Finder transaction, which requires that, among other things, assets acquired and liabilities assumed be recorded at their fair values as of the acquisition date. The following table summarizes the amounts for acquired assets and liabilities recorded at their fair values as of the acquisition date (in thousands):

| | |
|---|---|
| Cash and cash equivalents | $39 |
| Accounts receivable | 4,556 |
| Goodwill | 107,692 |
| Acquired trade names and other intangible assets | 23,642 |
| Acquired customer base | 21,856 |
| Acquired database technology | 4,076 |
| Acquired building photography | 2,425 |
| Deferred income taxes, net | 9,290 |
| Other assets and liabilities | (849 ) |
| Fair value of identifiable net assets acquired | $172,727 |

The net assets of Apartment Finder were recorded at their estimated fair value. In valuing acquired assets and liabilities, fair value estimates were based on, but were not limited to, future expected cash flows, market rate assumptions for contractual obligations, and appropriate discount rates.

The acquired customer base for the acquisition consisted of three distinct intangible assets, is composed of acquired customer contracts and the related customer relationships, and has a weighted average estimated useful life of ten years. The acquired database technology had an estimated useful life of five months due to the Company's intent to replace the acquired database technology in 2015, which it did in December of 2015. The acquired trade names and other intangible assets have a weighted average estimated useful life of nine years. The acquired building photography had an estimated useful life of five months. Amortization of the acquired customer base is recognized on an accelerated basis related to the expected economic benefit of the intangible asset, while amortization of the acquired database technology, acquired building photography and acquired trade names and other intangible assets is recognized on a straight-line basis over their respective estimated useful lives. Goodwill recorded in connection with this acquisition is not amortized, but is subject to annual impairment tests. The $108 million of goodwill recorded as part of the acquisition is associated with the Company's North America operating segment. None of the goodwill recognized is expected to be deductible for income tax purposes in future periods.

Goodwill is calculated as the excess of the consideration transferred over the net assets recognized and represents the future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. Specifically, the goodwill recorded as part of the Apartment Finder acquisition includes but is not limited to: (i) the expected synergies and other benefits that the Company believes will result from combining its operations with Apartment Finder's operations; and (ii) any intangible assets that do not qualify for separate recognition, such as the assembled workforce.

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

4. INVESTMENTS

The Company determines the appropriate classification of debt and equity investments at the time of purchase and re-evaluates such designation as of each balance sheet date. The Company considers all of its investments to be available-for-sale. The Company's investments consist of short-term and long-term variable rate debt instruments with an auction reset feature, referred to as auction rate securities (“ARS”). Available-for-sale investments with contractual maturities of one year or less are classified as short-term in the Company's condensed consolidated balance sheets. Investments are carried at fair value.

Scheduled maturities of investments classified as available-for-sale as of June 30, 2016 are as follows (in thousands):

| Maturity | Fair Value |
|---|---|
| Due: | |
| July 1, 2016 — June 30, 2017 | $1,130 |
| July 1, 2017 — June 30, 2021 | — |
| July 1, 2021 — June 30, 2026 | — |
| After June 30, 2026 | 9,906 |
| Available-for-sale investments | $11,036 |

The Company had no realized gains on its investments for each of the three and six months ended June 30, 2016 and 2015. The Company had no realized losses on its investments for each of the three and six months ended June 30, 2016 and 2015. Realized gains and losses from the sale of available-for-sale securities are determined on a specific-identification basis.

Changes in 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 loss in stockholders’ equity until realized. 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.

As of June 30, 2016, the amortized cost basis and fair value of investments classified as available-for-sale were as follows (in thousands):

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| Auction rate securities | $ 11,242 | $ 687 | $ (893 ) | $11,036 |
| Available-for-sale investments | $ 11,242 | $ 687 | $ (893 ) | $11,036 |

As of December 31, 2015, the amortized cost basis and fair value of investments classified as available-for-sale were as follows (in thousands):

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| Auction rate securities | $ 15,942 | $ 610 | $ (1,045 ) | $15,507 |
| Available-for-sale investments | $ 15,942 | $ 610 | $ (1,045 ) | $15,507 |

The unrealized losses on the Company’s investments as of June 30, 2016 and December 31, 2015 were generated primarily from changes in interest rates and ARS that failed to settle at auction, due to adverse conditions in the global credit markets. 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 at maturity, the Company does not consider these investments to be other-than-temporarily impaired as of June 30, 2016 and December 31, 2015. See Note 5 for further discussion of the fair value of the Company’s financial assets.

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

4. INVESTMENTS — (CONTINUED)

The components of the Company's investments in an unrealized loss position for twelve months or longer were as follows (in thousands):

| | June 30, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| | Aggregate Fair Value | Gross Unrealized Losses | Aggregate Fair Value | Gross Unrealized Losses |
| Auction rate securities | $9,906 | $ (893 ) | $14,455 | $ (1,045 ) |
| Investments in an unrealized loss position | $9,906 | $ (893 ) | $14,455 | $ (1,045 ) |

The Company did not have any investments in an unrealized loss position for less than twelve months as of June 30, 2016 and December 31, 2015.

5. FAIR VALUE

Fair value is defined as the price that would be received in the sale of an asset or paid to transfer a liability in an orderly transaction between market participants. 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 for identical assets or liabilities; 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 for 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) measured at fair value on a recurring basis as of June 30, 2016 (in thousands):

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Assets: | | | | |
| Cash | $220,977 | $ — | $— | $220,977 |
| Money market funds | 175,227 | — | — | 175,227 |
| Commercial paper | 67,947 | — | — | 67,947 |
| Auction rate securities | — | — | 11,036 | 11,036 |
| Total assets measured at fair value | $464,151 | $ — | $11,036 | $475,187 |

The following table represents the Company's fair value hierarchy for its financial assets (cash, cash equivalents and investments) measured at fair value on a recurring basis as of December 31, 2015 (in thousands):

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Assets: | | | | |
| Cash | $405,597 | $ — | $— | $405,597 |
| Money market funds | 5,043 | — | — | 5,043 |
| Commercial paper | 11,178 | — | — | 11,178 |
| Auction rate securities | — | — | 15,507 | 15,507 |
| Total assets measured at fair value | $421,818 | $ — | $15,507 | $437,325 |

The Company’s Level 3 assets consist of 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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) — (CONTINUED)

5. FAIR VALUE — (CONTINUED)

The following tables summarize changes in fair value of the Company's Level 3 assets for the three and six months ended June 30, 2016 and 2015 (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Balance at beginning of period | $11,036 | $16,669 | $15,507 | $17,151 |
| Decrease in unrealized loss included in accumulated other comprehensive loss | — | 80 | 229 | 248 |
| Settlements | — | (700) | (4,700) | (1,350) |
| Balance at end of period | $11,036 | $16,049 | $11,036 | $16,049 |

The following table summarizes changes in fair value of the Company's Level 3 assets from December 31, 2014 to June 30, 2016 (in thousands):

| | Auction Rate Securities |
|---|---|
| Balance at December 31, 2014 | $17,151 |
| Decrease in unrealized loss included in accumulated other comprehensive loss | 256 |
| Settlements | (1,900) |
| Balance at December 31, 2015 | 15,507 |
| Decrease in unrealized loss included in accumulated other comprehensive loss | 229 |
| Settlements | (4,700) |
| Balance at June 30, 2016 | $11,036 |

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

As of June 30, 2016, the Company held ARS with $12 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, most of these securities are classified as long-term investments in the Company's condensed consolidated balance sheet as of June 30, 2016. ARS with contractual maturities of one year or less are classified as short-term investments in the Company's condensed consolidated balance sheets. See Note 4 for further discussion of the scheduled maturities of investments classified as available-for-sale.

While the Company continues to earn interest on its ARS investments at the contractual rate, these investments are not currently actively trading and therefore do not currently have a readily determinable market value. The estimated fair value of the ARS no longer approximates par value. The Company used a discounted cash flow model to determine the estimated fair value of its investment in ARS as of June 30, 2016. The assumptions used in preparing the discounted cash flow model include estimates for interest rates, credit spreads, timing and amount of contractual cash flows, liquidity risk premiums, expected holding periods and default risk. The Company updates the discounted cash flow model on a quarterly basis to reflect any changes in the assumptions used in the model and settlements of ARS investments that occurred during the period.

The only significant unobservable input in the discounted cash flow model is the discount rate. The discount rate used represents the Company's estimate of the yield expected by a market participant from the ARS investments. The weighted average discount rate used in the discounted cash flow model as of June 30, 2016 and December 31, 2015 was approximately 5%. Selecting another discount rate within the range used in the discounted cash flow model would not result in a significant change to the fair value of the ARS.

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

5. FAIR VALUE — (CONTINUED)

Based on this assessment of fair value, as of June 30, 2016, the Company determined there was a net decline in the fair value of its ARS investments of approximately $206,000. 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/or 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.

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 estimated inherent credit losses, and such losses have been within management's expectations. The large size and widespread nature of the Company's customer base and the Company's lack of dependence on any individual customer mitigates 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 accounts receivable, accounts payable, accrued expenses and long-term debt approximates fair value.

6. GOODWILL

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

| | North America | International | Total |
|---|---|---|---|
| Goodwill, December 31, 2014 | $1,114,363 | $ 24,442 | $1,138,805 |
| Acquisition | 112,947 | 2,400 | 115,347 |
| Effect of foreign currency translation | — | (1,207) | (1,207) |
| Goodwill, December 31, 2015 | 1,227,310 | 25,635 | 1,252,945 |
| Acquisitions | 467 | 5,933 | 6,400 |
| Effect of foreign currency translation | — | (2,405) | (2,405) |
| Goodwill, June 30, 2016 | $1,227,777 | $ 29,163 | $1,256,940 |

The Company recorded goodwill of approximately $108 million in connection with the June 1, 2015 acquisition of Apartment Finder and recorded goodwill of approximately $2 million in connection with the July 1, 2015 acquisition of the assets of Belbex Corporate, S.L., a commercial real estate information provider operating in Madrid, Spain. Additionally, the Company recorded goodwill of approximately $5 million during the year ended December 31, 2015 and approximately $467,000 for the six months ended June 30, 2016, in connection with the acquisition of certain assets related to the business operations of Apartment Finder's independent distributors within various markets. Finally, the Company recorded goodwill of approximately $6 million in connection with the May 3, 2016 acquisition of Thomas Daily GmbH ("Thomas Daily"), a commercial real estate news and information provider operating in Freiburg, Germany. The purchase accounting for the acquisition of Thomas Daily GmbH is preliminary, subject to the completion of the accounting for certain tax related items.

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

7. INTANGIBLE ASSETS

Intangible assets consist of the following (in thousands, except amortization period data):

| | June 30, 2016 | December 31, 2015 | Weighted-Average Amortization Period (in years) |
|---|---|---|---|
| Capitalized product development cost | $2,275 | $ 2,243 | 4 |
| Accumulated amortization | (2,194 ) | (2,172 ) | |
| Capitalized product development cost, net | 81 | 71 | |
| | | | |
| Building photography | 17,447 | 17,677 | 4 |
| Accumulated amortization | (16,103 ) | (15,875 ) | |
| Building photography, net | 1,344 | 1,802 | |
| | | | |
| Acquired database technology | 78,317 | 77,905 | 5 |
| Accumulated amortization | (66,966 ) | (62,818 ) | |
| Acquired database technology, net | 11,351 | 15,087 | |
| | | | |
| Acquired customer base | 221,730 | 221,409 | 10 |
| Accumulated amortization | (140,662 ) | (129,782 ) | |
| Acquired customer base, net | 81,068 | 91,627 | |
| | | | |
| Acquired trade names and other intangible assets | 153,848 | 153,910 | 13 |
| Accumulated amortization | (29,191 ) | (24,179 ) | |
| Acquired trade names and other intangible assets, net | 124,657 | 129,731 | |
| | | | |
| Intangible assets, net | $218,501 | $ 238,318 | |

In February 2015, as a result of the Company's product development efforts, it launched an improved Apartments.com website with a cleaner look, information about actual rental availabilities, rents and other fees, and better search functionality. In conjunction with the launch, the Company ceased using the database technology acquired in the acquisition of Apartments.com. The Company evaluated the acquired database technology for impairment during the first quarter of 2015 and determined that the carrying value of the acquired database technology was impaired as the Company had ceased using the asset. The Company recorded an impairment charge of approximately $1 million in cost of revenues in the consolidated statements of operations within the Company's North America operating segment for the six months ended June 30, 2015.

In June 2015, following the June 1, 2015 acquisition of Apartment Finder, the Company decided to cease providing certain Apartment Finder services. Additionally, in June 2015, the Company decided to cease development work related to a development project within Apartment Finder. The Company evaluated the acquired customer base and acquired database technology for impairment during the second quarter of 2015 and, based on that evaluation, determined that the customer base and database technology assets associated with the ceased services and development work were impaired as they were not expected to provide any economic benefit to the Company. The Company recorded an impairment charge of approximately $1 million, most of which was recorded in general and administrative expenses in the consolidated statements of operations within the Company's North America operating segment for the six months ended June 30, 2015.

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

7. INTANGIBLE ASSETS — (CONTINUED)

Intangible assets are reviewed for impairment at least annually and more frequently whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. During the first quarter of 2016, the Company determined that the acquired trade names recorded in connection with the LoopNet acquisition on April 30, 2012 should be reclassified from an indefinite-lived intangible asset to a definite-lived intangible asset due to work being performed to integrate the backend systems of LoopNet and CoStar, which may result in a future re-branding effort if aspects of the two services are ultimately combined. The Company estimated the fair value of the LoopNet trade names using the relief from royalty method and concluded that no impairment existed as of March 31, 2016. The Company estimated a useful life of fifteen years for the LoopNet trade names, which are being amortized on a straight-line basis.

8. LONG-TERM DEBT

On April 1, 2014 (the “Closing Date”), the Company entered into the 2014 Credit Agreement by and among the Company, as Borrower, CoStar Realty Information, Inc., as Co-Borrower, the Lenders from time to time party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent. The 2014 Credit Agreement provides for a $400 million term loan facility and a $225 million revolving credit facility, each with a term of five years. The proceeds of the term loan facility and the initial borrowing of $150 million under the revolving credit facility on the Closing Date were used to refinance the 2012 Credit Agreement, including related fees and expenses, and to pay a portion of the consideration and transaction costs related to the acquisition of Apartments.com. The undrawn proceeds of the revolving credit facility are available for the Company's working capital needs and other general corporate purposes. During June 2014, the Company repaid the $150 million initial borrowing under the revolving credit facility. The carrying value of the term loan facility approximates fair value and can be estimated through Level 3 unobservable inputs using a valuation technique based on expected cash flows discounted using the current credit-adjusted risk-free rate, which approximates the rate of interest on the term loan facility at origination.

Effective April 1, 2014, the Company terminated the 2012 Credit Agreement and repaid all amounts outstanding thereunder, which amounts totaled $149 million. The Company evaluated the execution of the 2014 Credit Agreement and termination of the 2012 Credit Agreement and determined that the transactions did not qualify as an extinguishment of debt because the change in the present value of future cash flows between the initial term loan facility under the 2012 Credit Agreement and the new term loan facility under the 2014 Credit Agreement was not considered a substantial modification.

The revolving credit facility includes a subfacility for swingline loans of up to $10 million, and up to $10 million of the revolving credit facility is available for the issuance of letters of credit. The term loan facility will amortize in quarterly installments in amounts resulting in an annual amortization of 5% during each of the first, second and third years, 10% during the fourth year and 15% during the fifth year after the Closing Date, with the remainder payable at final maturity. The loans under the 2014 Credit Agreement bear interest, at the Company's option, either (i) during any interest period selected by the Company, at the London interbank offered rate for deposits in U.S. dollars with a maturity comparable to such interest period, adjusted for statutory reserves (“LIBOR”), plus an initial spread of 2% per annum, subject to adjustment based on the First Lien Secured Leverage Ratio (as defined in the 2014 Credit Agreement) of the Company, or (ii) at the greatest of (x) the prime rate from time to time announced by JPMorgan Chase Bank, N.A., (y) the federal funds effective rate plus 0.5% and (z) LIBOR for a one-month interest period plus 1%, plus an initial spread of 1% per annum, subject to adjustment based on the First Lien Secured Leverage Ratio of the Company. If an event of default occurs under the 2014 Credit Agreement, the interest rate on overdue amounts will increase by 2% per annum. The obligations under the 2014 Credit Agreement are guaranteed by all material subsidiaries of the Company and are secured by a lien on substantially all of the assets of the Company and those of its material subsidiaries, in each case subject to certain exceptions, pursuant to security and guarantee documents entered into on the Closing Date.

The 2014 Credit Agreement requires the Company to maintain (i) a First Lien Secured Leverage Ratio (as defined in the 2014 Credit Agreement) not exceeding 3.5 to 1.0 during the three months ended June 30, 2016, and each full fiscal quarter thereafter and (ii) after the incurrence of additional indebtedness under certain specified exceptions in the 2014 Credit Agreement, a Total Leverage Ratio (as defined in the 2014 Credit Agreement) not exceeding 4.5 to 1.0 during the three months ended June 30, 2016, and each full fiscal quarter thereafter. The 2014 Credit Agreement also includes other covenants, including covenants that, subject to certain exceptions, restrict the ability of the Company and its subsidiaries to (i) incur additional indebtedness, (ii) create, incur, assume or permit to exist any liens, (iii) enter into mergers, consolidations or similar transactions, (iv) make investments and acquisitions, (v) make certain dispositions of assets, (vi) make dividends, distributions and prepayments of certain indebtedness, and (vii) enter into certain transactions with affiliates. The Company was in compliance with the covenants in the 2014 Credit Agreement as of June 30, 2016.

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

8. LONG-TERM DEBT — (CONTINUED)

In connection with obtaining the term loan facility and revolving credit facility pursuant to the 2014 Credit Agreement, the Company incurred approximately $10 million in debt issuance costs as of April 1, 2014, which along with the unamortized debt issuance cost from the 2012 Credit Agreement, were capitalized and are amortized as interest expense over the term of the 2014 Credit Agreement using the effective interest method.

As of June 30, 2016 and December 31, 2015, no amounts were outstanding under the revolving credit facility. Total interest expense for the term loan facility and revolving credit facility was approximately $2 million for each of the three months ended June 30, 2016 and 2015. Total interest expense for the term loan facility and revolving credit facility was approximately $5 million for each of the six months ended June 30, 2016 and 2015. Interest expense included amortized debt issuance costs of approximately $799,000 and $829,000 for the three months ended June 30, 2016 and 2015, respectively. Interest expense included amortized debt issuance costs of approximately $2 million for each of the six months ended June 30, 2016 and 2015. Total interest paid for the term loan facility was approximately $1 million and $2 million for the three months ended June 30, 2016 and 2015, respectively. Total interest paid for the term loan facility was approximately $3 million for each of the six months ended June 30, 2016 and 2015.

The following table represents the Company's long-term debt (in thousands):

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Term loan facility | $345,000 | $ 365,000 |
| Debt issuance costs, net | (8,278) | (9,888) |
| Total debt | 336,722 | 355,112 |
| Current maturities of long-term debt | (15,000) | (20,000) |
| Current debt issuance costs, net | 3,188 | 3,254 |
| Total long-term debt, less current portion | $324,910 | $ 338,366 |

9. INCOME TAXES

The income tax provision for the six months ended June 30, 2016 and 2015 reflects an effective tax rate of approximately 40% and 24%, respectively. The change in the effective tax rate is primarily due to a change in local tax law that occurred during the first quarter of 2015.

10. COMMITMENTS AND CONTINGENCIES

The Company leases office facilities and office equipment under various non-cancelable operating leases. The leases contain various renewal options.

On April 1, 2014, the Company entered into the 2014 Credit Agreement. The 2014 Credit Agreement provides for a $400 million term loan facility and a $225 million revolving credit facility, each with a term of five years. See Note 8 for additional information regarding the term loan facility and revolving credit facility.

Currently, and from time to time, the Company is involved in litigation incidental to the conduct of its business. In accordance with GAAP, the Company records a provision for a liability when it is both probable that a liability has been incurred and the amount can be reasonably estimated. At the present time, while it is reasonably possible that an unfavorable outcome may occur as a result of one or more of the Company’s current litigation matters, management has concluded that it is not probable that a loss has been incurred in connection with the Company’s current litigation. In addition, the Company is unable to estimate the possible loss or range of loss that could result from an unfavorable outcome in the Company’s current litigation and accordingly, the Company has not recognized any liability in the condensed consolidated financial statements for unfavorable results, if any. Legal defense costs are expensed as incurred.

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

## 11. SEGMENT REPORTING

### Segment Information

The Company manages its business geographically in two operating segments, with the primary areas of measurement and decision-making being North America, which includes the U.S. and Canada, and International, which includes the U.K., Spain, Germany and France. The Company and its subsidiaries' subscription-based services consist primarily of information, analytics and online marketplace services offered over the Internet to commercial real estate industry and related professionals. The Company’s subscription-based information services consist primarily of CoStar Suite® services. CoStar Suite is sold as a platform of service offerings consisting of CoStar Property Professional®, CoStar COMPS Professional® and CoStar Tenant® and through the Company's mobile application, CoStar Go®. CoStar Suite is the Company’s primary service offering in the North America and International operating segments. Management relies on an internal management reporting process that provides revenue and operating segment net income (loss) before interest, income taxes, depreciation and amortization (“EBITDA”). Management believes that operating segment EBITDA is an appropriate measure for evaluating the operational performance of the Company’s operating segments. EBITDA is used by management to internally measure operating and management performance and to evaluate the performance of the business. However, this measure should be considered in addition to, not as a substitute for or superior to, income from operations or other measures of financial performance prepared in accordance with GAAP.

Summarized information by operating segment consists of the following (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Revenues | | | | |
| North America | $199,859 | $164,486 | $393,120 | $317,503 |
| International | | | | |
| External customers | 7,010 | 6,171 | 13,488 | 12,174 |
| Intersegment revenue | 10 | 13 | 21 | 21 |
| Total International revenue | 7,020 | 6,184 | 13,509 | 12,195 |
| Intersegment eliminations | (10) | (13) | (21) | (21) |
| Total revenues | $206,869 | $170,657 | $406,608 | $329,677 |

EBITDA