SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C.
20549

FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1999

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.)

7475 WISCONSIN AVENUE
BETHESDA, MARYLAND 20814
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) (ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE (301) 215-8300

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: NONE
SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
COMMON STOCK ($.01 PAR VALUE)

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

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

Based on the closing price of the common stock on March 13, 2000 on the NASDAQ Stock Market, the aggregate market value of registrant's common stock held by non-affiliates of the registrant was approximately $630 million.

As of March 13, 2000, there were 15,298,257 shares of registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

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

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ITEM 1 BUSINESS

(In this report, the words "we", "our", "us", "CoStar" or "the Company" refer to CoStar Group, Inc. and its subsidiaries. This report also refers to our Web site, but information contained on that site is not part of this report.)

CoStar Group, Inc., a Delaware corporation incorporated in 1998 to succeed its predecessor companies, is the nation's largest provider of information services to the commercial real estate industry. Through internal development, extensive research and strategic acquisitions over 13 years, CoStar has compiled a comprehensive proprietary database that, as of March 22, 2000, covered 54 markets and tracked leasing and sales transactions for over 15 billion square feet of commercial real estate and approximately 900,000 tenants. CoStar delivers its content to customers through eight distinct products and services. Our wide array of digital service offerings includes a leasing marketplace, a selling marketplace, sales comparable information, decision support, contact management, tenant information, property marketing, and industry news. In 1999, the Company made significant progress in moving its business model to the Internet. Substantially all our current services are digitally delivered and most of our clients receive information over the Internet. The advent of the Internet allows CoStar to integrate data from distinct product areas, deliver it more quickly to customers and allows our clients to increase their efficiencies, decrease costs of conducting business and ultimately, increase transaction values. Today, we are creating a digital marketplace where the commercial real estate industry and related businesses can continuously interact and easily facilitate transactions over the Internet due to efficient exchange of accurate and standardized information supplied by CoStar.

We have three assets that provide a unique foundation for this marketplace: the most comprehensive, proprietary, national database in the industry; the largest research department in the industry; and what we believe is the largest number of participating organizations. Our database has been constructed over more than a decade by a research department that makes updates daily to our database throughout the year. In addition to our internal efforts, we have obtained and assimilated over 50 proprietary databases. The database now contains information on over $500 billion in lease transactions and covers more over $40 billion in properties for sale.

INDUSTRY OVERVIEW

We believe that the market for commercial real estate information is vast based on the variety, volume, and value of transactions related to commercial real estate. To facilitate transactions, industry participants must have extensive, accurate, and current information. Members of the commercial real estate and related business community require daily access to current data such as rental rates, vacancy rates, tenant movements, supply, new construction, absorption rates, and other important market developments to carry out their businesses effectively. Such data collection is time-consuming, as shown by a 1996 study we commissioned, which found that commercial real estate professionals spent 40% of their workday collecting and analyzing information on the real estate market. Therefore, there is a strong need for an efficient marketplace, where members of the commercial real estate and related business community can exchange information, evaluate opportunities using national standardized data, and interact with each other on a continuous basis.

A large number of parties involved in the commercial real estate and related business community require extensive information, including:

- Sales and leasing brokers
- Property owners
- Property management firms
- Government agencies
- Mortgage-backed security issuers
- Appraisers

- Design and construction firms
- Real estate developers
- Real estate investment trusts
- Investment banks
- Commercial banks
- Investors and asset managers
- Media
- Tenant vendors
- Building services vendors
- Communications providers
- Insurance companies
- Institutional advisors

The commercial real estate and related business community generally operates in an inefficient marketplace because of the fragmented approach to gathering and exchanging information within the marketplace. Various organizations, including hundreds of brokerage firms, directory publishers, and local research companies, have attempted to collect data on specific markets and to develop software to analyze the information they had independently gathered. This fragmented approach has resulted in duplication of effort in the collection and analysis of information, excessive internal cost, non-standardized data with varying degrees of accuracy and comprehensiveness, and a large information gap.

The creation of an efficient digital marketplace for commercial real estate will require an infrastructure of a national, standardized database, accurate and comprehensive research capabilities, and intensive, real-time participant interaction. The Internet can help maximize interaction among participants in a marketplace. The Internet has emerged as a mass communications and commerce medium enabling millions of people worldwide to share information, create community among individuals with similar interests, and conduct business electronically. In addition to its emergence as a mass communications medium, the Internet has features and functions that are unavailable in traditional media, which enable users to:

- retrieve enormous amounts of information at low cost and without geographic limitation;
- access dynamic and interactive content on a real-time basis; and
- communicate and interact instantaneously with a single individual or with large groups of users.

COSTAR'S COMPREHENSIVE, NATIONAL DATABASE

CoStar has spent 13 years building and acquiring a proprietary database of commercial real estate information, including leasing, sales, tenants, demand statistics and digital images The completed acquisition of COMPS.COM, Inc. ("Comps") in February 2000 significantly increased the resources in our database. Comps has spent 18 years building a proprietary database of commercial real estate sales transactions.

Combined, as of March 22, 2000, our proprietary database contains:

- more than 15 billion square feet of U.S. commercial real estate;
- approximately 350,000 CoStar and approximately 330,000 Comps commercial real estate properties;
- information for 54 U.S. markets;
- over two billion square feet of space available;
- over 38,000 properties for sale;
- approximately 900,000 tenants occupying commercial real estate space;
- more than 530,000 sales transactions valued at over $660 billion; and
- over 660,000 high-resolution digital images, including building photographs, aerial photographs, plat maps and floor plans.

This highly complex database is comprised of hundreds of data fields, tracking such categories as:

- Location
- Site and zoning information
- Building characteristics
- Space availability
- Tax assessments
- Ownership
- Sales comparables
- Mortgage and deed information
- For-sale information
- Income and expense histories
- Tenant names
- Lease expirations
- Contact information
- Historical trends

COSTAR RESEARCH

We have developed a sophisticated data collection organization, made up of a combination of researchers, license agreement, management systems, computer and communications hardware, and software systems.

Research Department. As of March 13, 2000, over 700 commercial real estate research professionals worked for us. CoStar's researchers collect and analyze office and industrial real estate information through hundreds of thousands of phone calls, e-mails, internet updates and faxes a year, in addition to field inspections, news monitoring, and direct mail. Every new research employee undergoes an extensive training program to maintain a consistent research process. Because of the importance commercial real estate professionals place on our data and our prominent position in the industry, these professionals frequently take the initiative to report transactions to our researchers.

In connection with obtaining sales comparable data, Comps researchers review multiple sources of information to comprehensively identify recent commercial property transactions in 47 markets throughout the United States. Once a potential transaction is identified, Comps researchers inspect county courthouse records and extract pertinent information directly from the recorded deed into the database in order to increase the accuracy of each sales comp report. Comps researchers match the legal description of the deed with a tax or plat map and then proceed to perform a site inspection on the commercial properties. The site inspection consists of photographing the building, measuring the building (if necessary), counting parking spaces, assessing property condition and construction, and gathering tenant information. Comps researchers then interview buyers, sellers and brokers via telephone to seek to confirm the information and to gather additional information.

As of March 13, 2000, over 200 field researchers compiled digital images, location information and site-specific data for us, by both verifying data in CoStar's database and entering new data into the database. Some of these researchers use CoStar trucks equipped with Global Positioning Systems, which use satellites to keep track of the trucks' location and pinpoint building locations. As of March 13, 2000, CoStar had 29 trucks in a total of 19 markets that were used by field researchers. In addition, over 100 of our field researchers are photographers who take photographs of commercial real estate properties for CoStar to add to the collection of CoStar's digital images in our database.

License Agreements. We license a small portion of our data from public record providers such as Axciom DataQuick, TransAmerica/Intellitech and First American RES. The licensing agreements with these entities provide for the use of certain of their national property ownership information in the enhancement and development of various CoStar services.

Management and Quality Control Systems. We use both automated and non-automated controls to ensure the integrity of the data collection process. A large number of automated data quality tests check for potential errors including occupancy date conflicts, available square footage greater than building area, typical floor greater than land area, and expired leases. Our non-automated quality control procedures include:

- calling our information sources on recently-updated properties to re-verify information;
- reviewing commercial real estate periodicals for transactions to cross-check our research; and
- performing field checks to determine if we correctly canvassed all buildings.

Finally, one of the most important and effective quality control measures is feedback, garnered through regular client surveys taken from the commercial real estate professionals using our data every day.

Computer and Communications Hardware. We maintain Windows NT servers in support of the database and a national internal frame relay network to allow remote researchers real-time access to the database. We store full data back-ups off site.

Software Systems. We use client-server software to manage our internal data collection. In addition, over the past decade we have developed and refined our own software systems. This software has four primary functions:

- collection of building-specific data;
- tracking of commercial real estate companies and individuals;
- facilitation of our operations; and
- distribution of data.

PRODUCTS AND SERVICES

Our various current and planned products and services are described in detail in the following paragraphs.

CoStar Exchange. We have developed a database of over 38,000 commercial properties for sale with a combined asset value in excess of $40 billion. We expect to distribute that information in a broker-centric model through a secure Web-based browser, to be known as CoStar Exchange. We expect that sellers and brokers of properties will be able to list extensive information about their properties for sale on the site at no cost. The site will afford an efficient means for these sellers to reach a large universe of potential buyers. We expect that potential buyers will pay a subscription fee to access the system. Sellers of investment-grade properties will have the additional option of selecting limited, secure distribution of their properties in order to address confidentiality requirements. We expect that the CoStar Exchange service will integrate the content developed through years of research under the CoStar Property, CoStar Tenant, CoStar COMPS and other CoStar services. We expect to release CoStar Exchange in the second quarter of 2000.

CoStar Property. CoStar Property has fostered the development of the digital leasing marketplace. Subscribers use CoStar Property to research leasing options, analyze market conditions and competitive property positions, and produce multimedia client presentations. Members of the broader commercial real estate community, including non-CoStar subscribers, utilize CoStar Property extensively to market their properties. Subscribers can query CoStar Property with any combination of pertinent criteria, combining any of approximately one hundred data fields from categories such as building size, location, building characteristics, space availability, ownership, or sales comparables. CoStar Property's search engine scans through hundreds of millions of square feet of space in a specified market in seconds to find all the properties meeting the search criteria. Our subscribers can select from over 50 customizable reports, presenting space availability, comparable sales, tenant activity, market statistics, photographs, and floor plans. Users can export and edit reports, photos, and floor plans to help determine feasibility of a specific space. Our subscribers also use CoStar Property to analyze market conditions by calculating current vacancy rates, absorption rates, or average rental rates.

CoStar Tenant. CoStar Tenant delivers detailed information profiling the tenants occupying commercial buildings by tracking tenants in 28 U.S. markets. A key service feature is lease expiration information. Subscribers use CoStar Tenant to gather information about particular tenants, identify and target the most likely tenants to lease space, ascertain all tenants in a particular building, understand trends and the underlying demand for commercial real estate, locate and target the tenants most likely to need representation for their real estate requirements, and pinpoint the tenants most likely to buy a particular vendor's goods and services.

CoStar COMPS. Through the acquisition of Comps in February 2000, we now provide comprehensive, national information on comparable sales information in the commercial real estate industry. This service is provided for 47 markets nationally representing 145 counties, through a Web-based system and includes information on sale prices, income and expenses, capitalization rates, loan data and other key details. Customers may search the proprietary database of comparable sale information by multiple search parameters, including location, property type, square footage, price range and number of units. Customers receive a report of all relevant properties in the database matching their search criteria, including photographs.

CoStar ARES. Through the acquisition of ARES Development Group, LLC in September 1999, we are now the provider of CoStar ARES 2000, a leading contact management and business tool for commercial real estate professionals. CoStar ARES 2000 works in conjunction with ACT! 2000 and turns ACT! into a real estate productivity system by providing commercial real estate elements that are not provided by ACT!. Users of CoStar ARES 2000 can import data from CoStar Property and CoStar Tenant into CoStar ARES 2000.

CoStar Marketplace. CoStar Marketplace provides an on-line means for the commercial real estate and related business community to direct advertising to the appropriate decision-makers. We currently deliver this service through our CoStar services and via our Website. This service benefits our clients by providing them increased distribution, higher visibility, and a more cost-effective way to reach their targeted audience for their advertising materials.

CoStar News. Our Website, our CoStar services, and our e-mail news dispatches have become an accepted source of reliable industry news. In 1999, we authored over 5,000 news stories. These articles have been cited by numerous major news organizations. Our newswire feature keeps clients informed of late-breaking commercial real estate news such as deals signed, acquisitions, ground breakings and other features.

CoStar Analytic. We currently provide a full line of detailed analytical tools and reports through CoStar Property and CoStar Tenant. These tools provide strategic insight into the changing trends in vacancy rates, tenant movements, supply, new construction, absorption rates, and other important market metrics. We are enhancing these services through CoStar Analytic. Once released, we expect that CoStar Analytic will provide a Web-based analytic tool that will allow users to perform more sophisticated analyses of underlying market conditions and trends when making investment, leasing, purchase, sale, construction, and marketing decisions involving commercial real estate. We may also provide fee-based customized reports and advisory services.

Backlog. We do not have a significant backlog and do not believe that backlog is a meaningful indicator of our future results.

CLIENTS

We draw clients from across the commercial real estate and related business community. Commercial real estate brokers have traditionally been the largest portion of CoStar clients. Recently, however, the fastest growing segments for CoStar services have been owners, lenders, and vendors. The following chart provides representative clients in various categories.

BROKERAGE	LENDERS, INVESTMENT BANKERS	APPRAISERS, ACCOUNTANTS
CB Richard Ellis	Deutschebank	Arthur Anderson
Grubb & Ellis	Donaldson, Lufkin & Jenrette	E & Y Kenneth Leventhal Real Estate Group
Jones Lang LaSalle	GMAC Commercial Mortgage	Koeppel Tener Real Estate
Insignia/ESG	Merrill Lynch	KPMG
Julien J. Studley	NationsBank	PriceWaterhouse Coopers
The Staubach Company	Bank of America	Deloitte and Touche
Carter & Associates	Wells Fargo	
Colliers	Washington Mutual	
Binswanger	World Savings	
Marcus & Millichap	First Nationwide	

REITs	OWNERS AND DEVELOPERS	VENDORS
Boston Properties	Hines	IntelliSpace
CarrAmerica	Trammel Crow Company	Kastle Systems
Cornerstone Properties	TrizecHahn Corporation	RCN Corporation
Equity Office Properties	Gale & Wentworth	Teligent
Prentiss Properties	Manulife Financial	WinStar Communications

GOVERNMENT AGENCIES	PROPERTY MANAGERS	INSTITUTIONAL ADVISORS, ASSET MANAGERS
County of Los Angeles	Kennedy-Wilson Properties	AEW Capital Management
Fairfax County Dev. Authority	Leggat McCall Properties	Jones Lang LaSalle
Fannie Mae	Lincoln Property Company	Legg Mason
Montgomery County Office of Economic Development	PM Realty Group	LendLease Real Estate Investments
NYC Economic Development.	U.S. Equities Realty	USAA Real Estate Company
U.S. General Services Administration		

As of March 13, 2000, CoStar had an estimated 25,000 end users at over 3,600 clients using one or more of CoStar's products, and Comps had an estimated 25,000 end users at over 6,000 clients using one or more of Comps' products. This includes the majority of the national commercial real estate brokerage firms. As of December 31, 1999, no single client accounted for more than 5% of our revenues. During the past five years, our contract renewal rate has exceeded 90%.

SALES AND MARKETING

As of March 13, 2000, we had over 130 sales and marketing employees, with the majority of our direct sales force located in the field. Our sales teams are geographically focused and located in 23 field

sales offices in our largest U.S. markets. Our offices typically serve as the platform for our in-market sales, client service, and field research operations for their respective regions. The field sales offices also work with our headquarters operation to coordinate sales to our multi-market and national clients. In addition, we have a client service staff with responsibility for installing and training our client base, ensuring high client satisfaction, renewing existing client contracts, and identifying cross-selling opportunities. We use a proprietary enterprise-wide client management system integrated with our database and telecommunications system. This integrated system allows the sales force, research staff, client service, and accounting department to develop a coordinated sales and account management effort.

Our field sales people focus in one of three areas, Information Solutions, Marketing Solutions or CoStar ARES 2000. The Information Solutions sales personnel focus on existing information services such as CoStar Property, CoStar Tenant and CoStar COMPS, and will in the future focus on new information services, such as CoStar Exchange and CoStar Analytic. Many of our salespeople have significant commercial real estate experience, allowing them to take a consultative sales approach. The Marketing Solutions sales personnel sell on-line advertising on our website, www.costargroup.com, and advertising spaces in the CoStar Property and CoStar Tenant regional newswires. Many of these sales people have an advertising sales background or experience in commercial real estate. A team of inside and field sales people, together with a team of telemarketing sales people, work to sell CoStar ARES 2000. Our sales strategy is to aggressively attract new clients, while providing ongoing incentives for existing clients to subscribe to our newer services.

We seek to make our services essential to our clients' businesses. To encourage clients to use our services regularly, we generally charge fixed monthly amounts rather than fees based on actual system usage. Our clients' monthly charges are based on the number of sites, organization size, the company's business focus, and the number of services to which a client subscribes.

Our primary marketing methods include: service demonstrations, direct marketing, trade show and industry events, print advertising, and client referrals. Direct marketing is the most cost effective means for us to find prospective clients. Once we have identified a prospective client, we have found the most effective sales method is a service demonstration. Our direct marketing efforts include direct mail, e-mail, and telemarketing, and make extensive use of our unique, proprietary database. Our advertising includes Internet banners, private network banners, and traditional print advertising. This form of advertising is used for brand identity, message reinforcement, and potential client identification. We also attend industry tradeshows and seminars to reinforce our relationships with our core user groups.

COMPETITION

The market for information systems and services generally is competitive and rapidly changing. The market for Internet services and providers is relatively new, intensely competitive and rapidly changing. In the commercial real estate industry, the principal competitive factors for commercial real estate information are:

- quality and depth of the underlying databases;
- ease of use, flexibility, and functionality of the software;
- timeliness of the data;
- breadth of geographic coverage and services offered;
- perception that the service offered is the industry standard;
- proprietary nature of methodologies, databases and technical resources;
- effectiveness of marketing and sales efforts;
- client service and support;
- vendor reputation;

- brand loyalty among customers;
- capital resources; and
- price.

We compete directly and indirectly for customers with the following categories of companies:

- online services or Web sites targeted to commercial real estate brokers, buyers and sellers of commercial real estate properties, insurance companies, mortgage brokers and lenders, such as Propertyfirst.com, LoopNet, Inc. and Realtyiq.com;
- publishers and distributors of information services, such as regional providers such as Realty Information Tracking Services, and smaller local providers, and national print publications such as Black's Guide;
- in-house research departments operated by some commercial real estate brokers; and
- public record providers such as First American Res, Acxiom DataQuick and TransAmerica, though many of their customers view these public record providers as complementary to our services and often subscribe to one of these services as well as Comps' service.

As the digital real estate marketplace develops, additional competitors (including companies which could have greater financial, product development, technical, and marketing resources than we do) may enter the market and competition may intensify. While we believe that we have successfully differentiated ourselves from existing or potential competitors, competition could materially harm our business.

PROPRIETARY RIGHTS

To protect our proprietary rights in our methodologies, database, software, trademarks and other intellectual property, we depend upon a combination of:

- trade secret, copyright and trademark laws;
- nondisclosure, noncompetetion and other contractual provisions with employees;
- license agreements with customers;
- patent protection; and
- technical measures.

We seek to protect our software's source code and our database as trade secrets and under copyright law. Although copyright registration is not a prerequisite for copyright protection, we have filed for copyright registration for our databases, software and other materials. Under current law, the arrangement and selection of data may be protected, but the actual data itself may not be. Moreover, other people are free to try to independently create databases that perform the same function as ours. We believe, however, that they would find it very time-consuming and costly to create a competing database. We license our database, software and services under license agreements that grant our clients non-exclusive, non-transferable licenses. These agreements restrict the disclosure and use of our data, images and software. In addition, the license agreements prohibit the unauthorized reproduction or transfer of the information and software we license.

We also attempt to protect the secrecy of our proprietary database, our trade secrets and our proprietary information through confidentiality and noncompetition agreements with our employees and consultants. Our services also include technical measures to discourage unauthorized copying.

We have filed trademark applications to register the "CoStar" mark in the United States and Canada, and we have a registered trademark for "CoStar" in the United Kingdom. In addition, we have

filed trademark applications to register trademarks for a variety of names for the CoStar products and other marks. In addition, "COMPS" is a registered trademark of Comps. We recently filed a patent application covering certain of our methodologies and software.

On September 30, 1999, CoStar filed suit against LoopNet, Inc and its president Dennis DeAndre in the U.S. District Court for the District of Maryland. The complaint asserts, among other things, that LoopNet infringed CoStar's copyrights by unlawfully displaying and distributing CoStar's copyrighted photographs on LoopNet's web site. On March 14, 2000, the judge issued a preliminary injunction ordering LoopNet, Inc. to remove CoStar photographs from the LoopNet website once CoStar notifies it of any possible infringement. The injunction also requires that LoopNet notify users whenever it removes CoStar photographs submitted for posting on LoopNet's Web site. It also mandates that LoopNet require certain repeat offenders to produce evidence of copyright ownership before posting any photograph to the LoopNet Web site. In its suit, CoStar is seeking monetary damages for past infringements, attorney's fees and a permanent injunction against LoopNet.

EMPLOYEES

As of March 13, 2000, we employed 960 employees. None of our employees is represented by a labor union. We have experienced no work stoppages. We believe that our employee relations are excellent.

ITEM 2 PROPERTIES

Our corporate headquarters occupy approximately 48,000 square feet in Bethesda, Maryland, under leases and subleases expiring between April 30, 2000 and July 31, 2000. In April 2000, we expect to move to a new corporate headquarters in Bethesda, Maryland, occupying approximately 60,000 square feet under a lease that expires on March 14, 2010. Comps is headquartered in San Diego and leases approximately 40,000 square feet under a lease that expires on August 31, 2002 and leases approximately 43,000 square feet under a lease that expires on January 31, 2004. We believe that our Bethesda, Maryland and San Diego facilities will be adequate to meet our requirements for our headquarters for the foreseeable future.

We also lease office space in a variety of other locations, including, without limitation, the following: New York; Los Angeles; Chicago; San Francisco; Boston; Newport Beach; Philadelphia; Houston; Mason, Ohio; Atlanta; Phoenix; Southfield, Michigan; Iselin, New Jersey; Charlotte, North Carolina; Ft. Lauderdale, Florida; Seattle; Denver; Austin; Dallas; Sacramento, California; and Tampa, Florida.

ITEM 3 LEGAL PROCEEDINGS

On November 5, 1999, a suit was filed in the Court of Chancery of the State of Delaware in and for New Castle County under the caption Morris v. Avis, et al (C.A. 197554). The suit alleged breaches of fiduciary duties by the former members of the board of directors of Comps and Summit Partners. On November 8, 1999, a suit was filed in the Superior Court of the State of California of and for the County of San Diego captioned Berghoff v. Comps.com et al (case no. GIC 738362). The allegations in the California lawsuit are similar to the allegations in the Delaware suit. The plaintiffs in both of these lawsuits had requested monetary damages and injunctive relief to prevent the consummation of the merger between Comps and CoStar. On January 6, 2000, the Delaware suit was voluntarily dismissed by the plaintiff. On February 4, 2000, the parties to the California lawsuit entered into a Memorandum of Understanding that sets forth their agreement to settle the lawsuit. The parties are in the process of fully documenting the settlement of the class action in order to obtain the necessary court approval. A hearing

has been scheduled in the California action on March 29, 2000 to address the status of this matter. The parties intend to seek the preliminary approval by the court of the settlement either at this hearing or at a subsequent hearing to be scheduled shortly thereafter.

The Company currently and from time to time is involved in other litigation incidental to the conduct of its business. The Company is not a party to any lawsuit or proceeding that, in the opinion of management of the Company, is likely to have a material adverse effect on the Company's financial position or results of operations.

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The registrant did not submit any matters to a vote of its security holders during the quarter ended December 31, 1999.

ITEM 5 MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Price Range of Common Stock. Our common stock is traded on the Nasdaq Stock Market under the symbol "CSGP." Public trading of our common stock began on July 1, 1998. Prior to that, there was no public market for the common stock. The following table sets forth, for the periods indicated, the high and low sale price per share of our common stock on the Nasdaq Stock Market.

YEAR ENDED DECEMBER 31, 1998	HIGH	LOW
Third Quarter (from July 1, 1998)	$10 7/8	$5 1/2
Fourth Quarter	$14	$6
YEAR ENDED DECEMBER 31, 1999		
First Quarter	$29 1/4	$12 5/8
Second Quarter	$48 5/8	$28 1/2
Third Quarter	$48	$22 3/16
Fourth Quarter	$35 7/8	$14 5/16

As of March 13, 2000, there were approximately 142 holders of record of our common stock. On March 13, 2000, the last sale price reported on the Nasdaq Stock Market for our common stock was $52 1/8 per share.

Dividend Policy. We have never declared or paid any dividends on our common stock. We do not plan to do so in the foreseeable future.

Recent Issues of Unregistered Securities. During 1999, we made certain issues of shares of our common stock without registration under the Securities Act of 1933 (the "Securities Act"). On January 8, 1999, we acquired LeaseTrend, Inc. ("LeaseTrend") through a transaction in which the shareholders of LeaseTrend received 566,671 shares of Common Stock and approximately $4,500,000 in cash. These shares were purchased for investment purposes. The issuance of these shares was effected in reliance on an exemption from registration under Section 4(2) of the Securities Act. On January 22, 1999, we acquired Jamison Research, Inc. ("Jamison") through a transaction which the shareholders of Jamison received 446,637 shares of Common Stock and approximately $5,284,000 in cash. These shares were purchased for investment purposes. The issuance of these shares was effected in reliance on an exemption from registration under Section 4(2) of the Securities. On September 15, 1999, we acquired ARES Development Group, LLC ("ARES") through a transaction in which the members of ARES received 33,208 shares of Common Stock and approximately $250,000 in cash. These shares were purchased for investment purposes. The issuance of these shares was effected in reliance on the exemption from registration under Section 4(2) of the Securities Act.

ITEM 6 SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA

SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA
(IN THOUSANDS, EXCEPT PER SHARE DATA AND OTHER OPERATING DATA)

The following table provides selected financial data for the five years ended December 31, 1999. The Statement of Operations Data we show below for 1997 through 1999 and the Balance Sheet Data for 1998 and 1999 is derived from audited financial statements that we include later in this report. The Statement of Operations Data for 1995 and 1996 and the Balance Sheet Data we show below for 1995 through 1997 is derived from audited financial statements for those years, which do not appear in this report. As explained in the Notes to the Consolidated Financial Statements that appear later in this report, the financial data for 1995 through 1999 is derived from the audited financial statements of us and of our predecessor companies for those years.

	YEARS ENDED DECEMBER 31,				
	1995	1996	1997	1998	1999
STATEMENT OF OPERATIONS DATA:					
Revenues	$2,062	$ 4,336	$ 7,900	$13,900	$ 30,234
Cost of revenues	931	2,188	3,413	4,562	13,244
Gross margin	1,131	2,148	4,487	9,338	16,990
Operating expenses	1,994	4,829	7,786	12,864	32,373
Loss from operations	(863)	(2,681)	(3,299)	(3,526)	(15,383)
Other income (expense), net	79	49	33	341	3,106
Net loss	$ (784)	$(2,632)	$(3,266)	$(3,185)	$(12,277)
Net loss per share - basic and diluted	$(0.22)	$ (0.60)	$ (0.57)	$ (0.44)	$ (1.05)
Weighted average shares outstanding	3,635	4,388	5,722	7,213	11,727

	AS OF DECEMBER 31,				
	1995	1996	1997	1998	1999
BALANCE SHEET DATA:					
Cash and cash equivalents	$1,328	$3,326	$ 1,069	$19,667	$ 94,074
Working capital	1,017	2,248	(1,547)	16,900	89,153
Total assets	3,015	7,670	6,581	27,541	136,905
Total liabilities	688	2,000	3,664	4,338	17,208
Stockholders' equity	2,327	5,670	2,917	23,203	119,697

	AS OF DECEMBER 31,				
	1995	1996	1997	1998	1999
OTHER OPERATING DATA:					
Markets Covered by Database	4	9	14	19	41
Counties Covered by Database	42	56	120	136	259
Number of Clients	204	542	1,123	1,731	3,612
Billions of Square Feet in Database	2.2	3.3	6.5	9.1	15.6
Buildings in Database	24,822	43,520	112,335	175,471	334,917
Images in Database	24,926	47,308	90,545	178,827	349,526

ITEM 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

CoStar is the leading provider of information services to the U.S. commercial real estate industry. We are creating a digital marketplace where the members of the commercial real estate and related business community can continuously interact and facilitate transactions by efficiently exchanging accurate and standardized information. Our wide array of digital service offerings includes a leasing marketplace, a selling marketplace, comparable sales information, decision support, tenant information, property marketing, and industry news. Substantially all of our current services are digitally delivered over the Internet.

We completed our initial public offering in July 1998 and received net proceeds of approximately $22.7 million. We primarily used those net proceeds to fund the geographic and service expansion of our business, including three strategic acquisitions, and to expand our sales and marketing organization. In May 1999, we completed a follow-on public offering and received net proceeds of approximately $97.4 million. We used a portion of those net proceeds to fund the acquisition of Comps, and we expect to use the remainder of the proceeds primarily for development and distribution of new services, expansion of all existing services across our current markets, geographic expansion in the U.S. and international markets, strategic acquisitions and working capital and general corporate purposes.

From 1994 through 1999, we expanded the geographical coverage of our existing services and developed new services. In addition to internal growth, this expansion included the acquisitions of Chicago ReSource, Inc. in Chicago in 1996 and New Market Systems, Inc. in San Francisco in 1997. In August 1998, we expanded into the Houston region through the acquisition of Houston-based real estate information provider C Data Services, Inc. In January 1999, we expanded further into the Midwest and Florida by acquiring LeaseTrend, and into Atlanta and Dallas/Fort Worth by acquiring Jamison. In September 1999, we acquired ARES, a Los Angeles based developer and distributor of ARES for ACT!. In February 2000, we acquired Comps discussed in detail later in this section.

We consider regions that have had ongoing operations for at least 18 months to be established, and we currently generate positive cash flow from our operations in established regions. As of December 31, 1999, the following regions are those that have been in operation for more than 18 months and that we consider to be established: Washington, New York, Los Angeles, Chicago, San Francisco, Philadelphia and Boston. These regions provide us with substantial cash flow, which we reinvest into the business. Since our inception, the development of our business has required substantial investments for the expansion of services and the establishment of operating regions, which has resulted in substantial net losses on an overall basis.

The incremental cost of introducing new services in an established region in the future may reduce the profitability of a region or cause it to incur losses. We expect continued development and distribution of new services, expansion of all existing services across current markets and geographic expansion in the U.S. and international markets. Therefore, while we expect operations in existing established regions to remain profitable and provide substantial funding, we expect our overall expansion plans to generate significant losses and negative cash flow from operations during the next two years.

Although our services are expanding rapidly, our CoStar Property and CoStar Tenant services currently generate the largest portion of our revenue. The CoStar Property and CoStar Tenant contracts range from terms of one to three years and generally renew automatically. Upon renewal, many of the contract rates increase automatically in accordance with contract provisions or as a result of renegotiations. To encourage clients to use our services regularly, we charge fixed amounts rather than fees based on actual system usage. We charge our clients based on the number of sites, organization size, the company's business focus, and the number of services to which a client subscribes. Our contract renewal rate currently exceeds 90% on an annual basis. Our clients pay contract fees on an annual, quarterly, or monthly basis. We recognize this revenue over the life of the contract on a straight-line basis beginning with the installation or renewal date. Annual and quarterly advance

payments result in deferred revenue, substantially reducing the working capital requirements generated by the growth in our accounts receivable.

As explained in the Notes to the Consolidated Financial Statements that appear later in this report, the financial data for 1997 through 1999 is derived from the audited financial statements of us and of our predecessor companies for those years.

CONSOLIDATED RESULTS OF OPERATIONS

The following table provides our selected consolidated results of operations (in thousands of dollars and as a percentage of total revenue) for the indicated periods:

	YEARS ENDED DECEMBER 31,					
	1997		1998		1999	
Revenues	$ 7,900	100%	$13,900	100%	$ 30,234	100%
Cost of revenues	3,413	43	4,562	33	13,244	44
Gross margin	4,487	57	9,338	67	16,990	56
Operating expenses						
Selling and marketing	4,374	55	7,240	52	19,869	66
Software development	395	5	704	5	1,108	4
General and administrative	3,017	38	4,920	35	11,396	37
Total operating expenses	7,786	98	12,864	92	32,373	107
Loss from operations	(3,299)	(41)	(3,526)	(25)	(15,383)	(51)
Other income (expense), net	33	0	341	2	3,106	10
Net loss	$(3,266)	(41)%	$(3,185)	(23)%	$(12,277)	(41)%

COMPARISON OF YEAR ENDED DECEMBER 31, 1999 AND YEAR ENDED DECEMBER 31, 1998

Revenues. Revenues grew 118% from $13.9 million in 1998 to $30.2 million in 1999. This increase resulted principally from growth in our client base in all regions we served, expansion into new regions, and expansion of our services in existing regions. Revenues from regions we considered established as of December 31, 1999 grew from $13.1 million in 1998 to $19.8 million in 1999, an increase of 51%. During 1999, we expanded into Seattle and acquired and converted over twenty regions, including Atlanta, Dallas, Denver, Florida and the Midwest. Our advertising revenues, which we generated primarily in our established regions, increased 66% from $969,000 in 1998 to $1.6 million in 1999.

Gross Margin. Gross margin increased from $9.3 million in 1998 to $17.0 million in 1999. While gross margin increased in total, as a percentage of revenues it decreased from 67% to 56%. The increase in gross margin amounts resulted principally from significant revenue growth from established regions. The decline in gross margin percentages resulted from expansion of services in established regions, an increase in the number of emerging regions and lower gross margins in the newly acquired regions. Furthermore, our cost of revenues for the year ended December 31, 1999 includes purchase price amortization from the LeaseTrend, Jamison and ARES acquisitions of approximately $682,000.

Selling and Marketing Expenses. Selling and marketing expenses increased 174% from $7.2 million in 1998 to $19.9 million in 1999 and increased as a percentage of revenues from 52% in 1998 to 66% in 1999. Selling and marketing expenses increased as a result of the cost of the acquired sales organizations and purchase price amortization of an aggregate amount of approximately $1.6 million for the Jamison, LeaseTrend and ARES acquisitions for the year ended December 31, 1999. In addition, continued expansion of the sales organization and marketing efforts required for growth, particularly in emerging and acquired regions, including Phoenix, Houston, Denver, Florida and the Midwest, contributed to the increased expenses.

Software Development Expenses. Software development expenses increased 57% from $704,000 in 1998 to $1.1 million in 1999, but decreased as a percentage of revenues from 5% in 1998 to 4% in 1999. The increase in expenses reflects development costs for the expansion of services for emerging and established regions and new service initiatives.

General and Administrative Expenses. General and administrative expenses increased 132% from $4.9 million in 1998 to $11.4 million in 1999 and increased as a percentage of revenues from 35% in 1998 to 38% in 1999. General and administrative expenses increased due to the hiring of new employees to support the expanding scope of our operations and client base, as well as the increased administrative costs of a public company. Additionally, our general and administrative expenses include an aggregate amount of approximately $1.3 million of purchase price amortization from the LeaseTrend, Jamison and ARES acquisitions.

Other Income. Other income increased from $341,000 in 1998 to $3.1 million in 1999. This increase resulted from an increase in interest income due to our higher average cash balances in 1999, reflecting the net proceeds from our follow-on public offering in May 1999.

COMPARISON OF YEAR ENDED DECEMBER 31, 1998 AND YEAR ENDED DECEMBER 31, 1997

Revenues. Revenues grew 76% from $7.9 million in 1997 to $13.9 million in 1998. This increase resulted principally from growth in our client base in all regions we served, expansion into new regions, and expansion of our services in existing regions. Revenues from regions we considered established as of December 31, 1998 grew from $7.9 million in 1997 to $13.1 million in 1998, an increase of 66%. During 1998, we also expanded into Houston, Sacramento, Phoenix, and San Diego. Our advertising revenues, which we generated primarily in our established regions, increased 139% from $405,000 in 1997 to $969,000 in 1998.

Gross Margin. Gross margin increased from $4.5 million in 1997 to $9.3 million in 1998. This increase represented an improvement from 57% to 67% of revenues. The increase resulted principally in established regions, where revenue growth exceeded the growth of cost of revenues, which remained relatively constant.

Selling and Marketing Expenses. Selling and marketing expenses increased 66% from $4.4 million in 1997 to $7.2 million in 1998, but decreased as a percentage of revenues from 55% in 1997 to 52% in 1998. Selling and marketing expenses increased as we expanded our sales organization into new regions and began to enhance our selling and marketing capabilities on a national basis. Selling expenses declined as a percent of revenues due to sales growth during the year and the growing renewable contract base.

General and Administrative Expenses. General and administrative expenses increased 63% from $3.0 million in 1997 to $4.9 million in 1998, but decreased as a percentage of revenues from 38% in 1997 to 35% in 1998. General and administrative expenses increased because we hired new employees to support our expanding organization and client base, and also in response to increases in our occupancy and communication costs. General and administrative expenses decreased as a percentage of revenues due to the continued leveraging of corporate overhead costs over a larger organization with an expanding client base.

Other Income. Other income increased from $33,000 in 1997 to $341,000 in 1998. This increase resulted from an increase in interest income due to our higher average cash balances in 1998, reflecting the net proceeds from our initial public offering in July 1998.

CONSOLIDATED QUARTERLY RESULTS OF OPERATIONS

The following tables summarize our consolidated results of operations on a quarterly basis for the indicated periods:

	1998				1999			
	MAR. 31	JUNE 30	SEPT. 30	DEC. 31	MAR. 31	JUNE 30	SEPT. 30	DEC. 31
	(IN THOUSANDS)							
Revenues	$2,839	$ 3,254	$3,659	$ 4,148	$ 6,127	$ 7,178	$ 8,021	$ 8,908
Cost of revenues	904	968	1,248	1,442	2 594	3,068	3,616	3,965
Gross margin	1,935	2,286	2,411	2,706	3,533	4,110	4,405	4,943
Operating expenses	2,281	2,492	3,650	4,442	5,759	7,352	8,898	10,364
Loss from operations	(346)	(206)	(1,239)	(1,736)	(2,226)	(3,242)	(4,493)	(5,421)
Other income (expense), net	(38)	(40)	202	218	62	616	1,234	1,193
Net loss	$ (384)	$ (246)	$(1,037)	$(1,518)	$(2,164)	$(2,626)	$(3,259)	$(4,228)

	1998				1999			
	MAR. 31	JUNE 30	SEPT. 30	DEC. 31	MAR. 31	JUNE 30	SEPT. 30	DEC. 31
	(AS A PERCENTAGE OF TOTAL REVENUE)							
Revenues	100%	100%	100%	100%	100%	100%	100%	100%
Cost of revenues	32	30	34	35	42	43	45	45
Gross margin	68	70	66	65	58	57	55	55
Operating expenses	81	77	100	107	94	102	111	116
Loss from operations	(13)	(7)	(34)	(42)	(36)	(45)	(56)	(61)
Other income (expense), net	1	0	6	5	1	9	15	13
Net loss	(14)%	(7)%	(28)%	(37)%	(35)%	(36)%	(41)%	(48)%

LEASETREND, INC. ACQUISITION

On January 8, 1999, the Company acquired all of the common stock of LeaseTrend, Inc., a Cincinnati based provider of commercial real estate information, for approximately $4.5 million in cash and 566,671 shares of the Company's common stock. The transaction was accounted for as a purchase and the consideration was valued for accounting purposes at approximately $9.2 million including acquisition expenses.

JAMISON RESEARCH, INC. ACQUISITION

On January 22, 1999, the Company acquired all of the common stock of Jamison Research, Inc., an Atlanta based provider of commercial real estate information, for approximately $5.3 million in cash and 446,637 shares of the Company's common stock. The transaction was accounted for as a purchase and the consideration was valued for accounting purposes at approximately $10.3 million including acquisition expenses.

ARES DEVELOPMENT GROUP, LLC ACQUISITION

On September 15, 1999, the Company acquired all of the membership interests of ARES Development Group, LLC, Los Angeles based developers and distributors of ARES for ACT!, for $250,000 in cash and 33,208 shares of the Company's common stock. The transaction was accounted for as a purchase and the consideration was valued for accounting purposes at approximately $1,265,000 including acquisition expenses. In addition, the acquisition agreement provides for $1,000,000 of additional consideration (in a combination of cash and stock) that may be paid by the Company upon the achievement of certain operating goals by the members of ARES. In February 2000, we issued 2,140 shares of our common stock and paid $437,500 in cash to the members of ARES for the achievement of the first of the operating goals by the members of ARES.

COMPS.COM, INC. ACQUISITION

On February 10, 2000, CoStar completed the acquisition of Comps under a merger agreement, dated as of November 3, 1999, among Costar, Comps and Acq Sub, Inc. ("Acq Sub"), a wholly-owned subsidiary of CoStar. Comps' primary asset is a database of commercial real estate sales information. In connection with the transaction, Comps was merged with and into Acq Sub, which was the surviving corporation in the merger. Immediately after the merger, Acq Sub changed its name to Comps, Inc. The merger agreement provided for each share of Comps common stock to receive either $7.50 in cash or 0.31496 shares of CoStar common stock, subject to adjustment to ensure that 50.1% of the Comps shares received Costar common stock and 49.9% of the Comps shares received cash. The aggregate consideration included:

- $49,015,905 in cash paid to former holders of Comps common stock (excluding cash paid for fractional shares); and

- 2,258,738 shares of CoStar common stock (including shares issued to former warrantholders of Comps).

Comps reported a cash and short term investment balance of approximately $49.5 million at September 30, 1999, which resulted from its initial public offering in May 1999. Comps also reported long term debt of approximately $3.8 million at September 30, 1999. Although Comps was experiencing operating losses and negative cash flow from operations, the remaining cash and short term investments at the closing date significantly offset the overall cash consideration for the purchase of Comps by the Company. The cash portion of the purchase price was obtained by CoStar from the proceeds from the sale of its common stock in a public offering in May 1999. We will make significant investments to integrate Comps into our organization, including costs to:

- upgrade computer systems;
- establish network connections;
- convert database structures;
- train personnel; and
- migrate Comps clients to our services.

We are taking steps to reduce the operating losses and negative cash flow of our Comps subsidiary, but we expect these losses and negative cash flow to continue throughout the year 2000. Additionally, CoStar will experience significant charges to operations for the amortization of intangible assets resulting from the acquisition. These assets will be amortized over lives of two to ten years.

LIQUIDITY AND CAPITAL RESOURCES

Our cash and cash equivalents balance was $94,074,127 at December 31, 1999, an increase of $74,407,240 from $19,666,887 at December 31, 1998. This increase was due principally to the $97.4 million in proceeds from the follow-on public offering, which was offset by cash used for the acquisitions of LeaseTrend and Jamison in January 1999 and ARES in September 1999, cash used in operating activities, $4,520,375 in purchases of property and equipment and $1,589,060 in purchased building photography. During the year ended December 31, 1999, we financed our operations and growth through cash flow from the established regions and the proceeds of the public offerings. Net cash used in operations for the year ended December 31, 1999 was $7,476,662 compared to net cash used in operating activities of $293,426 for the year ended December 31, 1998. This was a direct result of expenditures required for the expansion in the emerging and acquired regions. We continue to experience overall operating losses as a result of our recent expansion into emerging and acquired regions, while established regions continue to generate substantial cash flow from operations.

Net cash used in investing activities amounted to $16,456,157 for the year ended December 31, 1999, including $9,736,950 (net of acquired cash) for the acquisition of LeaseTrend, Jamison and ARES. Additional investing activities included capitalized product development costs, purchased building photography, and purchase of property and equipment, consisting principally of computer and office equipment. As a result of our expansion, we have entered into numerous operating leases for office space throughout the country, including CoStar's and Comps' headquarters, and have commitments for rent payments ranging from $2,435,563 to $4,133,782 annually over the next ten years. Other than such leases and related commitments for leasehold improvements, we currently have no material commitments for capital expenditures.

To date, we have grown in part by acquiring other companies, and we may continue to make acquisitions. Our acquisitions may vary in size and could be material to our current operations. We expect to use cash, stock, or other means of funding to make these acquisitions.

We expect to incur significantly higher costs, particularly as we introduce new and upgraded services, expand geographically, and develop the infrastructure to support the expanding organization and client base. Based on current plans, we believe that our available cash combined with positive cash flow from our established regions should be sufficient to fund our operations for at least the next two years.

Through September 30, 1998, we operated as either a Subchapter S corporation or a limited partnership, and we were not subject to corporate income taxes. After September 30, 1998, we became a taxable entity. Although we have experienced losses to date, future profits, to the extent not offset by the benefits of loss carryforwards, would result in income tax liabilities. We do not expect to benefit substantially from tax loss carryforwards generated prior to July 1998. Further, the reversal of deferred taxes of approximately $7.0 million at December 31, 1999, recorded in connection with the purchase of acquired intangibles, will result in a non-cash income tax benefit in future periods.

We do not believe the impact of inflation has significantly affected our operations.

YEAR 2000

We are not aware of any Year 2000 issues that have affected our business. The amounts that we expended in connection with Year 2000 compliance were not significant, as we undertook most of our activities in the normal course of business. We estimate, however, that we spent approximately $1 million in 1999 in connection with Year 2000 compliance.

It is possible that the Company's computerized systems could be affected in the future by the Year 2000 issue. The Company has numerous computerized interfaces with third parties that are possibly vulnerable to failure if those third parties have not adequately addressed their Year 2000 issues. System failures resulting from these issues could cause disruption to the Company's operations.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

We have made forward-looking statements in this Report that are subject to risks and uncertainties. Forward-looking statements include information that is not purely historic fact, including statements concerning the financial outlook for 2000 and estimates for the future, our possible or assumed future results of operations generally, new products and services that we expect

to release, and other statements and information more specifically regarding assumptions about our earnings per share, capital and other expenditures, financing plans, cash flow, capital structure, pending legal proceedings and claims, future economic performance, operating income, management's plans, goals and objectives for future operations and growth and markets for stock. The sections of this Report, which contain forward-looking statements, include "Business", "Properties", "Legal Proceedings" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Our forward-looking statements are also identified by words such as "believes," "expects," "anticipates," "intends," "estimates" or similar expressions. You should understand that these forward-looking statements are necessarily estimates reflecting our judgment, not guarantees of future performance. They are subject to a number of assumptions, risks and uncertainties that could cause actual results to differ materially from those expressed or implied in the forward-looking statements. You should understand that the following important factors, in addition to those discussed in "Risk Factors", could affect the our future results and could cause those results or other outcomes to differ materially from those expressed or implied in our forward-looking statements: competition and technological innovation by competitors; sensitivity to general economic conditions and events that affect commercial real estate in particular; business combinations and strategic alliances by other industry participants; growth in commerce conducted over the Internet; changes in relationships with real estate brokers and other strategic partners; and legal and regulatory issues.

Accordingly, you should not place undue reliance on forward-looking statements, which speak only as of the date of this Report. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We do not undertake any obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date of this Report or to reflect the occurrence of unanticipated events.

RISK FACTORS

Our future profitability is uncertain due to our continuing operating losses. We have never recorded an overall operating profit because the investment required for geographic expansion and new services has exceeded the profits generated in our established markets. We intend to continue to invest in expansion and new services and will therefore sustain substantial losses for at least the next two years. Our ability to earn a profit will largely depend on our ability to generate profits from services that exceed our investment in geographic expansion and new services. We may not be able to generate revenues sufficient to earn a profit, to maintain profits on a quarterly or annual basis, or to sustain or increase our future revenue growth.

Our operating results may fluctuate significantly. Our revenues and operating results may fluctuate with general economic conditions and also for many other reasons, such as: our investments in geographic expansion; the timing of new service introductions and enhancements; the success of new products; the timing of investing the net proceeds from our offerings; acquisitions of other companies or assets; sales and marketing promotional activities; loss of clients or revenues due to consolidation in the real estate industry; changes in client budgets; or our investments in other corporate resources.

We may not achieve the cost savings and sales enhancements that we expect to result from the integration of CoStar and Comps. The merger between CoStar and Comps may not be successful unless we realize significant cost savings and increased sales. Our success in realizing these cost savings and increased sales, and the timing of this realization, depend on the quality and speed of the integration of CoStar and Comps. We have established an integration team that has identified specific areas for cost savings and is continuing to plan the coordination of the two companies. However, we may not realize the cost savings and sales enhancements that we anticipate from integrating operations following completion of the merger as fully or as quickly as we expect for a number of reasons, including: errors in planning or integration; delays in implementing the integration plan; and unexpected events such as major changes in the markets in which we operate.

We may not be able to successfully introduce new products, including our CoStar Exchange product. Our future business and financial success will depend on our ability to continue to introduce new products into the marketplace. Developing new products, such as CoStar Exchange, imposes heavy burdens on our systems development department, product managers, management and researchers. In addition, successfully launching and selling a new product, such as CoStar Exchange, puts pressure on our sales and marketing resources. If we are unable to develop new products, such as CoStar Exchange, then our customers may choose a competitive service over ours and our business may be adversely affected. In addition, if we incur significant costs in developing new products, such as CoStar Exchange, or are not successful in marketing and selling these new products, it could have a material adverse effect on our results of operations.

We may not be able to complete successfully our planned expansion. Our future business and financial success will

depend on our ability to continue to expand our services and the areas where we do business. These expansion efforts must occur while information technology is rapidly changing. These efforts impose additional burdens on our research, systems development, sales, and general managerial resources. We may not be able to manage this growth successfully. The continued expansion effort on which our future growth depends has inherent risks, such as the following: any new or enhanced services we develop might not meet the increasingly sophisticated needs of our current or potential clients; we might not succeed in developing new or enhanced services; and we might not succeed in entering new geographical markets.

If we are unable to maintain the integrity and reliability of our data, our business could be harmed. Our success depends on our clients' confidence in the comprehensiveness, accuracy, and reliability of the data we provide. We believe that we take adequate precautions to safeguard the completeness and accuracy of our data and that the information is generally current, comprehensive, and accurate. But the task of establishing and maintaining this quality while we grow is challenging. We cannot guarantee that we can sustain those efforts. If we cannot maintain the quality of our data, we could experience reduced demand for our services and could be exposed to lawsuits claiming damages resulting from inaccurate data.

We may not be able to adapt to the rapid technological changes to the Internet and Internet products. To be successful, we must adapt to the rapid technological changes to the Internet and Internet products by continually enhancing our Web site and introducing and integrating new services and products to capitalize on the technological advances in the Internet. Although in the next year we expect to migrate all of our information products to a web-based platform, this process is costly and we cannot assure you that we will be able to successfully integrate our services and products with the Internet's technological advances. The collection, storage, management and dissemination of commercial real estate information from a centralized database on the Internet is a recent and evolving development. Our market is characterized by rapidly changing technologies, evolving industry standards, increasingly sophisticated customer needs and frequent new product introductions. These factors are exacerbated by the rapid technological change experienced in the computer and software industries. We could incur substantial costs if we need to modify our services or infrastructure in order to adapt to these changes. If we incurred significant costs without adequate results or we are unable to adapt to rapid technological changes, it could have a material adverse effect on our business.

Our increasing use of the Internet and the World Wide Web exposes us to regulatory and other uncertainties. Most of our clients currently receive their CoStar data via the Internet. We are in the process of making substantially all our services accessible through a standard Web-browser format. This exposes us to various uncertainties arising from the future course of development of the Internet and the World Wide Web. Governments in the United States and abroad might adopt laws or regulations applicable to Internet commerce that could harm our business by, for example, regulating our transmissions over the Internet or exposing our business to new taxes in various jurisdictions. User concerns about the privacy and security of Internet-distributed communications might impede the growth of our business. We may need to expend substantial resources to protect against security breaches on our Web site or in our Internet communications.

We cannot assure you that our Internet products will achieve market acceptance. We intend to continue to increase our reliance on the Internet for delivery of our services and products. As a result, our future profitability will increasingly rely upon the use of our information services and transaction support products on the Internet. Our ability to obtain market acceptance for our Internet products will depend on the following factors: our ability to transition our customers from the use of our services and products on CD-ROM to the use of these services and products on the Internet in a timely and efficient manner; our customers acceptance of, and their ability to adapt to the use of, our existing and future services and products on the Internet; and our ability to anticipate and adapt to the changing Internet market. If our Internet-based information services or transaction support products are not received favorably by our current customers, their use of our other products may be negatively affected or cause new customers to choose a competitive service over ours.

Unsatisfactory Internet performance, interruption or failure could have an adverse effect on our business. Our business increasingly depends upon the satisfactory performance, reliability and availability of our Web site, the Internet and the World Wide Web. Problems with the Internet or Web may impede the development of our business for a number of reasons. If the number of Internet users or their use of Internet resources continues to grow, we may overwhelm the existing Internet infrastructure. Growth in Internet usage that is not matched by comparable growth of the infrastructure supporting the Internet could result in slower response time, cause outright failure of the Internet, or otherwise adversely affect usage.

We may be subject to legal liability for displaying or distributing information on the Internet. Because the content in our database is distributed to others, we may be subject to claims for defamation, negligence or copyright or trademark infringement or claims based on other theories. These types of claims have been brought, sometimes successfully, against Internet services in the past. We could also be subject to claims based upon the content that is accessible from our Web site through links to other Web sites or information on our Web site supplied by third parties. Our insurance may not adequately protect us against these

types of claims. Even to the extent these claims do not result in liability to us, we could incur significant costs in investigating and defending against any claims. Our potential liability for information distributed by us to others could require us to implement measures to reduce our exposure to liability, which may require the expenditure of substantial resources and limit the attractiveness of our service to users.

Temporary or permanent outages of our computers and software or telecommunications equipment could have an adverse effect on our business. Our operations depend on our ability to protect our database, computers and software, telecommunications equipment and facilities against damage from potential dangers such as fire, power loss, security breaches, and telecommunications failures. Any temporary or permanent loss of one or more of these systems or facilities from an accident, equipment malfunction or some other cause could harm our business. Our core computer services and networking equipment are located in a climate controlled, fire and security-protected central location. We keep off-site backup copies of all data contained in our database, maintain a back-up power supply and equipment, and stockpile spare parts. These measures may not, however, adequately protect our business.

We may be unable to enforce or defend our ownership and use of intellectual property. The success of our business depends in large part on the intellectual property involved in our methodologies, database and software. We rely on a combination of trade secret and copyright laws, nondisclosure and noncompetition provisions, license agreements and other contractual provisions and technical measures to protect our intellectual property rights. We cannot guarantee that we will always succeed in this effort. Our business could be significantly harmed if we do not succeed in protecting our intellectual property. The same would be true if a court should find that our services infringe other persons' intellectual property rights. Any intellectual property lawsuits in which we might become involved, either as a plaintiff, such as in the LoopNet lawsuit, or as a defendant, could cost us much time and money.

International expansion may result in new business risks. If we expand internationally, this expansion could subject us to new business risks, including: adapting to the differing business practices and laws in foreign commercial real estate markets; difficulties in managing foreign operations; limited protection for intellectual property rights in some countries; difficulty in accounts receivable collection and longer collection periods; cost of enforcement of contractual obligations; impact of recessions in economies outside the United States; currency exchange rate fluctuations; and potentially adverse tax consequences.

Our business depends on retaining and attracting highly capable management and operating personnel. Our success depends in large part on our ability to retain and attract management and operating personnel, including our President and Chief Executive Officer, Andrew C. Florance. Our business requires highly skilled technical, sales, management, Web-development, marketing and research personnel, who are in high demand and are often subject to competing offers. Because we are expanding rapidly, we continue to need an increased number of management and support personnel. To retain and attract key personnel, we use various measures, including multi-year employment agreements containing confidentiality and non-competition agreements, a stock option plan, and incentive bonuses for key executive officers. We are the beneficiary of a key person life insurance policy on Mr. Florance. These measures may not be enough to retain and attract the personnel we needs or to offset the impact on our business of a loss of Mr. Florance or other key employees.

If we are unable to continue to develop our sales force, it could have a material adverse effect on our business. In order to support our growth, we need to substantially increase the size of our direct sales force. Our ability to increase our direct sales force involves a number of risks, including: the competition we face from other companies in hiring and retaining sales personnel; our ability to integrate and motivate additional sales and sales support personnel; our ability to manage a multi-location sales organization; and the length of time it takes new sales personnel to become productive.

Competition could render our services uncompetitive. The market for information systems and services in general is highly competitive and rapidly changing. We believe our proprietary database and content compete favorably with our competitors. However, many of our existing competitors, as well as a number of potential new competitors, may have longer operating histories in the Internet market, greater name recognition, larger customer bases, greater user traffic and greater financial, technical and marketing resources than us. Our competitors may be able to undertake more extensive marketing campaigns, adopt more aggressive pricing policies, make more attractive offers to potential employees, subscribers, distribution partners and content providers and may be able to respond more quickly to new or emerging technologies and changes in Internet user requirements.

Cyclical downturns and consolidation in the commercial real estate industry could have an adverse effect on our business. Our business depends on conditions in the commercial real estate industry, including businesses that supply or invest in that industry. Changes in the commercial real estate market may affect demand for our services. The traditional economic downturns

in the commercial real estate industry could harm our business. These changes could decrease renewal rates, which could have a material adverse impact on our operating results. Also, companies in this industry are consolidating, often in order to reduce expenses. Consolidation could reduce the number of our existing clients, reduce the size of our target market and increase our clients' bargaining power. Any of these factors could adversely affect our business.

If we do not generate sufficient cash flows from operations, we may need additional capital. To date, we have financed our operations through cash from profitable operations in our established markets, the sale of our stock and borrowing money. If we do not generate enough cash from operations to finance our business in the future, we will need to raise additional funds through public or private financing. Selling additional stock could dilute the equity interests of our stockholders. If we borrow money, we will have to pay interest and agree to restrictions that may limit our operating flexibility. We may not be able to obtain funds needed to finance our operations at all or may be able to obtain them only on unattractive terms.

Problems with our software could impair the use of our services. The software underlying our services is complex and may contain undetected errors. We have previously discovered errors in our proprietary software. Despite testing, we cannot be certain that errors will not be found in current versions, new versions or enhancements of that software. Any errors could result in adverse publicity, impaired use of our services, loss of revenues, cost increases and legal claims by customers. All these factors could seriously damage our business, operating results and financial condition.

Market volatility may have an adverse effect on our stock price. The trading price of our common stock has fluctuated widely in the past and, like most stocks, it will continue to fluctuate in the future. The price could fluctuate widely based on numerous factors, including: quarter-to-quarter variations in our operating results; changes in analysts' estimates of our earnings; announcements by us or our competitors of technological innovations or new services; general conditions in the commercial real estate industry; developments or disputes concerning copyrights or proprietary rights; regulatory developments; and economic or other factors. In addition, in recent years, the stock market in general, and the shares of Internet-related and other technology companies in particular, have experienced extreme price fluctuations. This volatility has had a substantial effect on the market prices of securities issued by many companies for reasons unrelated to the operating performance of the specific companies.

Stock ownership by executive officers and directors provides substantial influence over matters requiring a vote of stockholders. Our executive officers and directors, and entities affiliated with them, beneficially own a sufficient number of our outstanding common stock to exercise substantial influence over the election of directors and other matters requiring a vote of stockholders. This concentrated ownership might delay or prevent a change in control and may impede or prevent transactions in which stockholders might otherwise receive a premium for their shares.

Our charter documents contain provisions that could impede third party acquisitions. Our governing corporate documents contain provisions that could discourage potential takeover attempts and make attempts by our stockholders to change management more difficult. These provisions include: a requirement that stockholders give us advance notice of certain nominations for our board of directors and of new business for any stockholder meeting; a prohibition on stockholders' calling special meetings; and a prohibition on stockholder action by written consent. Our certificate of incorporation also allows our board of directors to issue up to two million shares of preferred stock and to fix the rights of those shares without a vote by the stockholders. The rights of holders of common stock may be harmed by the rights of the holders of this "blank check" preferred stock. If we issue any preferred stock, an outside party may find it more difficult to acquire a majority of our outstanding voting stock. In addition, we are subject to the anti-takeover provisions of Section 203 of the Delaware General Corporation Law. Applying these provisions could delay or prevent a change in control, which could adversely affect the market price of our common stock.

ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company does not have significant exposure to market risks associated with changes in interest rates related to its cash equivalent securities held as of December 31, 1999.

ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Financial Statements meeting the requirements of Regulation S-X are set forth beginning at page F-1. The Company is not subject to the provisions of Item 302 of Regulation S-K concerning supplementary financial data.

ITEM 9 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS, ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 10 DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item is incorporated by reference to the Company's Proxy Statement.

ITEM 11 EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to the Company's Proxy Statement.

ITEM 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item is incorporated by reference to the Company's Proxy Statement.

ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is incorporated by reference to the Company's Proxy Statement.

ITEM 14 EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a)(1) The following financial statements are filed as a part of this report:

CoStar Group, Inc. Consolidated Financial Statements

(a)(2) No financial statement schedules are required to be filed.

(a)(3) The documents required to be filed as exhibits to this Report under Item 601 of Regulation S-K are listed in the Exhibit Index included elsewhere in this report, which list is incorporated herein by reference.

(b) A current report on Form 8-K was filed by the Company on November 17, 1999 with respect to the entering into by the Company of a definitive agreement to acquire COMPS.COM, Inc.

A current report on Form 8-K was filed by the Company on February 25, 2000 with respect to the closing of the acquisition of COMPS.COM, Inc. by the Company.

SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Bethesda, State of Maryland, on the 27 day of March, 2000.

COSTAR GROUP, INC.

By: /s/

Andrew C. Florance
Chief Executive Officer and President

KNOW ALL PERSONS BY THESE PRESENTS, that each individual whose signature appears below constitutes and appoints Andrew C. Florance and Frank A. Carchedi power of substitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this report, and to file the same, with all exhibits thereto and to all documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to confirming all that said attorneys-in-fact and agents or any of them, or his or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed by the following persons in the capacities indicated on the dates indicate.

SIGNATURE	CAPACITY	DATE
/s/ Michael R. Klein	Chairman of the Board	March 27, 2000
/s/ Andrew C. Florance	Chief Executive Officer and President, and a Director (Principal Executive Officer)	March 27, 2000
/s/ Frank A. Carchedi	Chief Financial Officer (Chief Financial and Accounting Officer)	March 27, 2000
/s/ David Bonderman	Director	March 22, 2000
/s/ Warren H. Haber	Director	March 27, 2000
/s/ Josiah O. Low, III	Director	March 24, 2000
/s/ John Simon	Director	March 22, 2000

COSTAR GROUP, INC.
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COSTAR GROUP, INC.

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
CoStar Group, Inc.

We have audited the accompanying consolidated balance sheets of CoStar Group, Inc. as of December 31, 1998 and 1999, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of CoStar Group, Inc. at December 31, 1998 and 1999, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

/s/ ERNST & YOUNG LLP

McLean, Virginia
March 1, 2000

COSTAR GROUP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	YEAR ENDED DECEMBER 31,		
	1997	1998	1999
Revenues	$ 7,899,940	$13,900,165	$ 30,234,213
Cost of revenues	3,412,593	4,561,619	13,243,813
Gross margin	4,487,347	9,338,546	16,990,400
Operating expenses:			
Selling and marketing	4,373,914	7,240,442	19,869,331
Software development	395,077	704,194	1,108,197
General and administrative	3,017,439	4,919,976	11,395,735
	7,786,430	12,864,612	32,373,263
Loss from operations	(3,299,083)	(3,526,066)	(15,382,863)
Other income (expense):			
Interest expense	(26,421)	(119,716)	--
Interest income	48,743	460,369	3,106,190
Other income	11,215	--	--
Net loss	$(3,265,546)	$(3,185,413)	$(12,276,673)
Net loss per share - basic and diluted	$ (0.57)	$ (0.44)	$ (1.05)
Weighted average common shares	5,722,432	7,213,037	11,726,589

See accompanying notes.

COSTAR GROUP, INC.
CONSOLIDATED BALANCE SHEETS

	DECEMBER 31, 1998	DECEMBER 31, 1999
ASSETS		
Current assets:		
Cash and cash equivalents	$ 19,666,887	$ 94,074,127
Accounts receivable, less allowance for doubtful accounts of approximately $326,000 and $756,000 as of December 31, 19998 and 1999	1,245,579	2,840,912
Prepaid expenses and other current assets	325,629	2,458,092
Total current assets	21,238,095	99,373,131
Property and equipment:		
Leasehold improvements	125,895	326,147
Furniture, office equipment and research vehicles	1,031,332	3,386,947
Computer hardware and software	2,228,166	4,545,714
	3,385,393	8,258,808
Accumulated depreciation	(1,228,465)	(2,376,996)
	2,156,928	5,881,812
Intangible and other assets	3,954,529	31,222,190
Deposits	192,060	427,649
Total assets	$ 27,541,612	$136,904,782
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 800,941	$ 1,842,442
Accrued wages and commissions	1,077,952	2,555,639
Accrued expenses	812,250	3,186,141
Deferred revenue	1,647,165	2,635,311
Total current liabilities	4,338,308	10,219,533
Deferred taxes	--	6,988,446
Stockholders' equity:		
Preferred stock, $.01 par value, 2,000,000 shares authorized, none outstanding	--	--
Common stock, $.01 par value; 30,000,000 shares authorized; 8,771,027 and 12,967,275 issued and outstanding as of December 31, 1998 and 1999	87,710	129,673
Additional paid-in capital	37,727,345	146,455,554
Retained deficit	(14,611,751)	(26,888,424)
Total stockholders' equity	23,203,304	119,696,803
Total liabilities and stockholders' equity	$ 27,541,612	$136,904,782

See accompanying notes.

COSTAR GROUP, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	RETAINED DEFICIT	TOTAL STOCKHOLDERS' EQUITY
	SHARES	AMOUNT			
Balance at December 31, 1996....	5,644,519	$ 56,445	$ 13,773,994	$ (8,160,792)	$ 5,669,647
Stock issued for acquisition.....	44,571	446	205,494		205,940
Stock issued for compensation.....	64,927	649	299,351	--	300,000
Reduction of note receivable from stockholder.....	--	--	7,458	--	7,458
Net loss.....	--	--	--	(3,265,546)	(3,265,546)
Balance at December 31, 1997....	5,754,017	57,540	14,286,297	(11,426,338)	2,917,499
Exercise of stock options.....	48,480	485	79,515	--	80,000
Stock issued for initial public offering.....	2,875,000	28,750	22,708,689	--	22,737,439
Stock issued for acquisition.....	93,530	935	584,398	--	585,333
Warrants.....	--	--	50,000	--	50,000
Reduction of note receivable from stockholder.....	--	--	18,446	--	18,446
Net loss.....	--	--	--	(3,185,413)	(3,185,413)
Balance at December 31, 1998....	8,771,027	87,710	37,727,345	(14,611,751)	23,203,304
Exercise of stock options.....	121,907	1,219	927,447	--	928,666
Stock issued for follow-on public offering.....	3,019,495	30,195	97,381,198	--	97,411,393
Stock issued for acquisitions.....	1,046,516	10,466	10,325,271	--	10,335,737
Stock issued for compensation.	8,330	83	74,887	--	74,970
Reduction of note receivable from stockholder.....	--	--	19,406	--	19,406
Net loss.....	--	--	--	(12,276,673)	(12,276,673)
Balance at December 31, 1999....	12,967,275	$129,673	$146,455,554	$(26,888,424)	$119,696,803

See accompanying notes.

COSTAR GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31,		
	1997	1998	1999
Operating activities:			
Net loss	$(3,265,546)	$(3,185,413)	$(12,276,673)
Adjustments to reconcile net loss to net cash provided by (used in) in operating activities:			
Depreciation	353,333	428,702	1,148,531
Amortization	487,144	705,806	3,705,238
Provision for losses on accounts receivable	61,343	174,720	430,140
Non-cash compensation charges	157,459	68,446	19,406
Changes in operating assets and liabilities:			
Accounts receivable	(217,153)	(398,955)	(1,949,794)
Prepaid expenses and other current assets	29,838	(323,405)	(2,057,418)
Deposits	(6,691)	(87,550)	(230,493)
Accounts payable and accrued expenses	230,530	1,579,633	3,773,811
Deferred revenue	(66,668)	744,590	(39,410)
Net cash used in operating activities	(2,236,411)	(293,426)	(7,476,662)
Investing activities:			
Purchases of property and equipment, net	(522,592)	(1,283,666)	(4,520,375)
Other assets	(600,670)	(985,262)	(2,198,832)
Acquisitions, net of acquired cash	(547,859)	(7,033)	(9,736,950)
Net cash used in investing activities	(1,671,121)	(2,275,961)	(16,456,157)
Financing activities:			
Proceeds from (payment of) line of credit	1,000,000	(1,000,000)	--
Proceeds from (payment of) subordinated debt to stockholder	650,000	(650,000)	--
Net proceeds from public offerings	--	22,737,439	97,411,393
Net proceeds from exercise of stock options	--	80,000	928,666
Net cash provided by financing activities	1,650,000	21,167,439	98,340,059
Net (decrease) increase in cash and cash equivalents	(2,257,532)	18,598,052	74,407,240
Cash and cash equivalents at beginning of year	3,326,367	1,068,835	19,666,887
Cash and cash equivalents at end of year	$ 1,068,835	$19,666,887	$94,074,127

See accompanying notes.

COSTAR GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION

CoStar Group, Inc. (the "Company") has created a comprehensive, proprietary, national database of commercial real estate information for metropolitan areas throughout the United States. Based on its unique database, the Company provides information to the commercial real estate and related business community and operates within one reportable business segment. The information is distributed to its clients under license agreements, which are typically one to three years in duration.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

CoStar Group, Inc. is a Delaware corporation and was incorporated in February 1998 to succeed its predecessors, Realty Information Group L.P. ("RIGLP") and OLD RIG, Inc. ("RIGINC"). RIGLP was an operating entity, while RIGINC was a shell holding entity. In connection with the Company's Initial Public Offering on July 1, 1998 ("the Offering"), RIGLP and RIGINC merged with the Company pursuant to the RIG Contribution Agreement dated March 5, 1998. The limited partners of RIGLP (other than RIGINC) and all of the stockholders of RIGINC received 3.03 shares of Common Stock of the Company per each limited partnership unit or share of common stock exchanged, for a total of 5,754,017 shares. As a result of the reorganization of these entities, the Company owned (directly or indirectly) all of the capital stock of RIGINC and all the equity of RIGLP.

The merger has been accounted for as a reorganization of entities under common control similar to a pooling of interests. Following the merger, each shareholder of the Company maintained their exact same ownership of the operating entity, RIGLP, as before the merger. The transfer of assets and liabilities of RIGLP and RIGINC have been recorded at the historical carrying values. The financial statements are presented as if the Company was in existence throughout all periods presented, as one operating entity. All share amounts have been restated to reflect the conversion of partnership units to common stock of the Company. On January 1, 1999, RIGLP and RIGINC were merged into a newly formed corporation, CoStar Realty Information, Inc. ("CoStar Realty"), a wholly owned subsidiary of the Company.

Additionally, the consolidated financial statements of the Company include the accounts of New Market Systems ("NMS") acquired on March 1, 1997, C Data Services, Inc. ("CDS") acquired on August 14, 1998, LeaseTrend, Inc. ("LeaseTrend") acquired on January 8, 1999, Jamison Research, Inc. ("Jamison") acquired on January 22, 1999, and ARES Development Group, LLC ("ARES") acquired on September 15, 1999. CDS was merged into CoStar Realty on January 1, 1999, and LeaseTrend and Jamison were merged into CoStar Realty on December 31, 1999.

CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its subsidiaries after elimination of all significant intercompany transactions.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.

REVENUE RECOGNITION

Revenue from the sale of licenses is recognized on a straight-line basis over the term of the license, which is typically from one to three years.

During 1998 and 1999, the Company recognized revenue in accordance with Statement of Position No. 97-2, "Software Revenue Recognition," ("SOP 97-2"). Prior to 1998, the Company recognized revenues in accordance with Statement of Position No. 91-1, "Software Revenue Recognition."

SIGNIFICANT CUSTOMERS

No single customer accounted for more than 5% of our revenues as of December 31, 1999. The Company operates solely within one business segment.

COMPREHENSIVE INCOME (LOSS)

For the years ended December 31, 1997, 1998 and 1999, the Company's net income (loss) reflects comprehensive income (loss) and accordingly, no additional disclosure is presented.

ADVERTISING COSTS

The Company expenses advertising as incurred. Advertising expense was $398,700, $904,600, and $1,332,000 for the years ended December 31, 1997, 1998, and 1999, respectively.

INCOME TAXES

Through June 30, 1998, the Company operated as a partnership for federal income tax purposes under which income, losses, deductions and credits were allocated to and reported by the partners on their individual income tax returns. Accordingly, no provision for income tax was recorded in the financial statements. In connection with the Company's initial public offering, the partnership became part of the Company and its taxable income (loss) flowed through to the Company. Had the Company operated as a C-Corporation for the years ended December 31, 1996, 1997 and 1998, there would be no income taxes recorded as a result of the losses for the periods. Commencing in 1998, the Company provides for income taxes under the provisions of Statement of Financial Accounting Standards No. 109 ("FAS 109"). Deferred income taxes result from temporary differences between the tax basis of assets and liabilities and the basis reported in the consolidated financial statements.

STOCK-BASED COMPENSATION

The Company accounts for its stock-based compensation in accordance with APB No. 25, "Accounting for Stock Issued to Employees" ("APB 25") using the intrinsic value method. Stock-based compensation related to options granted to non-employees is accounted for using the fair value method in accordance with the Statement of Financial Accounting Standard No. 123 "Accounting for Stock-Based Compensation" ("FAS 123"). The Company has made pro forma disclosures required by FAS 123 for all options granted.

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents consist of money market fund investments and United States Government Securities, substantially all of which are held with one institution. At December 31, 1998, cash of $100,000 and $500,000 was held in escrow accounts under the conditions of a data licensing agreement and the LeaseTrend acquisition agreement, respectively. Both amounts were paid out of escrow in 1999.

CONCENTRATION OF CREDIT RISK AND FINANCIAL INSTRUMENTS

The Company performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral. The Company maintains reserves for credit losses, and such losses have been within management's expectations. The credit risk in accounts receivable is mitigated by the large and widespread customer base and lack of dependence on individual customers. The carrying amount of the accounts receivable approximates their net realizable value. The carrying value of the Company's financial instruments including cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and notes payable approximates fair value.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Depreciation and amortization are calculated on the straight-line method over the following estimated useful lives of the assets:

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

CAPITALIZED PRODUCT DEVELOPMENT COSTS

Initial costs to develop and produce the Company's database and software products, including direct labor, contractors and applicable overhead are capitalized from the time technological feasibility is determined until initial product release. Prior to technological feasibility, such costs are classified as software development and expensed as incurred. Ongoing significant enhancements of the product are capitalized subsequent to initial product release. Amortization of capitalized costs is based on the greater of the amount computed using (a) the ratio of current gross revenues to the sum of current and anticipated gross revenues, or (b) the straight-line method over the remaining estimated economic life of the product, typically five years after initial product release. Included in amortization is approximately $122,000, $160,000 and $219,000 of expense related to the capitalized product development costs for the years ended December 31, 1997, 1998 and 1999, respectively.

INTANGIBLE AND OTHER ASSETS

Goodwill and other intangibles represent the unamortized excess of the cost of acquiring subsidiary companies over the fair value of such companies' net tangible assets at the dates of acquisition. Goodwill, acquired technology, and customer base, which are related to the Company's acquisitions as described in Note 3, are being amortized on a straight-line basis over periods ranging from two to ten years. The cost of photography is amortized on a straight line basis over five years.

LONG-LIVED ASSETS

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be disposed of", management periodically reviews, if impairment indicators exist, the carrying value and lives of long-lived assets. For long-lived assets to be held and used, the Company bases its evaluation on such impairment indicators as the nature of the assets, the future economic benefit of the assets, as well as other external market conditions or factors that may be present. If such impairment indicators are present or other factors exist that indicate that the carrying amount of the asset may not be recoverable, the Company determines whether an impairment has occurred through the use of an undiscounted cash flows analysis of assets a the lowest level for which identifiable cash flows exist. If impairment has occurred, the Company recognizes a loss for the difference between the carrying amount and the estimated value of the asset. The fair value of the asset is measured using discounted cash flow analysis or other valuation techniques. In addition, the Company evaluates the recoverability of enterprise goodwill by assessing whether the book value can be recovered through expected and undiscounted cash flows.

NET LOSS PER SHARE

Basic loss per share is based on the weighted average shares outstanding during the period. The calculation of diluted loss per share increases the shares used in the calculation by the dilutive effects of options, unvested common stock, warrants, and convertible securities. The Company's common stock equivalent shares outstanding from stock options, unvested common stock, warrants and convertible securities are excluded from the diluted loss per share computation, as their effect is antidilutive.

3. ACQUISITIONS

On March 1, 1997, the Company acquired 99.3% of the outstanding shares of New Market Systems, Inc., a California corporation, through the exchange of 44,571 shares of common stock and payment of $550,000 in cash. The Company valued the shares of common stock at $206,000 which the company estimates as the fair market value of its common stock on the acquisition date.

On August 14, 1998, the Company acquired Houston-based commercial real estate information provider, C Data Services, Inc. CDS was acquired in a transaction in which the former stockholders of CDS received 93,530 shares of common stock of the Company and approximately $9,000 in cash. The transaction was accounted for as a purchase and the consideration was valued for accounting purposes at approximately $617,000 including acquisition expenses.

On January 8, 1999, the Company acquired all of the common stock of LeaseTrend, Inc., a Cincinnati based provider of commercial real estate information, for $4,500,000 in cash and 566,671 shares of the Company's common stock. The transaction was accounted for as a purchase and the consideration was valued for accounting purposes at approximately $9,200,000 including acquisition expenses.

On January 22, 1999, the Company acquired all of the common stock of Jamison Research, Inc., an Atlanta based provider of commercial real estate information, for $5,284,000 in cash and 446,637 shares of the Company's common stock. The transaction was accounted for as a purchase and the consideration was valued for accounting purposes at approximately $10,300,000 including acquisition expenses.

On September 15, 1999, the Company acquired all of the membership interests of ARES Development Group, LLC, Los Angeles based developers and distributors of ARES for ACT!, for $250,000 in cash and 33,208 shares of the Company's common stock. The transaction was accounted for as a purchase and the consideration

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

3. ACQUISITIONS (CONTINUED)

was valued for accounting purposes at approximately $1,265,000 including acquisition expenses. In addition, the acquisition agreement provides for $1,000,000 of additional consideration (in a combination of cash and stock) that may be paid by the Company upon the achievement of certain operating goals by the members of ARES. In February 2000, the Company issued 2,140 shares of its common stock and paid $437,500 in cash to the members of ARES for the achievement of the first operating goal by the members of ARES.

The operations of all acquired businesses were included in the Company's statement of operations after the respective date of acquisitions. Except for the portion of the purchase price of acquisitions acquired with cash, these transactions have been excluded from the statements of cash flows.

The Company's unaudited pro forma condensed consolidated statements of operations for the year ended December 31, 1998 and 1999, assuming the acquisition of CDS, LeaseTrend, Jamison and ARES had been consummated as of January 1 of each period, is summarized as follows:

	For the Year Ended December 31,	
	1998	1999
Revenues	$ 22,635,000	$ 30,989,000
Net loss	$ (7,148,000)	$(12,694,000)
Weighted average shares	8,260,000	11,787,000
Net loss per share - basic and diluted	$ (0.87)	$ (1.08)

4. INTANGIBLES AND OTHER ASSETS

Intangibles and other assets consists of the following:

	December 31, 1998	December 31, 1999
Capitalized product development costs	$ 947,243	$ 1,435,116
Accumulated amortization	(397,302)	(616,641)
	549,941	818,475
Building photography	1,528,678	3,117,738
Acquired technology	-	3,552,000
Customer base	1,791,920	19,347,326
Goodwill	1,203,438	9,893,421
Accumulated amortization	(1,119,448)	(5,506,770)
	3,404,588	30,403,715
Intangible and other assets	$ 3,954,529	$ 31,222,190

5. LINE OF CREDIT

In October 1997, the Company entered into a line of credit agreement with Silicon Valley East (a Division of Silicon Valley Bank), and renewed the line in October 1998. The line provided for a total of $5,000,000 in borrowing bearing an interest rate at the bank's prime rate plus 1%. At December 31, 1998, no borrowings were outstanding under the line, and the line expired in October 1999. Interest paid in 1997, 1998, and 1999 totaled $17,760, $63,263, and $0 respectively.

6. RELATED PARTY TRANSACTIONS

During 1997, the general partner of RIGLP obtained a commitment from a partner for an additional $1,000,000 of subordinated, unsecured credit, bearing interest at a rate equal to that of the line of credit. In connection with the commitment, the individual contributing partner received warrants for the purchase of 45,450 shares of Common Stock. The warrants had a two-year term beyond the Company's initial public offering and provided for the purchase of an equivalent number of shares at a price of 10% less than the price of the stock sold in the initial public offering ($9.00 per share). These warrants were exercised in total in February 2000. At December 31, 1998 and 1999, no borrowings were outstanding under the commitment. Interest paid in 1998 and 1999 totaled $28,235 and $0 respectively.

Commencing in May 1995 the Company agreed to pay an investor $10,000 per month and the Chairman of the Company $6,667 per month for consulting services. During 1997 and 1998, the Company incurred fees of approximately $200,000 and $82,912, respectively, related to such consulting services. These agreements were terminated in connection with the Company's initial public offering.

7. INCOME TAXES

The Company accounts for taxes under Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes (SFAS 109). Under SFAS 109, deferred tax liabilities and assets are determined based on the difference between financial statement and tax basis of assets and liabilities using enacted rates expected to be in effect during the year in which the differences reverse. Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and tax purposes. Through June 30, 1998 the Company operated as a partnership for federal income tax purposes. The Company paid no income taxes in 1998 or 1999.

	DECEMBER 31, 1998	DECEMBER 31, 1999
Deferred tax assets:		
Reserve for bad debts	$ 125,000	$ 292,000
Accrued compensation	414,000	486,600
Net operating losses	927,000	5,658,500
Other liabilities	51,000	561,000
Total deferred tax assets	1,517,000	6,998,100
Deferred tax liabilities:		
Depreciation	(299,000)	(291,000)
Product development costs	(260,000)	(337,000)
Identified intangibles associated with purchase accounting	--	(6,988,000)
Total deferred tax liabilities	(559,000)	(7,616,000)
Net deferred tax liability	958,000	(617,900)
Valuation allowance	(958,000)	(6,370,100)
Net deferred taxes	$ --	$(6,988,000)

7. INCOME TAXES (CONTINUED)

A valuation allowance has been established against the related net deferred tax assets (exclusive of deferred tax liabilities associated with purchase accounting) due to the uncertainty of realization. The Company's change in valuation allowance amounted to $958,000 and $5,277,000 during the years ended December 31, 1998 and 1999, respectively, primarily due to an increase in net operating losses.

The Company's provision for income taxes resulted in effective tax rates that varied from the statutory federal income tax rate as follows:

	DECEMBER 31, 1998	DECEMBER 31, 1999
Expected federal income tax provision (benefit) at 34%.....	$ (1,083,000)	(4,174,000)
State income taxes, net of federal benefit.....	(147,000)	(567,200)
Change in valuation allowance.....	958,000	5,277,100
Expenses not deductible for tax purposes.....	277,000	(535,900)
Other.....	(5,000)	--
	$ --	$ --

At December 31, 1999, the Company had net operating loss carryforwards for federal income tax purposes of approximately $14,555,000 which expire, if unused, from the year 2010 through the year 2019. The tax benefit of approximately $2.0 million of net operating losses related to stock options will be credited to equity when the benefit is realized through utilization of the net operating loss carryforwards.

During 1999, the Company made acquisitions reported using the purchase method of accounting. These acquisitions included identified intangible assets, which in accordance with FAS 109, required deferred taxes and related goodwill to be recorded. At December 31, 1999, the amount of the deferred taxes and related unamortized goodwill was approximately $6,988,000. The deferred taxes will reverse over the life of the identified intangible assets and related goodwill. During the year ended December 31, 1999, the reversal of the deferred tax benefit of approximately $901,000 has been reported with the related goodwill amortization in the same amount under general and administrative expenses.

8. COMMITMENTS

The Company leases office facilities and office equipment under various noncancelable operating leases. The leases contain various renewal options. Rent expense for the years ended December 31, 1997, 1998, and 1999 was approximately $766,000, $1,031,000, and $2,440,000, respectively.

Future minimum lease payments as of December 31, 1999 are as follows:

2000	$3,492,000
2001	3,126,000
2002	2,901,000
2003	2,644,000
2004 and thereafter	15,696,000
	$27,859,000

9. SALES OF COMMON STOCK

In May 1997, the Company issued 65,000 shares of common stock valued at $300,000 to provide compensation to an officer, $150,000 of which had been accrued at December 31, 1996.

On July 1, 1998, the Company completed an Initial Public Offering of 2,500,000 shares of common stock for $9.00 per share, and on August 9, 1998, the Company's underwriter exercised its over-allotment option to purchase an additional 375,000 shares of common stock (together, the "IPO"). Total proceeds of the IPO including shares issued pursuant to the over-allotment option were $22,737,000, after deducting underwriting discounts and commissions of $1,811,000 and offering expenses of $1,326,000. The Company repaid the amount owed on its line of credit and subordinated debt to stockholder, for a total $1,650,000, out of the proceeds of the IPO.

On May 10, 1999, the Company completed a Follow-On Public Offering of 3,019,495 shares of common stock (including the over-allotment option)(the "Follow-On Offering") for $34.50 per share. Total proceeds of the Follow-On Offering were $97,411,393, after deducting underwriting discounts and commissions and offering expenses of $1,024,144.

10. NET LOSS PER SHARE

The following table sets forth the computation of basic and diluted net loss per share:

	YEARS ENDED DECEMBER 31,		
	1997	1998	1999
Numerator:			
Net loss	$(3,265,546)	$(3,185,413)	$(12,276,673)
Denominator:			
Denominator for basic earnings per share -- weighted-average shares	5,722,432	7,213,037	11,726,589
Effect of dilutive securities:			
Dilutive potential common shares	--	--	--
Denominator for diluted earnings per share -- adjusted weighted-average shares	5,722,432	7,213,037	11,726,589
Basic and diluted net loss per share	$ (0.57)	$ (0.44)	$ (1.05)

The weighted average number of shares does not include stock options and warrants outstanding of 398,384, 922,944 and 1,352,142 as of December 1997, 1998 and 1999, respectively, as their effect would be anti-dilutive for the periods presented.

11. EMPLOYEE BENEFIT PLANS

Option Plan

In March 1996 RIGLP adopted the 1996 Option and Purchase Plan (the "1996 Plan"), under which 606,000 shares of Common Stock were reserved for issuance upon the exercise of options granted to officers, executive personnel, directors and key employees. Certain options previously granted were included in the 1996 Plan. In connection with the IPO, all of the options granted under the 1996 Plan were replaced with options under the 1998 Plan (as defined below).

In June 1998 the Company's Board of Directors adopted the Stock Incentive Plan (the "1998 Plan") prior to consummation of the IPO. The 1998 Plan provides for the grant of stock options to officers, directors and employees of the Company and its subsidiaries. Options granted under the 1998 Plan may be incentive or non-qualified stock options. The exercise price for a stock option may not be less than the fair market value of the Company's Common Stock on the date of grant. Stock options granted under the 1998 Plan may not be transferred other than by will or by the laws of descent and distribution. Upon the occurrence of a Change of Control, as defined in the 1998 Plan, all outstanding unexercisable options under the 1998 Plan immediately become exercisable. The Company has reserved 2,050,000 shares of Common Stock for issuance under the 1998 Plan. Unless terminated sooner by the Board of Directors, the 1998 Plan will terminate in 2008.

Option activity was as follows:

	NUMBER OF SHARES	PRICE PER SHARE	WEIGHTED-AVERAGE EXERCISE PRICE
Outstanding at December 31, 1996	343,844		$3.19
Granted	69,690	$4.07-$ 4.62	$4.38
Exercised	--		
Canceled or expired	(15,150)	$3.45	$3.45
Outstanding at December 31, 1997	398,384		$3.39
Granted	540,900	$5.63-$13.75	$8.70
Exercised	(48,480)	$1.65	$1.65
Canceled or expired	(13,310)	$9.00	$9.00
Outstanding at December 31, 1998	877,494		$ 6.77
Granted	635,945	$9.00-$48.00	$27.17
Exercised	(121,907)	$5.63-$34.95	$ 7.62
Canceled or expired	(39,390)	$4.07-$48.00	$18.25
Outstanding at December 31, 1999	1,352,142		$15.95
Exercisable at December 31, 1999	531,530		$ 8.89
Exercisable at December 31, 1998	425,944		$ 6.77
Exercisable at December 31, 1997	249,299		$10.28

During 1996 the Company adopted the disclosure provisions of SFAS No. 123. Accordingly, no compensation cost has been recognized for the Plan. Had compensation expense related to the Plan been determined based on the fair value at the grant date for options granted consistent with the provisions of SFAS No. 123, Company's pro forma net loss and net loss per share would have been approximately $3,337,000, $3,912,000 and $16,824,000, and $0.58, $0.54 and $1.43 for the years ended December 31, 1997, 1998 and 1999, respectively. Such pro forma results are not representative of the effects on operations for future years.

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

11. EMPLOYEE BENEFIT PLANS (CONTINUED)

The weighted average fair value of options granted during 1997 was $3.36 using the minimum value option-pricing model with the following assumptions: dividend yield 0%, risk-free interest rate of 6.00%, and expected life of five years. The weighted average fair value of options granted during 1998 was $6.63 using the Black-Scholes option-pricing model with the following assumptions: dividend yield 0%, expected volatility of 94%, risk-free interest rate of 5.7%, and expected life of five years. The weighted average fair value of options granted during 1999 was $19.60 using the Black-Scholes option-pricing model with the following assumptions: dividend yield 0%, expected volatility of 90%, risk-free interest rate of 5.0%, and expected life of five years.

The following table summarizes information regarding options outstanding at December 31, 1999:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
EXERCISE PRICE	NUMBER OF SHARES	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE (IN YEARS)	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER OF SHARES	WEIGHTED-AVERAGE EXERCISE PRICE
$ 3.45 - $ 4.62	313,724	1.4	$ 3.61	292,513	$ 3.57
$ 5.63 - $ 7.44	10,003	8.7	6.63	3,334	6.63
$ 8.13 - $ 9.00	421,774	8.6	8.94	140,661	8.94
$10.06 - $14.50	61,895	9.0	14.19	9,105	14.28
$17.50 - $22.84	79,600	9.4	20.48	--	--
$23.00 - $25.00	89,196	9.5	23.57	--	--
$27.13 - $30.38	260,700	9.3	29.91	79,997	30.00
$31.50 - $37.63	88,750	9.6	34.37	6,250	37.00
$38.25 - $48.00	26,500	9.5	43.19	--	--
	1,352,142	7.3	15.95	531,860	8.89

Employee 401(k) Plan

The Company maintains a defined contribution retirement plan for all eligible employees. Effective January 1, 1997, the Company established a 401(k) Plan (the "401(k)") to provide retirement benefits for eligible employees. The 401(k) provides for tax deferred contributions of between l% and 15% of employees' salaries, limited to a maximum annual amount as established by the Internal Revenue Service. The Company matched 25% in 1997 and 1998, and 100% in 1999 of employee contributions up to a maximum of 6% of total compensation. Amounts contributed to the 401(k) by the Company to match employee contributions for the years ended December 31, 1997, 1998, and 1999 were approximately 28,000, $39,000 and $364,000, respectively.

12. SUBSEQUENT EVENTS

On February 10, 2000, the Company acquired all of the common stock of COMPS.COM, Inc., a San Diego based provider of commercial real estate information, for $49,015,905 in cash and 2,258,738 shares of the Company's Common Stock. The acquisition has been accounted for using purchase accounting and has been valued at approximately $102,000,000 for accounting purposes. The purchase price was allocated primarily to cash, acquired technology and other intangibles, which will be amortized over a period of 2 to 10 years.

The pro forma unaudited results of operations for the year ended December 31, 1999 assuming the purchase of COMPS.COM, Inc., had been consummated as of January 1, 1999 and as adjusted for the amortization of intangibles and the elimination of interest charges, would be as follows:

	1999
Revenues	$ 48,479,000
Net loss	$(35,777,000)
Net loss per share	$ (2.55)

INDEX TO EXHIBITS

EXHIBIT NO.	DESCRIPTION
2.1	Acquisition and Reorganization Agreement by and among CoStar Group, Inc. and LeaseTrend, Inc. and the Shareholders of LeaseTrend, Inc. dated January 8, 1999 (Incorporated by reference to Exhibit 2.1 to the report of the Registrant on Form 8-K (File No. 0-24531) filed with the Commission on January 22, 1999).
2.2	Agreement and Plan of Merger between LeaseTrend, Inc. and LTI Acquisition Corp., dated January 8, 1999 (Incorporated by reference to Exhibit 2.2 to the report of the Registration on Form 8-K (File No. 0-24531) filed with the Commission on January 22, 1999).
2.3	Agreement and Plan of Merger by and among CoStar Group, Inc., Jamison Research, Inc., Henry D. Jamison IV and Leslie Lees Jamison dated January 6, 1999 (Incorporated by reference to Exhibit 2.3 to the report of the Registrant on Form 8-K (File No. 0-24531) filed with the Commission on February 2, 1999).
2.4	Amendment to Agreement and Plan of Merger by and among CoStar Group, Inc., Jamison Research, Inc., Jamison Acquisition Corp., Henry D. Jamison IV and Leslie Lees Jamison dated January 14, 1999 (Incorporated by reference to Exhibit 2.4 to the report of the Registrant on Form 8-K (File No. 0-24531) filed with the Commission on February 2, 1999).
2.5	Agreement and Plan of Merger by and among CoStar Group, Inc., COMPS.COM, Inc., and Acq Sub, Inc., dated as of November 3, 1999 (Incorporated by reference to Exhibit 2.1 to the report of the Registrant on Form 8-K (File No. 0-24531) filed with the Commission on November 17, 1999).
3.1	Restated Certificate of Incorporation (Incorporated by reference to Exhibit 3.1 to Amendment No. 4 to the Registration Statement on Form S-1 of the Registrant (Reg. No. 333-47953) filed with the Commission on June 30, 1998 (the "1998 Form S-1").
3.2	Certificate of Amendment of Restated Certificate of Incorporation (Incorporated by reference to Exhibit 3.1 to the Company's 10-Q dated June 30, 1999).
3.3	Amended and Restated By-Laws (Incorporated by reference to Exhibit 3.2 to the 1998 Form S-1).
4.1	Specimen Common Stock Certificate (filed herewith).
*10.1	CoStar Group, Inc. 1998 Stock Incentive Plan, as amended (Incorporated by reference to Exhibit 10.1 to the Company's 10-Q dated September 30, 1999).
*10.2	Employment Agreement for Andrew C. Florance (Incorporated by reference to Exhibit 10.2 to the 1998 Form S-1).
*10.3	Employment Agreement for Frank A. Carchedi (Incorporated by reference to Exhibit 10.3 to the 1998 Form S-1).
*10.4	Employment Agreement for David M. Schaffel (Incorporated by reference to Exhibit 10.4 to the 1998 Form S-1).
*10.5	Employment Agreement for Curtis M. Ricketts (Incorporated by reference to Exhibit 10.5 to the 1998 Form S-1).
*10.6	Employment Agreement for Fred A. Heitzman III (Incorporated by reference to Exhibit 10.6 to the Registration Statement of the Registrant on Form S-1 (Reg. No. 333-74953) filed with the Commission on March 24, 1999).
10.7	Registration Rights Agreement (Incorporated by reference to Exhibit 10.7 to the 1998 Form S-1).
10.8	Office Lease dated August 12, 1999 between CoStar Realty Information, Inc. and Newlands Building Ventures, LLC (Incorporated by reference to Exhibit 10.2 to the Company's 10-Q dated September 30, 1999).

10.9 Office Building Lease, dated January 31, 1999, between Comps, Inc. and Comps Plaza Associates, L.P. (Incorporated by reference to Exhibit 10.14 to the Registration Statement of Comps on Form S-1 (Reg. No. 333-72901) filed with the Commission on April 5, 1999 (the "Comps Form S-1")).

10.10 First Amendment to Lease, dated March 22, 1999, between Comps, Inc. and Comps Plaza Associates, L.P. (Incorporated by reference to Exhibit 10.14.1 to the Comps Form S-1).

10.11 Sublease Agreement, dated June 28, 1999, between Comps, Inc. and Pulse Engineering, Inc. (filed herewith).

21.1. Subsidiaries of the Company (filed herewith).

23.1 Consent of Independent Auditors (filed herewith).

24.1 Powers of Attorney (Included in the Signature Pages to the Report).

27 Financial Data Schedule (filed herewith).

* Management Contract or Compensatory Plan or Arrangement

EXHIBIT 4.1

[FORM OF FRONT OF CERTIFICATE]

COMMON STOCK

See Reverse for Certain Definitions
CUSIP 22160N 109

This certifies that _____ is the owner of_____ fully paid and non-assessable shares of Common Stock, $.01 par value, of

COSTAR GROUP, INC.

transferable on the books of the Corporation by the holder hereof in person or by a duly authorized Attorney upon surrender of this Certificate properly endorsed. This Certificate is not valid until countersigned and registered by the Transfer Agent and Registrar.

Witness the facsimile seal of the Corporation and the facsimile signatures of the duly authorized officers.

Dated:

/s/ Carla J. Garrett
Secretary

/s/ Andrew C. Florance
Chief Executive Officer and President

Countersigned and Registered: American Stock Transfer & Trust Company
Transfer Agent and Registrar
/s/ Authorized Signature

[FORM OF BACK OF CERTIFICATE]

COSTAR GROUP, INC.

The Corporation will furnish without charge to each stockholder who so requests, a statement of the powers, designations, preferences and relative, participating, optional or other special rights of each class or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

The following abbreviations, when used in the inscription on the face of this certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM -- as tenants in common
TEN ENT -- as tenants by the entireties
JT TEN -- as joint tenants with right of survivorship and not as tenants in common

UNIF GIFT MIN ACT--_____Custodian_____
(Cust) (Minor)

under Uniform Gifts to Minors Act_____
(State)

Additional abbreviations may also be used though not in the above list.

For value received, _____ hereby sell, assign and transfer unto

PLEASE INSERT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER OF ASSIGNEE

- ----------

- ----------
(PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS, INCLUDING ZIP CODE OF ASSIGNEE)

_____shares of the capital stock represented by the within Certificate, and do hereby irrevocably constitute and appoint _____ Attorney to transfer the said stock on the books of the within named Corporation with full power of substitution in the premises.

Dated,

- ----------
NOTICE: The signature to this assignment must correspond with the name as written upon the face of the certificate in every particular, without alteration or enlargement, or any change whatever.

SIGNATURE(S) GUARANTEED:_____
The signature(s) should be guaranteed by an eligible guarantor institution (Banks, stockbrokers, savings and loan associations and credit unions with membership in an approved signature guarantee Medallion program), pursuant to S.E.C. Rule 17Ad-15.

EXHIBIT 10.11

SUBLEASE AGREEMENT

THIS SUBLEASE ("SUBLEASE") is made as of the 28th day of June, 1999, by and between PULSE ENGINEERING, INC., successor by merger to Valor Electronics, Inc. ("SUBLESSOR"), and COMPS.COM, INC. ("SUBLESSEE").

BACKGROUND

A. Pursuant to that certain Lease for Business Grove Office Building dated April 1, 1992 (the "LEASE"), as modified by that certain Agreement to Extend Lease dated November 25, 1996 (the "AGREEMENT TO EXTEND LEASE") between AmberJack Ltd. as General Partner for Business Grove Jack, Limited Partnership, successor-in-title to State Farm Life Insurance Company, ("PRIME LESSOR"), as lessor, and Sublessor, as lessee (the Lease and Agreement to Extend Lease are collectively referred to herein as the "PRIME LEASE"), Prime Lessor leased and demised to Sublessor certain premises consisting of approximately 40,075 rentable square feet situate in the City of San Diego, County of San Diego, State of California, commonly known as 9715 Business Park Avenue, San Diego, California 92131, as more fully described on Exhibit A to the Prime Lease (the "LEASED PREMISES," sometimes referred to herein as the "SUBLET PREMISES").

B. Sublessor wishes to sublease all of the Leased Premises to Sublessee and Sublessee wishes to sublease all of the Leased Premises from Sublessor under the terms and subject to the conditions hereinafter set forth.

NOW, THEREFORE, for and in consideration of the foregoing Background and the mutual covenants, promises, and agreements herein contained, the parties hereto, intending to be legally bound hereby, covenant and agree as follows:

1. DEMISE AND PREMISES. Sublessor hereby grants and demises to Sublessee, and Sublessee hereby accepts from Sublessor, subject to the terms and conditions of this Sublease and the Prime Lease, for the period set forth in Section 2 below, the Leased Premises, comprising approximately 40,075 square feet of space, as more particularly described on Exhibit A to the Prime Lease (hereinafter, the "SUBLET PREMISES"), together with the non-exclusive right to use the parking and driveway areas available to Sublessor under the Prime Lease and all common facilities, if any, available to Sublessor under the Prime Lease, in common with Prime Lessor, and other tenants of Prime Lessor, and their invitees, licensees, employees, officers, servants, contractors and visitors.

2. SUBLEASE TERM. The term of this Sublease (the "SUBLEASE TERM") shall commence on the date Sublessor has received both the consent of the Prime Lessor to this Sublease and the Letter of Credit (hereinafter defined) (the "COMMENCEMENT DATE") and end on August 31, 2002 (the "SUBLEASE EXPIRATION DATE"). If the Commencement Date has not occurred on or before July 1, 1999, Sublessor or Sublessee may, in its sole discretion, terminate this Sublease without liability; provided, however, that Sublessee may not terminate this Sublease

if the reason the Commencement Date has not occurred on or before July 1, 1999 is due to the fact that Sublessee has failed to deliver the Letter of Credit to Sublessor. Notwithstanding the foregoing, if Prime Lessor fails to grant its consent to this Sublease, this Sublease shall automatically become null and void as of the date of Prime Lessor's refusal to consent to this Sublease, and neither party hereto shall have any liability to the other thereafter. Notwithstanding anything in this Sublease to the contrary, in the event the Prime Lease is terminated for any reason, this Sublease Agreement shall also terminate as of the date of termination of the Prime Lease. Sublessor shall have no liability to Sublessee due to the termination of this Sublease Agreement as a result of the termination of the Prime Lease, provided Sublessor is not in default of its obligation to pay Rent (hereinafter defined) as provided in the Prime Lease or does not otherwise cause a default which results in the termination of the Prime Lease. Notwithstanding any contained in the Prime Lease or this Sublease to the contrary, Sublessee shall have no right or option to extend the term of this Sublease beyond the expiration or sooner termination of the Sublease Term.

3. BASE RENT. Commencing on the Rent Commencement Date (hereinafter defined), Sublessee shall pay to Sublessor the base monthly rent due under this Sublease (the "FIXED RENT") as follows:

(a) $34,063.75 per month for the period from the Rent Commencement Date through July 15, 2000.

(b) $35,255.98 per month for the period July 16, 2000 through July 15, 2001.

(c) $36,489.94 per month for the period from July 16, 2001 through July 15, 2002.

(d) $37,767.09 per month for the period from July 16, 2002 through August 31, 2002.

Fixed Rent shall be payable in monthly installments in advance during the Sublease Term on the first day of each month, commencing on the Rent Commencement Date. In the event the Rent Commencement Date is a day other than the first day of a calendar month, Sublessee shall pay to Sublessor, on or before the Rent Commencement Date, a pro rata portion of the monthly installment of Fixed Rent, such pro rata portion to be based on the number of days remaining in such partial month after the Rent Commencement Date. As used herein, the term "RENT COMMENCEMENT DATE" shall mean that date occurring three (3) weeks after the Commencement Date.

4. ADDITIONAL RENT. Sublessee shall pay as Rent in addition to the Fixed Rent (the "ADDITIONAL RENT") any other sums payable by Sublessor to Prime Lessor under the Prime Lease. Additional Rent shall be payable to Sublessor in accordance with the terms of the Prime Lease. As used herein, the term "Rent" shall mean and include Fixed Rent, Additional Rent and any other sums due hereunder or pursuant to the Prime Lease. All Rent shall be due and payable without prior notice, demand, deduction or offset. Notwithstanding the foregoing or any

other provision of this Sublease including, without limitation, Section 8, Sublessee shall, in no circumstances, be required to pay for and/or perform any of the following: (a) maintaining, repairing and/or replacing all or any portion of the roof, foundation, footings and structural elements/supports of the Sublet Premises or any sewer or utility lines, unless caused by Sublessor's negligence or willful misconduct; or (b) more than $5,800.00 for each 12 months of the Sublease Term (which such amount shall be prorated to the extent that the Sublease Term contains any partial years) for any maintenance, repair or replacement of the HVAC system servicing the Sublet Premises including Sublessor's obligations under any HVAC maintenance and/or repair contracts concerning the Sublet Premises. Sublessor shall, at its sole cost and expense, pay for such items not paid by Sublessee to the extent Sublessor agreed to pay for such items under the Prime Lease. On or before the Rent Commencement Date, Sublessor shall pay for the roof maintenance/repair specified in the estimate dated April 27, 1999 prepared by Goldstar Roofing and for the HVAC maintenance/repairs specified in the system evaluation prepared by Jackson and Blanc dated May 20, 1999; provided, however, that such HVAC and roof maintenance/repairs may be performed by any qualified person or company of Sublessor's choosing. In addition, Sublessor agrees to complete any repairs reasonably required for the parking lot, including, a slurry coat to the parking lot of the Sublet Premises, and to restrip the same on or before the Rent Commencement Date. Thereafter, Sublessee shall be responsible for maintaining and repairing the parking lot of the Sublet Premises at its own cost and expense. All rent shall be due and payable without prior notice, demand, deduction or offset.

5. INTEREST ON OVERDUE PAYMENTS. In the event that Sublessee shall fail to pay any installment of Fixed Rent or Additional Rent or any other sum due hereunder or pursuant to the Prime Lease within five (5) days of the date when due, Sublessee shall pay Sublessor interest at a variable rate equal to the Bank of America's prime commercial rate as adopted from time to time plus two percent (2%) (but in no event greater that the maximum interest rate allowed under applicable law). The parties agree that the payment of such interest represents the liability that Sublessor will incur to Prime Lessor by reason of the late payment by Sublessee, and is therefore not a penalty.

6. USE. Sublessee shall use and occupy the Sublet Premises for the uses permitted under the Prime Lease, and for no other purpose.

7. ACCESS TO SUBLET PREMISES. During the period of time from the date hereof until the Commencement Date, Sublessee shall be granted access to the Sublet Premises to inspect and measure the Sublet Premises. Notwithstanding the foregoing, the Sublet Premises shall not be deemed delivered to Sublessee, and Sublessee shall not be deemed in possession of the Sublet Premises until the Commencement Date.

8. APPLICATION OF PRIME LEASE. Except as otherwise provided in this Sublease, or except to the extent inconsistent herewith, Sublessee shall faithfully perform with respect to the Sublet Premises all of the covenants, conditions and agreements undertaken by or required of the lessee under the Prime Lease, and Sublessor shall have with respect to such covenants, conditions and agreements the rights of the lessor under the Prime Lease (except for the rights set forth in Section 21.2 of the Prime Lease which such rights shall be held by Prime Lessor only), both as fully as if those provisions were set forth herein in their entirety. All

provisions of the Prime Lease shall apply to this Sublease unless specifically excluded or modified by this Agreement. Sublessor represents that it has delivered to Sublessee a true and complete copy of the Prime Lease to Sublessee, and Sublessee acknowledges receipt of a copy of the Prime Lease from Sublessor, which such copy is attached hereto as Exhibit A. Notwithstanding the foregoing, the parties hereto acknowledge as follows:

(a) the following sections of the Prime Lease shall not be incorporated within this Sublease: Sections 1.3 (first sentence only), 2.1, 2.2, 4.2, 4.3, 22, 24.20 and 24.21;

(b) the following exhibits to the Prime Lease shall not be incorporated into this Sublease: Exhibits C, G and H; and

(c) the following sections from the Agreement to Extend Lease shall not be incorporated into this Sublease: 3 and 6.

9. INDEMNIFICATION OF SUBLESSOR. To the extent permitted by law, Sublessee shall and does hereby indemnify Sublessor as a result of or arising out of Sublessee's breach of this Sublease or the Prime Lease and agrees to save Sublessor harmless and, at Sublessor's option, defend Sublessor from and against any and all claims, actions, damages, liabilities and expenses (including reasonable attorneys' and consultants' fees) judgments, settlement payments, and fines paid, incurred or suffered by Sublessor as a result of or arising out of Sublessee's breach of this Sublease or the Prime Lease, violations of any law or in connection with loss of life, personal injury and/or damage to the property or environment suffered by third parties arising from or out of the occupancy or use by Sublessee of the Sublet Premises or any part thereof occasioned wholly or in part by any act or omission of Sublessee, its officers, agents, contractors, employees or invitees (each a "SUBLESSEE PARTY" and collectively, the "SUBLESSEE PARTIES"), or arising directly or indirectly, wholly or in part, from any conduct, activity, act, omission or operation by any Sublessee Party involving the use, handling, generation, treatment, storage, disposal, other management or Release (hereinafter defined) of any substance or material defined or designated as hazardous or toxic, or other similar term, by any present or future local, state or federal environmental statute, regulation or ordinance, in, from or to the Sublet Premises, whether or not Sublessee may have acted negligently with respect to such substance or material. Sublessee's obligations pursuant to this Section shall survive any termination of this Sublease with respect to any act, omission, or occurrence which took place prior to such termination. As used in this Section, the term "RELEASE" shall have the meaning ascribed to such term in the Federal Comprehensive Environmental Response, Compensation and Liability Act, (42 U.S.C. Section 6901 et seq. ("CERCLA").

10. SERVICE. Sublessee has reviewed the provisions of the Prime Lease concerning the obligation of the Prime Lessor to supply building services to the Sublet Premises. Except as otherwise set forth in this Sublease (e.g., in Section 4), Sublessee agrees that Sublessor shall have no obligation to render or supply any services or repairs to Sublessee or the Sublet Premises (including, without limitation, (i) the furnishing of electrical energy, heat, ventilation, water, air conditioning, elevator service (other than Sublessor's obligation to deliver the Sublet Premises to Sublessee on the Commencement Date with all building systems in good working order and condition), cleaning, window washing, or rubbish removal services, (ii) making any

alterations, repairs or restorations, (iii) complying with any laws or requirements of any governmental authorities (except to extent necessitated by a breach of Sublessor's representation and warranty set forth in Sections 1.3 and 3.4 of the Prime Lease), or (iv) taking any action that Prime Lessor has agreed to provide, make, comply with, take or cause to be provided, made, complied with or taken under the Prime Lease.

11. INSURANCE.

(a) Sublessee, at Sublessee's sole expense, shall maintain for the benefit of Sublessor and Prime Lessor such policies of insurance (and in such form) with respect to the Sublet Premises as are required by the Prime Lease, which policies shall be reasonably satisfactory to Sublessor as to coverage and insurer, shall be maintained as a primary policies, and shall extend to and cover the acts and omission of Sublessee, and anyone acting by, through or under Sublessee notwithstanding anything contained in the Prime Lease to the contrary. Each policy of insurance required under this paragraph shall name Sublessor and Prime Lessor each as an additional insured. Sublessee shall provide Sublessor with certificates of insurance evidencing such policies and that Sublessor has been named as an additional insured as promptly as reasonably practical, but in no event later than thirty (30) days after the execution of this Sublease, and copies of such policies upon Sublessor's request therefor. All insurance policies shall contain a provision and the certificate of insurance shall expressly state that the insurer will give to Prime Lessor and Sublessor and such other parties in interest at least thirty (30) days notice in writing in advance of any material change, cancellation, termination or lapse, or the effective date of any reduction in the amounts of insurance below the amounts specified herein.

(b) The parties hereto, by reason of its consent hereto, release each other and their respective agents, employees, successors and assigns from all liability for damage to any property that is caused by or results from a risk which is actually insured against or which would normally be covered by the standard form of "all risk" property insurance, without regard to the negligence or willful misconduct of the entity so released. Each party shall use its reasonable efforts to cause each insurance policy it obtains to provide that the insurer thereunder waives all right of recovery by way of subrogation as required herein in connection with any damage covered by the policy.

12. SUBLESSEE DEFAULTS. The occurrence of any of the following shall be a default under this Sublease:

(a) Sublessee shall fail to pay in full when due any and all installments of Rent or any other charge agreed to be paid by Sublessee, and such non-payment continues for a period of seven (7) days after the date such payment is due; or

(b) Sublessee violates or fails to perform any term, covenant, condition or agreement herein contained or provided for in the Prime Lease or this Sublease and such failure continues for a period of fifteen (15) days after written notice thereof is given to Sublessee. If the default is of such a nature that it cannot be completely remedied within the fifteen (15) day period, this provision shall be complied with if Sublessee begins correction of the default within the fifteen

(15) day period and thereafter proceeds with reasonable diligence and in good faith to effect the remedy as soon as practicable and to prosecute the same to completion; or

(c) Sublessee becomes insolvent or makes an assignment for the benefit of creditors, or if a petition in bankruptcy is filed by or against Sublessee, or a bill in equity or other proceeding for the appointment of a receiver for Sublessee is filed, or if proceedings for reorganization or for composition with creditors under any state or federal law be instituted by or against Sublessee, or if the subleasehold interest is levied on under execution; or

(d) The vacating or abandonment of the Sublet Premises by Sublessee, whether or not the Rent is paid.

13. SUBLESSOR REMEDIES. In the event of a default by Sublessee, and without any other action by Sublessor, and at Sublessor's option, Sublessor may exercise any and all remedies of the Prime Lessor under the Prime Lease. In addition to the foregoing, Sublessor may exercise any and all other rights or remedies, granted or allowed landlords by any existing or future statute or other law applicable in cases where a landlord seeks to enforce rights arising under a lease agreement against a tenant who has defaulted or otherwise breached the terms of such lease agreement; subject, however, to all of the rights granted or created by any such statute or other applicable law existing protection and benefit of tenants.

14. REMEDIES CUMULATIVE. All of the remedies hereinbefore given to Sublessor and all rights and remedies given to it by law and equity shall be cumulative and concurrent. Except as expressly provided herein and in the Prime Lease, no termination of this Sublease or the taking or recovering of the Sublet Premises shall deprive Sublessor of any of its remedies or actions against Sublessee for Rent due or other breach hereof at the time or which, under the terms hereof, would in the future become due as if there has been no termination, or for any and all sums due at the time or which, under the terms hereof, would in the future become due as if there had been no termination, nor shall the bringing of any action for rent or breach of any covenant, or the resort to any other remedy herein provided for the recovery of Rent or other breach be construed as a waiver of the right to obtain possession of the Sublet Premises.

15. NOTICES. All notices required hereunder shall be deemed to be given when hand delivered or one day after deposit with express overnight courier delivery, or three days after mailing by certified U.S. mail, return receipt requested, postage prepaid. Any notices to Sublessor shall be addressed as follows:

If to Sublessor:
Pulse Engineering, Inc.
12220 World Trade Drive
San Diego, CA 92128
Attention: Mr. Bill Turpin, Director of Facilities

with a copy to:

Ann Marie Janus, Esquire
Stradley, Ronon, Stevens & Young, LLP
2600 One Commerce Square
Philadelphia, PA 19103

If to Sublessee:

COMPS.COM, INC.
9888 Carroll Center Road, Suite 100
San Diego, CA 92126
Attn: Todd Thelen

16. ASSIGNMENT AND SUBLETTING. Sublessee may not voluntarily or by operation of law or otherwise, assign, transfer, mortgage, encumber or sublet or all or any portion of the Sublet Premises to any individual or entity without the prior written consent of Sublessor and Prime Lessor. Any attempted assignment, transfer, mortgage, encumbrance or subletting by Sublessee without such consent shall be void and shall constitute a breach of and default under this Sublease. Notwithstanding the foregoing, nothing in this Section shall impose upon Sublessor any obligation to obtain, beyond its reasonable efforts to do so, the consent of Prime Lessor or any other third party.

17. SUBLEASE CONTAINS ALL AGREEMENTS. It is expressly understood and agreed by and between the parties hereto that this Sublease (together with the Prime Lease) sets forth all the terms, conditions and agreements between Sublessor and Sublessee relative to the Sublet Premises, and that there are no promises, agreements, conditions or understandings, either oral or written, between them other than as are herein set forth. It is further understood and agreed that, except as herein otherwise provided, no subsequent alteration, amendment, change or addition to this Sublease shall be binding upon Sublessor or Sublessee unless reduced to a writing and signed by them.

18. SUCCESSORS AND ASSIGNEES. All rights and liabilities herein given to, or imposed upon, the respective parties hereto shall extend to and bind the several and respective successors and permitted assigns of said parties.

19. SECURITY DEPOSIT. Sublessee shall have no right, title or interest in or with respect to the security deposit, or any portion thereof, that is held by Prime Lessor.

20. LETTER OF CREDIT. Within ten (10) days of the date hereof, Sublessee shall provide Sublessor with an irrevocable standby letter of credit in the amount of $102,191.25 (the "Letter of Credit"), in form and substance reasonably acceptable to Sublessor, and which shall not expire until or shall be renewed beyond the later to occur of (i) sixty (60) days after the expiration or sooner termination of this Sublease or (ii) sixty (60) days after Sublessee shall have fully vacated the Sublet Premises, which Sublessor will hold as security for the faithful performance by Sublessee of all its covenants and agreements under this Sublease. Sublessor shall have the right,

but not the obligation, to apply the Letter of Credit against any Rents or other charges in arrears, or to repair damage to the Sublet Premises caused by Sublessee or Sublessee's employees, contractors, invitees or licensees, or on account of any other damages suffered by Sublessor as a result of Sublessee's default hereunder or to satisfy Sublessee's indemnification obligations hereunder. Sublessor's right to possession of the Sublet Premises or other remedies available on account of Sublessee's default or any other reason shall not be affected by the fact that Sublessor holds such Letter of Credit. If Sublessee shall fail to deliver the Letter of Credit as aforesaid, Sublessor shall have the right to terminate this Sublease immediately.

Sublessee may, from time to time, replace any existing Letter of Credit with a new Letter of Credit if the new Letter of Credit (a) becomes effective at least thirty (30) days before the termination or expiration of the Letter of Credit that it replaces; (b) is in the required amount; (c) is on the same terms and conditions as the Letter of Credit it replaces; (d) is issued by a bank having the same or better credit rating as the bank that issued the Letter of Credit it replaces and that is otherwise reasonably acceptable to Sublessor); (e) otherwise complies with the requirements of this Section 19; and (f) provided that Sublessee first obtains the prior written consent of Sublessor, which consent may be withheld in Sublessor's sole discretion.

21. TENANT IMPROVEMENT ALLOWANCE. Pursuant to Paragraph 4 to the Agreement to Extend Lease, Prime Lessor agreed to provide Sublessor with an allowance of up to $200,375.00 toward improvements to be made to the Premises at any time during the period from November 1, 1997 through April 30, 2001 (the "TENANT IMPROVEMENT ALLOWANCE"). Sublessor represents and warrants that it has (a) not used or expended any of the Tenant Improvement Allowance as of the date hereof and (b) no reason to believe that Prime Lessor will not provide the Tenant Improvement Allowance for the "tenant improvements" as defined in the Agreement to Extend Lease. Sublessor covenants that it will cooperate with Sublessee at Sublessee's sole cost and expense to ensure Prime Lessor's prompt release of the Tenant Improvement Allowance. Sublessee shall be entitled to the Tenant Improvement Allowance to the same extent as Sublessor under the Prime Lease and in the manner set forth in the Prime Lease, and Sublessor agrees to pay the Tenant Improvement Allowance to Sublessee in the amount and in the manner set forth in the Agreement to Extend Lease within five (5) business days of Sublessor's receipt of such funds from the Prime Lessor. Notwithstanding the foregoing, Sublessee agrees and acknowledges that Sublessor shall be permitted throughout the Sublease Term to use all or any part of the Tenant Improvement Allowance in the amount and in the manner set forth in the Agreement to Extend Lease. If Sublessee during the Sublease Term desires to make tenant improvements to the Sublet Premises and the cost of such improvements exceeds the remaining unused portion of the Tenant Improvement Allowance, Sublessor will pay to Sublessee an amount equal to the portion of the Tenant Improvement Allowance used by Sublessor upon the receipt of invoices for the tenant improvements, provided such tenant improvements constitute "tenant improvements" as defined in the Agreement to Extend Lease, Sublessee has furnished to Sublessor the same documents that are required under the Prime Lease in connection with any tenant improvements, and has obtained any and all necessary permits and/or approvals required under the Prime Lease. It is anticipated that Sublessee shall install or cause the following improvements to be made to the Sublet Premises: (a) recarpet the Sublet Premises, (b) repaint interior walls, (c) remove any interior non-

structural walls and repair ceiling tiles damaged due to wall removal, (d) reallocate air conditioning ducts and light fixtures due to the removal walls and (e) add to or modify the electrical and telecom systems (collectively, the "Tenant Improvements"). Notwithstanding the foregoing, Sublessee hereby agrees and acknowledges that Sublessor makes no representation or warranty that the Tenant Improvements constitute "tenant improvements" as defined in the Agreement to Extend Lease. Sublessee understands that all tenant improvements to the Sublet Premises must be approved by Prime Lessor prior to being made as provided in the Prime Lease.

22. EXPIRATION OF SUBLEASE TERM. In the event Sublessee desires to lease the Leased Premises after the expiration of the Sublease Term, Sublessor agrees that it shall, in good faith, and at Sublessee's expense, assist Sublessee in its negotiations with Prime Lessor and execution of a new lease with Prime Lessor. Notwithstanding the foregoing, nothing in this Section shall impose upon Sublessor any obligation to extend the Sublease Term.

23. CONDITION OF THE SUBLET PREMISES. Sublessee hereby acknowledges that Sublessee has examined the Sublet Premises and that they are in good and tenantable condition. Sublessor has let the Sublet Premises in their present condition, as hereinabove provided, and without any further improvements or alterations and without any representations on the part of the Sublessor, its officers, further, servants and/or agents.

24. SUBLESSOR'S DUTIES.

(a) The obligations of Prime Lessor under the Prime Lease shall remain the obligations of Prime Lessor, and shall not be considered the obligations or responsibility of Sublessor (except for the representations and obligations attendant thereto under Sections 1.3 and 3.4 of the Prime Lease). Sublessor shall fully perform all of its obligations under the Prime Lease to the extent Sublessee has not expressly agreed to perform such obligations under this Sublease. In the event, however, that Sublessor defaults in the performance or observance of any of Sublessor's remaining obligations under the Prime Lease as Tenant or fails to perform Sublessor s stated obligations under this Sublease (provided such failure to perform Sublessor's stated obligations under this Sublease is not the result of or caused by Prime Lessor's failure to perform Prime Lessor's stated obligations under the Prime Lease or due to Prime Lessor's default under the Prime Lease) or to enforce, for Sublessee's benefit, Prime Lessor's obligations under the Prime Lease, then Sublessee shall be entitled, following fifteen (15) days prior written notice of any such failure or default and the expiration of the thirty (30) day cure period, to cure such default and promptly collect from Sublessor, Sublessee's reasonable expenses in so doing (including, without limitation, reasonable attorneys' fees and costs). Sublessee shall not be required, however, to wait the entire applicable cure period if earlier action is required of Sublessee to comply with the Prime Lease or with any applicable law, regulation or governmental order.

(b) With respect to the obligations of Prime Lessor under the Prime Lease, Sublessor's only obligation shall be to use diligent, good faith efforts to cause Prime Lessor to perform such obligations for the benefit of Sublessee. Such diligent, good faith efforts shall include, without limitation: (i) upon Sublessee's written request, immediately notify Prime Lessor of its nonperformance under the Prime Lease and request that Prime Lessor perform its

obligations under the Prime Lease and (b) permitting Sublessee to commence a legal action in Sublessor's name to obtain the performance required from Prime Lessor under the Prime Lease; provided, however, that Sublessee shall pay all costs and expenses and any other liability incurred in connection therewith and Sublessee shall indemnify and hold Sublessor harmless against all reasonable costs and expenses incurred by Sublessor in connection therewith.

25. SUBORDINATION. This Sublease is subordinate and subject to any mortgages, ground leases and/or other encumbrances to the same extent, and on the same terms, as the Primer Lease is so subordinate and subject under the terms thereof. Sublessee agrees to execute such instruments and, upon the failure to do so, hereby appoints the Prime Lessor and/or Sublessor its attorney-in-fact to execute such instruments, on such terms as are described in paragraph 18 of the Prime Lease.

26. ALTERATIONS AND IMPROVEMENTS. Sublessee shall obtain Prime Lessor's prior written consent to any alterations or improvements to the Sublet Premises desired by Sublessee and all such alterations and improvements shall be done in strict accordance with Section 8 of the Prime Lease. Sublessee shall not permit any contractor, subcontractor or supplier performing any work on or supplying any materials to the Sublet Premises to file a mechanic's or materiaman's lien against the Sublet Premises; provided, however, that if any mechanic's or materiaman's lien is file against the Sublet Premises, Sublessee shall have sixty (60) days to remove any such lien, or such longer period as is reasonably necessary (provided that Sublessee contests such lien diligently and in good faith and such contest does not materially impair the value or utility of the Sublet Premises or the lien does not extend beyond the expiration or sooner termination of this Sublease). If Sublessee fails to remove any such lien from the Sublet Premises within the aforesaid period, the same shall constitute a default of this Sublease. Sublessee represents and warrants that it will obtain all required permits and approvals by all governmental and quasi-governmental authorities having jurisdiction over the Sublet Premises for alterations and improvements to the Sublet Premises. Sublessee shall require each contractor of Sublessee performing work on the Sublet Premises to carry and maintain, at no expense to Sublessor, insurance in a commercially reasonable form and amount for the work being done by such contractor.

27. SURRENDER OF THE SUBLET PREMISES. Upon the expiration or sooner termination of the Sublease, Sublessee shall adhere to the terms and conditions set forth in the Prime Lease concerning the condition of the Sublet Premises upon surrender. Sublessee shall not, however, be required to repair or restore the Sublet Premises to a condition better than the condition in which the Sublet Premises existed as of the Commencement Date, reasonable wear and tear excepted. In addition, Sublessee shall not be required to remove any alterations or improvements made by or for the account of Sublessor. If the Prime Lessor requires the removal of any alterations or improvements made by or for Sublessor, Sublessor shall, at its sole cost and expense, remove such alterations and improvements.

28. NON-DISTURBANCE AGREEMENT. Promptly after the execution of this Sublease, Sublessor will request that Prime Lessor obtain from all lessors under all ground leases, from all beneficiaries under all deeds of trust and all mortgagees under all mortgages affecting the Sublet Premises, at Sublessee's sole cost and expense, notarized non-disturbance agreements in

writing, in form and content reasonably acceptable to Sublessee, stating that so long as Tenant is not in default under any of the terms, covenants, conditions, or agreements of this Sublease, this Sublease and all of the terms, provisions, and conditions of this Lease, shall remain in full force and effect, and neither this Sublease, nor Sublessee's rights nor Sublessee's possession of the Sublet Premises will be disturbed during the Sublease Term or any extension thereof. Notwithstanding the foregoing, Sublessor shall have no obligation, beyond its reasonable efforts to do so, to obtain such non-disturbance agreement on Sublessee's behalf.

29. INDEMNIFICATION OF SUBLESSEE. Sublessor agrees to comply with all of the obligations of the Tenant under the Prime Lease to the extent such obligations are not assumed by Sublessee, if any, and to hold Sublessee harmless from all claims, costs, liabilities and damages arising out of Sublessor's or Sublessor's agents', employees' or contractors' (a) failure to comply with or perform such obligations, (b) breach of any provision of this Sublease, (c) gross negligence or willful misconduct or (d) violation of law.

30. DAMAGE TO CABLES AND PIPES. Sublessor shall not be responsible or liable to Sublessee, or to those claiming by, through or under Sublessee, for any loss or damage resulting to Sublessee, or to those claiming by, through or under Sublessee, or its or their property, from the breaking, bursting, stoppage or leakage of electrical cable wires, gas, sewer, water or steam pipes unless such loss or damage is caused by the willful misconduct of Sublessor or Sublessor's agents, employees or contractors or unless Sublessor is made aware of any condition which results in any of the aforementioned loss or damage which it willfully neglects to repair or replace (to the extent it is obligated to do so). To the maximum extent permitted by law, Sublessee agrees to use and occupy the Sublet Premises at Sublessee's own risk.

31. HVAC MAINTENANCE. Sublessor shall keep the HVAC system under an annual maintenance contract with a qualified person or company of its choosing throughout the Sublease Term. Sublessee hereby agrees that it shall be responsible for one half of the cost of such annual maintenance contract, and agrees that it shall pay, as Additional Rent, its share of any cost associated with such annual maintenance contract within five (5) days of the presentation of an invoice therefor.

32. PRIME LESSOR'S APPROVAL. This Sublease and Sublessor's liability hereunder are subject to Prime Lessor's consent hereto, as required under paragraph 14 of the Prime Lease, and this Sublease shall be null and void, and Sublessor shall have no liability to Sublessee whatsoever, should Prime Lessor fail to give such consent to this Sublease.

33. SURVIVAL. Should any portion of this Sublease be found to be unenforceable, this Sublease shall continue in full force and effect, without giving regard to such unenforceable provision.

34. COUNTERPARTS. This Sublease may be signed by the parties in two or more counterparts, each of which shall be deemed to be an original, and all of which taken together shall constitute one and the same document. Receipt by telecopier of a signed copy of this Sublease shall be deemed receipt of the original document.

35. SIGNAGE. Sublessee shall be permitted to place a sign on the front door of the Sublet Premises subject to the approval of the City of San Diego, all applicable rules, regulations and ordinances, and the terms and conditions of the Prime Lease.

36 WARRANTIES. Sublessor shall, at Sublessee's expense, cooperate with Sublessee to enforce, for the benefit of Sublessee, all (a) warranties given and indemnities made by Prime Lessor to Sublessor under the Prime Lease which would reduce Sublessee's obligations hereunder and (b) warranties given by any contractors concerning any improvements made to the Sublet Premises.

37. BROKERS. Each of the parties represents and warrants to the other that all of its dealings in regard to the Sublet Premises have been solely with the CB Richard Ellis, Inc. and the other, and that no other real estate broker, agent, or intermediary has shown the Sublet Premises to Sublessee or referred the Sublessee to Sublessor or the Sublessor to Sublessee, or otherwise involved or procured Sublessee with respect to the Sublease. Each of the parties agrees to indemnify and hold the other harmless against any claims for brokerage or other commission arising by reason of a breach by such party of the aforesaid representations and warranties.

IN WITNESS WHEREOF, the parties hereto have executed this Sublease Agreement as of the day and year first above written.

Sublessor:

PULSE ENGINEERING, INC.

Attest: /s/

By: /s/ PATRICK MCGREGORY

Name: PATRICK MCGREGORY

Title: VP FINANCE

Sublessee:

COMPS.COM, INC.

Witness/Attest: /s/

By: /s/ JOSEPH A. MANNINA

Name: Joseph A. Mannina

Title: Vice President Operations

EXHIBIT 21.1

SUBSIDIARIES OF THE REGISTRANT

a) CoStar Realty Information, Inc., a Delaware corporation

b) Comps, Inc., a Delaware corporation

c) ARES Development Group, Inc., a California corporation

Exhibit 23.1

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-92165) pertaining to the CoStar Group, Inc. 1998 Stock Incentive Plan of our report dated March 1, 2000, with respect to the consolidated financial statements of CoStar Group, Inc. included in the Annual Report on Form 10-K for the year ended December 31, 1999.

/s/ Ernst & Young LLP

McLean, Virginia
March 27, 2000

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEET AND STATEMENT OF OPERATIONS OF COSTAR GROUP, INC. AS OF AND FOR THE TWELVE MONTHS ENDED DECEMBER 31, 1999 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

12-MOS
DEC-31-1999
DEC-31-1999
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0
(12,276,673)
(1.05)
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