

**UNITED STATES
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, 2004

Commission file number 0-24531

CoStar Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

**2 Bethesda Metro Center, 10th Floor
Bethesda, Maryland 20814**

(Address of principal executive offices) (zip code)

(301) 215-8300

Registrant's telephone number, including area code

**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 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements of the past 90 days. Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).
Yes 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 June 30, 2004 on the Nasdaq Stock Market®, the aggregate market value of registrant's common stock held by non-affiliates of the registrant was approximately \$761.3 million.

As of March 1, 2005, there were 18,311,500 shares of the 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 ended December 31, 2004, are incorporated by reference into Part III of this Report.

TABLE OF CONTENTS

PART I		
Item 1.	Business	3
Item 2.	Properties	12
Item 3.	Legal Proceedings	12
Item 4.	Submission of Matters to a Vote of Security Holders	12
PART II		
Item 5.	Market for the Registrant's Common Stock, Related Stockholder Matters and Issuer Purchases of Equity Securities	13
Item 6.	Selected Consolidated Financial and Operating Data	14
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	15
Item 7A.	Quantitative and Qualitative Disclosures about Market Risk	33
Item 8.	Financial Statements and Supplementary Data	33
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	33
Item 9A.	Controls and Procedures	33
PART III		
Item 10.	Directors and Executive Officers of the Registrant	35
Item 11.	Executive Compensation	35
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	35
Item 13.	Certain Relationships and Related Transactions	35
Item 14.	Principal Accounting Fees and Services	35
PART IV		
Item 15.	Exhibits and Financial Statement Schedules	35
	Signatures	36
	Index to Exhibits	38
	Index to Consolidated Financial Statements	F-1

PART I

Item 1. Business

(In this report, the words “we,” “our,” “us,” “CoStar” or the “Company” refer to CoStar Group, Inc. and its direct and indirect subsidiaries. This report also refers to our web sites, but information contained on those sites is not part of this report.)

CoStar Group, Inc., a Delaware corporation, is the leading provider of information services to the commercial real estate industry in the United States and United Kingdom based on the fact that we offer the most comprehensive commercial real estate database available, have the largest research department in the industry, provide more information services than any of our competitors and believe we generate more revenues than any of our competitors. CoStar’s integrated suite of services offers customers online access to the most comprehensive database of commercial real estate information, which has been researched and verified by our team of researchers, currently covering 55 U.S. markets as well as London and other parts of the United Kingdom.

Since its founding in 1987, CoStar’s strategy has been to provide commercial real estate professionals with critical knowledge to complete transactions, by offering the most comprehensive, timely and standardized information on commercial real estate. As a result of our January 2003 acquisition of Property Intelligence plc and June 2004 acquisition of Scottish Property Network, we have extended our offering of comprehensive commercial real estate information to include London, Scotland and other U.K. markets. We deliver our content to customers via an integrated suite of online service offerings that includes information about space available for lease, comparable sales information, tenant information, information about properties for sale, property information for clients’ web sites, information about industry professionals and their business relationships, analytic information, data integration, property marketing and industry news. We have created and are continuing to improve a standardized information platform where the commercial real estate industry and related businesses can continuously interact and easily facilitate transactions due to the efficient exchange of accurate information supplied by CoStar.

CoStar intends to continue to grow its standardized platform of commercial real estate information. In 2004, CoStar began research for a 21-market U.S. expansion effort and released services covering two new U.S. markets. During the next year, we plan to release services covering the remaining 19 new U.S. markets. In addition, in January 2005 CoStar acquired National Research Bureau, a leading provider of information to the shopping center industry, and simultaneously announced that it was launching a major expansion effort into real estate information for retail properties.

We have a number of assets that provide a unique foundation for our multinational platform, including the most comprehensive proprietary database in the industry; the largest research department in the industry; advanced software and proprietary technology, including a large in-house product development team; a broad suite of web-based information services; and a large base of clients. Our database has been developed and enhanced for more than 17 years by a research department that makes thousands of daily updates to our database. In addition to our internal efforts to grow the database, we have obtained and assimilated over 50 proprietary databases.

Our subscription-based information services, consisting primarily of CoStar Property Professional, CoStar Tenant, CoStar COMPS Professional and FOCUS services, currently generate approximately 95% of our total revenues. Our contracts for our subscription-based information services typically have a minimum term of one year and renew automatically. Upon renewal, many of the subscription contract rates may increase in accordance with contract provisions or as a result of contract renegotiations. To encourage clients to use our services regularly, we generally charge a fixed monthly amount for our subscription-based services rather than fees based on actual system usage. Contract rates are based on the number of sites, number of users, organization size, the client’s business focus and the number of services to which a client subscribes. Our subscription clients generally pay contract fees on a monthly basis, but in some cases may pay us on a quarterly or annual basis.

Industry Overview

The market for commercial real estate information is vast based on the variety, volume and value of transactions related to commercial real estate. Each transaction has multiple participants and multiple information requirements, and in order 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 space availability, rental rates, vacancy rates, tenant movements, sales comparables, supply, new construction, absorption rates and other important market developments to carry out their businesses effectively. There is a strong need for an efficient marketplace, where commercial real estate professionals can exchange information, evaluate opportunities using 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 make use of the services we provide in order to obtain information they need to conduct their businesses, including:

- Sales and leasing brokers
- Property owners
- Property managers
- Design and construction professionals
- Real estate developers
- Real estate investment trust managers
- Investment bankers
- Commercial bankers
- Mortgage bankers
- Mortgage brokers
- Retailers
- Government agencies' staff members
- Mortgage-backed security issuers
- Appraisers
- Pension fund managers
- Reporters
- Tenant vendors
- Building services vendors
- Communications providers
- Insurance companies' managers
- Institutional advisors
- Investors and asset managers

The commercial real estate and related business community generally has operated 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, collect data on specific markets and develop software to analyze the information they have independently gathered. This highly fragmented methodology has resulted in duplication of effort in the collection and analysis of information, excessive internal cost and the creation of non-standardized data containing varying degrees of accuracy and comprehensiveness, resulting in a formidable information gap.

The creation of a standardized information platform for commercial real estate requires an infrastructure including a standardized database, accurate and comprehensive research capabilities, easy to use technology and intensive participant interaction. By combining its extensive database, approximately 700 researchers, technological expertise and broad customer base, CoStar believes that it has created such a platform.

CoStar's Comprehensive Database

CoStar has spent more than 17 years building and acquiring a database of commercial real estate information, which includes information on leasing, sales, comparable sales, tenants, demand statistics and digital images.

As of February 1, 2005, our database of real estate information covered 55 U.S. markets as well as London, England and other parts of the United Kingdom, and contained:

- More than 33.2 billion square feet of U.S. commercial real estate;
- Over 462,000 extensively researched and photographed properties in our U.S. database;
- Over 1.6 million total properties;
- Over 4.1 billion square feet of space available;
- Over 60,000 properties for sale;
- Over 3.3 million tenants occupying commercial real estate space;
- More than 1.2 million sales transactions valued in the aggregate at over \$1 trillion; and
- Over 2.2 million 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:

- | | | |
|---|--|---|
| <ul style="list-style-type: none">• Location• Site and zoning information• Building characteristics• Space availability• Tax assessments• Ownership• Sales and lease comparables• Space requirements• Number of retail stores | <p>CoStar Research</p> <p>We have developed a sophisticated data collection organization utilizing a multi-faceted research process. In 2004, our researchers drove over one million miles, conducted hundreds of thousands of on-site building inspections, examined tens of millions of public records and interviewed millions of tenants, owners and brokers.</p> <p><i>Research Department.</i> As of February 1, 2005, we employed approximately 700 commercial real estate research professionals. Our research professionals undergo an extensive training program to maintain consistent research methods and processes. Our researchers collect and analyze</p> | <ul style="list-style-type: none">• Mortgage and deed information• For-sale information• Income and expense histories• Tenant names• Lease expirations• Contact information• Historical trends• Demographic information• Retail sales per square foot |
|---|--|---|

commercial real estate information through millions of phone calls, e-mails, Internet updates and faxes each year, in addition to field inspections, public records review, news monitoring and direct mail. Each researcher is responsible for maintaining the accuracy and reliability of the database. As part of their update process, researchers develop cooperative relationships with industry professionals that allow them to gather useful information. Because of the importance commercial real estate professionals place on our data and our prominent position in the industry, many of these professionals routinely take the initiative and proactively report available space and transactions to our researchers.

CoStar has an extensive field research effort that permits physical inspection of properties in order to research new markets, find additional inventory, photograph properties and verify existing information. Some of these researchers use CoStar custom-designed trucks equipped with computers, proprietary Global Positioning System tracking software, high resolution digital cameras, handheld laser instruments to help precisely measure buildings, geo-code them and position them on digital maps, and pneumatic masts that extend up to an elevation of twenty-five feet so as to allow for unobstructed building photographs from “bird’s-eye views”. Each CoStar truck uses wireless technology to track and transmit field data. A typical site inspection consists of photographing the building, measuring the building, capturing “For Lease” sign information, counting parking spaces, assessing property condition and construction, and gathering tenant information. Certain researchers canvass properties, interviewing tenants suite by suite. Other researchers conduct fieldwork in county courthouses and public records offices. In addition, many of our field researchers are photographers who take photographs of commercial real estate properties to add to the collection of CoStar’s digital images in our database. As of February 1, 2005, CoStar had 73 trucks used by field researchers in markets throughout the United States, including 32 trucks in markets that are part of our current expansion where since May 2004 our field researchers have photographed over 118,000 buildings and researched over 2.5 billion square feet of gross building area.

Data Providers. We license a small portion of our data from public record providers and third-party data sources. Licensing agreements with these entities provide for our use of a variety of commercial real estate information, including property ownership, tenant information, maps and aerial photographs, all of which enhance various CoStar services. These license agreements generally grant us a non-exclusive license to use the data and images in the creation and supplementation of our information services and include what we believe are standard terms, such as a contract term ranging from two to five years, automatic renewal of the contract and fixed periodic license fees or a combination of fixed periodic license fees plus additional fees based upon our usage.

Management and Quality Control Systems. Our research processes include 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 space greater than land area and expired leases. We also monitor changes to critical fields of

information to ensure all information is kept in compliance with our standard definitions and methodology. Our non-automated quality control procedures include:

- calling our information sources on recently-updated properties to re-verify information;
- performing periodic research audits and field checks to determine if we correctly canvassed all buildings;
- providing training and retraining to our research professionals to ensure accurate data compilation; and
- compiling measurable performance metrics for research teams and managers for feedback on data quality.

Finally, one of the most important and effective quality control measures we rely on is feedback provided by the commercial real estate professionals using our data every day.

Proprietary Technology

As of February 1, 2005, CoStar had a staff of 93 product development and information technology professionals who focus on developing and creating new and enhanced services, designing systems to ensure continuous improvement in data quality, improving the speed of data delivery, and building infrastructure capable of supporting CoStar's comprehensive database and image library. This group also regularly implements service enhancements, including expanded features and new graphic designs.

Our information technology team is responsible for developing the infrastructure to appropriately support CoStar's business and our large and complex database. On an ongoing basis, these professionals develop and modify internal applications and systems to implement efficiencies and controls that produce quality improvements to the database, including increases to the speed of data collection, quality control review and data delivery. The team continues to develop and modify our enterprise-wide customer relationship management software application that integrates CoStar sales, research, customer support and accounting information with the management of customer contact histories, client subscriptions and usage, account authentication and client billing. The system also enables us to mine data so as to assess pricing policies, service feature usage and employee productivity.

We maintain Windows and Unix servers to support the database and an internal encrypted virtual private network to allow remote researchers real-time access to the database. We store full data back-up tapes off-site.

Services

Our suite of information services is branded and marketed to our customers. Our services are derived from a database of building-specific information and offer customers specialized tools for accessing, analyzing and using our information. Over time, we expect to enhance our existing information services and develop additional services that make use of our comprehensive database to meet the needs of our existing customers as well as potential new categories of customers.

Our various information services are described in detail in the following paragraphs.

CoStar Property Professional[™]. CoStar Property Professional is the Company's flagship service. It provides subscribers a comprehensive inventory of office, industrial and retail properties in markets throughout the United States, including for-lease and for-sale listings, historical data, building photographs, maps and floor plans. Commercial real estate professionals use CoStar Property to identify available space for lease, evaluate leasing and sale opportunities, value assets and position properties in the marketplace. Our clients also use CoStar Property to analyze market conditions by calculating current vacancy rates, absorption rates or average rental rates, and forecasting future trends based on user-selected variables. CoStar Property provides subscribers with powerful map-based search capabilities as well as a user-controlled, password-protected extranet (or electronic "file cabinet") where brokers may share space surveys and transaction-related documents online in real time with team members. When used together with CoStar Connect, CoStar Property enables subscribers to share space surveys and transaction-related documents with their clients, accessed through their corporate web site. CoStar Property, along with all of CoStar's other core information services, are delivered solely via the Internet.

CoStar Property Express[™]. CoStar Property Express provides access, on-demand with a credit card or via an annual subscription, to a "light" or scaled-down version of CoStar Property. Commercial real estate professionals use CoStar Property Express to look up and search for-lease and for-sale listings in CoStar's

comprehensive national database. CoStar Property Express provides base-building information, photos, floor plans, maps and a limited number of reports.

CoStar COMPS Professional[™]. CoStar COMPS Professional provides comprehensive national coverage of comparable sales information in the U.S. commercial real estate industry. It is the industry's most comprehensive database of comparable sales transactions and is designed for professionals who need to research property comparables, identify market trends, expedite the appraisal process and support property valuations.

CoStar COMPS Express[™]. CoStar COMPS Express provides users with immediate, subscription-free access with a credit card to the CoStar COMPS Professional system on a report-by-report basis. Subscribers also use this on-demand service to research comparable sales information outside of their subscription markets.

CoStar Tenant[®]. CoStar Tenant is a detailed online business-to-business prospecting and analytical tool providing commercial real estate professionals with the most comprehensive real estate-related U.S. tenant information available. CoStar Tenant profiles tenants occupying space in commercial buildings across the United States and provides updates on lease expirations — one of the service's key features — as well as occupancy levels, growth rates and numerous other facts. Delivering this information via the Internet allows users to target prospective clients quickly through a searchable database that identifies only those tenants meeting certain criteria. CoStar Tenant subscribers can also obtain credit reports through CoStar Tenant directly from D&B[®].

FOCUS. Our U.K. subsidiary, Property Intelligence Limited, offers several services under the trade name FOCUS. The primary service, New FOCUS, is a digital online service offering information on the U.K. commercial real estate market. This service seamlessly links data on individual properties and companies including comparable sales, available space, requirements, tenants, lease deals, planning information, socio-economics and demographics, credit ratings, photos and maps across the United Kingdom. In addition, Property Intelligence's subsidiary, Scottish Property Network Limited, offers users on-line access to a comprehensive database of information for properties located in Scotland, including available space, comparable sales, and lease deals.

CoStar Connect[™]. CoStar Connect allows commercial real estate firms to license CoStar's technology and information to market their U.S. property listings on their corporate web sites. Customers enhance the quality and depth of their listing information through access to CoStar's database of content and digital images. The service automatically updates and manages customers' online property information, providing comprehensive listings coverage and significantly reducing the expense of building their web sites' content and functionality.

CoStar Advertising[™]. In 2004, CoStar released a new service that offers property owners a highly targeted and cost-effective way to market a space for lease or space for sale directly to the individuals looking for that type of space through interactive advertising. Our advertising model is based on varying levels of exposure, enabling the advertiser to target as narrowly or broadly as its budget permits. With the CoStar Advertising program, when the advertiser's listings appear in a results set, they receive priority positioning and are enhanced to stand out. The advertiser can also purchase exposure in additional submarkets, or the entire market area so that his ad will appear even when his listing would not be returned in a results set.

NRB Shopping Center Directory[™]. As a result of our January 2005 acquisition of National Research Bureau, we now offer access to a comprehensive database of U.S. shopping center information. The Shopping Center Directory includes shopping center names, locations, tenants, gross leaseable area, space availability and contact information for owners, tenants, leasing agents and managers. The Shopping Center Directory is available in print as well as CD-ROM format, the latter of which offers additional data, indices and search capabilities.

CoStar Exchange[®]. CoStar Exchange is a database of commercial real estate properties that have been listed for sale. The Company believes CoStar Exchange is the only industry database that combines for-sale listings with correlating data on space availability, tenants, comparable sales and digital images, enabling professionals to post and search for properties quickly and efficiently. CoStar Exchange represents an efficient means for sellers to reach a large audience and for buyers to identify target properties.

CoStar Professional Directory[™]. CoStar Professional Directory, a service available exclusively to CoStar Property Professional subscribers, provides detailed contact information for over 300,000 commercial real estate

professionals, including specific information about an individual's current and prior activities such as completed transactions, current landlord representation assignments, sublet listings, major tenants and owners represented and local and national affiliations. Commercial real estate brokers can input their biographical information and credentials and upload their photo to create personal profiles. Subscribers use CoStar Professional Directory to network with their peers and identify and evaluate potential business partners, and maintain accurate mailing lists of other industry professionals for their direct mail marketing efforts.

CoStar Market Report[™]. The CoStar Market Report provides in-depth current and historical analytical information covering 46 of the major metropolitan office and industrial markets in the United States. Published quarterly, each market report includes details such as absorption rates, vacancy rates, rental rates, average sales prices, capitalization rates, existing inventory and current construction activity. This data is presented using standard definitions and calculations developed by CoStar, and offers real estate professionals critical and unbiased information necessary to make intelligent commercial real estate decisions. CoStar Market Reports are available to CoStar Property Professional subscribers at no additional charge, and are available for purchase by nonsubscribers.

Metropolis[™]. The Metropolis service is a single interface that combines commercial real estate data from multiple information providers into a comprehensive resource. The Metropolis service allows a user to input a property address and then view detailed information on that property from multiple information providers, including CoStar services. This technology offers commercial real estate professionals a simple and convenient solution for integrating a wealth of third-party information and proprietary data, and is currently available for the Southern California markets.

CoStar News[™]. Our web site, our CoStar services and our e-mail news dispatches have become an accepted source of reliable industry news. In 2004, we published approximately 8,000 news stories. Our news services keep clients informed of late-breaking commercial real estate news such as major leasing transactions, acquisitions, new construction activity, key industry personnel moves and industry events. During 2005, the Company plans to supplement its news distribution with print publishing activities and conferences in select markets.

Clients

We draw clients from across the commercial real estate and related business community. Commercial real estate brokers have traditionally formed the largest portion of CoStar clients, however, we also provide services to owners, landlords, financial institutions, retailers, vendors, appraisers, investment banks and other parties involved in commercial real estate. The following chart lists U.S. clients that are well known or have the highest annual subscription fees in each of the various categories and also lists U.K. clients that are well known or have the highest annual subscription fees in each of the various categories, each as of February 1, 2005.

Brokers	Lenders, Investment Bankers	Institutional Advisors, Asset Managers
CB Richard Ellis	GMAC Commercial Mortgage	Jones Lang LaSalle
Colliers	GMAC—U.K.	Prudential
Colliers Conrad Ritblat Erdman — U.K.	Deutsche Bank	Prudential — U.K.
Cushman & Wakefield	Wells Fargo	Metropolitan Life
Cushman & Wakefield Healey & Baker — U.K.	Washington Mutual	ING Clarion Partners
Trammell Crow Co.	Wachovia Corporation	Bear Stearns & Co., Inc.
Jones Lang LaSalle	Merrill Lynch	USAA Real Estate Company
Jones Lang LaSalle — U.K.	Citibank	Legg Mason
Grubb & Ellis	Fannie Mae	Morley — U.K.
Marcus & Millichap	UBS Warburg — U.K.	Standard Life — U.K.
The Staubach Company		
Newmark & Company Real Estate	Owners and Developers	Appraisers, Accountants
CRESA Partners	Hines	Integra
Studley	LNR Property Corp	Deloitte and Touche
Coldwell Banker Commercial NRT	Shorenstein Properties	Land America Onestop
Equis	Gale Companies	Marvin F. Poer
GVA Williams	Manulife Financial	KPMG
Advantis GVA Real Estate Services	Industrial Developments International	GE Capital Small Business Finance Corp
Binswanger	Land Securities — U.K.	PGP Valuation
Re/Max	Slough Estates — U.K.	PricewaterhouseCoopers
Carter & Associates / ONCOR Int'l		
United Systems Integrators Corp	REITS	Government Agencies
Daum Commercial Real Estate	Equity Office Properties Trust	U.S. General Services Administration
Finkelstein Comm Rlty Services	Trizec Properties, Inc.	County of Los Angeles
U.S. Equities Realty	Prologis	Office of Technology Procurement
CMD Realty Investors	Prentiss Properties	City of Chicago
Sperry Van Ness	CarrAmerica	Cook County Assessor's Office
Holiday Fenoglio Fowler, L.P.	Boston Properties	U.S. Department of Housing and Urban Development
Mohr Partners	Liberty Property Trust	Corporation of London— U.K.
Charles Dunn Company, Inc.	Vornado Realty Trust	
GVA Grimley — U.K.		
King Sturge — U.K.	Property Managers	Vendors
Knight Frank — U.K.	Transwestern Commercial Services	Turner Construction Company
Donaldsons — U.K.	Lincoln Property Company	Kastle Systems
Chestertons — U.K.	PM Realty Group	Comcast Cable Communications
FPD Savills — U.K.	Navisys Group	Cisco Systems
Atis Real Weatheralls— U.K.	Osprey Management Company	MWB — U.K.
	Leggat McCall Properties	Regus — U.K.
	Retailers	
Toys 'R' Us	Circuit City Stores, Inc.	Best Buy
Blockbuster	CVS	JC Penney
Payless ShoeSource, Inc.	Target	Neiman Marcus

For the years ended December 31, 2002, 2003 and 2004, no single client accounted for more than 5% of our revenues. Our subscription-based information services currently generate approximately 95% of our total revenues. Our contracts for our subscription-based information services typically have a minimum term of one year and renew automatically.

Sales and Marketing

As of February 1, 2005, we had 173 sales, marketing and customer support employees, with the majority of our direct sales force located in field sales offices. Our sales teams are primarily located in over 30 field sales offices throughout the United States and in London, England, Manchester, England and Paisley, Scotland. In 2004, we expanded our use of a centralized inside sales team at our Bethesda, Maryland headquarters that prospects for new clients and performs service demonstrations exclusively by telephone and over the Internet.

Our local offices typically serve as the platform for our in-market sales, customer support and field research operations for their respective regions. The sales force is responsible for selling to new prospects, training new and existing clients, providing ongoing customer support, renewing existing client contracts and identifying cross-selling opportunities. In addition, the sales force has primary front-line responsibility for customer care.

Our sales strategy is to aggressively attract new clients, while providing ongoing incentives for existing clients to subscribe to additional services. We also place a premium on training new and existing client personnel on the use of our services so as to promote maximum client utilization and satisfaction with our services. Our strategy also involves entering into multi-year, multi-market license agreements with our larger clients. In 2004, we signed multi-year, multi-market renewal agreements with Cushman & Wakefield, Julian J. Studley, Jones Lang LaSalle and Advantis/GVA. These license agreements grant non-exclusive licenses to these companies' employees to use a variety of our information services. They typically have terms of a minimum of one year, generally renew automatically and require the payment of fixed monthly license fees.

We seek to make our services essential to our clients' businesses. To encourage clients to use our services regularly, we generally charge a fixed monthly amount for our subscription-based services rather than fees based on actual system usage. Contract rates are based on the number of sites, number of users, organization size, the client's business focus and the number of services to which a client subscribes. Our subscription clients generally pay contract fees on a monthly basis, but in some cases may pay us on a quarterly or annual basis. In addition, through CoStar Property Express and CoStar COMPS Express, clients can access our database of commercial real estate information without a subscription.

Our customer service and support staff is charged with ensuring high client satisfaction by providing ongoing customer support.

Our primary marketing methods include: service demonstrations, face to face networking, direct marketing, communication via our corporate web site and news services, participation in trade show and industry events, print advertising in trade magazines and local business journals, client referrals and CoStar Advisor™, the Company's newsletter, which is distributed to our clients and prospects. In 2003 and 2004, we conducted several focus groups and other types of market research with commercial real estate professionals from various markets in an effort to understand market trends, garner feedback on how we could improve our services and identify new opportunities. Direct marketing and web-based marketing are the most cost-effective means for us to find prospective clients. Our direct marketing efforts include direct mail and telemarketing, and make extensive use of our unique, proprietary database. Once we have identified a prospective client, our most effective sales method is a service demonstration. We use various forms of advertising to build brand identity and reinforce the value and benefits of our services. We also sponsor and attend local association activities and events, and attend and/or exhibit at industry trade shows and conferences to reinforce our relationships with our core user groups.

Competition

The market for information services generally is competitive and rapidly changing. In the commercial real estate industry, the principal competitive factors for commercial real estate information services and providers 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;
- client service and support;
- perception that the service offered is the industry standard;
- proprietary nature of methodologies, databases and technical resources;
- price;
- effectiveness of marketing and sales efforts;
- vendor reputation;
- brand loyalty among customers; and
- capital resources.

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

- publishers and distributors of information services, including regional providers and national print publications, such as Black's Guide, Marshall & Swift, Yale Robbins, Inc., Reis, Inc., Real Capital Analytics and Dorey Publishing and Information Services;
- locally controlled real estate boards, exchanges or associations sponsoring property listing services and the companies with whom they partner, such as Xceligent, the Commercial Association of Realtors Data Services and the Association of Industrial Realtors;
- 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 LoopNet, Inc., EGi, Cityfeet.com, Inc., officespace.com, Mr.Officespace.com and TenantWise, Inc.
- in-house research departments operated by commercial real estate brokers; and
- public record providers.

As the commercial real estate information marketplace develops, additional competitors (including companies which could have greater access to data, financial, product development, technical, or marketing resources than we do) may enter the market and competition may intensify. While we believe that we have successfully differentiated ourselves from existing 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, trademark, database protection and other laws;
- nondisclosure, noncompetition and other contractual provisions with employees and consultants;
- 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 many of our databases, software and other materials. Under current U.S. law, the arrangement and selection of data may be protected, but the actual data itself may not be. In addition, with respect to our U.K. databases, certain database protection laws provide additional protections of these databases. We license our

services under license agreements that grant our clients non-exclusive, non-transferable licenses. These agreements restrict the disclosure and use of our information and prohibit the unauthorized reproduction or transfer of the information services 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 and detect unauthorized copying of our intellectual property.

We have filed trademark applications to register trademarks for a variety of names for the CoStar services and other marks, and have obtained registered trademarks for a variety of our marks, including "CoStar", "COMPS", "CoStar Property", "CoStar Tenant" and "CoStar Group". In addition, we have filed several patent applications covering certain of our methodologies and software and currently have one patent in the U.K. covering, among other things, certain of our field research methodologies.

Employees

As of February 1, 2005, we employed 1,038 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.

Available Information

Our investor relations Internet web site is <http://www.costar.com/corporate/investor>. The reports we file with or furnish to the Securities and Exchange Commission, including our annual report, quarterly reports and current reports, are available free of charge on our Internet web site as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission.

Item 2. Properties

Our corporate headquarters are located in Bethesda, Maryland, where we occupy approximately 78,000 square feet of office space. Our main lease for our Bethesda, Maryland headquarters expires on March 14, 2010.

In addition to our Bethesda, Maryland facility, our research operations are headquartered in leased spaces in San Diego, California; Columbia, Maryland; Cincinnati, Ohio; London, England; and Paisley, Scotland. Additionally, we lease office space in a variety of other metropolitan areas, which generally house our field sales offices. These locations include, without limitation, the following: New York; Los Angeles; Chicago; San Francisco; Boston; Manchester, England; Orange County, California; Philadelphia; Houston; Atlanta; Phoenix; Detroit; Pittsburgh; Iselin, New Jersey; Charlotte; Miami; Denver; Austin; Dallas; Kansas City; Cleveland; Tustin, California; Tampa; Orlando; Memphis; Indianapolis; Baltimore; Raleigh/Durham; St. Louis; Columbus, Ohio; and Portland, Oregon.

We believe these facilities are suitable and appropriately support our business needs.

Item 3. Legal Proceedings

Currently, and from time to time, we are involved in litigation incidental to the conduct of our business. We are not a party to any lawsuit or proceeding that, in the opinion of our management based on consultations with legal counsel, is likely to have a material adverse effect on our financial position or results of operations.

Item 4. Submission of Matters to a Vote of Security Holders

We did not submit any matters to a vote of our security holders during the quarter ended December 31, 2004.

PART II

Item 5. Market for the Registrant's Common Stock, Related Stockholder Matters and Issuer Purchases of Equity Securities

Price Range of Common Stock. Our common stock is traded on the Nasdaq Stock Market® under the symbol "CSGP." The following table sets forth, for the periods indicated, the high and low daily closing price per share of our common stock on the Nasdaq Stock Market®.

	<u>High</u>	<u>Low</u>
Year Ended December 31, 2003		
First Quarter	\$ 22.65	\$ 17.77
Second Quarter	\$ 30.54	\$ 21.27
Third Quarter	\$ 31.90	\$ 26.07
Fourth Quarter	\$ 42.85	\$ 26.89
Year Ended December 31, 2004		
First Quarter	\$ 42.22	\$ 35.83
Second Quarter	\$ 46.19	\$ 37.09
Third Quarter	\$ 49.19	\$ 38.05
Fourth Quarter	\$ 48.75	\$ 39.65

As of February 1, 2005, there were 98 holders of record of our common stock. On December 31, 2004, the last sale price reported on the Nasdaq Stock Market® for our common stock was \$46.18 per share.

Dividend Policy. We have never declared or paid any dividends on our common stock. Any future determination to pay dividends will be at the discretion of our Board of Directors, subject to applicable limitations under Delaware law, and will be dependent upon our results of operations, financial condition and other factors deemed relevant by our Board of Directors. The Company does not anticipate paying any dividends on its common stock during the foreseeable future, but intends to retain any earnings for future growth of its business.

Recent Issues of Unregistered Securities. We did not issue any unregistered securities during the quarter ended December 31, 2004.

Issuer Purchases of Equity Securities. Neither the Company nor any "affiliated purchaser" (as defined in Rule 10b-18 of the Securities Exchange Act of 1934) purchased any shares of any registered securities of the Company during the fourth quarter of 2004.

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 consolidated financial and other operating data for the five years ended December 31, 2004. The Consolidated Statement of Operations Data shown below for each of the three years ended December 31, 2002, 2003, and 2004 and the Consolidated Balance Sheet Data as of December 31, 2003 and 2004 are derived from audited consolidated financial statements that are included in this report. The Consolidated Statement of Operations Data for each of the years ended December 31, 2000 and 2001 and the Consolidated Balance Sheet Data as of December 31, 2000, 2001, and 2002 shown below are derived from audited consolidated financial statements for those years that are not included in this report.

	Fiscal Year Ended December 31,				
	2000	2001	2002	2003	2004
Consolidated Statement of Operations Data:					
Revenues	\$ 58,502	\$ 72,513	\$ 79,363	\$ 95,105	\$ 112,085
Cost of revenues	30,202	30,316	28,012	30,742	35,384
Gross margin	28,300	42,197	51,351	64,363	76,701
Operating expenses	83,335	64,923	56,894	64,361	69,955
Income (loss) from operations	(55,035)	(22,726)	(5,543)	2	6,746
Other income, net	3,335	1,578	759	380	1,314
Income (loss) before income taxes	(51,700)	(21,148)	(4,784)	382	8,060
Income tax expense (benefit)	(2,045)	(987)	¾	282	(16,925)
Net income (loss)	\$ (49,655)	\$ (20,161)	\$ (4,784)	\$ 100	\$ 24,985
Net income (loss) per share - basic	\$ (3.28)	\$ (1.29)	\$ (0.30)	\$ 0.01	\$ 1.38
Net income (loss) per share - diluted	\$ (3.28)	\$ (1.29)	\$ (0.30)	\$ 0.01	\$ 1.33
Weighted average shares outstanding - basic	15,137	15,636	15,759	16,202	18,165
Weighted average shares outstanding - diluted	15,137	15,636	15,759	16,674	18,827
Consolidated Balance Sheet Data:					
	As of December 31,				
	2000	2001	2002	2003	2004
Cash, cash equivalents, cash held for acquisition and short-term investments	\$ 47,101	\$ 42,002	\$ 43,530	\$ 97,449	\$ 117,069
Working capital	35,601	33,315	36,993	88,207	107,875
Total assets	145,871	123,646	118,907	183,900	232,691
Total liabilities	19,497	15,627	14,890	15,531	21,747
Stockholders' equity	126,374	108,019	104,017	168,369	210,944
Other Operating Data:					
	As of December 31,				
	2000	2001	2002	2003	2004
Markets covered by database	51	50	50	51	58
Number of subscription client sites	5,407	6,356	6,907	8,582	9,489
Billions of square feet in U.S. database	21.7	23.0	25.0	27.7	30.4
Total properties in database	864,920	950,000	1,033,000	1,521,000	1,622,039
Images in database	968,316	1,300,000	1,500,000	1,805,000	2,255,000

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains "forward-looking statements," including statements about our beliefs and expectations. There are many risks and uncertainties that could cause actual results to differ materially from those discussed in the forward-looking statements. Potential factors that could cause actual results to differ materially from those discussed in any forward-looking statements include, but are not limited to, those stated below under the headings "Cautionary Statement Concerning Forward-Looking Statements" and "Risk Factors" as well as those described from time to time in our filings with the Securities and Exchange Commission.

All forward-looking statements are based on information available to us on the date of this filing, and we assume no obligation to update such statements. The following discussion should be read in conjunction with our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other filings with the Securities and Exchange Commission and the consolidated financial statements and related notes in this Annual Report on Form 10-K.

Overview

CoStar is the leading provider of information services to the commercial real estate industry in the United States and the United Kingdom based on the fact that we offer the most comprehensive commercial real estate database available, have the largest research department in the industry, provide more information services than any of our competitors and believe we generate more revenues than any of our competitors. We have created a standardized information platform where the members of the commercial real estate and related business community can continuously interact and facilitate transactions by efficiently exchanging accurate and standardized commercial real estate information. Our integrated suite of online service offerings includes information about space available for lease, comparable sales information, tenant information, information about properties for sale, information for clients' web sites, information about industry professionals and their business relationships, analytic information, data integration, property marketing and industry news.

We completed our initial public offering in July 1998 and received net proceeds of approximately \$22.7 million. We 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 acquisitions of COMPS.COM, Inc. ("Comps") and Property Intelligence plc ("Property Intelligence"). In November 2003, we completed an additional follow-on public offering and received net proceeds of approximately \$53.5 million. We expect to use the remainder of the proceeds from these public offerings for development and distribution of new services, expansion of existing services across our current markets, geographic expansion in the U.S. and international markets, strategic acquisitions, working capital and general corporate purposes.

From 1994 through the beginning of 2003, we expanded the geographical coverage of our existing information services and developed new information 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, Inc. and into Atlanta and Dallas/Fort Worth by acquiring Jamison Research, Inc. In February 2000 we acquired Comps, a San Diego-based provider of commercial real estate information. In November 2000 we acquired First Image Technologies, Inc. ("First Image"). In September 2002 we expanded further into Portland, Oregon through the acquisition of certain assets of Napier Realty Advisors d/b/a REAL-NET ("REAL-NET"). In January 2003 we established a base in the United Kingdom with our acquisition of London-based Property Intelligence. In May 2004, we expanded into Tennessee through the acquisition of Peer Market Research, Inc. ("PeerMark"), and in June 2004, we extended our coverage of the United Kingdom through the acquisition of Scottish Property Network ("SPN"). In September 2004, we strengthened our position in Denver, Colorado through the acquisition of substantially all of the assets of RealComp, Inc., a local comparable sales information provider. In January 2005, we acquired National Research Bureau ("NRB"), a leading provider of U.S. shopping center information. The more recent acquisitions are discussed later in this section.

Since our inception, the growth of our business has required substantial investments for the expansion of our services and the establishment of operating regions throughout the United States, which resulted in substantial net losses on an overall basis until 2003. Throughout 1999 and 2000, we experienced a rapid expansion in the number of services that we offered and the number of regions in which we operated. By the beginning of 2001, we had substantially established a national platform of service offerings in 50 U.S. metropolitan markets. From 2001 through 2003, we focused on continuing to grow revenue while controlling and reducing costs, in order to reduce operating losses and become profitable in accordance with accounting principles generally accepted in the United States (“GAAP”). Our net income increased from \$100,000 for the year ended December 31, 2003 to \$25.0 million for the year ended December 31, 2004. Net income in 2004 included a one-time income tax benefit of \$16.7 million, which was the result of the release of a substantial portion of our valuation allowance on our deferred tax asset, related to our net operating loss carryforwards. In addition, we increased EBITDA (net income before interest, taxes, depreciation and amortization) by \$6.6 million from \$13.2 million in 2003 to \$19.8 million in 2004. Our use of non-GAAP financial measures is discussed later in this section.

During 2004, we began the field research phase of our current geographic expansion plan. The plan includes entering an expected 21 new metropolitan markets throughout the United States as well as expanding the geographical boundaries of many of our existing U.S. markets and international expansion in Manchester, England. In 2004, we began providing services in 2 new U.S. markets and Manchester, England, and during the next year, we expect to begin providing services in the remaining markets. In addition, in January 2005, we acquired NRB and announced that we were launching a major expansion effort into real estate information for retail properties. We generally have not experienced this type of internal expansion since 2000. Our planned expansion has caused and will continue to cause our cost structure to escalate in advance of revenues that we expect to generate in these new markets and from providing these new services, as we invest in future revenue growth for 2005 and beyond. In addition, the incremental costs of introducing new services or increasing geographic coverage in an existing market may further increase our operating cost structure and reduce the profitability of that market prior to the release of the additional service offerings or increase in market coverage.

As of the fourth quarter of 2004, we determined that it was more likely than not that we would generate taxable income from operations and be able to realize tax benefits arising from use of our net operating loss carryforwards to reduce the income tax we will owe on this taxable income. Prior to the fourth quarter of 2004, we recorded a valuation allowance on the deferred tax assets associated with these future tax benefits because we were not certain we would generate taxable income in the future. The release of the valuation allowance in the fourth quarter resulted in a tax benefit of approximately \$26.2 million. This included an income tax benefit of approximately \$16.7 million that was recognized in our results from operations. We also recognized a tax benefit of approximately \$9.5 million as additional paid-in capital for our net operating loss carryforwards attributable to tax deductions for stock options. As of December 31, 2004, we continued to maintain a valuation allowance of approximately \$546,000 for certain state net operating loss carryforwards.

For the foreseeable future, we expect to record income tax expense on our results from operations at an effective rate of approximately 40%. For the next several years, however, we expect the majority of our taxable income to be offset by our net operating loss carryforwards. As a result, we expect our cash payments for taxes to be limited primarily to federal alternative minimum taxes and to state income taxes in certain states.

Effective for fiscal quarters beginning after June 15, 2005, pursuant to SFAS No. 123R, “Share-Based Payment”, the Company will be required to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award and recognize that cost over the period during which an employee is required to provide service in exchange for the award. The Company is continuing to assess the impact of the adoption of SFAS No. 123R in 2005, however, the Company currently expects to incur approximately \$3.7 million in charges in 2005 for stock option and other equity compensation expense beginning in the third quarter of 2005. As a result, we are evaluating our compensation practices and may develop alternative stock-based employee compensation plans, including without limitation the issuance of restricted stock, which may result in recording additional expense to our consolidated statements of operations and reduce our net income.

We expect 2005 revenue to grow over 2004 revenue as a result of expected further penetration of our services in our potential customer base across our platform, as well as successful cross selling of our services into our existing customer base, and continued geographic expansion and retail expansion. We expect EBITDA for our existing core platform to continue to grow due principally to growth in revenue; however, we expect 2005 EBITDA to decrease from 2004 EBITDA due to costs related to our expansion plan and our estimated \$3.7 million charge for stock option and other equity compensation expense related to the adoption of SFAS No. 123R. The 2004 EBITDA did not include such compensation charges. We expect 2005 net income to decrease over 2004 net income because in 2005, we will not have the \$16.7 million income tax benefit that we recorded in 2004. In addition, we expect to have an estimated \$3.7 million charge for stock option and other equity compensation expense in 2005 that we did not incur in 2004 and we expect to record income tax expense on our results of operations for 2005 which we did not incur in 2004, both of which will lower our net income. If we achieve our expected revenue growth and control our costs with respect to our current expansion plan, we believe we will maintain positive cash flow from operating activities during 2005.

Prior to 2003, our calculations of weighted-average outstanding shares for basic and diluted net loss per share were identical because stock options that would have had an anti-dilutive effect on the calculation were properly excluded from the calculation. We achieved net income for the years ended December 31, 2003 and 2004, and as a result our calculation of weighted-average outstanding shares for diluted net income per share included the effect of any dilutive stock options, which are any outstanding stock options that have an exercise price lower than the average market price of our common stock for the period presented. We expect that our diluted net income per share will be lower than our basic net income per share for any future periods in which we report net income due to the dilutive effect of outstanding stock options.

In addition to our current planned geographic and retail expansion, we may continue further geographic expansion in the United States, we may seek additional international geographic expansion or we may seek to expand our services. Any future significant expansion could reduce our profitability and significantly increase our capital expenditures. Therefore, while we expect current service offerings in existing markets to remain generally profitable and provide substantial funding for our overall business, it is possible that further overall expansion could cause us to generate losses and negative cash flow from operations in the future.

While our services continue to expand, our subscription-based information services, consisting primarily of CoStar Property Professional, CoStar Tenant, CoStar COMPS Professional and FOCUS services, currently generate approximately 95% of our total revenues. Our contracts for our subscription-based information services typically have a minimum term of one year and renew automatically. Upon renewal, many of the subscription contract rates may increase in accordance with contract provisions or as a result of contract renegotiations. To encourage clients to use our services regularly, we generally charge a fixed monthly amount for our subscription-based services rather than fees based on actual system usage. Contract rates are based on the number of sites, number of users, organization size, the client's business focus and the number of services to which a client subscribes. Our subscription clients generally pay contract fees on a monthly basis, but in some cases may pay us on a quarterly or annual basis. We recognize this revenue on a straight-line basis over the life of the contract. Annual and quarterly advance payments result in deferred revenue, substantially reducing the working capital requirements generated by accounts receivable.

For the years ended December 31, 2003 and 2004, our contract renewal rate was 88% and 92%, respectively.

Application of Critical Accounting Policies and Estimates

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the period reported. The following accounting policies involve a "critical accounting estimate" because they are particularly dependent on estimates and assumptions made by management about matters that are highly uncertain at the time the accounting estimates are made. In addition, while we have used our best estimates based on facts and circumstances available to us at the time, different estimates reasonably could have been used in the current period. Changes in the accounting estimates

we used are reasonably likely to occur from period to period which may have a material impact on the presentation of our financial condition and results of operations. We review these estimates and assumptions periodically and reflect the effects of revisions in the period that they are determined to be necessary.

Valuation of long-lived and intangible assets and goodwill

We assess the impairment of long-lived assets, identifiable intangibles and goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important that could trigger an impairment review include the following:

- Significant underperformance relative to historical or projected future operating results;
- Significant changes in the manner of our use of the acquired assets or the strategy for our overall business;
- Significant negative industry or economic trends; or
- Significant decline in our market capitalization relative to net book value for a sustained period.

When we determine that the carrying value of long-lived and identifiable intangible assets may not be recovered based upon the existence of one or more of the above indicators, we measure any impairment based on a projected discounted cash flow method using a discount rate determined by our management to be commensurate with the risk inherent in our current business model.

Goodwill and identifiable intangible assets not subject to amortization are tested annually on October 1st of each year for impairment and are tested for impairment more frequently based upon the existence of one or more of the above indicators. We measure any impairment loss to the extent that the carrying amount of the asset exceeds its fair value.

Accounting for income taxes

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process requires us to estimate our actual current tax exposure and assess the temporary differences resulting from differing treatment of items, such as deferred revenue or deductibility of certain intangible assets, for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. We must then also assess the likelihood that our deferred tax assets will be recovered from future taxable income, and, to the extent we believe that it is more likely than not that some portion or all of our deferred tax assets will not be realized, we must establish a valuation allowance. To the extent we establish a valuation allowance or change the allowance in a period, we must reflect the corresponding increase or decrease within the tax provision in the statement of operations.

As of the fourth quarter of 2004, we determined that it was more likely than not that we would generate taxable income from operations and be able to realize tax benefits arising from use of our net operating loss carryforwards to reduce the income tax we will owe on this taxable income. Prior to the fourth quarter of 2004, we recorded a valuation allowance on the deferred tax assets associated with these future tax benefits because we were not certain we would generate taxable income in the future. The release of the valuation allowance in the fourth quarter resulted in a tax benefit of approximately \$26.2 million. This included an income tax benefit of approximately \$16.7 million that was recognized in our results from operations. We also recognized a tax benefit of approximately \$9.5 million as additional paid-in capital for our net operating loss carryforwards attributable to tax deductions for stock options. As of December 31, 2004, we continued to maintain a valuation allowance of approximately \$546,000 for certain state net operating loss carryforwards.

Our decision to release the valuation allowance on our deferred tax asset was based on our expectation that we will recognize taxable income from operations in the future, which will enable us to use our net operating loss carryforwards. We believe our expectation that we will recognize taxable income in the future is supported by our increase in net earnings over the last three years, our revenue growth, our renewal rates with our existing customers, and our business model, which permits some control over future costs. We will continue to evaluate our expectation of future taxable income during each quarter. If we are unable to conclude that it is more likely than not that we will realize the future tax benefits associated with our deferred tax assets, then we may be required to establish a valuation allowance against some or all of the deferred tax assets.

Accounting for employee stock options

As permitted under Statement of Financial Accounting Standard No. 123, "Accounting for Stock-Based Compensation," we currently account for employee stock options in accordance with Accounting Principles Board Opinion No. 25 ("APB No. 25"), "Accounting for Stock Issued to Employees." Under APB No. 25, we recognize compensation cost based on the intrinsic value of the equity instrument awarded as determined at the measurement date. We disclose the required pro forma information in our notes to consolidated financial statements as if the fair value method prescribed by SFAS No. 123 had been applied.

Non-GAAP Financial Measures

We prepare and publicly release quarterly unaudited financial statements prepared in accordance with GAAP. We have also disclosed and discussed certain non-GAAP financial measures in our public releases, including EBITDA, which is our net income before interest, income taxes, depreciation and amortization; and pro forma earnings, which is our net income before purchase amortization in cost of revenues, purchase amortization in operating expenses and our income tax benefit. We disclose EBITDA in our earnings releases, investor conference calls and filings with the Securities and Exchange Commission. We have previously disclosed pro forma earnings in our earnings releases and investor conference calls.

From 2003 through 2004, we have experienced substantial year over year earnings growth. As a result, the impact of purchase amortization on our net income has become less meaningful. Therefore, beginning with our first quarter 2005 earnings release, we expect to no longer report pro forma earnings in our earnings releases or on our investor conference calls. However, we expect to continue to report EBITDA in our earnings releases, investor conference calls and our filings with the Securities and Exchange Commission and reconcile EBITDA to our net income.

The non-GAAP financial measures that we use may not be comparable to similarly titled measures reported by other companies. Also, in the future, we may disclose different non-GAAP financial measures in order to help our investors more meaningfully evaluate and compare our future results of operations to our previously reported results of operations.

We view EBITDA and pro forma earnings as operating performance measures and as such we believe that the GAAP financial measure most directly comparable to them is net income (loss). In calculating EBITDA and pro forma earnings, we exclude from net income (loss) the financial items that we believe should be separately identified to provide additional analysis of the financial components of the day-to-day operation of our business. We have outlined below the type and scope of these exclusions and the material limitations on the use of these non-GAAP financial measures as a result of these exclusions. EBITDA and pro forma earnings are not measurements of financial performance under GAAP and should not be considered as measures of liquidity, as alternatives to net income (loss) or as indicators of any other measure of performance derived in accordance with GAAP. Investors and potential investors in our securities should not rely on EBITDA and pro forma earnings as a substitute for any GAAP financial measure, including net income (loss). In addition, we urge investors and potential investors in our securities to carefully review the reconciliation of EBITDA to net income (loss) set forth below and to carefully review the GAAP financial information included as part of our Quarterly Reports on Form 10-Q and our Annual Reports on Form 10-K that are filed with the Securities and Exchange Commission, as well as our quarterly earnings releases, and compare the GAAP financial information with our EBITDA and pro forma earnings.

EBITDA and pro forma earnings have been used by management to internally measure our operating and management performance and by investors as supplemental financial measures to evaluate the performance of our business that, when viewed with our GAAP results and the accompanying reconciliation, we believe provide additional information that is useful to gain an understanding of the factors and trends affecting our business. We have spent more than 17 years building our database of commercial real estate information and expanding our markets and services partially through acquisitions of complimentary businesses. Due to the expansion of our information services, which included acquisitions, our net income (loss) has included significant charges for purchase amortization, depreciation and other amortization. EBITDA and pro forma earnings, which exclude these charges, provide meaningful information about the operating performance of our business, apart from charges for purchase amortization, depreciation and other amortization. In addition, in the fourth quarter of 2004, we recognized a one-time, non-cash income tax benefit for the release of our previously recorded valuation

allowance against our net loss carryforwards, which we expect will be used to reduce future amounts of income taxes we would otherwise be required to pay, and as a result of the recognition of this benefit, our net income for the fourth quarter and year ended December 31, 2004 was substantially higher than in the previous quarters. Because such one time income tax benefit is non-recurring and a non-cash benefit, we have excluded such amount from the calculation of our pro forma earnings. We believe the disclosure of EBITDA and pro forma earnings helps investors meaningfully evaluate and compare our performance from quarter to quarter and from year to year. We also believe EBITDA and pro forma earnings are measures of our ongoing operating performance because the isolation of non-cash charges, such as amortization and depreciation, non-operating items, such as interest and income taxes, and non-cash, non-recurring items, such as the income tax benefit we recognized when we released our valuation allowance, provides additional information about our cost structure, and, over time, helps track our operating progress. In addition, investors, securities analysts and others have regularly relied on EBITDA and pro forma earnings to provide a financial measure by which to compare our operating performance against that of other companies in our industry. Finally, management and the Board of Directors have used pro forma earnings and EBITDA as two of several criteria for determining the achievement of performance-based cash bonuses.

Set forth below are descriptions of the financial items that have been excluded from our net income (loss) to calculate EBITDA and pro forma earnings and the material limitations associated with using these non-GAAP financial measures as compared to net income (loss):

- Purchase amortization in cost of revenues may be useful for investors to consider because it represents the use of our acquired database technology, which is one of the sources of information for our database of commercial real estate information. We do not believe these charges reflect the current and ongoing cash charges related to our operating cost structure.
- Purchase amortization in operating expenses may be useful for investors to consider because it represents the estimated attrition of our acquired customer base and the diminishing value of any acquired tradenames. We do not believe these charges reflect the current and ongoing cash charges related to our operating cost structure.
- Depreciation and other amortization may be useful for investors to consider because they generally represent the wear and tear on our property and equipment used in our operations. We do not believe these charges reflect the current and ongoing cash charges related to our operating cost structure.
- The amount of net interest income we generate may be useful for investors to consider and may result in current cash inflows or outflows. However, management does not consider the amount of net interest income representative of the day-to-day operating performance of our business.
- Income tax expense (benefit) may be useful for investors to consider because it generally represents the taxes payable for the period and the change in deferred income taxes during the period and may reduce the amount of funds otherwise available for use in our business. In addition, the Company's income tax benefit may be useful for investors to consider because it represents the amount of the release of the Company's deferred tax asset valuation allowance, such deferred tax asset consisting primarily of net operating loss carryforwards, which we expect will be used to reduce future amounts of income taxes we would otherwise be required to pay. However, management does not consider the amount of income tax expense or benefit to be representative of the day-to-day operating performance of our business.

Management compensates for the above-described limitations of using non-GAAP measures by only using non-GAAP measures to supplement our GAAP results and to provide additional information that is useful to gain an understanding of the factors and trends affecting our business.

The following table shows our EBITDA reconciled to our GAAP net income (loss) and our cash flows from operating, investing and financing activities for the indicated periods (in thousands of dollars):

	Fiscal Year Ended December 31,		
	2002	2003	2004
Net income (loss)	\$ (4,784)	\$ 100	\$ 24,985
Purchase amortization in cost of revenues	2,866	2,777	2,453
Purchase amortization in operating expenses	3,600	4,487	4,351
Depreciation and other amortization	5,292	5,907	6,206
Interest income, net	(763)	(381)	(1,314)
Income tax expense (benefit)	¾	282	(16,925)
EBITDA	\$ 6,211	\$ 13,172	\$ 19,756

Cash flows provided by (used in)

Operating activities	\$ 5,574	\$ 13,550	\$ 24,723
Investing activities	(11,470)	(65,521)	(29,946)
Financing activities	696	61,759	6,297

Consolidated Results of Operations

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

	Fiscal Year Ended December 31,					
	2002		2003		2004	
Revenues	\$ 79,363	100.0%	\$ 95,105	100.0%	\$ 112,085	100.0%
Cost of revenues	28,012	35.3	30,742	32.3	35,384	31.6
Gross margin	51,351	64.7	64,363	67.7	76,701	68.4
Operating expenses:						
Selling and marketing	23,158	29.2	26,537	27.9	29,458	26.3
Software development	5,524	7.0	6,886	7.3	8,492	7.6
General and administrative	24,612	31.0	26,451	27.8	27,654	24.6
Purchase amortization	3,600	4.5	4,487	4.7	4,351	3.9
Total operating expenses	56,894	71.7	64,361	67.7	69,955	62.4
Income (loss) from operations	(5,543)	(7.0)	2	0.0	6,746	6.0
Other income, net	759	1.0	380	0.4	1,314	1.2
Income (loss) before income taxes	(4,784)	(6.0)	382	0.4	8,060	7.2
Income tax expense (benefit)	¾	¾	282	0.3	(16,925)	(15.1)
Net income (loss)	<u>\$ (4,784)</u>	<u>(6.0)%</u>	<u>\$ 100</u>	<u>0.1%</u>	<u>\$ 24,985</u>	<u>22.3%</u>

Comparison of Year Ended December 31, 2004 and Year Ended December 31, 2003

Revenues. Revenues grew 17.9% from \$95.1 million in 2003 to \$112.1 million in 2004. This growth was principally the result of further penetration of our subscription-based information services into our existing and potential customer base, as well as the successful cross-selling of information services into our existing customer base across our service platform. Subscription-based information services consisting primarily of CoStar Property Professional, CoStar Tenant, CoStar COMPS Professional, and FOCUS services, currently generate approximately 95% of our total revenues.

Gross Margin. Gross margin increased from \$64.4 million in 2003 to \$76.7 million in 2004. Gross margin percentage also increased from 67.7% in 2003 to 68.4% in 2004. The increase in the gross margin amount and percentage resulted principally from internal revenue growth from our subscription-based information services. Cost of revenues increased from \$30.7 million in 2003 to \$35.4 million in 2004, principally due to increased research department hiring, training, compensation and other operating costs associated with our current expansion plan.

Selling and Marketing Expenses. Selling and marketing expenses increased from \$26.5 million in 2003 to \$29.5 million in 2004 and decreased as a percentage of revenues from 27.9% in 2003 to 26.3% in 2004. The increase in the amount of selling and marketing expenses was primarily due to increased sales commissions and marketing campaigns.

Software Development Expenses. Software development expenses increased from \$6.9 million in 2003 to \$8.5 million in 2004 and increased as a percentage of revenues from 7.3% in 2003 to 7.6% in 2004. This increase was due to the hiring of new employees to support our continued focus on enhancements to our existing services, development of new services and development of our internal information systems.

General and Administrative Expenses. General and administrative expenses increased from \$26.5 million in 2003 to \$27.7 million in 2004 and decreased as a percentage of revenues from 27.8% in 2003 to 24.6% in 2004. The increase in the amount of general and administrative expenses was primarily due to an increase in personnel expenses, professional fees and increased occupancy costs offset by a decrease in bad debt expense.

Purchase Amortization. Purchase amortization decreased from \$4.5 million in 2003 to \$4.4 million in 2004. This decrease was due to the complete amortization of certain identifiable intangible assets during 2003 and 2004.

Other Income, Net. Interest and other income increased from \$380,000 in 2003 to \$1.3 million in 2004. This increase was primarily a result of higher total cash balances in 2004 and higher interest rates during the year.

Income Tax Expense (Benefit). Income tax expense changed from an expense of \$282,000 in 2003 to a benefit of \$16.9 million in 2004. The benefit is primarily due to the fourth quarter release of the valuation allowance on the deferred tax asset, related to our net operating loss carryforwards. We released the valuation allowance because we determined that it was more likely than not that we would realize the benefit of the deferred tax asset through future taxable earnings.

Comparison of Year Ended December 31, 2003 and Year Ended December 31, 2002

Revenues. Revenues grew 19.8% from \$79.4 million in 2002 to \$95.1 million in 2003. This growth was the result of additional revenue from the Property Intelligence acquisition and further penetration of our subscription-based information services into our existing and potential customer base, as well as the successful cross-selling of information services into our existing customer base across our service platform. Revenues from our U.K. markets accounted for approximately 8% of revenues for the year ended December 31, 2003. Subscription-based information services consisting primarily of CoStar Property Professional, CoStar Tenant, CoStar COMPS Professional, and FOCUS services, generated over 90% of our total revenues in 2003.

Gross Margin. Gross margin increased from \$51.4 million in 2002 to \$64.4 million in 2003. Gross margin percentage also increased from 64.7% in 2002 to 67.7% in 2003. The increase in the gross margin percentage and amount resulted principally from internal revenue growth from our subscription-based information services and was slightly offset by the addition of margins from our U.K. markets averaging approximately 60%. Cost of revenues increased from \$28.0 million in 2002 to \$30.7 million in 2003, principally due to the addition of cost of revenues from our U.K. markets as a result of the Property Intelligence acquisition, which was slightly offset by a decrease in cost of revenues from our U.S. markets.

Selling and Marketing Expenses. Selling and marketing expenses increased from \$23.2 million in 2002 to \$26.5 million in 2003 and decreased as a percentage of revenues from 29.2% in 2002 to 27.9% in 2003. The increase in selling and marketing expenses was primarily due to the addition of approximately \$1.4 million of selling and marketing expenses from our U.K. markets as a result of the Property Intelligence acquisition, increased sales and marketing personnel costs and marketing campaigns surrounding the release of our web-based CoStar Property Professional service.

Software Development Expenses. Software development expenses increased from \$5.5 million in 2002 to \$6.9 million in 2003 and increased as a percentage of revenues from 7.0% in 2002 to 7.3% in 2003. This increase was due to the addition of U.K. software development expenses as a result of the Property Intelligence

acquisition and our continued focus on service enhancements and development as well as the support of internal information systems to manage the Company's growth.

General and Administrative Expenses. General and administrative expenses increased from \$24.6 million in 2002 to \$26.5 million in 2003 and decreased as a percentage of revenues from 31.0% in 2002 to 27.8% in 2003. The increase in the amount of general and administrative expenses was primarily due to the addition of \$2.8 million for U.K. general and administrative expenses as a result of the Property Intelligence acquisition, which was offset by a decrease in general and administrative expenses from our U.S. markets primarily due to reductions in administrative headcount.

Purchase Amortization. Purchase amortization increased from \$3.6 million in 2002 to \$4.5 million in 2003. This increase was due to increased purchase price amortization of identified intangible assets resulting from the acquisition of Property Intelligence, and was partially offset by a decrease in purchase amortization resulting from the complete amortization of certain identified intangible assets during 2003.

Other Income, Net. Interest and other income decreased from \$759,000 in 2002 to \$380,000 in 2003. This decrease was primarily a result of lower total cash balances for the first three quarters of 2003, and lower interest rates during the year.

Income Tax Expense. Income tax expense increased from \$0 in 2002 to \$282,000 in 2003. This increase is a result of the fact that we achieved taxable income in the third and fourth quarters of 2003, which caused us to incur income tax expense. Our total income tax expense was partially offset through the use of some of our net operating loss carryforwards. Because we are subject to Federal alternative minimum taxes and because certain state and local tax jurisdictions do not recognize portions of our net loss carryforwards, we were not able to completely offset our income tax liability through the use of our net operating loss carryforwards.

Consolidated Quarterly Results of Operations

The following tables summarize our consolidated results of operations on a quarterly basis for the indicated periods (in thousands, except per share amounts):

	2003				2004			
	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Mar. 31	Jun. 30	Sep. 30	Dec. 31
Revenues	\$ 22,553	\$ 23,174	\$ 24,108	\$ 25,270	\$ 26,278	\$ 27,456	\$ 28,610	\$ 29,741
Cost of revenues	7,603	7,716	7,627	7,796	7,941	8,842	9,189	9,412
Gross margin	14,950	15,458	16,481	17,474	18,337	18,614	19,421	20,329
Operating expenses	15,870	15,881	16,107	16,503	17,106	17,238	17,465	18,146
Income (loss) from operations	(920)	(423)	374	971	1,231	1,376	1,956	2,183
Other income, net	77	56	65	182	238	286	311	479
Income (loss) before income taxes	(843)	(367)	439	1,153	1,469	1,662	2,267	2,662
Income tax expense (benefit)	$\frac{3}{4}$	$\frac{3}{4}$	158	124	(12)	(74)	(100)	(16,739)
Net income (loss)	\$ (843)	\$ (367)	\$ 281	\$ 1,029	\$ 1,481	\$ 1,736	\$ 2,367	\$ 19,401
Net income (loss) per Share - basic	\$ (0.05)	\$ (0.02)	\$ 0.02	\$ 0.06	\$ 0.08	\$ 0.10	\$ 0.13	\$ 1.06
Net income (loss) per Share - diluted	\$ (0.05)	\$ (0.02)	\$ 0.02	\$ 0.06	\$ 0.08	\$ 0.09	\$ 0.13	\$ 1.03

	2003				2004			
	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Mar. 31	Jun. 30	Sep. 30	Dec. 31
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenues	33.7	33.3	31.7	30.9	30.2	32.2	32.1	31.6
Gross margin	66.3	66.7	68.3	69.1	69.8	67.8	67.9	68.4
Operating expenses	70.4	68.5	66.8	65.3	65.1	62.8	61.1	61.1
Income (loss) from operations	(4.1)	(1.8)	1.5	3.8	4.7	5.0	6.8	7.3
Other income, net	0.4	0.2	0.3	0.8	0.9	1.1	1.1	1.7
Income (loss) before income taxes	(3.7)	(1.6)	1.8	4.6	5.6	6.1	7.9	9.0
Income tax expense (benefit)	0.0	0.0	0.7	0.5	0.0	(0.2)	(0.4)	(56.2)
Net income (loss)	(3.7)%	(1.6)%	1.1%	4.1%	5.6%	6.3%	8.3%	65.2%

Recent Acquisitions

Peer Market Research, Inc. On May 4, 2004, we acquired all of the outstanding capital stock of PeerMark, an online provider of commercial real estate information in Nashville and Memphis, Tennessee, for \$623,000 in cash and 5,318 shares of our common stock, valued at approximately \$207,000. In addition, the PeerMark acquisition agreement provides for additional consideration to be paid by the Company to the former shareholders of PeerMark based on the future operating performance of the acquired company.

Scottish Property Network On June 16, 2004, our U.K. subsidiary acquired SPN, a provider of online commercial property information in Scotland. We acquired substantially all of the assets of the SPN business, together with all of the outstanding capital stock of SPN, for approximately \$1.3 million in cash.

RealComp, Inc. On September 17, 2004, we acquired substantially all of the assets of RealComp, Inc., a local comparable sales information provider in Denver, Colorado, for approximately \$350,000 in cash.

National Research Bureau. On January 20, 2005, the Company acquired the assets of NRB, a leading provider of property information to the shopping center industry, from Claritas Inc. for approximately \$4.1

million in cash. The acquisition will be accounted for using purchase accounting. The purchase price will be principally allocated to various working capital accounts, database technology, customer base and goodwill.

Accounting Treatment. All of the acquisitions discussed above have been accounted for using purchase accounting. The purchase price for each of the acquisitions was allocated primarily to acquired database technology and customer base. The acquired database technology for each acquisition is being amortized on a straight-line basis over 5 years. The customer base for each acquisition, which consists of one distinct intangible asset composed of acquired customer contracts and the related customer relationships, is being amortized on a 125% declining balance method over 10 years. Goodwill will not be amortized, but is subject to annual impairment tests. The results of operations of PeerMark, SPN and RealComp have been consolidated with our results since the respective dates of acquisition. The operating results of each of PeerMark, SPN and RealComp are not considered material to our consolidated financial statements, and accordingly, pro forma financial information has not been presented for any of the acquisitions.

Liquidity and Capital Resources

Our principal sources of liquidity are cash, cash equivalents and short-term investments. Total cash, cash equivalents and short-term investments were \$117.1 million at December 31, 2004 compared to \$97.4 million at December 31, 2003. From December 31, 2003 to December 31, 2004, cash, cash equivalents and short-term investments increased \$19.7 million, principally as a result of increased EBITDA, and proceeds of \$6.3 million from employee stock option exercises to purchase approximately 425,000 shares of common stock, offset by purchases of property and equipment and other assets of approximately \$9.0 million and cash used in acquisitions.

Net cash provided by operating activities for the year ended December 31, 2004 was \$24.7 million compared to \$13.6 million for the year ended December 31, 2003. This \$11.1 million increase in net cash provided by operating activities was principally the result of revenue growth and resulting growth in gross margin, which was principally due to the result of further penetration of our subscription-based information services into our existing and potential customer base, as well as the successful cross-selling of information services into our existing customer base across our service platform. The increase in net cash produced by operating activities is also due to timing differences in payments of accounts payable and accrued expenses.

Net cash used in investing activities was \$29.9 million for the year ended December 31, 2004 compared to \$65.5 million for the year ended December 31, 2003. This \$35.6 million decrease in net cash used in investing activities was principally due to the decrease in net purchases and sales of short-term investments.

Net cash provided by financing activities was \$6.3 million for the year ended December 31, 2004 compared to \$61.8 million for the year ended December 31, 2003. The higher net cash produced by financing activities in 2003 over 2004 is due to our November 2003 follow on public offering in which we issued 1,667,500 shares of common stock and received net proceeds of \$53.5 million.

Contractual Obligations. The following table summarizes our principal contractual obligations at December 31, 2004 and the effect such obligations are expected to have on our liquidity and cash flows in future periods (in thousands):

	<u>Total</u>	<u>2005</u>	<u>2006-2007</u>	<u>2008-2009</u>	<u>2010 and thereafter</u>
Operating leases	\$ 26,024	\$ 5,922	\$ 11,517	\$ 7,645	\$ 940
Purchase obligations(1)	4,730	4,406	324	¾	¾
Total contractual principal cash obligations	<u>\$ 30,754</u>	<u>\$ 10,328</u>	<u>\$ 11,841</u>	<u>\$ 7,645</u>	<u>\$ 940</u>

(1) Amounts do not include current purchase obligations that may be renewed on the same or different terms or terminated by us or a third party.

On February 23, 2005, the Company entered into an operating lease agreement, pursuant to which the Company has agreed to lease approximately 33,371 square feet of office space located in Columbia, Maryland. The lease has an initial term of 99 months and an initial base rent of \$22.75 per rentable square foot per year. Additionally, the Company has a conditional option both to terminate the lease approximately five years after

commencement of the initial term, and to renew the lease for an additional five year period after expiration of the initial term.

During 2004, we incurred capital expenditures of approximately \$9.0 million, with approximately \$5.3 million related to building photography costs and the purchase of field research vehicles and equipment in connection with our planned 21–market expansion, and the remaining \$3.7 million to support our existing operations. Capital expenditures for 2005 are expected to include investments in assets required to support our planned market expansion, including additional field research vehicles, building photography and initial databases, and communications, measuring, photographic and computer equipment, totaling approximately \$8.0 million. Additionally, we expect to incur approximately \$4.0 million of capital expenditures during 2005 to support our existing operations.

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, debt or other means of funding to make these acquisitions.

Based on current plans, we believe that our available cash combined with positive cash flow provided by operating activities should be sufficient to fund our operations for at least the next 12 months.

As of the fourth quarter of 2004, we determined that it was more likely than not that we would generate taxable income from operations and be able to realize tax benefits arising from use of our net operating loss carryforwards to reduce the income tax we will owe on this taxable income. Prior to the fourth quarter of 2004, we recorded a valuation allowance on the deferred tax assets associated with these future tax benefits because we were not certain we would generate taxable income in the future. The release of the valuation allowance in the fourth quarter resulted in a tax benefit of approximately \$26.2 million. This included an income tax benefit of approximately \$16.7 million that was recognized in our results from operations. We also recognized a tax benefit of approximately \$9.5 million as additional paid–in capital for our net operating loss carryforwards attributable to tax deductions for stock options. As of December 31, 2004, we continued to maintain a valuation allowance of approximately \$546,000 for certain state net operating loss carryforwards.

For the foreseeable future, we expect to record income tax expense on our results from operations at an effective rate of approximately 40%. For the next several years, however, we expect the majority of our taxable income to be absorbed by our net operating loss carryforwards. As a result, we expect our cash payments for taxes to be limited primarily to federal alternative minimum taxes and to state income taxes in certain states.

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

Recent Accounting Pronouncements

We initially adopted the Emerging Issues Task Force (“EITF”) consensus on Issue No. 03-1, “The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments” on July 1, 2004, and the Financial Accounting Standards Board Staff Position (“FSP”) EITF Issue No. 03-1-1, Effective Date of Paragraphs 10-20 of EITF Issue No. 03-1, “The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments” on September 30, 2004. The consensus on Issue No. 03-1 applies to investments in marketable debt and equity securities, as well as investments in equity securities accounted for under the cost method. It provides guidance for determining when an investment is considered impaired, whether the impairment is other than temporary, and the measurement of an impairment loss. The guidance also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. FSP EITF Issue No. 03-1-1 delays the effective date of paragraphs 10-20 of EITF Issue No. 03-1, which provide guidance for determining whether the impairment is other than temporary, the measurement of an impairment loss, and accounting considerations subsequent to the recognition of an other-than-temporary impairment. Application of these paragraphs is deferred pending issuance of proposed FSP EITF Issue No. 03-1-a. The adoption of EITF Issue No. 03-1 and FSP EITF Issue No. 03-1-1 did not have a material impact on our financial position or results of operations.

In December 2004, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 153, “Exchanges of Nonmonetary Assets—An Amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions” (“SFAS 153”). SFAS 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29, “Accounting for Nonmonetary

Transactions,” and replaces it with an exception for exchanges that do not have commercial substance. SFAS 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 is effective for the fiscal periods beginning after June 15, 2005 and the Company is required to adopt it beginning January 1, 2006. The Company is currently evaluating the effect that the adoption of SFAS 153 will have on its consolidated results of operations and financial condition but does not expect it to have a material impact.

EITF Issue No. 04-1, “Accounting for Preexisting Relationships between the Parties to a Business Combination”, was issued in October 2004. This Issue applies when two parties that have a pre-existing contractual relationship enter into a business combination. Specifically, the issue is whether a consummation of a business combination between two parties that have a pre-existing contractual relationship should be evaluated to determine if a settlement of a pre-existing contractual relationship exists, thus requiring accounting separate from the business combination. If separate accounting is required, then the measurement of the settlement amount will be decided. Finally, if it is determined that assets of the acquired entity that are related to a pre-existing contractual relationship with the acquiring entity should be recognized as part of the business combination, whether the acquiring entity should recognize those assets as intangible assets apart from goodwill will be decided. The issue is effective for reporting periods beginning after October 13, 2004. The Company will assess the impact if applicable for business combinations occurring in 2005.

In December 2004, FASB issued SFAS No. 123R, “Share-Based Payment.” Under previous practice, the reporting entity could account for share-based payment under the provisions of APB Opinion No. 25 and disclose pro forma share-based compensation as accounted for under the provisions of SFAS No. 123. Under the provisions of SFAS No. 123R, a public entity is required to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost is recognized over the period during which an employee is required to provide service in exchange for the award. SFAS No. 123R is effective for fiscal quarters beginning after June 15, 2005. As such, the Company expects to adopt its provisions for the fiscal quarter beginning July 1, 2005. Application of this pronouncement requires significant judgment regarding the inputs to an option pricing model, including stock price volatility and employee exercise behavior. Most of these inputs are either highly dependent on the current economic environment at the date of grant or forward-looking over the expected term of the award. The Company is continuing to assess the impact of the adoption of SFAS No. 123R in 2005, but currently expects to incur approximately \$3.7 million in charges in 2005 for stock option and other equity compensation expense beginning in the third quarter of 2005. As a result, the Company is evaluating our compensation practices and may develop alternative stock-based employee compensation plans, including without limitation the issuance of restricted stock, which may result in recording additional expense to our consolidated statements of operations and reduce our net income.

Cautionary Statement Concerning Forward-Looking Statements

We have made forward-looking statements in this Report and make forward looking statements in our press releases and conference calls that are subject to risks and uncertainties. Forward-looking statements include information that is not purely historic fact and include, without limitation, statements concerning our financial outlook for 2005 and beyond, our possible or assumed future results of operations generally, and other statements and information regarding assumptions about our revenues, EBITDA, fully diluted net income, taxable income, cash flow from operating activities, available cash, operating costs, amortization expense, intangible asset recovery, net income per share, diluted net income per share, weighted-average outstanding shares, capital and other expenditures, effective tax rate, equity compensation charges, future taxable income, purchase amortization, financing plans, geographic expansion, capital structure, contractual obligations, legal proceedings and claims, our database, database growth, services and facilities, employee relations, future economic performance, management’s plans, goals and objectives for future operations and growth and markets for our stock. The sections of this Report which contain forward-looking statements include “Business”, “Properties”, “Legal Proceedings”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, “Quantitative and Qualitative Disclosures About Market Risk” and the Financial Statements and related Notes.

Our forward-looking statements are also identified by words such as “believes,” “expects,” “thinks,” “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. The following important factors, in addition to those discussed in "Risk Factors," and other unforeseen events or circumstances, could affect our future results and could cause those results or other outcomes to differ materially from those expressed or implied in our forward-looking statements: general economic conditions; customer retention; competition; our ability to identify and integrate acquisitions; our ability to control costs; our ability to complete successfully our planned expansion; changes or consolidations within the commercial real estate industry; release of new and upgraded services by us or our competitors; data quality; development of our sales force; employee retention; technical problems with our services; managerial execution; changes in relationships with real estate brokers and other strategic partners; foreign currency fluctuations; legal and regulatory issues; changes in accounting policies or practices; and successful adoption of and training on our services.

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 planned geographic expansion may not be completed successfully or may not result in increased revenues, which may negatively impact our business, results of operations and financial condition. Expanding into new markets imposes additional burdens on our research, systems development, sales, marketing and general managerial resources. During the next year, we expect to expand into a number of new U.S. markets and expand geographic coverage in certain of our existing markets. If we are unable to manage this expansion plan effectively, if this expansion effort takes longer than planned or if our costs for this effort exceed our expectations, our financial condition could be adversely affected. In addition, if we incur significant costs to expand into these new markets, or are not successful in marketing and selling our services in these markets, our expansion may have a material adverse effect on our financial condition by increasing our expenses without increasing our revenues, adversely affecting our profitability.

Our planned expansion into the retail real estate sector may not be completed successfully or may not result in increased revenues, which may negatively impact our business, results of operations and financial condition. Expanding into the retail real estate sector imposes additional burdens on our research, systems development, sales, marketing and general managerial resources. During the next two years, we expect to significantly expand the number of retail properties contained within our database. If we are unable to manage this expansion plan effectively, if this expansion effort takes longer than planned or if our costs for this effort exceed our expectations, our financial condition could be adversely affected. In addition, if we incur significant costs to expand into the retail sector and we are not successful in marketing and selling our expanded services, or customers fail to accept these new services, our expansion may have a material adverse effect on our financial condition by increasing our expenses without increasing our revenues, adversely affecting our profitability.

Technical problems that affect either our customers' ability to access our services, or the software, internal applications and systems underlying our services, could lead to reduced demand for our information services, lower revenues and increased costs. Our business increasingly depends upon the satisfactory performance, reliability and availability of our web site, the Internet and our service providers. Problems with our web site, the Internet or the services provided by our local exchange carriers or Internet service providers could result in slower connections for our customers or interfere with our customers' access to our information services. If we experience technical problems in distributing our services, we could experience reduced demand for our information services. In addition, the software, internal applications and systems underlying our services are complex and may not be efficient or error-free. Moreover, despite careful development and testing, we cannot be certain that we will not encounter technical problems when we attempt to enhance our software, internal applications and systems. For example, we are currently upgrading our internal research application used by our research staff to update our database of commercial real estate information, and in the event that problems occur during the deployment or future use of this application, the ability of our clients to access our services may be affected, which could result in reduced demand for our services, lower revenues and higher costs. Any inefficiencies, errors or technical problems with

our software, internal applications and systems could reduce the quality of our services or interfere with our customers' access to our information services, which could reduce the demand for our services, lower our revenues and increase our costs.

Temporary or permanent outages of our computers, software or telecommunications equipment could lead to reduced demand for our information services, lower revenues and increased costs. 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, computer viruses 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. If we experience a failure that prevents us from delivering our information services to clients, we could experience reduced demand for our information services, lower revenues and increased costs.

Changes in accounting and reporting policies or practices may affect our financial results or presentation of results, which may affect our stock price. Changes in accounting and reporting policies or practices could reduce our net income, which reductions may be independent of changes in our operations. For example, beginning in the third quarter of 2005, the Company expects to adopt the provisions of SFAS No. 123R, which will require the Company to expense the value of granted, unvested stock options. As a result, the Company expects to incur approximately \$3.7 million in equity compensation charges, which we expect will reduce our net income. In addition, in the fourth quarter of 2004 we recorded a one-time income tax credit of \$16.7 million primarily related to the release of our previously recorded valuation allowance against our net operating loss carryforwards, and as a result our net income for the fourth quarter and year ended December 31, 2004 was significantly higher than in previous periods. As a result, in subsequent periods, we expect to record income tax expense at an effective tax rate that would approximate the statutory tax rate, which will decrease our net income.

Our revenues and financial condition will be adversely affected if we are not able to attract and retain clients. Our success and revenues depend on attracting and retaining subscribers to our information services. Our subscription-based information services generate the largest portion of our revenues. However, we may be unable to attract new clients in planned expansion markets and our clients in existing markets may decide not to add, not to renew or to cancel subscription services. In addition, in order to increase our revenue growth rate, we must continue to attract new customers, continue to keep our cancellation rate low and continue to sell new services to our existing customers. We may not be able to continue to grow our customer base as a result of several factors, including without limitation: a decision that customers have no need for our services; a decision to use alternative services; pricing and budgetary constraints; consolidation in the real estate industry; data quality; technical problems; or economic or competitive pressures. If clients decide not to renew or cancel their agreements, and we do not attract new clients or sell new services to our existing clients, then our revenues or our revenue growth rate may decline.

If our operating costs are higher than we expect, our profitability may be reduced. Many of our expenses, particularly personnel costs and occupancy costs, are relatively fixed. As a result, we may not be able to adjust spending quickly enough to offset any unexpected revenue shortfall or increase in expenses. Additionally, we may experience higher than expected operating costs, including increased personnel costs, occupancy costs, selling and marketing costs, investments in geographic expansion, acquisition costs, communications costs, travel costs, software development costs, professional fees and other costs. If operating costs exceed our expectations or cannot be adjusted accordingly, our profitability may be reduced and our results of operations and financial condition will be adversely affected.

We have experienced operating losses and our future profitability is uncertain. Until the third quarter of 2003, we had not recorded an overall operating profit because the investment required for geographic expansion and new information services had caused our expenses to exceed our revenues. Our ability to continue to earn a profit will largely depend on our ability to manage our growth, including our expansion plans, and to generate revenues that exceed our expenses. We generated net income for the years ended December 31, 2003 and 2004, and our decision to release the valuation allowance on our deferred tax assets was based on our expectation of future taxable income from operations; however, we may not be able to sustain or increase profitability on a quarterly or annual basis in the future. We will continue to evaluate our expectation of future taxable income during each quarter, and if we are unable to conclude that it is more likely than not that we will continue to be profitable, then the realization of our deferred tax assets could become uncertain. In such a case, we may be required to establish a valuation allowance against some or all of our deferred tax assets, which could result in a significant charge to our earnings which could adversely affect our net income in the period in which the charge

is incurred. In addition, our ability to continue to earn a profit, to increase revenues or to control costs could be affected by the factors set forth in this section. We may not be able to generate revenues or control expenses to a degree sufficient to earn a profit, to increase profits on a quarterly or annual basis, or to sustain or increase our future revenue growth and, as a result, the market price of our common stock may decline.

A downturn or consolidation in the commercial real estate industry may decrease customer demand for our services. The commercial real estate industry has stabilized in recent months, as evidenced by improving leasing activity, rental rates and absorption rates. However, a reversal of this trend or renewed downturn in the commercial real estate market may continue to affect our ability to generate revenues and may lead to more cancellations by our current or future customers, both of which could cause our revenues or our revenue growth rate to decline and reduce our profitability. A depressed commercial real estate market has a negative impact on our core customer base, which could decrease demand for our information services. Also, companies in this industry are consolidating, often in order to reduce expenses. Consolidation may lead to more cancellations of our information services by our customers, reduce the number of our existing clients, reduce the size of our target market or increase our clients' bargaining power, all of which could cause our revenues or our revenue growth rate to decline and reduce our profitability.

General economic conditions could increase our expenses and reduce our revenues. Our business and the commercial real estate industry are particularly affected by negative trends in the general economy. The success of our business depends on a number of factors relating to general global, national, regional and local economic conditions, including inflation, interest rates, perceived and actual economic conditions, taxation policies, availability of credit, employment levels, and wage and salary levels. Negative general economic conditions could adversely affect our business by reducing our revenues and profitability. Additionally, any significant terrorist attack is likely to have a dampening effect on the economy in general which could negatively affect our financial performance and our stock price. In addition, a significant increase in inflation could increase our expenses, which may not be offset by increased revenues. If clients choose to cancel our information services as a result of economic conditions, and we do not acquire new clients, our revenues may decline and our financial position would be adversely affected.

If we are unable to hire, retain and continue to develop our sales force or if our sales force is unproductive, our revenues could be adversely affected. In order to support revenue growth, we need to continue to develop, train and retain our sales force. Our ability to build and develop a strong sales force may be affected by a number of factors, including: our ability to attract, integrate and motivate sales personnel; our ability to effectively train our sales force; the ability of our sales force to sell an increased number of services; our ability to retain an effective Vice President of Sales; our ability to grow and manage effectively an outbound telesales group; the length of time it takes new sales personnel to become productive; the competition we face from other companies in hiring and retaining sales personnel; and our ability to effectively manage a multi-location sales organization. If we are unable to hire, develop or retain the members of our sales force, or if our sales force is unproductive, our revenues could decline or cease to grow and our expenses could increase.

Competition could render our services uncompetitive. The market for information systems and services in general is highly competitive and rapidly changing. Our existing competitors, or future competitors, may have greater name recognition, larger customer bases, better technology or data, lower prices, easier access to data, greater user traffic or greater financial, technical or marketing resources than we have. Our competitors may be able to undertake more effective marketing campaigns, obtain more data, adopt more aggressive pricing policies, make more attractive offers to potential employees, subscribers, distribution partners and content providers or may be able to respond more quickly to new or emerging technologies or changes in user requirements. Increased competition could result in lower revenues and higher expenses, which would reduce our profitability.

Our stock price may be negatively affected by fluctuations in our financial results. Our operating results, revenues and expenses may fluctuate with general economic conditions and also for many other reasons, many of which are outside of our control, such as: cancellations or non-renewals of our services; competition; our ability to control expenses; loss of clients or revenues; technical problems with our services; changes or consolidation in the real estate industry; our investments in geographic expansion; interest rate fluctuations; the timing and success of new service introductions and enhancements; successful execution of our expansion plan; the development of our sales force; managerial execution; data quality; employee retention; foreign currency fluctuations; successful adoption of and training on the Company's services; the timing of investing the net proceeds from our offerings; acquisitions of other companies or assets; sales, brand enhancement and marketing promotional activities; client training and

support activities; changes in client budgets; or our investments in other corporate resources. In addition, changes in accounting policies or practices may affect our level of net income, including without limitation, changes requiring us to expense stock options. Fluctuations in our financial results, revenues and expenses may cause the market price of our common stock to decline.

If we are not able to obtain and maintain accurate, comprehensive or reliable data, we could experience reduced demand for our information services. Our success depends on our clients' confidence in the comprehensiveness, accuracy and reliability of the data we provide. The task of establishing and maintaining accurate and reliable data is challenging. If our data, including the data we obtain from third parties, is not current, accurate, comprehensive or reliable, we could experience reduced demand for our services or legal claims by our customers, which could result in lower revenues and higher expenses. In addition, during 2005, we expect to deploy a new company-wide internal research application for our U.S. researchers to use to update our database. In the event this software application is not deployed effectively, if our researchers find the application difficult to use or if this application does not work properly, our data quality may be affected, which could result in reduced demand for our services, lower revenues and higher costs.

We may not be able to successfully introduce new or upgraded information services, which could decrease our revenues and our profitability. Our future business and financial success will depend on our ability to continue to introduce new and upgraded services into the marketplace. To be successful, we must adapt to rapid technological changes by continually enhancing our information services. Developing new services and upgrades to services imposes heavy burdens on our systems department, management and researchers. This process is costly, and we cannot assure you that we will be able to successfully develop and enhance our services. In addition, successfully launching and selling a new service puts pressure on our sales and marketing resources. If we are unable to develop new or upgraded services, then our customers may choose a competitive service over ours and our revenues may decline and our profitability may be reduced. In addition, if we incur significant costs in developing new or upgraded services, are not successful in marketing and selling these new services or upgrades, or our customers fail to accept these new services, it could have a material adverse effect on our results of operations by decreasing our revenues or our revenue growth rate and by reducing our profitability.

Litigation or government investigations in which we become involved may significantly increase our expenses and adversely affect our stock price. Currently and from time to time, we are involved in litigation incidental to the conduct of our business. We cannot assure you that we will have any or sufficient insurance to cover our pending claims or our future claims. Any lawsuits, threatened lawsuits or government investigations in which we are involved could cost us a significant amount of time and money, could result in negative publicity, and could adversely affect our stock price. If any claims are determined against us, our profitability could be significantly reduced and our financial position could be adversely affected. In addition, governments in the United States or abroad could adopt laws that could harm our business by, for example, regulating the information we provide or regulating our transmissions over the Internet, or exposing our business to taxes in various jurisdictions. Compliance with any such laws could increase our costs or make our services less attractive.

If we are unable to enforce or defend our ownership and use of intellectual property, our business, competitive position and operating results could be harmed. The success of our business depends in large part on the intellectual property involved in our methodologies, database, services and software. We rely on a combination of trade secret, patent, copyright and other laws, nondisclosure and noncompetition provisions, license agreements and other contractual provisions and technical measures to protect our intellectual property rights. However, current law may not provide for adequate protection of our databases and the actual data. In addition, legal standards relating to the validity, enforceability and scope of protection of proprietary rights in Internet-related businesses are uncertain and evolving, and we cannot assure you of the future viability or value of any of our proprietary rights. Our business could be significantly harmed if we are not able to protect our content and our other intellectual property. The same would be true if a court found that our services infringe other persons' intellectual property rights. Any intellectual property lawsuits or threatened lawsuits in which we are involved, either as a plaintiff or as a defendant, could cost us a significant amount of time and money and distract management's attention from operating our business. In addition, if we do not prevail on any intellectual property claims, this could result in a change to our methodology or information services and could reduce our profitability.

If we are not able to successfully identify and integrate acquisitions, our business operations and financial condition could be adversely affected. We have expanded our markets and services in part through acquisitions

of complementary businesses, services, databases and technologies, and expect to continue to do so in the future. Our strategy to acquire complementary companies or assets depends on our ability to identify, and the availability of, suitable acquisition candidates. In addition, acquisitions involve numerous risks, including managing the integration of personnel and products; managing geographically remote operations, such as SPN in Scotland; the diversion of management's attention from other business concerns; the inherent risks in entering markets and sectors in which we have either limited or no direct experience; and the potential loss of key employees or clients of the acquired companies. We may not successfully integrate any acquired businesses or assets and may not achieve anticipated benefits of any acquisition. Future acquisitions that we may pursue could result in dilutive issuances of equity securities, the incurrence of debt, one-time write-offs of goodwill and substantial amortization expenses of other intangible assets.

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 Florance, our officers and other key employees. 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. To retain and attract key personnel, we use various measures, including employment agreements, a stock incentive plan and incentive bonuses for key executive officers. These measures may not be enough to retain and attract the personnel we need or to offset the impact on our business of the loss of the services of Mr. Florance or other key officers or employees.

International expansion may result in new business risks which may reduce our profitability. Our international expansion could subject us to new business risks, including: adapting to the differing business practices and laws in foreign countries; difficulties in managing foreign operations; limited protection for intellectual property rights in some countries; difficulty in collecting accounts receivable and longer collection periods; costs of enforcing contractual obligations; impact of recessions in economies outside the United States; currency exchange rate fluctuations; and potentially adverse tax consequences. In addition, international expansion imposes additional burdens on our executive and administrative personnel, systems development, research and sales departments, and general managerial resources. If we are not able to manage our growth successfully, we may incur higher expenses and our profitability may be reduced. Finally, the investment required for international expansion could exceed the profit generated from such expansion, which would reduce our profitability and adversely affect our financial condition.

Fluctuating foreign currencies may negatively impact our business, results of operations and financial condition. As a result of the Property Intelligence and SPN subsidiaries, a portion of our business is denominated in the British Pound and as a result, fluctuations in foreign currencies may have an impact on our business, results of operations, and financial condition. Currencies may be affected by internal factors, and external developments in other countries, all of which can have an adverse impact on a country's currency. Currently, we do not have any hedging transactions to reduce our exposure to exchange rate fluctuations. We may seek to enter into hedging transactions in the future but we may be unable to enter into these transactions successfully, on acceptable terms or at all. We cannot predict whether we will incur foreign exchange losses in the future, and significant foreign exchange fluctuations resulting in a decline in the British Pound may decrease the value of our foreign assets, as well as decrease our revenues and earnings from our foreign subsidiaries.

We may be subject to legal liability for displaying or distributing information. 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. 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. Even if 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 such liability, which may require us to expend substantial resources and limit the attractiveness of our information services to users.

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 we expect that 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.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We provide information services to the commercial real estate and related business community in the United States and the United Kingdom. Our functional currency for our operations in the United Kingdom is the local currency. As such, fluctuations in the British Pound may have an impact on our business, results of operations and financial condition. We currently do not use financial instruments to hedge our exposure to exchange rate fluctuations with respect to our foreign subsidiaries. We may seek to enter hedging transactions in the future to reduce our exposure to exchange rate fluctuations, but we may be unable to enter into hedging transactions successfully, on acceptable terms or at all. As of December 31, 2004, accumulated other comprehensive income (loss) included a gain from foreign currency translation adjustments of approximately \$4.1 million.

We do not have material exposure to market risks associated with changes in interest rates related to cash equivalent securities held as of December 31, 2004.

We have a substantial amount of intangible assets. Although as of December 31, 2004 we believe our intangible assets will be recoverable, changes in the economy, the business in which we operate and our own relative performance could change the assumptions used to evaluate intangible asset recoverability. In the event that we determine that an asset has been impaired, we would recognize an impairment charge for the excess amount by which the carrying amount of the assets exceeds the fair value of the asset. We continue to monitor these assumptions and their effect on the estimated recoverability of our intangible assets.

Item 8. Financial Statements and Supplementary Data

Financial Statements meeting the requirements of Regulation S-X are set forth beginning at page F-1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of December 31, 2004, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective and were operating at the reasonable assurance level.

There have been no changes in our internal control over financial reporting during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

Management of CoStar is responsible for establishing and maintaining adequate internal control over financial reporting and for the assessment of the effectiveness of internal control over financial reporting. As defined by the Securities and Exchange Commission, internal control over financial reporting is a process designed by, or supervised by, the Company's principal executive and principal financial officers, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles.

The Company's internal control over financial reporting is supported by written policies and procedures, that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company's assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of the Company's management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In connection with the preparation of the Company's annual financial statements, management of the Company has undertaken an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2004 based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("the COSO Framework"). Management's assessment included an evaluation of the design of the Company's internal control over financial reporting and testing of the operational effectiveness of the Company's internal control over financial reporting.

Based on this assessment, management did not identify any material weakness in the Company's internal control, and management has concluded that the Company's internal control over financial reporting was effective as of December 31, 2004.

Ernst & Young, LLC, the registered public accounting firm that audited the Company's financial statements included in this report, has issued an attestation report on management's assessment of internal control over financial reporting, a copy of which is included in this Annual Report on Form 10-K.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information required by this Item is incorporated by reference to our Proxy Statement for our 2005 annual meeting of stockholders.

Item 11. Executive Compensation

The information required by this Item is incorporated by reference to our Proxy Statement for our 2005 annual meeting of stockholders.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item is incorporated by reference to our Proxy Statement for our 2005 annual meeting of stockholders.

Item 13. Certain Relationships and Related Transactions

The information required by this Item is incorporated by reference to our Proxy Statement for our 2005 annual meeting of stockholders.

Item 14. Principal Accounting Fees and Services

The information required by this Item is incorporated by reference to our Proxy Statement for our 2005 annual meeting of stockholders.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) The following financial statements are filed as a part of this report: CoStar Group, Inc. Consolidated Financial Statements.

(a)(2) All schedules are omitted because they are not applicable or not required or because the required information is incorporated herein by reference or included in the financial statements or related notes included elsewhere in this report.

(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.

SIGNATURES

Pursuant to the requirements of Section 13 of the Securities 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 11th day of March 2005.

COSTAR GROUP, INC.

By: /s/ Andrew C. Florance

Andrew C. Florance
President and Chief Executive Officer

KNOW ALL PERSONS BY THESE PRESENTS, that each individual whose signature appears below constitutes and appoints Andrew C. Florance and Frank A. Carchedi, and each of them individually, as their true and lawful attorneys-in-fact and agents, with full 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 connection therewith, as fully to all intents and purposes as he might or could do in person, herein by ratifying and 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 Act of 1934, as amended, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Capacity</u>	<u>Date</u>
<u>/s/ Michael R. Klein</u> Michael R. Klein	Chairman of the Board	March 8, 2005
<u>/s/ Andrew C. Florance</u> Andrew C. Florance	Chief Executive Officer and President and a Director (Principal Executive Officer)	March 11, 2005
<u>/s/ Frank A. Carchedi</u> Frank A. Carchedi	Chief Financial Officer (Principal Financial and Accounting Officer)	March 11, 2005
<u>/s/ David Bonderman</u> David Bonderman	Director	March 4, 2005
<u>/s/ Warren H. Haber</u> Warren H. Haber	Director	March 5, 2005
<u>/s/ Josiah O. Low, III</u> Josiah O. Low, III	Director	March 4, 2005
<u>/s/ Christopher Nassetta</u> Christopher Nassetta	Director	March 4, 2005

Signature

/s/ Catherine B. Reynolds

Capacity

Director

Date

March 8, 2005

Catherine B. Reynolds

INDEX TO EXHIBITS

Exhibit No.	Description
2.1	Offer Document by CoStar Limited for the share capital of Property Intelligence plc (Incorporated by reference to Exhibit 2.1 to Amendment No. 2 to the Registration Statement on Form S-3 of the Registrant (Reg. No. 333-106769) filed with the Commission on August 14, 2003).
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 Restate Certificate of Incorporation (Incorporated by reference to Exhibit 3.1 to the Registrant's Report on Form 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 (Incorporated by reference to Exhibit 4.1 to the Registrant's Report on Form 10-K for the year ended December 31, 1999 (the "1999 10-K")).
*10.1	CoStar Group, Inc. 1998 Stock Incentive Plan, as amended (Incorporated by reference to Exhibit 10.1 to the Registrant's Report on Form 10-Q dated June 30, 2002).
*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).
*10.3.1	Addendum to Employment Agreement, dated as of April 1, 2004, between CoStar Realty Information, Inc. and Frank Carchedi (Incorporated by reference to Exhibit 10.2 to the Registrant's Report on Form 10-Q for the quarter ended June 30, 2004).
*10.4	Employment Agreement for David M. Schaffel (Incorporated by reference to Exhibit 10.4 to the 1998 Form S-1).
*10.4.1	Addendum to Employment Agreement, dated as of April 1, 2004, between CoStar Realty Information, Inc. and David Schaffel (Incorporated by reference to Exhibit 10.3 to the Registrant's Report on Form 10-Q for the quarter ended June 30, 2004).
*10.5	Employment Terms for Craig Farrington (Incorporated by reference to Exhibit 10.7 to the Registrant's Report on Form 10-K for the year ended December 31, 2000).
*10.5.1	Addendum to Employment Terms, dated as of April 1, 2004, between CoStar Realty Information, Inc. and Craig Farrington (Incorporated by reference to Exhibit 10.4 to the Registrant's Report on Form 10-Q for the quarter ended June 30, 2004).
*10.6	Employment Agreement, dated as of November 29, 2004, between Christopher Tully and CoStar Realty Information, Inc. (filed herewith).
*10.7	Form of Indemnification Agreement between the Registrant and each of its officers and directors (Incorporated by reference to Exhibit 10.1 to the Registrant's Report on Form 10-Q for the quarter ended March 31, 2004).
*10.8	Form of Stock Option Agreement between the Registrant and certain of its officers, directors and employees (filed herewith).
*10.8.1	Form of Stock Option Agreement between the Registrant and Andrew C. Florance (filed herewith).
*10.8.2	Form of Stock Option Agreement between the Registrant and each of Frank A. Carchedi and David M. Schaffel (filed herewith).
*10.9	Form of Restricted Stock Agreement between the Registrant and certain of its officers, directors and employees (filed herewith).
10.10	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 Registrant's Report on Form 10-Q dated September 30, 1999).
10.11	Office Sublease, dated June 14, 2002, between CoStar Realty Information, Inc., CoStar Group, Inc. and Gateway, Inc. (Incorporated by reference to Exhibit 10.2 to the Registrant's Report on Form 10-Q dated June 30, 2002).

Exhibit No.	Description
10.12	Addendum No. 3 to Office Lease, dated as of May 12, 2004, between Newlands Building Venture, LLC, and CoStar Realty Information, Inc. (Incorporated by reference to Exhibit 10.1 to the Registrant's Report on Form 10-Q for the quarter ended June 30, 2004).
10.13	Office Lease, dated as of February 23, 2005, between CoStar Realty Information, Inc. and Crestpointe III, LLC. (filed herewith).
21.1	Subsidiaries of the Registrant (filed herewith).
23.1	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm (filed herewith).
24.1	Powers of Attorney (Included in the Signature Pages to the Report).
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).

* Management Contract or Compensatory Plan or Arrangement.

COSTAR GROUP, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Reports of Independent Registered Public Accounting Firm	F-2
Consolidated Statements of Operations for the years ended December 31, 2002, 2003 and 2004	F-4
Consolidated Balance Sheets as of December 31, 2003 and 2004	F-5
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2002, 2003 and 2004	F-6
Consolidated Statements of Cash Flows for the years ended December 31, 2002, 2003 and 2004	F-7
Notes to Consolidated Financial Statements	F-8

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of CoStar Group, Inc.

We have audited the accompanying consolidated balance sheets of CoStar Group, Inc. as of December 31, 2004 and 2003, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2004. 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 the standards of the Public Company Accounting Oversight Board (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, 2004 and 2003, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of CoStar Group, Inc.'s internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 8, 2005 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

McLean, Virginia
March 8, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of CoStar Group, Inc.

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that CoStar Group, Inc. maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). CoStar Group, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that CoStar Group, Inc. maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, CoStar Group, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets as of December 31, 2004 and 2003 and the related consolidated statements of operations, stockholder's equity and cash flows for each of the three years in the period ended December 31, 2004 of CoStar Group, Inc. and our report dated March 8, 2005 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

McLean, Virginia
March 8, 2005

COSTAR GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Year Ended December 31,		
	2002	2003	2004
Revenues	\$ 79,363	\$ 95,105	\$ 112,085
Cost of revenues	28,012	30,742	35,384
Gross margin	51,351	64,363	76,701
Operating expenses:			
Selling and marketing	23,158	26,537	29,458
Software development	5,524	6,886	8,492
General and administrative	24,612	26,451	27,654
Purchase amortization	3,600	4,487	4,351
	<u>56,894</u>	<u>64,361</u>	<u>69,955</u>
Income (loss) from operations	(5,543)	2	6,746
Other income (expense):			
Interest expense	(4)	¾	¾
Interest income	767	381	1,314
Other expense	(4)	(1)	¾
Income (loss) before income taxes	(4,784)	382	8,060
Income tax expense (benefit)	¾	282	(16,925)
Net income (loss)	<u>\$ (4,784)</u>	<u>\$ 100</u>	<u>\$ 24,985</u>
Net income (loss) per share ¾ basic	<u>\$ (0.30)</u>	<u>\$ 0.01</u>	<u>\$ 1.38</u>
Net income (loss) per share ¾ diluted	<u>\$ (0.30)</u>	<u>\$ 0.01</u>	<u>\$ 1.33</u>
Weighted average outstanding shares ¾ basic	<u>15,759</u>	<u>16,202</u>	<u>18,165</u>
Weighted average outstanding shares ¾ diluted	<u>15,759</u>	<u>16,674</u>	<u>18,827</u>

See accompanying notes.

COSTAR GROUP, INC.

CONSOLIDATED BALANCE SHEETS
(in thousands except per share data)

	December 31,	
	2003	2004
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 35,643	\$ 36,807
Short-term investments	61,806	80,262
Accounts receivable, less allowance for doubtful accounts of approximately \$1,759 and \$1,375 as of December 31, 2003 and 2004	4,308	3,921
Deferred income taxes, net	¾	4,177
Prepaid expenses and other current assets	1,981	1,916
Total current assets	103,738	127,083
Deferred income taxes, net	¾	21,487
Property and equipment, net	10,254	13,489
Goodwill, net	37,351	41,937
Intangibles and other assets, net	31,590	27,657
Deposits	967	1,038
Total assets	\$ 183,900	\$ 232,691
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,235	\$ 1,876
Accrued wages and commissions	3,613	4,193
Accrued expenses	4,797	6,847
Deferred revenue	5,886	6,292
Total current liabilities	15,531	19,208
Deferred income taxes, net	¾	2,539
Stockholders' equity:		
Preferred stock, \$0.01 par value; 2,000 shares authorized; none outstanding	¾	¾
Common stock, \$0.01 par value; 30,000 shares authorized; 17,877 and 18,303 issued and outstanding as of December 31, 2003 and 2004	179	183
Additional paid-in capital	267,183	283,206
Accumulated other comprehensive income	2,396	3,959
Accumulated deficit	(101,389)	(76,404)
Total stockholders' equity	168,369	210,944
Total liabilities and stockholders' equity	\$ 183,900	\$ 232,691

See accompanying notes.

COSTAR GROUP, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)

	Comprehensive Income (Loss)	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Equity
		Shares	Amount				
Balance at December 31, 2001		15,718	157	204,567	¾	(96,705)	108,019
Net loss	(4,784)	¾	¾	¾	¾	(4,784)	(4,784)
Comprehensive loss	<u>\$ (4,784)</u>						
Exercise of stock options		88	1	695	¾	¾	696
Stock issued for acquisitions		5	¾	99	¾	¾	99
Restricted stock grants retired		(1)	¾	(13)	¾	¾	(13)
Balance at December 31, 2002		15,810	158	205,348	¾	(101,489)	104,017
Net income	100	¾	¾	¾	¾	100	100
Foreign currency translation adjustment	2,419	¾	¾	¾	2,419	¾	2,419
Net unrealized loss on short-term investments	(23)	¾	¾	¾	(23)	¾	(23)
Comprehensive income	<u>\$ 2,496</u>						
Exercise of stock options		395	4	8,257	¾	¾	8,261
Stock issued for acquisitions		5	¾	97	¾	¾	97
Stock issued for follow-on public offering, net of offering costs		1,667	17	53,481	¾	¾	53,498
Balance at December 31, 2003		17,877	179	267,183	2,396	(101,389)	168,369
Net income	24,985	¾	¾	¾	¾	24,985	24,985
Foreign currency translation adjustment	1,729	¾	¾	¾	1,729	¾	1,729
Net unrealized loss on short-term investments	(166)	¾	¾	¾	(166)	¾	(166)
Comprehensive income	<u>\$ 26,548</u>						
Exercise of stock options		421	4	6,293	¾	¾	6,297
Release of valuation allowance related to the deferred tax benefit for exercised stock options		¾	¾	9,523	¾	¾	9,523
Stock issued for PeerMark acquisition		5	¾	207	¾	¾	207
Balance at December 31, 2004		<u>18,303</u>	<u>\$ 183</u>	<u>\$ 283,206</u>	<u>\$ 3,959</u>	<u>\$ (76,404)</u>	<u>\$ 210,944</u>

See accompanying notes.

COSTAR GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,		
	2002	2003	2004
Operating activities:			
Net income (loss)	\$ (4,784)	\$ 100	\$ 24,985
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	4,179	4,960	5,525
Amortization	7,608	8,206	7,485
Income tax benefit	¾	¾	(17,052)
Provision for losses on accounts receivable	2,228	2,078	401
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	(3,001)	885	117
Prepaid expenses and other current assets	(610)	659	98
Deposits	72	(631)	(11)
Accounts payable and accrued expenses	(336)	(2,403)	3,064
Deferred revenue	218	(304)	111
Net cash provided by operating activities	<u>5,574</u>	<u>13,550</u>	<u>24,723</u>
Investing activities:			
Purchases of short-term investments	(33,076)	(61,823)	(90,588)
Sales of short-term investments	42,734	1,592	71,944
Purchases of property and equipment and other assets	(4,437)	(4,257)	(9,032)
Cash held for acquisition	(16,386)	16,386	¾
Acquisitions, net of acquired cash	(305)	(17,419)	(2,270)
Net cash used in investing activities	<u>(11,470)</u>	<u>(65,521)</u>	<u>(29,946)</u>
Financing activities:			
Exercise of stock options	696	8,261	6,297
Issuance of common stock, net	¾	53,498	¾
Net cash provided by financing activities	<u>696</u>	<u>61,759</u>	<u>6,297</u>
Effect of foreign currency exchange rates on cash and cash equivalents	¾	309	90
Net increase (decrease) in cash and cash equivalents	(5,200)	10,097	1,164
Cash and cash equivalents at beginning of year	30,746	25,546	35,643
Cash and cash equivalents at end of year	<u>\$ 25,546</u>	<u>\$ 35,643</u>	<u>\$ 36,807</u>
Supplemental disclosure of non-cash transactions:			
Release of valuation allowance related to the deferred tax benefit for exercised stock options	\$ —	\$ —	\$ 9,523

See accompanying notes.

COSTAR GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004

1. ORGANIZATION

CoStar Group, Inc. (the "Company") has created a comprehensive, proprietary database of commercial real estate information for metropolitan areas throughout the United States and the United Kingdom. Based on its unique database, the Company provides information services to the commercial real estate and related business community in the United States and the United Kingdom and operates within one business segment. The information services are typically distributed to its clients under subscription-based license agreements which have a minimum term of one year and renew automatically.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances have been eliminated in consolidation.

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

The Company primarily derives revenues from providing access to its proprietary database of commercial real estate information. The Company generally charges a fixed monthly amount for its subscription-based services. Subscription contract rates are based on the number of sites, number of users, organization size, the client's business focus and the number of services to which a client subscribes. Subscription-based license agreements typically have a minimum term of one year and renew automatically.

Revenues from subscription-based services are recognized on a straight-line basis over the term of the agreement. Deferred revenue results from advance cash receipts from customers or amounts billed in advance to customers from the sales of subscription licenses and is recognized over the term of the license.

Cost of Revenues

Cost of revenues principally consists of salaries and related expenses for the Company's researchers who collect and analyze the commercial real estate data that is the basis for the Company's information services. Additionally, cost of revenues includes the cost of data from third-party data sources, which is expensed as incurred, and the amortization of database technology.

Significant Customers

No single customer accounted for more than 5% of the Company's revenues for the years ended December 31, 2002, 2003 and 2004.

COSTAR GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS ³/₄ (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES ³/₄ (Continued)

Foreign Currency Translation

The Company's functional currency in its foreign location is the local currency. Assets and liabilities are translated into U.S. dollars as of the balance sheet date. Revenue, expenses, gains and losses are translated at the average exchange rates in effect during each period. Gains and losses resulting from translation are included in accumulated other comprehensive income (loss). Net gains or losses resulting from foreign currency exchange transactions are included in the consolidated statement of operations. The Company had an increase in comprehensive income (loss) of approximately \$1.7 million from the translation of its foreign subsidiary's assets and liabilities into U.S. dollars for the year ended December 31, 2004. There were no material gains or losses from foreign currency exchange transactions for the year ended December 31, 2004.

Comprehensive Income (Loss)

For the years ended December 31, 2002, 2003 and 2004, total comprehensive income (loss) was approximately (\$4.8) million, \$2.5 million and \$26.5 million, respectively. As of December 31, 2004, accumulated other comprehensive income (loss) included gains from foreign currency translation adjustments of approximately \$4.1 million and unrealized losses on short-term investments of approximately \$189,000.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising expense was \$165,000, \$354,000 and \$584,000 for the years ended December 31, 2002, 2003 and 2004, respectively.

Income Taxes

The Company provides for income taxes under the provisions of Statement of Financial Accounting Standards No. 109 ("SFAS No. 109"). Deferred income taxes result from temporary differences between the tax basis of assets and liabilities and the basis reported in the Company's consolidated financial statements. 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. Valuation allowances are provided against assets, including net operating losses, if it is anticipated that some or all of the asset may not be realized through future taxable earnings or implementation of tax planning strategies.

Net Income (Loss) Per Share

Net income (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period on a basic and diluted basis. The Company's potentially dilutive securities include stock options. Diluted net income (loss) per share considers the impact of potentially dilutive securities except in periods in which there is a net loss as the inclusion of the potential common shares would have an anti-dilutive effect.

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"). Under APB 25, compensation expense is based on the difference, if any, on the date of grant between the fair value of the Company's common stock and the exercise price of the option and is recognized ratably over the vesting period of the option. 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" ("SFAS No. 123").

COSTAR GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS ³/₄ (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES ³/₄ (Continued)

Stock-Based Compensation ³/₄ (Continued)

In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure, an amendment of FASB Statement No. 123" ("SFAS No. 148") which amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements. The Company has adopted the disclosure requirements of SFAS 123 and SFAS 148. The following table illustrates the effect on net income (loss) and net income (loss) per share as if the Company had applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation (in thousands, except per share amounts):

	Year Ended December 31,		
	2002	2003	2004
Net income (loss), as reported	\$ (4,784)	\$ 100	\$ 24,985
Add: stock-based employee compensation expense included in reported net income (loss)	³ / ₄	³ / ₄	³ / ₄
Deduct: total stock-based employee compensation expense determined under fair value based method for all awards	(6,987)	(4,193)	(7,599)
Pro forma net income (loss)	<u>\$ (11,771)</u>	<u>\$ (4,093)</u>	<u>\$ 17,386</u>
Net income (loss) per share:			
Basic ³ / ₄ as reported	<u>\$ (0.30)</u>	<u>\$ 0.01</u>	<u>\$ 1.38</u>
Basic ³ / ₄ pro forma	<u>\$ (0.75)</u>	<u>\$ (0.25)</u>	<u>\$ 0.96</u>
Diluted ³ / ₄ as reported	<u>\$ (0.30)</u>	<u>\$ 0.01</u>	<u>\$ 1.33</u>
Diluted ³ / ₄ pro forma	<u>\$ (0.75)</u>	<u>\$ (0.25)</u>	<u>\$ 0.92</u>

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. As of December 31, 2003 and 2004, cash of \$1,053,000 and \$805,000, respectively, was restricted cash, held in accounts to support letters of credit.

Short-Term Investments

The Company accounts for short-term investments in accordance with Statement of Financial Accounting Standards ("SFAS No. 115), "Accounting for Certain Investments in Debt and Equity Securities." The Company determines the appropriate classification of investments at the time of purchase and reevaluates such designation as of each balance sheet date. The Company considers all of its investments to be available-for-sale. Investments consist of commercial paper, government/federal notes and bonds and corporate obligations with maturities greater than 90 days at the time of purchase. Available-for-sale investments with contractual maturities beyond one year are classified as current in our consolidated balance sheets because they represent the investment of cash that is available for current operations. Investments are carried at fair market value.

COSTAR GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS ¾ (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES ¾ (Continued)

Short-Term Investments – (Continued)

Scheduled maturities of securities classified as available for sale as of December 31, 2004 are as follows (in thousands):

Maturity	Fair Value
Due in:	
2005	\$ 54,925
2006-2009	10,879
2010-2014	859
2015 and thereafter	¾
	66,663
Mortgage backed with multiple maturities	13,599
Short-term investments	<u>\$ 80,262</u>

Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a separate component of other comprehensive income in stockholders' equity until realized. Realized gains and losses from the sale of available-for-sale securities are determined on a specific-identification basis. A decline in market value of any available-for-sale security below cost that is deemed to be other than temporary results in a reduction in carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. Dividend and interest income are recognized when earned.

The unrealized losses on the Company's investments as of December 31, 2003 and 2004 were generated primarily from increases in interest rates. The losses are considered temporary, as the contractual terms of these investments do not permit the issuer to settle the security at a price less than the amortized cost of the investment. Because the Company has the ability to hold these investments until a recovery of fair value, which may be maturity, it does not consider these investments to be other-than-temporarily impaired as of December 31, 2003 and 2004.

There were no investments in a loss position for twelve months or more as of December 31, 2003 and 2004. The components of the investments in a loss position for less than twelve months consists of the following (in thousands):

	December 31,			
	2003		2004	
	Aggregate Fair Value	Gross Unrealized Losses	Aggregate Fair Value	Gross Unrealized Losses
Municipal debt securities	\$ 39,150	\$ (22)	\$ 33,639	\$ (115)
Federal debt securities	¾	¾	20,324	(49)
Corporate debt securities	1,000	(1)	25,485	(27)
	<u>\$ 40,150</u>	<u>\$ (23)</u>	<u>\$ 79,448</u>	<u>\$ (191)</u>

The gross unrealized gains for the years ended December 31, 2003 and 2004 are approximately \$0 and \$2,000, respectively.

COSTAR GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS ¾ (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES ¾ (Continued)

Short-Term Investments – (Continued)

During the year ended December 31, 2004, the Company recognized in other comprehensive income net unrealized losses on short-term investments of approximately \$166,000.

Concentration of Credit Risk and Financial Instruments

The Company performs ongoing credit evaluations of its customers' financial condition and generally does not require that its customers' obligations to the Company be secured. The Company maintains reserves for credit losses, and such losses have been within management's expectations. The risk of nonpayment of the Company's accounts receivable is mitigated by the large size and widespread nature of the Company's customer base and lack of dependence on individual customers. The carrying amount of the accounts receivable approximates the net realizable value. The carrying value of the Company's financial instruments including cash and cash equivalents, short-term investments, accounts receivable, accounts payable, and accrued expenses approximates fair value.

Property and Equipment

Property and equipment are stated at cost. All repairs and maintenance costs are expensed as incurred. 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	Five years
Computer hardware and software	Two to five years

Internal use software costs are capitalized in accordance with Statement of Position No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"). Qualifying costs incurred during the application development stage, which consist primarily of outside services and purchased software license costs, are capitalized and amortized over the estimated useful life of the asset. All other costs are expensed as incurred.

Capitalized Product Development Costs

Initial costs to develop and produce the Company's database and software products, including direct labor, contractors and applicable overhead were capitalized from the time technological feasibility was determined until the initial product release. Prior to technological feasibility, such costs were classified as software development and expensed as incurred. Ongoing significant enhancements of the products were also capitalized. 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 expense is approximately \$260,000, \$193,000 and \$169,000 of expense related to the capitalized product development costs for the years ended December 31, 2002, 2003 and 2004, respectively.

Goodwill, Intangibles and Other Assets

Goodwill represents the excess of costs over the fair value of assets of businesses acquired. Goodwill and intangible assets subject to amortization that arose from acquisitions prior to July 1, 2001, have been amortized on a straight-line basis over their estimated useful lives in accordance with Accounting Principles Board Opinion No. 17, "Intangible Assets". The Company adopted the provisions of Statement of Financial Accounting Standards No. 142,

COSTAR GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS ³/₄ (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES ³/₄ (Continued)

Goodwill, Intangibles and Other Assets – (Continued)

“Goodwill and Other Intangible Assets” (“SFAS 142”), as of January 1, 2002. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires that intangible assets with estimable useful lives that arose from acquisitions on or after July 1, 2001 be amortized over their respective estimated useful lives using a method of amortization that reflects the pattern in which the economic benefits of the intangible assets are consumed or otherwise used up, and reviewed for impairment in accordance with Statement of Financial Accounting Standards No. 144, “Accounting for Impairment or Disposal of Long-Lived Assets”. In connection with the adoption of SFAS 142, the Company performed the transitional impairment test during the second quarter of 2002 and concluded that goodwill was not impaired.

Acquired technology, customer base and tradename are related to the Company’s acquisitions (See Notes 3 and 5). Acquired technology and tradename are amortized on a straight-line basis over periods ranging from two to ten years. The acquired intangible asset characterized as customer base consists of one distinct intangible asset composed of acquired customer contracts and the related customer relationships. Customer bases that arose from acquisitions prior to July 1, 2001 are amortized on a straight-line basis principally over a period of ten years. Customer bases that arose from acquisitions on or after July 1, 2001 are amortized on a 125% declining balance method over ten years. The cost of capitalized building photography is amortized on a straight-line basis over five years.

Long-Lived Assets

In accordance with Statement of Financial Accounting Standards No. 144, long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset or asset group. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and would no longer be depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

Goodwill and intangible assets not subject to amortization are tested annually for impairment, and are tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset’s fair value.

New Accounting Pronouncements

We initially adopted the Emerging Issues Task Force (“EITF”) consensus on Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments on July 1, 2004, and the Financial Accounting Standards Board Staff Position (“FSP”) EITF Issue No. 03-1-1, Effective Date of Paragraphs 10-20 of EITF Issue No. 03-1, “The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments” on September 30, 2004. The consensus on Issue No. 03-1 applies to investments in marketable debt and equity securities, as well as investments in equity securities accounted for under the cost method. It provides guidance for determining when an investment is considered impaired, whether the impairment is other than temporary, and the measurement of an impairment loss. The guidance also includes accounting considerations subsequent to the recognition of an other-than-temporary

COSTAR GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS $\frac{3}{4}$ (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES $\frac{3}{4}$ (Continued)

New Accounting Pronouncements – (Continued)

impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. FSP EITF Issue No. 03-1-1 delays the effective date of paragraphs 10-20 of EITF Issue No. 03-1, which provide guidance for determining whether the impairment is other than temporary, the measurement of an impairment loss, and accounting considerations subsequent to the recognition of an other-than-temporary impairment. Application of these paragraphs is deferred pending issuance of proposed FSP EITF Issue No. 03-1-a. The adoption of EITF Issue No. 03-1 and FSP EITF Issue No. 03-1-1 did not have a material impact on our financial position or results of operations.

In December 2004, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 153, “Exchanges of Nonmonetary Assets—An Amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions” (“SFAS 153”). SFAS 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29, “Accounting for Nonmonetary Transactions,” and replaces it with an exception for exchanges that do not have commercial substance. SFAS 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 is effective for the fiscal periods beginning after June 15, 2005 and the Company is required to adopt it beginning January 1, 2006. The Company is currently evaluating the effect that the adoption of SFAS 153 will have on its consolidated results of operations and financial condition but does not expect it to have a material impact.

EITF Issue No. 04-1, “Accounting for Preexisting Relationships between the Parties to a Business Combination.” This issue applies when two parties that have a pre-existing contractual relationship enter into a business combination. Specifically, the Issue is whether a consummation of a business combination between two parties that have a pre-existing contractual relationship should be evaluated to determine if a settlement of a pre-existing contractual relationship exists, thus requiring accounting separate from the business combination. If separate accounting is required, then the measurement of the settlement amount will be decided. Finally, if it is determined that assets of the acquired entity that are related to a pre-existing contractual relationship with the acquiring entity should be recognized as part of the business combination, whether the acquiring entity should recognize those assets as intangible assets apart from goodwill will be decided. The issue is effective for reporting periods beginning after October 13, 2004. The Company will assess the impact if applicable for business combinations occurring in 2005.

In December 2004, the FASB issued Statement of Financial Accounting Standard (SFAS) No. 123R, “Share-Based Payment.” Under previous practice, the reporting entity could account for share-based payment under the provisions of APB Opinion No. 25 and disclose pro forma share-based compensation as accounted for under the provisions of SFAS No. 123. Under the provisions of SFAS No. 123R, a public entity is required to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost is recognized over the period during which an employee is required to provide service in exchange for the award. SFAS No. 123R is effective for fiscal quarters beginning after June 15, 2005. As such, the Company expects to adopt its provisions for the fiscal quarter beginning July 1, 2005. Application of this pronouncement requires significant judgment regarding the inputs to an option pricing model, including stock price volatility and employee exercise behavior. Most of these inputs are either highly dependent on the current economic environment at the date of grant or forward-looking over the expected term of the award. We are currently evaluating the requirements of SFAS No. 123R and expect that the adoption of SFAS No. 123R will have a material impact on our consolidated financial position and consolidated results of operations. We have not yet determined whether the adoption will result in amounts that are similar to the current pro forma disclosures under SFAS No. 123.

COSTAR GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS ¾ (Continued)

3. ACQUISITIONS

On January 6, 2003, the Company acquired the share capital of London-based Property Intelligence plc (“Property Intelligence”) for the U.S. dollar equivalent of approximately \$17.4 million, net of cash acquired of approximately \$1.4 million. The acquisition has been accounted for using purchase accounting and the purchase price was allocated as follows (in thousands):

	Value
Working capital and other tangible assets	\$ 103
Acquired database technology	1,186
Customer base	8,000
Goodwill	12,655
Deferred tax liability	(3,100)
	\$ 18,844

The acquired database technology is being amortized on a straight-line basis over 5 years. The customer base, which consists of one distinct intangible asset composed of acquired customer contracts and the related customer relationships, is being amortized on a 125% declining balance method over 10 years. Goodwill will not be amortized, but is subject to annual impairment tests.

During January 2004, the Company completed its review of current information regarding the income tax attributes and deferred taxes related to the Property Intelligence acquisition and recorded deferred income taxes and related goodwill of approximately \$3.1 million as a result. The results of operations of Property Intelligence have been consolidated with those of the Company since the date of acquisition. The operating results of Property Intelligence are not considered material to the consolidated financial statements of the Company, and accordingly, pro forma financial information has not been presented for this acquisition. The Company generated 92% and 8% of its total revenues in the United States and the United Kingdom, respectively, for the years ended December 31, 2003 and 2004. As of December 31, 2003, 73% and 27% of the Company’s total long-lived assets, which are comprised of property and equipment, goodwill, intangibles and other assets, were located in the United States and the United Kingdom, respectively. As of December 31, 2004, 68% and 32% of the Company’s total long-lived assets, which are comprised of property and equipment, goodwill, intangibles and other assets, were located in the United States and the United Kingdom, respectively.

On May 4, 2004, the Company acquired all of the outstanding capital stock of Peer Market Research, Inc. (“PeerMark”), an online provider of commercial real estate information in Nashville and Memphis, Tennessee, for \$623,000 in cash and 5,318 shares of the Company’s common stock valued at approximately \$207,000. In addition, the PeerMark acquisition agreement provides for additional consideration to be paid by the Company to the former shareholders of PeerMark based on the future operating performance of the acquired company.

On June 16, 2004, the Company’s U.K. subsidiary acquired substantially all of the assets together with all the outstanding capital stock of Scottish Property Network (“SPN”), a provider of online commercial property information in Scotland, for approximately \$1.3 million in cash.

On September 17, 2004, the Company acquired substantially all of the assets of RealComp, Inc. (“RealComp”), a local comparable sales information provider in Denver, Colorado, for approximately \$350,000 in cash.

All of the 2004 acquisitions have been accounted for using purchase accounting. The purchase price for each acquisition was allocated primarily to acquired database technology and customer base. The acquired database technology for each acquisition is being amortized on a straight-line basis over 5 years. The customer base for each

COSTAR GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS ¾ (Continued)

3. ACQUISITIONS ¾ (Continued)

acquisition, which consists of one distinct intangible asset composed of acquired customer contracts and the related customer relationships, is being amortized on a 125% declining balance method over 10 years. Goodwill is not amortized, but is subject to annual impairment tests.

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

4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following (in thousands):

	December 31,	
	2003	2004
Leasehold improvements	\$ 3,360	\$ 3,823
Furniture, office equipment and research vehicles	7,116	11,899
Computer hardware and software	18,480	20,414
	28,956	36,136
Accumulated depreciation and amortization	(18,702)	(22,647)
Property and equipment, net	\$ 10,254	\$ 13,489

5. GOODWILL

Goodwill consists of the following (in thousands):

	December 31,	
	2003	2004
Goodwill	\$ 48,574	\$ 53,160
Accumulated amortization	(11,223)	(11,223)
Goodwill, net	\$ 37,351	\$ 41,937

During January 2004, the Company completed its review of current information regarding the income tax attributes and deferred taxes related to the Property Intelligence plc acquisition and recorded deferred income taxes and related goodwill of approximately \$3.1 million. In June 2004, the Company also recorded deferred income taxes and related goodwill of approximately \$400,000 for the SPN acquisition. The amortization of these identified intangible assets is non-deductible for income tax purposes, and as a result, the Company realizes an income tax benefit as the deferred income taxes are reduced in connection with the related amortization of these assets over their estimated useful lives.

The Company recorded goodwill of approximately \$96,000 for the PeerMark acquisition in May 2004 and approximately \$58,000 for the RealComp acquisition in September 2004.

During the fourth quarters of 2003 and 2004, the Company completed the annual impairment test of goodwill and concluded that goodwill was not impaired.

COSTAR GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS ¾ (Continued)

6. INTANGIBLES AND OTHER ASSETS

Intangibles and other assets consists of the following (dollars in thousands):

	December 31, 2003	December 31, 2004	Weighted- Average Amortization Period (in years)
Capitalized product development costs	\$ 1,795	\$ 1,795	5
Accumulated amortization	(1,626)	(1,795)	
Capitalized product development costs, net	<u>169</u>	<u>¾</u>	
Building photography	4,777	5,253	5
Accumulated amortization	(4,048)	(4,552)	
Building photography, net	<u>729</u>	<u>701</u>	
Acquired database technology	19,438	20,259	4
Accumulated amortization	(16,245)	(18,323)	
Acquired database technology, net	<u>3,193</u>	<u>1,936</u>	
Acquired customer base	41,107	43,540	10
Accumulated amortization	(16,175)	(20,667)	
Acquired customer base, net	<u>24,932</u>	<u>22,873</u>	
Acquired tradename	4,198	4,198	10
Accumulated amortization	(1,631)	(2,051)	
Acquired tradename, net	<u>2,567</u>	<u>2,147</u>	
Intangibles and other assets, net	<u>\$ 31,590</u>	<u>\$ 27,657</u>	

Amortization expense for intangibles and other assets was approximately \$7.6 million, \$8.3 million and \$7.5 million for the years ended December 31, 2002, 2003 and 2004, respectively.

In the aggregate, amortization for intangibles and other assets existing as of December 31, 2004 for future periods is expected to be approximately \$6.1 million, \$5.9 million, \$5.4 million, \$5.0 million and \$3.5 million for the years ending December 31, 2005, 2006, 2007, 2008 and 2009, respectively.

COSTAR GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS ¾ (Continued)

7. INCOME TAXES

The components of the provision (benefit) for income taxes attributable to operations consist of the following (in thousands):

	Year Ended December 31,		
	2002	2003	2004
Current:			
Federal	\$ ¾	\$ 77	\$ 105
State	¾	205	22
Foreign	¾	¾	¾
Total current	¾	282	127
Deferred:			
Federal	¾	¾	(13,361)
State	¾	¾	(2,764)
Foreign	¾	¾	(927)
Total deferred	¾	¾	(17,052)
Total provision (benefit) for income taxes	\$ ¾	\$ 282	\$ (16,925)

The components of deferred tax assets and liabilities consists of the following (in thousands):

	December 31,	
	2003	2004
Deferred tax assets:		
Reserve for bad debts	\$ 575	\$ 422
Accrued compensation	412	611
Net operating losses	31,234	28,491
Other liabilities	1,483	1,365
Total deferred tax assets	33,704	30,889
Deferred tax liabilities:		
Prepays	¾	(298)
Depreciation	(482)	18
Product development costs	(65)	¾
Identified intangibles associated with purchase accounting	(5,048)	(6,937)
Total deferred tax liabilities	(5,595)	(7,217)
Net deferred tax asset	28,109	23,672
Valuation allowance	(28,109)	(547)
Net deferred taxes	\$ ¾	\$ 23,125

The net long-term deferred tax liability of approximately \$2.5 million shown on the balance sheet includes deferred tax liabilities and assets related to the U.K operations of the company. The total net deferred tax asset of approximately \$25.6 million shown on the balance sheet includes the tax liabilities and assets related to the U.S.

COSTAR GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS ¾ (Continued)

7. INCOME TAXES ¾ (Continued)

operations of the Company. The net deferred tax liability related to the U.K operations is shown separately because the U.K. operations are subject to a separate taxing jurisdiction.

For the year ended December 31, 2004, management has determined that because of the continuing improvement of operating results and the Company's outlook for the future it is more likely than not that the Company will realize approximately \$23.1 million of its net deferred tax assets through future taxable earnings. A valuation allowance continues to be established for certain state net operating loss carryforwards due to the uncertainty of realization. Approximately \$9.5 million of the release of the valuation allowance was recorded directly to additional paid-in capital as the related deferred tax asset was generated from the exercise of employee stock options. For the year ended December 31, 2003, a valuation allowance was established against all of the net deferred tax asset due to the uncertainty of realization.

The Company's change in valuation allowance was approximately \$1.0 million and \$(27.6) million during the years ended December 31, 2003 and 2004, respectively. For the year ended December 31, 2004, the Company had income of approximately \$9.6 million subject to applicable U.S. federal and state income tax laws and a loss of approximately \$1.9 million subject to applicable U.K. tax laws.

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

	Year Ended December 31,		
	2002	2003	2004
Expected federal income tax (benefit) provision at 34%	\$ (1,626)	\$ 130	\$ 2,847
State income taxes, net of federal benefit	(253)	304	353
Foreign income taxes, net effect	¾	98	76
Increase (decrease) in valuation allowance	2,111	(678)	(20,057)
Other adjustments	(232)	428	(144)
Income tax expense (benefit)	<u>\$ ¾</u>	<u>\$ 282</u>	<u>\$ (16,925)</u>

The Company paid approximately \$0, \$184,000 and \$112,000 in income taxes for the years ended December 31, 2002, 2003 and 2004, respectively.

At December 31, 2004, the Company has net operating loss carryforwards for federal income tax purposes of approximately \$75.0 million, which expire, if unused, from the year 2013 through the year 2023. The Company has net operating loss carryforwards for U.K. income tax purposes of approximately \$832,000, which do not expire. The Company also has alternative minimum tax credit carryforwards of approximately \$183,000.

COSTAR GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS ¾ (Continued)

8. COMMITMENTS AND CONTINGENCIES

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, 2002, 2003 and 2004 was approximately \$5.5 million, \$5.7 million and \$6.1 million, respectively.

Future minimum lease payments as of December 31, 2004 are as follows (in thousands):

2005	\$ 5,922
2006	6,000
2007	5,517
2008	4,215
2009	3,430
2010 and thereafter	940
	<u>\$ 26,024</u>

Currently, and from time to time, the Company is involved in 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, is likely to have a material adverse effect on its financial position or results of operations.

9. STOCKHOLDERS' EQUITY

Preferred Stock

The Company has 2,000,000 shares of preferred stock, \$0.01 par value, authorized for issuance. The preferred stock may be issued from time to time by the Board of Directors as shares of one or more classes or series.

Common Stock

The Company has 30,000,000 shares of common stock, \$0.01 par value, authorized for issuance. Dividends may be declared and paid on the common stock, subject in all cases to the rights and preferences of the holders of preferred stock and authorization by the Board of Directors. In the event of liquidation or winding up of the Company and after the payment of all preferential amounts required to be paid to the holders of any series of preferred stock, any remaining funds shall be distributed among the holders of the issued and outstanding common stock.

COSTAR GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS $\frac{3}{4}$ (Continued)

10. NET INCOME (LOSS) PER SHARE

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

	Year Ended December 31,		
	2002	2003	2004
Numerator:			
Net income (loss)	<u>\$ (4,784)</u>	<u>\$ 100</u>	<u>\$ 24,985</u>
Denominator:			
Denominator for basic net income (loss) per share $\frac{3}{4}$ weighted-average outstanding shares	15,759	16,202	18,165
Effect of dilutive securities:			
Stock options and warrants	<u>$\frac{3}{4}$</u>	<u>472</u>	<u>662</u>
Denominator for diluted net income (loss) per share $\frac{3}{4}$ weighted-average outstanding shares	<u>15,759</u>	<u>16,674</u>	<u>18,827</u>
Net income (loss) per share $\frac{3}{4}$ basic	<u>\$ (0.30)</u>	<u>\$ 0.01</u>	<u>\$ 1.38</u>
Net income (loss) per share $\frac{3}{4}$ diluted	<u>\$ (0.30)</u>	<u>\$ 0.01</u>	<u>\$ 1.33</u>

Stock options and warrants to purchase approximately 2,097,000 shares for the year ended December 31, 2002, were outstanding but were not included in the computation of diluted earnings per share because we had a net loss in 2002 and the impact would have been anti-dilutive. Stock options and warrants to purchase approximately 1,450,000 shares for the year ended December 31, 2003 were outstanding, but were not included in the computation of diluted earnings per share because the exercise price of the stock options was greater than the average share price of the common shares and, therefore, the effect would have been anti-dilutive. Stock options to purchase approximately 1,188,000 shares for the year ended December 31, 2004 were outstanding, but were not included in the computation of diluted earnings per share because the exercise price of the stock options was greater than the average share price of the common shares and, therefore, the effect would have been anti-dilutive.

11. EMPLOYEE BENEFIT PLANS

Stock Incentive Plan

In June 1998 the Company's Board of Directors adopted the Stock Incentive Plan (the "1998 Plan") prior to consummation of the Company's initial public offering. The 1998 Plan provides for the grant of stock and 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 an incentive stock option may not be less than the fair market value of the Company's Common Stock on the date of grant. The vesting period of the options and stock grants is determined by the Board of Directors and is generally four years. Upon the occurrence of a Change of Control, as defined in the 1998 Plan, all outstanding unexercisable options and stock grants under the 1998 Plan immediately become exercisable. The Company has reserved 3,750,000 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. Approximately 766,000 and 413,000 shares were available for future grant under the 1998 Plan as of December 31, 2003 and 2004, respectively.

COSTAR GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS ¾ (Continued)

11. EMPLOYEE BENEFIT PLANS ¾ (Continued)

Stock Incentive Plan ¾ (Continued)

Option activity was as follows:

	Number of Shares	Range of Exercise Price	Weighted- Average Exercise Price
Outstanding at December 31, 2001	1,839,719	\$ 3.45 - \$52.13	\$ 22.20
Granted	577,700	\$ 16.20 - \$26.25	\$ 20.38
Exercised	(88,281)	\$ 3.45 - \$23.00	\$ 20.75
Canceled or expired	(231,865)	\$ 16.00 - \$46.81	\$ 24.98
Outstanding at December 31, 2002	2,097,273	\$ 3.45 - \$52.13	\$ 22.00
Granted	476,500	\$ 16.27 - \$42.10	\$ 26.09
Exercised	(397,834)	\$ 8.50 - \$38.46	\$ 20.99
Canceled or expired	(254,613)	\$ 16.00 - \$52.13	\$ 25.75
Outstanding at December 31, 2003	1,921,326	\$ 3.45 - \$52.13	\$ 22.72
Granted	487,000	\$ 39.00 - \$45.18	\$ 41.67
Exercised	(424,166)	\$ 3.45 - \$37.13	\$ 14.84
Canceled or expired	(133,826)	\$ 16.13 - \$44.86	\$ 27.25
Outstanding at December 31, 2004	<u>1,850,334</u>	\$ 9.00 - \$52.13	\$ 29.21
Exercisable at December 31, 2004	<u>886,494</u>	\$ 9.00 - \$52.13	\$ 25.99
Exercisable at December 31, 2003	<u>940,477</u>	\$ 3.45 - \$52.13	\$ 21.63
Exercisable at December 31, 2002	<u>1,056,709</u>	\$ 3.45 - \$52.13	\$ 21.60

For the purposes of the disclosure required by FAS 123, the fair value of each option granted during the years ended December 2002, 2003 and 2004 was \$15.39, \$18.21 and \$28.90, respectively. The Company estimated the fair value of each option granted on the date of grant using the Black-Scholes option-pricing model, using the assumptions noted in the following table:

	Year Ended December 31,		
	2002	2003	2004
Dividend yield	0%	0%	0%
Expected volatility	75%	70%	67%
Risk-free interest rate	3.5%	3.0%	3.6%
Expected life (in years)	5	5	5

Pro forma compensation expense for stock option plans would reduce our net income as described in the "Summary of Significant Accounting Policies" as required by SFAS No. 148.

COSTAR GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS ¾ (Continued)

11. EMPLOYEE BENEFIT PLANS ¾ (Continued)

Stock Incentive Plan ¾ (Continued)

The following table summarizes information regarding options outstanding at December 31, 2004:

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Number of Shares	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
\$ 9.00 - - \$18.06	259,912	6.1	\$ 16.56	166,387	\$ 15.84
\$18.10 - \$20.30	243,620	7.4	19.32	101,619	19.41
\$20.32 - \$24.88	237,737	6.5	23.51	159,987	23.87
\$25.01 - \$29.63	164,913	7.9	27.81	64,163	27.60
\$30.00 - \$30.00	202,500	4.3	30.00	202,500	30.00
\$30.06 - \$35.13	190,714	7.1	30.70	107,088	31.19
\$36.19 - \$39.00	186,688	8.1	38.56	44,188	37.13
\$39.53 - \$44.86	260,250	9.1	42.19	23,562	42.69
\$45.18 - \$46.81	103,000	9.8	45.23	16,000	45.49
\$52.13 - \$52.13	1,000	5.2	52.13	1,000	52.13
	<u>1,850,334</u>	7.2	29.19	<u>886,494</u>	25.99

On September 28, 2001, the Company granted a total of 5,000 shares of restricted stock to the non-employee directors of the Company. The stock grants vest over a four-year period with 25% of the stock vesting on each anniversary of the grant date. The Company recorded \$89,800 in deferred compensation expense during the year ended December 31, 2001 in connection with these stock grants. The deferred compensation was calculated at the fair value on the grant date and is being amortized over the vesting period of the restricted stock.

Employee 401(k) Plan

The Company maintains a 401(k) Plan (the "401(k)") as a defined contribution retirement plan for all eligible employees. The 401(k) provides for tax deferred contributions of employees' salaries, limited to a maximum annual amount as established by the Internal Revenue Service. The Company matched 100% in 2002, 2003 and 2004 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, 2002, 2003 and 2004 were approximately \$1.2 million, \$1.4 million and \$1.2 million, respectively. The Company paid administrative expenses of approximately \$32,000, \$28,000 and \$20,000 for the years ended December 31, 2002, 2003 and 2004 respectively.

Employee Pension Plan

The Company maintains a company personal pension plan for all eligible employees in our London, England office. The plan is a defined contribution plan. Employees are eligible to contribute a portion of their salaries, subject to a maximum annual amount as established by the Inland Revenue. The Company contributes a match subject to the percentage of the employees' contribution. Amounts contributed to the plan by the Company to match employee contributions for the years ended December 31, 2003 and 2004 were approximately \$118,000 and \$146,000, respectively.

COSTAR GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS $\frac{3}{4}$ (Continued)

12. SUBSEQUENT EVENTS

On January 20, 2005, the Company acquired the assets of National Research Bureau (“NRB”), a leading provider of property information to the shopping center industry, from Claritas Inc. for approximately \$4.1 million in cash. NRB has over 45 years of experience as a leading producer of information to the retail real estate industry, principally through its Shopping Center Directory, Shopping Center Directory online, and Shopping Center Directory on CD-ROM. The acquisition will be accounted for using purchase accounting. The purchase price will be principally allocated to various working capital accounts, database technology, customer base and goodwill. The acquired database technology and customer base will be amortized over their estimated useful lives. Goodwill will not be amortized, but is subject to annual impairment tests.

On February 23, 2005, the Company entered into an operating lease agreement, pursuant to which the Company has agreed to lease approximately 33,371 square feet of office space located in Columbia, Maryland. The lease has an initial term of 99 months and an initial base rent of \$22.75 per rentable square foot per year. Additionally, the Company has a conditional option both to terminate the lease approximately five years after commencement of the initial term, and to renew the lease for an additional five year period after expiration of the initial term, each subject to certain additional terms and conditions.

EMPLOYMENT AGREEMENT

This AGREEMENT (the "Agreement") dated as of the 29th day of November 2004 is executed by and between CoStar Realty Information, Inc, a Delaware corporation (for purposes of this Agreement other than Section 9 hereof, the "Company"), and Christopher Tully (the "Employee"). The effective date of Employee's employment with the Company shall be December 1, 2004 or such other date as mutually agreed to by the Company and the Employee (the "Effective Date").

The Company desires to employ the Employee to devote his full time and best efforts to the business of the Company, and the Employee desires to be so employed on the terms and conditions outlined below.

The parties agree as follows:

1. Employment. The Company agrees to employ Employee at the Company's offices in the Greater Washington, D.C. metropolitan area and Employee agrees to be so employed, in the capacity of Senior Vice President of Sales and Customer Service. Employee shall perform such functions and undertake such responsibilities as are assigned from time to time by the Chief Executive Officer of the Company or his delegate (the "Supervisor").

2. Term. The term of Employee's employment under this Agreement shall commence on the Effective Date and shall continue for the initial term of one (1) year (the "Initial Term"), and for automatic and successive renewal terms of one (1) year each (each, a "Renewal Term" and collectively, the "Renewal Terms"), unless either the Company or Employee elects not to extend the term beyond the Initial Term or any Renewal Term (herein, the Initial Term or a Renewal Term is sometimes referred to as the "Current Term") and gives to the other party hereto written notice of termination at least three (3) months prior to the end of the Initial Term or the Renewal Term.

3. Full time and efforts. Employee shall diligently and conscientiously devote substantially his full time and exclusive attention and best efforts to the Company and his duties under this Agreement.

4. Compensation.

(a) Commencing as of the Effective Date of this Agreement, the Company shall pay Employee base compensation for his services in the amount of \$225,000 per year (the "Base Compensation"). Base Compensation shall be payable in biweekly or such other installments as shall be consistent with the Company's payroll procedures for its employees.

(b) In addition, Employee shall be eligible to earn an annual bonus (the "Annual Bonus") of up to 35% of Base Compensation for such year as determined by the Supervisor and the Compensation Committee of the Board of Directors based on the accomplishment of the Employee's goals as determined by the Supervisor. The Annual Bonus will be based on Base Compensation during each calendar year. With respect to the calendar year ending December 31, 2004, Employee's bonus potential shall be calculated pro rata for the period from the Effective Date through December

31, 2004. Employee must be employed on the last day of the calendar year in which the Annual Bonus is earned in order to receive any of the Annual Bonus.

(c) In addition, Employee and the Company agree that Employee shall be entitled to receive monthly sales commissions from the Company as more fully described on Exhibit A attached hereto.

(d) In addition, on the Effective Date, Employee will be awarded 65,000 stock options (the "Options") in CoStar Group, Inc. ("CoStar"), the Company's parent, vesting one fifth on the Effective Date, one fifth on the six month anniversary of the Effective Date, one fifth on the second anniversary of the Effective Date, one fifth on the third anniversary of the Effective Date, and one fifth on the fourth anniversary of the Effective Date. The Options shall vest immediately in the event of a Change of Control of the Company. All determinations regarding the Options shall be made in accordance with the terms of CoStar's 1998 Stock Incentive Plan. The exercise price for the Options shall be the Fair Market Value (as defined in CoStar's 1998 Stock Incentive Plan) of the CoStar common stock on the Effective Date. In addition, the Supervisor shall recommend to the Board of Directors that Employee receive a pro rata option grant (or equivalent award of restricted stock) in 2005 based on Employee's service to the Company in 2004. It is expected that such options (or restricted stock) would be granted in early 2005, at the time that the Board of Directors approves options (or restricted stock) for other officers of the Company.

5. Benefits. Employee shall be entitled to accrue four (4) weeks of paid vacation time per year under the Company's standard vacation policy. Employee shall be entitled to participate in, and receive benefits from any insurance, medical, disability, or pension plan of the Company for which Employee satisfies the criteria for eligibility, and to other perquisites which may be in effect at any time during the term hereof that are generally available to officers of the Company. In the determination of eligibility of benefits, the terms of the actual plan documents shall control.

6. Expense reimbursement. The Company shall reimburse Employee for all categories of expenses incurred in carrying out his duties under this Agreement that are reasonable and necessary under the Company's policies. Employee shall present to the Company from time to time an itemized account of expenses to be reimbursed pursuant to this Section 6 in any form generally required by the Company.

7. Termination without cause.

(a) By the Company. The Company may terminate this Agreement without cause (and regardless of the time periods and provisions in Section 2 hereof) upon thirty (30) days written notice prior to such termination. In such an event (other than a termination as provided for in Section 2), Employee shall, as severance and liquidated damages and in consideration of his execution of a complete and absolute release of the Company, its parent and its subsidiaries and their respective officers, affiliates, employees and directors from any and all claims, receive on a monthly basis, as if he had not been terminated, his Base Compensation for the greater of (x) the term remaining under this Agreement had he not been terminated or (y) nine months (for the avoidance of doubt, such nine month period shall commence upon the date of the notice set forth in the first sentence of this subsection 7(a)).

(b) Termination after merger or acquisition. In the event of the merger of the Company or CoStar, or the acquisition, directly or indirectly, of all or substantially all of the Company's or CoStar's assets or a controlling interest in the voting shares of the Company or CoStar by an unaffiliated party (a "Change of Control"), Employee may elect to treat that event as a termination by the Company without cause unless the new party: (i) extends to him a reasonable offer to (A) be retained by the Company in a position of responsibility, authority and compensation comparable in material respects (including location) to the position of Employee immediately prior to the Change of Control, and (B) retain all rights accorded under this Agreement; and (ii) in fact retains Employee in such capacity for at least six (6) months after the Change of Control.

(c) By Employee. Employee may without cause terminate this Agreement by giving ninety (90) days written notice during the Initial Term or any Renewal Term to the Company. In such event, at the sole discretion of the Company, Employee shall continue to render all services through the date of termination. Employee shall be paid the Base Compensation and earned commissions up to the date of termination, but shall not receive any salary, commissions or bonus payment thereafter.

8. Termination for cause. The Company may terminate this Agreement (a) for cause at any time by notifying Employee in writing of such termination and the cause thereof or (b) in the event of Employee's death or prolonged disability; provided, however, that the only grounds constituting "cause" shall be: (i) Employee's gross negligence in the performance of his duties hereunder, nonperformance, poor performance or mis-performance of such duties, or refusal to abide by or comply with the directives of the Board of Directors of the Company, his superior officers, or the Company's policies and procedures (including the provisions of Section 9) hereof which actions continue uncured for a period of at least five (5) days after receipt by Employee of written notice of the need to cure or cease or which recur thereafter; (ii) Employee's dishonesty, fraud, or misconduct with respect to the business or affairs of the Company; (iii) Employee's violation of any covenant in this Agreement; (iv) Employee's material violation of the Company's Code of Conduct; (v) Employee's indictment for, conviction of, or guilty or nolo contendere plea to, a felony; and (vi) Employee's abuse of alcohol or drugs (legal or illegal), other than legal drugs taken under the directions of a physician, that, in the Company's reasonable judgment, materially impairs Employee's ability to perform his duties hereunder. In any such event, Employee will forfeit all unvested options and all claims to bonuses not yet awarded and paid, and will be paid salary and commission, excluding bonus, through the date of the termination.

9. Confidentiality, Non-Compete and Non-Solicitation Agreement.

(a) Confidential Information. Employee agrees that during the course of employment with the Company, Employee will learn, come into contact with and have access to various trade secrets and other confidential information (collectively, "Confidential Information"), which are the property of the Company. This Confidential Information relates both to the Company, its customers and its employees. Such Confidential Information includes, but is not limited to: (i) financial and business information, such as information with respect to costs, commissions, fees, profits, sales, markets, mailing lists, strategies and plans for future business, new business, product or other development, potential acquisitions or divestitures, and new marketing ideas; (ii) product and technical information, such as product formulations, new and innovative product ideas, methods,

procedures, devices, machines, equipment, data processing programs, software, software codes, computer models, and research and development projects; (iii) marketing information, such as the identity of the Company's customers, distributors and suppliers and their names and addresses, the names of representatives of the Company's customers, distributors or suppliers responsible for entering into contracts with the Company, the amounts paid by such customers to the Company, specific customer needs and requirements, and leads and referrals to prospective customers; (iv) personnel information, such as the identity and number of the Company's employees, their salaries, bonuses, benefits, skills, qualifications, and abilities; and (v) research methods, methods of compiling real estate information, methods of creating the Company's database, procedures, devices, machines, equipment, data processing programs, software, computer models, research projects, and other means used by the Company in the conduct of its business. Employee acknowledges and agrees that the Confidential Information is not generally known or available to the general public, but has been developed, compiled or acquired by the Company at its great effort and expense. Confidential Information and Trade Secrets can be in any form: oral, written or machine readable, including electronic files.

(b) Non-Disclosure of Confidential Information. Employee acknowledges and agrees that the Company is engaged in a highly competitive business and that its competitive position depends upon its ability to maintain the confidentiality of the Confidential Information. Employee agrees to treat all Confidential Information in a secret and confidential manner and agrees he will not, while employed by the Company and for so long thereafter that the pertinent information remains confidential, directly or indirectly, without the prior written consent of the Chief Executive Officer of the Company: (i) disclose or divulge any Confidential Information to any person, entity, firm, or company, unless compelled by a valid subpoena; or (ii) reproduce, copy or use any Confidential Information in any manner other than to perform his or her employment for the Company. Employee agrees that, given the nature of the Company's business and business plans there will never come a time when disclosure of the Confidential Information would not be seriously injurious to the Company.

(c) Return of Material. Employee agrees to deliver to the Company, immediately upon termination from employment or at any time the Company so requests: (i) any and all documents, files, notes, memoranda, databases, computer files and/or other computer programs reflecting any Confidential Information whatsoever or otherwise relating to the Company's business; (ii) lists of the Company's customers or leads or referrals to prospective customers; and (iii) any computer equipment, home office equipment, automobile or other business equipment belonging to the Company which Employee may then possess or have under his control.

(d) Non-Competition. Employee acknowledges and agrees that the Company is engaged in a highly competitive business and, by virtue of Employee's position and responsibilities with the Company and Employee's access to the Confidential Information, engaging in any business which is directly competitive with the business of the Company will cause it great and irreparable harm. Accordingly, Employee covenants and agrees that so long as Employee is employed by the Company and for a period of two (2) years after such employment is terminated, whether voluntarily or involuntarily, Employee will not, without the express written consent of the Chief Executive Officer of the Company, directly or indirectly, own, manage, operate or control, or be employed in an executive, management, sales, research, marketing, or customer service capacity (all areas for which

Employee had responsibility and/or involvement while employed by the Company), by any company or other business engaged in the provision of commercial real estate information or software or such other related business as the Company may become engaged during Employee's employment by the Company. Consistent with the broad responsibilities of Employee on behalf of the Company and the geographic territory serviced by the Company, this restriction shall apply in the United States, the United Kingdom and any other country where the Company is operating at the time Employee leaves employment with the Company. Employee and the Company specifically agree that the companies restricted by this Agreement include but are not limited to: LoopNet, Inc.; Xceligent; Black's Guide; Dorey Publishing; Commercial Search, Cityfeet, Octane Ventures, Officespace.com, Marshall & Swift, Yale Robbins, Estates Gazette and REIS; provided, however, that the foregoing covenant shall not be deemed to prohibit Employee from acquiring as an investment not more than one percent (1%) of the capital stock of a competing business whose stock is traded on a national securities exchange or over-the-counter.

(e) Non-Solicitation Of Customers. Employee acknowledges and agrees that solely by reason of employment by the Company, Employee will come into contact with some, most or all of the Company's customers and prospective customers and will have access to Confidential Information regarding the Company's customers as set forth above. Consequently, Employee covenants and agrees that in the event of separation from employment with the Company, whether such termination is voluntary or involuntary, Employee will not, for a period of two (2) years following such termination, directly or indirectly, solicit or initiate contact with any customer or prospective customer of the Company for the purpose of providing, selling or soliciting to sell products and services of the type offered by the Company for which Employee had responsibility or with respect to which Employee obtained Confidential Information. This restriction shall apply to any customer, former customer or prospective customer of the Company with whom Employee had contact or about whom Employee obtained confidential information or trade secrets during the last two (2) years of his employment with the Company. For the purposes of this Section 9, "contact" means interaction between Employee and the customer or prospective customer which takes place to further the business relationship, or making sales to or performing services for the customer or prospective customer on behalf of the Company. A "prospective customer" shall mean a person that the Company or its employees has contacted regarding selling or licensing its services or products.

(f) Non-Solicitation Of Employees. Employee acknowledges and agrees that solely as a result of employment with the Company, Employee will come into contact with and acquire Confidential Information regarding some, most or all of the Company's employees. Accordingly, both during employment with the Company and for a period of two (2) years thereafter, Employee shall not, either on Employee's own account or on behalf of any person, company, corporation, or other entity, solicit for employment any employee of the Company with whom Employee came into contact or about whom Employee obtained confidential information, or cause or endeavor to cause any such employee of the Company to leave employment with the Company.

(g) Non-Solicitation of Potential Acquisition Candidates. Employee acknowledges and agrees that solely by reason of employment by the Company, Employee will learn, come into contact with and have access to Confidential Information regarding the Company's plans for future business, including potential acquisitions or expansion. Consequently, Employee covenants and agrees that in the event of separation from employment with the Company, whether

such termination is voluntary or involuntary, Employee will not, for a period of two (2) years following such termination, directly or indirectly and whether for himself or any person, business or entity other than the Company or its affiliates, solicit or initiate contact with any person, company or business who was known to Employee to be a prospective acquisition candidate or the subject of an acquisition analysis conducted by the Company, for the purpose of establishing any business combination with such potential acquisition candidate. Employee, to the extent lacking the knowledge described in the preceding sentence, shall immediately cease all contact with any such prospective acquisition candidate upon being informed that the Company had called upon such candidate or made an acquisition analysis thereof.

(h) Equitable Relief. Employee acknowledges and agrees that compliance with the covenants set forth in this Agreement is necessary to protect the business and goodwill of the Company and that any breach of Section 9 of this Agreement or any subparagraph hereof will result in irreparable and continuing harm to the Company, for which money damages may not provide adequate relief. Accordingly, in the event of any breach or anticipatory breach of any portion of this Section 9 by Employee, the Company and Employee agree that the Company shall be entitled to the following particular forms of relief as a result of such breach, in addition to any remedies otherwise available to it at law or equity: (a) injunctions, both preliminary and permanent, enjoining or restraining such breach or anticipatory breach, and Employee hereby consents to the issuance thereof forthwith and without bond by any court of competent jurisdiction; and (b) recovery of all reasonable sums and costs, including attorneys' fees, incurred by the Company to enforce the provisions of this Section 9.

(i) Reasonableness of Covenants. Employee acknowledges and agrees that his training, experience and technical skills are of such breadth that they can be employed to Employee's advantage in other areas which are not in direct competition with the business of the Company on the date of termination of Employee's employment and consequently the foregoing obligations will not unreasonably impair Employee's ability to engage in business activity after the termination of Employee's employment. Employee further agrees that the covenants contained in this Section 9 are reasonable in scope, do not constitute a restraint of trade and are necessary for the protection of the Confidential and Information.

(j) Independent Agreement; Definition of "Company". All of the covenants in this Section 9 shall be construed as an agreement independent of any other provision in this Agreement, and the existence of any claim or cause of action of Employee against the Company, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by the Company of such covenants. Upon termination of this Agreement for any reason, the covenants specified in this Section 9 shall survive for the term specified herein. For purposes of this Section 9, the term "Company" shall mean CoStar Realty Information, Inc., its parent, and each of its parent's direct and indirect subsidiaries, and each of these entities' predecessors in interest and successors.

10. Disclosure of Work Product.

(a) Employee shall fully disclose to his Supervisor any idea, invention, discovery, development, design, technique, improvement, plan, work of authorship, computer

software, data information, enhancement, or other work product, whether tangible or intangible, developed by Employee, solely or jointly with others, during Employee's employment with the Company (1) made with the Company's equipment, supplies, facilities, trade secrets, or time; (2) that relate, at the time of conception or reduction to practice to the Company's business, or the Company's actual or demonstrably anticipated research; or (3) result from any work performed by Employee for the Company (collectively the "Work Product").

(b) All Work Product shall be conclusively deemed to be conceived, made, developed, reduced to practice, prepared, or otherwise created within the scope of Employee's employment and shall be the sole property of the Company. Employee hereby irrevocably assigns to the Company all right, title, and interest of whatever nature that Employee may have in the Work Product.

(c) Employee shall, at the expense and on behalf of Employer, do all acts and things requested by Employer for Employer to obtain, establish, preserve, and protect Employer's rights and interests in the Work Product, including, but not limited to, preparing and signing such applications, papers, instruments, and other documents as the Company may deem necessary for it, or its nominee, to obtain and maintain patents, copyrights, trade secrets, trademarks, and service markings within the United States or elsewhere or both. Employee's obligations under this Section 10(c) of this Agreement shall be in effect at all times while Employee is employed by the Company and for three years after Employee's termination of employment with the Company.

11. Notices. All notices required or permitted to be given under this Agreement shall be in writing and shall be given by certified mail, return receipt requested, or by personal delivery (including by express courier) to the parties at the following addresses (or such other addresses as either may designate by notice in accordance with this section):

(a) If to the Company:

Andrew C. Florance
Chief Executive Officer
2 Bethesda Metro Center
10th Floor
Bethesda, Maryland 20814
Telefax: 301-718-2444

with a copy to:

Carla J. Garrett
General Counsel
2 Bethesda Metro Center
10th Floor
Bethesda, Maryland 20814
Telefax: 301-664-9176

(b) If to Employee, to the address set forth below Employee's name on the signature page of this Agreement.

12. Arbitration

(a) When Arbitration is Required. In the event of any dispute, claim or controversy cognizable in a court of law between the Company and the Employee concerning any aspect of the employment relationship, including disputes upon termination, the parties agree to submit such dispute to final and binding arbitration before a single arbitrator pursuant to the provisions of the American Arbitration Association's Employment Dispute Resolution Procedures. The parties acknowledge that this obligation to arbitrate disputes applies to claims for discrimination or harassment under the Age Discrimination in Employment Act, Title VII of the Civil Rights Act of 1964, the Americans with Disabilities Act of 1990, Sections 1981 through 1988 of Title 42 of the United States Code, the Maryland Fair Employment Practices Act, as well as any other federal, state, or local law, ordinance, or regulation, or based on any public policy, contract, tort, or common law or any claim for costs, fees, or other expenses including attorney's fees. All claims and defenses which could be raised before a government administrative agency or court must be raised in arbitration and the arbitrator shall apply the law accordingly. Employee and the Company further agree that this duty to arbitrate extends not only to disputes between Employee and the Company, but also to disputes between Employee and the Company's affiliates and the Company's and its affiliate's respective officers, directors, employees and agents that arise out of Employee's employment with the Company or the termination of that employment.

Notwithstanding the foregoing, Employee and the Company recognize and acknowledge each party's right to request injunctive relief under appropriate circumstances from any court of competent jurisdiction, including but not limited to injunctive relief for any violations of Sections 9 of this Agreement by Employee. The parties being desirous of having any disputes resolved in a forum having a substantial body of law and experience with the matters contained herein, the parties agree that any proceeding for injunctive relief and that any proceeding for any type of relief with respect to an alleged violation of Section 9 of this Agreement shall be brought in the Circuit Court of Montgomery County, Maryland, or in the United States District Court for the District of Maryland and the parties agree to the jurisdiction thereof.

(b) Time for Demanding Arbitration. Any demand for arbitration shall be made in writing and served upon the other party to this Agreement. Such demand shall be served no later than the expiration of the applicable statute of limitation period under governing law for such dispute(s). Absent express written agreement of the parties, this time period shall not be extended by virtue of informal attempts to resolve the dispute.

(c) Remedies. The arbitrator shall have the power to award any types of legal or equitable relief that would be available in a court of competent jurisdiction or administrative tribunal.

(d) Final and Binding Arbitration. The decision of the arbitrator shall be final and binding on the parties.

(e) No Deletion, Addition or Modification. The arbitrator shall have no authority to add to, delete from, or modify in any way the provisions of this Agreement.

(f) Costs of Arbitration. The costs of commencing the arbitration and the remainder of the arbitration fees will be paid by the Company.

(g) Place of Arbitration. The arbitration hearing shall occur within Montgomery County in the State of Maryland.

(h) Time to Consider or Revoke Agreement. Employee acknowledges that Employee's acceptance of binding arbitration can be revoked any time within seven (7) days of his signing this Agreement, but such revocation must be submitted in writing and will result in his immediate termination and/or denial of consideration for employment. Employee further acknowledges that he has had at least 21 days to consider this Agreement and has decided to sign knowingly, voluntarily, and free from duress or coercion.

13. Waiver of Jury Trial. Employee and the Company agree that if for any reason the arbitration provisions of this Agreement are declared unenforceable, they waive any right they may have to a jury trial with respect to any dispute or claim between them relating to any of the terms and conditions of this Agreement, Employee's employment with or termination from employment with the Company, including, but not limited to, any of the claims enumerated in paragraph 12(a) of this Agreement, as well as claims arising or relating to any confidentiality agreement Employee may sign.

14. Waiver of Breach. The waiver by either party of a breach of any provisions of this Agreement by the other shall not operate or be construed as a waiver of any subsequent breach. A delay or failure by either party to exercise a right under this Agreement, or a partial or single exercise of that right, shall not constitute a waiver of that or any other right.

15. Governing Law, Interpretation. The Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Maryland. As used herein, the term "including" means "including without limitation," whether or not such words of non-limitation are stated.

16. Binding Effect. This Agreement shall be binding upon and share inure to the benefit of the Company and its respective successors and assigns but the rights and obligations of Employee are personal and may not be assigned or delegated without the Company's prior written consent.

17. Counterparts. For the convenience of the parties, this Agreement may be executed in any number of counterparts, all of which when taken together shall constitute one and the same Agreement.

18. Entire Agreement Concerning Employment, Modification and Amendment. This Agreement constitutes the entire Agreement between the parties as to Employee's employment and compensation therefor and supersedes and replaces any and all agreements, written or oral, as to such matters. This Agreement may not be modified or amended orally, but only by an agreement in writing, signed by the party against whom enforcement of any waiver, change, modification, amendment, extension, or discharge is sought, wherein specific reference is made to this Agreement

19. Employability. Employee affirms he is not presently subject to a restrictive covenant or other prior agreement which would prohibit or restrict employment with the Company. If Employee learns or becomes aware or is advised that he is subject to an actual or alleged restrictive covenant or other prior agreement which may prohibit or restrict employment by the Company, Employee shall immediately notify the Company of the same. Employee agrees that he shall not disclose to the Company, use for the Company's benefit, or induce the Company to use any trade secret or confidential information he may possess belonging to any former employer or other third party.

20. Severability. If any term or provision of this Agreement or any portion thereof is declared illegal or unenforceable by any court of competent jurisdiction, such provision or portion thereof shall be deemed modified so as to render it enforceable, and to the extent such provision or portion thereof cannot be rendered enforceable, this Agreement shall be considered divisible as to such provision which shall become null and void, leaving the remainder of this Agreement in full force and effect.

In witness whereof, Company and Employee have executed this Agreement, to be effective as of the last date set forth below.

Employee:

/s/ Christopher Tully

Christopher Tully
20940 Lock Court
Potomac Falls, VA 20165
703-948-7582

Date: November 29, 2004

Company:

By: /s/ Andrew C. Florance

Andrew C. Florance
Chief Executive Officer and President

Date: November 29, 2004

- o Optionee's Copy
- o Company's Copy

**COSTAR GROUP, INC.
1998 STOCK INCENTIVE PLAN
INCENTIVE STOCK OPTION AGREEMENT**

To _____:

CoStar Group, Inc. (the "Company") has granted you an option (the "Option") under the CoStar Group, Inc. 1998 Stock Incentive Plan (the "Plan") to purchase _____ shares (the "Shares") of common stock of the Company (the "Common Stock"), at _____ per share (the "Exercise Price"). The date of grant is _____.

This Option is subject in all respects to the applicable provisions of the Plan, a copy of the current form of which is attached, except as otherwise noted. By signing this agreement (the "Agreement"), you acknowledge receiving the Plan. This Agreement incorporates the Plan by reference and specifies other applicable terms and conditions. All terms not defined by this Agreement have the meanings given in the Plan. The Compensation Committee of the Company's Board of Directors (or other administrator of the Plan, the "Administrator") may adjust the number of Shares and the Exercise Price from time to time under the Plan. Subject to the terms of the Plan, the Option is intended to be an [incentive/non-qualified] stock option within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code").

In addition to the terms, conditions, and restrictions set forth in the Plan, the following terms, conditions, and restrictions apply to the Option:

(1) The schedule for exercising the Option is as follows, subject to Section (3) below on expiration:

- a. You may exercise the Option on the following schedule:
 - i. One Quarter, on or after the first anniversary of the date of grant;
 - ii. One Half, on or after the second anniversary of the date of grant;
 - iii. Three Quarters, on or after the third anniversary of the date of grant;
 - iv. Fully, on or after the fourth anniversary of the date of grant.



[The vesting schedule may vary for different employees based on the recommendation of the Compensation Committee.]

- b. The Option will become immediately exercisable in full upon the occurrence of a Change in Control as defined in the Plan.
 - c. The Administrator may, in its sole discretion, accelerate the time at which you may exercise part or all of the Option.
- (2) Subject to this Agreement and the Plan, you may exercise the Option only by written notice to the Company on or before the date the Option expires. Each such notice must:
- a. state the election to exercise the Option and the number of Shares with respect to which you are exercising the Option;
 - b. be signed by you or, if you have died or become disabled, by the party entitled to exercise the Option;
 - c. contain such representations as the Company reasonably requires; and
 - d. be accompanied by a cashier's or certified check in the amount of the Exercise Price payable to the order of the Company, or, to the extent the Plan and the Administrator permit, by Common Stock of the Company with a Fair Market Value equal to all or part of the Exercise Price (with any balance paid by cash or check), for the Shares with respect to which the Option is being exercised; provided, however, that you may not surrender (turn in) Common Stock of the Company as payment unless you have held such stock for more than six months before the surrender. Alternatively, your notice may direct the Company to send the share certificates to be issued under this Option to a licensed broker acceptable to the Company as your agent in exchange for the broker's tendering to the Company cash (or acceptable cash equivalents) equal to the Exercise Price, for the Shares with respect to which the Option is being exercised, as part of a cashless exercise.

For all purposes of the Plan, the date of exercise will be the date on which you have delivered the notice and any required payment to the Company.

- (3) The Option will expire no later than the close of business on _____ (ten years from the date of grant).

Unless the Administrator determines otherwise at any time, you will forfeit any unexercised portions of the Option (whether or not then exercisable) upon the first to occur of:

- (i) the Option's expiration under the preceding sentence,
-

- (ii) the 90th day after your resignation (for other than Disability),
 - (iii) the 90th day after the Company terminates your employment (for other than Disability),
 - (iv) in the event of the termination of your employment for Disability (as determined by the Administrator), the earlier of (I) the first anniversary of your termination of employment and (II) 30 days after you cease to have a Disability,
 - (v) the first anniversary of your date of death, and
 - (vi) the date you violate any covenant not to compete in effect between you and the Company.
- (4) The Company may postpone issuing and delivering any Shares for so long as the Company determines to be necessary or advisable to satisfy the following:
- a. completing or amending any registration or qualification of the Shares or satisfying any exemption from registration under any Federal or state law, rule, or regulation;
 - b. complying with any requests for representations under the Plan;
 - c. receiving proof satisfactory to the Company that a person seeking to exercise the Option after your death or disability is authorized and entitled to exercise the Option; and
 - d. satisfying any federal, state, or local tax withholding obligations.
- (5) If, at the time the Company should issue you Shares because of your exercise of the Option, no current registration statement under the Securities Act of 1933 (the "Act") covers such issuance, you must, before the Company will issue such Shares to you:
- a. represent to the Company, in form satisfactory to the Company's counsel, that you are acquiring the Shares for your own account and not with a view to reselling or distributing the Shares; and
 - b. agree that you may not sell, transfer, or otherwise dispose of the Shares issued to you under the Option unless:
 - i. a registration statement under the Act is effective at the time of disposition with respect to the Shares sold, transferred, or otherwise disposed of;
 - or
-

- ii. the Company has received an opinion of counsel or other information and representations satisfactory to it to the effect that registration under the Act is not required by reason of Rule 144 under the Act or otherwise.

(6) To the extent the Plan provides, if you are then an employee or director and the Company (i) dissolves or liquidates or sells substantially all of its assets to another corporation, (ii) merges, consolidates, or reorganizes in a manner in which the Company is not the surviving corporation, or (iii) takes part in any other Substantial Corporate Change (as defined in the Plan), then, at the sole discretion of the Board and to the extent the law permits, the Option will:

- (I) be or become exercisable in full before such event and then terminate *or*
- (II) continue in full force and effect and, if applicable, the surviving corporation or an affiliate of the surviving corporation will be required to assume the Option and/or substitute a similar option or award in place of the Option.

Subject to the preceding paragraph, if any change is made in the Common Stock, without the Company's receiving consideration (through merger, consolidation, reorganization, recapitalization, reincorporation, stock dividend, dividend in property other than cash, stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure, or other transaction not involving the Company's receipt of consideration), the Board will adjust the Option as to the class(es) and number of shares and price per share of securities subject to the Option, with the Board's adjustments being final, binding, and conclusive. The conversion of any convertible securities of the Company will not be treated as a "transaction not involving the Company's receipt of consideration."

(7) You may not exercise the Option if issuing the Shares would violate any applicable federal or state securities laws or other laws or regulations.

(8) Nothing in this Agreement restricts the right of the Company or any of its affiliates to terminate your employment at any time, with or without cause. The termination of employment, whether by the Company or any of its affiliates or otherwise, and regardless of the reason therefor, has the consequences provided for under the Plan and any applicable employment or severance agreement.

(9) You understand and agree that you will not be deemed for any purpose to be a stockholder of the Company with respect to any of the Shares unless and until they have been issued to you after your exercise of this Option and payment for the Shares.

(10) At the time of exercise, the Company will round down any fractional Shares but will not make any cash or other payments in settlement of fractional shares eliminated by rounding. If you have not then exercised the Option in full, the Company will carry forward the fractional Shares rather than eliminating them.

(11) You understand and agree that the existence of this Option will not affect in any way the right or power of the Company or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations, or other changes in the Company's capital structure or its business or any merger or consolidation of the Company, or any issuance of bonds, debentures, preferred or other stocks with preference ahead of or convertible into, or otherwise affecting the Common Stock or the rights thereof, or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

(12) The laws of the State of Delaware will govern all matters relating to this Agreement, without regard to the principles of conflict of laws.

(13) Any notice you give to the Company (including notice of exercise of all or part of the Option) must be in writing and either hand-delivered or mailed to the Corporate Secretary of the Company (or to the Chief Financial Officer if either you would receive the notice or the position is vacant). If mailed, it should be sent by certified mail and be addressed to the foregoing executive at the Company's then corporate headquarters. Any notice given to you will be addressed to you at your address as reflected on the personnel records of the Company. You and the Company may change the address for notice by like notice to the other. Notice will be deemed to have been duly delivered when hand-delivered, or, if mailed, on the day such notice is postmarked.

(14) Wherever a conflict may arise between the terms of this Agreement and the terms of the Plan, the terms of the Plan will control.

COSTAR GROUP, INC.

By: _____

Name: _____

Title: _____

ACKNOWLEDGMENT

I acknowledge receipt of a copy of the attached Plan. I represent that I have read and am familiar with the Plan's terms. I accept the Option subject to all of the terms and provisions of this Agreement and of the Plan under which it is granted, as the Plan may be amended in accordance with its terms. I agree to accept as binding, conclusive, and final all decisions or interpretations of the Administrator concerning any questions arising under the Plan with respect to the Option.

Signature of Optionee

NO ONE MAY SELL, TRANSFER, OR DISTRIBUTE THIS OPTION OR THE SECURITIES THAT MAY BE PURCHASED UPON EXERCISE OF THIS OPTION WITHOUT AN EFFECTIVE REGISTRATION STATEMENT RELATING THERETO OR A SATISFACTORY OPINION OF COUNSEL SATISFACTORY TO THE COMPANY OR OTHER INFORMATION AND REPRESENTATIONS SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED.

- o Optionee's Copy
- o Company's Copy

**COSTAR GROUP, INC.
1998 STOCK INCENTIVE PLAN
STOCK OPTION AGREEMENT**

To Andrew C. Florance:

CoStar Group, Inc. (the "Company") has granted you an option (the "Option") under the CoStar Group, Inc. 1998 Stock Incentive Plan (the "Plan") to purchase _____ (_____) shares (the "Shares") of common stock of the Company (the "Common Stock"), at _____ Dollars (\$____) per share (the "Exercise Price"). The Date of Grant is _____ (the "Date of Grant").

This Option is subject in all respects to the applicable provisions of the Plan, a copy of the current form of which is attached, except as otherwise noted. By signing this agreement (the "Agreement"), you acknowledge receiving the Plan. This Agreement incorporates the Plan by reference and specifies other applicable terms and conditions. All terms not defined by this Agreement have the meanings given in the Plan. The Compensation Committee of the Company's Board of Directors (or other administrator of the Plan, the "Administrator") may adjust the number of Shares and the Exercise Price from time to time under the Plan.

The Option is intended to be an incentive stock option within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), and a nonqualified stock option with respect to the following number of shares for which the Option first becomes exercisable:

Year	Incentive Stock Option Shares	Nonqualified Stock Option Shares

Total

In addition to the terms, conditions, and restrictions set forth in the Plan, the following terms, conditions, and restrictions apply to the Option:

(1) The schedule for exercising the Option is as follows, subject to Section (3) below on expiration:

- a. You may exercise the Option on the following schedule: [vesting schedule set forth below]
- b. The Option will become immediately exercisable in full upon:
 - i. the occurrence of a Change in Control as defined in the Plan;
 - ii. the termination of your employment by the Company without Cause (as defined in the Employment Agreement) pursuant to Section 7(a) of your Employment Agreement entered into as of January 1, 1998 (the "Employment Agreement");
 - iii. the termination of your employment by you for Good Reason (as defined in the Employment Agreement) pursuant to Section 7(c) of your Employment Agreement.
- c. Upon the termination of your employment on account of your Disability (as defined in the Employment Agreement) pursuant to Section 9 of your Employment Agreement or on account of your death, a pro rata portion of your unvested Options that would have become otherwise exercisable during the calendar year of your termination will become exercisable immediately. Such pro rata amount shall be determined by multiplying the number of unvested options that would have vested in the calendar year of termination by a fraction, the numerator of which is the number of complete weeks you were employed during the year of termination and the denominator of which is fifty-two.
- d. The Administrator may, in its sole discretion, accelerate the time at which you may exercise part or all of the Option.

(2) Subject to this Agreement and the Plan, you may exercise the Option only by written notice to the Company on or before the date the Option expires. Each such notice must:

- a. state the election to exercise the Option, the number of Incentive Stock Option Shares with respect to which you are exercising the Option, and the number of Nonqualified Stock Option Shares with respect to which you are exercising the Option;
 - b. be signed by you or, if you have died or become disabled, by the party entitled to exercise the Option;
-

- c. contain such representations as the Company reasonably requires; and
- d. be accompanied by a cashier's or certified check in the amount of the Exercise Price payable to the order of the Company, or, to the extent the Plan and the Administrator permit, by Common Stock of the Company with a Fair Market Value equal to all or part of the Exercise Price (with any balance paid by cash or check), for the Shares with respect to which the Option is being exercised; provided, however, that you may not surrender (turn in) Common Stock of the Company as payment unless you have held such stock for more than six months before the surrender. Alternatively, your notice may direct the Company to send the share certificates to be issued under this Option to a licensed broker acceptable to the Company as your agent in exchange for the broker's tendering to the Company cash (or acceptable cash equivalents) equal to the Exercise Price for the Shares with respect to which the Option is being exercised, as part of a cashless exercise.

For all purposes of the Plan, the date of exercise will be the date on which you have delivered the notice and any required payment to the Company.

(3) The Option will expire no later than the close of business on _____(ten years from the Date of Grant).

The exercise period for the Options shall be until the first to occur of:

- (i) the Option's expiration under the preceding sentence,
 - (ii) the 60th day after the cessation of your employment as a result of the termination of your employment by you without Good Reason pursuant to Section 7(d) of your Employment Agreement,
 - (iii) the 60th day after the cessation of your employment as a result of the termination of your employment by the Company for Cause pursuant to Section 7(b) of your Employment Agreement,
 - (iv) the 180th day after the cessation of your employment as a result of the termination of your employment (a) by the Company without Cause pursuant to Section 7(a) of your Employment Agreement or (b) by you for Good Reason pursuant to Section 7(c) of your Employment Agreement; provided, however, that to the extent you exercise the Option on or after the 90th day following such termination, the Option cannot qualify as an Incentive Stock Option,
 - (v) one year after the cessation of your employment as a result of the termination of your employment for Disability,
-

(vi) the first anniversary of your date of death, and

(vii) after the termination of your employment, the date you violate any covenant not to compete in effect between you and the Company.

Pursuant to Section 4(c) of your Employment Agreement, if you do not exercise the Option on or prior to the date the Option expires or is no longer exercisable, you shall be deemed to have made a "cashless exercise" of the unexercised, exercisable portion of the Option on the last day that the Option may be exercised (the "Deemed Exercise Date"), and the Company shall pay to you within thirty days of the Deemed Exercise Date a cash payment equal to the amount that results from multiplying the total number of shares underlying the unexercised, exercisable portion of the Option multiplied by a number equal to the difference between the closing price of the Company's common stock on the Deemed Exercise Date (or if the Deemed Exercise Date is not a trading day, then on the trading day immediately preceding the Deemed Exercise Date) and the exercise price of the Option; provided, however, that the cashless exercise alternative shall not be available if your employment has been terminated by the Company for Cause or by you without Good Reason.

(4) The Company may postpone issuing and delivering any Shares for so long as the Company determines to be necessary or advisable to satisfy the following:

- a. completing or amending any registration or qualification of the Shares or satisfying any exemption from registration under any Federal or state law, rule, or regulation;
- b. complying with any requests for representations under the Plan;
- c. receiving proof satisfactory to the Company that a person seeking to exercise the Option after your death or disability is authorized and entitled to exercise the Option; and
- d. satisfying any federal, state, or local tax withholding obligations.

(5) If, at the time the Company should issue you Shares because of your exercise of the Option, no current registration statement under the Securities Act of 1933 (the "Act") covers such issuance, you must, before the Company will issue such Shares to you:

- a. represent to the Company, in form satisfactory to the Company's counsel, that you are acquiring the Shares for your own account and not with a view to reselling or distributing the Shares; and
 - b. agree that you may not sell, transfer, or otherwise dispose of the Shares issued to you under the Option unless:
-

- i. a registration statement under the Act is effective at the time of disposition with respect to the Shares sold, transferred, or otherwise disposed of;
or
- ii. the Company has received an opinion of counsel or other information and representations satisfactory to it to the effect that registration under the Act is not required by reason of Rule 144 under the Act or otherwise.

(6) To the extent the Plan provides, if you are then an employee or director and the Company (i) dissolves or liquidates or sells substantially all of its assets to another corporation, (ii) merges, consolidates, or reorganizes in a manner in which the Company is not the surviving corporation, or (iii) takes part in any other Substantial Corporate Change (as defined in the Plan), then, at the sole discretion of the Board and to the extent the law permits, the Option will:

- (I) be or become exercisable in full before such event and then terminate *or*
- (II) continue in full force and effect and, if applicable, the surviving corporation or an affiliate of the surviving corporation will be required to assume the Option and/or substitute a similar option or award in place of the Option.

Subject to the preceding paragraph, if any change is made in the Common Stock, without the Company's receiving consideration (through merger, consolidation, reorganization, recapitalization, reincorporation, stock dividend, dividend in property other than cash, stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure, or other transaction not involving the Company's receipt of consideration), the Board will adjust the Option as to the class(es) and number of shares and price per share of securities subject to the Option, with the Board's adjustments being final, binding, and conclusive. The conversion of any convertible securities of the Company will not be treated as a "transaction not involving the Company's receipt of consideration."

(7) You may not exercise the Option if issuing the Shares would violate any applicable federal or state securities laws or other laws or regulations.

(8) Nothing in this Agreement restricts the right of the Company or any of its affiliates to terminate your employment at any time, with or without cause. The termination of employment, whether by the Company or any of its affiliates or otherwise, and regardless of the reason therefor, has the consequences provided for under the Plan and any applicable employment or severance agreement.

(9) You understand and agree that you will not be deemed for any purpose to be a stockholder of the Company with respect to any of the Shares unless and until they have been issued to you after your exercise of this Option and payment for the Shares.

(10) At the time of exercise, the Company will round down any fractional Shares but will not make any cash or other payments in settlement of fractional shares eliminated by rounding. If

you have not then exercised the Option in full, the Company will carry forward the fractional Shares rather than eliminating them.

(11) You understand and agree that the existence of this Option will not affect in any way the right or power of the Company or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations, or other changes in the Company's capital structure or its business or any merger or consolidation of the Company, or any issuance of bonds, debentures, preferred or other stocks with preference ahead of or convertible into, or otherwise affecting the Common Stock or the rights thereof, or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

(12) The laws of the State of Delaware will govern all matters relating to this Agreement, without regard to the principles of conflict of laws.

(13) Any notice you give to the Company (including notice of exercise of all or part of the Option) must be in writing and either hand-delivered or mailed to the Corporate Secretary of the Company (or to the Chief Operating Officer if either you would receive the notice or the position is vacant). If mailed, it should be sent by certified mail and be addressed to the foregoing executive at the Company's then corporate headquarters. Any notice given to you will be addressed to you at your address as reflected on the personnel records of the Company. You and the Company may change the address for notice by like notice to the other. Notice will be deemed to have been duly delivered when hand-delivered, or, if mailed, on the day such notice is postmarked.

(14) Wherever a conflict may arise between the terms of this Agreement and the terms of the Plan, the terms of the Plan will control.

COSTAR GROUP, INC.

By: _____

Name: _____

Title: _____

ACKNOWLEDGMENT

I acknowledge receipt of a copy of the attached Plan. I represent that I have read and am familiar with the Plan's terms. I accept the Option subject to all of the terms and provisions of this Agreement and of the Plan under which it is granted, as the Plan may be amended in accordance with its terms. I agree to accept as binding, conclusive, and final all

decisions or interpretations of the Administrator concerning any questions arising under the Plan with respect to the Option.

Signature of Optionee

NO ONE MAY SELL, TRANSFER, OR DISTRIBUTE THIS OPTION OR THE SECURITIES THAT MAY BE PURCHASED UPON EXERCISE OF THIS OPTION WITHOUT AN EFFECTIVE REGISTRATION STATEMENT RELATING THERETO OR A SATISFACTORY OPINION OF COUNSEL SATISFACTORY TO THE COMPANY OR OTHER INFORMATION AND REPRESENTATIONS SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED.

- o Optionee's Copy
- o Company's Copy

**COSTAR GROUP, INC.
1998 STOCK INCENTIVE PLAN
STOCK OPTION AGREEMENT**

To [Francis A. Carchedi/David M. Schaffel]:

CoStar Group, Inc. (the "Company") has granted you an option (the "Option") under the CoStar Group, Inc. 1998 Stock Incentive Plan (the "Plan") to purchase _____ (_____) shares (the "Shares") of common stock of the Company (the "Common Stock"), at _____ Dollars (\$____) per share (the "Exercise Price"). The Date of Grant is _____ (the "Date of Grant").

This Option is subject in all respects to the applicable provisions of the Plan, a copy of the current form of which is attached, except as otherwise noted. By signing this agreement (the "Agreement"), you acknowledge receiving the Plan. This Agreement incorporates the Plan by reference and specifies other applicable terms and conditions. All terms not defined by this Agreement have the meanings given in the Plan. The Compensation Committee of the Company's Board of Directors (or other administrator of the Plan, the "Administrator") may adjust the number of Shares and the Exercise Price from time to time under the Plan.

The Option is intended to be an incentive stock option within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), and a nonqualified stock option with respect to the following number of shares for which the Option first becomes exercisable:

Year	Incentive Stock Option Shares	Nonqualified Stock Option Shares
------	-------------------------------	----------------------------------

Total

In addition to the terms, conditions, and restrictions set forth in the Plan, the following terms, conditions, and restrictions apply to the Option:

(1) The schedule for exercising the Option is as follows, subject to Section (3) below on expiration:

- a. You may exercise the Option on the following schedule: [vesting schedule set forth below]
- b. The Option will become immediately exercisable in full upon:
 - i. the occurrence of a Change in Control as defined in the Plan;
 - ii. the termination of your Employment Agreement entered into as of January 1, 1998 (the "Employment Agreement") under Section 9 thereof in the event of your death or prolonged disability.
- c. The Option will become exercisable upon the termination by the Company without cause of your Employment Agreement pursuant to Section 7(a) thereof to the extent that it otherwise would have become exercisable within 12 months of the date of the termination of your employment.
- d. The Option will become exercisable upon the occurrence of an event that you elect in accordance with the terms of Section 8 of your Employment Agreement to treat as a termination without cause to the extent that it otherwise would have become exercisable within 12 months of the occurrence of such event.
- e. The Administrator may, in its sole discretion, accelerate the time at which you may exercise part or all of the Option.

(2) Subject to this Agreement and the Plan, you may exercise the Option only by written notice to the Company on or before the date the Option expires. Each such notice must:

- a. state the election to exercise the Option, the number of Incentive Stock Option Shares with respect to which you are exercising the Option, and the number of Nonqualified Stock Option Shares with respect to which you are exercising the Option;
 - b. be signed by you or, if you have died or become disabled, by the party entitled to exercise the Option;
 - c. contain such representations as the Company reasonably requires; and
 - d. be accompanied by a cashier's or certified check in the amount of the Exercise Price payable to the order of the Company, or, to the extent the Plan and the Administrator permit, by Common Stock of the Company with a Fair Market Value equal to all or part of the Exercise Price (with any balance paid by cash or
-

check), for the Shares with respect to which the Option is being exercised; provided, however, that you may not surrender (turn in) Common Stock of the Company as payment unless you have held such stock for more than six months before the surrender. Alternatively, your notice may direct the Company to send the share certificates to be issued under this Option to a licensed broker acceptable to the Company as your agent in exchange for the broker's tendering to the Company cash (or acceptable cash equivalents) equal to the Exercise Price for the Shares with respect to which the Option is being exercised, as part of a cashless exercise.

For all purposes of the Plan, the date of exercise will be the date on which you have delivered the notice and any required payment to the Company.

(3) The Option will expire no later than the close of business on _____ (ten years from the Date of Grant).

Unless the Administrator determines otherwise at any time, you will forfeit any unexercised portions of the Option (whether or not then exercisable) upon the first to occur of:

- (i) the Option's expiration under the preceding sentence,
- (ii) the 90th day after your resignation (for other than Disability),
- (iii) the 90th day after the Company terminates your employment (for other than Disability),
- (iv) in the event of the termination of your employment for Disability (as determined by the Administrator), the earlier of (I) the first anniversary of your termination of employment and (II) 30 days after you cease to have a Disability,
- (v) the first anniversary of your date of death, and
- (vi) after the termination of your employment, the date you violate any covenant not to compete in effect between you and the Company.

(4) The Company may postpone issuing and delivering any Shares for so long as the Company determines to be necessary or advisable to satisfy the following:

- a. completing or amending any registration or qualification of the Shares or satisfying any exemption from registration under any Federal or state law, rule, or regulation;
 - b. complying with any requests for representations under the Plan;
-

- c. receiving proof satisfactory to the Company that a person seeking to exercise the Option after your death or disability is authorized and entitled to exercise the Option; and
- d. satisfying any federal, state, or local tax withholding obligations.

(5) If, at the time the Company should issue you Shares because of your exercise of the Option, no current registration statement under the Securities Act of 1933 (the “Act”) covers such issuance, you must, before the Company will issue such Shares to you:

- a. represent to the Company, in form satisfactory to the Company’s counsel, that you are acquiring the Shares for your own account and not with a view to reselling or distributing the Shares; and
- b. agree that you may not sell, transfer, or otherwise dispose of the Shares issued to you under the Option unless:
 - i. a registration statement under the Act is effective at the time of disposition with respect to the Shares sold, transferred, or otherwise disposed of; or
 - ii. the Company has received an opinion of counsel or other information and representations satisfactory to it to the effect that registration under the Act is not required by reason of Rule 144 under the Act or otherwise.

(6) To the extent the Plan provides, if you are then an employee or director and the Company (i) dissolves or liquidates or sells substantially all of its assets to another corporation, (ii) merges, consolidates, or reorganizes in a manner in which the Company is not the surviving corporation, or (iii) takes part in any other Substantial Corporate Change (as defined in the Plan), then, at the sole discretion of the Board and to the extent the law permits, the Option will:

- (I) be or become exercisable in full before such event and then terminate *or*
- (II) continue in full force and effect and, if applicable, the surviving corporation or an affiliate of the surviving corporation will be required to assume the Option and/or substitute a similar option or award in place of the Option.

Subject to the preceding paragraph, if any change is made in the Common Stock, without the Company’s receiving consideration (through merger, consolidation, reorganization, recapitalization, reincorporation, stock dividend, dividend in property other than cash, stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure, or other transaction not involving the Company’s receipt of consideration), the Board will adjust the Option as to the class(es) and number of shares and price per share of securities subject to the Option, with the Board’s adjustments being final, binding, and conclusive. The conversion of any convertible securities of the Company will not be treated as a “transaction not involving the Company’s receipt of consideration.”

- (7) You may not exercise the Option if issuing the Shares would violate any applicable federal or state securities laws or other laws or regulations.
- (8) Nothing in this Agreement restricts the right of the Company or any of its affiliates to terminate your employment at any time, with or without cause. The termination of employment, whether by the Company or any of its affiliates or otherwise, and regardless of the reason therefor, has the consequences provided for under the Plan and any applicable employment or severance agreement.
- (9) You understand and agree that you will not be deemed for any purpose to be a stockholder of the Company with respect to any of the Shares unless and until they have been issued to you after your exercise of this Option and payment for the Shares.
- (10) At the time of exercise, the Company will round down any fractional Shares but will not make any cash or other payments in settlement of fractional shares eliminated by rounding. If you have not then exercised the Option in full, the Company will carry forward the fractional Shares rather than eliminating them.
- (11) You understand and agree that the existence of this Option will not affect in any way the right or power of the Company or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations, or other changes in the Company's capital structure or its business or any merger or consolidation of the Company, or any issuance of bonds, debentures, preferred or other stocks with preference ahead of or convertible into, or otherwise affecting the Common Stock or the rights thereof, or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.
- (12) The laws of the State of Delaware will govern all matters relating to this Agreement, without regard to the principles of conflict of laws.
- (13) Any notice you give to the Company (including notice of exercise of all or part of the Option) must be in writing and either hand-delivered or mailed to the Corporate Secretary of the Company (or to the Chief Financial Officer if either you would receive the notice or the position is vacant). If mailed, it should be sent by certified mail and be addressed to the foregoing executive at the Company's then corporate headquarters. Any notice given to you will be addressed to you at your address as reflected on the personnel records of the Company. You and the Company may change the address for notice by like notice to the other. Notice will be deemed to have been duly delivered when hand-delivered, or, if mailed, on the day such notice is postmarked.
- (14) Wherever a conflict may arise between the terms of this Agreement and the terms of the Plan, the terms of the Plan will control.
-

COSTAR GROUP, INC.

By: _____

Name: _____

Title: _____

ACKNOWLEDGMENT

I acknowledge receipt of a copy of the attached Plan. I represent that I have read and am familiar with the Plan's terms. I accept the Option subject to all of the terms and provisions of this Agreement and of the Plan under which it is granted, as the Plan may be amended in accordance with its terms. I agree to accept as binding, conclusive, and final all decisions or interpretations of the Administrator concerning any questions arising under the Plan with respect to the Option.

Signature of Optionee

NO ONE MAY SELL, TRANSFER, OR DISTRIBUTE THIS OPTION OR THE SECURITIES THAT MAY BE PURCHASED UPON EXERCISE OF THIS OPTION WITHOUT AN EFFECTIVE REGISTRATION STATEMENT RELATING THERETO OR A SATISFACTORY OPINION OF COUNSEL SATISFACTORY TO THE COMPANY OR OTHER INFORMATION AND REPRESENTATIONS SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED.

FORM OF RESTRICTED STOCK AGREEMENT

- Recipient's Copy
- Company's Copy

COSTAR GROUP, INC.

RESTRICTED STOCK AGREEMENT
1998 STOCK INCENTIVE PLAN

To: _____

CoStar Group, Inc. (the "Company") has granted you an award of restricted stock under the CoStar Group, Inc. 1998 Stock Incentive Plan ("Plan") on the terms and conditions set forth below:

1. Grant of Restricted Stock. The Company hereby grants to you ___ shares (the "Shares") of common stock of the Company (the "Common Stock") at the purchase price of \$___ per share, subject to the terms and conditions set forth below (the "Stock Grant"). The Date of Grant is ___ (the "Date of Grant").

2. Governing Plan. This Stock Grant is subject in all respects to the applicable provisions of the Plan, a copy of the current form of which is attached. By signing this agreement (the "Agreement"), you acknowledge receiving the Plan. This Agreement incorporates the Plan by reference and specifies other applicable terms and conditions. All terms not defined by this Agreement have the meanings given in the Plan. Whenever a conflict may arise between the terms of this Agreement and the Terms of the Plan, the terms of the Plan shall control.

3. Lapse of Restrictions. The schedule for the lapse of the restrictions on the Stock Grant is as follows:

- a. The Stock Grant shall be vested on the following schedule:
 - i. One Fourth, on or after the first anniversary of the Date of Grant;
 - ii. One Half, on or after the second anniversary of the Date of Grant;
 - iii. Three Fourths, on or after the third anniversary of the Date of Grant;
 - iv. Fully, on or after the fourth anniversary of the Date of Grant.

[The vesting schedule may vary for different employees based on the recommendation of the Compensation Committee.]



b. The Stock Grant shall vest immediately upon the occurrence of a Change in Control, as defined in the Plan.

4. Termination as [Director / Employee]. Notwithstanding Section 3 above, if your service as a [Director/Employee] of the Company is terminated, the Grant shall immediately terminate and be cancelled to the extent it is not vested on the date of your termination as a [Director/Employee], and any Shares subject to this Agreement which have not vested on or before that date shall be forfeited.

5. Restriction on Sale or Other Transfer. You shall not sell, pledge, assign, transfer, hypothecate or otherwise dispose of any unvested portion of the Stock Grant, and such unvested portion of the Stock Grant shall not be subject to execution, attachment or similar legal process. Any attempt to sell, pledge, assign, transfer, hypothecate or otherwise dispose of any unvested portion of the Stock Grant, or to subject such unvested portion of the Stock Grant to execution, attachment or similar legal process, shall be null and void.

6. Procedure for Issuance of Shares. Following the Date of Grant, the Company will issue stock certificates in your name for the Shares, but the stock certificates will remain in the Company's custody, and the stock certificates will contain a legend describing the restrictions. As soon as practicable after all or any portion of the Stock Grant has vested as provided in Section 3, the Company shall issue new stock certificates for those Shares, provided that

- (a) you have complied with any requests for representations under the Plan;
- (b) the Company has received proof satisfactory to the Company that a person seeking to receive the Shares after your death or disability is authorized and entitled to receive the Shares; and
- (c) you have satisfied any federal, state, or local tax withholding obligations.

The Company will round down any fractional Shares but will not make any cash or other payments in settlement of fractional shares eliminated by rounding. If the Stock Grant has not then fully vested, the Company will carry forward the fractional Shares rather than eliminating them. The Company, in its sole discretion, may also use alternatives to issuing physical stock certificates, such as "book entry only" recordation.

7. Corporate Change. To the extent the Plan provides, if you are then an employee or director and the Company (i) dissolves or liquidates or sells substantially all of its assets to another corporation, (ii) merges, consolidates, or reorganizes in a manner in which the Company is not the surviving corporation, or (iii) takes part in any other Substantial Corporate Change (as defined in the Plan), then, at the sole discretion of the Board and to the extent the law permits, the Stock Grant will:

- (I) be or become exercisable in full before such event and then terminate *or*

- (II) continue in full force and effect and, if applicable, the surviving corporation or an affiliate of the surviving corporation will be required to assume the Stock Grant and/or substitute a similar Stock Grant or award in place of the Stock Grant.

Subject to the preceding paragraph, if any change is made in the Common Stock, without the Company's receiving consideration (through merger, consolidation, reorganization, recapitalization, reincorporation, stock dividend, dividend in property other than cash, stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure, or other transaction not involving the Company's receipt of consideration), the Board will adjust the Stock Grant as to the class(es) and number of shares and price per share of securities subject to the Stock Grant, with the Board's adjustments being final, binding, and conclusive. The conversion of any convertible securities of the Company will not be treated as a "transaction not involving the Company's receipt of consideration."

8. Compliance with Securities Laws. Upon the acquisition of any Shares pursuant to this Agreement, you shall enter into such written representations, warranties and agreements as the Company may reasonably request in order to comply with applicable securities laws or this Agreement. Nothing herein obligates the Company to register or qualify the Shares pursuant to any federal or state securities laws.

9. Compliance with Laws. Notwithstanding any of the other provisions hereof, you agree that the Company will not be obligated to issue any Shares pursuant to this Agreement, if issuing the Shares would violate any provision of any law or regulation of any governmental authority. Notwithstanding anything to the contrary in Section 6, the certificates representing the Shares of Common Stock issued pursuant to this Agreement will be stamped or otherwise imprinted with legends in such form as the Company may require with respect to any applicable restrictions on sale or transfer.

10. Voting and Other Rights. Subject to the provisions of the Plan and this Agreement, you shall have all of the powers, preferences, and rights of a holder of Common Stock with respect to the Shares comprising the Stock Grant, including the right to vote the Shares and the right to dividends and other distributions, if any. You agree and understand that nothing contained in this Agreement provides, or is intended to provide, you any protection against potential future dilution of your stockholder interest in the Company for any reason, except as otherwise stated within the Plan. Any stock dividends paid in respect of any unvested portion of the Stock Grant will be subject to the same restrictions and other terms and conditions that apply to the underlying Shares with respect to which such stock dividends are issued.

11. Withholding of Tax and Section 83(b) Election. The Company shall deduct from the Shares due to you under the Agreement all federal, state, local or other taxes of any kind that the Company, in its sole discretion, deems necessary to be withheld to comply with the Internal Revenue Code of 1986, as amended (the "Code"), and/or any other applicable law, rule or regulation. Alternatively, in the Company's sole discretion, you may instead pay to the Company in cash an amount equal to the applicable withholding taxes determined by the Company as being required to be withheld or collected under applicable federal, state, or local laws or regulations. Furthermore, the Company shall have the right to deduct and withhold any such applicable taxes from, or in respect of, any dividends or other distributions paid on or in respect

of the Common Stock comprising the Stock Grant. You will notify the Company of your intention to make an election under Section 83(b) of the Code at least five (5) business days before making such election.

12. Extraordinary Corporate Transactions. You understand and agree that the existence of this Stock Grant will not affect in any way the right or power of the Company or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations, or other changes in the Company's capital structure or its business or any merger or consolidation of the Company, or any issuance of bonds, debentures, preferred or other stocks with preference ahead of or convertible into, or otherwise affecting the Common Stock or the rights thereof, or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

13. Governing Law. The laws of the State of Delaware will govern all matters relating to this Agreement, without regard to the principles of conflict of laws.

14. Notices. Any notice you give to the Company pursuant to the Plan or this Agreement must be in writing and either hand-delivered or mailed to the Corporate Secretary of the Company (or to the Chief Financial Officer if the position is vacant). If mailed, it should be sent by certified mail and be addressed to the foregoing executive at the Company's then corporate headquarters. Any notice given to you will be addressed to you at your address as reflected on the personnel records of the Company. You and the Company may change the address for notice by like notice to the other. Notice will be deemed to have been duly delivered when hand-delivered, or, if mailed, on the day such notice is postmarked.

15. Resolution of Disputes. As a condition of this Stock Grant, you, on behalf of yourself, your heirs, successors and personal representatives ("*you and your successors*"), agree that any dispute or disagreement which may arise hereunder shall be decided by the Compensation Committee of the Company's Board of Directors (or other administrator of the Plan, the "*Administrator*"). You and your successors agree to accept as binding, conclusive and final all decisions or interpretations of the Administrator concerning any questions arising under the Plan with respect to the Stock Grant, and you and your successors hereby explicitly waive any right to judicial review.

COSTAR GROUP, INC.

By _____

Name: _____

Title: _____

ACKNOWLEDGMENT

I acknowledge receipt of a copy of the attached Plan. I represent that I have read and am familiar with the Plan's terms. I accept the Stock Grant subject to all of the terms and provisions of this Agreement and of the Plan under which it is granted, as the Plan may be amended in accordance with its terms. I agree to accept as binding, conclusive, and final all decisions or interpretations of the Administrator concerning any questions arising under the Plan with respect to the Stock Grant.

Date: _____

Signature of Stock Grantee

No one may sell, transfer, or distribute this Stock Grant or the securities that may be issued upon exercise of this Stock Grant without an effective registration statement relating thereto or a satisfactory opinion of counsel satisfactory to the Company or other information and representations satisfactory to the Company that such registration is not required.

**CRESTPOINTE CORPORATE CENTER
STANDARD OFFICE LEASE AGREEMENT**

THIS LEASE is made and entered into this 23rd day of February, 2005, by and between CRESTPOINTE III, LLC, a Maryland limited liability company (“Landlord”) and COSTAR REALTY INFORMATION, INC., a Delaware corporation (“Tenant”).

In consideration of the rents hereinafter reserved and the agreements hereinafter set forth, Landlord and Tenant mutually agree as follows:

1. **SUMMARY OF TERMS.** The following is a summary of the terms of this Lease. The terms used herein shall have the meanings as set forth in greater detail in the Sections, subsections, paragraphs and Schedules of this Lease that follow, and shall be governed by, and subject to, such provisions.

1.1. **Advance Rent:** One month’s Basic Rent.

1.2. **Basic Rent:**

Rental Year 1 — \$22.75 per square foot of Rental Area.

Rental Year 2 — \$23.43 per square foot of Rental Area

Rental Year 3 — \$24.14 per square foot of Rental Area

Rental Year 4 — \$24.86 per square foot of Rental Area

Rental Year 5 — \$25.61 per square foot of Rental Area

Rental Year 6 — \$26.37 per square foot of Rental Area

Rental Year 7 — \$27.16 per square foot of Rental Area

Rental Year 8 — \$27.98 per square foot of Rental Area

1.3. **Basic Rent Adjustment:** N/A.

1.4. **Brokers:** Colliers Pinkard and Lincoln Property Company

1.5. **Building:** The building known and designated as Crestpointe Corporate Center, 7120 Samuel Morse Drive, Columbia Gateway, Columbia, Maryland 21046, a three story building having approximately 100,113 square feet of Class A office space, of which the Premises form a part.

1.6. **Commencement Date:** The date established pursuant to Section 4.

1.7. **Land:** The parcel of land containing 19.6 acres, more or less, and being particularly shown and designated as Parcel Q-4 on a Plat entitled “COLUMBIA GATEWAY PARCELS Q-3 & Q-4 , A RESUBDIVISION OF COLUMBIA GATEWAY, PARCEL Q-1, AS SHOWN ON PLAT NO. 13667”, which plat is recorded among the Land Records of Howard County in Plat No. 14343, containing the Building and all other buildings or other improvements thereon.

1.8. **Notice Addresses:**

Landlord/

Rent Payment: c/o Abrams Development Group, Inc., Suite 230, 5850 Waterloo Road, Columbia, Maryland 21045,
Telecopier no.: (410) 461-5709

Tenant: care of the Premises,

with copies to:

Costar Realty Information, Inc.
2 Bethesda Metro Center
10th Floor
Bethesda, Maryland 20814-5388
Attention: Director of Facilities and Administration
Attention: General Counsel

- 1.9. **Operating Hours:** 8:00 a.m. to 6:00 p.m. Monday through Friday and 8:00 a.m. to 1:00 p.m. on Saturday.
- 1.10. **Premises:** An agreed upon 33,371 rentable square feet of Rental Area located on the third floor of the Building as shown outlined on SCHEDULE A.
- 1.11. **Proportionate Share:** The Rental Area of the Premises expressed as a fraction of all the Rentable Area within the Land, the term "Rentable Area" being defined to mean the aggregate rentable area of the Building and all other buildings located from time to time on the Land.
- 1.12. **Rental Year:** Generally, a period of twelve (12) consecutive full calendar months except that (i) the first Rental Year shall begin on the Commencement Date and it shall end on the last day of the twelfth full calendar month thereafter; (ii) each succeeding Rental Year shall commence upon the anniversary date of the first Rental Year and shall consist of twelve (12) consecutive full calendar months and (iii) if the Term is not equally divisible into twelve-month segments, then the last Rental Year shall consist of the number of full calendar months, less than twelve, remaining in the Term after accounting for the first Rental Year and all previous twelve-month Rental Years.
- 1.13. **Security Deposit:** One month's Basic Rent.
- 1.14. **Term:** Ninety-nine (99) month(s), plus the part of a month mentioned in Subsection 4.1, commencing and ending as provided in Subsection 4.1. of this Lease.
- 1.15. **Base Operating Costs:** Operating Costs for the Operating Year which commenced or which commences January 1, 2005 "grossed up" to reflect 95% of occupancy of the Building.
- 1.16. **Base Taxes:** The Taxes assessed in the Tax Year which is the later of (a) the Tax Year which commences July 1, 2005, or (b) the first Tax Year in which the Building is fully assessed. Base Taxes shall not be reduced by the amount of a tax credit or tax abatement received by Landlord from Howard County, Maryland, and or the State of Maryland as a result of the execution of this Lease.
- 1.17. **Center:** That certain office development which is owned and held for development by Landlord known as the Crestpointe Corporate Center, Phase III and which is located on the Land.
- 1.18. **Rent Commencement Date:** That date which is ninety (90) days after the Commencement Date. Tenant shall receive a credit against its Rent obligation for such ninety (90) day period.

2. SCHEDULES AND DEFINITIONS.

2.1. **Schedules.** The following schedules and exhibits are attached to this Lease; such schedules and exhibits, as well as all drawings and documents referenced thereon, shall be deemed to be a part of this Lease.

SCHEDULE A - Floor Plan(s) of Premises
SCHEDULE B - Plans and Specifications
SCHEDULE C - Rules and Regulations

SCHEDULE D	-	Estoppel Certificate
SCHEDULE E	-	Tenant Upgrades
SCHEDULE F	-	Termination Payment
SCHEDULE G	-	Cleaning Specifications
SCHEDULE H	-	Overflow Parking
SCHEDULE I	-	Signage Specifications

2.2. **Definitions.** For purposes of this Lease, the following terms shall have the respective meanings as set forth in the following Section, subsection and Schedule references:

Term	Section
Additional Rent	6.3
Alterations	12.1
Base Current	9.8
Base Operating Cost	1.15
Casualty	16.1
Commencement Date	4.1
Common Facilities	8.1
Estimated Operating Cost Statement	7.2
Estimated Tax Statement	7.3
Event of Default	18.1
Final Plans and Specifications	5.1
Increased Operating Costs	7.2
Increased Taxes	7.3
Mortgagees	26
Mortgages	26
Operating Costs	7.1
Operating Cost Adjustment Statement	7.2
Operating Year	7.1
Property	7.1
Rent	6.6
Rentable Area	1.11
Rental Area	3
Rental Year	1.12
Taxes	7.1
Tax Year	7.1
Tax Adjustment Statement	7.3
Tenant Improvements	5.1
Tenant's Personal Property	12.3
Termination Date	4.1
Transfer	13.1
Unavoidable Delays	4.1

3. **LEASE OF PREMISES.** Landlord hereby leases to Tenant, and Tenant hereby leases from Landlord, the Premises, together with the right to use, in common with others, the "Common Facilities," as defined in Section 8.1 of this Lease, all for the Term as set forth in Section 4. The Premises has the agreed Rental Area as set forth in Section 1.10 and shall not be subject to measurement hereunder. The Premises are shown on the Plan attached hereto as SCHEDULE A.

4. TERM AND COMMENCEMENT OF TERM.

4.1. **Term.** The Term of this Lease shall commence upon the date specified in Section 1.6, but if no date is specified, then upon the date (the "Commencement Date") which is the earlier to occur of (i) the date on which Tenant occupies or uses the Premises to conduct business, or (ii) that date which is four (4) weeks after Landlord gives written notice to Tenant certifying that the Premises are Ready for Occupancy. Landlord anticipates that the Premises will be Ready for Occupancy on or before May 1, 2005. The four (4) weeks' notice pursuant to subsection (ii) above, shall allow Tenant to utilize such four (4) weeks to install its furniture, data and telecommunications on a Rent-free basis, but subject to all other terms and conditions of this Lease respecting Tenant's use and occupancy of the Premises. The Term shall be for the number of months set forth in Section 1.14, plus the fractional part of the month, if any, from the Commencement Date through the last day of the calendar month immediately prior to the first full calendar month of the Term. The Term shall end at midnight on the last day of the Term (the "Termination Date"), unless earlier terminated pursuant to any other provision of this Lease or pursuant to law. At Landlord's request, Tenant shall promptly enter into one or more supplementary written agreements, in such form as Landlord shall reasonably prescribe, specifying the Commencement Date and the Termination Date. Notwithstanding the foregoing, if for any reason the Commencement Date of the Term of this Lease shall not have occurred by that date which is six (6) months after the date that Landlord has obtained the building permit for the installation of the Tenant Improvements (as hereinafter defined) (subject to extension for delays caused by Tenant) then, Tenant shall have the right for a period of thirty (30) days (but in no event after the Premises are Ready for Occupancy) after the end of the foregoing six (6) month period, to terminate this Lease upon written notice to Landlord, in which event this Lease shall be canceled, and neither party shall have any further liability arising hereunder, except that Landlord shall return any Advance Rent or Security Deposit paid by Tenant. Landlord shall use its best efforts (exclusive of the payment of monetary consideration) to obtain the

building permit after the Final Plans and Specifications (as hereinafter defined) have been approved. Notwithstanding the foregoing, if for any reason the Commencement Date of the Term of this Lease shall not have occurred within eighteen (18) months from the date of this Lease for any reason, then, unless the parties shall otherwise agree, this Lease shall be canceled, and neither party shall have any further liability arising hereunder, except that Landlord shall return any Advance Rent or Security Deposit paid by Tenant. "Unavoidable Delays" shall mean delays caused by acts of God, strikes, civil commotion, riot, war, governmental regulations, adverse weather conditions or any other circumstances beyond the reasonable control of Landlord. The Commencement Date may be extended, at Landlord's election, for the period of any delay attributable to Unavoidable Delays.

4.2. **Ready for Occupancy.** For purposes of this Lease, the Premises shall be deemed conclusively to be ready for occupancy ("Ready for Occupancy") upon the completion of the following conditions: (i) Landlord has substantially completed its work on the Tenant Improvements (subject to the completion of so-called "punch-list items"), so that they are ready for Tenant to occupy the same, or to commence the installation of Tenant's Personal Property therein, and (ii) Landlord shall have received any governmental approvals which are necessary in order for Tenant to occupy the Premises, unless Tenant's acts or omissions have caused such approvals to be denied, in which case Tenant shall be deemed to have waived this condition (ii).

5. CONSTRUCTION AND COMPLETION OF PREMISES.

5.1. **Landlord's Obligations.** Landlord shall, at its cost and expense (subject to the terms of the immediately succeeding sentence), construct Tenant's leasehold improvements within the Premises for Tenant's use and occupancy in accordance with plans and specifications mutually approved by Landlord and Tenant (the "Final Plans and Specifications") attached as SCHEDULE B to this Lease (the "Tenant Improvements"). Notwithstanding the foregoing, those improvements itemized on SCHEDULE E to this Lease shall be completed by Landlord as part of the Tenant Improvements, but shall be at the sole cost and expense of Tenant (the "Tenant Upgrades"). Any improvements to the Premises in excess of the Tenant Improvements shall be at the sole cost and expense of Tenant. Landlord shall provide Tenant with a test-fit allowance in an amount equal to ten cents (\$0.10) per square foot of Rental Area. The cost of the Tenant Upgrades and any improvements to the Premises in excess of the Tenant Improvements shall be payable by Tenant as follows: (i) 50% of the cost thereof upon execution of this Lease, and (ii) the balance on or before the Commencement Date.

5.2. Intentionally Omitted.

5.3. **Acceptance of Premises.** Under no circumstances shall Landlord be liable to Tenant for damages for any delay in commencing or completing construction of the Premises or for a total failure to complete or deliver the same. Except for those punch-list items scheduled by Landlord and Tenant prior to the Commencement Date of this Lease, Tenant's occupancy of the Premises shall be deemed to constitute acceptance of same and acknowledgment by Tenant that Landlord has fully complied with its obligations hereunder to construct and deliver to Tenant the Premises in accordance with the Final Plans and Specifications. Landlord shall have thirty (30) days to correct all punchlist items and shall have the right to enter the Premises to complete or repair any such unfinished items. Such entry by Landlord, its agents, servants, employees or contractors for such purpose shall not constitute an actual or constructive eviction, in whole or in part, or entitle Tenant to any abatement or diminution of rent or relieve Tenant of any of its obligations under this Lease, or impose any liability upon Landlord or its agents, servants, employees or contractors.

6. RENT.

6.1. **Basic Rent.** Tenant shall pay to Landlord during the Term of this Lease the Basic Rent, payable in advance in equal Monthly Installments of Basic Rent, without notice, demand, abatement, deduction or set-off, except as may be otherwise be expressly set forth in this Lease, on the first day of each and every calendar month from and after the Rent Commencement Date during the Term of this Lease; provided, however, that if the Term of this Lease shall commence on a day other than the first day of a month, the first payment shall include any prorated Basic Rent for the period from the Rent Commencement Date to the first day of the first full calendar month thereafter. Tenant shall pay to Landlord concurrently with the signing of this Lease the Advance Rent. Rent (as defined in Section 6.6) shall be paid to the Landlord or to the duly authorized agent of Landlord, at its principal offices during business hours.

6.2. **Basic Rent Adjustment.** Intentionally omitted.

6.3. **Additional Rent.** Tenant shall pay to Landlord all other sums of money as shall become due from and payable by Tenant hereunder as additional rent (“Additional Rent”), including, but not limited to, the payment of “Tenant’s Proportionate Share of Increased Operating Costs” as defined in Section 7.2 hereof, and “Tenant’s Proportionate Share of Increased Taxes” as defined in Section 7.3 hereof, such Additional Rent to be paid in the manner set forth herein.

6.4. **Security Deposit.** Tenant, contemporaneously with the execution of this Lease, has deposited with Landlord the Security Deposit, the receipt of which is hereby acknowledged by Landlord. Landlord shall have the right, but not the obligation, at any time to apply the Security Deposit to cure any breach by Tenant under this Lease after notice to Tenant, and in that event, Tenant shall pay Landlord any amount necessary to restore the Security Deposit to its original level within ten (10) days of any such application. To the extent permitted by law, Landlord shall be entitled to the full use of the Security Deposit and shall not be required either to keep the Security Deposit in a separate account or to pay interest on account thereof. The Security Deposit, or so much thereof as remains after application by Landlord as permitted by this Lease, shall be returned to Tenant within thirty (30) days following the later to occur of (a) the date of the expiration or earlier termination of this Lease, and (b) the date upon which Tenant has performed all of the obligations imposed upon Tenant pursuant to this Lease.

6.5. **Late Charge.** All sums payable as Basic Rent or Additional Rent shall be paid by Tenant to Landlord’s Rental Payment Address, or at such other address as Landlord may from time to time designate by Notice given to Tenant care of Tenant’s Notice Address. If any check tendered by Tenant in payment of Rent is dishonored upon presentment for payment, then Landlord, in addition to all other rights and remedies contained in this Lease, may assess a dishonor charge of Fifty Dollars (\$50.00); and Landlord shall thereafter have the right to insist that all of Tenant’s further payments be made by certified check. If Tenant fails to pay any Basic Rent or any Additional Rent within ten (10) days of the time it is due and payable (including deemed failure to pay due to dishonor of Tenant’s check upon presentation for payment), then Landlord, in addition to all other rights and remedies contained in this Lease, may assess a one-time per late payment late charge against Tenant in the amount of Five Hundred Dollars (\$500.00). Additionally, if Tenant fails to pay any Basic Rent or any Additional Rent when due and payable, then such unpaid amounts shall bear interest from the due date thereof to the date of payment at a rate of twelve percent (12%) per annum (the “Default Rate”). This late charge is not a penalty; it has been agreed to by Landlord and Tenant as necessary to compensate Landlord for the Landlord’s additional costs incurred in connection with late payment of Rent. Tenant shall further be responsible for the payment of any reasonable legal expense and management fees incurred by Landlord in collecting any delinquent Rent due hereunder.

6.6. **Rent.** All amounts payable by Tenant to or on behalf of Landlord under this Lease, whether or not expressly denominated as Basic Rent or Additional Rent, and including any and all advances, charges, costs or fees incurred by Landlord in collecting any sums due from Tenant hereunder, or otherwise in preserving the rights of Landlord hereunder or in enforcing the rights and obligations of Landlord and Tenant hereunder, (and specifically including legal expenses and management fees incurred by Landlord hereunder) shall constitute and shall be referred to as “Rent” for the purposes of this Lease as well as Section 502(b)(6) of the Bankruptcy Code, 11 U.S.C. Sec. 502(b)(6).

7. TAX AND OPERATING COST ESCALATION.

7.1. **Definitions.** For purposes of this Lease, the following definitions shall apply:

7.1.1. “Operating Year” shall mean each successive calendar year or part thereof during the Term of this Lease or any renewal thereof, or, at the option of Landlord, each successive fiscal year of Landlord or part thereof, during the Term of this Lease or any renewal thereof.

7.1.2. “Property” shall mean the Building, the Land, the Common Facilities, and all fixtures and other improvements in or upon the Land, including, without limitation, the sidewalks, gardens, lawns, parking areas and loading areas, and also including such additional facilities in subsequent years as may be determined by Landlord to be reasonably necessary or desirable for the management, maintenance or operation of the Building.

7.1.3. “Operating Costs” shall mean all expenses and costs of every kind and nature which Landlord shall pay or become obligated to pay because of or in connection with owning, operating, managing, painting, repair-

ing, insuring and cleaning the Property, “grossed up” to reflect 95% of occupancy of the Building, including, but not limited to, the following:

- a. cost of all supplies and materials used, and labor charges incurred, in the operation, maintenance, decoration, repairing and cleaning of the Property;
- b. cost of all equipment purchased or rented which is utilized in the performance of Landlord’s obligations hereunder, and the cost of maintenance and operation of any such equipment, including janitorial service for all floor area leased to tenants;
- c. cost of all maintenance and service agreements for the Property and the equipment therein, including, without limitation, alarm service, security service, window cleaning and elevator maintenance;
- d. accounting costs, including the cost of audits by certified public accountants, legal and engineering fees and expenses incurred in connection with the operation and management of the Property;
- e. wages, salaries and related expenses of all on-site agents or employees engaged in the operation, maintenance, security and management of the Property;
- f. cost of all insurance coverage for the Property from time to time maintained by Landlord, including, but not limited to, the costs of premiums for insurance with respect to personal injury, death, property damage, business interruption, rental income and workmen’s compensation insurance covering personnel;
- g. cost of repairs, replacements and general maintenance to the Property, structural or non-structural, including without limitation, the mechanical, electrical and heating, ventilating and air-conditioning equipment and/or systems (excluding repairs and general maintenance paid by proceeds of insurance or by tenants or other third parties, and alterations attributable solely to tenants and costs of replacements and repairs which are capital in nature under generally accepted accounting principles, consistently applied);
- h. any and all Common Facilities maintenance, repair or redecoration (including repainting) and exterior and interior landscaping;
- i. cost of removal of trash, rubbish, garbage and other refuse from the Property as well as removal of ice and snow from the sidewalks on or adjacent to the Property;
- j. all charges for electricity (except as otherwise specifically paid for by individual tenants) and gas, water, sewerage service, heating, ventilation and air-conditioning and other utilities furnished to the Property;
- k. amortization of capital improvements made to the Building after the year in which the Building is substantially completed, which improvements were undertaken with a reasonable expectation that they would result in a more efficient operation of the Building or are made to the Building by Landlord after the Commencement Date pursuant to any governmental law, regulation or action not applicable to the Building when its construction commenced; provided that the cost of each such capital improvement, together with any financing charges incurred in connection therewith, shall be amortized over the useful life thereof and only that portion attributable to each Operating Year shall be included herein for such Operating Year;
- l. any management fee paid in connection with the operation and management of the Property, but not in excess of the lesser of (i) 4% of gross revenues from operations of the Property in any Operating Year, or (ii) a fair market management fee, provided, however notwithstanding the foregoing, in no event shall the management fee be less than 3% of gross revenues from operations of the Property in any Operating Year in which the existing Landlord as of the date of this Lease is the owner of the Building; and
- m. every other cost and expense which would be considered as an expense of maintaining, operating, insuring, managing and/or repairing the Property; provided, however, that the term “Operating Costs” shall not include:

- i. Taxes;
- ii. specific costs which are allocated or separately billed to and paid by specific tenants;
- iii. payments of principal and interest on any Mortgages;
- iv. leasing commissions or brokerage fees;
- v. costs associated with preparing, improving or altering space for any leasing or re-leasing of any space within the Building;
- vi. interest or penalties arising by reason of Landlord's failure to timely pay any Operating Costs or Taxes;
- vii. depreciation of the building or any equipment, machinery, fixtures or improvements therein;
- viii. ground rents;
- ix. capital improvements, except as otherwise provided in Section 7.1.3 above;
- x. advertising for vacant space;
- xi. executive salaries of Landlord;
- xii. legal fees and expenses for leasing vacant space in the Building, enforcing Landlord's rights under occupancy leases with tenants of the Property;
- xiii. utilities and other similar expenses incurred directly by or on behalf of retail tenants in the Building
- xiv. any costs, fines or penalties incurred due to the violation by Landlord of any governmental rule or authority;
- xv. any other expense for which Landlord actually receives reimbursement from insurance, condemnation awards, other tenants or any other source;
- xvi. costs of repairs, restoration, replacements or other work occasioned by fire, windstorm or other casualty and the amount of any non-commercially reasonable insurance deductible;
- xvii. costs of repairs, restoration, replacements or other work occasioned by the exercise by governmental authorities of the right of eminent domain (whether such taking be total or partial);
- xviii. costs incurred in connection with negotiations or disputes with tenants, other occupants, or prospective tenants, or costs and expenses incurred in connection with negotiations or disputes with employees, consultants, management agents, leasing agents, purchasers or mortgagees of the Building;
- xix. allowances, concessions, permits, licenses, inspections, and other costs and expenses incurred in completing, fixturing, furnishing, renovating or otherwise improving, decorating or redecorating space for tenants (including Tenant), prospective tenants or other occupants or prospective occupants of the Building, or vacant leasable space in the Building, or constructing or finishing demising walls and public corridors with respect to any such space;

xx. costs incurred in connection with the original construction of the Building;

xxi. Hazardous Materials remediation costs for which Landlord is responsible under this Lease;

xxii. costs of repairing, replacing or otherwise correcting defects (including latent defects) in or inadequacies of (but not the costs of ordinary and customary repair for normal wear and tear) the initial design or construction of the Building or the costs of repairing, replacing or correcting defects in the initial design or construction of any tenant improvements;

xxiii. costs incurred in connection with the sale, financing, refinancing, mortgaging, selling or change of ownership of the Building;

xxiv. costs incurred by Landlord which are associated with the operation of the business of the legal entity which constitutes Landlord as the same is separate and apart from the cost of the operation of the Property, including legal entity formation and legal entity accounting (including the incremental accounting fees relating to the operation of the Building to the extent incurred separately in reporting operating results to the Building's owners or lenders);

xxv. general overhead and general administrative expenses and accounting, record-keeping and clerical support of Landlord or the management agent;

xxvi. the rent or rental-related expenses (such as expense reimbursements similar to the Additional Rent Tenant pays for Operating Expenses and Real Estate Taxes) for Landlord's on-site or off-site leasing office or other employee office space or for any space in the Building set aside for storage facilities, or other facilities provided for the benefit of tenants;

xxvii. costs incurred to correct violations as of Lease Commencement Date by Landlord of any law, rule, order or regulation which was then in effect;

xxviii. services provided and costs incurred in connection with the operation of retail or other ancillary operations owned, operated or subsidized by Landlord;

xxix. costs for sculpture, paintings or other objects of art;

xxx. costs of overtime HVAC service whether provided to the Tenant or any other tenant of the Building;

xxxi. contributions to political or charitable organizations; or

xxxii. costs attributable to any revenue generating signs.

7.1.4. "Taxes" shall mean real estate taxes, assessments (special or otherwise), levies, ad valorem charges, benefit charges, water and sewer rents, rates and charges, privilege permits and any other governmental liens, impositions or charges of a similar or dissimilar nature, and any payments in lieu of such charges, regardless of whether any such items shall be extraordinary or ordinary, general or special, foreseen or unforeseen, levied, assessed, or imposed on or with respect to all or any part of the Property or upon the rent due and payable hereunder, by the state, county or city in which the Property is located, or any other taxing authority; provided, however, that if at any time during the Term or any extension thereof the method of taxation prevailing at the commencement of the Term shall be altered or eliminated so as to cause the whole or any part of the above items which would otherwise be included in Taxes to be replaced by a levy, assessment or imposition, which is (A) a tax assessment, levy, imposition or charge based on the rents received from the Property whether or not wholly or partially a capital levy or otherwise, or (B) a tax, assessment, levy, imposition or charge measured by or based in whole or in part upon all or any portion of the Property and imposed on Landlord, or (C) a license fee measured by the rent

payable by Tenant to Landlord, or (D) any other tax, levy, imposition, charge or license fee, however described or imposed, then such levy, assessment or imposition shall be included in Taxes; provided, however, in no event shall Tenant be required to pay any inheritance, estate, succession, income, profits or franchise taxes unless they are in lieu of or in substitution for any of the above items which would otherwise be included in Taxes;

7.1.5. "Tax Year" shall mean the twelve (12) month period commencing July 1 of each year or such other twelve (12) month period (deemed, for purposes of this Section, to have three-hundred sixty-five (365) days) establishes a real estate tax year by the taxing authorities having local jurisdiction over the Property.

7.2. Payment of Tenant's Proportionate Share of Increased Operating Costs. Commencing with the Operating Year beginning January 1, 2006, if Operating Costs during any whole or partial Operating Year exceed the Base Operating Costs, Tenant shall pay to Landlord as Additional Rent, Tenant's Proportionate Share of such excess (herein referred to as "Increased Operating Costs") as follows:

7.2.1. Prior to the commencement of any Operating Year in which Landlord estimates that Operating Costs shall exceed the Base Operating Cost, Landlord shall furnish Tenant with a written statement showing Landlord's estimate of Operating Costs for the coming Operating Year (the "Estimated Operating Cost Statement");

7.2.2. The Estimated Operating Cost Statement shall also show Tenant's monthly installment of the additional amount of Increased Operating Costs which installment shall be equal to one-twelfth (1/12th) of Tenant's Proportionate Share of any estimated additional amount, which shall be due and payable monthly as Additional Rent beginning on the first day of each Operating Year;

7.2.3. Within one hundred twenty (120) days after the end of each Operating Year, Landlord shall furnish Tenant with an annual adjustment statement (the "Operating Cost Adjustment Statement") which shall show the actual Operating Costs incurred for the Operating Year just ending, the total payments for estimated Increased Operating Costs paid by Tenant for that Operating Year, and the amount by which Tenant's total estimated payments exceeded or fell short of Tenant's Proportionate Share of the actual Increased Operating Costs;

7.2.4. Tenant shall pay Landlord the amount by which its total estimated payments fell short of Tenant's Proportionate Share of the actual Increased Operating Costs within thirty (30) days after receipt of the Operating Cost Adjustment Statement or Tenant shall receive from Landlord, within thirty (30) days, a credit for the amount that its total estimated payments exceeded its Proportionate Share of the actual Increased Operating Costs, whichever is appropriate.

7.2.5. If the tenancy expires or terminates on a date other than the last day of any Operating Year, the account of Tenant shall be proportionately adjusted within one hundred twenty (120) days after the close of the Operating Year in the same manner as if the tenancy had not expired or terminated based on a 365 day year. If such adjustment indicates an overpayment by Tenant of its Proportionate Share of Increased Operating Costs, then Landlord shall deliver a check for such excess within thirty (30) days of the date of Landlord's Statement hereunder.

7.2.6. If, during the course of any Operating Year, Landlord incurs an unforeseen increase in Operating Costs, Landlord shall have the right (not more than once in any Operating Year) to increase Tenant's monthly installment of Operating Costs to compensate for this unforeseen increase. For the purposes of this Section 7.2, an "unforeseen increase" shall mean an increase of twenty-five percent (25%) or more in any of the components of Landlord's Operating Costs estimate.

7.2.7. Each Operating Costs Statement provided by Landlord shall be conclusive and binding upon Tenant unless within sixty (60) days after receipt thereof, Tenant notifies Landlord, in writing, that it disputes the correctness thereof, specifying those respects in which it claims the Operating Costs Statement to be incorrect. Unless resolved by the parties, such dispute shall be determined by a court of competent jurisdiction. Pending determination of the dispute, Tenant shall pay any amounts due from Tenant in accordance with the Operating Costs Statement, but such payment shall be without prejudice to Tenant's claims. Upon at least ten (10) days written notice to Landlord, which shall be provided by Tenant prior to the end of the foregoing sixty (60) day period (the "Audit Notice"), Tenant or an independent certified public accountant of Tenant's choosing (that is not being compensated by Tenant on a contingency fee basis) shall, for a period of sixty (60) days after delivery of the Audit Notice, have reasonable access during normal business hours to inspect the books

and records of Landlord relating to Operating Expenses for the purpose of verifying the Operating Costs Statement, Tenant to bear all costs relating to such inspection, including, but not limited to, costs of photocopies. If (i) a court proceeding results in a determination, or (ii) Landlord and Tenant mutually agree that the Operating Costs Statement contained an aggregate discrepancy of five percent (5%) or more in Landlord's favor, then Landlord shall promptly reimburse the reasonable out-of-pocket costs paid by Tenant in connection with the inspection of the books and records of Landlord relating to Operating Expenses pursuant to this Section 7.2.7.

7.2.8. For each Operating Year during the Term, for purposes of calculating Tenant's Proportionate Share of the Increased Operating Costs during any whole or partial Operating Year (the "Current Operating Year"), total Operating Costs shall be deemed not to exceed the lesser of (A) the amount of all Operating Costs actually incurred by Landlord for such Operating Year or (B) the sum of (i) Landlord's "Uncontrollable Costs" for such Operating Year plus (ii) Landlord's "Controllable Costs" for the Operating Year immediately preceding the Current Operating Year, increased by five percent (5%). For purposes of this Section "Uncontrollable Costs" means Landlord's Operating Cost component costs for snow and ice removal, insurance, Taxes and utilities for the Operating Year in question; and "Controllable Costs" means all of Landlord's Operating Costs for the Operating Year in question minus Uncontrollable Costs.

7.3. Payment of Tenant's Proportionate Share of Increased Taxes. Commencing with the Operating Year beginning January 1, 2006 (the parties acknowledging that the Tax Year for Base Taxes shall end not sooner than June 30, 2006), if Taxes during any whole or partial Tax Year exceed the Base Taxes, then Tenant shall pay to Landlord as Additional Rent, Tenant's Proportionate Share of such excess (herein referred to as "Increased Taxes") as follows:

7.3.1. Prior to the commencement of any Operating Year in which Landlord estimates that Taxes shall exceed the Base Taxes, Landlord shall furnish Tenant with a written statement showing Landlord's estimate of Taxes for the coming Operating Year (the "Estimated Tax Statement");

7.3.2. The Estimated Tax Statement shall also show Tenant's monthly installment of the additional amount of Increased Taxes which installment shall be equal to one-twelfth (1/12th) of Tenant's Proportionate Share of any such estimated Increased Taxes, and, which shall be due and payable monthly as Additional Rent beginning on the first day of each Operating Year;

7.3.3. Within one hundred twenty (120) days after the end of each Operating Year, Landlord shall furnish Tenant with an annual adjustment statement (the "Tax Adjustment Statement") which shall show the actual Tax Costs incurred for the Operating Year just ended, the total payments for estimated Increased Taxes paid by Tenant for that Operating Year, and the amount by which Tenant's total estimated payments for estimated Increased Taxes exceeded or fell short of Tenant's Proportionate Share of the actual Increased Taxes;

7.3.4. Tenant shall pay Landlord the amount by which its total payments for estimated Increased Taxes fell short of Tenant's Proportionate Share of the actual Increased Taxes within thirty (30) days after receipt of the Tax Adjustment Statement or Tenant shall receive from Landlord, within thirty (30) days, a credit for the amount that Tenant's total payments for estimated Increased Taxes exceeded its Proportionate Share of the actual Increased Taxes, whichever is appropriate.

7.3.5. If the tenancy expires or terminates on a date other than the last day of any Operating Year, the account of Tenant shall be proportionately adjusted (based on a 365 day year) within one hundred twenty (120) days after the close of the Operating Year in the same manner as if the tenancy had not expired or terminated. If such adjustment indicates an overpayment by Tenant of its Proportionate Share of Increased Taxes, then Landlord shall deliver a check for such excess within thirty (30) days of the date of Landlord's Tax Adjustment Statement hereunder.

7.3.6. If, during the course of any Operating Year, Landlord determines that its previous Estimated Tax Statement was inaccurate, then Landlord shall have the right to re-estimate Tenant's Proportionate Share of Increased Taxes by furnishing Tenant a Revised Estimated Tax Statement and Revised Monthly Installment of Tenant's Proportionate Share of Increased Taxes.

7.3.7. Each Tax Statement provided by Landlord shall be conclusive and binding upon Tenant unless within sixty (60) days after receipt thereof, Tenant notifies Landlord, in writing, that it disputes the correctness thereof, specifying those respects in which Tenant claims the Tax Statement to be incorrect. Unless resolved by the parties, such dispute shall be determined by a court of competent jurisdiction. If the court proceedings result in a determination that the Tax Statement contained an aggregate discrepancy of five percent (5%) or more in Landlord's favor, then Landlord shall bear all costs in connection with such litigation. If the court proceedings result in a determination that the Tax Statement contained an aggregate discrepancy of less than five percent (5%) in Landlord's favor, Tenant shall bear all costs in connection with such litigation. Pending determination of the dispute, Tenant shall pay any amounts due from Tenant in accordance with the Estimated Tax Statement, but such payment shall be without prejudice to Tenant's claims. Tenant, for a period of sixty (60) days after delivery of the Tax Statement in each Operating Year and upon at least ten (10) days written notice to Landlord, shall have reasonable access during normal business hours to inspect the books and records of Landlord relating to Taxes for the purpose of verifying the Tax Statement, Tenant to bear all costs relating to such inspection, including, but not limited to, costs of photocopies.

If Landlord receives a tax credit or tax abatement from Howard County, Maryland and/or the State of Maryland as a result of the execution of this Lease (the "Credit") then Landlord shall pass through to Tenant the benefit of such Credit by reducing Tenant's Basic Rent obligations hereunder as and when the economic benefit of such Credit is realized by Landlord. If the amount of the Credit in any given month exceeds the monthly installment payment of Basic Rent due for such month then the balance of the Credit shall be applied against successive monthly installments of Basic Rent next coming due.

8. COMMON FACILITIES.

8.1. Definition of Common Facilities. As used herein, "Common Facilities" shall mean those areas and facilities of the Property, as designated by Landlord from time to time, intended for the general common use and benefit of all tenants of the Building and their agents, representatives, licensees, employees and invitees, including, without limitation, all stairs, landings, roofs, utility and mechanical rooms and equipment, service closets, corridors, elevators, lobbies, lavatories and other public areas of the Building and any paved parking areas, parking deck, access roads, pedestrian walkways, plazas and landscaped areas located upon the Land.

8.2. Use of Common Facilities. Tenant shall have the non-exclusive right to use the Common Facilities in common with Landlord, other tenants in the Building, and others entitled to the use of the Common Facilities pursuant to the applicable covenants and restrictions, subject to such reasonable rules and regulations governing the use of the Common Facilities as Landlord may from time to time prescribe and subject to such easements therein as Landlord may from time to time grant to others. Tenant shall not obstruct in any way any portion of the Common Facilities or in any way interfere with the rights of other persons entitled to use the Common Facilities and shall not, without the prior written consent of Landlord, use the Common Facilities in any manner, directly or indirectly, for the location or display of any merchandise or property belonging to Tenant or for the location of signs relating to Tenant's operations in the Premises. The Common Facilities shall at all times be subject to the exclusive control and management of Landlord. Tenant shall also have access to and the right to park in not less than 5 standard parking spaces per 1,000 square feet of Premises, for use in common with other tenants of the Building, in designated common parking areas adjacent to the Building, and at no cost to Tenant during the Term or any renewal term, with overflow parking for use in common with others to be provided in the parking lot behind 7085 and 7095 Samuel Morse Drive, as shown on the attached SCHEDULE H (the "Overflow Parking"), so as to provide an overall parking ratio of 7 standard parking spaces per 1,000 square feet of Premises. Tenant shall take steps to insure that its usage of parking at the Center and in the Overflow Parking by its employees and visitors conforms to such ratio. Tenant shall be entitled to have its name inserted in the Building directory and Building standard suite entry signage, the costs of the same to be paid by Landlord. Tenant shall also have the right to have an exterior lighted "CoStar Group" sign above the third floor of the Building on the one façade of the Building facing Interstate Route 95. Tenant shall pay all costs and expenses in connection with the design, permitting, fabrication, installation, maintenance, repair and removal (including necessary repairs to the Building) of all such signs. Tenant's rights with respect to any and all signs shall be subject to (a) Landlord's prior approval, which approval shall not be unreasonably withheld, conditioned or delayed and (b) the pertinent requirements of applicable law or restrictive covenants. Landlord shall reasonably cooperate with Tenant, at no cost to Landlord, in Tenant's efforts to obtain permits required for Tenant's signage. Landlord has approved an exterior sign per the specifications attached hereto as SCHEDULE I.

8.3. Alterations to Common Facilities. Landlord shall have the right to change or alter the location, layout, nature or arrangement of the Common Facilities or any portion thereof, including, but not limited to, the arrangement and/or location of entrances, passageways, doors, corridors, stairs, lavatories, elevators and other public areas of the Building; provided, however, that no such change or alteration shall deprive Tenant of access to the Premises or reduce the Rental Area of the Premises, unless such reduction is required by Federal, state or local laws or regulations, in which event, a reduction in the Premises shall be permitted with a commensurate reduction in Rent. Landlord shall have the right to close temporarily all or any portion of the Common Facilities to such extent as may, in the reasonable opinion of Landlord, be necessary to prevent a dedication thereof to the public, provided that Tenant is not thereby denied access to the Premises, or for repairs, replacements or maintenance to the Common Facilities, provided such repairs, replacements or maintenance are performed expeditiously and in such a manner as not to deprive Tenant of access to the Premises, and further provided that any such alterations are consistent with the those applicable to a first class office building.

8.4. Maintenance. Landlord covenants to keep, maintain, manage and operate the Common Facilities, or to cause the same to be done, in a manner consistent with the operation of a first class office building and to keep the sidewalks and driveways, if any, constituting a portion of the Common Facilities clean and reasonably clear of snow and ice. Landlord reserves the right of access to the Common Facilities through the Premises for the purposes of operation, decoration, cleaning, maintenance, safety, security, alterations and repairs.

8.5. Alterations to Comply with Legal Requirements.

8.5.1 If any Alterations (as hereinafter defined) are required to be made to the Premises, the Building or the Center due to Legal Requirements because the same were in actual violation of any Legal Requirements on the Commencement Date, or if, as a result of Landlord undertaking any Alterations elsewhere in the Center, Alterations are required to be made to the Premises, the Building or the Center due to Legal Requirements, then Landlord shall make such Alterations at its sole cost and expense (and such expenses shall not be included within Operating Costs or charged as Additional Rent to Tenant); and Landlord shall take all reasonable steps to minimize disruption to Tenant while making such Alterations. Landlord represents and warrants that the Building shall, as of the Commencement Date, be in compliance with the Americans with Disabilities Act.

8.5.2 Subject to Landlord's obligations set forth in the previous Subsection and in the following Subsection, if any Alterations are required to be made to the Premises, the Building or the Center due to a change in, or change in the interpretation of, or more stringent enforcement of, Legal Requirements occurring on or after the Commencement Date (and not in connection with Alterations elsewhere in the Center undertaken by Landlord), then Landlord shall make such Alterations as aforesaid, provided that the cost of such Alterations shall be amortized over their useful life and a ratable portion of such cost shall be included within the definition of Operating Costs in each Rental Year until such cost is fully amortized.

8.5.3 If (i) any Alterations are required to be made to the Premises or to all or any part of the Center other than the Premises due to Legal Requirements and as a consequence of any Alterations made by Tenant within the Premises, or (ii) any Alterations are required to be made to all or any part of the Center, including the Premises, at any time during the Term pursuant to any Legal Requirements relating to accessibility by persons with disabilities or otherwise pursuant to the ADA (collectively, the "Accessibility Alterations"), because the Premises, as used by Tenant, is deemed to be a "place of public accommodation" under the ADA, then all such required Alterations shall be made by Tenant at its sole cost and expense unless Landlord otherwise agrees; and, if Landlord elects to make such Alterations, then such Alterations shall be at Tenant's sole cost and expense, and payable by Tenant as Additional Rent.

8.5.4 Within ten (10) days after receipt, Tenant shall advise Landlord in writing, and provide Landlord with a copy of (as applicable), any notices alleging violation of Legal Requirements relating to any portion of the Center or of the Premises; any claims made or threatened in writing regarding noncompliance with Legal Requirements and relating to any portion of the Center or of the Premises; or any governmental or regulatory actions or investigations instituted or threatened regarding noncompliance with the ADA and relating to any portion of the Center or the Premises.

8.5.5 "Legal Requirements" shall mean (i) all laws, ordinances, notices, orders, rules, regulations and requirements of any and all Federal, state or municipal governments, and of the appropriate departments,

commissions, boards and officers thereof, including but not limited to The Americans with Disabilities Act, 42 U.S.C. § 12101, *et. seq.*, and the ADA Disability Guidelines promulgated with respect thereto; (ii) all environmental laws; (iii) all zoning and other land use matters and utility availability regulations or directives; (iv) any direction of any public officer or officers, pursuant to law, which shall impose any duty upon Landlord or Tenant with respect to the use or occupation of the Premises; and (v) all notices, orders, rules and regulations of the National Board of Fire Underwriters, or any other body now or hereafter constituted and exercising similar functions, relating to all or any part of the Premises, regardless of when they became effective; (v) all covenants, conditions, restrictions, reciprocal easement agreements and the like which are recorded among the land records of the jurisdiction in which the Center is located and which are applicable to the Center generally.

9. SERVICES AND UTILITIES. So long as Tenant is not in default under this Lease, Landlord shall provide the following facilities and services to Tenant as part of Landlord's Operating Costs (except as otherwise provided herein):

9.1. Elevator. At least one elevator subject to call at all times, including Sundays and holidays, in elevator serviced buildings. The foregoing notwithstanding, if only one (1) elevator serves the Building, Landlord shall have the right to remove it from service for the performance of repairs, maintenance or testing or due to an emergency.

9.2. Utilities. During Operating Hours, reasonable amounts of natural gas for gas-serviced buildings, electric current for lighting, small items of office equipment, subject to the provisions of Section 9.8 and central heating and air conditioning ("HVAC") during the seasons of the year when these services are normally and usually furnished, and within the temperature ranges of three degrees fahrenheit plus or minus the dialed or regulated temperature on interior thermostats, and otherwise in such amounts normally or usually furnished in comparable office buildings in the locale of the Property. Landlord shall provide the aforesaid services at other times and on Sundays and holidays ("after-hours service") at Tenant's expense, provided Tenant gives Landlord notice by 1:00 p.m. on weekdays for after-hours service on the next weekday, by 1:00 p.m. the day before a holiday for service on a holiday, and by 1:00 p.m. on Friday for after-hours service on Saturday or service on Sunday. Such after-hours service shall be charged to Tenant at Landlord's actual costs therefor, currently \$40.00 per hour, as such costs may fluctuate from time to time. Tenant shall pay for such service, as Additional Rent, promptly upon receipt of an invoice with respect thereto.

9.3. Cleaning. Cleaning in Landlord's standard manner Monday through Friday exclusive of legal holidays. The existing cleaning specifications for the Premises are attached hereto as SCHEDULE G.

9.4. Lighting. Replacement of light tubes or bulbs for building standard light fixtures. All light tube or bulb replacements for special non-standard lighting fixtures shall be furnished and installed by Landlord at Tenant's expense.

9.5. Lavatories. Rest room facilities and necessary lavatory supplies, including hot and cold running water at the points of supply, as provided for general use of all tenants in the Building.

9.6. Common Facilities Maintenance. Routine maintenance, painting, and electric lighting service for all public areas of the Building in such manner as Landlord deems reasonable consistent with the operation of the Building as a first-class office building.

9.7. Interruption of Service. Any failure by Landlord to furnish the foregoing services, resulting from circumstances beyond Landlord's reasonable control or from interruption of such services due to repair or maintenance, shall not render Landlord liable in any respect for damages to either person or property, nor be construed as an eviction of Tenant, nor cause an abatement of rents hereunder, nor relieve Tenant from any of its obligations hereunder. If any public utility or governmental body shall require Landlord or Tenant to restrict the consumption of any utility or reduce any service for the Premises or the Building, Landlord and Tenant shall comply with such requirements, whether or not the utilities and services referred to in this Section are thereby reduced or otherwise affected, without any liability on the part of Landlord to Tenant or any other person or any reduction or adjustment in rents payable hereunder. Landlord and its agents shall be permitted reasonable access to the Premises after reasonable notice to Tenant for the purpose of installing and servicing systems within the Premises deemed necessary by Landlord to provide the services and utilities referred to in this Section to Tenant and other tenants in the Building. Notwithstanding anything to the contrary contained in this Section 9.7, in the event of the interruption of utility services to the Premises for a period of more than five (5) consecutive business days due to the negligence or willful misconduct of the Landlord, Tenant shall notify Landlord thereof and shall be entitled to an abatement

of the Basic Rent beginning on the sixth (6th) business day of such interruption and continuing until such utility service has been restored.

9.8. **Tenant's Consumption of Electricity.** "Base Current" shall be defined as that amount of electrical current which is required for Tenant's usage within the Premises based upon the Final Plans and Specifications. Landlord shall provide, at a minimum, the Base Current. Tenant covenants that, unless permitted pursuant to the terms of this Section, it shall not consume more electrical current than the Base Current. Tenant shall not install or use on the Premises any electrical equipment, appliance or machine requiring more electrical energy than the Base Current, unless the installation and use of such additional electrical equipment, appliance or machine has been approved by Landlord pursuant to terms and conditions set forth in a separate agreement, which approval may be conditioned upon the payment by Tenant, as Additional Rent, of the cost of the additional electrical energy and modifications to the Building electrical system required for the operation of such electrical equipment, appliance or machine.

10. **REPAIRS BY LANDLORD.** Landlord shall keep the Building and all machinery, equipment, fixtures and systems of every kind attached to, or used in connection with the operation of, the Building, including all electrical, heating, mechanical, sanitary, sprinkler, utility, power, plumbing, cleaning, refrigeration, ventilating, air-conditioning and elevator systems and equipment (excluding, however, lines, improvements, systems and machinery for water, gas, steam and electricity owned and maintained by any public utility company or governmental agency or body and any supplemental HVAC system approved by Landlord and installed by Tenant) in good order and repair consistent with the operation of the Building as a first-class office building. Landlord, at its cost and expense, shall make all repairs and replacements necessary to comply with its obligations set forth in the immediately preceding sentence, except for (a) repairs or alterations required to be made by Tenant pursuant to Section 11 hereof and (b) repairs caused or to the extent contributed to by the negligence or willful misconduct of Tenant, its agents, employees, invitees and guests, which repairs shall be made by Landlord at the cost of Tenant, and for which Tenant shall pay promptly upon receipt of an invoice setting forth the cost of such repairs, except as, and to the extent, otherwise provided in Section 14.5. There shall be no abatement in rents due and payable hereunder and no liability on the part of Landlord by reason of any inconvenience, annoyance or injury arising from Landlord's making reasonable repairs, additions or improvements to the Building in accordance with its obligations hereunder. Notwithstanding the foregoing, Landlord shall make commercially reasonable efforts to avoid disruption of Tenant's business. Landlord shall have no obligation hereunder to make repairs of Tenant Improvements, Tenant's Alterations or Tenant's Personal Property.

11. USE, CARE AND REPAIR OF PREMISES BY TENANT.

11.1. **Permitted Use.** Tenant shall use and occupy the Premises solely for general office purposes in accordance with applicable zoning regulations and for no other purpose. Tenant shall not do, or permit anything to be done in or on the Premises, or bring or keep anything therein which will, in any way, obstruct, injure, annoy or interfere with the rights of Landlord or other tenants, or subject Landlord to any liability for injury to persons or damage to property, or interfere with the good order of the Building, or conflict with the laws, rules or regulations of any Federal, state or county authority. Tenant shall have access to the Common Facilities and the Premises twenty-four (24) hours per day, seven (7) days per week, three hundred sixty five (365) days per year. Tenant shall have the right, as an Alteration to the Premises, to install Tenant's own security system for the Premises and shall provide Landlord with not less than five (5) access cards or other reasonable access, as applicable therefor.

11.2. **Care of Premises.** Tenant shall, at its sole cost and expense, keep the Premises and the improvements and appurtenances therein in good order and condition consistent with the operation of a first-class office building and, at the expiration of the Term, or at the sooner termination of this Lease as herein provided, deliver up the same broom clean and in as good order and condition as at the beginning of the Term, ordinary wear and tear and damage by fire or other casualty excepted. Tenant, at its sole cost and expense, shall comply with all laws, rules, orders, ordinances, directions, regulations and requirements of federal, state, county and municipal authorities, now in force or which may hereafter be in force, which shall impose any duty upon Landlord (subject to the terms of Section 10) or Tenant with respect to the use, occupation or alteration of the Premises. Tenant, at its sole cost and expense, shall promptly replace scratched, damaged or broken doors and glass in and about the interior of the Premises and shall be responsible for the repair and maintenance of all improvements installed and placed within the Premises as Tenant Improvements. Tenant shall pay for all damage to the Property and any fixtures and appurtenances related thereto due to any waste, misuse or neglect of the Premises or due to any breach of this Lease by Tenant, its employees, agents, representatives or invitees, unless such damage is caused by Landlord,

its agents, employees, servants or contractors. The covenants of this Section shall expressly survive the termination of this Lease.

11.3. Compliance with Rules and Regulations. Tenant and its employees, agents and invitees shall abide by and observe the rules and regulations attached hereto as SCHEDULE C for the operation and maintenance of the Building or any new rules and regulations which may from time to time be issued by Landlord, provided that any new rules or regulations are in conformity with common practice or usage in comparable office buildings in locale of the Property, are not inconsistent with the provisions of this Lease, and provided further, that Tenant has received reasonable notice of such new rules and regulations and are not enforced against Tenant (as compared to enforcing any such rules and regulations against any other tenant in the Building) in a manner that intentionally discriminates against Tenant. Nothing in this Lease shall be interpreted to impose upon Landlord any duty or obligation to enforce any such rules and regulations against any other tenant in the Building, and Landlord shall not be liable to Tenant for any violation of these rules and regulations by any other tenant or its employees, agents or invitees.

11.4. Hazardous Materials. (a) Landlord hereby makes the following warranties to Tenant, each of which is made only to the best of Landlord's knowledge as of the date of this Lease: (i) Landlord has not placed or allowed to be placed on the Land any Hazardous Materials (other than in compliance with environmental laws) or otherwise violated any environmental laws with respect to the Premises or the construction and development of the Building which violation remains unremedied; (ii) Landlord has received no notice of, nor does Landlord have any knowledge of placement of Hazardous Materials on the Premises or the Land by third parties; (iii) Landlord has neither filed or been required to file any reports respecting Hazardous Materials with any governmental entity; and (iv) Landlord has received no notice from any governmental entity respecting Hazardous Materials on the Land.

(b) The provisions of this subsection 11.4(b) only apply if (i) it is determined at any time by a court of competent jurisdiction that the representations of Landlord contained in subsection 11.4(a) are not correct and that Landlord had, to the best of its knowledge, knowledge of such incorrectness as of the date of this Lease; (ii) Landlord, its agents, employees or contractors (but not tenants of Landlord or their agents, employees or contractors) violate any environmental laws with respect to the Premises; or (iii) there are, as of the date hereof, Hazardous Materials on the Premises. If this subsection 11.4(b) applies because of an occurrence described in the immediately preceding sentence, then Landlord shall be responsible for all costs incurred in complying with all environmental laws which relate to the occurrence in question and Landlord shall indemnify, defend and hold Tenant harmless from and against any and all claims, judgments, damages, penalties, fines, costs, liabilities or losses (including, without limitation, sums paid in settlement of claims, and reasonable attorneys' fees, consultant fees and expert fees) which arise during or after the Term from or in connection with the Hazardous Materials and the occurrence in question except for Tenant's lost profits or damages or loss to Tenant's business.

(c) Tenant covenants and agrees that it will not use or allow the Premises to be used for the manufacture, storage, use, treatment, release or disposal of any "Hazardous Material". The term "Hazardous Material" as used in this Lease means any substance or material in quantities which is, or becomes, controlled by any lawful governmental authority or is designated as hazardous or toxic by any governmental authority or is designated as a hazardous substance pursuant to Section 311 of the Federal Water Pollution Control Act (33 U.S.C. 11317), defined as a hazardous waste pursuant to Section 1004 of the Federal Resource Conservation and Recovery Act (42 U.S.C. 6901 et seq.) or as a hazardous substance pursuant to Section 101 of the Comprehensive Environmental Response, Compensation and Liability Act (42 U.S.C. 9601, et seq., as amended) or Section 7-101, et seq. of the Environment Article of the Annotated Code of Maryland. Tenant covenants and agrees that at the Termination Date or earlier date of surrender of the Premises it shall return the same free and clear of any Hazardous Materials or Hazardous Material contamination other than that which existed prior to the date of this Lease, if any. The covenants of this Section shall expressly survive the termination of this Lease.

12. ALTERATIONS BY TENANT.

12.1. Alterations. Tenant shall in no event make or permit to be made any alteration, modification, substitution or other change of any nature to the structural, mechanical, electrical, plumbing, HVAC and sprinkler systems within or serving the Premises. After completion of the Tenant Improvements within the Premises, Tenant shall not make or permit any other improvements, alterations, fixed decorations, substitutions or modifications, structural or otherwise, to the Premises or the Building ("Alterations") without the prior written approval by Landlord of complete plans and specifications prepared and submitted by Tenant, which approval shall not be unreasonably withheld, conditioned or delayed. Landlord's

approval shall include the conditions under which acceptable Alterations may be made. Landlord's approval of the plans, specifications and working drawings for Tenant's Alterations shall create no responsibility or liability on the part of Landlord for their completeness, design sufficiency, or compliance with all laws, rules and regulations of governmental agencies or authorities. Alterations shall include, but not be limited to, the installation or modification of carpeting, walls, partitions, counters, doors, shelves, lighting fixtures, hardware, locks, ceiling, window and wall coverings; but shall not include the initial Tenant Improvements initially placed within the Premises pursuant to Section 5. All Alterations may be made by Tenant's contractor (as reasonably approved by Landlord) at Tenant's sole cost and only after Tenant has obtained any necessary permits from governmental authorities for the Alterations. If Tenant makes any Alterations without the prior consent of Landlord, then, in addition to Landlord's other remedies, Landlord may correct or remove such Alterations and Tenant shall, on demand, pay the cost thereof (plus ten percent [10%] of such cost as a construction management fee) as Additional Rent. If any mechanic's lien is filed against the Premises or the Building for work or materials furnished to Tenant (other than by Landlord) the lien shall be discharged by Tenant within twenty (20) days thereafter, solely at Tenant's expense, by either paying off or bonding the lien. Should Tenant fail to discharge any lien within twenty (20) days of its filing, then, in addition to Landlord's other remedies, Landlord shall have the right, but not the obligation, to discharge said lien at Tenant's expense. Notwithstanding the terms of this Section 12.1 to the contrary, Tenant may install a generator and fuel supply (the "Generator") in the location approved by Landlord near the Building and subject to Landlord's prior approval of complete plans and specifications for the Generator, such approval to not be unreasonably withheld, conditioned or delayed. The Generator shall be deemed to be Tenant's Personal Property, and Tenant shall cause the Generator (and all equipment associated therewith) to be removed at the expiration or earlier termination of this Lease. Tenant shall obtain and exhibit to Landlord at Landlord's request copies of all requisite approvals and permits with respect to the Generator, including, to the extent required, building permits and any architectural approvals required under restrictive covenants applicable to the Building and the Center. Tenant shall repair any damage to the Property caused by the removal of the Generator and such equipment and shall restore the Property to the same condition as existed prior to the installation of the Generator and the equipment.

12.2. **Title.** Any Alterations or any equipment, machinery, furniture, furnishings, and other property or improvements installed or located in the Premises by or on behalf of Landlord or Tenant, other than Tenant's Personal Property, (a) shall immediately become the property of Landlord and (b) shall remain upon and be surrendered to Landlord with the Premises as a part thereof at the end of the Term. Notwithstanding the foregoing, Landlord may, at the time of providing approval of Tenant's plans for Alterations upon notice to Tenant, elect that any Alterations be removed by Tenant at the end of the Term, and thereupon, Tenant shall, at Tenant's sole expense, remove such Alterations and restore the Premises to their condition prior to the making of such Alterations, reasonable wear and tear excepted. Upon Tenant's failure to do so, Landlord may remove such Alterations and restore the Premises and the Building, as the case may be, and Tenant shall promptly reimburse Landlord, as Additional Rent, for the cost of such work. Tenant shall not be required to remove data and communications cabling and equipment installed in the Premises or otherwise in the Building.

12.3. **Tenant's Personal Property.** "Tenant's Personal Property" shall mean all equipment, machinery, furniture, furnishings and/or other property now or hereafter installed or placed in or on the Premises by and at the sole expense of Tenant with respect to which Tenant has not been granted any credit or allowance by Landlord and which (a) is not used, or was not procured for use, in connection with the operation, maintenance or protection of the Premises or the Building; (b) is removable without damage to the Premises or the Building, and (c) is not a replacement of any property of Landlord, whether such replacement is made at Tenant's expense or otherwise. Tenant shall promptly pay all personal property taxes on Tenant's Personal Property, as applicable. Tenant shall remove all Tenant's Personal Property from the Premises at the termination of this Lease. Any property belonging to Tenant or any other person which is left in the Premises after the date the Lease is terminated for any reason shall be deemed to have been abandoned. In such event, Landlord shall have the right to declare itself the owner of such property and to dispose of it in whatever manner Landlord considers appropriate without waiving its right to claim from Tenant all expenses and damages caused by Tenant's failure to remove such property and Tenant shall not have any right to compensation or claim against Landlord as a result.

12.4. **Alternative Service Provider.** In the event that Tenant wishes to utilize the services of a data cabling, telephone or telecommunications service provider ("Provider") whose equipment is not servicing the Building as of the date of Tenant's execution of this Lease, no such Provider shall be permitted to install its wires or other equipment within the Building without first securing the prior written consent of Landlord, which consent shall not be unreasonably withheld, conditioned or delayed. Tenant and Provider have agreed that Landlord shall incur no expense whatsoever with respect to any aspect of Provider's provision of its services, including, without limitation, the costs of installation, materials, and service. All data cabling, telephone and telecommunications services desired by Tenant shall be ordered

and utilized at the sole expense and risk of Tenant. To the extent that service by Provider is interrupted, curtailed, or discontinued, Landlord shall have no obligation or liability whatsoever with respect thereto.

13. ASSIGNMENT AND SUBLETTING.

13.1. **Transfer.** Tenant agrees for itself and its permitted successors and assigns in interest hereunder that it will not (i) assign or otherwise transfer, mortgage or otherwise encumber this Lease or any of its rights hereunder, (ii) sublet the Premises or any part thereof or permit the occupancy or use of the Premises or any part thereof by any person other than Tenant, or (iii) permit the assignment or other transfer of this Lease or any of Tenant's rights hereunder by operation of law, including any levy or sale in execution of a judgment or any assignment or sale in bankruptcy, or insolvency, or the appointment of a receiver or trustee by any state or federal court, without the prior written consent of Landlord in each instance first obtained, which consent shall not be unreasonably withheld, conditioned or delayed as provided below. Each of the events referred to in the foregoing clauses (i), (ii) and (iii) are hereinafter referred to as a "Transfer"; and any transferee, assignee, mortgagee, sublessee or occupant with respect thereto is hereinafter referred to as a "Transferee". Any consent given to any one Transfer shall not constitute a consent to any subsequent Transfer. Any attempted Transfer without Landlord's consent shall be null and void and shall not confer any rights upon any purported Transferee. No Transfer, regardless of whether Landlord's consent has been granted or withheld, shall be deemed to release Tenant from any of its obligations hereunder or to alter, impair or release the obligations of any person guaranteeing the obligations of Tenant hereunder.

Conditions. Notwithstanding (and without limiting) any other provisions of this Section, subsequent to the Commencement Date Landlord agrees not to unreasonably withhold its consent to an assignment of this Lease or a subletting of the entire Premises by Tenant named herein, provided that:

- (a) **Information on Assignee or Subtenant.** At least fifteen (15) days before the proposed effective date of the assignment or subletting Landlord receives for approval a copy of a fully executed unconditional assignment or sublease together with (1) reasonably detailed information as to the character, reputation and business experience of the proposed assignee or subtenant, and (2) reasonably detailed financial information on the proposed assignee or subtenant;
- (b) **Tenant Not in Breach or Default.** No Event of Default on Tenant's part can exist at the time of the consent request and at the effective assignment or subletting date;
- (c) **Terms of Lease Govern.** Any assignment or subletting will be upon and subject to all terms and conditions of this Lease, including those regarding the permitted use of the Premises;
- (d) **Assumption; Attornment.** Any assignment must specifically state (and, if it does not, it will be deemed to specifically state) that the assignee assumes and agrees to be bound by all terms and conditions of this Lease, and any sublease must specifically state (and, if it does not, it will be deemed to specifically state) that at Landlord's election the subtenant will attorn to Landlord and recognize Landlord as Tenant's successor under the sublease for the balance of the sublease term if this Lease is surrendered by Tenant or terminated by reason of Tenant's default;
- (e) **Cost.** Upon request and as additional rent Tenant will pay to Landlord all costs incurred by Landlord, but not exceeding \$1,000, in connection with any actual or proposed Transfer, including, without limitation, the costs of making investigations as to the acceptability of the proposed subtenant or assignee, for document review and/or preparation in connection with the proposed transaction and reasonable legal costs incurred, in connection with any requested consent;
- (f) Intentionally omitted;
- (g) Intentionally omitted;
- (h) Intentionally omitted; and

- (i) **Indemnity.** Tenant shall indemnify Landlord against liability resulting from any claim made against Landlord by the proposed assignee or subtenant or by any broker claiming a commission in connection with the proposed Transfer.

Denial of Consent Not Unreasonable. Without limiting Landlord's rights, it is agreed that Landlord will not be deemed to be unreasonable if it does not approve any assignee or subtenant which will:

- (a) Perform governmental or quasi-governmental functions; or
- (b) Operate any business that in Landlord's reasonable opinion is unsuitable for the then tenant mix and character of the Center; or
- (c) Result in the subletting, or subletting and assignment, of the Premises for occupancy by more than four (4) sublessees or assignees at any one time; or
- (d) Conduct business in the Premises for other than the permitted use.

13.2. **Corporate Transfer.** If Tenant is a corporation, the stock of which is not publicly traded, any transfer of Tenant's issued and outstanding capital stock or any issuance of additional capital stock, as a result of which the majority of the issued and outstanding capital stock of Tenant is held by a corporation, firm or person or persons who do not hold a majority of the outstanding capital stock as of the date hereof, shall be deemed a prohibited Transfer under this Section. Notwithstanding anything to the contrary contained in this Section 13, Tenant may assign, sublet or transfer any of Tenant's interest in this Lease, at any time during the Term to any parent, subsidiary or affiliate entity or corporation of Tenant, upon prior written notice to Landlord but without Landlord's prior written consent, provided, (i) such transferee continues to operate the business conducted in the Premises for the Permitted Use and in the same manner as Tenant and pursuant to all of the provisions of this Lease; (ii) such transferee shall assume in writing in a form reasonably satisfactory to Landlord all of Tenant's obligations hereunder; (iii) Landlord shall be furnished with a copy of such assignment or other transfer instrument within fifteen (15) days prior to the effective date of the proposed assignment or other transfer thereof; and (iv) Tenant to which the Premises were initially leased shall remain fully liable as principal and not as guarantor or surety for the Rent and all conditions and covenants of this Lease to be performed by Tenant for the full Lease Term, even if Landlord accepts Rent from the assignee or in any other manner deals with them.

13.3 **Assignment and Bankruptcy.** Notwithstanding any of the other provisions of this Lease, if a voluntary or involuntary petition in Bankruptcy shall be entered with respect to Tenant pursuant to the provisions of the Federal Bankruptcy Code, or Tenant shall voluntarily or involuntarily come under the jurisdiction of the United States Bankruptcy Code, 11 U.S.C. Sec. 101, *et seq.* (the "Bankruptcy Code") and thereafter Tenant or its trustee in bankruptcy, under the authority of and pursuant to applicable provisions thereof, shall determine to assign this Lease, then Tenant agrees that (a) Tenant or its trustee will provide to Landlord sufficient information enabling it to independently determine whether Landlord will incur actual and substantial detriment by reason of such assignment and (b) "adequate assurance of future performance" under this Lease, as that term is generally defined under the Bankruptcy Code, will be provided to Landlord by Tenant and its assignee as a condition of such assignment. If this Lease is assigned to any person or entity pursuant to the provisions of the Bankruptcy Code, then any and all monies or other considerations payable or otherwise to be delivered in connection with such assignment shall be paid or delivered to Landlord, shall be and remain the exclusive property of Landlord and shall not constitute property of Tenant or of the Estate of Tenant within the meaning of the Bankruptcy Code. All monies or other considerations constituting Landlord's property under the preceding sentence not paid or delivered to Landlord shall be held in trust for the benefit of Landlord and be promptly paid or delivered to Landlord.

13.4. **Excess Rent.** In the event Landlord shall consent to a Transfer of this Lease and the amount of the rents (or other compensation) to be paid to Tenant by any such Transferee is greater than the Rents required to be paid by Tenant to Landlord pursuant to this Lease or a premium is to be paid to Tenant for an assignment of this Lease, Tenant shall pay to Landlord one-half of the net amount of any such excess or any such premium, as the case may be (i.e., subject to deduction for reasonable costs or expenses incurred by Tenant in connection with the transaction), upon receipt thereof by Tenant from such Transferee.

13.5. **Recapture Rights.** If, in good faith Tenant intends to market or place on the market all or any portion of the Premises for Transfer, Tenant may provide to Landlord written notice as to its intent to do so, which notice shall include a description of the Premises or portion thereof to be marketed and the duration of the proposed term (the "Landlord Marketing Notice"). The Landlord Marketing Notice (or if Tenant fails to provide the Landlord Marketing Notice, Tenant's notice and request for Landlord's consent to Transfer), shall be deemed to constitute Tenant's offer to reconvey to Landlord, as of the proposed effective date of the Transfer, that portion of the Premises which is the subject of the proposed Transfer (and in the event of a sublease for the term of such sublease), which offer shall contain an undertaking by Tenant to accept, as full and adequate consideration for the reconveyance, Landlord's release of Tenant from all future Rent and other obligations under this Lease with respect to the Premises or the portion thereof so reconveyed. Landlord, in the sole and unfettered exercise of its discretion, shall accept or reject the offered reconveyance within five (5) days of the offer, and, if Landlord accepts, the reconveyance shall be evidenced by an agreement in form and substance acceptable to Landlord. If Landlord fails to accept or reject the offer within the five (5) day period then Landlord shall be deemed to have rejected the offer of reconveyance, but no such rejection shall be deemed to be a consent to the requested Transfer.

14. INDEMNIFICATIONS AND WAIVER OF CLAIMS.

14.1. **Indemnity by Tenant.** To the maximum extent permitted by law, but subject to the provisions of Section 14.5, Tenant shall and does hereby indemnify Landlord and agrees to save it harmless and, at Landlord's option, defend it from and against any and all claims, actions, damages, liabilities and expenses (including attorneys' and other professional fees) judgments, settlement payments, and fines paid, incurred or suffered by Landlord except as may arise on account of Landlord's negligence or willful conduct:

14.1.1 in connection with bodily injury including loss of life or personal injury, or damage to property or to the environment, suffered by third parties, and arising from or out of the occupancy or use by Tenant of the Premises or any part thereof or any other part of the Property, and occasioned wholly or in part by any act or omission of Tenant, its officers, agents, contractors, employees or invitees; or,

14.1.2 in connection with damage to property or the environment and arising, directly or indirectly, wholly or in part, from any conduct, activity, act, omission, or operation involving the use, handling, generation, treatment, storage, disposal, other management or release of any Hazardous Material in, from or to the Premises (other than any Hazardous Materials on the Premises as of the date of this Lease), whether or not Tenant may have acted negligently with respect to such Hazardous Material; or

14.1.3 in connection with any claim or proceeding brought by a third party alleging, in whole or in part, that Tenant's acts, activities, conduct, or omissions in the Premises violate its obligations to comply with a law, rule, order, ordinance, direction, regulation or requirement of federal, state, county and municipal authorities imposing a duty with respect to the use, occupation or alteration of the Premises.

14.2. **Indemnity by Landlord.** To the maximum extent permitted by law, but subject to the provisions of Section 14.5, Landlord shall and does hereby indemnify Tenant and agrees to save it harmless and, at Tenant's option, defend it from and against any and all claims, actions, damages, liabilities and expenses (including reasonable attorneys' and other professional fees) judgments, settlement payments, and fines paid, incurred or suffered by Tenant in connection with bodily injury including loss of life, personal injury and/or damage to property suffered by third parties arising from or out of the use of any portion of the Common Facilities by Landlord, occasioned wholly or in part by the negligence of Landlord, its officers, agents, contractors or employees.

14.3. **Survival of Indemnities.** Landlord's and Tenant's obligations pursuant to Sections 14.1 and 14.2 shall survive any termination of this Lease with respect to any act, omission or occurrence which took place prior to such termination.

14.4. **Limitation on Landlord's Liability for Loss, Damage and Injury.** To the maximum extent permitted by law, but subject to Tenant's right to remedies for breach of this Lease by Landlord, Tenant shall occupy and use the Premises, the Building and the Common Facilities at Tenant's own risk. All property of Tenant, its employees, agents or invitees, or of any other person located in or on the Premises or the Building, shall be and remain at the sole risk of Tenant or such employee, agent, invitee or other person. Except to the extent caused by the negligence or willful misconduct of

Landlord, Tenant hereby expressly agrees that Landlord and its agents, servants and employees shall not be liable or responsible for, and Tenant does hereby save them harmless from, any damage or injury to the person or property of Tenant, or its agents, servants, employees, licensees, invitees or contractors, directly or indirectly caused by (a) dampness or water in any part of the Premises or the Building; (b) bursting, leaking or overflowing of water, sewer, steam, gas or sprinkler pipes and heating or plumbing fixtures; (c) air-conditioning or heating failures; (d) interference with light, air or other incorporeal hereditaments; (e) operations in the construction of any public or quasi-public work; (f) theft or other crime, whether violent or non-violent in nature; (g) fire, accident, natural disorder or other casualty; (h) latent or apparent defect or change of condition in the Premises and/or the Building; (i) the acts or omissions of other persons in the Building; and (j) any other source, circumstance or cause whatsoever. The foregoing waiver and release is intended by Landlord and Tenant to be absolute and unconditional, and without exception, and to supersede any specific repair obligation imposed by Landlord hereunder; provided that such waiver and release shall not apply to the omission, fault, negligence, or other misconduct of Landlord except to the extent such omission, fault, negligence or other misconduct is waived by Tenant after the occurrence or is waived pursuant to Tenant's policies of fire insurance with standard broad form coverage endorsements, which waiver Tenant is obligated to obtain and shall be liable for failure to obtain. No representation, guaranty, assurance or warranty is made or given by Landlord that the communications or security systems, devices or procedures used, if any, will be effective to prevent injury to Tenant or any other person or damage to, or loss (by theft or otherwise) of any of Tenant's Personal Property or of the property of any other person, and Landlord reserves the right to discontinue or modify at any time such communications or security systems, devices or procedures without liability to Tenant.

14.5. Waiver of Right of Recovery. Except as provided in Section 14.4, neither party, nor its officers, directors, employees, agents or invitees, nor, in case of Tenant, its subtenants, shall be liable to the other party or to any insurance company (by way of subrogation or otherwise) insuring the other party for any loss or damage to any building, structure or other tangible property, when such loss is caused by any of the perils which are or could be insured against under a standard policy of full replacement cost insurance for fire, theft and all risk coverage, or losses under workers' compensation laws and benefits, even though such loss or damage might have been occasioned by the negligence of such party, its agents or employees (this clause shall not apply, however, to any damage caused by intentionally wrongful actions or omissions); provided, however, that if, by reason of the foregoing waiver, either party shall be unable to obtain any such insurance, such waiver shall be deemed not to have been made by such party and, provided, further, that if either party shall be unable to obtain any such insurance without the payment of an additional premium therefor, then, unless the party claiming the benefit of such waiver shall agree to pay such party for the cost of such additional premium within thirty (30) days after notice setting forth such requirement and the amount of the additional premium, such waiver shall be of no force and effect between such party and such claiming party. Each party shall use reasonable efforts to obtain such insurance from a company that does not charge an additional premium or, if that is not possible, one that charges the lowest additional premium. Each party shall give the other party notice at any time when it is unable to obtain insurance with such a waiver of subrogation without the payment of an additional premium and the foregoing waiver shall be effective until thirty (30) days after notice is given. Each party represents that its current insurance policies allow such waiver. The provisions of this Section shall not limit the indemnification for liability to third parties pursuant to Sections 14.1 and 14.2.

15. INSURANCE.

15.1. Tenant's Insurance. Tenant, at its expense, shall obtain and maintain in effect as long as this Lease remains in effect and during such other time as Tenant occupies the Premises or any part thereof, insurance policies providing at least the following coverage:

15.1.1. commercial general liability insurance written on an occurrence basis with respect to the Premises and the business operated by Tenant and any subtenants, concessionaires or licensees of Tenant, to afford insurance including, but not limited to, contractual liability coverage against assumed or contractual liability under this Lease, specifically including the liability of Tenant arising out of the indemnities provided in Section 14, to provide insurance against bodily injury including loss of life, personal injury, and property damage, with minimum combined single limits of Two Million Dollars (\$2,000,000) per occurrence and in the aggregate;

15.1.2. "all-risk" property insurance policy written at replacement cost value and with replacement cost endorsement, covering all of Tenant's Personal Property in the Premises and Tenant's interest in all Alterations and all leasehold improvements and all betterments installed in the Premises by or on behalf of Tenant (other than the Tenant Improvements constructed by Landlord as provided in Section 5 of this Lease);

15.1.3. if and to the extent required by law, worker's compensation or similar insurance in form and amounts required by law; and

15.1.4. any other insurance reasonably required of Tenant by Landlord or any Mortgagee; provided such other insurance is customary for other first class office space in the region or for other office complexes in the vicinity of the Buildings.

15.2. Tenant's Contractor's Insurance. Tenant shall require any contractor of Tenant performing work on or about the Premises to carry and maintain, at no expense to Landlord:

15.2.1. commercial general liability insurance written on an occurrence basis to afford insurance including, but not limited to, contractor's liability coverage, completed operations liability coverage, broad form property damage liability and contractor's protective liability coverage, to provide insurance against bodily injury, including loss of life, personal injury and property damage, with minimum combined single limits of Two Million Dollars (\$2,000,000) per occurrence and in the aggregate;

15.2.2. comprehensive automobile liability insurance with a One Million Dollar (\$1,000,000) combined single limit of liability for bodily injury and property damage; and

15.2.3. worker's compensation or similar insurance in form and amounts required by law; and

15.2.4. any other insurance reasonably required of Tenant's contractor by Tenant, Landlord or any Mortgagee.

15.3. Policy Requirements. The company or companies writing any insurance which Tenant or Tenant's contractor is required to carry and maintain or cause to be carried or maintained pursuant to Subsections 15.1 and 15.2, as well as the form of such insurance, shall at all times be subject to Landlord's reasonable approval and any such company or companies shall have a rating of at B+ or better and a financial size rating of X or larger from *Best's Key Rating Guide and Supplemental Service, Property/Casualty* (or comparable rating from a comparable insurance rating service), and shall be licensed to do business in the State of Maryland. Commercial general liability insurance policies required under Sections 15.1.1 and 15.2.1 shall include Landlord and its managing agent, Abrams Development Group, Inc., as additional insureds, shall be primary and non-contributory, and shall also contain a provision by which the Tenant causes (using commercially reasonable efforts) the insurer to agree that such policy shall not be canceled, materially changed or not renewed without at least thirty (30) days advance notice to Landlord by the insurer if the insurer so agrees or by Tenant, at Landlord's Notice Address, by certified mail, return receipt requested, or to its designee. None of the insurance which Tenant is required to carry and maintain or cause to be carried or maintained pursuant to the previous Sections (except for property insurance) shall contain any deductible provisions except to the extent approved by Landlord. Each such policy, or a certificate thereof, shall be deposited with Landlord by Tenant promptly upon commencement of Tenant's obligation to procure the same. Notwithstanding anything set forth above in Sections 15.1 and 15.2 to the contrary, all dollar limits specified shall be increased from time to time as reasonably necessary to effect economically equivalent insurance coverage, or coverage deemed adequate in light of then-existing circumstances.

15.4. Tenant's Failure to Insure. If Tenant fails to obtain insurance as required under this Section then Landlord may, but shall not be obligated to, obtain such insurance, and in such event, Tenant agrees to pay, as Additional Rent, the premium for such insurance upon demand by Landlord.

15.5. Increase in Insurance Premiums. Tenant will not do or suffer to be done, or keep or suffer to be kept, anything in, upon or about the Premises which will violate Landlord's policies of hazard or liability insurance or which will prevent Landlord from procuring such policies in companies acceptable to Landlord. If anything done, omitted to be done or suffered by Tenant to be kept in, upon or about the Premises shall cause the rate of fire or other insurance on the Premises or on other property of Landlord or others within the Property to be increased beyond the minimum rate from time to time applicable to the Premises or to any such property for the use or uses made thereof, then Tenant will pay, as Additional Rent, the amount of any such increase upon Landlord's demand, provided that Landlord provides reasonable documentation of the cause of such increase and can reasonably demonstrate that such increase resulted from Tenant's act or omission.

16. DAMAGE AND DESTRUCTION.

16.1. **Landlord's Obligation to Repair and Reconstruct.** If the Premises shall be damaged by fire, the elements, accident or other casualty (any of such causes being referred to herein as a "Casualty"), but the Premises shall not be thereby rendered wholly or partially untenable, Landlord shall promptly cause such damage to be repaired and there shall be no abatement of Rent reserved hereunder. If, as the result of Casualty, the Premises shall be rendered wholly or partially untenable, then, subject to the provisions of Section 16.2, Landlord shall cause such damage to be repaired and all Rent reserved hereunder (other than any Additional Rent due Landlord either by reason of Tenant's failure to perform any of its obligations hereunder or by reason of Landlord's having provided Tenant with additional services hereunder) shall be abated proportionately as to the portion of the Premises rendered untenable during the period of such untenability. All such repairs shall be made at the expense of Landlord, subject to Tenant's responsibilities set forth herein. Landlord shall not be liable for interruption to Tenant's business or for damage to or replacement or repair of Tenant Improvements, Tenant's Personal Property or Alterations, all of which damage, replacement or repair shall be undertaken and completed by Landlord, at Tenant's expense. Notwithstanding the foregoing, Landlord shall make commercially reasonable efforts to avoid disruption of Tenant's business.

16.2. **Landlord's Option to Terminate Lease.** If the Premises are (a) rendered wholly untenable, or (b) damaged as a result of any cause which is not covered by Landlord's insurance, or if the Building is damaged to the extent of fifty percent (50%) or more of the Rentable Area, or if, for reasons beyond Landlord's control or by virtue of the terms of any financing of the Building, sufficient insurance proceeds are not available for the reconstruction or restoration of the Building or Premises, then, in any such events, Landlord may elect to terminate this Lease by giving to Tenant notice of such election within ninety (90) days after the occurrence of such event, or after the insufficiency of such proceeds becomes known to Landlord, whichever is applicable. If such notice is given, the rights and obligations of the parties shall cease as of the date set forth in such notice, and the Basic Rent and Additional Rent (other than any Additional Rent due Landlord either by reason of Tenant's failure to perform any of its obligations hereunder or by reason of Landlord's having provided Tenant with additional services hereunder) shall be adjusted as of the date of such termination.

If, within the ninety (90) day period set forth above, Landlord shall not have made an election to rebuild or to terminate this Lease as provided in the preceding paragraph, then Tenant may elect to terminate this Lease by giving to Landlord notice of such election within thirty (30) days following the expiration of such ninety (90) period. If Landlord shall have made, within the ninety (90) day period set forth above, an election to rebuild, and then such Casualty is not repaired by Landlord as set forth in Section 16.1 (other than by virtue of a cause or delay caused by a Force Majeure or by Tenant) within one hundred eighty (180) days after the date of Landlord's notice to Tenant electing to rebuild, then Tenant may elect to terminate this Lease by giving to Landlord notice of such election within thirty (30) days following the expiration of such one hundred eighty (180) day period. In either case, if such notice of termination is given by Tenant, the rights and obligations of the parties shall cease as of the date set forth in such notice, and the Basic Rent and Additional Rent (other than any Additional Rent due Landlord either by reason of Tenant's failure to perform any of its obligations hereunder or by reason of Landlord's having provided Tenant with additional services hereunder) shall be adjusted as of the date of such termination.

16.3. **Demolition of the Building.** If the Building shall be so substantially damaged that it is reasonably necessary, in Landlord's judgment, to demolish the Building for the purpose of reconstruction, Landlord may demolish the same, in which event the Lease shall terminate and the Basic Rent and Additional Rent shall be abated to the same extent as if the Premises were rendered untenable by a Casualty.

16.4. **Insurance Proceeds.** If Landlord does not elect to terminate this Lease pursuant to Section 16.2, Landlord shall, subject to the terms of any Mortgage, disburse and apply any insurance proceeds received by Landlord to the restoration and rebuilding of the Building in accordance with Section 16.1 hereof. All insurance proceeds payable from Landlord's insurance with respect to the Premises and the Building shall belong to and shall be payable to Landlord.

17. CONDEMNATION.

17.1. **Termination.** If either the entire Premises or the Building shall be acquired or condemned by any governmental authority under its power of eminent domain for any public or quasi-public use or purpose, this Lease shall terminate as of the date of vesting or acquisition of title in the condemning authority and the Rents hereunder shall be abated on

that date. If less than the whole but more than fifty percent (50%) of the Rental Area of the Premises or more than fifty percent (50%) of the Rentable Area of the Building (even if the Premises are unaffected) or such portion of the Common Facilities as shall render the Premises or the Building untenable should be so acquired or condemned, Landlord and Tenant shall each have the option to terminate this Lease by notice given to the other within ninety (90) days of such taking. In the event that such a notice of termination is given, this Lease shall terminate as of the date of vesting or acquisition of title in the condemning authority and the rents hereunder shall be abated on that date. If (a) neither Landlord nor Tenant shall exercise their respective options to terminate this Lease, as hereinabove set forth, or (b) some lesser portion of the Premises or the Building, which does not give rise to a right to terminate pursuant to this Section, is taken by the condemning authority, this Lease shall continue in force and effect, but from and after the date of the vesting of title in the condemning authority, the Basic Rent payable hereunder during the unexpired portion of the Term shall be reduced in proportion to the reduction in the total Rental Area of the Premises, and any Additional Rent (other than Additional Rent due Landlord by reason of Tenant's failure to perform its obligations hereunder) payable pursuant to the terms hereof shall be adjusted to reflect the diminution of the Premises and/or the Building, as the case may be.

17.2. **Rights to Award.** Tenant shall have no claim against Landlord arising out of the taking or condemnation, or arising out of the cancellation of this Lease, or for any portion of the amount that may be awarded as damages as a result of any taking or condemnation, or for the value of any unexpired portion of the Term, or for any property lost through condemnation, and Tenant hereby assigns to Landlord all its rights, title and interest in and to any such award; provided, however, that, in the event of a total taking, Tenant may assert any claim it may have against the condemning authority for compensation for Tenant's Personal Property lost thereby and for any relocation as may be allowed in the condemnation proceedings provided that such awards shall be made in addition to, and stated separately from, the award made for the Building, the Center and the Premises. Landlord shall have no obligation to contest any taking or condemnation.

18. DEFAULT PROVISIONS AND REMEDIES.

18.1. **Events of Default.** Each of the following shall be deemed an "Event of Default" by Tenant under this Lease:

18.1.1. Failure of Tenant to pay Basic Rent, any Additional Rent, or any other sum required to be paid under the terms of this Lease, including late charges, on the date when due hereunder which failure continues more than five (5) days following written notice; provided, however, if Tenant shall default in the payment of Basic Rent, any Additional Rent, or any other sum required to be paid under the terms of this Lease two (2) or more times in any twelve (12) month period, then notwithstanding such defaults have each been cured by Tenant, any further failure of Tenant to pay Basic Rent, any Additional Rent, or any other sum required to be paid under the terms of this Lease, including late charges, within five (5) days of the date when due (without any requirement of Landlord to provide written notice) shall be deemed an Event of Default without the ability to cure;

18.1.2. Failure by Tenant to perform or observe any other term, covenant, agreement or condition of this Lease, on the part of Tenant to be performed, for a period of ten (10) business days after notice thereof from the Landlord, unless such performance shall reasonably require a longer period, in which case Tenant shall not be deemed in default if Tenant commences the required performance promptly and thereafter pursues and completes such action diligently and expeditiously; and in any event within not more than seventy-five (75) days; provided, however, if Tenant shall default in the performance or observance of any such term, covenant, agreement or condition of this Lease two (2) or more times in any twelve (12) month period, then notwithstanding such defaults have each been cured by Tenant, any further similar default shall be deemed an Event of Default without the ability to cure;

18.1.3. The filing of a tax lien in an amount in excess of \$10,000, against any property of Tenant which is not bonded or discharged within thirty (30) days of the date such lien is filed;

18.1.4. Vacating or abandonment of the Premises by Tenant;

18.1.5. The commencement of any action or proceeding for the dissolution or liquidation of Tenant or for the appointment of a receiver or trustee of the property of Tenant, whether instituted by or against Tenant, if not bonded or discharged within thirty (30) days of the date of the commencement of such proceeding or action, and for purposes of this Section the word "Tenant" shall also include any guarantor of Tenant's obligations under this Lease;

18.1.6. The making by Tenant of an assignment for the benefit of creditors;

18.1.7. The sale of Tenant's interest in the Premises under attachment, execution or similar legal process;

18.1.8. The failure of Tenant to vacate the Premises upon the expiration of the Term, or the earlier termination thereof pursuant to the other provisions hereof (subject to the terms of Section 20); or

18.1.9. The filing of a voluntary or involuntary petition proposing the adjudication of Tenant or any guarantor of Tenant's obligations hereunder as a bankrupt or an insolvent, or the reorganization of Tenant or any such guarantor, or an arrangement by Tenant or any such guarantor with its creditors, whether pursuant to the United States Bankruptcy Code or any similar federal or state proceedings, unless such petition is filed by a party other than Tenant or any such guarantor and is withdrawn or dismissed within thirty (30) days after the date of filing.

18.2. Landlord's Remedies for Default. Upon the occurrence of an Event of Default, Landlord shall have the right, at its election, immediately upon such Event of Default or at any time thereafter and while any such Event of Default shall continue, to exercise one or more of the following remedies:

18.2.1. Landlord may terminate this Lease, as well as all right, title and interest of Tenant hereunder, by giving written notice of Landlord's intention to terminate this Lease on the date of such given notice or on any later date specified therein, whereupon, on the date specified in such notice, Tenant's right to possession of the Premises shall cease and this Lease shall thereupon be terminated, except as to Tenant's liability for damages as hereafter set forth, as if the expiration of the term fixed in such notice were the end of the Term originally set forth in this Lease.

18.2.2. Landlord may re-enter the Premises, with legal process and using such force for such purposes as may be reasonably necessary, without being liable for prosecution thereof, and without being deemed guilty of any manner of trespass, and without prejudice to any remedies for arrears of Rent or preceding breach of covenants or conditions and, upon such reentry, Landlord may: (i) remove any and all of Tenant's property at the Premises; (ii) store Tenant's property in a public warehouse or elsewhere at the cost, risk and expense of Tenant without Landlord's being deemed guilty of trespass or liable for any loss or damage which may occur to Tenant's property; and (iii) upon five (5) days written notice to Tenant, which Landlord and Tenant agree is commercially reasonable, to sell at public or private sale any or all said property, whether exempt or not from sale under execution or attachment (such property being deemed charged with a lien in favor of Landlord for all Rent due hereunder), with the proceeds of sale to be applied: first, to the cost and expenses of retaking, or removal, storage, preparing for sale and sale of Tenant's property (including reasonable attorneys' fees); and second, to the payment of any sum due hereunder to Landlord (including Basic Rent, Additional Rent, and any other charges and damages theretofore and thereafter accruing); and third, any surplus to Tenant.

18.2.3. Landlord may exercise any other remedy available to it at law, in equity, by statute or otherwise; and, for such purposes, Landlord shall be entitled to the benefit of all provisions of applicable city or county ordinances and public local laws and of the public general laws of the State of Maryland dealing with the speedy recovery of lands and tenements held over by tenants or proceedings in forcible entry and detainer.

18.3. Landlord's Right to Relet Premises. Upon any entry or re-entry by Landlord, with legal process, Landlord shall also have the right (but not the obligation) to relet all or any part of the Premises, from time to time, at the risk and expense of Tenant. No re-entry by Landlord with or without a declaration of termination shall be deemed to be an acceptance or a surrender of this Lease or as a release of Tenant's liability for damages under the provisions of this Section. Landlord shall have the right to let or relet the Premises for a longer or shorter term than that remaining after Tenant's default, to lease more or less area than that contained in the Premises, to lease the Premises together with other premises or property owned or controlled by Landlord, and to change the character or use of the Premises. Landlord shall be entitled to deduct from any amounts received from any such letting or reletting all reasonable costs and expenses incurred in connection with Tenant's default, including, but not limited to, the cost to repair, restore, renovate or decorate the Premises for a new tenant, together with reasonable attorneys' fees, real estate commissions, the cost of any legal actions brought against Tenant and any other costs reasonably incurred. No entry or re-entry by Landlord, whether resulting from summary proceedings or otherwise, nor any letting or reletting shall absolve or discharge Tenant from liability hereunder. Tenant's liability hereunder, even if there be

no letting or reletting, shall survive the issuance of any dispossess warrant, order of court terminating this Lease or any other termination based upon Tenant's default.

18.4. **Damages.** Tenant further agrees (i) notwithstanding re-entry by Landlord with or without termination pursuant to the provisions of Section 18.2, or (ii) if this Lease is otherwise terminated by reason of Tenant's default, or (iii) if Landlord retakes possession with process of law, or re-enters with or without a declaration of termination or (iv) if Landlord following any of the foregoing events, elects to let or relet the Premises as provided in Subsection 18.3, then Tenant shall, nevertheless, in each instance, be and remain obligated to, and shall pay to Landlord as damages, upon demand, all expenses (including reasonable attorneys' fees) of any proceedings instituted by Landlord to recover possession of the Premises or otherwise in connection with Tenant's breach of this Lease, and the expenses of releasing the Premises, including but not limited to, any leasing commissions paid in connection therewith, plus, at the election of the Landlord, either:

18.4.1. liquidated damages determined as of the date of termination of the Lease, in an amount equal to the excess, if any, of the sum of the aggregate Basic Rent and the aggregate Additional Rent which would have been paid over the remaining Term had this Lease not been terminated, discounted to present worth, over the then-current rental value of the Premises, for such remaining Term, as reasonably determined by Landlord or by an independent real estate appraiser selected by Landlord, discounted to present worth, and in determining such liquidated damages, the Additional Rent for each year of such remaining Term shall be assumed to equal the Additional Rent payable for the Operating Year immediately preceding the Operating Year in which the default occurs, annualized in the event that such preceding Operating Year is less than twelve (12) months, and in determining present worth, a discount rate equal to one percentage point above the discount rate then in effect at the Federal Reserve Bank in Baltimore shall be used; or

18.4.2. damages (payable in monthly installments, in advance, on the first day of each calendar month following such termination and continuing until the date originally fixed herein for the expiration of the Term of this Lease) in amounts equal to the sum of (i) an amount equal to the installment of Basic Rent which would have been payable by Tenant for such calendar month had this Lease not been terminated plus (ii) an amount equal to one-twelfth (1/12) of the total Additional Rent payable for the Operating Year immediately preceding the Operating Year in which the default occurred, annualized to the extent that such preceding Operating Year is less than twelve (12) months, minus the rents, if any, collected by Landlord in respect to such calendar month pursuant either to re-leasing the Premises or portion thereof or from any existing subleases permitted under the terms of this Lease (after deduction from such rents of the sum of Landlord's costs and expenses as set forth in Section 18.3). Landlord shall be entitled immediately to bring a separate suit, action or proceeding to collect any amount due from Tenant under this Subsection 18.4 for any calendar month and any such suit, action, or proceeding shall not prejudice in any way the right of Landlord to collect such amount due on account of any subsequent calendar month by similar proceeding. In no event shall Landlord be required to exercise any efforts whatsoever to re-lease the Premises.

18.4.3. **No Implied Waiver of Landlord's Rights.** The failure of Landlord to insist in any one or more instances upon the performance of any of the covenants or conditions of this Lease, or to exercise any right or privilege herein conferred shall not be construed as thereafter waiving or relinquishing Landlord's right to the performance of any such covenants, conditions, rights or privileges, and the same shall continue and remain in full force and effect, and the waiver of one default or right shall not constitute waiver of any other default, and the receipt of any Rent by Landlord from Tenant or any assignee or subtenant of Tenant, whether the same be Rent that originally was reserved or that which may become payable under any covenants herein contained, or of any portion thereof, shall not operate as a waiver of Landlord's right to enforce the payment of the Rent or of any of the other obligations of this Lease by such remedies as may be appropriate, and shall not waive or avoid Landlord's right at any time thereafter to elect to terminate this Lease, on account of such assignment, sub-letting, transferring of this Lease or any other breach of any covenant or condition herein contained, unless evidenced by Landlord's written waiver thereof. The acceptance of Rent or any other consideration by Landlord at any time shall not be deemed an accord and satisfaction, and Landlord shall have absolute discretion to apply same against any sum for any period or reason due hereunder without the same constituting a release of any other sums remaining due and unpaid.

18.5. **Mitigation of Damages.** Landlord and Tenant shall each use commercially reasonable efforts to mitigate any damages resulting from a default of the other party under this Lease. Landlord's obligation to mitigate damages after an Event of Default by Tenant under this Lease which would result in Landlord undertaking to lease the Premises to another tenant (a "Substitute Tenant") shall be satisfied in full if Landlord undertakes to lease the Premises to a Substitute Tenant in accordance with the following criteria: (a) Landlord shall have no obligation to solicit or entertain negotiations with any other prospective tenants for the Premises until Landlord obtains full and complete possession of the Premises; (b)

Landlord shall not be obligated to offer the Premises to a prospective tenant when other premises in the Center suitable for that prospective tenant's use are (or soon will be) available; (c) Landlord shall not be obligated to lease the Premises to a Substitute Tenant for a rental less than the current fair market rental then prevailing for similar space, nor shall Landlord be obligated to enter into a new lease under other terms and conditions that are unacceptable to Landlord under Landlord's then current leasing policies for comparable space in the Center; (d) Landlord shall not be required to expend any amount of money to alter, remodel, or otherwise make the Premises suitable for use by a proposed Substitute Tenant unless Tenant pays any such sum to Landlord in advance of Landlord's execution of a Substitute Lease with such tenant (which payment shall not be in lieu of any damages or other sums to which Landlord may be entitled as a result of Tenant's default under this Lease), or Landlord, in Landlord's sole discretion, determines that any such expenditure is financially justified in connection with entering into any such Substitute Lease. Upon compliance with the above criteria regarding the re-leasing of the Premises after an Event of Default by Tenant, Landlord shall be deemed to have fully satisfied Landlord's obligation to mitigate damages under this Lease.

19. **PEACEFUL AND QUIET POSSESSION.** Tenant, if and so long as it pays all Rent due hereunder, performs and observes the other terms and covenants to be performed and kept by it as provided in this Lease, shall have the peaceable and quiet possession of the Premises during the Term free of any claims of Landlord or anyone lawfully claiming by, through or under Landlord, subject, however, to the terms of this Lease and to matters of public record existing as of the date of this Lease.

20. **HOLDING OVER.** Tenant agrees to vacate the Premises at the end of the Term, and Landlord shall be entitled to the benefit of all summary proceedings to recover possession of the Premises at the end of the Term, as if statutory notice had been given. If Tenant remains in possession of the Premises after the expiration of the Term, such action shall not renew the Lease by operation of law and nothing herein shall be deemed as a consent by Landlord to Tenant's remaining in the Premises. If Tenant fails to vacate the Premises as required, Landlord may for the first month of any such holdover consider Tenant as either (i) a "Tenant-at-Will" liable for the payment of 150% of the Basic Rent payable at the end of the Term or (ii) as a "Tenant-Holding-Over" liable for an amount equal to the actual damages incurred by Landlord as a result of Tenant's holding over, including attorney's fees, but excluding incidental, prospective and consequential damages, but in no event shall such amount be less than the amounts of (a) 150% of the Basic Rent payable at the end of the Term and (b) the Additional Rent reserved hereunder applicable to the period of the holdover. If Tenant fails to vacate the Premises as required after the foregoing one (1) month period, Landlord may consider Tenant as either (i) a "Tenant-at-Will" liable for the payment of 150% of the Basic Rent payable at the end of the Term or (ii) as a "Tenant-Holding-Over" liable for an amount equal to the actual damages incurred by Landlord as a result of Tenant's holding over, including, without limitation, all incidental, prospective and consequential damages and attorney's fees, but in no event shall such amount be less than the amounts of (a) 150% of the Basic Rent payable at the end of the Term and (b) the Additional Rent reserved hereunder applicable to the period of the holdover. In any of the foregoing events, all other covenants of this Lease shall remain in full force and effect.

21. **LANDLORD'S ACCESS TO PREMISES.** Landlord and its agents may at any reasonable time with reasonable prior notice and without incurring any liability to Tenant, other than liability for personal injuries and damages resulting solely from the negligence of Landlord or its agents, enter the Premises to inspect the Premises or to make alterations or repairs or for any purpose which Landlord considers necessary for the repair, operation, or maintenance of the Building; provided, however, that in the case of an emergency, Landlord may enter the Premises at any time. Tenant shall allow the Premises to be exhibited by Landlord (a) at any time to any representative of a lender or to any prospective purchaser of the Building or Landlord's interest therein or (b) within six (6) months of the end of the Term to any persons who may be interested in leasing the Premises.

22. Intentionally omitted.

23. **LIMITATION ON LANDLORD LIABILITY.** The term "Landlord" as used in this Lease shall mean only the owner or the Mortgagee or its trustees, as the case may be, then in possession of the Property so that in the event of any transfer by Landlord of its interest in the Property, the Landlord in possession immediately prior to such transfer shall be, and hereby is, entirely released and discharged from all covenants, obligations and liabilities of Landlord under this Lease accruing after such transfer. In consideration of the benefits accruing hereunder, Tenant, for itself, its successors and assigns, covenants and agrees that, in the event of any actual or alleged failure, breach of default hereunder by the Landlord, and notwithstanding anything to the contrary contained elsewhere in this Lease, the remedies of Tenant under this Lease shall be

solely and exclusively limited to Landlord's interest in the Property and insurance proceeds and condemnation proceeds with respect thereto.

24. Intentionally Omitted.

25. **NOTICE OF DEFAULT TO LANDLORD AND MORTGAGEE AND RIGHT TO CURE.** If Landlord shall fail to perform any covenant, term or condition of this Lease required to be performed by Landlord, Tenant shall give, by registered mail, a notice of default to the Landlord, which shall specifically set forth the nature of the non-performance by the Landlord and shall give the Landlord thirty (30) days within which to cure such default or non-performance. Said notice of default shall be a condition precedent to the institution by Tenant of any judicial proceedings for non-performance or default against the Landlord. Tenant agrees to give any Mortgagee, by registered mail, a copy of any notice of default served upon the Landlord, provided that prior to such notice, Tenant has been notified, in writing, of the address of such Mortgagee. Tenant further agrees that if Landlord shall fail to cure such default within the time provided for in this Lease, then the Mortgagee shall have an additional thirty (30) days in which to cure such default or, if such default cannot be cured within that time, then such additional time as may be necessary if within such thirty (30) days, a Mortgagee has commenced and is diligently pursuing the remedies necessary to cure such default (including, but not limited to commencement of foreclosure proceedings, if necessary to effect such cure), and in any event within not more than seventy-five (75) days (except in the event of foreclosure proceedings), and this Lease shall not be terminated while such remedies are being so diligently pursued.

26. **SUBORDINATION AND ATTORNMENT.**

26.1. **Subordination and Attornment.** This Lease and all rights of Tenant hereunder are and shall be subject and subordinate in all respects to: (i) all present and future ground leases, operating leases, superior leases, overriding leases and underlying leases and grants of term of the Center and the Building or any portion thereof (collectively, including the applicable items set forth in Subdivision (iv) of this Section, the "Superior Lease", and the party then exercising the rights of landlord thereunder being referred to herein as the "Superior Lessor"); (ii) all mortgages and building loan agreements, including leasehold mortgages and spreader and consolidation agreements, which may now or hereafter affect the Center, the Building or the Superior Lease (collectively, including the applicable items set forth in Subdivisions (iii) and (iv) of this Section, the "Superior Mortgage", and the party then exercising the rights of mortgagee, beneficiary or secured party thereunder being referred to herein as the "Superior Mortgagee") whether or not the Superior Mortgage shall also cover other lands or buildings or leases except that a mortgage on the Center only shall not be a Superior Mortgage so long as there is in effect a Superior Lease which is not subordinate to such mortgage; (iii) each advance made or to be made under the Superior Mortgage; and (iv) all renewals, modifications, replacements, supplements, substitutions and extensions of the Superior Lease and the Superior Mortgage and all spreaders and consolidations of the Superior Mortgage. The provisions of this Section shall be self-operative and no further instrument of subordination shall be required. In confirmation of such subordination, Tenant shall promptly execute and deliver, at its own cost and expense, any instrument, in recordable form if requested, that Landlord, the Superior Lessor or the Superior Mortgagee may reasonably request to evidence such subordination. The Superior Mortgagee may elect that this Lease shall have priority over its Superior Mortgage and, upon notification by the Superior Mortgagee to Tenant, this Lease shall be deemed to have priority over such Superior Mortgage, whether this Lease is dated prior to or subsequent to the date of such Superior Mortgage. If, at any time prior to the termination of this Lease, the Superior Lessor or the Superior Mortgagee or any person, or the Superior Lessor's or Superior Mortgagee's or such person's successors or assigns (the Superior Lessor, Superior Mortgagee and any such person or successor or assign being herein collectively referred to as "Successor Landlord") shall succeed to the rights of Landlord under this Lease through possession or foreclosure or delivery of a new lease or deed or otherwise, Tenant agrees, at the election and upon request of any such Successor Landlord, to fully and completely attorn to and recognize any such Successor Landlord, as Tenant's landlord under this Lease upon the then-executory terms of this Lease; provided such Successor Landlord shall agree in writing to accept Tenant's attornment. The foregoing provisions of this Section shall: (i) inure to the benefit of any such Successor Landlord; (ii) apply notwithstanding that, as a matter of law, this Lease may terminate upon the termination of the Superior Lease; (iii) be self-operative upon any such demand; and (iv) require no further instrument to give effect to said provisions. Tenant, however, upon demand of any such Successor Landlord agrees to execute, from time to time, instruments to evidence and confirm the foregoing provisions of this Section, reasonably satisfactory to any such Successor Landlord, acknowledging such attornment and setting forth the terms and conditions, of its tenancy. Upon such attornment this Lease shall continue in full force and effect as a direct lease between such Successor Landlord and Tenant upon all of the then-executory terms of this Lease except that such Successor Landlord shall not be: (i) liable for any previous act or omission or negligence of Landlord under this Lease; (ii) subject to any counterclaim, defense or offset, not expressly provided for in this Lease and asserted with reasonable

promptness, which theretofore shall have accrued to Tenant against Landlord; (iii) obligated to perform any Tenant Improvements or other work with respect to the Premises; (iv) bound by any previous previous prepayment of more than one month's Rent, unless such modification, amendment, consensual termination or prepayment shall have been approved in writing by the Superior Lessor or the Superior Mortgagee through or by reason of which the Successor Landlord shall have succeeded to the rights of Landlord under this Lease; (v) obligated to repair the Premises or the Building or any part thereof, in the event of total or substantial total damage beyond such repair as can reasonably be accomplished from the net proceeds of insurance actually made available to Successor Landlord; (vi) obligated to repair the Premises or the Building or any part thereof, in the event of partial condemnation beyond such repair as can reasonably be accomplished from the net proceeds of any award actually made available to Successor Landlord, as consequential damages allocable to the part of the Premises or the Building not taken; or (vii) liable for the return of any Security Deposit unless such Security Deposit has been delivered to Successor Landlord by Landlord or is in an escrow fund available to Successor Landlord. Nothing contained in this Section shall be construed to impair any right otherwise exercisable by any such owner, holder or lessee.

Within a reasonable period of time following the complete execution of this Lease and, as appropriate, after the placement of all future mortgages, Landlord shall obtain, from all Superior Mortgagees and Superior Lessors, one of more agreements of nondisturbance in favor of the Tenant, such that, if, at any time prior to the termination of this Lease, the Superior Lessor or the Superior Mortgagee or any person, or the Superior Lessor's or Superior Mortgagee's or such person's successors or assigns (the Superior Lessor, Superior Mortgagee and any such person or successor or assign being herein collectively referred to as "Successor Landlord") shall succeed to the rights of Landlord under this Lease through possession or foreclosure or delivery of a new lease or deed or otherwise, then Tenant's rights under this Lease shall not be disturbed and shall remain in full force and effect for the Term so long as Tenant timely performs and observes all of the terms, covenants and conditions of this Lease to be performed or observed by it, subject to the notice and cure periods set forth herein, and provided that Tenant agrees to attorn to the Successor Landlord upon any such foreclosure or sale or re-leasing and recognize such Successor Landlord as the Landlord under this Lease. Such agreement or agreements of nondisturbance shall take such form as Tenant and such Superior Mortgagees or Superior Lessors shall agree, but Landlord's obligation shall be limited to obtaining such agreements of nondisturbance in the form or forms customarily agreed to by such Superior Mortgagees or Superior Lessors. Landlord shall have no obligation to negotiate the form of any agreement of nondisturbance if Tenant and any Superior Mortgagee or Superior Lessor disagree with respect to the form or content of a proposed agreement of nondisturbance. The obligations of Landlord and Tenant under this Lease shall not be impaired if Tenant and any such Superior Mortgagee or Superior Lessor disagree as to the form or content of any nondisturbance agreement which is offered to Tenant by any such Superior Mortgagee or Superior Lessor.

26.2. Modifications to Lease; Rights of Superior Mortgagee, Superior Lessor. Landlord hereby notifies Tenant that this Lease may not be cancelled or surrendered, or modified or amended so as to reduce the Rent, shorten the Term or adversely affect in any other respect to any material extent the rights of Landlord hereunder and that Landlord may not accept prepayments of any installments of Rent except for prepayments in the nature of security for the performance of Tenant's obligations hereunder without the consent of the Superior Lessor and the Superior Mortgagee in each instance, except that said consent shall not be required to the institution or prosecution of any action or proceedings against Tenant by reason of an Event of Default. Tenant shall not do or suffer or permit anything to be done which would constitute a default under the Superior Mortgage or the Superior Lease or cause the Superior Lease to be terminated or forfeited by virtue of any rights of termination or forfeiture reserved or vested in the Superior Lessor. If any act or omission by Landlord would give Tenant the right, immediately or after lapse of time, to cancel or terminate this Lease or to claim a partial or total eviction, Tenant will not exercise any such right until: (i) it has given written notice of such act or omission to each Superior Mortgagee and each Superior Lessor, whose name and address shall have previously been furnished to Tenant, by delivering notice of such act or omission addressed to each such party at its last address so furnished; and (ii) a reasonable period for remedying such act or omission shall have elapsed following such giving of notice and following the time when such Superior Mortgagee or Superior Lessor shall have become entitled under such Superior Mortgage or Superior Lease, as the case may be, to remedy the same (which shall in no event be less than the period to which Landlord would be entitled under this Lease to effect such remedy) provided such Superior Mortgagee or Superior Lessor shall, with reasonable diligence, give Tenant notice of intention to, and commence and continue to, remedy such act or omission or to cause the same to be remedied.

27. ESTOPPEL CERTIFICATES. Tenant shall, without charge, at any time and from time to time, within ten (10) days after receipt of request therefor by Landlord, execute, acknowledge and deliver to Landlord a written estoppel certificate, in substantially the form of SCHEDULE D attached hereto, certifying to Landlord, Landlord's Mortgagee(s), any purchaser of Landlord's interest in the Building, or any other person designated by Landlord, as of the date of such estoppel

certificate, among other things, the following: (a) whether Tenant is in possession of the Premises; (b) whether this Lease is in full force and effect; (c) whether there have been any amendments to this Lease, and if so, specifying such amendments; (d) whether there are then existing any set-offs or defenses against the enforcement of any rights hereunder, and if so, specifying such matters in detail; (e) the dates, if any, to which any Rent or other charges have been paid in advance and the amount of any Security Deposit held by Landlord; (f) that Tenant has no knowledge of any then existing defaults of Landlord under this Lease, or if there are such defaults, specifying them in detail; (g) that Tenant has no knowledge of any event having occurred that authorizes the termination of the Lease by Tenant, or if such event has occurred, specifying it in detail; (h) the address to which notices to Tenant under this Lease should be sent. Any such certificate may be relied upon by the person or entity to whom it is directed or by any other person or entity who could reasonably be expected to rely on it in the normal course of business; and (i) the Commencement Date of the Lease and the termination date of the Term.

28. **BROKERS, COMMISSIONS, ETC.** Landlord and Tenant recognize the Brokers identified in Section 1.4 of this Lease, and Landlord agrees to pay to the Brokers the commissions and fees to which Brokers are entitled pursuant to agreements between Landlord and Brokers. Landlord and Tenant acknowledge, represent and warrant each to the other that, except as aforesaid, no broker or real estate agent brought about or was involved in the making of this Lease and that no brokerage fee or commission is due to any other party as a result of the execution of this Lease. Each of the parties hereto agrees to indemnify and hold harmless the other against any claim by any broker, agent or finder based upon the execution of this Lease and predicated upon a breach of the above representation and warranty.

29. **RECORDATION.** Neither Landlord nor Tenant shall record this Lease, any amendment to this Lease or any other memorandum of this Lease without the prior written consent of the other party, which consent may be withheld in the sole discretion of either party, and, in the event such consent is given, the party requesting such consent and recording shall pay all transfer taxes, recording fees and other charges in connection with such recording. Notwithstanding the foregoing, Tenant covenants that if the recordation of this Lease shall be required by any valid governmental order, or if any governmental authority having jurisdiction shall assess and be entitled to collect transfer taxes or recordation taxes, or both such taxes on this Lease, then Tenant shall execute such acknowledgments as may be necessary to effect such recordation.

30. **RENEWAL OPTION.** Tenant shall be entitled to renew this Lease for one (1) additional term of five (5) years, commencing immediately following the expiration of the original Term, on the same terms and conditions of this Lease, with the following conditions:

30.1. Each of the following conditions must apply both at the time Tenant exercises the renewal right as well as at the renewal term commencement date: (i) the Lease must be in full force and effect and Tenant must be in possession of the Premises and paying Rent hereunder and (ii) no Event of Default shall exist.

30.2. Tenant will give written notification to Landlord not less than nine (9) full calendar months prior to the scheduled termination date of the Term of its intention to elect to renew this Lease. Promptly following receipt of Tenant's notification of intent, Landlord shall send Tenant a notice specifying Landlord's proposed Basic Rent rate for the Premises (the "Offer Rate"), as determined by the Landlord with reference to the then "Fair Market Rent". "Fair Market Rent" shall mean the rental rates (including annual adjustments during the renewal term) and other reasonable terms (including the applicable base years for Operating Costs and Taxes and any rent abatement or other concessions which may then be available) that a willing, comparable, renewal tenant with a renewal right at fair market would pay and accept and a willing, comparable landlord of a comparable office building (size, age, location and quality) would accept at arm's length.

30.3. Tenant shall have thirty (30) days following receipt of Landlord's notice to inform Landlord whether it will accept a renewal of the Lease at a Basic Rent equal to the Offer Rate; provided, however, that if the parties are unable to come to agreement as to the applicable Basic Rent rate, regardless of reason, within such thirty (30) days period, Tenant may, within such thirty (30) day period rescind, by written notice to Landlord, Tenant's notification of its intention to renew this Lease. If Tenant fails to properly rescind its notification of its intention to renew this Lease as provided in the immediately preceding sentence, then it is understood and agreed that the Basic Rent rate for the first Rental Year of the renewal term in question shall be the then "Fair Market Rent" as determined by a three broker appraisal method in accordance with the following procedure. Within fifteen (15) days following the date of Tenant's notice rejecting Landlord's proposed Offer Rate, Tenant and Landlord shall each select an appraiser, and the two appraisers then chosen shall select a third appraiser within ten (10) days following the identification of the parties' respective choices of appraisers. In the event the two appraisers fail to timely appoint the third appraiser, such third appraiser shall be selected by the regional director of the

chapter of the American Arbitration Association with jurisdiction over disputes arising in Baltimore, Maryland or his or her designee (the "Director"). In the event of a failure, refusal or inability of any appraiser to act, a new appraiser shall be designated in his stead by the two other appraisers, or if they fail to do so within five (5) days after such failure, refusal or inability, by the Director.

30.4. Each appraiser shall be a licensed real estate broker in the State of Maryland (which may include licensed sales persons) who (i) shall have not less than eight (8) years experience in the field of commercial office space leasing in the Baltimore/Washington corridor, and (ii) shall not be then engaged by, or have been engaged within the preceding three (3) years by, either Landlord or Tenant. In addition, no such appraiser shall be an affiliate of any party hereto or shall have any direct or indirect financial or other business interest in any party hereto or any affiliate of any party hereto, or the Buildings. No party hereto, nor any affiliate of any party, shall have any interest in any appraiser.

30.5. The three appraisers so chosen shall be instructed to produce written appraisals of the Fair Market Rent for the Premises, for the renewal term, within thirty (30) days following the date of selection of third appraiser and his acceptance of his task. Each appraiser shall make an independent appraisal of the Fair Market Rent, and the Fair Market Rent shall be the mean average of the two closest valuations of the three appraisers (unless the mean and the median of the three appraisals are equal, in which case the average or mean of the three appraisals shall be the Fair Market Rent). The valuation of the Fair Market Rent thus obtained shall be binding on Landlord and Tenant, subject to the terms of the second sentence of Section 30.3.

30.6. Landlord and Tenant shall each pay the cost of the appraiser designated by them and shall divide equally the cost of the third appraiser.

30.7. If Tenant elects to lease the Premises for the renewal term above set forth pursuant to the renewal right granted in this Section then Tenant shall execute a Lease Amendment extending the Term and confirming the new Basic Rent within thirty (30) days of receipt of an instrument of amendment from Landlord.

30.8. Time shall be of the essence with respect to each of the provisions of this Section; if Tenant fails or refuses to provide notices or to take action as provided in this Section within the times herein set forth then the renewal right and option herein granted shall lapse and terminate.

30.9. Following commencement of the renewal term or as soon thereafter as is practicable under all the circumstances, Landlord shall cause the Premises to be painted, at Landlord's cost and expense. One coat of interior eggshell finish latex paint of good quality shall be applied to walls of the interior of the Premises which are currently painted; and one coat of latex semi-gloss enamel paint of good quality shall be applied to corresponding interior trim areas which are currently painted.

30.10. No additional rights or options to renew shall be deemed to be granted.

30.11. The provisions of this Section shall not be applicable to any sublessee or all or any part of the Premises from Tenant; nor shall these provisions be applicable to any assignee of Tenant's interest in less than the whole of Landlord's interest in this Lease or the Premises if Tenant shall have previously assigned part but not all of its interest in this Lease and the Premises to one assignee, or if it shall have assigned all or different parts of its interest in the Lease and the Premises to more than one assignee.

31. RIGHT OF FIRST OFFER WITH RESPECT TO ADDITIONAL LEASEHOLD SPACE.

31.1 During the Term of this Lease (the "Offer Period"), Tenant shall have a continuing right of first offer (the "Right of First Offer") to lease premises on the second floor of the Building (the "Offer Space"), such that if, during the Offer Period, the Offer Space has or will "become available" for leasing by the Landlord, then Landlord shall not lease the Offer Space to any other party unless the Offer Space has first been offered to and rejected (or deemed rejected) by Tenant. For purposes of this Section, Offer Space shall be deemed to "become available", or to be "Available Offer Space", when (i) the lease or leases respecting the Offer Space, and in effect as of the Commencement Date of this Lease, expires or is otherwise terminated or (ii) when, following the Commencement Date of this Lease, Landlord otherwise determines to actively market such Offer Space for lease. Offer Space shall not be deemed to "become available", or to be deemed "Available Offer Space"

if, during the Offer Term, such space is (i) assigned or subleased by the then-current tenant of the space; or (ii) re-let by the then-current tenant of the space by renewal, extension, or renegotiation.

31.2 Consistent with the preceding Section, Landlord shall not lease any Available Offer Space to another party unless and until Landlord has first offered the Available Offer Space to Tenant by written notice (the "First Offer Leasing Notice"). The First Offer Leasing Notice shall contain the following: (i) a description of the square footage and location of the Available Offer Space; (ii) the date on which the Landlord expects and proposes that the Available Offer Space be delivered to Tenant for incorporation into the Lease (the "Offer Space Commencement Date"); (iii) the proposed increase in Rent (as proposed in good faith) and Tenant's Proportionate Share. Tenant shall have fifteen (15) days following the date of Landlord's First Offer Leasing Notice within which to accept or reject the terms contained therein; and Tenant shall be deemed to have rejected the same unless within such fifteen (15) day period Tenant shall have delivered to Landlord Tenant's unconditional written acceptance of the terms thereof.

31.3 All of the following conditions must apply both at the time Tenant exercises the Right of First Offer as well as at the Offer Space Commencement Date: (i) the Lease must be in full force and effect and Tenant must be in possession of the Premises and paying Rent hereunder; and (ii) no Event of Default shall exist.

31.4 If Tenant rejects or is deemed to have rejected the terms of Landlord's First Offer Leasing Notice then Tenant's Right of First Offer as to such Offer Space shall thereafter irrevocably lapse and terminate, and Landlord shall thereafter be free to lease the Offer Space therein described to any third-party at any time without regard to the restrictions in this Section and on whatever terms and conditions Landlord may decide in its sole discretion.

31.5 If Tenant delivers to Landlord a timely notice of acceptance of the terms contained in Landlord's First Offer Notice, and Landlord determines that all of the other conditions described above are satisfied, then, as of the Offer Space Commencement Date, the Available Offer Space described in Landlord's First Offer Notice shall be deemed added to the Premises and subject to the terms and conditions in the Lease, with the exception of those Lease modifications hereinafter set forth or otherwise as agreed to by Landlord and Tenant. Within fifteen (15) days following Landlord's receipt of Tenant's notice of acceptance Landlord shall present to Tenant, and Tenant shall execute and re-deliver to Landlord, an amendment to Lease defining the Available Offer Space to be added to the Premises, the Offer Space Commencement Date, the changes in Rent and Tenant's Proportionate Share, and other relevant matters. The Available Offer Space subject to such amendment shall be leased to Tenant for a rental rate equal to the then fair market rent for comparable leasehold office space in Columbia, Maryland, but in no event shall the rental rate for the Available Offer Space be less than the Basic Rent rate then payable from Tenant for the Premises. The Available Offer Space as accepted by Tenant shall be delivered to Tenant on the Offer Space Commencement Date in clean condition, free of tenants or other occupants, and in its then "as is" condition, except as otherwise agreed by Landlord and Tenant.

31.6 The failure of Tenant to take action in any manner or time periods set forth above or the commission by Tenant of an Event of Default under the Lease shall render this Right of First Offer null and void and of no further force or effect. This Right of First Offer is personal to the Tenant and, unless Landlord shall otherwise specifically agree in writing, shall automatically lapse and terminate upon the occurrence of an assignment of the Tenant's interest in the Lease or a sublet of all or part of Premises.

32. **OPTION TO TERMINATE.** Tenant shall have the option to terminate this Lease in its entirety, on a one-time basis, effective June 30, 2010 (the "Lease Termination Date"), but only upon the satisfaction of all of the following conditions:

32.1 Tenant must give Landlord written notice of its intention to terminate not later than July 1, 2009.

32.2 Tenant must be paying Rent, and all Rent and obligations due through the Lease Termination Date shall continue to be paid and performed by Tenant to Landlord, and no Event of Default shall exist under the Lease, either as of the date of Tenant's notice of election to terminate or thereafter, for the remainder of the Term.

32.3 Tenant shall also reimburse Landlord for (i) the unamortized cost (on a straight-line basis) of all Broker's commission paid by Landlord in connection with this Lease, plus (ii) the unamortized cost of all Tenant Improvements paid for by Landlord with respect to the Lease; such unamortized cost shall be calculated based upon an

assumed amortization of all such costs over an eight (8) year period, at six percent (6%), plus (iii) the unamortized portion of the rent abated hereunder; and such sum, which shall either be set forth on SCHEDULE F which shall be attached hereto once the pricing for the Tenant Improvements has been completed or shall be set forth in a separate writing between Landlord and Tenant, shall be paid in full not later than the Lease Termination Date.

32.4 The Premises shall be surrendered on the Lease Termination Date in the same condition as when received, Permitted Alterations, normal wear and tear and other obligations of the Landlord pursuant to this Lease excepted.

32.5 Tenant's breach of, or other lapse of failure of, any of the foregoing conditions of this Section shall render this lease termination option ineffective and shall void any notice of termination previously made by Tenant.

32.6. The provisions of this Section shall not be applicable to any sublessee of all or any part of the Premises from Tenant; nor shall these provisions be applicable to any assignee of Tenant's interest in less than the whole of Tenant's interest in this Lease or the Premises if Tenant shall have previously assigned part but not all of its interest in this Lease and the Premises to one assignee, or if it shall have assigned all or different parts of its interest in the Lease and the Premises to more than one assignee.

33. **SATELLITE DISH AND ANTENNA.** During the Term of this Lease, and so long as Tenant is in possession of the Premises and no Event of Default exists, Tenant shall be permitted to have access to the roof of the Building in order to install and maintain thereon one or more satellite dishes and/or antennae, together with the right to install and maintain related cabling between such devices and the Premises (all, collectively, the "Communications Equipment"), upon the following terms and conditions:

33.1. All such installations shall be for the exclusive use of Tenant, solely for the transmission and reception of signals in the conduct of its business operations at the Premises for the Permitted Use. Under no circumstances whatsoever shall Tenant sell, rent, assign, sublet, license or otherwise share the Communications Equipment with or to any other person or entity, except to the extent actually and reasonably necessary to permit Tenant to conduct its business at the Premises for the Permitted Use.

33.2. Tenant will not make any installation of Communications Equipment on or in the Building until Tenant shall have caused complete and detailed plans and specifications therefor to have been prepared, at Tenant's expense, by an architect, engineer, or other duly qualified person, shall have submitted same to Landlord for review by Landlord and Landlord's architects and engineers, and shall have obtained Landlord's written approval thereof, such approval not to be unreasonably withheld, conditioned or delayed.

33.3. Without in any way limiting the exercise of Landlord's discretion in reviewing and approving Tenant's request, no Communications Equipment shall be permitted to be installed if the same: (i) exceeds 6 feet in height above the surface of the Building roof, (ii) weighs more than 300 pounds, (iii) in the reasonable opinion of Landlord or Landlord's architect or engineer, requires the installation of structural reinforcements to the Building, (iv) in the reasonable opinion of Landlord or Landlord's architect or engineer, is likely to interfere with existing Building systems or with the transmission or reception of radio signals by existing antennae on or in the Building or on or in adjacent properties; or (v) is otherwise architecturally or aesthetically incompatible with the Building due to the proposed Communications Equipment's design, height, bulk, shape, color scheme, finish, configuration, appearance, materials or proposed location.

33.4. Tenant shall obtain and exhibit to Landlord at Landlord's request copies of all requisite approvals and licenses with respect to the Communications Equipment, including, to the extent required, FCC approvals for transmitting equipment, local zoning and regulatory approval, building permits, and any architectural approvals required under restrictive covenants applicable to the Building and the Property. Landlord's approval of Tenant's plans and specifications for the Communications Equipment, if granted, shall not under any circumstances be deemed to imply that the same comply with, or are permitted to be installed under, any Federal, state or local laws or regulations, or private covenants, conditions and restrictions.

33.5. Any cabling to be installed from the roof-mounted Communications Equipment to the Premises shall be shielded to prevent interference with other Building cabling or communications systems, shall be properly identified and labeled at every access point within the Building, shall be coated to comply with all applicable fire and life

safety codes, and shall be installed only through approved channeling and communications closets or otherwise as approved by Landlord.

33.6. If all required approvals, licenses and permits are granted as provided above, then Tenant shall cause the work described in such plans and specifications to be performed, at its expense, promptly, efficiently, competently and in a good and workmanlike manner by duly qualified and licensed persons or entities, without interference with or disruption to the operations of tenants or other occupants of the Building or neighboring properties. All such work shall comply strictly with the terms of Landlord's approval, as well as with all applicable codes, rules, regulations and ordinances and shall be performed by Landlord's designated roofing contractor or such other contractors who are approved in advance by Landlord and who carry the insurance coverage required to be carried by Tenant's contractors as provided elsewhere in the Lease.

33.7. If Tenant is permitted to install the Communications Equipment following Landlord's approval, then Tenant shall notify Landlord of the date on which work is scheduled to begin and shall arrange for periodic inspections by Landlord of the job progress to insure compliance with the approved plans and specifications at no additional charge to Tenant. Landlord shall also have the right at any time before, during, or after the construction to require Tenant to furnish further reasonable assurances against mechanics' liens including, but not limited to, releases of liens signed by all contractors, subcontractors, and suppliers, and affidavits executed by Tenant, Tenant's contractor, or architect, that all charges for labor and materials have been paid. Tenant shall promptly pay or bond off any lien filed against the Premises, the Building or the Property for any construction performed by or on behalf of Tenant.

33.8. From time to time during the Term, and only upon such reasonable prior notice and under such supervision as Landlord shall deem necessary or desirable to protect its interests, Tenant shall be permitted access to the roof and Common Facilities, as well as to interior Building systems areas, for the purpose of performing necessary maintenance and repairs to the Communications Equipment. Any substantial modification, alteration, substitution or addition to the Communications Equipment shall be subject to the approval provisions contained in the preceding paragraphs of this Section.

33.9. All Communications Equipment installed by or for Tenant shall be removed from the Building upon the termination of this Lease unless Landlord and Tenant otherwise agree. If Communications Equipment is to be removed at the termination of this Lease (it being agreed however that Tenant shall not be required to remove cabling or wiring installed in connection with the Communications Equipment), then Tenant hereby agrees to cause the same to be removed and to repair all damage caused by such removal at its sole cost and expense. If Tenant is required to perform such removal and fails to remove the same, then Landlord may cause them to be removed at Tenant's expense, and Tenant hereby agrees to reimburse Landlord for the cost of such removal, together with all and any damages which Landlord may suffer and sustain by reason of Tenant's failure to remove the same. Tenant's obligations to observe and perform the covenants set forth in this Subsection shall survive the expiration or earlier termination of this Lease.

33.10. Tenant agrees to pay Landlord, upon written demand, as Additional Rent, all costs incurred by Landlord (but not exceeding \$500) in connection with any actual or proposed installation of Communications Equipment, including, without limitation, the costs of investigations by Landlord and Landlord's architects and engineers and other design professionals as to the acceptability of a proposed installation of Communications Equipment. Tenant acknowledges and agrees that the costs and expenses imposed and agreed to be paid by Tenant under this Subsection are agreed to be paid in consideration of the Landlord's processing of the Tenant's request, and that they are not intended as consideration for the consent to installation of Communications Equipment. Payment of such fees and costs shall under no circumstances obligate the Landlord to consent to any requested installation.

34. MISCELLANEOUS.

34.1. **Separability.** If any term or provision of this Lease or the application thereof to any person or circumstance shall, to any extent, be invalid or unenforceable, the remainder of this Lease or the application of such term or provision to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby, and each term and provision of this Lease shall be valid and enforceable to the fullest extent permitted by law.

34.2. **Applicable Law.** This Lease shall be given effect and construed by application of the laws of the State of Maryland, and any action or proceeding arising hereunder shall be brought in the courts of the State of Maryland.

34.3. **Authority.** Tenant represents and warrants that Tenant is duly organized and validly existing as an entity in the State noted in this Lease, that this Lease has been authorized by all necessary parties, is validly executed by an authorized officer or agent of Tenant and is binding upon and enforceable against Tenant in accordance with its terms.

34.4. **No Discrimination.** Landlord requires the Building to be operated in such a manner so that all tenants and their customers, employees, licensees and invitees shall have an equal opportunity to obtain all the goods, services, accommodations, advantages, facilities and privileges of the Building without discrimination because of the race, creed, color, sex, age, national origin or ancestry. Tenant agrees not to discriminate in the conduct and operation of its business in the Premises against any person or group of persons because of the race, religion, color, sex, age, national origin or ancestry of such person or group of persons.

34.5. **Integration of Agreements.** This writing is intended by the parties as a final expression of their agreement and is a complete and exclusive statement of its terms, and all negotiations, considerations and representations between the parties hereto are incorporated herein. No course of prior dealings between the parties or their agents shall be relevant or admissible to supplement, explain, or vary any of the terms of this Lease. Acceptance of, or acquiescence to, a course of performance rendered under this Lease or any prior agreement between the parties or their agents shall not be relevant or admissible to determine the meaning of any of the terms or covenants of this Lease. Other than as specifically set forth in this Lease, no representations, understandings or agreements have been made or relied upon in the making of this Lease. This Lease can only be modified by a writing signed by each of the parties hereto.

34.6. **Third Party Beneficiary.** Nothing contained in this Lease shall be construed so as to confer upon any other party the rights of a third party beneficiary.

34.7. **Captions; Gender.** The captions used in this Lease are for convenience only and do not in any way limit or amplify the terms and provisions hereof. As used in this Lease and where the context so requires, the singular shall be deemed to include the plural and the masculine shall be deemed to include the feminine and neuter, and vice-versa.

34.8. **Successors and Assigns.** The terms, provisions and covenants contained in this Lease shall apply to, inure to the benefit of, and be binding upon the parties hereto and their respective heirs, personal representatives, successors and permitted assigns.

34.9. **WAIVER OF JURY TRIAL.** LANDLORD AND TENANT HEREBY EXPRESSLY WAIVE TRIAL BY JURY IN ANY ACTION OR PROCEEDING OR COUNTERCLAIM BROUGHT BY EITHER PARTY HERETO AGAINST THE OTHER PARTY ON ANY AND EVERY MATTER, DIRECTLY OR INDIRECTLY ARISING OUT OF OR WITH RESPECT TO THIS LEASE, INCLUDING, WITHOUT LIMITATION, THE RELATION OF LANDLORD AND TENANT, THE USE AND OCCUPANCY BY TENANT OF THE PREMISES, ANY STATUTORY REMEDY AND/OR CLAIM OF INJURY OR DAMAGE REGARDING THIS LEASE. THIS WAIVER CONSTITUTES A WAIVER OF TRIAL BY JURY OF ALL CLAIMS AGAINST ALL PARTIES TO SUCH ACTIONS OR PROCEEDINGS, INCLUDING CLAIMS AGAINST PARTIES OTHER THAN LANDLORD OR TENANT. LANDLORD AND TENANT MAKE THIS WAIVER KNOWINGLY, WILLINGLY AND VOLUNTARILY. EACH PARTY REPRESENTS THAT NO REPRESENTATIONS OF FACT OR OPINION HAVE BEEN MADE BY ANY INDIVIDUAL TO INDUCE THIS MUTUAL WAIVER OF TRIAL BY JURY OR TO IN ANY WAY MODIFY OR NULLIFY ITS EFFECT. IF LANDLORD COMMENCES ANY PROCEEDINGS FOR THE NON-PAYMENT OF RENT, TENANT WILL NOT INTERPOSE ANY COUNTERCLAIM OF WHATEVER NATURE OR DESCRIPTION IN ANY SUCH PROCEEDING OTHER THAN MANDATORY COUNTERCLAIMS. THIS SHALL NOT, HOWEVER, BE CONSTRUED AS A WAIVER OF TENANT'S RIGHT TO ASSERT SUCH CLAIMS IN ANY SEPARATE ACTION OR ACTIONS BROUGHT BY TENANT.

34.10. **Joint and Several Liability.** In the event that two (2) or more parties shall sign this Lease as Tenant, the liability of each such party to pay all Rent due hereunder and perform all the other covenants of this Lease shall be joint and several.

34.11. **Notices.** All notices required or permitted to be given hereunder shall be in writing and shall be deemed given when actually received or receipt is refused. Any notice given by fax shall be promptly sent by first class mail, postage prepaid, or by nationally recognized overnight courier as well. All notices to be sent to the Tenant or Landlord shall be sent care of the Tenant's Notice Address or Landlord Notice Address, as applicable, or to the fax number for Tenant or Landlord given in this Lease or in any other notice that either party may subsequently designate by notice to the other party pursuant hereto. Either party may, at any time, in the manner set forth for giving notices to the other, set forth a different address to which notices to it shall be delivered or sent.

34.12. **Effective Date of this Lease.** Unless otherwise expressly provided, all terms, conditions and covenants by Tenant contained in this Lease shall be effective as of the date hereof in accordance with the terms of this Lease.

34.13. **Mortgagee's Performance.** Tenant shall accept performance of any of Landlord's obligations hereunder by any Mortgagee relating to the financing of the Property.

34.14. **Mortgagee's Liability.** No Mortgagee relating to the financing of the Property not in possession of the Premises or the Building shall have any liability whatsoever hereunder.

34.15. **Schedules.** Each writing or plat referred to herein as being attached hereto as a schedule or otherwise designated herein as a schedule hereto is hereby made a part hereof, with the same full force and effect as if such writing or plat were set forth in the body of this Lease.

34.16. **Amendment.** This Lease may be amended by and only by an instrument executed and delivered by each party hereto. No amendments of this Lease entered into by Landlord and Tenant, as aforesaid, shall impair or otherwise affect the obligations of any guarantor of Tenant's obligations hereunder, all of which obligations shall remain in full force and effect and pertain equally to any such amendments, with the same full force and effect as if the substance of such amendments was set forth in the body of this Lease.

34.17. **Effect of Delivery.** Because the Premises are on the open market and are presently being shown, this Lease should be treated as an offer, with the Premises being subject to prior leases and such offer is subject to withdrawal or non-acceptance by Landlord or to other use of the Premises without notice. This Lease shall not be valid or binding unless and until accepted by Landlord in writing and a fully executed copy is delivered to both parties hereto.

34.18. **No Joint Venture.** Any intention to create a joint venture or partnership relationship between the parties hereto is hereby expressly disclaimed.

34.19. **Zoning and License Approvals.** Anything herein elsewhere contained to the contrary, this Lease and all the terms, covenants and conditions hereof are in all respects subject and subordinate to all zoning restrictions affecting the Premises, and the Building in which they are located, and the Tenant agrees to be bound by such restrictions. The Landlord further does not warrant that any license or licenses, permit or permits, which may be required for business to be conducted by the Tenant on the Premises will be granted, or, if granted, will be continued in effect or renewed, and any failure to have obtained such license or licenses, permit or permits, or any revocation thereof or failure to renew the same shall not release the Tenant from its obligations under this Lease.

34.20. **Force Majeure.** If Landlord is delayed or hindered in or prevented from the performance of any act required hereunder by reason of strikes, lock outs, labor troubles, inability to procure materials, failure of power, restrictive governmental laws and regulations, riots, insurrection, war, Unavoidable Delays or other reason of a like nature, not the fault of the Landlord, in performing work or doing acts required under the terms of this Lease, then performance of such act shall be excused for the period of the delay and the period for performance of an such acts shall be extended for a period equivalent to the period of such delay.

34.21. **Landlord's Waiver.** Landlord shall, upon request by Tenant, execute such waivers of Landlord's lien as Tenant may reasonably require with respect to Tenant's Personal Property in the Premises, on the applicable lender's standard form, subject to such reasonable comments and changes and Landlord may request.

IN WITNESS WHEREOF the parties hereto have executed this Lease under their respective seals as of the day and year first above written.

WITNESS OR ATTEST:

LANDLORD:

CRESTPOINTE III, LLC, a Maryland limited liability company

/s/ Suzanne F. Cotton

By: /s/ James Abrams (seal)
James Abrams, Manager

WITNESS OR ATTEST:

TENANT:

COSTAR REALTY INFORMATION, INC, a Delaware corporation

/s/ Martha E. Sichel

By: /s/ Frank Carchedi (seal)

Acknowledgement

(TENANT CORPORATE/PARTNERSHIP ACKNOWLEDGMENT)

STATE OF _____, COUNTY OF _____, TO WIT:

I HEREBY CERTIFY that on this ___day of ___, 2005, before me, the undersigned authority, personally appeared ___, and such person made acknowledgement to be the ___of COSTAR REALTY INFORMATION, INC., a Delaware corporation, the within named Tenant, and that such person, as such officer or official, being authorized so to do, executed the foregoing instrument for the purposes therein contained, by signing the name of the Tenant as such officer or official.

WITNESS my hand and official seal.

/s/ Georgeanne Murrell
Notary Public
My Commission Expires: _____

SUBSIDIARIES OF THE REGISTRANT

- a) CoStar Realty Information, Inc., a Delaware corporation
- b) CoStar Limited, a U.K. company
- c) Property Intelligence Limited, a U.K. company
- d) National Research Bureau, Inc., a Delaware corporation

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-45770) pertaining to the 1998 Stock Incentive Plan of CoStar Group, Inc. of our reports dated March 8, 2005, with respect to the consolidated financial statements of CoStar Group, Inc., CoStar Group, Inc. management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of CoStar Group, Inc., included in this Annual Report (Form 10-K) for the year ended December 31, 2004.

/s/ Ernst & Young LLP

McLean, Virginia
March 8, 2005

CERTIFICATION

I, Andrew C. Florance, certify that:

1. I have reviewed this annual report on Form 10-K of CoStar Group, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13(a)-15(f) and 15(d)-15(f)) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 11, 2005

By: /s/ Andrew C. Florance

Andrew C. Florance
Chief Executive Officer
(Principal Executive Officer and
Duly Authorized Officer)

CERTIFICATION

I, Frank A. Carchedi, certify that:

1. I have reviewed this annual report on Form 10-K of CoStar Group, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13(a)-15(f) and 15(d)-15(f)) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 11, 2005

By: /s/ Frank A. Carchedi

Frank A. Carchedi
Chief Financial Officer
(Principal Financial and Accounting Officer
and Duly Authorized Officer)

CoStar Group, Inc.
2 Bethesda Metro Center, 10th floor
Bethesda, MD 20814

March 11, 2005

Securities and Exchange Commission
450 5th Street, NW
Washington, DC 20549

Re: Certification Of Principal Financial Officer Pursuant To 18 U.S.C. Sec. 1350

Dear Ladies and Gentlemen:

In connection with the accompanying Annual Report on Form 10-K of CoStar Group, Inc., for the year ended December 31, 2004, I, Frank A. Carchedi, Chief Financial Officer of CoStar Group, Inc., hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) such Annual Report on Form 10-K of CoStar Group, Inc., for the year ended December 31, 2004, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) the information contained in such Annual Report on Form 10-K of CoStar Group, Inc., for the year ended December 31, 2004, fairly presents, in all material respects, the financial condition and results of operations of CoStar Group, Inc.

By: /s/ Frank A. Carchedi

Frank A. Carchedi
Chief Financial Officer
(Principal Financial and Accounting Officer and Duly Authorized Officer)

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to CoStar Group, Inc. and will be retained by CoStar Group, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

In accordance with Item 601 of Regulation S-K, this certification is being "furnished" as Exhibit 32.2 to CoStar Group, Inc.'s annual report and shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 (the "Exchange Act") or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Exchange Act, except as expressly set forth by specific reference in such a filing.