

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, 2007

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:

Title of Each Class
Common Stock, \$.01 par value

Name of Each Exchange on Which Registered
NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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 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 amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Securities Exchange Act of 1934.

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Based on the closing price of the common stock on June 29, 2007 on the Nasdaq Stock Market®, Nasdaq Global Select Market®, the aggregate market value of registrant's common stock held by non-affiliates of the registrant was approximately \$722 million.

As of February 15, 2008, there were 19,464,268 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, 2007, are incorporated by reference into Part III of this Report.

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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 websites, 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 (“U.S.”) and United Kingdom (“U.K.”) 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 the U.S., as well as London and other parts of the U.K. and parts of France. Prior to 2007, CoStar operated within one segment. Due to the increased size, complexity and funding requirements associated with our international expansion in 2007, we began to manage our business geographically in two operating segments, with our primary areas of measurement and decision-making being the U.S. and International, which includes the U.K. and France.

Since our founding in 1987, CoStar’s strategy has been to provide commercial real estate professionals with critical knowledge to explore and complete transactions, by offering the most comprehensive, timely and standardized information on U.S. commercial real estate. As a result of our January 2003 acquisition of Focus Information Limited, June 2004 acquisition of Scottish Property Network, December 2006 acquisition of Grecom S.A.S., and February 2007 acquisition of Property Investment Exchange Limited, we have extended our offering of comprehensive commercial real estate information to include London and other parts of the U.K. and parts of France. Information about CoStar’s revenues from, and long-lived assets located in, foreign countries is included in Notes 2 and 10 to our consolidated financial statements. CoStar’s revenues, net income, assets and liabilities, broken out by segment are set forth in Note 10 to our consolidated financial statements. Information about risks attendant to our foreign operations is included in “Item 7A. Quantitative and Qualitative Disclosures about Market Risk.”

We deliver our content to our U.S. 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’ websites, information about industry professionals and their business relationships, analytic information, data integration, property marketing and industry news. We have created and are continually improving 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.

We have a number of assets that provide a unique foundation for our standardized platform, including the most comprehensive proprietary database in the industry; the largest research department in the industry; proprietary data collection, information management and quality control systems; 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 20 years by a research department that makes thousands of daily database updates. In addition to our internal efforts to grow the database, we have obtained and assimilated over 51 proprietary databases.

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. In the first quarter of 2006, CoStar had successfully launched service in each of those 21 markets. In addition, following our acquisition of National Research Bureau in January 2005, we launched various research initiatives as part of our expansion into real estate information for retail properties. In July 2006, we announced our intention to commence actively researching commercial properties in approximately 81 new Core Based Statistical Areas (“CBSAs”) across the U.S. in an effort to expand the geographical coverage of our service offerings, including our new retail service. In the fourth quarter of 2007, we released our CoStar Property Professional service in the 81 new CBSAs across the U.S.

CoStar also intends to continue to grow and expand the coverage of its service offerings within the U.K. In December 2006, CoStar's U.K. Subsidiary, CoStar Limited, acquired Grecom S.A.S., a provider of commercial property information and market-level surveys, studies and consulting services, located in Paris, France. In February 2007, CoStar Limited also acquired Property Investment Exchange Limited, a provider of commercial property information and operator of an online investment property exchange located in London, England. CoStar intends to integrate its U.K. and French operations more fully with its U.S. operations and eventually to introduce a consistent international platform of service offerings.

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, geography 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, 1,041 researchers and outside contractors, technological expertise and broad customer base, CoStar believes that it has created such a platform.

CoStar's Comprehensive Database

CoStar has spent more than 20 years building and acquiring a database of commercial real estate information, which includes information on leasing, sales, comparable sales, tenants, and demand statistics, as well as digital images.

As of February 28, 2008, our database of real estate information covered the U.S., as well as London, England and other parts of the U.K. and parts of France, and contained:

- More than 67.2 billion square feet (gross building area) and more than 53.9 billion square feet (rentable building area) of U.S. commercial real estate;
- More than 940,000 sale and lease listings;
- Over 2.7 million total properties;
- Over 7.0 billion square feet of sale and lease listings;
- Over 5.5 million tenants;
- More than 1.2 million sales transactions valued in the aggregate at over \$2.8 trillion; and
- Approximately 5.6 million digital attachments, including building photographs, aerial photographs, plat maps and floor plans.

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

- Location
- Site and zoning information
- Building characteristics
- Space availability
- Tax assessments
- Ownership
- Sales and lease comparables
- Space requirements
- Number of retail stores
- 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

CoStar Research

We have developed a sophisticated data collection organization utilizing a multi-faceted research process. In 2007, our full time researchers and contractors drove millions of miles, conducted hundreds of thousands of on-site building inspections, and conducted millions interviews of brokers, owners and tenants.

Research Department. As of January 31, 2008, we employed 869 commercial real estate research professionals and 172 individuals acting as outside contractors performing research. Our research professionals undergo an extensive training program so that we can maintain consistent research methods and processes throughout our research department. Our researchers collect and analyze 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 database information. 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. In 2007, we continued outsourcing a limited number of research related projects to outside firms to supplement the work of our research employees.

CoStar has an extensive field research effort that includes physical inspection of properties in order to research new markets, find additional inventory, photograph properties and verify existing information. CoStar's research efforts have traditionally focused on office and industrial properties. Following our acquisition of National Research Bureau in January 2005, we launched a major expansion effort into real estate information for retail properties. In July 2006, we announced our intention to commence actively researching commercial properties in approximately 81 new CBSAs across the U.S. in an effort to expand the geographical coverage of our service offerings, including our new retail service. In the fourth quarter of 2007, we released the CoStar Property Professional service in the 81 new CBSAs across the U.S.

As part of CoStar's research efforts, CoStar utilizes 152 high-tech field research vehicles in 43 states and the U.K. Of these vehicles, 101 are custom-designed energy efficient hybrid cars that are equipped with computers, proprietary Global Positioning System tracking software, high resolution digital cameras and handheld laser instruments to help precisely measure buildings, geo-code them and position them on digital maps. Some of our researchers also use custom-designed trucks with the same equipment as well as pneumatic masts that extend up to an elevation of twenty-five feet to allow for unobstructed building photographs from "birds-eye" views. Each CoStar vehicle uses wireless technology to track and transmit field data. A typical site inspection consists of photographing the building, measuring the building, geo-coding the building, capturing "For Sale" or "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. In addition, many of our field researchers are photographers who take photographs of commercial real estate properties to add to CoStar's database of digital images.

Data and Image Providers. We license a small portion of our data and images 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, demographic 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 January 31, 2008, CoStar had a staff of 101 product development, database and network professionals. CoStar's information technology professionals focus on developing new services for our customers and delivering research automation tools that improve the quality of our data and increase the efficiency of our research analysts.

Our information technology team is responsible for developing and maintaining CoStar products including CoStar Property Professional, CoStar Property Express, CoStar COMPS, CoStar Tenant, CoStar CMLS, CoStar Connect and for our international products. In 2006, CoStar released a major upgrade to its CoStar COMPS service that provides customers with over 100 improvements, including access to for sale information, aerials and enhanced mapping. In 2007, to better support our retail customers, we added significant features to CoStar Property including tenant proximity and demographic search capability, mapping layers, detailed retail tenant information and demographics. Also in 2007, CoStar began development of an international platform, which will allow CoStar to offer CoStar Property Professional in international countries.

Our information technology team is responsible for developing the infrastructure necessary to support CoStar's business processes, our comprehensive database of commercial real estate information and our extensive image library. The team implements technologies and systems that introduce efficient workflows and controls that increase the production capacity of our research teams and improve the quality of our data. Over the years, the team has developed data collection and quality control mechanisms that we believe are unique to the commercial real estate industry. The team continues to develop and modify our enterprise information management system that integrates CoStar sales, research, field research, customer support and accounting information. We use this system to maintain our commercial real estate research information, manage contacts with the commercial real estate community, provide research workflow automation and conduct daily automated quality assurance checks.

Our information technology professionals also maintain the servers and network components necessary to support CoStar services and research systems. Our encrypted virtual private network provides remote researchers and salespeople secure access to CoStar applications and network resources. CoStar maintains a comprehensive data protection policy that provides for use of encrypted data fields and off-site storage of all system backups, among other protective measures. CoStar's services are continually monitored in an effort to ensure our customers fast and reliable access.

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 as of January 31, 2008:

CoStar Property Professional[®] CoStar Property Professional, or "CoStar Property," is the Company's flagship service. It provides subscribers a comprehensive inventory of office, industrial, retail and multifamily properties and land in markets throughout the U.S., 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 website. CoStar Property, along with all of CoStar's other core information services, are delivered solely via the internet.

CoStar COMPS Professional[®] CoStar COMPS Professional provides comprehensive 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. In November 2006, we launched a major upgrade to the COMPS Professional service, which now offers subscribers many new features, including additional fields of property information, access to support documents (e.g., deeds of trust) for new comparables, demographics and the ability to view for-sale properties alongside sold properties in three formats – plotted on a map, aerial image or in a table.

CoStar Tenant[®] CoStar Tenant is a detailed online business-to-business prospecting and analytical tool providing commercial real estate professionals with the most comprehensive commercial 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 Property Express® CoStar Property Express provides access, 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 Listings Express® CoStar Listings Express provides access via an annual subscription to a listings only version of CoStar Property Express. Commercial real estate professionals use CoStar Listings Express to look up and search for-lease and for-sale listings in CoStar’s comprehensive national database. CoStar Listings Express provides base building information, photos, floor plans, maps and a limited number of reports on only properties that are either for-lease or for-sale. CoStar Listings Express does not provide information on fully leased properties as does CoStar Property Express.

CoStar COMPS Express® CoStar COMPS Express provides users with immediate, subscription free access with payment by 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.

FOCUS™ CoStar’s U.K. subsidiary, CoStar UK Limited (formerly FOCUS Information Limited), offers several services, the primary of which is FOCUS. 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 across the U.K., including comparable sales, available space, requirements, tenants, lease deals, planning information, socio-economics and demographics, credit ratings, photos and maps.

SPN™ CoStar’s U.K. subsidiary, Scottish Property Network Limited, offers users online 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 websites. 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 via the CoStar Property database and manages customers’ online property information, providing comprehensive listings coverage and significantly reducing the expense of building and maintaining their websites’ content and functionality.

CoStar Commercial MLS® CoStar Commercial MLS is the industry’s most comprehensive collection of researched for-sale listings. CoStar Commercial MLS draws upon CoStar’s large database of digital images and includes office, industrial, multifamily and retail properties, as well as shopping centers and raw land. CoStar Commercial MLS represents an efficient means for sellers to market their properties to a large audience and for buyers to easily identify target properties.

CoStar Advertising® CoStar Advertising offers property owners a highly targeted and cost effective way to market a space for lease or a property 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 this ad will appear even when this listing would not be returned in a results set.

CoStar Professional Directory® CoStar Professional Directory, a service available exclusively to CoStar Property Professional subscribers, provides detailed contact information for approximately 900,000 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, 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 office, industrial and retail properties across the U.S. 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 non-subscribers.

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.

Propex[™] Propex gives users access to the commercial property investment market. It is used by U.K. investment agencies and professional investors and is a secure online exchange through which investment deals may be introduced. It is a primary channel for the distribution of live transaction data and property research data in the U.K. investment market. Propex also provides private investors with a gateway into the commercial property investment market. It is a free-access listing website, which provides details of commercial property investments. It is used by U.K. agencies to sell investments suitable for the private investor.

Shopproperty.co.uk[™] Shopproperty is a listing database of available retail units across the U.K. on a free-access website. Shopproperty.co.uk is the only specialist listing website with full licensed Goad street-trader plans.

Grecam[™] Our French subsidiary, Grecam S.A.S., provides commercial information throughout the Paris region through its Observatoire Immobilier D' Entreprise ("OIE") service offering. The OIE service provides commercial property availability and transaction information to its subscribers through both an online service and market reports.

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. and U.K. clients that are well known or have the highest annual subscription fees in each of the various categories, each as of January 31, 2008.

Brokers

CB Richard Ellis
 CB Richard Ellis — U.K.
 Colliers
 Colliers Conrad Ritblat Erdman — U.K.
 Cushman & Wakefield
 Cushman & Wakefield — U.K.
 Weichert Commercial Brokerage
 Jones Lang LaSalle
 Jones Lang LaSalle — U.K.
 Grubb & Ellis
 Gerald Eve — U.K.
 Drivers Jonas — U.K.
 Lambert Smith Hampton — U.K.
 BRE Commercial, LLC
 Marcus & Millichap
 The Staubach Company
 Newmark & Company Real Estate
 CRESA Partners
 Studley
 Coldwell Banker Commercial NRT
 UGL Equis
 GVA Williams
 GVA Advantis
 Binswanger
 Re/Max
 Carter
 USI Real Estate Brokerage Services
 DAUM Commercial Real Estate
 Services
 KTR Valuation & Consulting Services
 U.S. Equities Realty
 Sperry Van Ness
 HFF
 Mohr Partners
 Charles Dunn Company, Inc.
 GVA Grimley — U.K.
 King Sturge — U.K.
 Knight Frank — U.K.
 DTZ — U.K.
 Savillis Commercial — U.K.
 Artisreal — U.K.

Lenders, Investment Bankers

Capmark — U.K.
 Deutsche Bank
 Wells Fargo
 Washington Mutual
 Wachovia Corporation
 Merrill Lynch
 Citibank
 AEGON USA Realty Advisors, Inc.
 Capmark Financial Group, Inc.
 East West Bank
 Q10 Bonneville Mortgage Company
 Key Bank
 Realpoint, LLC
 Commerce Bank

Institutional Advisors, Asset Managers

BlackRock
 Prudential
 Prudential — U.K.
 Metropolitan Life
 ING Clarion Partners
 Bear Stearns & Co., Inc.
 USAA Real Estate Company
 North Marq Capital
 Morley — U.K.
 AEW Capital Management LP
 Progressive Insurance
 Duke Realty Corporation

Owners and Developers

Hines
 LNR Property Corp
 Shorenstein Properties
 Mack - Cali
 Manulife Financial
 Industrial Developments International
 Land Securities — U.K.

Appraisers, Accountants

Integra
 Deloitte and Touche
 Deloitte and Touche — U.K.
 Marvin F. Poer
 KPMG
 GE Capital
 PGP Valuation
 PricewaterhouseCoopers
 Thomson Tax & Accounting

REITS

Brandywine Realty Trust
 Prologis
 Brookfield Properties
 Boston Properties
 Liberty Property Trust

Government Agencies

U.S. General Services Administration
 County of Los Angeles
 Internal Revenue Service
 City of Chicago
 Cook County Assessor's Office
 U.S. Department of Housing and Urban
 Development
 Corporation of London — U.K.
 Scottish Enterprise — U.K.

Property Managers

Transwestern Commercial Services
 Lincoln Property Company
 PM Realty Group
 Navisys Group
 Osprey Management Company
 Leggat McCall Properties

Vendors

Turner Construction Company
 Kastle Systems
 Comcast Cable Communications
 ADT Security
 MWB — U.K.
 Regus — U.K.
 Clear Channel Outdoor
 Cox Communications, Inc.

Retailers

DSW
 Quiznos Master, LLC
 Men's Wearhouse
 Dippin' Dots Franchising, Inc.

PetSmart, Inc.
 Hibbett Sporting Goods, Inc.
 Nationwide Insurance
 Pathmark

Town Fair Tire
 7-Eleven
 United Rentals, Inc.

For the years ended December 31, 2005, 2006 and 2007, no single client accounted for more than 5% of our revenues.

Sales and Marketing

As of January 31, 2008, we had 265 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 24 field sales offices throughout the U.S. and in London, England; Manchester, England; Glasgow, Scotland and Paris, France. Our inside sales team is located in our Maryland offices. This team prospects for new clients and performs service demonstrations exclusively by telephone and over the internet to support the direct sales force.

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 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.

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, geography 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 on a pay per use basis.

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; web-based marketing; direct marketing; communication via our corporate website and news services; participation in trade show and industry events; print advertising in trade magazines and local business journals; client referrals; and CoStar AdvisorTM, the Company's newsletter, which is distributed to our clients and prospects. Web-based marketing and direct marketing are the most cost-effective means for us to find prospective clients. Our web-based marketing efforts include paid advertising with major search engines and commercial real estate news sites and our direct marketing efforts include direct mail, email 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, including industry-leading events for commercial brokers and retail and financial services institutions.

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;
- price;
- effectiveness of marketing and sales efforts;
- proprietary nature of methodologies, databases and technical resources;
- vendor reputation;
- brand loyalty among customers; and
- capital resources.

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

- online services or websites targeted to commercial real estate brokers, buyers and sellers of commercial real estate properties, insurance companies, mortgage brokers and lenders, such as LoopNet, Inc., Reed Business Information Limited, Dorey First CLS, officespace.com, MrOfficeSpace.com and TenantWise, Inc;
- publishers and distributors of information services, including regional providers and national print publications, such as Black's Guide, Property and Portfolio Research, Marshall & Swift, Yale Robbins, Inc., Reis, Inc., Real Capital Analytics, Dorey Publishing and Information Services and Smith Guide;
- locally controlled real estate boards, exchanges or associations sponsoring property listing services and the companies with whom they partner, such as Xceligent, Catalyst, the Commercial Association of Realtors Data Services and the Association of Industrial Realtors;
- 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, our database and our photography 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, photographs, software and other materials. Under current U.S. copyright 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 designed to discourage and detect unauthorized copying of our intellectual property.

We have filed trademark applications to register trademarks for a variety of names for 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". Depending upon the jurisdiction, trademarks are generally valid as long as they are in use and/or their registrations are properly maintained and they have not been found to become generic. We consider our trademarks in the aggregate to constitute a valuable asset. In addition, we have filed several patent applications covering certain of our methodologies and software and currently have one patent in the U.K. which expires in 2021 covering, among other things, certain of our field research methodologies, and three patents in the U.S. which expire in 2020, 2021 and 2022, covering, among other things, critical elements of CoStar's proprietary field research technology and mapping tools. We regard the rights under our patents as valuable to our business but do not believe that our business is materially dependent on any single patent.

Employees

As of January 31, 2008, we employed 1,335 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 website 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 website as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission. You may review and copy any of the information we file with the Securities and Exchange Commission at the Commission's Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. You may obtain information regarding the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The Securities and Exchange Commission maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the Commission at <http://www.sec.gov>.

Item 1A. Risk Factors

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 2008 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. Sections of this report which contain forward-looking statements include "Business," "Risk Factors," "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 necessary 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; litigation; our ability to continue to expand successfully; our ability to

effectively penetrate the market for retail real estate information and gain acceptance in that market; 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 update any such statements or 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

A downturn or consolidation in the commercial real estate industry may decrease customer demand for our services. The continuing decline in the commercial real estate industry's leasing activity, rental rates and absorption rates and the recent downturn in the commercial real estate market may 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.

Our revenues and financial position 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 expansion markets, and our existing clients may decide not to add, not to renew or to cancel subscription services. In addition, in order to increase our revenue, 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, keep the cancellation rate for customers and services low or sell new services to existing customers 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; customers' and potential customers' pricing and budgetary constraints; consolidation in the real estate and/or financial services industries; data quality; technical problems; or economic or competitive pressures. If clients decide to cancel services or not to renew their subscription agreements, and we do not sell new services to our existing clients or attract new clients, then our renewal rate, revenues and our revenue growth rate may decline.

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 perceived and actual economic conditions, inflation, interest rates, 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. Further, 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 more rapidly than expected, the effect of which may not be offset by corresponding increases in revenue. If clients choose to cancel our information services as a result of economic conditions, and we do not acquire new clients or sell new services to our existing clients, our revenues may decline and our financial position would be adversely affected.

If we are unable to hire qualified persons for, or 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 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 qualified sales personnel and develop and retain the members of our sales force, including sales force management, or if our sales force is unproductive, our revenues or growth rate could decline and our expenses could increase.

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 a party to various lawsuits. Any lawsuits, threatened lawsuits or government investigations in which we are involved could cost us a significant amount of time and money to defend, could result in negative publicity, and could adversely affect our stock price. In addition, if any claims are determined against us or if a settlement requires us to pay a large monetary amount, our profitability could be significantly reduced and our financial position could be adversely affected. We cannot assure you that we will have any or sufficient insurance to cover any litigation claims.

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 position will be adversely affected.

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.

Our current or future geographic expansion plans may not result in increased revenues, which may negatively impact our business, results of operations and financial position. Expanding into new markets and investing resources towards increasing the depth of our coverage within existing markets imposes additional burdens on our research, systems development, sales, marketing and general managerial resources. During 2007, we expanded geographic coverage in U.S. and U.K. and increased the depth of our coverage. During 2008, we plan to increase the depth of our coverage in the U.S. and U.K. with our current resources. If we are unable to manage our expansion efforts effectively, if our expansion efforts take longer than planned or if our costs for these efforts exceed our expectations, our financial position could be adversely affected. In addition, if we incur significant costs to improve data quality within existing markets, or are not successful in marketing and selling our services in these markets or in new markets, our expansion may have a material adverse effect on our financial position by increasing our expenses without increasing our revenues, adversely affecting our profitability.

Our continuing 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 position. Expanding into the retail real estate sector imposes additional burdens on our research, systems development, sales, marketing and general managerial resources. During the next year, we expect to continue to expand the number of

retail properties contained within our database. If we are unable to manage this expansion effectively, if this expansion effort takes longer than planned or if our costs for this effort exceed our expectations, our financial position could be adversely affected. In addition, if we incur significant costs to expand our retail sector services and we are not successful in marketing and selling these expanded services, or customers fail to accept these new services, our expansion may have a material adverse effect on our financial position by increasing our expenses without increasing our revenues, adversely affecting our profitability.

International expansion may result in new business risks, which may reduce our profitability. Our international operations and 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 U.S.; 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 position.

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.

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 reducing our profitability.

If we are not able to successfully identify and integrate acquisitions, our business operations and financial position 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, Grecam S.A.S. in France, and Property Investment Exchange Limited in the U.K.; 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. Acquisitions 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.

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 website, the internet and our service providers. Problems with our website, 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. 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. 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.

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 November 2006, we integrated internal research processes that our U.S. researchers use to update our database. Any inefficiencies, errors, or technical problems with this application could reduce the quality of our data, which could result in reduced demand for our services, lower revenues and higher costs.

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 and to increase coverage in existing markets; interest rate fluctuations; the timing and success of new service introductions and enhancements; successful execution of our expansion plans; data quality; the development of our sales force; managerial execution; employee retention; foreign currency fluctuations; inflation; successful adoption of and training on our services; litigation; acquisitions of other companies or assets; sales, brand enhancement and marketing promotional activities; client 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. Fluctuations in our financial results, revenues and expenses may cause the market price of our common stock to decline.

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 or other legal proceedings; 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 and may have the same effect on the market price of our common stock.

Fluctuating foreign currencies may negatively impact our business, results of operations and financial position. Due to our acquisitions of CoStar UK Limited (formerly FOCUS Information Limited), SPN, Greecam S.A.S. and Propex, a portion of our business is denominated in the British Pound and Euro and as a result, fluctuations in foreign currencies may have an impact on our business, results of operations and financial position. 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 are not party to any hedging transactions intended 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. Further, significant foreign exchange fluctuations resulting in a decline in the British Pound or Euro may decrease the value of our foreign assets, as well as decrease our revenues and earnings from our foreign subsidiaries.

Negative conditions in the global credit markets may affect the liquidity of a portion of our short-term investments. Currently our short-term investments include AAA rated auction rate securities which are primarily securities supported by guarantees from the Federal Family Education Loan Program (FFELP) of the U.S. Department of Education. Recent negative conditions in the global credit markets have prevented some investors from liquidating their holdings of auction rate securities because the amount of securities submitted for sale has exceeded the amount of purchase orders for such securities. As of February 22, 2008, \$29.1 million of the \$33.1 million of our short-term investments in auction rate securities have failed to settle at auctions. If the credit market does not improve, auctions for the remaining \$4.0 million of our invested amounts may fail. When an auction fails for securities in which we have invested, we may be unable to liquidate some or all of our auction rate securities at par, should we need or desire to access the funds invested in those securities immediately. In the event we need or desire to immediately access these funds, we will not be able to do so until a future auction on these investments is successful, a buyer is found outside the auction process or an alternative action is determined. If a buyer is found but is unwilling to purchase the investments at par, we may incur a loss.

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. These reductions in reported net income could cause our stock price to decline. For example, in the first quarter of 2006, we adopted the provisions of SFAS 123R, which required us to expense the value of granted stock options. We recorded \$2.9 million in compensation charges for stock options in 2006.

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, and our other officers and 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, awards under 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.

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 website through links to other websites or information on our website 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.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our corporate headquarters is located in Bethesda, Maryland, where we occupy approximately 73,500 square feet of office space. Our main lease for our Bethesda, Maryland headquarters expires on March 14, 2010. This facility is used primarily by our U.S. segment.

In addition to our Bethesda, Maryland facility, our research operations are principally run out of leased spaces in San Diego, California; Columbia, Maryland; White Marsh, Maryland; London, England; Glasgow, Scotland; and Paris, France. 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; Fort Lauderdale; Denver; Dallas; Kansas City; Cleveland; Cincinnati; Tustin, California; Tampa; St. Louis; and Portland, Oregon.

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

Item 3. Legal Proceedings

On May 8, 2007, we filed a lawsuit in the United States District Court for the District of Maryland against Centers & Malls LLC and two individuals. CoStar's complaint alleged that these defendants unlawfully obtained part of CoStar's proprietary and copyrighted database and subsequently sold this stolen data for profit. CoStar's complaint sought equitable and monetary relief, including but not limited to a permanent injunction barring defendants from unlawful use of CoStar products and disgorgement to CoStar of ill-gotten gains. Shortly after filing suit, CoStar obtained a temporary restraining order barring Centers & Malls LLC from selling, utilizing, or distributing its products that were pirated from CoStar's database. On January 8, 2008, the parties entered into a Settlement Agreement and Mutual Release, pursuant to which Centers & Malls agreed, among other things, to permanently shut down its business operations and pay CoStar monetary damages, in full release of all claims against Centers & Malls and its employees. In February 2008, a Stipulation for Entry of Judgment and Permanent Injunction was filed with the court and the complaint was dismissed.

On November 15, 2007, LoopNet, Inc. ("LoopNet") filed a complaint in the Superior Court of the State of California for the County of Los Angeles against CoStar and certain unnamed John Does for breach of contract, unfair competition, and violation of California Computer Crime Statute. The complaint alleges that CoStar unlawfully copied and used LoopNet's data and seeks injunctive relief, compensatory damages, restitution and other costs (including attorneys' fees) to be proven at trial. LoopNet does not contend that anyone at CoStar has logged into LoopNet's website and copied listings, nor does CoStar believe that to be the case. Instead, the central contention of LoopNet's lawsuit appears to be that it is unlawful for CoStar to use information provided to CoStar by commercial real estate brokers and property owners that: (1) type in their own listings and upload their own photos into either LoopNet's listing service or LoopNet's software and web site hosting solution, LoopLink, and (2) use either the "email to a friend" function available within LoopNet's service to send their listings for marketing on CoStar, or direct CoStar personnel to market the listings that appear on the brokers' or owners' websites. This contention is presumably based on the assumption that LoopNet controls the listings created by commercial real estate brokers and owners that use LoopNet and that LoopNet can prevent brokers and owners from marketing their own listings if the listings also appear on LoopNet's listing service or a website hosted by LoopLink. CoStar believes that LoopNet's claims are unfounded.

CoStar filed its Answer and several claims against LoopNet in this proceeding, including breach of contract, unfair competition and other claims. We are seeking injunctive relief, restitution, pre-judgment interest, costs and disbursements, attorneys' fees and direct, consequential, compensatory and punitive damages. LoopNet has filed a motion to strike CoStar's claims against LoopNet in this action.

Were LoopNet to prevail in this lawsuit, we could be required to make payments and/or comply with injunctive relief, including potentially removal of certain listings, which could negatively impact our business and operating results. Although no assurance can be given as to the outcome of this lawsuit, CoStar believes LoopNet's allegations are without merit and intends to vigorously defend itself.

On February 5, 2008, we filed a complaint in the United States District Court for the Southern District of New York against LoopNet for false advertising under Section 43(a) of the Lanham Act. CoStar alleges that LoopNet has engaged in false advertising by making misleading statements to the marketplace about the number of people that use its website. Specifically, CoStar believes, based on current statements made by LoopNet, that the 2.5 million registered users that LoopNet reports is not the number of current users, but rather the total cumulative number of user IDs created over the last decade or so and therefore includes user IDs that have not been used in years, and in some cases, multiple user IDs for the same person. Our lawsuit alleges that LoopNet's use of this 2.5 million figure to competitively market how many users it currently has is false and misleading.

CoStar's complaint seeks injunctive relief and the maximum dollar amount permitted under the Lanham Act, as well as attorneys' fees and costs. LoopNet has not yet answered CoStar's complaint.

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 lawsuits or proceedings that, in the opinion of our management based on consultations with legal counsel, are 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, 2007.

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 Global Select Market® under the symbol "CSGP." The following table sets forth, for the periods indicated, the high and low daily closing prices per share of our common stock, as reported by the Nasdaq Global Select Market®.

	<u>High</u>	<u>Low</u>
Year Ended December 31, 2006		
First Quarter	\$ 56.43	\$ 43.28
Second Quarter	\$ 61.22	\$ 48.65
Third Quarter	\$ 60.57	\$ 38.52
Fourth Quarter	\$ 55.20	\$ 41.04
Year Ended December 31, 2007		
First Quarter	\$ 52.15	\$ 43.44
Second Quarter	\$ 55.71	\$ 44.95
Third Quarter	\$ 58.49	\$ 50.70
Fourth Quarter	\$ 61.65	\$ 44.48

As of February 1, 2008, there were approximately 210 holders of record of our common stock.

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 position and other factors deemed relevant by our Board of Directors. We do not anticipate paying any dividends on our common stock during the foreseeable future, but intend to retain any earnings for future growth of our business.

Recent Issues of Unregistered Securities. We did not issue any unregistered securities during the quarter ended December 31, 2007.

Issuer Purchases of Equity Securities. The following table is a summary of our repurchases of common stock during each of the three months in the quarter ended December 31, 2007:

ISSUER PURCHASES OF EQUITY SECURITIES

Month, 2007	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
October 1 through 31	--	--	--	--
November 1 through 30	--	--	--	--
December 1 through 31	1,442 ⁽¹⁾	\$ 46.50	--	--
Total	1,442	\$ 46.50	--	--

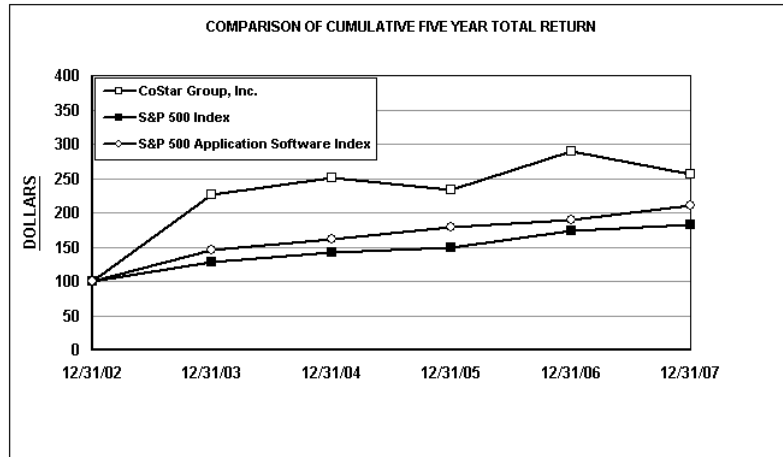
⁽¹⁾ The number of shares purchased consists of shares of common stock tendered by employees to the Company to satisfy the employees' tax withholding obligations arising as a result of vesting of restricted stock grants under the Company's 1998 Stock Incentive Plan, as amended, which shares were purchased by the Company based on their fair market value on the vesting date. None of these share purchases were part of a publicly announced program to purchase common stock of the Company.

Stock Price Performance Graph

The stock performance graph below shows how an initial investment of \$100 in our common stock would have compared to:

- An equal investment in the Standards & Poor's Stock 500 ("S&P 500") Index.
- An equal investment in the S&P 500 Application Software Index.

The comparison covers the period beginning December 31, 2002, and ending on December 31, 2007, and assumes the reinvestment of any dividends. You should note that this performance is historical and is not necessarily indicative of future price performance.



Company / Index	12/31/02	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07
CoStar Group, Inc.	100	226.02	250.30	233.98	290.30	256.10
S&P 500 Index	100	128.68	142.69	149.70	173.34	182.86
S&P 500 Application Software Index	100	145.10	161.98	179.29	188.85	209.77

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, 2007. The consolidated statement of operations data shown below for each of the three years ended December 31, 2005, 2006, and 2007 and the consolidated balance sheet data as of December 31, 2006 and 2007 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, 2003 and 2004 and the consolidated balance sheet data as of December 31, 2003, 2004, and 2005 shown below are derived from audited consolidated financial statements for those years that are not included in this report.

Consolidated Statement of Operations Data:	Year Ended December 31,				
	2003	2004	2005	2006	2007
Revenues	\$ 95,105	\$ 112,085	\$ 134,338	\$ 158,889	\$ 192,805
Cost of revenues	30,742	35,384	44,286	56,136	76,704
Gross margin	64,363	76,701	90,052	102,753	116,101
Operating expenses	64,361	69,955	82,710	88,672	98,249
Income from operations	2	6,746	7,342	14,081	17,852
Interest and other income, net	380	1,314	3,455	6,845	8,045
Income before income taxes	382	8,060	10,797	20,926	25,897
Income tax expense (benefit), net	282	(16,925)	4,340	8,516	9,946
Net income	\$ 100	\$ 24,985	\$ 6,457	\$ 12,410	\$ 15,951
Net income per share - basic	\$ 0.01	\$ 1.38	\$ 0.35	\$ 0.66	\$ 0.84
Net income per share - diluted	\$ 0.01	\$ 1.33	\$ 0.34	\$ 0.65	\$ 0.82
Weighted average shares outstanding - basic	16,202	18,165	18,453	18,751	19,044
Weighted average shares outstanding - diluted	16,674	18,827	19,007	19,165	19,404

Consolidated Balance Sheet Data:	As of December 31,				
	2003	2004	2005	2006	2007
Cash, cash equivalents, and short-term investments	\$ 97,449	\$ 117,069	\$ 134,185	\$ 158,148	\$ 187,426
Working capital	88,207	107,875	124,501	154,606	167,441
Total assets	183,900	232,691	248,059	275,437	321,843
Total liabilities	15,531	21,747	23,263	25,327	40,038
Stockholders' equity	168,369	210,944	224,796	250,110	281,805

Other Operating Data:	As of December 31,				
	2003	2004	2005	2006	2007
Number of subscription client sites	8,582	9,489	11,464	13,257	14,467
Millions of properties in database	1.5	1.6	1.8	2.1	2.7

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 above in Item 1A. under the headings "Risk Factors" and "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' websites, information about industry professionals and their business relationships, analytic information, data integration, property marketing and industry news. Our service offerings span all commercial property types - office, industrial, retail, land, mixed-use, hospitality and multifamily.

Since 1994, we have 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.COM, Inc., a San Diego-based provider of commercial real estate information. In November 2000, we acquired First Image Technologies, Inc. In September 2002, we expanded further into Portland, Oregon through the acquisition of certain assets of Napier Realty Advisors d/b/a REAL-NET. In January 2003, we established a base in the U.K. with our acquisition of London-based FOCUS Information Limited. In May 2004, we expanded into Tennessee through the acquisition of Peer Market Research, Inc., and in September 2004, we extended our coverage of the U.K. through the acquisition of Scottish Property Network. 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, a leading provider of U.S. shopping center information. Additionally, in December 2006, our U.K. subsidiary, CoStar Limited, acquired Grecam S.A.S. ("Grecam"), a provider of commercial property information and market-level surveys, studies and consulting services located in Paris, France. In February 2007, CoStar Limited also acquired Property Investment Exchange Limited ("Propex"), a provider of commercial property information and operator of an online investment property exchange located in London, England. The more recent acquisitions are discussed later in this section under the heading "Recent Acquisitions."

In 2004, we began our expansion into 21 new metropolitan markets throughout the U.S., as well as expanding the geographical coverage of many of our existing U.S. and U.K. markets. In the first quarter of 2006, our expansion into the 21 new markets was complete.

In early 2005, we announced the launch of a major effort to expand our coverage of retail real estate information. The new retail component of our flagship product, CoStar Property Professional, was unveiled in May 2006 at the International Council of Shopping Centers' convention in Las Vegas.

During the second half of 2006, we began actively researching commercial properties in 81 new Core Based Statistical Areas ("CBSAs") in the U.S., increased our U.S. field research fleet by adding 89 vehicles and hired researchers to staff these vehicles. In March 2007, we signed a long-term lease for a new research facility in White Marsh, Maryland, in support of our expanded research efforts and hired and trained additional researchers and other personnel. We released our CoStar Property Professional service in the 81 new CBSAs across the U.S. in the fourth quarter of 2007 in an effort to further expand the geographical coverage of our service offerings, including our retail service.

We believe that there is opportunity to capture potential revenue from prospective customers for our service in our current markets. We have restructured and expanded our field sales force in the U.S. to take advantage of this market opportunity. In the fourth quarter of 2006, we began rapidly expanding the size of our sales force and have since doubled its size. Sales representatives with less than a year of experience tend to be less productive than representatives with more than a year of experience. We expect that productivity per sales person will increase over the next year.

In connection with our recent acquisitions of Propex and Grecam, we intend to expand the coverage of our service offerings within the U.K., integrate our international operations more fully with those of the U.S., and eventually to introduce a consistent international platform of service offerings. We recently introduced the CoStar Group as the "brand" encompassing our international operations.

To cost effectively manage the growth of our international operations, we opened a research operations center in Glasgow, Scotland in 2007, rather than expand our operations in London. During the third quarter of 2007, we took steps to consolidate and streamline our international operations. As a result of these steps, certain management and staff positions in the U.K. were made redundant, which reduced certain costs and the amount of office space required in London. On September 14, 2007, CoStar UK Limited, a wholly owned U.K. subsidiary of CoStar, entered into an agreement to assign the leasehold for our London office in Mayfair. Effective December 19, 2007, CoStar UK Limited assigned its lease interest in that office space in exchange for a payment of \$7.6 million, net of expenses. We consolidated our London offices in Mayfair and Sheen into one facility in central London. We expect to gain operational efficiencies as a result of consolidating a majority of our U.K. research operations in one location in Glasgow and combining the majority of our remaining U.K. operations in one central location in London.

Our expansion into 81 new CBSAs, expansion of our coverage in existing markets, sales force expansion and expansion and integration of our international operations has caused our costs in 2007 to escalate over costs in 2006. However, as we complete these initiatives and the related costs stabilize, we believe they will facilitate the generation of additional revenue and provide a platform for earnings growth. Our 2007 results reflect growth in earnings as a result of these investments in our business, and we expect revenues to continue to grow over what is now a relatively fixed cost base for our U.S. research operations.

Although we do not currently plan to initiate new significant investments through 2008, we expect to continue to develop and distribute new services, expand existing services within our current platform, consider strategic acquisitions and expand and develop our sales and marketing organization. Any future expansion could reduce our profitability and increase our capital expenditures. Therefore, while we expect current service offerings in to remain profitable, driving overall earnings growth throughout 2008 and providing substantial cash flow for our business, it is possible that any new investments could cause us to generate losses and negative cash flow from operations in the future.

We expect 2008 revenue to grow over 2007 revenue as a result of further penetration of our services in our potential customer base across our platform, successful cross selling of our services to our existing customer base, continued depth of coverage and acquisitions. We expect that 2008 EBITDA, which is our net income before interest, income taxes, depreciation and amortization, will increase over 2007 based on the growth in EBITDA from U.S. operations. We anticipate that our EBITDA for our existing core U.S. platform will continue to grow principally due to growth in revenue. We believe the company is well positioned to generate continued, sustained earnings through the end of 2008.

We currently issue restricted stock and stock options to our officers, directors and employees, and as a result we record additional compensation expense in our consolidated statements of operations. We plan to continue the use of alternative stock-based compensation for our officers, directors and employees, which may include, among other things, restricted stock or stock option grants that typically will require us to record additional compensation expense in our consolidated statements of operations and reduce our net income. We incurred approximately \$5.4 million in total equity compensation expense in 2007.

Our subscription-based information services, consisting primarily of CoStar Property Professional, CoStar Tenant, CoStar COMPS Professional, FOCUS services and Propex 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, geography 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, 2006 and 2007, our contract renewal rate was over 90%.

Application of Critical Accounting Policies and Estimates

The preparation of financial statements and related disclosures in conformity with generally accepted accounting principles ("GAAP") in the United States of America, 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 use 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. Judgments made by the Company relate to the expected useful lives of long-lived assets and its ability to realize any undiscounted cash flows of the carrying amounts of such assets and are affected by the factors listed below:

- 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 by operating segment 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 sheets. 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 statements of operations.

At December 31, 2007, we had net operating loss carryforwards for federal income tax purposes of approximately \$14.9 million, which we expect to use during 2008.

As a result, we expect cash payments for taxes during 2008 of approximately \$12.0 million because our U.S. taxable income will no longer be absorbed by carryforward losses. Our U.K. operations are expected to generate net operating losses for the full year 2008. Losses in the U.K., will generate a lower tax benefit than if the costs were incurred in the U.S., thereby creating a higher effective tax rate in 2008.

Non-GAAP Financial Measures

We prepare and publicly release quarterly unaudited financial statements prepared in accordance with GAAP. We also disclose and discuss certain non-GAAP financial measures in our public releases. Currently, the non-GAAP financial measure that we disclose is EBITDA, which is our net income (loss) before interest, income taxes, depreciation and amortization. We disclose EBITDA in our earnings releases, investor conference calls and filings with the Securities and Exchange Commission. 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 as an operating performance measure and as such we believe that the GAAP financial measure most directly comparable to it is net income (loss). In calculating EBITDA, 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 is not a measurement of financial performance under GAAP and should not be considered as a measure of liquidity, as an alternative to net income (loss) or as an indicator of any other measure of performance derived in accordance with GAAP. Investors and potential investors in our securities should not rely on EBITDA 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, in our earnings releases and in other filings with the Securities and Exchange Commission 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.

EBITDA is used by management to internally measure our operating and management performance and by investors as a supplemental financial measure to evaluate the performance of our business that, when viewed with our GAAP results and the accompanying reconciliation, we believe provides additional information that is useful to gain an understanding of the factors and trends affecting our business. We have spent more than 20 years building

our database of commercial real estate information and expanding our markets and services partially through acquisitions of complementary 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 excludes these charges and provides meaningful information about the operating performance of our business, apart from charges for purchase amortization, depreciation and other amortization. We believe the disclosure of EBITDA helps investors meaningfully evaluate and compare our performance from quarter to quarter and from year to year. We also believe EBITDA is a measure of our ongoing operating performance because the isolation of non-cash charges, such as amortization and depreciation, and non-operating items, such as interest and income taxes, 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 to provide a financial measure by which to compare our operating performance against that of other companies in our industry.

Set forth below are descriptions of the financial items that have been excluded from our net income (loss) to calculate EBITDA and the material limitations associated with using this non-GAAP financial measure 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 necessarily 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 trade names. We do not believe these charges necessarily 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 necessarily 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, we do not consider the amount of net interest income to be a representative component 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 which may be 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. However, we do not consider the amount of income tax expense (benefit) to be a representative component of the day-to-day operating performance of our business.

Management compensates for the above-described limitations of using non-GAAP measures by using a non-GAAP measure only 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 net income and our cash flows from operating, investing and financing activities for the indicated periods (in thousands):

	Year Ended December 31,		
	2005	2006	2007
Net income	\$ 6,457	\$ 12,410	\$ 15,951
Purchase amortization in cost of revenues	1,250	1,205	2,170
Purchase amortization in operating expenses	4,469	4,183	5,063
Depreciation and other amortization	5,995	6,421	8,914
Interest income, net	(3,455)	(6,845)	(8,045)
Income tax expense, net	4,340	8,516	9,946
EBITDA	\$ 19,056	\$ 25,890	\$ 33,999
Cash flows provided by (used in)			
Operating activities	\$ 22,919	\$ 32,751	\$ 51,799
Investing activities	\$ (38,732)	\$ (28,493)	\$ (40,398)
Financing activities	\$ 7,412	\$ 5,582	\$ 8,161

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):

	Year Ended December 31,					
	2005		2006		2007	
Revenues	\$ 134,338	100.0%	\$ 158,889	100.0%	\$ 192,805	100.0%
Cost of revenues	44,286	33.0	56,136	35.3	76,704	39.8
Gross margin	90,052	67.0	102,753	64.7	116,101	60.2
Operating expenses:						
Selling and marketing	38,351	28.6	41,774	26.3	51,777	26.9
Software development	10,123	7.5	12,008	7.6	12,453	6.5
General and administrative	27,550	20.5	30,707	19.3	36,569	19.0
Restructuring charge	2,217	1.7	¾	0.0	¾	0.0
Gain on lease settlement, net	¾	0.0	¾	0.0	(7,613)	(3.9)
Purchase amortization	4,469	3.3	4,183	2.6	5,063	2.6
Total operating expenses	82,710	61.6	88,672	55.8	98,249	51.0
Income from operations	7,342	5.4	14,081	8.9	17,852	9.3
Interest and other income, net	3,455	2.6	6,845	4.3	8,045	4.2
Income before income taxes	10,797	8.0	20,926	13.2	25,897	13.4
Income tax expense, net	4,340	3.2	8,516	5.4	9,946	5.2
Net income	\$ 6,457	4.8%	\$ 12,410	7.8%	\$ 15,951	8.3%

Comparison of Year Ended December 31, 2007 and Year Ended December 31, 2006

Revenues. Revenues grew 21.3% to \$192.8 million in 2007, from \$158.9 million in 2006. This increase in revenue has resulted from continued penetration of our subscription-based information services, the successful cross-selling of additional products and services to our existing customer base combined with a continued high renewal rate, and additional revenues from acquired companies, including Grecam, acquired in December 2006, and Propex, acquired in February 2007. Our subscription-based information services consist primarily of CoStar

Property Professional, CoStar Tenant, CoStar COMPS Professional, FOCUS services and Propex services. As of December 31, 2007, our subscription-based information services represented approximately 95% of our total revenues.

Gross Margin. Gross margin increased to \$116.1 million in 2007, from \$102.8 million in 2006. The gross margin percentage decreased to 60.2% in 2007, from 64.7% in 2006. The increase in the gross margin amount resulted principally from revenue growth from our subscription-based information services, partially offset by an increase in cost of revenues. The decrease in gross margin percentage was principally due to an increase in the cost of revenues to \$76.7 million for 2007, from \$56.1 million for 2006. The increase in cost of revenues resulted from increased research department hiring, training, compensation and other operating costs, principally in connection with our retail and 81 new CBSA expansions, and our international expansion, as well as increased cost structures associated with the acquisitions of Grecom and Propex.

Selling and Marketing Expenses. Selling and marketing expenses increased to \$51.8 million in 2007, from \$41.8 million in 2006, and increased as a percentage of revenues to 26.9% in 2007, from 26.3% in 2006. The increase in the amount of selling and marketing expenses is primarily due to increased growth in the sales force, increased marketing efforts, as well as increased cost structures associated with the acquisition of Propex.

Software Development Expenses. Software development expenses increased to \$12.5 million in 2007, from \$12.0 million in 2006, and decreased as a percentage of revenues to 6.5% in 2007, from 7.6% in 2006. The increase in the amount of software development expenses was primarily due to increased costs associated with the continued development of an international platform. The decrease in the percentage was primarily due to our continued efforts to control and leverage our costs.

General and Administrative Expenses. General and administrative expenses increased to \$36.6 million in 2007, from \$30.7 million in 2006, and decreased slightly as a percentage of revenues to 19.0% in 2007, from 19.3% in 2006. The increase primarily includes increases in personnel expenses, cost structures associated with the acquisition of Propex and equity compensation.

Gain on Lease Settlement, Net. On September 14, 2007, CoStar Limited, a wholly owned U.K. subsidiary of CoStar, entered into an agreement with Trafigura Limited to assign to Trafigura our leasehold interest in the office space located in London. The lease assignment was effective on December 19, 2007. As a result, CoStar U.K. was paid \$7.6 million, net of expenses, for the assignment of the lease. There were no gains on lease settlements in 2006.

Purchase Amortization. Purchase amortization increased to \$5.1 million in 2007, from \$4.2 million in 2006, and remained consistent as a percentage of revenues at 2.6% in 2007 and 2006. This increase in the amount was due to the acquisitions of Grecom and Propex.

Interest and Other Income, Net. Interest and other income, net increased to \$8.0 million in 2007, from \$6.8 million in 2006. This increase was primarily due to higher interest income as a result of higher total short-term investment balances for 2007 and increased interest rates for 2007 as compared to 2006.

Income Tax Expense, Net. Income tax expense, net increased to \$9.9 million in 2007, from \$8.5 million in 2006. This increase was due to higher income before income taxes for 2007, partially offset by a lower effective tax rate. The effective tax rate was lower in 2007 due to the gain on lease settlement in the U.K. that was completed in December 2007. The lease settlement resulted in income in the U.K., which reduced the overall effective tax rate.

Comparison of Business Segment Results for Year Ended December 31, 2007 and Year Ended December 31, 2006

Due to the increased size, complexity and funding requirements associated with our international expansion, in 2007 we began to manage our business geographically in two operating segments, with our primary areas of measurement and decision-making being the U.S. and International, which includes the U.K. and France. Management relies on an internal management reporting process that provides revenue and segment EBITDA, which is our net income before interest, income taxes, depreciation and amortization. Management believes that

segment EBITDA is an appropriate measure for evaluating the operational performance of our segments. EBITDA is used by management to internally measure our operating and management performance and to evaluate the performance of our business. However, this measure should be considered in addition to, not as a substitute for or superior to, income from operations or other measures of financial performance prepared in accordance with GAAP.

Segment Revenues. U.S. revenues increased to \$170.3 million from \$146.1 million for the years ended December 31, 2007 and 2006, respectively. This increase in U.S. revenue is due to further penetration of our U.S. subscription-based information services and the successful cross-selling into our customer base across our service platform in existing markets, combined with a continued high renewal rate. International revenues increased to \$22.5 million from \$12.8 million for the years ended December 31, 2007 and 2006, respectively. This increase in international revenue is principally a result of a combination of further penetration of our subscription-based information services in the U.K. and the acquisitions of Grecam and Propex.

Segment EBITDA. U.S. EBITDA increased to \$32.9 million from \$26.2 million for the years ended December 31, 2007 and 2006, respectively. The increase in U.S. EBITDA was due to increased revenues, partially offset by increased research costs and growth in our sales force as a result of our expansion. International EBITDA increased to \$1.1 million from a loss of \$315,000 for the years ended December 31, 2007 and 2006, respectively. This increase is primarily due to the assignment of our lease to Trafigura, offset by our increased investment in international expansion. International EBITDA also includes a corporate allocation of approximately \$2.6 million and \$1.0 million for the years ended December 31, 2007 and 2006, respectively. The corporate allocation represents costs incurred for U.S. employees involved in international management and expansion activities.

Comparison of Year Ended December 31, 2006 and Year Ended December 31, 2005

Revenues. Revenues grew 18.3% to \$158.9 million in 2006, from \$134.3 million in 2005. This increase in revenue is principally due to further penetration of our subscription-based information services, as well as the successful cross selling to our customer base across our service platform in existing markets combined with continued high renewal rates. Our subscription-based information services consist primarily of CoStar Property Professional, CoStar Tenant, CoStar COMPS Professional and FOCUS services. As of December 31, 2006, our subscription-based information services represented 96% of our total revenues.

Gross Margin. Gross margin increased to \$102.8 million in 2006, from \$90.1 million in 2005. Gross margin percentage decreased to 64.7% in 2006, from 67.0% in 2005. The increase in the gross margin amount resulted principally from internal revenue growth from our subscription-based information services, partially offset by an increase in cost of revenues. Cost of revenues increased to \$56.1 million in 2006, from \$44.3 million in 2005, principally due to increased research department hiring, training, compensation and other operating costs and the addition of offshore resources from our geographic and retail expansion, as well as research costs associated with further service enhancements to our existing platform.

Selling and Marketing Expenses. Selling and marketing expenses increased to \$41.8 million in 2006, from \$38.4 million in 2005 and decreased as a percentage of revenues to 26.3% in 2006, from 28.6% in 2005. The increase in the amount of selling and marketing expenses is primarily due to sales and marketing efforts for our current retail and geographic expansion plan as well as costs associated with growth in the sales force. Additionally, stock-based compensation expense, due to the implementation of SFAS 123R, included in selling and marketing expenses for the year ended December 31, 2006, was \$1.3 million compared to approximately \$19,000 for the year ended December 31, 2005.

Software Development Expenses. Software development expenses increased to \$12.0 million in 2006, from \$10.1 million in 2005 and remained relatively consistent as a percentage of revenues to 7.6% in 2006, from 7.5% in 2005. The majority of the increase in the amount of software and development expense 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 costs for our internal information systems.

General and Administrative Expenses. General and administrative expenses increased to \$30.7 million in 2006, from \$27.6 million in 2005 and decreased as a percentage of revenues to 19.3% in 2006, from 20.5% in 2005. The increase in the amount of general and administrative expenses was primarily due to an increase in stock-based compensation, due to the implementation of SFAS 123R, to \$2.4 million in 2006, from \$290,000 for the year ended 2005 and an increase in professional services.

Restructuring Charge. We did not incur any restructuring charges in 2006. In the third quarter of 2005, we recorded a restructuring charge of approximately \$2.2 million in connection with the closing of our research center in Mason, Ohio. The restructuring charge included amounts for wages, severance, occupancy and other costs.

Purchase Amortization. Purchase amortization decreased to \$4.2 million in 2006, from \$4.5 million in 2005. This decrease was due to the completion of amortization for certain identifiable intangible assets during 2006.

Interest and Other Income, Net. Interest and other income, net increased to \$6.8 million in 2006, from \$3.5 million in 2005. This increase was primarily a result of higher total cash, cash equivalents and short-term investment balances and increased interest rates during the year.

Income Tax Expense, Net. Income tax expense, net increased to \$8.5 million in 2006, from \$4.3 million in 2005, as a result of our increased profitability.

Comparison of Business Segment Results for Year Ended December 31, 2006 and Year Ended December 31, 2005

Segment Revenues. U.S. revenues increased to \$146.1 million from \$123.4 million for the years ended December 31, 2006 and 2005, respectively. This increase in U.S. revenue is due to further penetration of our U.S. subscription-based information services and the successful cross-selling into our customer base across our service platform in existing markets, combined with a continued high renewal rate. International revenues increased to \$12.8 million from \$11.0 million for the years ended December 31, 2006 and 2005, respectively. This increase in international revenue is principally a result of a combination of further penetration of our subscription-based information services and the acquisition of Grecom.

Segment EBITDA. U.S. EBITDA increased to \$26.2 million from \$19.4 million for the years ended December 31, 2006 and 2005, respectively. The increase in U.S. EBITDA was due to increased revenues, partially offset by increased research costs as a result of our geographic and retail expansion. International EBITDA remained consistent as a loss of \$315,000 and a loss of \$316,000 for the years ended December 31, 2006 and 2005, respectively. This loss is due to our increased investment in international expansion. International EBITDA also included a corporate allocation of approximately \$1.0 million for each of the years ended December 31, 2006 and 2005. The corporate allocation represents costs incurred for U.S. employees involved in international management and expansion activities.

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, and as a percentage of total revenues):

	2006				2007			
	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Mar. 31	Jun. 30	Sep. 30	Dec. 31
Revenues	\$ 37,274	\$ 38,946	\$ 40,571	\$ 42,098	\$ 44,831	\$ 47,794	\$ 49,340	\$ 50,840
Cost of revenues	12,926	12,606	14,005	16,599	17,826	19,318	19,551	20,009
Gross margin	24,348	26,340	26,566	25,499	27,005	28,476	29,789	30,831
Operating expenses	22,500	23,942	20,730	21,500	25,569	28,230	25,952	18,498
Income from operations	1,848	2,398	5,836	3,999	1,436	246	3,837	12,333
Interest and other income, net	1,426	1,610	1,852	1,957	1,862	1,891	2,072	2,220
Income before income taxes	3,274	4,008	7,688	5,956	3,298	2,137	5,909	14,553
Income tax expense, net	1,414	1,704	2,990	2,408	1,484	962	2,659	4,841
Net income	\$ 1,860	\$ 2,304	\$ 4,698	\$ 3,548	\$ 1,814	\$ 1,175	\$ 3,250	\$ 9,712
Net income per share - basic	\$ 0.10	\$ 0.12	\$ 0.25	\$ 0.19	\$ 0.10	\$ 0.06	\$ 0.17	\$ 0.51
Net income per share - diluted	\$ 0.10	\$ 0.12	\$ 0.25	\$ 0.18	\$ 0.09	\$ 0.06	\$ 0.17	\$ 0.50

	2006				2007			
	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	34.7	32.4	34.5	39.4	39.8	40.4	39.6	39.4
Gross margin	65.3	67.6	65.5	60.6	60.2	59.6	60.4	60.6
Operating expenses	60.3	61.4	51.1	51.1	57.0	59.1	52.6	36.4
Income from operations	5.0	6.2	14.4	9.5	3.2	0.5	7.8	24.2
Interest and other income, net	3.8	4.1	4.6	4.6	4.1	4.0	4.2	4.4
Income before income taxes	8.8	10.3	19.0	14.1	7.3	4.5	12.0	28.6
Income tax expense, net	3.8	4.4	7.4	5.7	3.3	2.0	5.4	9.5
Net income	5.0%	5.9%	11.6%	8.4%	4.0%	2.5%	6.6%	19.1%

Recent Acquisitions

Grecam. S.A.S. On December 21, 2006, CoStar Limited, a wholly owned subsidiary of CoStar, acquired Grecam S.A.S. ("Grecam"), a provider of commercial property information and market-level surveys, studies and consulting services located in Paris, France. CoStar Limited acquired all of the outstanding capital stock of Grecam for approximately \$2.0 million in cash.

Propex. On February 16, 2007, CoStar Limited acquired Property Investment Exchange Limited ("Propex"), a provider of web-based commercial property information and operator of an electronic platform that facilitates the exchange of investment property in the U.K. Propex's suite of electronic platforms and listing websites give users access to the U.K. commercial property investment and leasing markets. CoStar Limited acquired all outstanding capital stock of Propex for approximately \$22.0 million, consisting of cash, deferred consideration of approximately \$2.9 million, and 21,526 shares of CoStar common stock.

Accounting Treatment. These acquisitions were accounted for using purchase accounting. The purchase price for each acquisition was primarily allocated to acquired database technology, customer base, trade names, and goodwill. The acquired database technology is being amortized on a straight-line basis over four years. The acquired customer base for the acquisitions, which consists of one distinct intangible asset for each acquisition and is composed of acquired customer contracts and the related customer relationships, is being amortized on a 125% declining balance.

method over ten years. The Grecam and Propex acquired trade names are being amortized on a straight-line basis over three years. Goodwill is not amortized, but is subject to annual impairment tests. The results of operations of Grecam and Propex have been consolidated with those of the Company since the respective dates of the acquisitions and are not considered material to the consolidated financial statements of the Company. Accordingly, pro forma financial information has not been presented for either acquisition.

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 \$187.4 million at December 31, 2007 compared to \$158.1 million at December 31, 2006. Cash, cash equivalents and short-term investments increased principally as a result of EBITDA, interest income, and proceeds from exercise of stock options, partially offset by purchases of property and equipment and other assets, cash used for the purchase of Propex for approximately \$16.7 million, capital expenditures and changes in working capital accounts.

Net cash provided by operating activities for the year ended December 31, 2007 was \$51.8 million compared to \$32.8 million for the year ended December 31, 2006. The \$19.0 million increase in net cash provided by operating activities is primarily due to increased earnings before non-cash charges for taxes, stock based compensation, provision for losses on accounts receivable, depreciation and amortization, and the \$7.6 million net gain from lease settlement, partially offset by the net effect of changes in working capital.

Net cash used in investing activities was \$40.4 million for the year ended December 31, 2007 compared to \$28.5 million for the year ended December 31, 2006. This \$11.9 million increase in net cash used in investing activities was due to the acquisition of Propex for approximately \$16.7 million, net of acquired cash, increased purchases of short-term investments and increased purchases of property and equipment.

Net cash provided by financing activities was \$8.2 million for the year ended December 31, 2007 compared to \$5.6 million for the year ended December 31, 2006. The higher net cash produced by financing activities in 2007 compared to 2006 is due to an increase in proceeds from the exercise of stock options.

Contractual Obligations. The following table summarizes our principal contractual obligations at December 31, 2007 and the effect such obligations are expected to have on our liquidity and cash flows in future periods (in thousands):

	Total	2008	2009-2010	2011-2012	2013 and thereafter
Operating leases	\$ 30,394	\$ 8,478	\$ 14,128	\$ 6,995	\$ 793
Purchase obligations ⁽¹⁾	2,556	2,478	78	¾	¾
Total contractual principal cash obligations	\$ 32,950	\$ 10,956	\$ 14,206	\$ 6,995	\$ 793

⁽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.

During 2007, we incurred capital expenditures of approximately \$14.3 million, including expenditures related to our expansion, support for our existing operations as well as building photography. We expect to make capital expenditures in 2008 of approximately \$8.0 million to \$9.0 million, including investments in facilities, building photography, network equipment and workstations to support ongoing 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 February 22, 2008, we had \$33.1 million of short-term investments in student loan auction rate securities and \$29.1 million of these securities failed to settle at auctions. These investments are of high credit quality with AAA credit ratings and are primarily securities supported by guarantees from the Federal Family Education Loan Program (FFELP) of the U.S. Department of Education. While we continue to earn interest on these investments, the investments are not liquid in the short term. In the event we need to immediately access these funds, we may have to sell these securities at an amount below par value. Based on our ability to access our cash, cash equivalents and other short-term investments and our expected operating cash flows, we do not anticipate having to sell these investments below par value in order to operate our business in the foreseeable future.

At December 31, 2007, we had net operating loss carryforwards for federal income tax purposes of approximately \$14.9 million, which we expect to use during 2008. As a result, we expect our cash payments for taxes to be approximately \$12.0 million during 2008 because our U.S. taxable income will no longer be absorbed by carryforward losses.

Inflation may affect the way we operate in the U.S. and abroad. In general, we believe that over time we are able to increase the prices of our services to counteract the majority of the inflationary effects of increasing costs. We do not believe the impact of inflation has significantly affected our operations, and we do not anticipate that inflation will have a material impact on our operations in 2008.

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48 "*Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109*" ("FIN 48"), which became effective for our company as of January 1, 2007. FIN 48 addresses the determination of how tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FIN 48, we must recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained upon examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution. Our reassessment of our tax positions in accordance with FIN 48 did not have a material impact on our results of operations and financial position.

In September 2006, the FASB issued SFAS No. 157, "*Fair Value Measurements*" ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value in accordance with GAAP and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements under GAAP and is effective for fiscal years beginning after November 15, 2007. The effects of adoption will be determined by the types of instruments carried at fair value in our financial statements at the time of adoption as well as the method utilized to determine their fair values prior to adoption. The adoption of SFAS 157 is not expected to have a material effect on our results of operations or financial position.

In February 2007, the FASB issued SFAS No. 159, "*Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115*" ("SFAS 159"), which permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 is effective for fiscal years beginning on or after December 31, 2007. We have assessed the provisions of SFAS 159 and determined that it is not expected to have a material effect on our results of operations or financial position.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), "*Business Combinations*" ("SFAS 141R"), which will change the accounting for any business combination we enter into with an acquisition date after December 31, 2008. Under SFAS 141R, an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition date fair value with limited exceptions. SFAS 141R will change the accounting treatment and disclosure for certain specific items in a business combination. SFAS 141R will have an impact on accounting for business combinations once adopted but its effect will be dependent upon the specifics of any business combination with an acquisition date subsequent to the date of adoption.

In December 2007, the FASB issued SFAS No. 160, "*Noncontrolling Interests in Consolidated Financial Statements—An Amendment of ARB No. 51*" ("SFAS 160"), which establishes new accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008. The adoption of SFAS 160 is not expected to have a material impact on our results of operations or financial position.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We provide information services to the commercial real estate and related business community in the U.S., the U.K. and France. Our functional currency for our operations in the U.K. and France is the local currency. As such, fluctuations in the British Pound and Euro may have an impact on our business, results of operations and financial position. 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, 2007, accumulated other comprehensive income (loss) included a gain from foreign currency translation adjustments of approximately \$5.5 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, 2007.

Included within our short-term investments are investments in AAA rated student loan auction rate securities. These securities are primarily securities supported by guarantees from the Federal Family Education Loan Program (FFELP) of the U.S. Department of Education. As of February 22, 2008, auctions for \$29.1 million of our investments in auction rate securities failed. As a result, we may not be able to sell these investments at par value until a future auction on these investments is successful. In the event we need to immediately liquidate these investments, we may have to locate a buyer outside the auction process, who may be unwilling to purchase the investments at par, resulting in a loss. If the issuers are unable to successfully close future auctions and their credit ratings deteriorate, we may be required to adjust the carrying value of these investments through an impairment charge. Based on our ability to access our cash, cash equivalents and other short-term investments, and our expected operating cash flows, we do not anticipate having to sell these securities below par value in order to operate our business in the foreseeable future. See Note 2 to the consolidated financial statements for further discussion.

We have a substantial amount of intangible assets. Although, as of December 31, 2007, 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. Supplementary data is set forth in Management's Discussion and Analysis of Financial Condition and Results of Operations under the caption "Consolidated Results of Operations."

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, 2007, 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, 2007 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, 2007.

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

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item is incorporated by reference to our Proxy Statement for our 2008 annual meeting of stockholders.

Item 11. Executive Compensation

The information required by this Item is incorporated by reference to our Proxy Statement for our 2008 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 2008 annual meeting of stockholders.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item is incorporated by reference to our Proxy Statement for our 2008 annual meeting of stockholders.

Item 14. Principal Accountant Fees and Services

The information required by this Item is incorporated by reference to our Proxy Statement for our 2008 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.

INDEX TO EXHIBITS

Exhibit No.	Description
2.1	Offer Document by CoStar Limited for the share capital of Focus Information Limited (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 the Registration Statement on Form S-1 of the Registrant (Reg. No. 333-47953) filed with the Commission on March 13, 1998 (the "1998 Form S-1").
3.2	Certificate of Amendment of Restated Certificate of Incorporation (Incorporated by reference to Exhibit 3.1 to the Registrant's Report on Form 10-Q for the quarter ended 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).
*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 for the quarter ended September 30, 2005).
*10.2	CoStar Group, Inc. 2007 Stock Incentive Plan, as amended (filed herewith).
*10.3	CoStar Group, Inc. 2007 Stock Incentive Plan French Sub-Plan (filed herewith).
*10.4	Form of Stock Option Agreement between the Registrant and certain of its officers, directors and employees (Incorporated by reference to Exhibit 10.8 to the Registrant's Report on Form 10-K for the year ended December 31, 2004).
*10.5	Form of Stock Option Agreement between the Registrant and Andrew C. Florance (Incorporated by reference to Exhibit 10.8.1 to the Registrant's Report on Form 10-K for the year ended December 31, 2004).
*10.6	Form of Restricted Stock Agreement between the Registrant and certain of its officers, directors and employees (Incorporated by reference to Exhibit 10.9 to the Registrant's Report on Form 10-K for the year ended December 31, 2004).
*10.7	Form of 2007 Plan Restricted Stock Grant Agreement between the Registrant and certain of its officers, directors and employees (Incorporated by reference to Exhibit 99.1 to the Registrant's Report on Form 8-K filed June 22, 2007).
*10.8	Form of 2007 Plan Incentive Stock Option Grant Agreement between the Registrant and certain of its officers, directors and employees (Incorporated by reference to Exhibit 99.2 to the Registrant's Report on Form 8-K filed June 22, 2007).
*10.9	Form of 2007 Plan Nonqualified Stock Option Grant Agreement between the Registrant and certain of its officers, directors and employees (Incorporated by reference to Exhibit 99.3 to the Registrant's Report on Form 8-K filed June 22, 2007).
*10.10	Form of 2007 Plan French Sub-Plan Restricted Stock Agreement between the Registrant and certain of its employees (filed herewith).
*10.11	CoStar Group, Inc. Employee Stock Purchase Plan (Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006).
*10.12	Employment Agreement for Andrew C. Florance (Incorporated by reference to Exhibit 10.2 to Amendment No. 1 to the Registration Statement on Form S-1 of the Registrant (Reg. No. 333-47953) filed with the Commission on April 27, 1998).
*10.13	Employment Agreement, dated as of November 29, 2004, between Christopher Tully and CoStar Realty Information, Inc. (Incorporated by reference to Exhibit 10.6 to the Registrant's Report on Form 10-K for the year ended December 31, 2004).

INDEX TO EXHIBITS ¾ (Continued)

Exhibit No.	Description
*10.14	Executive Service Contract dated February 16, 2007, between Property Investment Exchange Limited and Paul Marples (filed herewith).
*10.15	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).
10.16	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 for the quarter ended September 30, 1999).
10.17	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 for the quarter ended June 30, 2002).
10.18	Exercise of option to extend lease term and sublease amendment, dated February 22, 2007 between Gateway, Inc. and CoStar Realty Information, Inc. and CoStar Group, Inc. (Incorporated by reference to Exhibit 10.11 to the Registrant's Report on Form 10-K for the year ended December 31, 2006).
10.19	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).
10.20	Office Lease, dated as of February 23, 2005, between CoStar Realty Information, Inc. and Crestpointe III, LLC. (Incorporated by reference to Exhibit 10.13 to the Registrant's Report on Form 10-K for the year ended December 31, 2004).
10.21	Office Lease Agreement, dated March 16, 2007, between Corporate Place I Business Trust and CoStar Group, Inc. (Incorporated by reference to Exhibit 10.2 to the Registrant's Report on Form 10-Q for the quarter ended March 31, 2007).
10.22	Agreement for Lease among Nokia UK Limited, Focus Information Limited and CoStar Group, Inc., dated November 23, 2007 (filed herewith).
10.23	Contract for Sale and Purchase between Focus Information Limited and Trafigura Limited, dated September 14, 2007 (Incorporated by reference to Exhibit 10.1 to the Registrant's Report on Form 10-Q for the quarter ended September 30, 2007).
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.

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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, 2007 and 2006, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2007. 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, 2007 and 2006, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, under the heading Stock-Based Compensation, the Company adopted Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment", effective January 1, 2006.

As also discussed in Note 7 to the consolidated financial statements, under the heading Income Taxes, the Company adopted FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes- an interpretation of FASB Statement No. 109" effective January 1, 2007.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), CoStar's internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 22, 2008 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

McLean, Virginia
February 22, 2008

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited CoStar Group, Inc.'s ("CoStar") internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). CoStar'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 included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on 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, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, 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, CoStar maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, 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, 2007 and 2006 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2007 of CoStar Group, Inc. and our report dated February 22, 2008 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

McLean, Virginia
February 22, 2008

COSTAR GROUP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Year Ended December 31,		
	2005	2006	2007
Revenues	\$ 134,338	\$ 158,889	\$ 192,805
Cost of revenues	44,286	56,136	76,704
Gross margin	90,052	102,753	116,101
Operating expenses:			
Selling and marketing	38,351	41,774	51,777
Software development	10,123	12,008	12,453
General and administrative	27,550	30,707	36,569
Restructuring charge	2,217	¾	¾
Gain on lease settlement, net	¾	¾	(7,613)
Purchase amortization	4,469	4,183	5,063
	82,710	88,672	98,249
Income from operations	7,342	14,081	17,852
Interest and other income, net	3,455	6,845	8,045
Income before income taxes	10,797	20,926	25,897
Income tax expense, net	4,340	8,516	9,946
Net income	\$ 6,457	\$ 12,410	\$ 15,951
Net income per share ¾ basic	\$ 0.35	\$ 0.66	\$ 0.84
Net income per share ¾ diluted	\$ 0.34	\$ 0.65	\$ 0.82
Weighted average outstanding shares ¾ basic	18,453	18,751	19,044
Weighted average outstanding shares ¾ diluted	19,007	19,165	19,404

See accompanying notes.

COSTAR GROUP, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands except per share data)

	December 31,	
	2006	2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 38,159	\$ 57,785
Short-term investments	119,989	129,641
Accounts receivable, less allowance for doubtful accounts of approximately \$1,966 and \$2,959 as of December 31, 2006 and 2007, respectively	9,202	10,875
Deferred income taxes, net	7,904	2,716
Prepaid expenses and other current assets	3,497	4,661
Total current assets	178,751	205,678
Deferred income taxes, net	6,973	2,233
Property and equipment, net	18,407	24,045
Goodwill, net	46,497	61,854
Intangibles and other assets, net	23,172	25,711
Deposits and other assets	1,637	2,322
Total assets	\$ 275,437	\$ 321,843
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,878	\$ 3,299
Accrued wages and commissions	6,018	7,489
Accrued expenses	6,098	15,696
Deferred revenue	8,817	10,374
Deferred rent	1,334	1,379
Total current liabilities	24,145	38,237
Deferred income taxes, net	1,182	1,801
Commitments and Contingencies	¾	¾
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; 19,081 and 19,474 issued and outstanding as of December 31, 2006 and 2007, respectively	191	195
Additional paid-in capital	302,936	317,570
Accumulated other comprehensive income	4,520	5,626
Accumulated deficit	(57,537)	(41,586)
Total stockholders' equity	250,110	281,805
Total liabilities and stockholders' equity	\$ 275,437	\$ 321,843

See accompanying notes.

COSTAR GROUP, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)

	Comprehensive Income	Common Stock		Additional Paid-In Capital	Unearned Compensation	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Equity
		Shares	Amount					
Balance at December 31, 2004		18,303	\$ 183	\$ 283,206	\$ ¾	\$ 3,959	\$ (76,404)	\$ 210,944
Net income	6,457	¾	¾	¾	¾	¾	6,457	6,457
Foreign currency translation adjustment	(2,431)	¾	¾	¾	¾	(2,431)	¾	(2,431)
Net unrealized loss on short-term investments	(180)	¾	¾	¾	¾	(180)	¾	(180)
Comprehensive income	<u>\$ 3,846</u>							
Exercise of stock options		299	3	7,409	¾	¾	¾	7,412
Deferred tax benefit for exercised stock options		¾	¾	2,215	¾	¾	¾	2,215
Restricted stock		72	1	3,090	(3,091)	¾	¾	¾
Amortization of unearned compensation		¾	¾	¾	379	¾	¾	379
Balance at December 31, 2005		18,674	187	295,920	(2,712)	1,348	(69,947)	224,796
Net income	12,410	¾	¾	¾	¾	¾	12,410	12,410
Foreign currency translation adjustment	2,950	¾	¾	¾	¾	2,950	¾	2,950
Net unrealized gain on short-term investments	222	¾	¾	¾	¾	222	¾	222
Comprehensive income	<u>\$ 15,582</u>							
Exercise of stock options		270	3	6,566	¾	¾	¾	6,569
Swaps of shares for exercise		(20)	(1)	(938)	¾	¾	¾	(939)
Restricted stock grants		165	2	34	¾	¾	¾	36
Restricted stock grants surrendered		(12)	¾	(234)	¾	¾	¾	(234)
Stock compensation expense, net of forfeitures		¾	¾	4,094	¾	¾	¾	4,094
Employee Stock Purchase Plan		4	¾	206	¾	¾	¾	206
Impact upon adoption of SFAS 123R		¾	¾	(2,712)	2,712	¾	¾	¾
Balance at December 31, 2006		19,081	191	302,936	¾	4,520	(57,537)	250,110
FIN 48 Adjustment		¾	¾	26	¾	¾	¾	26
Balance at January 1, 2007		19,081	191	302,962	¾	4,520	(57,537)	250,136
Net income	15,951	¾	¾	¾	¾	¾	15,951	15,951
Foreign currency translation adjustment	873	¾	¾	¾	¾	873	¾	873
Net unrealized gain on short-term investments	233	¾	¾	¾	¾	233	¾	233
Comprehensive income	<u>\$ 17,057</u>							
Exercise of stock options		289	3	8,127	¾	¾	¾	8,130
Restricted stock grants		131	1	(1)	¾	¾	¾	¾
Restricted stock grants surrendered		(58)	¾	(635)	¾	¾	¾	(635)
Consideration for Propex		22	¾	1,010	¾	¾	¾	1,010
Stock compensation expense, net of forfeitures		¾	¾	5,440	¾	¾	¾	5,440
Employee Stock Purchase Plan		9	¾	407	¾	¾	¾	407
Excess tax benefit for exercised stock options		¾	¾	260	¾	¾	¾	260
Balance at December 31, 2007		<u>19,474</u>	<u>\$ 195</u>	<u>\$ 317,570</u>	<u>\$ ¾</u>	<u>\$ 5,626</u>	<u>\$ (41,586)</u>	<u>\$ 281,805</u>

See accompanying notes.

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

	Year Ended December 31,		
	2005	2006	2007
Operating activities:			
Net income	\$ 6,457	\$ 12,410	\$ 15,951
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	5,725	5,734	7,778
Amortization	5,989	6,076	8,369
Deferred income tax expense, net	4,245	7,658	9,946
Provision for losses on accounts receivable	979	1,813	2,464
Stock-based compensation expense	379	4,155	5,440
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	(2,652)	(5,080)	(2,944)
Prepaid expenses and other current assets	(330)	(1,205)	(755)
Deposits	(317)	(246)	(670)
Accounts payable and accrued expenses	1,683	688	6,721
Deferred revenue	761	748	(501)
Net cash provided by operating activities	<u>22,919</u>	<u>32,751</u>	<u>51,799</u>
Investing activities:			
Purchases of short-term investments	(250,272)	(109,040)	(116,676)
Sales of short-term investments	224,234	95,393	107,286
Purchases of property and equipment and other assets	(8,393)	(12,959)	(14,271)
Acquisitions, net of cash acquired	(4,301)	(1,887)	(16,737)
Net cash used in investing activities	<u>(38,732)</u>	<u>(28,493)</u>	<u>(40,398)</u>
Financing activities:			
Proceeds from exercise of stock options	7,412	5,582	8,161
Net cash provided by financing activities	<u>7,412</u>	<u>5,582</u>	<u>8,161</u>
Effect of foreign currency exchange rates on cash and cash equivalents	(341)	254	64
Net (decrease) increase in cash and cash equivalents	<u>(8,742)</u>	<u>10,094</u>	<u>19,626</u>
Cash and cash equivalents at beginning of year	36,807	28,065	38,159
Cash and cash equivalents at end of year	<u>\$ 28,065</u>	<u>\$ 38,159</u>	<u>\$ 57,785</u>
Supplemental disclosure of non-cash transactions:			
Deferred tax benefit for exercised stock options	\$ 2,215	\$ 34	\$ 34

See accompanying notes.

COSTAR GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007

1. ORGANIZATION

CoStar Group, Inc. (the "Company") has created a comprehensive, proprietary database of commercial real estate information covering the United States, as well as parts of the United Kingdom and France. Based on its unique database, the Company provides information services to the commercial real estate and related business community and operates within two segments, U.S. and International. The Company's information services are typically distributed to its clients under subscription-based license agreements, which typically have a minimum term of one year and renew automatically.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. Accounting policies are consistent for each operating segment.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") 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.

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 agreement.

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 each of the years ended December 31, 2005, 2006 and 2007.

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

Foreign Currency Translation

The Company's functional currency in its foreign locations is the local currency. Assets and liabilities are translated into U.S. dollars 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. Net gains or losses resulting from foreign currency exchange transactions are included in the consolidated statements of operations. The Company had an increase in comprehensive income from the translation of its foreign subsidiary's assets and liabilities into U.S. dollars of approximately \$3.0 million and \$873,000 for the years ended December 31, 2006 and 2007, respectively. There were no material gains or losses from foreign currency exchange transactions for the years ended December 31, 2006 and 2007.

Comprehensive Income

For the years ended December 31, 2005, 2006 and 2007, total comprehensive income was approximately \$3.8 million, \$15.6 million and \$17.1 million, respectively. As of December 31, 2007, accumulated other comprehensive income included foreign currency translation adjustments of approximately \$5.5 million and unrealized gains on short-term investments of approximately \$86,000.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising expense were approximately \$200,000, \$4.0 million and \$2.3 million for the years ended December 31, 2005, 2006 and 2007, respectively.

Income Taxes

The Company provides for income taxes under the provisions of Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes" ("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 the financial statement and the 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 Per Share

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

Stock-Based Compensation

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123R "Share Based Payment" ("SFAS 123R"), which addresses the accounting for share-based payment transactions in which the Company receives employee services in exchange for equity instruments. The statement eliminates the Company's ability to account for share-based compensation transactions as prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), and generally requires that equity instruments

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)

issued in such transactions be accounted for using a fair-value based method and the fair value of such equity instruments be recognized as expense in the consolidated statements of operations.

Under the fair-value recognition provisions of SFAS 123R, stock-based compensation cost is estimated at the grant date based on the fair value of the awards expected to vest and recognized as expense ratably over the requisite service period of the award. The Company recognizes compensation costs for awards with graded vesting on a straight-line basis.

The Company adopted SFAS 123R using the modified prospective method, which requires the application of the accounting standard as of January 1, 2006. In accordance with the modified prospective method, the consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123R. SFAS 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. In the pro forma information required under SFAS 123 for the periods prior to 2006, the Company accounted for forfeitures as they occurred. Upon adoption of SFAS 123R, the Company recorded a charge of approximately \$35,000 representing the cumulative effect of a change in accounting principle. This amount was recorded in general and administrative expenses in the consolidated statements of operations for the year ended December 31, 2006.

The impact of the adoption of SFAS 123R on the Company's results of operations for the year ended December 31, 2006, was as follows (in thousands, except per share data):

Income from operations	\$	(2,860)
Income before taxes	\$	(2,860)
Net income	\$	(1,784)
Basic earnings per share	\$	(0.10)
Diluted earnings per share	\$	(0.09)

SFAS 123R requires cash flows resulting from excess tax benefits to be classified as part of cash flows from financing activities. Excess tax benefits represent tax benefits related to exercised options in excess of the associated deferred tax asset for such options. There were no excess tax benefits as a result of adopting SFAS 123R for the year ended December 31, 2006, and no amounts were classified as an operating cash outflow or a financing cash inflow in the accompanying condensed consolidated statement of cash flows. Net cash proceeds from the exercise of stock options were approximately \$7.4 million; \$5.6 million and \$8.1 million for the years ended December 31, 2005, 2006 and 2007, respectively. There was approximately \$260,000 of excess tax benefits realized from stock option exercises for the year ended December 31, 2007.

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)

Stock-based compensation expense for stock options, restricted stock and employee stock purchase plan included in the Company's results of operations for the years ended December 31, was as follows (in thousands):

	Year Ended December 31,		
	2005	2006	2007
Cost of revenues	\$ 8	\$ 317	\$ 926
Selling and marketing	19	1,263	1,118
Software development	29	202	340
General and administrative	290	2,373	3,056
Total	\$ 346	\$ 4,155	\$ 5,440

Prior to the adoption of SFAS 123R, the Company provided the disclosures required under SFAS 123. Employee stock-based compensation expense recognized under SFAS 123R was not reflected in the Company's results of operations for the year ended December 31, 2005. Previously reported amounts have not been restated in the Company's financial statements.

The following table illustrates the pro forma effect on operating results and per share information had the Company accounted for stock-based compensation in accordance with SFAS 123 for the year ended December 31, 2005, (in thousands, except per share data):

	Year Ended December 31, 2005
Net income, as reported	\$ 6,457
Add: stock-based employee compensation expense included in reported net income	216
Deduct: total stock-based employee compensation expense determined under fair value based method for all awards	(3,560)
Pro forma net income	\$ 3,113
Net income per share:	
Basic ³ / ₄ as reported	\$ 0.35
Basic ³ / ₄ pro forma	\$ 0.17
Diluted ³ / ₄ as reported	\$ 0.34
Diluted ³ / ₄ pro forma	\$ 0.16

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES ¾ (Continued)

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, 2006 and 2007, cash of \$742,000 and \$754,000, respectively, was restricted to support letters of credit for security deposits.

Short-Term Investments

The Company accounts for short-term investments in accordance with Statement of Financial Accounting Standards No. 115 "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS No. 115"). 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 the Company's consolidated balance sheets because they represent the investment of cash that is available for current operations. Investments are carried at fair market value.

Scheduled maturities of investments classified as available-for-sale as of December 31, 2007 are as follows (in thousands):

Maturity	Fair Value
Due in:	
2008	\$ 68,727
2009-2012	41,656
2013-2017	3,535
2018 and thereafter	1,354
	<u>115,272</u>
Securities with multiple maturities	14,369
Short-term investments	<u>\$ 129,641</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, 2006 and 2007 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, 2006 and 2007.

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

Short-Term Investments $\frac{3}{4}$ (Continued)

The components of the investments in a loss position for more than twelve months consists of the following (in thousands):

	December 31,			
	2006		2007	
	Aggregate Fair Value	Gross Unrealized Losses	Aggregate Fair Value	Gross Unrealized Losses
Government-sponsored enterprise obligations	\$ 3,810	\$ (56)	\$ 1,592	\$ (15)
Corporate debt securities	18,253	(114)	13,886	(49)
	<u>\$ 22,063</u>	<u>\$ (170)</u>	<u>\$ 15,478</u>	<u>\$ (64)</u>

The components of the investments in a loss position for less than twelve months consists of the following (in thousands):

	December 31,			
	2006		2007	
	Aggregate Fair Value	Gross Unrealized Losses	Aggregate Fair Value	Gross Unrealized Losses
Government-sponsored enterprise obligations	\$ 4,442	\$ (13)	\$ 531	\$ (1)
Corporate debt securities	10,207	(10)	21,234	(148)
	<u>\$ 14,649</u>	<u>\$ (23)</u>	<u>\$ 21,765</u>	<u>\$ (149)</u>

The gross unrealized gains as of December 31, 2006 and 2007 were approximately \$50,000 and \$330,000, respectively.

Auction rate securities are variable rate debt instruments whose interest rates are reset approximately every 28 days. The underlying securities have contractual maturities greater than twenty years. The auction rate securities are recorded at fair value. Typically, the carrying value of auction rate securities approximates fair value due to frequent resetting of the interest rates. As of February 22, 2008, the Company held auction rate securities totaling \$33.1 million of par value, of which \$29.1 million failed to settle at auctions. These investments are of high credit quality with AAA credit ratings and are primarily student loan securities supported by guarantees from the Federal Family Education Loan Program (FFELP) of the U.S. Department of Education. The Company may not be able to liquidate and fully recover the carrying value of the remaining auction rate securities in the near term. These developments may result in the classification of some or all of these securities as long-term investments in the Company's consolidated financial statements for the first quarter of 2008. In addition, while all of the auction rate securities are currently rated AAA, if the issuers are unable to successfully close future auctions and their credit ratings deteriorate, the Company may be required to record an impairment charge on these investments.

Concentration of Credit Risk and Financial Instruments

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES ¾ (Continued)

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 a straight-line basis over the following estimated useful lives of the assets:

Leasehold improvements	Shorter of lease term or useful life
Furniture and office equipment	Five to 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.

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" ("APB 17"). The Company adopted the provisions of Statement of Financial Accounting Standards No. 142, "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 ("SFAS 144"), "Accounting for Impairment or Disposal of Long-Lived Assets".

Acquired database technology, customer base and trade names and other are related to the Company's acquisitions (See Notes 3 and 6). Acquired database technology and trade names and other 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. Acquired 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. Acquired 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 SFAS 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 estimate 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 for which the carrying amount of the asset exceeds the fair value of the asset.

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

Long-Lived Assets $\frac{3}{4}$ (Continued)

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.

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48 "*Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109*" ("FIN 48"), which became effective for the Company as of January 1, 2007. FIN 48 addresses the determination of how tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FIN 48, the Company must recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained upon examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution. The Company's reassessment of its tax positions in accordance with FIN 48 did not have a material impact on its results of operations and financial position.

In September 2006, the FASB issued SFAS No. 157, "*Fair Value Measurements*" ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value in accordance with GAAP and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements under GAAP and is effective for fiscal years beginning after November 15, 2007. The effects of adoption will be determined by the types of instruments carried at fair value in the Company's financial statements at the time of adoption as well as the method utilized to determine their fair values prior to adoption. The adoption of SFAS 157 is not expected to have a material effect on the results of operations or financial position of the Company.

In February 2007, the FASB issued SFAS No. 159, "*Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115*" ("SFAS 159"), which permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 is effective for fiscal years beginning on or after December 31, 2007. The Company has assessed the provisions of SFAS 159 and determined that it is not expected to have a material effect on the results of operations or financial position of the Company.

In December 2007, the FASB issued SFAS 141 (Revised 2007), "*Business Combinations*" ("SFAS 141R"), which will change the accounting for any business combination the Company enters into with an acquisition date after December 31, 2008. Under SFAS 141R, an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition date fair value with limited exceptions. SFAS 141R will change the accounting treatment and disclosure for certain specific items in a business combination. SFAS 141R will have an impact on accounting for business combinations once adopted but its effect will be dependent upon the specifics of any business combination with an acquisition date subsequent to the date of adoption.

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

Recent Accounting Pronouncements ³/₄ (Continued)

In December 2007, the FASB issued SFAS 160 "Noncontrolling Interests in Consolidated Financial Statements—An Amendment of ARB No. 51" ("SFAS 160"), which establishes new accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008. The adoption of SFAS 160 is not expected to have a material impact on the results of operations or financial position of the Company.

3. ACQUISITIONS

On December 21, 2006, CoStar Limited, a wholly owned U.K. subsidiary of CoStar, acquired Grecom S.A.S. ("Grecom"), a provider of commercial property information and market-level surveys, studies and consulting services located in Paris, France. The Company acquired all of the outstanding capital stock of Grecom for approximately \$2.0 million in cash.

On February 16, 2007, CoStar Limited acquired all of the outstanding capital stock of Property Investment Exchange Limited ("Propex") for approximately \$22.0 million, consisting of cash, deferred consideration of approximately \$2.9 million, and 21,526 shares of CoStar common stock. Propex provides web-based commercial property information and operates an electronic platform that facilitates the exchange of investment property in the U.K. Propex's suite of electronic platforms and listing websites give users access to the U.K. commercial property investment and leasing markets.

These acquisitions were accounted for using purchase accounting. The purchase price for each acquisition was primarily allocated to acquired database technology, customer base, trade names, and goodwill. The acquired database technology is being amortized on a straight-line basis over four years. The acquired customer base for the acquisitions, which consists of one distinct intangible asset for each acquisition and is composed of acquired customer contracts and the related customer relationships, is being amortized on a 125% declining balance method over ten years. The Grecom and Propex acquired trade names are being amortized on a straight-line basis over three years. Goodwill is not amortized, but is subject to annual impairment tests. The results of operations of Grecom and Propex have been consolidated with those of the Company since the respective dates of the acquisitions and are not considered material to the consolidated financial statements of the Company. Accordingly, pro forma financial information has not been presented for either acquisition.

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

4. PROPERTY AND EQUIPMENT

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

	December 31,	
	2006	2007
Leasehold improvements	\$ 4,450	\$ 8,357
Furniture, office equipment and research vehicles	18,171	19,874
Computer hardware and software	21,862	27,735
	44,483	55,966
Accumulated depreciation and amortization	(26,076)	(31,921)
Property and equipment, net	\$ 18,407	\$ 24,045

5. GOODWILL

Goodwill consists of the following (in thousands):

	December 31,	
	2006	2007
Goodwill	\$ 57,720	\$ 73,077
Accumulated amortization	(11,223)	(11,223)
Goodwill, net	\$ 46,497	\$ 61,854

The Company recorded goodwill of approximately \$15.0 million for the Propex acquisition in February 2007. The remaining increase in goodwill in 2007 is related to foreign currency fluctuations.

During the fourth quarters of 2006 and 2007, 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 (in thousands, except amortization period data):

	December 31, 2006	December 31, 2007	Weighted- Average Amortization Period (in years)
Building photography	\$ 9,902	\$ 10,799	5
Accumulated amortization	(5,567)	(6,708)	
Building photography, net	<u>4,335</u>	<u>4,091</u>	
Acquired database technology	22,101	21,390	4
Accumulated amortization	(20,107)	(20,573)	
Acquired database technology, net	<u>1,994</u>	<u>817</u>	
Acquired customer base	44,949	50,891	10
Accumulated amortization	(29,414)	(34,374)	
Acquired customer base, net	<u>15,535</u>	<u>16,517</u>	
Acquired trade name	4,198	9,089	6
Accumulated amortization	(2,890)	(4,803)	
Acquired trade names and other, net	<u>1,308</u>	<u>4,286</u>	
Intangibles and other assets, net	<u>\$ 23,172</u>	<u>\$ 25,711</u>	

Amortization expense for intangibles and other assets was approximately \$6.0 million; \$6.1 million and \$8.4 million for the years ended December 31, 2005, 2006 and 2007, respectively.

In the aggregate, amortization for intangibles and other assets existing as of December 31, 2007 for future periods is expected to be approximately \$7.3 million, \$5.6 million, \$2.3 million, \$1.8 million and \$1.8 million for the years ending December 31, 2008, 2009, 2010, 2011 and 2012, 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,		
	2005	2006	2007
Current:			
Federal	\$ 227	\$ 414	\$ 574
State	57	220	821
Foreign	¾	¾	¾
Total current	<u>284</u>	<u>634</u>	<u>1,395</u>
Deferred:			
Federal	4,018	7,497	9,716
State	746	1,077	72
Foreign	(708)	(692)	(1,237)
Total deferred	<u>4,056</u>	<u>7,882</u>	<u>8,551</u>
Total provision for income taxes	<u>\$ 4,340</u>	<u>\$ 8,516</u>	<u>\$ 9,946</u>

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

	December 31,	
	2006	2007
Deferred tax assets:		
Reserve for bad debts	\$ 610	\$ 799
Accrued compensation	879	1,286
Stock compensation	776	1,603
Net operating losses	14,747	3,177
Restructuring reserve	201	45
Alternative minimum tax credits	820	1,393
Other liabilities	1,119	1,001
Total deferred tax assets	<u>19,152</u>	<u>9,304</u>
Deferred tax liabilities:		
Prepays	(644)	(739)
Depreciation	(323)	(427)
Identified intangibles associated with purchase accounting	(4,153)	(4,927)
Total deferred tax liabilities	<u>(5,120)</u>	<u>(6,093)</u>
Net deferred tax asset	14,032	3,211
Valuation allowance	(337)	(63)
Net deferred taxes	<u>\$ 13,695</u>	<u>\$ 3,148</u>

The net long-term deferred tax liability shown on the balance sheet includes deferred tax liabilities and assets related to the U.K. operations of the Company.

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

7. INCOME TAXES ³/₄ (Continued)

For the years ended December 31, 2006 and 2007, a valuation allowance has been established primarily for certain state net operating loss carryforwards due to the uncertainty of realization. The Company's change in valuation allowance was approximately \$350,000 and \$274,000 during the years ended December 31, 2006 and 2007, respectively. For the year ended December 31, 2007, the Company had income of approximately \$30.3 million subject to applicable U.S. federal and state income tax laws and a loss of approximately \$4.4 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,		
	2005	2006	2007
Expected federal income tax provision at 34%	\$ 3,670	\$ 7,115	\$ 8,805
State income taxes, net of federal benefit	533	1,014	841
Foreign income taxes, net effect	139	119	156
Stock compensation	³ / ₄	528	146
Increase (decrease) in valuation allowance	3	(267)	(274)
Other adjustments	(5)	7	272
Income tax expense, net	<u>\$ 4,340</u>	<u>\$ 8,516</u>	<u>\$ 9,946</u>

The Company paid approximately \$95,000, \$858,000 and \$1.1 million in income taxes for the years ended December 31, 2005, 2006 and 2007, respectively.

At December 31, 2007, the Company has net operating loss carryforwards for federal income tax purposes of approximately \$14.9 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 \$8.1 million, which do not expire. The Company also has alternative minimum tax credit carryforwards of approximately \$1.4 million.

The Company adopted FIN 48 on January 1, 2007. As a result of the implementation of FIN 48, the Company recognized no material adjustment in the liability for unrecognized income tax benefits. At the adoption date of January 1, 2007, the Company had \$226,000 of unrecognized tax benefits, all of which would favorably affect the effective tax rate if recognized in future periods. The Company's continuing practice is to recognize interest and penalties related to income tax matters in income tax expense.

The following table summarizes the activity related to the Company's unrecognized tax benefits (in thousands):

Unrecognized tax benefit as of January 1, 2007	\$ 226
Increase for current year tax positions	46
Increase for prior year tax positions	13
Expiration of the statute of limitation for assessment of taxes	(25)
Unrecognized tax benefit as of December 31, 2007	<u>\$ 260</u>

The unrecognized tax benefit of \$260,000 as of December 31, 2007, would favorably affect the annual effective tax rate, if recognized in future periods. The unrecognized tax benefit includes approximately \$24,000 of interest and \$10,000 of penalties accrued during 2007, and approximately \$49,000 of interest and \$57,000 of penalties in total as of December 31, 2007. The Company does not anticipate the amount of the unrecognized tax benefits to change significantly over the next twelve months.

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

7. INCOME TAXES ¾ (Continued)

The Company's federal and state income tax returns for tax years 2003 through 2006 remain open to examination. The Company's U.K. income tax returns for tax years 2001 through 2006 remain open to examination.

8. GAIN ON LEASE SETTLEMENT, NET

On September 14, 2007, CoStar Limited, a wholly owned U.K. subsidiary of CoStar, entered into an agreement with Trafigura Limited to assign to Trafigura the leasehold interest in the office space located in London. The lease assignment was completed on December 19, 2007. As a result, CoStar U.K. was paid approximately \$7.6 million, net of expenses, for the assignment of the lease. The expenses associated with the lease settlement included legal, moving and the disposal of assets.

9. 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, 2005, 2006 and 2007 was approximately \$6.8 million, \$7.0 million and \$8.1 million, respectively.

The Company entered into a sublease agreement during December 2006 that will terminate in March 2008. Future sublease income will total \$73,000 over the remaining term.

Future minimum lease payments as of December 31, 2007 are as follows (in thousands):

2008	\$	8,478
2009		8,590
2010		5,538
2011		4,094
2012		2,901
2013 and thereafter		793
	<u>\$</u>	<u>30,394</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.

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

10. SEGMENT REPORTING

Due to the increased size, complexity, and funding requirements associated with the Company's international expansion in 2007, the Company began to manage the business geographically in two operating segments, with the primary areas of measurement and decision-making being the U.S. and International, which includes the U.K. and France. The U.S. and International segment revenue is comprised of subscription based information services consisting primarily of CoStar Property Professional, CoStar Tenant, CoStar COMPS Professional and FOCUS services, and currently generates approximately 95% of our total revenues. Management relies on an internal management reporting process that provides revenue and segment EBITDA, which is the Company's net income before interest, income taxes, depreciation and amortization. Management believes that segment EBITDA is an appropriate measure for evaluating the operational performance of our segments. EBITDA is used by management to internally measure operating and management performance and to evaluate the performance of the business. However, this measure should be considered in addition to, not as a substitute for or superior to, income from operations or other measures of financial performance prepared in accordance with GAAP.

Summarized information by segment was as follows (in thousands):

	Year Ended December 31,		
	2005	2006	2007
Revenues			
United States	\$ 123,360	\$ 146,073	\$ 170,298
International	10,978	12,816	22,507
Total revenues	<u>\$ 134,338</u>	<u>\$ 158,889</u>	<u>\$ 192,805</u>
EBITDA			
United States	\$ 19,372	\$ 26,205	\$ 32,872
International	(316)	(315)	1,127
Total EBITDA	<u>\$ 19,056</u>	<u>\$ 25,890</u>	<u>\$ 33,999</u>
Reconciliation of EBITDA to net income			
EBITDA	\$ 19,056	\$ 25,890	\$ 33,999
Purchase amortization in cost of revenues	(1,250)	(1,205)	(2,170)
Purchase amortization in operating expenses	(4,469)	(4,183)	(5,063)
Depreciation and other amortization	(5,995)	(6,421)	(8,914)
Interest income, net	3,455	6,845	8,045
Income tax expense, net	(4,340)	(8,516)	(9,946)
Net income	<u>\$ 6,457</u>	<u>\$ 12,410</u>	<u>\$ 15,951</u>

International EBITDA includes a corporate allocation of approximately \$1.0 million for the years ended December 31, 2005 and 2006 and approximately \$2.6 million for the year ended December 31, 2007.

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

10. SEGMENT REPORTING — (CONTINUED)

Summarized information by segment was as follows (in thousands):

	December 31,	
	2006	2007
Property and equipment, net		
United States	\$ 16,907	\$ 18,162
International	1,500	5,883
Total property and equipment, net	<u>\$ 18,407</u>	<u>\$ 24,045</u>
Assets		
United States	\$ 271,179	\$ 308,373
International	33,718	72,659
Total segment assets	<u>\$ 304,897</u>	<u>\$ 381,032</u>
Reconciliation of segment assets to total assets		
Total segment assets	\$ 304,897	\$ 381,032
Investment in subsidiaries	(18,343)	(18,343)
Intercompany receivables	(11,117)	(40,846)
Total assets	<u>\$ 275,437</u>	<u>\$ 321,843</u>
Liabilities		
United States	\$ 18,382	\$ 21,581
International	19,197	61,025
Total segment liabilities	<u>\$ 37,579</u>	<u>\$ 82,606</u>
Reconciliation of segment liabilities to total liabilities		
Total segment liabilities	\$ 37,579	\$ 82,606
Intercompany payables	(12,252)	(42,568)
Total liabilities	<u>\$ 25,327</u>	<u>\$ 40,038</u>

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

11. STOCKHOLDERS' EQUITY

Preferred Stock

The Company has 2,000,000 shares of preferred stock, \$0.01 par value, authorized for issuance. The Board of Directors may issue the preferred stock from time to time 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.

12. NET INCOME PER SHARE

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

	Year Ended December 31,		
	2005	2006	2007
Numerator:			
Net income	\$ 6,457	\$ 12,410	\$ 15,951
Denominator:			
Denominator for basic net income per share ³ / ₄ weighted-average outstanding shares	18,453	18,751	19,044
Effect of dilutive securities:			
Stock options and warrants	554	414	360
Denominator for diluted net income per share ³ / ₄ weighted-average outstanding shares	19,007	19,165	19,404
Net income per share ³ / ₄ basic	\$ 0.35	\$ 0.66	\$ 0.84
Net income per share ³ / ₄ diluted	\$ 0.34	\$ 0.65	\$ 0.82

Stock options and warrants to purchase approximately 921,000, 86,900 and 80,400 shares were outstanding as of December 31, 2005, 2006 and 2007, respectively, 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.

13. EMPLOYEE BENEFIT PLANS

Stock Incentive Plans

In June 1998, the Company's Board of Directors adopted the 1998 Stock Incentive Plan (the "1998 Plan") prior to consummation of the Company's initial public offering. In April 2007, the Company's Board of Directors adopted the CoStar Group, Inc. 2007 Stock Incentive Plan (as amended, the "2007 Plan"), subject to stockholder approval, which was obtained on June 7, 2007. All shares of common stock that were authorized for issuance under the 1998 Plan that, as of June 7, 2007, remained available for issuance under the 1998 Plan (excluding shares subject to outstanding awards) were rolled into the 2007 Plan and, as of that date, no shares of common stock are available under the 1998 Plan. The 1998 Plan continues to govern unexercised and unexpired awards issued under the 1998 Plan prior to June 7, 2007. The 1998 Plan provides for the grant of stock and stock options to officers, directors and employees of the Company and its subsidiaries. Stock options granted under the 1998 Plan might be incentive or non-qualified. 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 restricted stock grants is determined by the Board of Directors and is generally three to four years. Upon the occurrence of a Change of Control, as defined in the 1998 Plan, all outstanding unexercisable options and restricted stock grants under the 1998 Plan immediately become exercisable.

The 2007 Plan provides for the grant of stock options, restricted stock, restricted stock units, and stock appreciation rights to officers, employees and directors of the Company and its subsidiaries. Stock options granted under the 2007 Plan may be non-qualified or may qualify as incentive stock options. The exercise price for an option may not be less than the fair market value of the Company's common stock on the date of grant. The vesting period for each grant of options, restricted stock, restricted stock units and stock appreciation rights under the 2007 Plan is determined by the Board of Directors and is generally three to four years, subject to minimum vesting periods of at least one year. The Company has reserved the following shares of common stock for issuance under the 2007 Plan: (a) 1,000,000 shares of common stock, plus (b) 121,875 shares of common stock that were authorized for issuance under the 1998 Plan that, as of June 7, 2007, remained available for issuance under the 1998 Plan (not including any Shares that are subject as of such date to outstanding awards under the 1998 Plan), and (c) any shares of common stock subject to outstanding awards under the 1998 Plan as of June 7, 2007 that on or after such date cease for any reason to be subject to such awards (other than by reason of exercise or settlement of the awards to the extent they are exercised for or settled in vested and nonforfeitable shares). Unless terminated sooner, the 2007 Plan will terminate in April 2017, but will continue to govern unexercised and unexpired awards issued under the 2007 Plan prior to that date. Approximately 1.1 million shares were available for future grant under the 2007 Plan as of December 31, 2007.

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

13. EMPLOYEE BENEFIT PLANS ³/₄ (Continued)

Stock Incentive Plans ³/₄ (Continued)

Option activity was as follows:

	Number of Shares	Range of Exercise Price	Weighted Average Exercise Price	Weighted Average Remaining Contract Life (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2004	1,850,334	\$9.00 - \$52.13	\$ 29.21		
Granted	10,000	\$43.17 - \$43.17	\$ 43.17		
Exercised	(292,474)	\$9.00 - \$44.86	\$ 25.34		
Canceled or expired	(93,963)	\$17.25 - \$45.18	\$ 33.68		
Outstanding at December 31, 2005	1,473,897	\$9.00 - \$52.13	\$ 29.76		
Granted	96,900	\$51.92	\$ 51.92		
Exercised	(269,755)	\$9.00 - \$45.18	\$ 24.35		
Canceled or expired	(26,565)	\$18.28 - \$45.18	\$ 37.85		
Outstanding at December 31, 2006	1,274,477	\$9.00 - \$52.13	\$ 32.23		
Granted	7,000	\$48.25 - \$54.12	\$ 50.77		
Exercised	(288,757)	\$9.00 - \$45.18	\$ 28.16		
Canceled or expired	(24,875)	\$21.28 - \$51.92	\$ 44.82		
Outstanding at December 31, 2007	967,845	\$16.20 - \$54.12	\$ 33.25	5.26	\$ 13,932
Exercisable at December 31, 2005	960,454	\$9.00 - \$52.13	\$ 27.04		
Exercisable at December 31, 2006	929,324	\$9.00 - \$52.13	\$ 28.93		
Exercisable at December 31, 2007	826,782	\$16.20 - \$52.13	\$ 31.07	4.87	\$ 13,504

The aggregate intrinsic value is calculated as the difference between (i) the closing price of the common stock at December 31, 2005, 2006 and 2007 and (ii) the exercise prices of the underlying awards, multiplied by the shares underlying options as of December 31, 2005, 2006 and 2007, that had an exercise price less than the closing price on that date. Options to purchase 292,474, 269,755, and 288,757 shares were exercised for the years ended December 31, 2005, 2006, and 2007, respectively. The aggregate intrinsic value of options exercised, determined as of the date of option exercise, was \$5.9 million, \$7.4 million and \$7.5 million, respectively.

At December 31, 2007, there was \$11.1 million of unrecognized compensation cost related to stock-based payments, net of forfeitures, which is expected to be recognized over a weighted-average-period of 2.1 years.

The weighted-average grant date fair value of each option granted during the years ended December 2005, 2006 and 2007 was \$26.65, \$33.45 and \$32.70, respectively.

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

13. EMPLOYEE BENEFIT PLANS ³/₄ (Continued)

Stock Incentive Plans ³/₄ (Continued)

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,		
	2005	2006	2007
Dividend yield	0%	0%	0%
Expected volatility	64%	61%	61%
Risk-free interest rate	4.4%	4.7%	4.7%
Expected life (in years)	5	5	5

The assumptions above and the estimation of expected forfeitures are based on multiple facts, including historical employee behavior patterns of exercising options and post-employment termination behavior, expected future employee option exercise patterns, and the historical volatility of the Company's stock price.

The following table summarizes information regarding options outstanding at December 31, 2007:

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	
\$16.20 - \$18.06	101,117	3.77	\$ 17.94	101,117	\$ 17.94	
\$18.12 - \$20.30	117,953	4.56	\$ 19.23	117,953	\$ 19.23	
\$20.60 - \$28.15	157,431	4.45	\$ 25.99	157,431	\$ 25.99	
\$29.00 - \$30.75	137,096	3.58	\$ 30.26	137,096	\$ 30.26	
\$31.50 - \$39.00	112,910	5.29	\$ 38.11	90,410	\$ 37.89	
\$39.53 - \$44.06	100,563	5.76	\$ 41.16	76,062	\$ 41.33	
\$44.86 - \$45.18	153,375	6.82	\$ 45.03	117,250	\$ 45.04	
\$46.81 - \$51.92	83,400	8.69	\$ 51.56	28,463	\$ 51.38	
\$52.13 - \$52.13	1,000	2.19	\$ 52.13	1,000	\$ 52.13	
\$54.12 - \$54.12	3,000	9.42	\$ 54.12	0	\$ 0.00	
\$16.20 - \$54.12	<u>967,845</u>	5.26	\$ 33.25	<u>826,782</u>	\$ 31.07	

The following table presents unvested restricted stock awards activity for the year ended December 31, 2007:

	Weighted Average	
	Number of Shares	Grant Date Fair Value per Share
Unvested restricted stock at December 31, 2006	212,277	\$ 47.46
Granted	131,403	\$ 53.29
Vested	(40,377)	\$ 50.09
Canceled	(44,715)	\$ 49.54
Unvested restricted stock at December 31, 2007	<u>258,588</u>	\$ 48.55

13. EMPLOYEE BENEFIT PLANS ³/₄ (Continued)

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. In 2005, 2006 and 2007, the Company matched 100% 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, 2005, 2006 and 2007 were approximately \$1.6 million, \$2.0 million and \$2.3 million, respectively. The Company paid administrative expenses in connection with the 401(k) plan of approximately \$18,000, \$25,000 and \$22,000 for the years ended December 31, 2005, 2006 and 2007, respectively.

Employee Pension Plan

The Company maintains a company personal pension plan for all eligible employees in the Company's 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, 2005, 2006 and 2007 were approximately \$175,000, \$193,000 and \$281,000, respectively.

Employee Stock Purchase Plan

As of August 1, 2006, the Company introduced an Employee Stock Purchase Plan ("ESPP"), pursuant to which eligible employees participating in the plan authorize the Company to withhold from the employees' compensation and use the withheld amounts to purchase shares of the Company's common stock at 90% of the market price. Participating employees are able to purchase common stock under this plan during the offering period. The offering period begins the Saturday before each of the Company's regular pay dates and ends on each of the Company's regular pay dates. There were 95,489 and 86,308 shares available for purchase under the plan as of December 31, 2006 and 2007, respectively and approximately 4,000 and 9,000 shares of the Company's common stock were purchased during 2006 and 2007, respectively.



Real Estate Information

COSTAR GROUP, INC.

2007 STOCK INCENTIVE PLAN
(Amended effective December 6, 2007)**1. Purpose**

The purpose of the CoStar Group, Inc. 2007 Stock Incentive Plan (the "Plan") is to advance the interests of CoStar Group, Inc. (the "Company") by enabling the Company and its subsidiaries to attract, retain and motivate employees of the Company by providing for or increasing the proprietary interests of such individuals in the Company, and by enabling the Company to attract, retain and motivate its nonemployee directors and further align their interests with those of the shareholders of the Company by providing for or increasing the proprietary interests of such directors in the Company. The Plan provides for the grant of Incentive and Nonqualified Stock Options, Stock Appreciation Rights, Restricted Stock and Restricted Stock Units, any of which may be performance-based, as determined by the Committee.

2. Definitions

As used in the Plan, the following terms shall have the meanings set forth below:

- (a) "Award" means an Incentive Stock Option, Nonqualified Stock Option, Stock Appreciation Right, Restricted Stock, or Restricted Stock Unit granted to a Participant pursuant to the provisions of the Plan, any of which the Committee may structure to qualify in whole or in part as a Performance Award.
- (b) "Award Agreement" means a written agreement or other instrument as may be approved from time to time by the Committee implementing the grant of each Award. An Agreement may be in the form of an agreement to be executed by both the Participant and the Company (or an authorized representative of the Company) or certificates, notices or similar instruments as approved by the Committee.
- (c) "Board" means the board of directors of the Company.
- (d) "Code" means the Internal Revenue Code of 1986, as amended from time to time, and the rulings and regulations issues thereunder.
- (e) "Committee" means the Committee delegated the authority to administer the Plan in accordance with Section 16.
- (f) "Common Share" means a share of the Company's common stock, subject to adjustment as provided in Section 11.

- (g) "Company" means CoStar Group, Inc., a Delaware corporation.
- (h) "Fair Market Value" means, as of any given date, the closing sales price on such date during normal trading hours (or, if there are no reported sales on such date, on the last date prior to such date on which there were sales) of the Common Shares on NASDAQ, the New York Stock Exchange Composite Tape or, if not listed on such exchanges, on any other national securities exchange on which the Common Shares are listed, in any case, as reporting in such source as the Committee shall select. If there is no regular public trading market for such Common Shares, the Fair Market Value of the Common Shares shall be determined by the Committee in good faith and in compliance with Section 409A of the Code.
- (i) "Incentive Stock Option" means a stock option that is intended to qualify as an "incentive stock option" within the meaning of Section 422 of the Code.
- (j) "Nonemployee Director" means each person who is, or is elected to be, a member of the Board or the board of directors of any Subsidiary and who is not an employee of the Company or any Subsidiary.
- (k) "Nonqualified Stock Option" means a stock option that is not intended to qualify as an "incentive stock option" within the meaning of Section 422 of the Code.
- (l) "Option" means an Incentive Stock Option and/or a Nonqualified Stock Option granted pursuant to Section 6 of the Plan.
- (m) "Participant" means any individual described in Section 3 to whom Awards have been granted from time to time by the Committee and any authorized transferee of such individual.
- (n) "Performance Award" means an Award, the grant, issuance, retention, vesting or settlement of which is subject to satisfaction of one or more performance criteria pursuant to Section 12.
- (o) "Plan" means the CoStar Group, Inc. 2007 Stock Incentive Plan as set forth herein and as amended from time to time.
- (p) "Prior Plan" means the CoStar Group, Inc. 1998 Stock Incentive Plan.
- (q) "Qualifying Performance Criteria" has the meaning set forth in Section 12(b).
- (r) "Restricted Stock" means Common Shares granted pursuant to Section 8 of the Plan.
- (s) "Restricted Stock Unit" means an Award granted to a Participant pursuant to Section 8 pursuant to which Common Shares or cash in lieu thereof may be issued in the future.
- (t) "Stock Appreciation Right" means a right granted pursuant to Section 7 of the Plan that entitles the Participant to receive, in cash or Common Shares or a combination thereof, as determined by the Committee, value equal to or otherwise based on the excess of (i) the market price of a specified number of Common Shares at the time of exercise over (ii) the exercise price of the right, as established by the Committee on the date of grant.

(u) "Subsidiary" means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company where each of the corporations in the unbroken chain other than the last corporation owns stock possessing at least 50 percent or more of the total combined voting power of all classes of stock in one of the other corporations in the chain, and if specifically determined by the Committee in the context other than with respect to Incentive Stock Options, may include an entity in which the Company has a significant ownership interest or that is directly or indirectly controlled by the Company.

(v) "Substitute Awards" means Awards granted or Common Shares issued by the Company in assumption of, or in substitution or exchange for, awards previously granted, or the right or obligation to make future awards, by a corporation acquired by the Company or any Subsidiary or with which the Company or any Subsidiary combines.

3. Eligibility

Any person who is an officer or employee of the Company or of any Subsidiary (including any director who is also an employee, in his or her capacity as such) shall be eligible for selection by the Committee for the grant of Awards hereunder. In addition, Nonemployee Directors shall be eligible for the grant of Awards hereunder as determined by the Committee. In addition any service provider who has been retained to provide consulting, advisory or other services to the Company or to any Subsidiary shall be eligible for selection by the Committee for the grant of Awards hereunder. Options intending to qualify as Incentive Stock Options may only be granted to employees of the Company or any Subsidiary within the meaning of the Code, as selected by the Committee.

4. Effective Date and Termination of Plan

This Plan was adopted by the Board and became effective as of April 26, 2007 (the "Effective Date"), subject to the approval by the Company's stockholders. All Awards granted under this Plan are subject to, and may not be exercised before, the approval of this Plan by the stockholders prior to the first anniversary date of the effective date of the Plan by the affirmative vote of the holders of a majority of the outstanding Common Shares of the Company present, or represented by proxy, and entitled to vote, at a meeting of the Company's stockholders or by written consent in accordance with the laws of the State of Delaware; provided that if such approval by the stockholders of the Company is not forthcoming, all Awards previously granted under this Plan shall be void. The Plan shall remain available for the grant of Awards until the tenth (10th) anniversary of the Effective Date. Notwithstanding the foregoing, the Plan may be terminated at such earlier time as the Board may determine. Termination of the Plan will not affect the rights and obligations of the Participants and the Company arising under Awards theretofore granted and then in effect.

5. Common Shares Subject to the Plan and to Awards

(a) *Aggregate Limits.* The aggregate number of Shares issuable pursuant to all Awards shall not exceed 1,000,000 shares, plus (i) any Shares that were authorized for issuance under the Prior Plan that, as of June 7, 2007, remain available for issuance under the Prior Plan (not including any Shares that are subject to, as of June 7, 2007, outstanding awards under the Prior Plan or any Shares that prior to June 7, 2007 were issued pursuant to awards granted under the Prior Plan) and (ii) any Shares subject to outstanding awards under the Prior Plan as of June 7, 2007 that on or after such date cease for any reason to be subject to such awards (other than by reason of exercise or settlement of the awards to the extent they are exercised for or settled in vested and nonforfeitable shares). The aggregate number of Common Shares available for grant under this Plan and the number of Common Shares subject to outstanding Awards shall be subject to adjustment as provided in Section 11. The Common Shares issued pursuant to Awards granted under this Plan may be shares that are authorized and unissued or shares that were reacquired by the Company, including shares purchased in the open market.

(b) *Issuance of Common Shares.* For purposes of this Section 5, the aggregate number of Common Shares available for Awards under this Plan at any time shall not be reduced by (i) shares subject to Awards that have been terminated, expired unexercised, forfeited or settled in cash, (ii) shares subject to Awards that have been retained by the Company in payment or satisfaction of the exercise price, purchase price or tax withholding obligation of an Award, or (iii) shares subject to Awards that otherwise do not result in the issuance of Common Shares in connection with payment or settlement of an Award. In addition, Common Shares that have been delivered (either actually or by attestation) to the Company in payment or satisfaction of the exercise price, purchase price or tax withholding obligation of an Award shall be available for Awards under this Plan.

(c) *Tax Code Limits.* The aggregate number of Common Shares subject to Awards granted under this Plan during any calendar year to any one Participant shall not exceed 200,000, which number shall be calculated and adjusted pursuant to Section 11 only to the extent that such calculation or adjustment will not affect the status of any Award intended to qualify as "performance based compensation" under Section 162(m) of the Code but which number shall not count any tandem SARs (as defined in Section 7). Any Common Shares that may be issued under this Plan may be issued pursuant to the exercise of Incentive Stock Options.

(d) *Substitute Awards.* Substitute Awards shall not reduce the Common Shares authorized for issuance under the Plan or authorized for grant to a Participant in any calendar year. Additionally, in the event that a corporation acquired by the Company or any Subsidiary, or with which the Company or any Subsidiary combines, has shares available under a pre-existing plan approved by shareholders and not adopted in contemplation of such acquisition or combination, the shares available for grant pursuant to the terms of such pre-existing plan (as adjusted, to the extent appropriate, using the exchange ratio or other adjustment or valuation ratio or formula used in such acquisition or combination to determine the consideration payable to the holders of common stock of the entities party to such acquisition or combination) may be used for Awards under the Plan and shall not reduce the Common Shares authorized for issuance under the Plan; provided that Awards using such available shares shall not be made after the date awards or grants could have been made under the terms of the pre-existing plan, absent the acquisition or combination, and shall only be made to individuals who were not employees, directors or consultants of the Company or its Subsidiaries immediately before such acquisition or combination.

6. Options

(a) *Option Awards.* Options may be granted at any time and from time to time prior to the termination of the Plan to Participants as determined by the Committee. No Participant shall have any rights as a stockholder with respect to any Common Shares subject to Option hereunder until said Common Shares have been issued, except that the Committee may authorize dividend equivalent accruals with respect to such Common Shares. Each Option shall be evidenced by an Award Agreement. Options granted pursuant to the Plan need not be identical but each Option must contain and be subject to the terms and conditions set forth below.

(b) *Price.* The Committee will establish the exercise price per Common Share under each Option, which, in no event will be less than the Fair Market Value of the Common Shares on the date of grant; provided, however, that the exercise price per Common Share with respect to an Option that is granted in connection with a merger or other acquisition as a substitute or replacement award for options held by optionees of the acquired entity may be less than 100% of the market price of the Common Shares on the date such Option is granted if such exercise price is based on a formula set forth in the terms of the options held by such optionees or in the terms of the agreement providing for such merger or other acquisition. The exercise price of any Option may be paid in Common Shares, cash, certified check, money order or a combination thereof, as determined by the Committee, including an irrevocable commitment by a broker to pay over such amount from a sale of the Common Shares issuable under an Option, the delivery of previously owned Common Shares and withholding of Common Shares deliverable upon exercise.

(c) *No Repricing.* Other than in connection with a change in the Company's capitalization (as described in Section 11) the exercise price of an Option may not be reduced without stockholder approval (including canceling previously awarded Options and regranting them with a lower exercise price).

(d) *Provisions Applicable to Options.* The date on which Options become exercisable shall be determined at the sole discretion of the Committee and set forth in an Award Agreement; provided, however, that except in the case of a change of control of the Company or the death or disability of the Participant, vesting of the Option shall be no earlier than one (1) year from the date of grant. Unless provided otherwise in the applicable Award Agreement, to the extent that the Committee determines that an approved leave of absence or employment on a less than full-time basis is not a Termination of employment, the vesting period and/or exercisability of an Option shall be adjusted by the Committee during or to reflect the effects of any period during which the Participant is on an approved leave of absence or is employed on a less than full-time basis.

(e) *Term of Options and Termination of Employment:* The Committee shall establish the term of each Option, which in no case shall exceed a period of ten (10) years from the date of grant. Unless an Option earlier expires upon the expiration date established pursuant to the foregoing sentence, upon the termination of the Participant's employment, his or her rights to exercise an Option then held shall be determined by the Committee and set forth in an Award Agreement.

(f) *Incentive Stock Options.* Notwithstanding anything to the contrary in this Section 6, in the case of the grant of an Option intending to qualify as an Incentive Stock Option: (i) if the Participant owns stock possessing more than 10 percent of the combined voting power of all classes of stock of the Company (a "10% Common Shareholder"), the exercise price of such Option must be at least 110 percent of the Fair Market Value of the Common Shares on the date of grant and the Option must expire within a period of not more than five (5) years from the date of grant, and (ii) termination of employment will occur when the person to whom an Award was granted ceases to be an employee (as determined in accordance with Section 3401(c) of the Code and the regulations promulgated thereunder) of the Company and its Subsidiaries. Notwithstanding anything in this Section 6 to the contrary, options designated as Incentive Stock Options shall not be eligible for treatment under the Code as Incentive Stock Options (and will be deemed to be Nonqualified Stock Options) to the extent that either (a) the aggregate Fair Market Value of Common Shares (determined as of the time of grant) with respect to which such Options are exercisable for the first time by the Participant during any calendar year (under all plans of the Company and any Subsidiary) exceeds \$100,000, taking Options into account in the order in which they were granted, or (b) such Options otherwise remain exercisable but are not exercised within three (3) months of Termination of employment (or such other period of time provided in Section 422 of the Code).

7. Stock Appreciation Rights

Stock Appreciation Rights may be granted to Participants from time to time either in tandem with or as a component of other Awards granted under the Plan ("tandem SARs") or not in conjunction with other Awards ("freestanding SARs") and may, but need not, relate to a specific Option granted under Section 6. The provisions of Stock Appreciation Rights need not be the same with respect to each grant or each recipient. Any Stock Appreciation Right granted in tandem with an Award may be granted at the same time such Award is granted or at any time thereafter before exercise or expiration of such Award. All freestanding SARs shall be granted subject to the same terms and conditions applicable to Options as set forth in Section 6 and all tandem SARs shall have the same exercise price, vesting, exercisability, forfeiture and termination provisions as the Award to which they relate. Subject to the provisions of Section 6 and the immediately preceding sentence, the Committee may impose such other conditions or restrictions on any Stock Appreciation Right as it shall deem appropriate. Stock Appreciation Rights may be settled in Common Shares, cash or a combination thereof, as determined by the Committee and set forth in the applicable Award Agreement. Other than in connection with a change in the Company's capitalization (as described in Section 11) the exercise price of Stock Appreciation Rights may not be reduced without stockholder approval (including canceling previously awarded Stock Appreciation Rights and regranting them with a lower exercise price).

8. Restricted Stock and Restricted Stock Units

(a) *Restricted Stock and Restricted Stock Unit Awards.* Restricted Stock and Restricted Stock Units may be granted at any time and from time to time prior to the termination of the Plan to Participants as determined by the Committee. Restricted Stock is an award or issuance of Common Shares the grant, issuance, retention, vesting and/or transferability of which is subject during specified periods of time to such conditions (including continued employment or performance conditions) and terms as the Committee deems appropriate.

Restricted Stock Units are Awards denominated in units of Common Shares under which the issuance of Common Shares is subject to such conditions (including continued employment or performance conditions) and terms as the Committee deems appropriate. Each grant of Restricted Stock and Restricted Stock Units shall be evidenced by an Award Agreement. Unless determined otherwise by the Committee, each Restricted Stock Unit will be equal to one Common Share and will entitle a Participant to either the issuance of Common Shares or payment of an amount of cash determined with reference to the value of Common Shares. To the extent determined by the Committee, Restricted Stock and Restricted Stock Units may be satisfied or settled in Common Shares, cash or a combination thereof. Restricted Stock and Restricted Stock Units granted pursuant to the Plan need not be identical but each grant of Restricted Stock and Restricted Stock Units must contain and be subject to the terms and conditions set forth below.

(b) *Contents of Agreement.* Each Award Agreement shall contain provisions regarding (i) the number of Common Shares or Restricted Stock Units subject to such Award or a formula for determining such number, (ii) the purchase price of the Common Shares, if any, and the means of payment, (iii) the performance criteria, if any, and level of achievement versus these criteria that shall determine the number of Common Shares or Restricted Stock Units granted, issued, retainable and/or vested, (iv) such terms and conditions on the grant, issuance, vesting and/or forfeiture of the Common Shares or Restricted Stock Units as may be determined from time to time by the Committee, (v) the term of the performance period, if any, as to which performance will be measured for determining the number of such Common Shares or Restricted Stock Units, and (vi) restrictions on the transferability of the Common Shares or Restricted Stock Units. Common Shares issued under a Restricted Stock Award may be issued in the name of the Participant and held by the Participant or held by the Company, in each case as the Committee may provide.

(c) *Vesting and Performance Criteria.* The grant, issuance, retention, vesting and/or settlement of shares of Restricted Stock and Restricted Stock Units will occur when and in such installments as the Committee determines or under criteria the Committee establishes, which may include Qualifying Performance Criteria; provided, however, that, except in the case of a change of control of the Company, the death or disability of the Participant or awards granted to employees of the Company or any Subsidiary in appreciation of past service to the Company or a Subsidiary pursuant to a Company program or policy that applies to all such employees on an equal basis, vesting of Restricted Stock and Restricted Stock Units shall be no earlier than three (3) years from the date of grant for Awards not subject to vesting based on performance criteria and one (1) year from the date of grant for Awards that vest based on the achievement of performance criteria. Notwithstanding anything in this Plan to the contrary, the performance criteria for any Restricted Stock or Restricted Stock Unit that is intended to satisfy the requirements for "performance-based compensation" under Section 162(m) of the Code will be a measure based on one or more Qualifying Performance Criteria selected by the Committee and specified when the Award is granted.

(d) *Discretionary Adjustments and Limits.* Subject to the limits imposed under Section 162(m) of the Code for Awards that are intended to qualify as "performance based compensation," notwithstanding the satisfaction of any performance goals, the number of Common Shares granted, issued, retainable and/or vested under an Award of Restricted Stock or Restricted Stock Units on account of either financial performance or personal performance evaluations may, to the extent specified in the Award Agreement, be reduced by the Committee on the basis of such further considerations as the Committee shall determine.

(e) *Voting Rights.* Unless otherwise determined by the Committee, Participants holding shares of Restricted Stock granted hereunder may exercise full voting rights with respect to those shares during the period of restriction. Participants shall have no voting rights with respect to Common Shares underlying Restricted Stock Units unless and until such Common Shares are reflected as issued and outstanding shares on the Company's stock ledger.

(f) *Dividends and Distributions.* Participants in whose name Restricted Stock is granted shall be entitled to receive all dividends and other distributions paid with respect to those Common Shares, unless determined otherwise by the Committee. The Committee will determine whether any such dividends or distributions will be automatically reinvested in additional shares of Restricted Stock and subject to the same restrictions on transferability as the Restricted Stock with respect to which they were distributed or whether such dividends or distributions will be paid in cash. Common Shares underlying Restricted Stock Units shall be entitled to dividends or dividend equivalents only to the extent provided by the Committee.

9. Deferral of Gains

The Committee may, in an Award Agreement or otherwise, provide for the deferred delivery of Common Shares upon settlement, vesting or other events with respect to Restricted Stock or Restricted Stock Units. Notwithstanding anything herein to the contrary, in no event will any deferral of the delivery of Common Shares or any other payment with respect to any Award be allowed if the Committee determines, in its sole discretion, that the deferral would result in the imposition of the additional tax under Section 409A(a)(1)(B) of the Code.

10. Conditions and Restrictions Upon Securities Subject to Awards

The Committee may provide that the Common Shares issued upon exercise of an Option or Stock Appreciation Right or otherwise subject to or issued under an Award shall be subject to such further agreements, restrictions, conditions or limitations as the Committee in its discretion may specify prior to the exercise of such Option or Stock Appreciation Right or the grant, vesting or settlement of such Award, including without limitation, conditions on vesting or transferability, forfeiture or repurchase provisions and method of payment for the Common Shares issued upon exercise, vesting or settlement of such Award (including the actual or constructive surrender of Common Shares already owned by the Participant) or payment of taxes arising in connection with an Award. Without limiting the foregoing, such restrictions may address the timing and manner of any resales by the Participant or other subsequent transfers by the Participant of any Common Shares issued under an Award, including without limitation (i) restrictions under an insider trading policy or pursuant to applicable law, (ii) restrictions designed to delay and/or coordinate the timing and manner of sales by Participant and holders of other Company equity compensation arrangements, (iii) restrictions as to the use of a specified brokerage firm for such resales or other transfers, and (iv) provisions requiring Common Shares to be sold on the open market or to the Company in order to satisfy tax withholding or other obligations.

11. Adjustment of and Changes in the Stock

The number and kind of Common Shares available for issuance under this Plan (including under any Awards then outstanding), and the number and kind of Common Shares subject to the limits set forth in Section 5 of this Plan, shall be equitably adjusted by the Committee to reflect any reorganization, reclassification, combination of shares, stock split, reverse stock split, spin-off, dividend or distribution of securities, property or cash (other than regular, quarterly cash dividends), or any other equity restructuring transaction, as that term is defined in Statement of Financial Accounting Standards No. 123 (revised). Such adjustment may be designed to comply with Section 425 of the Code or, except as otherwise expressly provided in Section 5(c) of this Plan, may be designed to treat the Common Shares available under the Plan and subject to Awards as if they were all outstanding on the record date for such event or transaction or to increase the number of such Common Shares to reflect a deemed reinvestment in Common Shares of the amount distributed to the Company's securityholders. The terms of any outstanding Award shall also be equitably adjusted by the Committee as to price, number or kind of Common Shares subject to such Award, vesting, and other terms to reflect the foregoing events, which adjustments need not be uniform as between different Awards or different types of Awards.

In the event there shall be any other change in the number or kind of outstanding Common Shares, or any stock or other securities into which such Common Shares shall have been changed, or for which it shall have been exchanged, by reason of a change of control, other merger, consolidation or otherwise in circumstances that do not involve an equity restructuring transaction, as that term is defined in Statement of Financial Accounting Standards No. 123 (revised), then the Committee shall determine the appropriate adjustment, if any, to be effected. In addition, in the event of such change described in this paragraph, the Committee may accelerate the time or times at which any Award may be exercised and may provide for cancellation of such accelerated Awards that are not exercised within a time prescribed by the Committee in its sole discretion.

No right to purchase fractional shares shall result from any adjustment in Awards pursuant to this Section 11. In case of any such adjustment, the Common Shares subject to the Award shall be rounded down to the nearest whole share. The Company shall notify Participants holding Awards subject to any adjustments pursuant to this Section 11 of such adjustment, but (whether or not notice is given) such adjustment shall be effective and binding for all purposes of the Plan.

12. Qualifying Performance-Based Compensation

(a) *General.* The Committee may establish performance criteria and level of achievement versus such criteria that shall determine the number of Common Shares, units, or cash to be granted, retained, vested, issued or issuable under or in settlement of or the amount payable pursuant to an Award, which criteria may be based on Qualifying Performance Criteria or other standards of financial performance and/or personal performance evaluations. In addition, the Committee may specify that an Award or a portion of an Award is intended to satisfy the requirements for "performance-based compensation" under Section 162(m) of the Code, provided that the performance criteria for such Award or portion of an Award that is intended by

the Committee to satisfy the requirements for “performance-based compensation” under Section 162(m) of the Code shall be a measure based on one or more Qualifying Performance Criteria selected by the Committee and specified at the time the Award is granted. The Committee shall certify the extent to which any Qualifying Performance Criteria has been satisfied, and the amount payable as a result thereof, prior to payment, settlement or vesting of any Award that is intended to satisfy the requirements for “performance-based compensation” under Section 162(m) of the Code. Notwithstanding satisfaction of any performance goals, the number of Common Shares issued under or the amount paid under an award may, to the extent specified in the Award Agreement, be reduced by the Committee on the basis of such further considerations as the Committee in its sole discretion shall determine.

(b) *Qualifying Performance Criteria.* For purposes of this Plan, the term “Qualifying Performance Criteria” shall mean any one or more of the following performance criteria, either individually, alternatively or in any combination, applied to either the Company as a whole or to a business unit or Subsidiary, either individually, alternatively or in any combination, and measured either annually or cumulatively over a period of years, on an absolute basis or relative to a pre-established target, to previous years’ results or to a designated comparison group, in each case as specified by the Committee: (i) cash flow (before or after dividends), (ii) earnings or earnings per share (including earnings before interest, taxes, depreciation and amortization), (iii) stock price, (iv) return on equity, (v) total stockholder return, (vi) return on capital or investment (including return on total capital, return on invested capital, or return on investment), (vii) return on assets or net assets, (viii) market capitalization, (ix) economic value added, (x) debt leverage (debt to capital), (xi) revenue, (xii) income or net income, (xiii) operating income, (xiv) operating profit or net operating profit, (xv) operating margin or profit margin, (xvi) return on operating revenue, (xvii) cash from operations, (xviii) operating ratio, (xix) operating revenue, or (xx) customer service. To the extent consistent with Section 162(m) of the Code, the Committee (A) shall appropriately adjust any evaluation of performance under a Qualifying Performance Criteria to eliminate the effects of charges for restructurings, discontinued operations, extraordinary items and all items of gain, loss or expense determined to be extraordinary or unusual in nature or related to the acquisition or disposal of a segment of a business or related to a change in accounting principle all as determined in accordance with standards established by opinion No. 30 of the Accounting Principles Board (APA Opinion No. 30) or other applicable or successor accounting provisions, as well as the cumulative effect of accounting changes, in each case as determined in accordance with generally accepted accounting principles or identified in the Company’s financial statements or notes to the financial statements, and (B) may appropriately adjust any evaluation of performance under a Qualifying Performance Criteria to exclude any of the following events that occurs during a performance period: (i) asset write-downs, (ii) litigation, claims, judgments or settlements, (iii) the effect of changes in tax law or other such laws or provisions affecting reported results, (iv) accruals for reorganization and restructuring programs and (v) accruals of any amounts for payment under this Plan or any other compensation arrangement maintained by the Company.

13. Transferability

Unless the Committee provides otherwise, each Award may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated by a Participant other than by will or the laws of descent and distribution, and each Option or Stock Appreciation Right shall be exercisable only by the Participant during his or her lifetime.

14. Compliance with Laws and Regulations

This Plan, the grant, issuance, vesting, exercise and settlement of Awards thereunder, and the obligation of the Company to sell, issue or deliver Common Shares under such Awards, shall be subject to all applicable foreign, federal, state and local laws, rules and regulations, stock exchange rules and regulations, and to such approvals by any governmental or regulatory agency as may be required. The Company shall not be required to register in a Participant's name or deliver any Common Shares prior to the completion of any registration or qualification of such shares under any foreign, federal, state or local law or any ruling or regulation of any government body which the Committee shall determine to be necessary or advisable. To the extent the Company is unable to or the Committee deems it infeasible to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Common Shares hereunder, the Company and its Subsidiaries shall be relieved of any liability with respect to the failure to issue or sell such Common Shares as to which such requisite authority shall not have been obtained. No Option shall be exercisable and no Common Shares shall be issued and/or transferable under any other Award unless a registration statement with respect to the Common Shares underlying such Option is effective and current or the Company has determined that such registration is unnecessary.

15. Withholding

To the extent required by applicable federal, state, local or foreign law, a Participant shall be required to satisfy, in a manner satisfactory to the Company, any withholding tax obligations that arise by reason of an Option exercise, disposition of Common Shares issued under an Incentive Stock Option, the vesting of or settlement of an Award, an election pursuant to Section 83(b) of the Code or otherwise with respect to an Award. The Company and its Subsidiaries shall not be required to issue Common Shares, make any payment or to recognize the transfer or disposition of Common Shares until such obligations are satisfied. The Committee may provide for or permit the minimum statutory withholding obligations to be satisfied through the mandatory or elective sale of Common Shares and/or by having the Company withhold a portion of the Common Shares that otherwise would be issued to him or her upon exercise of the Option or the vesting or settlement of an Award, or by tendering Common Shares previously acquired.

16. Administration of the Plan

(a) *Committee of the Plan.* The Plan shall be administered by the Compensation Committee of the Board or the Board itself. Any power of the Committee may also be exercised by the Board, except to the extent that the grant or exercise of such authority would cause any Award or transaction to become subject to (or lose an exemption under) the short-swing profit recovery provisions of Section 16 of the Securities Exchange Act of 1934 or cause an Award designated as a Performance Award not to qualify for treatment as performance-based compensation under Section 162(m) of the Code.

To the extent that any permitted action taken by the Board conflicts with action taken by the Committee, the Board action shall control. The Compensation Committee may by resolution authorize one or more officers of the Company to perform any or all things that the Committee is authorized and empowered to do or perform under the Plan, and for all purposes under this Plan, such officer or officers shall be treated as the Committee; provided, however, that the resolution so authorizing such officer or officers shall specify the total number of Awards (if any) such officer or officers may award pursuant to such delegated authority, and any such Award shall be subject to the form of Award Agreement theretofore approved by the Compensation Committee. No such officer shall designate himself or herself as a recipient of any Awards granted under authority delegated to such officer. In addition, the Compensation Committee may delegate any or all aspects of the day-to-day administration of the Plan to one or more officers or employees of the Company or any Subsidiary, and/or to one or more agents.

(b) *Powers of Committee.* Subject to the express provisions of this Plan, the Committee shall be authorized and empowered to do all things that it determines to be necessary or appropriate in connection with the administration of this Plan, including, without limitation: (i) to prescribe, amend and rescind rules and regulations relating to this Plan and to define terms not otherwise defined herein; (ii) to determine which persons are Participants, to which of such Participants, if any, Awards shall be granted hereunder and the timing of any such Awards; (iii) to grant Awards to Participants and determine the terms and conditions thereof, including the number of Common Shares subject to Awards and the exercise or purchase price of such Common Shares and the circumstances under which Awards become exercisable or vested or are forfeited or expire, which terms may but need not be conditioned upon the passage of time, continued employment, the satisfaction of performance criteria, the occurrence of certain events (including events which constitute a change of control), or other factors; (iv) to establish and verify the extent of satisfaction of any performance goals or other conditions applicable to the grant, issuance, exercisability, vesting and/or ability to retain any Award; (v) to prescribe and amend the terms of the agreements or other documents evidencing Awards made under this Plan (which need not be identical) and the terms of or form of any document or notice required to be delivered to the Company by Participants under this Plan; (vi) to determine the extent to which adjustments are required pursuant to Section 11; (vii) to interpret and construe this Plan, any rules and regulations under this Plan and the terms and conditions of any Award granted hereunder, and to make exceptions to any such provisions in good faith and for the benefit of the Company; and (viii) to make all other determinations deemed necessary or advisable for the administration of this Plan.

(c) *Determinations by the Committee.* All decisions, determinations and interpretations by the Committee regarding the Plan, any rules and regulations under the Plan and the terms and conditions of or operation of any Award granted hereunder, shall be final and binding on all Participants, beneficiaries, heirs, assigns or other persons holding or claiming rights under the Plan or any Award. The Committee shall consider such factors as it deems relevant, in its sole and absolute discretion, to making such decisions, determinations and interpretations including, without limitation, the recommendations or advice of any officer or other employee of the Company and such attorneys, consultants and accountants as it may select.

17. Amendment of the Plan or Awards

The Board may amend, alter or discontinue this Plan and the Committee may amend, or alter any agreement or other document evidencing an Award made under this Plan but, except as specifically provided for hereunder, no such amendment shall, without the approval of the stockholders of the Company (a) reduce the exercise price of outstanding Options or Stock Appreciation Rights, (b) reduce the price at which Options may be granted below the price provided for in Section 6 or (c) otherwise amend the Plan in any manner requiring stockholder approval by law or under the NASDAQ's listing requirements. No amendment or alteration to the Plan or an Award or Award Agreement shall be made which would impair the rights of the holder of an Award, without such holder's consent, provided that no such consent shall be required if the Committee determines in its sole discretion and prior to the date of any change of control that such amendment or alteration either is required or advisable in order for the Company, the Plan or the Award to satisfy any law or regulation or to meet the requirements of or avoid adverse financial accounting consequences under any accounting standard.

18. Miscellaneous

(a) *No Liability of Company.* The Company and any Subsidiary or affiliate which is in existence or hereafter comes into existence shall not be liable to a Participant or any other person as to: (i) the non-issuance or sale of Common Shares as to which the Company has been unable to obtain from any regulatory body having jurisdiction the authority deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Common Shares hereunder; and (ii) any tax consequence expected, but not realized, by any Participant or other person due to the receipt, exercise or settlement of any Award granted hereunder.

(b) *Non-Exclusivity of Plan.* Neither the adoption of this Plan by the Board nor the submission of this Plan to the stockholders of the Company for approval shall be construed as creating any limitations on the power of the Board or the Committee to adopt such other incentive arrangements as either may deem desirable, including without limitation, the granting of restricted stock or stock options otherwise than under this Plan or an arrangement not intended to qualify under Code Section 162(m), and such arrangements may be either generally applicable or applicable only in specific cases.

(c) *Governing Law.* This Plan and any agreements or other documents hereunder shall be interpreted and construed in accordance with the laws of the Delaware and applicable federal law.

(d) *No Right to Employment, Reelection or Continued Service.* Nothing in this Plan or an Award Agreement shall interfere with or limit in any way the right of the Company, its Subsidiaries and/or its affiliates to terminate any Participant's employment, service on the Board or service for the Company at any time or for any reason not prohibited by law, nor shall this Plan or an Award itself confer upon any Participant any right to continue his or her employment or service for any specified period of time. Neither an Award nor any benefits arising under this Plan shall constitute an employment contract with the Company, any Subsidiary and/or its affiliates.

(e) *Unfunded Plan.* The Plan is intended to be an unfunded plan. Participants are and shall at all times be general creditors of the Company with respect to their Awards. If the Committee or the Company chooses to set aside funds in a trust or otherwise for the payment of Awards under the Plan, such funds shall at all times be subject to the claims of the creditors of the Company in the event of its bankruptcy or insolvency.

CoStar Group, Inc. 2007 Stock Incentive Plan
(Amended effective December 6, 2007)

French Sub-Plan

1. Introduction.

The Board of Directors (the "**Board**") of CoStar Group, Inc. (the "**Company**") has established and the Company's shareholders have approved, effective April 26, 2007 and until April 26, 2017, the CoStar Group, Inc. 2007 Stock Incentive Plan (the "**US Plan**") for the benefit of certain employees and non-employee directors of the Company and its subsidiaries, in order to attract, retain, and motivate such employees and non-employee directors and further align their interest with those of the shareholders of the Company. The US Plan provides for, *inter alia*, the grant of Restricted Stock (as defined below), which may be performance-based. Section 16 of the US Plan authorizes the Board or the committee designated by the Board to administer the US Plan (in either case, the "**Plan Administrator**"), to prescribe, amend and rescind rules and regulations relating to the US Plan, and to define terms not otherwise defined in the US Plan. Section 17 of the US Plan allows the Board to make certain amendments to the US Plan in furtherance of its purposes as described above.

The Board and the Plan Administrator have determined that it is advisable to establish a sub-plan (the "**French Sub-Plan**"), including insofar as necessary and appropriate to amend the US Plan, for the purpose of permitting grants of Restricted Stock to employees and managing directors of any French subsidiary, or French branch of any non-French subsidiary, of which the Company holds directly or indirectly at least 10% of the share capital (a "**French Entity**"), so that such grants can qualify for favorable tax and social security treatment in France.

The Board has therefore established this French Sub-plan, effective for a term beginning on December 6, 2007 and ending on April 26, 2017 or such earlier date as the US Plan is terminated, for the purpose of permitting grants of Restricted Stock which will qualify for the favorable tax and social security treatment in France applicable to shares granted for no consideration under Sections L. 225-197-1 to L. 225-197-5 of the French Commercial Code, as amended ("**French-Qualified Restricted Stock**") to qualifying employees and managing directors who are resident in France for French tax purposes ("**French Participants**" and each a "**French Participant**").

The Common Shares of the Company are listed on NASDAQ which is a regulated securities exchange within the meaning of Article L.225-197-1 II of the French Commercial Code.

The terms of the US Plan applicable to Restricted Stock, as set out in Appendix 1 hereto, shall, subject to the modifications set forth in this French Sub-Plan which shall prevail over the terms of the US Plan in the event of conflict, constitute the terms applicable for grants of Restricted Stock to French Participants.

Under the French Sub-Plan, French Participants may receive grants only of Restricted Stock as defined in Section 2 (r) of the US Plan and the term "Award" under this French Sub-Plan shall refer only to an award or grant of Restricted Stock. The provisions of the US Plan permitting the grant of stock Options, Restricted Stock Units, or Stock Appreciation Rights shall not apply to French Participants under this French Sub-Plan.

2. Definitions.

Capitalized terms not otherwise defined in this French Sub-Plan shall have the same meanings as set forth in the US Plan. The terms set out below will have the following meanings:

(a) Blackout Periods.

The term "*Blackout Periods*" shall mean the periods

(i) from the tenth (10th) trading day preceding through the tenth (10th) trading day following the date on which the consolidated accounts or annual corporate accounts of the Company are made public, and from the date on which the governing bodies of the Company have knowledge of information which, if made public, would have a significant impact on the market price of the Common Shares through the tenth (10th) trading day after such information has been made public; or

(ii) or such other black-out periods applicable to the sale of Common Shares of the Company under US legislation or imposed by the Company which provides protection against insider trading comparable to that provided by Section L. 225-197-1 of the French Commercial Code.

(b) Date of Grant.

The term "*Date of Grant*" shall be the date, which shall be specified in an agreement between the French Participant and the Company in substantially the form attached hereto (an "Award Agreement"), on which the Plan Administrator grants the French Participant rights to a specified number of Common Shares, subject to the terms and conditions of this French Sub-Plan and the Award Agreement.

(c) Restricted Stock.

The term "*Restricted Stock*" shall mean Common Shares of the Company, rights to which are granted to a Participant conditional on certain vesting and/or forfeiture requirements, transfer restrictions and other terms and conditions provided in this French Sub-Plan. For the avoidance of doubt, it is specified that no dividend or voting rights shall attach to Restricted Stock under this French Sub-Plan until such Restricted Stock has vested.

(d) **Vest Date.**

The term “*Vest Date*” shall mean the date on which the Common Shares subject to the Restricted Stock Award become non-forfeitable. Such Vest Date or Vest Dates, as well as the performance criteria if any or other conditions for Common Shares to become non-forfeitable, shall be specified in the Award Agreement.

3. Eligibility to Participate and Limitations.

(a) Subject to Sections 3(b) and (c) below, any French Participant who, on the Date of Grant of the Restricted Stock, is either employed under an employment contract with a French Entity (“*contrat de travail*”) or who is a managing director of a French Entity, shall be eligible to receive, at the discretion of the Plan Administrator, Restricted Stock under this French Sub-Plan, provided that he or she also satisfies the eligibility conditions of the US Plan.

(b) Restricted Stock may not be issued to a director who is not also an employee of a French Entity, except in the case of managing directors (e.g., Président, Directeur Général, Directeur Général Délégué, Membre du Directoire, Gérant). For the avoidance of doubt, Restricted Stock may not be issued under this French Sub-Plan to a consultant or advisor to a French Entity.

(c) No Award of Restricted Stock may be made under this French Sub-Plan to any individual who already owns on the Date of Grant, or which would have the effect of such individual owning as of the Date of Grant, more than ten percent (10%) of the Company’s share capital.

(d) No Award of Restricted Stock may be made under this French Sub-Plan at such time as the number of Common Shares of the Company which are subject to outstanding vested Restricted Stock Awards exceeds ten percent (10%) of the Company’s corporate capital within the meaning Article L225-197-1 – I of the French Commercial Code.

4. Conditions of the Restricted Stock Awards.

(a) **Award of Restricted Stock.**

An Award of Restricted Stock shall confer on a French Participant the right to acquire Common Shares, subject to certain vesting and/or forfeiture requirements, transfer restrictions and other terms and conditions provided in this French Sub-Plan, for no consideration or for nominal (“*symbolique*”) consideration as permitted for French-Qualified Restricted Stock.

When the Plan Administrator makes an Award of Restricted Stock to a French Participant under this French Sub-Plan, the terms and conditions of such Award shall be set forth in the Award Agreement, including without limitation the number of Common Shares subject to such Award, the conditions for the vesting or forfeiture of the Restricted Stock including any applicable performance or continuing service criteria, and the restrictions on transferability of the Restricted Stock once vested.

An Award of Restricted Stock under this French Sub-Plan shall confer neither voting rights nor dividend rights on the French Participant until such Restricted Stock has vested, and no dividends or dividend equivalents relating to the period prior to vesting shall be payable to a French Participant after the Vest Date.

(b) Vesting of Restricted Stock.

No Restricted Stock shall vest unless the holder of the Restricted Stock has been an employee or managing director of the Company or a French Entity from the Date of Grant through the date which would otherwise be the Vest Date, and the Board or Plan Administrator may also set performance or achievement criteria as provided in Section 12 of the Plan for vesting of Restricted Stock. Notwithstanding the foregoing, the first Vest Date of French-Qualified Restricted Stock shall not occur, and no Restricted Stock shall vest, prior to the expiration of a two-year period running from the Date of Grant, or such other period as is required to comply with the minimum mandatory vesting period applicable to French-Qualified Restricted Stock under Section L. 225-197-1 of the French Commercial Code, as amended.

(c) Holding and Sale of French-Qualified Restricted Stock.

The sale of Restricted Stock may not occur prior to the expiration of a two-year period running from the Vest Date, or such other period as is required to comply with the minimum mandatory holding period under Section L. 225-197-1 of the French Commercial Code as amended, as applicable to employees or managing directors of subsidiaries of issuers of French-Qualified Restricted Stock.

This minimum holding period shall be deemed to have been complied with if, as a result of a merger, spin-off, tender-offer, split-off or similar reorganization, shares are received in exchange for vested Restricted Stock, and such shares are held for the unexpired balance of the holding period which was applicable to the Restricted Stock exchanged.

Notwithstanding any other provision of this French Sub-Plan, Common Shares acquired under Restricted Stock Awards may not be sold by a French Participant during a Blackout Period, so long as and to the extent Blackout Periods are applicable to French-Qualified Restricted Stock issued by non-French companies.

(d) French Participant's Account.

Each Award of Restricted Stock shall be recorded in an account with the Company, in the name of the French Participant and specifying the number of Common Shares which are the subject of such Award, but such Common Shares shall not be issued to, nor title recorded in the name of, the French Participant until the Vest Date. Following the Vest Date, certificates representing Common Shares which have vested shall be issued in the name of the French Participant but, for the period during which such Common Shares shall be subject to transfer restrictions under this French Sub-Plan, the certificates shall remain in the custody of the Company or its transfer agent, or be held in such other manner as the Company may otherwise determine in order to ensure compliance with the minimum holding periods specified above and under applicable French law. At the Participant's request, the Plan Administrator shall provide or shall ensure that the Company or its transfer agent has provided the Participant with written evidence of the Participant's ownership of the vested Common Shares.

5. Adjustments to Common Shares.

In the event an equitable adjustment in the Common Shares of the Company is available under the US Plan as described in Section 11 thereof, adjustments to the number and kind of Restricted Stock subject to Awards under this French Sub-Plan shall be made (excluding, for the avoidance of doubt, any adjustment resulting in acceleration of a Vest Date) to the extent permitted for French-Qualified Restricted Stock.

6. Death or Disability.

Upon the Company's receipt within six months following the death of a French Participant of a written request from such French Participant's heirs in a form satisfactory to the Company, the Company shall transfer any vested and at the sole discretion of the Plan Administrator to the extent permitted by French law for French-Qualified Restricted Stock, any unvested Restricted Stock awarded to such French Participant to his or her heirs, who shall not be required to comply with any further vesting conditions or restrictions on the sale of such shares, unless compliance is required for French-Qualified Restricted Stock treatment under French law as amended.

In the event a French Participant becomes disabled as defined within the second or third categories of disability defined in Article L341-4 of the French Code of Social Security, the rules set forth in the preceding paragraph with respect to death of a French Participant shall apply *mutatis mutandis*.

7. Reporting Obligations and Withholding.

The French Entity and French Participants shall comply with all reporting obligations imposed under French tax and social security laws and regulations with respect to Restricted Stock Awards under this French Sub-Plan, including without limitation the French Entity's obligation to report to URSSAF the identity of French Participants for whom Awards vested in the preceding calendar year as well as the number and value of Awards for each such French Participant.

For the avoidance of doubt, the provisions of Section 15 of the US Plan relating to satisfaction of tax obligations shall in the case of a French Participant apply to withholding of French social security and similar mandatory contributions, as well as French tax if any with respect to Restricted Stock Awards under this French Sub-Plan.

8. Interpretation.

It is intended that Restricted Stock Awards made under this French Sub-Plan shall qualify as French-Qualified Restricted Stock. The terms of this French Sub-Plan shall be construed and interpreted accordingly. Insofar as legally permissible the Plan Administrator shall be entitled to construe and interpret the terms of this French Sub-Plan so as to comply with the relevant guidelines published from time to time by French tax and social security administrations with respect to the conditions for favorable tax and social security treatment applicable to shares granted for no consideration under the Sections L. 225-197-1 to L. 225-197-5 of the French Commercial Code, as amended.

9. Employment Rights.

The adoption of this French Sub-Plan shall not confer upon the French Participants, or any employees or managing directors of a French Entity, any employment rights and shall not be construed as part of any employment contracts that a French Entity has with its employees.

10. Language.

In the event of any differences between the English language and French language versions of any documents related to this French Sub-Plan or the US Plan, the English version shall control.

11. Effective Date.

This French Sub-Plan was adopted by the Board of Directors of the Company and became effective on December 6, 2007.

- Participant's Copy
 Company's Copy

COSTAR GROUP, INC.
FORM OF RESTRICTED STOCK AGREEMENT
2007 STOCK INCENTIVE PLAN
FRENCH SUB-PLAN

To: «Name»

CoStar Group, Inc. (the "*Company*") has granted you an award of Restricted Stock under the French Sub-Plan (the "*French Sub-Plan*") of the CoStar Group, Inc. 2007 Stock Incentive Plan (the "*US Plan*"), as amended from time to time (together, the "*Plan*"), on the terms and conditions set forth below. This grant of Restricted Stock is intended to qualify for the favorable tax and social security treatment in France applicable to shares granted for no consideration under Sections L. 225-197-1 to L. 225-197-5 of the French Commercial Code, as amended ("*French-Qualified Restricted Stock*"). Capitalized terms used herein, but not otherwise defined, shall have the meanings ascribed in the French Sub-Plan.

1. **Grant of Restricted Stock.** The Company hereby grants to you the right (the "*Stock Grant*") to receive [_____] (_____) shares (the "*Shares*") of common shares of the Company (the "*Common Shares*") free of charge, subject to the terms and conditions set forth below. The Date of Grant is [_____, 20__] (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, except as otherwise noted. By signing this agreement (the "*Agreement*"), you acknowledge that you have received and read the Plan. This Agreement incorporates the Plan by reference and specifies other applicable terms and conditions. All capitalized 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. **Vesting.** The schedule on which the Shares shall become non-forfeitable and vested is as follows:
 - a. [Insert Vesting Schedule];
 - b. Notwithstanding anything to the contrary in the Plan, you will not have any rights to dividends nor voting rights with respect to unvested Shares. With respect to vested Shares, 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 Shares, 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 vested portion of the Shares will be subject to the same restrictions and other terms and conditions that apply to all Common Shares for which such stock dividends are issued.

c. If your service as a [insert title] of [Grecam S.A.S.] [Insert appropriate entity name] is terminated, the Stock Grant shall immediately terminate and be cancelled to the extent it is not vested on the date of your termination, and any Shares subject to this Agreement which have not vested on or before that date shall be forfeited without the payment of any additional consideration. [For the avoidance of doubt, the foregoing shall be without prejudice to the separate cash payments provided under Section 8 of that certain Grecam – Director’s Remuneration Proposal, among Hugues Kirichian, Claude Ogier and CoStar Limited, dated December 21, 2006, as amended.] [Insert last sentence, if applicable.]

4. **Transfer Restrictions.** You shall not be permitted to sell, transfer, hypothecate, pledge or otherwise dispose of any Restricted Stock:

a. prior to the expiration of a two-year period running from the applicable Vest Date, or such other period as the Compensation Committee of the Company’s Board of Directors (or other administrator of the Plan, the “Plan Administrator”) informs you is required to comply with the minimum mandatory holding period under Section L. 225-197-1 of the French Commercial Code as amended, as applicable to employees or managing directors of subsidiaries of issuers of French-Qualified Restricted Stock.

This minimum holding period shall be deemed to have been complied with if, as a result of a merger, spin-off, tender-offer, split-off or similar reorganization of the Company, you receive shares in exchange for vested Restricted Stock, and you hold such shares for the unexpired balance of the holding period which was applicable to the Restricted Stock exchanged; and

b. during any Blackout Period, which shall mean the periods

(i) from the tenth (10th) trading day preceding through the tenth (10th) trading day following the date on which the consolidated accounts or annual corporate accounts of the Company are made public, and from the date on which the governing bodies of the Company have knowledge of information which, if made public, could have a significant impact on the market price of the Common Shares through the tenth (10th) trading day after such information has been made public; or

(ii) or such other black-out periods applicable to the sale of Common Shares of the Company under US insider trading legislation or imposed by the Company.

You may not assign or transfer the Stock Grant to anyone other than by will or the laws of descent and distribution until the Shares become vested in accordance with Section 3 hereof and the Restricted Stock has met the holding period requirement set forth in Section 4. a. above. Any attempt to sell, transfer, hypothecate, pledge or otherwise dispose of any Restricted Stock or the Stock Grant in violation of this Section 4 shall be null and void.

5. Procedure for Recording of Stock Grant and Issuance of Certificates for Vested Shares. This Stock Grant shall be recorded in your name in an account with the Company but Common Shares shall not be issued to, nor title recorded in your name until the Vest Date. Following the Vest Date, certificates representing Shares which have vested shall be issued in your name 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, if applicable, is authorized and entitled to receive the Shares; and (c) you have satisfied your Withholding Obligations (as defined below). However, for the period during which such Shares shall be subject to transfer restrictions described in Section 4. a. above, the certificates shall remain in the custody of the Company or its transfer agent, or be held in such other manner as the Company may otherwise determine in order to ensure compliance with the minimum holding periods specified above and under applicable French law. Notwithstanding the foregoing, the Company, in its sole discretion, may also use alternatives to issuing physical stock certificates, such as "book entry only" recordation. At your request, the Plan Administrator shall provide, or shall ensure that the Company or its transfer agent provides, you with written evidence of your ownership of the Shares which have vested.

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.

6. Death or Disability.

Upon written request from your heirs within six months of your date of death, in a form satisfactory to the Company, the Company shall transfer any vested Restricted Stock, and at the sole discretion of the Plan Administrator to the extent such discretion is permitted by French law for French-Qualified Restricted Stock, any unvested Restricted Stock under this Stock Grant to your heirs, who shall not be required to comply with any further vesting conditions or restrictions on the sale of such Shares, unless compliance is required for French-Qualified Restricted Stock treatment under French law as amended.

In the event you become disabled as defined within the second or third categories of disability defined in Article L341-4 of the French Code of Social Security, the rules set forth in the preceding paragraph with respect to your death shall apply *mutatis mutandis* as of the date of disability.

7. 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 French or U.S. federal or state securities laws.

8. 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 5, the certificates representing the Common Shares 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.

9. Withholding of Tax and Social Security Contributions.

- a. You understand and agree that the Company has not advised you regarding your income tax or social security contribution liability in connection with the grant or vesting of the Shares. You understand that you (and not the Company) shall be solely responsible for your own tax and social security contribution liability that may arise as a result of the transactions contemplated by this Agreement. The grant and vesting of the Shares shall be subject to all applicable income tax and social security contribution withholdings. The Company may refuse to release the restriction on any Shares to you until you satisfy all applicable tax and social security contribution withholding obligations applicable to you ("Withholding Obligations"). You acknowledge that the Company has the right, in its discretion, to deduct and retain without notice from shares issuable upon vesting of the Shares (or any portion thereof) or, unless otherwise determined by the Plan Administrator, from director's fees or other amounts payable to you, shares or cash having a value sufficient to satisfy the Withholding Obligations.
- b. To the extent required by applicable French or U.S. federal, state, or local law, you shall make arrangements satisfactory to the Company in its sole discretion for the satisfaction of any Withholding Obligations that arise by reason of vesting of the Shares or disposition of shares issued as a result of such vesting. By accepting the Stock Grant, you agree that, unless and to the extent you have otherwise satisfied your Withholding Obligations in a manner permitted or required by the Plan Administrator pursuant to the Plan, the Company is authorized (but not required) to deduct and retain without notice from the Shares in respect of the vested portion of the Shares the whole number of shares (rounding down) having a Fair Market Value on the vesting date or, if not a trading day, the first trading day before the vesting date (as determined by the Company consistent with any applicable tax requirements) sufficient to satisfy the applicable Withholding Obligations. If the withheld shares are not sufficient to satisfy the Withholding Obligations, you agree to pay to the Company as soon as practicable, by cash or check or, unless otherwise determined by the Plan Administrator, deducted from amounts payable to you, any amount of the Withholding Obligation that is not satisfied by the withholding of Shares described above. 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 vested Common Shares comprising the Shares.

c. You are ultimately liable and responsible for all taxes and social security contributions owed by you in connection with the Shares, regardless of any action the Company takes or any transaction pursuant to this Section 9 with respect to any Withholding Obligations that arise in connection with the Shares. The Company makes no representation or undertaking regarding the tax treatment of the grant, issuance, or vesting of the Shares or the subsequent sale of any of the Shares acquired upon vesting of the Shares. The Company does not commit and is under no obligation to structure the Common Shares to reduce or eliminate your tax liability[, and none of the Company or any of its affiliates has any further obligations under the second paragraph of Section 7 of that certain Grecam – Directors’ Remuneration Proposal, among Hugues Kirichian, Claude Ogier and CoStar Limited, dated December 21, 2006]. *[Insert last clause, as applicable.]*

10. **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 Shares 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.

11. **Data Protection.** By entering into this Agreement and accepting the Stock Grant, you (a) explicitly and unambiguously consent to the collection, use and transfer outside the European Union, in electronic or other form, of any of your personal data that is necessary to facilitate the implementation, administration and management of the Stock Grant and the Plan, (b) understand that the Company and [Grecam S.A.S.] *[Insert appropriate entity name]* may, for the purpose of implementing, administering and managing the Plan, hold certain personal information about you, including, but not limited to, your name, home address and telephone number, date of birth, social security number or other identification number, nationality, job title, and details of all awards or entitlements to Common Shares granted to you under the Plan or otherwise (“Data”), (c) understand that Data may be transferred to any third parties, including outside the European Union, assisting in the implementation, administration and management of the Plan, including any broker with whom the Shares issued upon vesting may be deposited, and that these recipients may be located in your country or elsewhere, and that the recipient’s country may have different data privacy laws and protections than your country; (d) authorize the Company, its subsidiaries and its agents to store and transmit such information in electronic form, (e) understand you may, at any time, review the Data, request additional information about the storage and processing of Data, request any necessary amendments to Data, or refuse or withdraw your consent herein, in any case without cost to you, by contacting the Company in writing, and (f) further understand that refusing or withdrawing consent may affect your ability to participate in the Plan.

12. No Right to Re-appointment. [Nothing in this Agreement restricts the right of the Company or any of its affiliates to terminate your appointment or fail to reappoint you as a *mandataire social* at any time, with or without cause. The termination of your appointment or failure to re-appoint you, whether by the Company or any of its affiliates or otherwise, and regardless of the reason therefore, has the consequences provided for hereunder, under the Plan and under any applicable contractual agreement.] [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 therefore, has the consequences provided for hereunder, under the Plan and under any applicable employment or severance agreement.] [Use applicable provision, depending upon grantee's position.]

13. Language. If you have received this Agreement or any other document related to the Plan or the Stock Grant translated into a language other than English and if the translated version is different than the English version, the English version will control.

14. Foreign Currency Exchange Controls. To the extent required by French law, you agree to declare in your personal income tax return all foreign accounts holding shares issued pursuant to this Stock Grant and to declare to the appropriate customs and excise authorities any cash or securities derived from this Stock Grant that you import or export without the use of a financial institution.

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 Plan Administrator. You and your successors agree to accept as binding, conclusive and final all decisions or interpretations of the Plan Administrator concerning any questions arising under the Plan with respect to the Stock Grant

16. General.

- a. This Agreement and the Plan constitute the entire understanding between you and the Company regarding the Stock Grant. Any prior agreements, commitments or negotiations concerning the Stock Grant are superseded.
- b. The laws of the State of Delaware will govern all matters relating to this Agreement, without regard to the principles of conflict of laws.
- c. Any notice you give to the Company 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 may change the address for notice by like notice to the Company. Notice will be deemed to have been duly delivered when hand-delivered, or, if mailed, two business days after such notice is postmarked.
- d. In the event that any provision of this Agreement is declared to be illegal, invalid or otherwise unenforceable by a court of competent jurisdiction, such provision shall be reformed, if possible, to the extent necessary to render it legal, valid and enforceable, or otherwise deleted, and the remainder of the terms hereunder shall not be affected except to the extent necessary to reform or delete such illegal, invalid or unenforceable provision.

e. This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective permitted heirs, beneficiaries, successors and assigns.

f. The headings preceding the text of the sections hereof are inserted solely for convenience of reference, and shall not constitute a part of this Agreement, nor shall they affect its meaning, construction or effect.

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 Plan 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 in connection with this Stock Grant without an effective registration statement relating thereto or an opinion of counsel satisfactory to the Company or other information and representations satisfactory to the Company that such registration is not required.

Dated 16 FEBRUARY 2007

(1) PROPERTY INVESTMENT EXCHANGE LIMITED

- and -

(2) PAUL MARPLES

EXECUTIVE SERVICE CONTRACT

Subject to Contract

GIBSON, DUNN & CRUTCHER LLP

Telephone House

2-4 Temple Avenue, London EC4Y 0HB

020 7071 4000 020 7071 4244 *Fax*



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EXECUTIVE SERVICE CONTRACT

DATE OF CONTRACT: 16 FEBRUARY 2007

PARTIES:

- (1) **PROPERTY INVESTMENT EXCHANGE LIMITED**, whose registered office is at 25 Harley Street, London, W1G 9BR (the "**Company**"); and
- (2) **PAUL MARPLES**, of 115 Palewell Park, London SW14 8JJ (the "**Executive**").

THE FOLLOWING TERMS HAVE BEEN AGREED BETWEEN THE PARTIES:

1. DEFINITIONS

In this agreement (unless the context requires otherwise):

"**Board**" means the board of directors from time to time of the Company (including any committee of the board duly appointed by it);

"**Commencement Date**" means the date of this Agreement;

"**CoStar**" means CoStar Group, Inc.;

"**Family Member**" means the Executive, his spouse, cohabitee, child, stepchild or parent;

"**FOCUS**" means FOCUS Information Limited;

"**Group Company**" means the Company, CoStar or any subsidiary undertaking (as defined in section 258 of the Companies Act 1985) or associated company (as defined in sections 416 et seq. of the Income and Corporation Taxes Act 1988) of CoStar and "**Group Companies**" means all of them;

"**HMRC**" means Her Majesty's Revenue & Customs and, where relevant, any predecessor body which carried out part of its functions;

2. COMMENCEMENT

- 2.1 The Executive's employment on the terms of this agreement (the "**Appointment**") shall commence on the Commencement Date.
 - 2.2 The Executive's period of employment with the Company began on 1 September 2000.
 - 2.3 The Executive represents and warrants to the Company that he is neither prevented nor restricted by any court order or any obligation to any third party (whether express or implied) from entering into this agreement or performing any of his obligations under it and undertakes to indemnify the Company against any claims, costs, damages, liabilities or expenses which the Company may incur as a result of any claim that he is in breach of any such obligations.
-

2.4 The Executive has been provided with details of any rules, policies and procedures appropriate to his employment. These do not form part of the Executive's contract of employment with the Company. To the extent that there is a conflict between the terms of this agreement and any such rules, policies or procedures then this agreement shall prevail.

3. ROLE AND RESPONSIBILITIES

3.1 The Executive shall perform the duties of European Product Director or such other role as the Board, acting by the Chief Executive Officer or such other officer as the Board determines ("CEO"), may consider appropriate.

3.2 The Executive shall:

3.2.1 devote the whole of his working time and attention to the duties assigned to him

3.2.2 faithfully and diligently serve the Company (and all Group Companies);

3.2.3 use his best endeavours to promote and protect the interests of the Company (and all Group Companies);

3.2.4 comply with his fiduciary duties;

3.2.5 obey all reasonable and lawful directions given to him by or under the authority of the Board and the CEO;

3.2.6 perform services for and hold offices in any Group Company without additional remuneration (except as otherwise agreed);

3.2.7 carry out his duties and exercise his powers jointly with such person or persons as the Board may appoint to act jointly with him;

3.2.8 work at such of the Company's offices within the Greater London Metropolitan area as the Board may from time to time require;

3.2.9 travel to such places (whether in or outside the United Kingdom) by such means and on such occasions as the Board may from time to time require;

3.2.10 make such reports to the CEO, the Board and the board of directors of the Company's holding company on any matters concerning the affairs of the Company or any Group Company as are reasonably required;

3.2.11 not enter into any arrangement on behalf of any Group Company which is outside its normal course of business or his normal duties or which contains unusual or onerous terms;

3.2.12 comply with any code of practice issued by the Company or CoStar from time to time and all requirements, recommendations, rules and regulations (as amended from time to time) of all regulatory authorities relevant to the Company and any Group Company with which the Executive is concerned; and

3.2.13 consent to the Company monitoring and recording any use that he makes of its telecommunication or computer systems and will comply with any policies that it may issue from time to time concerning the use of such systems.

4. DIRECTORSHIPS

4.1 The Executive:

4.1.1 shall hold such offices as a director or secretary (an "Office") in the Company or any Group Company as the Board may from time to time require;

4.1.2 shall not be entitled to any additional remuneration by reason of his holding any Office in the Company or any Group Company;

4.1.3 (shall if the Board so requests) immediately resign without claim for compensation from any Office held in the Company and any Group Company and the Executive irrevocably appoints the Company to be his attorney to execute and do any such instrument or thing and generally to use his name for the purpose of giving the Company or its nominee the full benefit of this clause;

4.1.4 shall not do anything that would cause him to be disqualified from holding any Office;

4.1.5 shall not (without the prior written approval of the Board) resign from any Office which he holds in the Company or any Group Company or any trusteeship which he holds as a result of the Appointment;

4.1.6 shall hold any Office in the Company (or any Group Company) subject to the articles of association of the Company (or the relevant Group Company) as amended from time to time.

5. TIME COMMITMENT

5.1 The Executive shall work such hours as are necessary for the proper performance of his duties.

5.2 Regulation 4(1) of the Working Time Regulations 1998 (the "**Regulations**") limits the average working week (calculated in accordance with the Regulations) of each worker to a maximum of 48 hours. Whilst the parties consider that the nature of the Executive's position is such that his employment is not and cannot be measured and so his employment falls within the scope of Regulation 20 of the Working Time Regulations 1998, the Executive agrees to opt out of Regulation 4 of the Regulations, to the extent that it applies to his employment (if at all). Should the Executive wish to terminate this opt-out then he may do so by giving the Company not less than three months' written notice.

6. OUTSIDE BUSINESS INTERESTS

6.1 Save as a representative of the Company or with the prior written approval of the Board, the Executive shall not at any time during the Appointment (whether directly or indirectly, paid or unpaid):

6.1.1 be engaged or concerned in the conduct of;

6.1.2 be or become an employee, agent, partner, consultant or director of; or

6.1.3 assist or have any financial interest in,

any other actual or prospective business or profession. For the avoidance of doubt, the Executive shall be deemed to have an indirect involvement or financial interest in an actual or prospective business or profession in which a Family Member or any trust established for the benefit of, or company controlled by, a Family Member is involved or financially interested where such business or profession competes with the business of any Group Company.

6.2 The Executive shall be permitted to hold shares or securities of a company any of whose shares or securities are quoted or dealt in on any recognised investment exchange provided that:

6.2.1 any such holding shall not exceed one per cent. of the issued share capital of the company concerned and is held by way of bona fide investment only ("**Investment**"); and

6.2.2 he complies with any applicable rules of the Company, any Group Company or any Regulatory Authority covering the holding of shares or securities.

7. SALARY

7.1 The Executive shall be paid a salary of £140,000 per annum or such other rate as may be agreed from time to time (the "**Salary**") subject to such deductions as are required by law. The Salary shall accrue from day to day. The Salary shall be payable by bank credit transfer in equal monthly instalments in arrears on or about the last working day of each calendar month.

7.2 The Company may deduct from any sums owed to the Executive all sums which he properly owes the Company or any Group Company from time to time.

8. BONUS

8.1 The Board may (at its absolute discretion) award the Executive bonus payments of such amounts, being up to an annual aggregate maximum of 40% of Salary, as the CEO may determine in his or her absolute discretion having regard to the Executive's performance against such reasonable goals and objectives for individual and/or Company and/or Group Company performance as set from time to time by the CEO. If the Executive receives any bonus payment then the Company is not obliged to make any further bonus payments and any bonus payment will not be part of the contractual remuneration or Salary hereunder. If the Executive's employment terminates (or notice is served to terminate his employment) (for whatever reason) he will not be entitled to receive any bonus payments in respect of any period. The provisions of this clause shall not create any contractual obligation upon the Company to pay to the Executive any bonus in respect of any period. During the first year of the Appointment only, the Executive bonus range will be between 10% and 40% of Salary.

9. BENEFITS

9.1 The Executive shall be entitled to:

9.1.1 participate in the CoStar 1998 Stock Incentive Plan (the "**Plan**"), subject to the rules of the Plan as amended from time to time provided, however, that the Executive hereby agrees that following the termination of the Appointment for whatever reason he shall not have any claim against the Company or any Group Company under this Agreement in respect of any rights he may have acquired under the Plan. The Company shall, subject to the Executive entering into and complying with the terms of this Agreement, award the Executive 10,000 shares of restricted common stock (the "**Restricted Stock**") of CoStar, vesting one-fourth on the first anniversary of the date of this Agreement, one-fourth on the second anniversary of the date of this Agreement, one-fourth on the third anniversary of the date of this Agreement, and one fourth on the fourth anniversary of the date of this Agreement. Any grant of Restricted Stock and all determinations with regard to the Restricted Stock award shall be subject to and made in accordance with the terms of the Plan and CoStar's form of grant agreement thereunder; and

9.1.2 certain insurance benefits as provided in clause 10 below.

9.2 During the Appointment the Company shall contribute an amount equal to $x\%$ of the Salary in equal monthly instalments in arrears to such HMRC approved pension scheme (the "**Pension Scheme**") established for the benefit of the Executive as the Executive may notify to the Company in writing. The Executive's contributions to the Pension Scheme shall be made by way of deduction from the Salary. The Company's contributions to the Pension scheme shall be subject to the rules of the scheme and the requirements of HMRC as amended from time to time. For the purpose of this clause x shall be calculated having regard to the amount of the Executive's contribution to the Pension Scheme, and as set out below:

Executive Contribution to the Pension Scheme (as a % of Salary)	x equals (as a % of Salary)
-----------------------------------------------------------------	----------------------------------

Less than 6%	4%
--------------	----

6%	4½%
----	-----

7%	5%
----	----

8%	5½%
----	-----

9%	6%
----	----

9.3 The Executive's rights under the benefit plans and schemes detailed in this clause 9 and clause 10 below, including rights arising upon termination of the Appointment (howsoever such termination arises) shall be exclusively governed by the rules of such plans and schemes and the Executive shall have no rights under this Agreement (or any alleged breach of it) to any compensation under or in respect of such benefits, whether upon termination of the Appointment or otherwise.

10. INSURANCE BENEFITS

10.1 Subject to clauses 10.1.1 to 10.1.4 below, during the Appointment the Executive may participate in any permanent health insurance scheme and any life assurance scheme with a third party insurer provided by the Company subject to the terms and conditions of those schemes as amended from time to time, the rules of the relevant insurance policy as amended from time to time and his satisfying the requirements of the scheme insurers. The Executive's participation in such a scheme shall be on the basis that:

10.1.1 In the case of any permanent health insurance scheme:

- (a) the Company shall only be obliged to make payments to the Executive to the extent that it has received payment from the scheme insurers for that purpose and, for the avoidance of doubt, no other sums will be due to the Executive from the Company. The Company shall use reasonable endeavours to assist the Executive in making and pursuing any bona fide claim for benefits under the scheme;
- (b) if the Executive is receiving benefits under any such scheme then he will, if requested by the Company, immediately resign from any Office held in the Company or any Group Company
- (c) the Company may by notice and with immediate effect discontinue payment (in whole or in part) of the Salary and the provision of any benefits in respect of any period during which the Executive shall be in receipt of any benefits under the scheme.

10.1.2 without prejudice to the Executive's statutory rights, the Company may terminate the Executive's employment even if to do so would result in an actual or prospective loss of entitlement to benefits under the scheme;

10.1.3 the Executive's health is not such that the Company is unable to obtain cover or to obtain cover on terms and at a premium which the Company considers reasonable;

10.1.4 the Company may, as part of a review of insurance benefits provided to employees within the Company or its Group Companies, change the provider of such insurance and/or the level of cover provided and/or amend the scheme in any other way and/or terminate the benefit of such insurance on notice to the Executive provided that any such change, amendment or termination is consistent with the treatment of other senior employees of the Group Companies based in the United Kingdom.

11. VACATION

- 11.1 The Executive shall be entitled to 25 working days' paid vacation (in addition to the usual eight English public holidays) in each complete leave year worked in accordance with the Company's vacation policy.

12. SICKNESS

- 12.1 Provided the Executive complies with the Company's rules on notification and evidence of absence due to illness or injury (as amended from time to time) he shall be paid the Salary and receive his contractual benefits during any absence from work due to illness or injury for an aggregate of up to 65 working days in any period of 12 months. Such payments shall be reduced by the amount of any insurance or other benefit to which he is entitled as a result of his incapacity and any sickness or other benefit to which he is entitled under social security legislation for the time being in force. Thereafter, the Company may by notice and with immediate effect (or from a future date specified in the notice) discontinue payment (in whole or part) of the Salary and provision of any benefits until such incapacity shall cease.
- 12.2 The Company may require the Executive to undergo examinations by medical advisers appointed or approved by the Board and the Executive authorises such advisers to disclose to the Company the results of such examinations and to discuss with it any matter arising from such examinations.
- 12.3 If the Executive is unable to perform his duties under this agreement as a result of ill health, accident or injury caused by actionable negligence, nuisance or breach of any statutory duty on the part of any third party in respect of which damages may be recoverable then the Executive will (if requested to do so by the Board) pursue a claim against that third party in respect of his loss of earnings for the period during which he was paid by the Company but unable to perform his duties under this agreement and will account to the Company for sums recovered in respect of such loss, less any costs borne by him in connection with the recovery of such damages or compensation.

13. BUSINESS EXPENSES

The Company shall reimburse the Executive for all reasonable travel, accommodation and other expenses wholly, exclusively and necessarily incurred in or about the performance of his duties hereunder and in accordance with the FOCUS expenses policy and which expenses shall be evidenced as required by FOCUS.

14. CONFIDENTIAL INFORMATION

- 14.1 Without prejudice to his common law duties, the Executive shall not directly or indirectly (save in the proper course of his duties, as required by law or as authorised by the Board) use or communicate to any person (and shall use his best endeavours to prevent the use or communication of) any trade or business secrets or confidential information of or relating to the Company or any Group Company (including but not limited to details of (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 or any Group Company's, customers, distributors and suppliers and their names and addresses, the names of representatives of the Company's or any Group Company's customers, distributors or suppliers responsible for entering into contracts with the Company or any Group Company, the amounts paid by such customers to the Company or any Group 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 or any Group 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 or any Group Company's database, procedures, devices, machines, equipment, data processing programs, software, computer models, research projects, and other means used by the Company or any Group Company in the conduct of its business) which he creates, develops, receives or obtains while in the service of the Company or any Group Company. Subject to clause 14.2 below, This restriction shall continue to apply after the termination of the Appointment howsoever arising without limit in time.

- 14.2 Reference to confidential information in this clause 14 shall not include information which is in the public domain at the time of its disclosure or which comes into the public domain after its disclosure otherwise than by reason of a breach of this agreement, information which was already demonstrably known to the receiving party at the date of disclosure and had not been received in confidence from the Company or information which is required to be disclosed as a matter of law. It shall include information in the public domain for so long as the Executive is in a position to use such information more readily than others who have not worked for the Company.
- 14.3 During the Appointment the Executive shall not make (other than for the benefit of the Company) any record (whether on paper, computer memory, disc or otherwise) relating to any matter within the scope of the business of the Company or any Group Company or their customers and suppliers or concerning its or their dealings or affairs or (either during the Appointment or afterwards) use such records (or allow them to be used) other than for the benefit of the Company or the relevant Group Company. All such records (and any copies of them) shall belong to the Company or the relevant Group Company.
- 14.4 The Executive shall not during the Appointment either directly or indirectly publish any opinion, fact or material on any matter within the scope of the business of the Company or any Group Company (whether confidential or not);
- 14.5 The Executive shall not, either during the Appointment or following its termination, make any misleading, derogatory or untrue comments or statements (whether orally or in writing) concerning the Company, any Group Company, its or their directors, officers or employees.

15. DATA PROTECTION

- 15.1 The Executive consents to the Company and other Group Companies holding and processing information about him (for legal, personnel, administrative and management purposes) and, in particular, holding and processing:
- 15.1.1 his health records and any medical reports given to or obtained by the Company, to monitor sick leave and take decisions as to his fitness to work or the need for adjustments in the workplace;
- 15.1.2 any information relating to criminal proceedings in which he has been or is involved, for any insurance purposes and to comply with legal requirements and obligations to third parties.
- 15.2 The Company may make such information available to Group Companies, those who provide products or services to the Company and Group Companies (such as advisers and payroll administrators), regulatory authorities, potential or future employers, governmental or quasi-governmental organisations and potential purchasers of the Company or the business in which the Executive works.
- 15.3 The Executive consents to the transfer of such information to the Company's Group Companies outside the European Economic Area in order to further its business interests.

16. INTELLECTUAL PROPERTY

- 16.1 For the purposes of this clause "**Intellectual Property Rights**" means any and all patents, trade marks, service marks, rights in designs, get-up, trade, business or domain names, goodwill associated with the foregoing, copyright (including rights in computer software and databases), topography rights (in each case whether registered or not and any applications to register or rights to apply for registration of any of the foregoing), rights in inventions, knowhow, trade secrets and other confidential information, rights in databases and all other intellectual property rights of a similar or corresponding character which may now or in the future subsist in any part of the world.
- 16.2 The Executive acknowledges that because of the nature of his duties and the particular responsibilities arising as a result of such duties which he owes to the Company and the Group Companies he has a special obligation to further the interests of the Company and the Group Companies. In particular, the Executive's duties will include reviewing the products and services of the Company and Group Companies with a view to identifying and implementing potential improvements.
- 16.3 The Executive shall promptly disclose to the Board any idea, invention or work which is relevant to (or capable of use in) the business of the Company or any Group Company now or in the future made by him in the course of his employment (whether or not in the course of his duties). The Executive acknowledges that all Intellectual Property Rights subsisting (or which may in the future subsist) in any such ideas, inventions or works will, on creation, vest in and be the exclusive property of the Company and if they do not do so he shall assign them to the Company (upon its request and at its cost). The Executive irrevocably waives any "Moral Rights" which he may have in any such ideas, inventions or works under chapter IV of part I of the Copyright, Designs and Patents Act 1988.

16.4 The Executive hereby irrevocably appoints the Company to be his attorney in his name and on his behalf to execute and do any such instrument or thing and generally to use his name for the purpose of giving to the Company or its nominee the full benefit of this clause and acknowledges in favour of any third party that a certificate in writing signed by any director or secretary of the Company that any instrument or act falls within the authority hereby conferred shall be conclusive evidence that such is the case.

17. DURATION AND TERMINATION

17.1 The Appointment shall continue until terminated:

17.1.1 as provided for elsewhere in this Agreement;

17.1.2 by the Executive giving to the Company not less than three months' prior written notice which notice may not be given so as to expire before the second anniversary of the Commencement Date. Provided that, following service of notice by the Executive all remuneration, contractual benefits and/or bonus entitlements, save for Salary shall cease;

17.1.3 by the Company giving to the Executive not less than six months' prior written notice, which notice may not be given so as to expire before the second anniversary of the Commencement Date; or

17.1.4 automatically on the Executive's 65th birthday (being the contractual retirement date).

17.2 The Company may terminate the Appointment by notice but with immediate effect if the Executive shall have committed any serious breach or (after warning in writing) any repeated or continued material breach of his obligations to the Company or (in the reasonable opinion of the Board and after warning in writing) shall have failed to perform his duties to a satisfactory standard or shall have been guilty of any act of gross negligence, dishonesty or serious misconduct or any conduct which (in the reasonable opinion of the Board) tends to bring himself, the Company or any Group Company into disrepute or shall be declared bankrupt or shall compound with his creditors or shall have been convicted of any criminal offence (other than an offence under any road traffic legislation in the United Kingdom or elsewhere for which a fine or non-custodial penalty is imposed); or shall have been disqualified from holding any office which he holds in any Group Company or resigns from such office without prior written approval of the Board; or shall have been prevented by illness, injury or other incapacity from fully performing his obligations to the Company for an aggregate of one hundred and thirty working days in any period of twelve months; or shall have committed any breach of the Stock Purchase Agreement entered into by the Company and any Group Company dated as of the Commencement Date or shall have refused or failed to abide by or comply with the directives of the Board or of CoStar or shall have materially violated the CoStar Code of Conduct or abuses alcohol or drugs (legal or illegal) other than prescription drugs taken under the directions of a physician and in accordance with those directions.

17.3 In the event of termination by the Company in accordance with Clause 17.2 above, the Executive shall forfeit all unvested Restricted Stock and any claim in respect of unpaid bonus for any period whatsoever.

17.4 Any delay by the Company in exercising such right to terminate shall not constitute a waiver thereof.

18. GARDEN LEAVE

18.1 Notwithstanding any other provision in this agreement the Company is under no obligation to provide the Executive with work and the Board may (if either party serves notice to terminate the Appointment or if the Executive purports to terminate the Appointment without due notice and the Company has not accepted that resignation) require the Executive to perform no duties whatsoever or such duties as it may reasonably require and may exclude the Executive from any premises of any Group Company without having to give any reason for so doing.

18.2 During any period in which the Company exercises its rights under clause 18.1 ("**Garden Leave**") the Executive shall:

18.2.1 remain an employee of the Company and be bound by the terms of this agreement (in particular clauses 6 and 14 and 16);

18.2.2 not have any contact or communication with any client or customer, employee, officer, director, agent or consultant of the Company or any Group Company except any member of the Board;

18.2.3 take and be deemed to be taking any period of accrued but unused holiday entitlement;

18.2.4 keep the Board informed of his whereabouts (except during any periods taken as holiday) so that he can be called upon to perform any appropriate duties as required by the Board;

18.2.5 comply with his obligations under this Agreement; and

18.2.6 continue to receive the Salary and contractual benefits (but not, for the avoidance of doubt, any bonus) in the usual way.

19. PAYMENT IN LIEU OF NOTICE

19.1 The Company may (at the sole and absolute discretion of the Board) terminate the Appointment at any time and with immediate effect by making the Executive a payment in lieu of the notice period set forth in clause 17.1.3 (or, if applicable, the remainder of the notice period) and calculated as set out below (the "**Payment in Lieu of Notice**");

19.1.1 In circumstances where the Payment in Lieu of Notice is paid to the Executive by the Company before the first anniversary of the Commencement Date (the "**First Anniversary**") it shall be calculated as an amount equal to twelve months' Salary (at the date of termination) and shall exclude the value of any contractual benefits or bonus which the Executive would have received during any period of notice or otherwise;

- 19.1.2 In circumstances where the Payment in Lieu of Notice is paid to the Executive by the Company on or after the First Anniversary but before the second anniversary of the Commencement Date (the "**Second Anniversary**") it shall be calculated as an amount equal to nine months' Salary (at the date of termination) and shall exclude the value of any contractual benefits or bonus which the Executive would have received during any period of notice or otherwise; and
- 19.1.3 In circumstances where the Payment in Lieu of Notice is paid by the Company to the Executive on or after the Second Anniversary it shall be calculated as an amount equal to six months' Salary (at the date of termination) and shall exclude the value of any contractual benefits or bonus which the Executive would have received during any period of notice or otherwise.
- 19.2 The Company shall pay any Payment in Lieu of Notice in instalments over a period of 12 months (in the case of a payment under clause 19.1.1), nine months (in the case of a payment under clause 19.1.2) and six months (in the case of a payment under clause 19.1.3). Such payments will be subject to income tax and national insurance contributions.
- 19.3 It shall be a condition of payment of any Payment in Lieu of Notice that the Executive shall have previously executed an agreement in a form satisfactory to the Company releasing the Company and each Group Company from all claims and rights of action arising from the termination of the Executive's employment.

20. OBLIGATIONS ON TERMINATION

- 20.1.1 Upon whichever is the first to occur of termination of the Appointment howsoever arising or the Company sending the Executive on Garden Leave the Executive shall (if the Board so requests):
- 20.1.2 immediately resign without claim for compensation from all Offices held in any Group Company and membership of any organisation and any Office in any other company acquired by reason of or in connection with the Appointment and the Executive hereby irrevocably appoints the Company to be his attorney in his name and on his behalf to execute any documents and to do any things necessary or requisite to give effect to this clause;
- 20.1.3 deliver to the Company all documents (including, but not limited to, correspondence, lists of clients or customers, plans, drawings, accounts and other documents of whatsoever nature and all copies thereof, whether on paper, computer memory or otherwise) made, compiled or acquired by him during the Appointment and relating to the business, finances or affairs of the Company or any Group Company or its or their clients and any other property of any Group Company which is in his possession, custody, care or control. This clause shall not apply to any property provided to the Executive as a benefit during any period of Garden Leave provided, however, that such property shall be returned to the Company at the end of the Garden Leave period. The Executive shall, if requested to do so by the Company, confirm in writing his compliance with his obligations under this clause;

20.1.4 irrevocably delete any information relating to the business of the Company or any Group Company stored on any magnetic or optical disc or memory and all matter derived therefrom which is in his possession, custody, care or control outside the premises of the Company and shall produce such evidence of compliance with this sub-clause as the Company may require;

21. RESTRICTIONS AFTER TERMINATION

- 21.1 The Executive acknowledges that because of the nature of his duties and the particular responsibilities arising as a result of such duties owed to the Company and each Group Company he has knowledge of trade secrets and confidential business information (including details of customers and business associates) and is therefore in a position to harm their legitimate business interests if he were to make use of such trade secrets or confidential business information for his own purposes or the purposes of another. Accordingly, having regard to the above, and having taken independent legal advice the Executive accepts that the restrictions in this clause are reasonable.
- 21.2 The Executive covenants to the Company (for itself and as trustee for each Group Company) that in order to protect the confidential information, trade secrets and business connections of the Company and each Group Company he shall not for the following periods after Termination for whatever reason (but excluding repudiatory breach of this agreement by the Company) save with the prior written consent of the Board directly or indirectly, either alone or jointly with or on behalf of any third party and whether on his own account or as principal, partner, shareholder, director, employee, consultant or in any other capacity whatsoever:
- 21.2.1 for twelve months following Termination in the Relevant Territory and in competition with the Company or any Relevant Group Company engage, assist or be interested in any undertaking which provides Services (which by way of example only shall include but not be limited to, as at the date of this agreement, the following undertakings: LoopNet, Inc, Xceligent, Inc.; Black's Guide; Dorey Publishing; Commercial Search; Cityfeet.com, Inc.; Octane Ventures, Officespace.com; Marchall & Swift; Yale Robbins; Reis, Inc; Investment Property Databank Limited; Reed Business Information Limited; and Experian Limited;
- 21.2.2 for twelve months following Termination and in competition with the Company or any Relevant Group Company solicit or interfere with or endeavour to entice away from the Company or any Relevant Group Company any Customer in relation to the supply of Services;
- 21.2.3 for twelve months following Termination in the Relevant Territory and in competition with the Company or any Relevant Group Company be concerned with the supply of Services to any Customer;
- 21.2.4 for twelve months following Termination and in competition with the Company or any Relevant Group Company solicit or interfere with or endeavour to entice away from the Company or any Relevant Group Company any Potential Acquisition Candidate in relation to the supply of Services;

- 21.2.5 for twelve months following Termination solicit the employment or engagement of or endeavour to entice away from the Company or any Relevant Group Company any Key Employee (whether or not such person would breach their contract of employment or engagement by reason of leaving the service of the business in which they work); and
- 21.2.6 at any time following Termination represent himself as being in any way connected with or interested in the business of the Company or any Relevant Group Company.
- 21.3 Each of the obligations in this clause is an entire, separate and independent restriction on the Executive, despite the fact that they may be contained in the same phrase and if any part is found to be invalid or unenforceable the remainder will remain valid and enforceable.
- 21.4 The Executive acknowledges that each and every restriction contained within this clause is intended by the parties to apply after Termination whether Termination is lawful or otherwise. The restrictions, which are acknowledged to be ancillary in nature, will apply even where Termination results from a breach of a provision within this agreement.
- 21.5 While the restrictions are considered by the parties to be fair and reasonable in the circumstances, it is agreed that if any of them should be judged to be void or ineffective for any reason, but would be treated as valid and effective if part of the wording was deleted, they shall apply with such modifications as necessary to make them valid and effective.
- 21.6 The Executive will (at the request of the Board and cost of the Company) enter into a direct agreement with any Group Company under which he will accept restrictions corresponding to the restrictions contained in this clause (or such as will be appropriate in the circumstances) in relation to such Group Company.
- 21.7 The provisions of this clause will not prevent the Executive from holding an Investment.

22. DEFINITIONS

For the purposes of clause 21:

- (a) "**Customer**" means any person, firm, company or entity which was a customer of the Company or any Relevant Group Company at any time during the 12 months prior to Termination and with which the Executive was materially concerned or had personal contact at any time during the said period of 12 months;
- (b) "**Key Employee**" means any person who immediately prior to Termination was an employee or consultant of the Company or any Relevant Group Company occupying a senior or managerial position who was likely to be:
- (i) in possession of confidential information belonging to the Company; or
 - (ii) able to influence the customer relationships or trade connections of the Company,
- and with whom the Executive worked closely at any time during the period of 12 months prior to Termination;

- (c) "**Potential Acquisition Candidate**" means any person, firm, company or entity with whom any Group Company was in discussions, or who or which had been identified by any Group Company, in each case as a potential target for acquisition by or a joint venture or other material business partnership with any Group Company and with which potential acquisition, joint venture or partnership the Executive was involved or about which he was otherwise in possession of confidential information;
- (d) "**Relevant Group Company**" means any Group Company (and, if applicable, its predecessors in business) for which the Executive performed services to a material degree or in which he held office or concerning which he was in possession of confidential information at any time during the 12 months prior to Termination;
- (e) "**Relevant Territory**" means geographical area constituting the market of the Company and any Relevant Group Company for Services in the period of 12 months prior to Termination and with which area the Executive was materially concerned at any time during the said period of 12 months;
- (f) "**Services**" means services which are competitive with those supplied by the Company or any Relevant Group Company in the 12 months prior to Termination and with the supply of which the Executive was materially concerned at any time during the said period of 12 months; and
- (g) "**Termination**" means the date of termination of the Appointment.

23. RECONSTRUCTION AND AMALGAMATION

If the Executive's employment is terminated at any time in connection with any reconstruction or amalgamation of the Company or any Group Company whether by winding up or otherwise and he receives an offer of employment on terms which (considered in their entirety) are no less favourable to any material extent than the terms of this agreement from an undertaking involved in or resulting from such reconstruction or amalgamation he shall have no claim whatsoever against the Company or any such undertaking arising out of or connected with such termination.

24. DISCIPLINARY AND GRIEVANCE PROCEDURES

- 24.1 Any dismissal, disciplinary action or grievance proceedings shall be carried out in accordance with such procedures as the Board deem appropriate. For the avoidance of doubt, these procedures are not intended to be contractually binding. If the Executive is not satisfied with any disciplinary decision, decision to dismiss taken in relation to him, or decision in respect of a grievance he may apply in writing within 14 days of that decision to the Chairman of the Board from time to time, whose decision shall be final. If the Executive has any grievance in relation to his employment he may raise it in writing with the Chairman of the Board from time to time.

24.2 The Board may at any time suspend the Executive for a period of up to twelve weeks for the purposes of investigating any allegation of misconduct or neglect against him and during this period he will continue to receive his salary and all contractual benefits but will not (except with the prior written approval of the Board) attend any premises of or contact any employee (other than any director) or customer of the Company or any Group Company.

25. NOTICES

Any notice to be given hereunder shall be in writing. Notices may be given by either party by personal delivery or post or by fax or e-mail addressed to the other party at (in the case of the Company) its registered office for the time being and copied to CoStar as below and (in the case of the Executive) his last known address. Any such notice given by letter or fax or e-mail shall be deemed to have been served at the time at which the notice was delivered personally or transmitted by fax or (if sent by post) would be delivered in the ordinary course of post:

(a) If to the CoStar:

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

with a copy to:

Jonathan Coleman
General Counsel
2 Bethesda Metro Center
10th Floor
Bethesda, Maryland 20814
Telefax: 301-664-9176

26. ENTIRE AGREEMENT AND PREVIOUS CONTRACTS

26.1 Each party on behalf of itself and (in the case of the Company, as agent for the Group Companies) acknowledges and agrees with the other party (the Company acting on behalf of itself and as agent for each Group Company) that this agreement constitutes the entire and only agreement between the Executive and any Group Company relating to his employment with the Company.

26.2 This agreement may be varied only by a document signed by each of the parties and expressly incorporating the terms of this agreement as varied into that document.

- 26.3 The Company shall discharge its obligations to make payments or provide benefits to the Executive hereunder in the event that such payments are made or benefits are provided to the Executive by a Group Company.
- 26.4 Any previous agreement or arrangement between the Company or any Group Company and the Executive shall be deemed to have been terminated by mutual consent as from the commencement of the Appointment and the Executive agrees that the said termination of such subsisting agreement shall constitute a waiver by the Executive of any claims, rights and remedies which the Executive has or would have arising under or in connection with any such subsisting agreements.

27. PROPER LAW

- 27.1 This agreement (and any dispute, controversy, proceedings or claim of whatever nature arising out of or in any way relating to this agreement or its formation) shall be governed by and construed in accordance with English law.
- 27.2 Each of the parties to this agreement irrevocably agrees that the courts of England shall have exclusive jurisdiction to hear and decide any suit, action or proceedings, and/or to settle any disputes which may arise out of or in connection with this agreement and, for these purposes, each party irrevocably submits to the jurisdiction of the courts of England.

28. CONSTRUCTION

- 28.1 The headings in this agreement are inserted for convenience only and shall not affect its construction.
- 28.2 Any reference to a statutory provision shall be construed as a reference to any statutory modification or re-enactment thereof (whether before or after the date hereof) for the time being in force.
- 28.3 No modification, variation or amendment to this agreement shall be effective unless such modification, variation or amendment is in writing and has been signed by or on behalf of both parties.

This document has been signed by the parties as a deed and delivered on the date first stated on page 1

EXECUTED as a Deed by **PROPERTY INVESTMENT EXCHANGE LIMITED** acting by

/s/ Jonathan Bray
Director

/s/
Director/Company Secretary

)
)
)

SIGNED by
PAUL MARPLES

/s/ Paul Marples

in the presence of:
/s/ Raymond Taylor
Signature

RL Taylor
Name

.....
Address

.....
Solicitor
Occupation

NOKIA UK LIMITED

Landlord

and

FOCUS INFORMATION LIMITED

Tenant

and

COSTAR GROUP, INC

Guarantor

Agreement for Lease

in respect of

First Floor Offices 10 Great Pulteney Street, London W1

PARTICULARS

Date: 23 NOVEMBER 2007

Landlord: NOKIA UK LIMITED (Company number 2212202) whose registered office is at Lancaster House, Lancaster Way, Ermine Business Park, Huntingdon, Cambridgeshire PE29 6YJ

Tenant: FOCUS INFORMATION LIMITED (Company Registration Number 1789170) whose registered office is at 3RD Floor Portman House, Portman Street, London W1H 6EB

Guarantor: COSTAR GROUP, INC (a company registered in Delaware, U.S.A. under company file number 2854191) whose registered office is c/o Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, County of New Castle, Delaware 19808 U.S.A.

Premises: The premises to be let by the Lease and known as First Floor Offices, 10 Great Pulteney Street, London W1 which are more particularly described in the Lease.

Title Number: NGL 884980

Completion Date: The date two (2) working days after the first date on which all of the Conditions have been satisfied or at the Tenant's sole discretion the date two (2) working days after the date of the Superior Landlord's Lease Consent where the Superior Landlord's Works Consent is not issued simultaneously with the Superior Landlord's Lease Consent.

Long Stop Date: 18 January 2008 subject at the Tenant's election to extension until 14 March 2008

Conditions: The condition set out in [Schedule 3](#) (*Superior Landlords' Consent*).

Contract Rate: 4% per annum above the National Westminster Bank Plc base rate from time to time in force as well after as before judgment which rate shall also be the **contract rate** referred to in the Standard Conditions.

Lease: The lease of the Premises in the form at Annexure A to be granted by the Landlord to the Tenant and the Guarantor pursuant to this Agreement.

Agreed Term: A term of years commencing on the Term Commencement Date and expiring on 19 June 2021.

Term Commencement Date: The Completion Date.

Rent: Four Hundred and Forty Two Thousand Eight Hundred and Forty Eight Pounds £442,848 per annum subject to any increase in accordance with the rent review provisions of the Lease.

Rent Commencement Date: The date that is ten 10 months from and including the earlier of (i) the Completion Date and (ii) the date of this Agreement.

Review Dates: 24 June 2010, 24 June 2015 and 24 June 2020.

Landlord's Solicitor: Clyde & Co LLP of Beaufort House, Chertsey Street, Guildford, Surrey GU1 4HA fax number 01483 567330 (ref: LMM/ATS/0707864) or such other firm as the Landlord may nominate by Notice to the Tenant or the Tenant's Solicitor for the purposes of this Agreement.

Tenant's Solicitor: Gibson Dunn & Crutcher LLP of Telephone House, 2-4 Temple Avenue, London EC4Y 0HB fax number 020 7071 4244 (ref: AAS/TW/19486/20) or such other firm as the Tenant may nominate by Notice to the Landlord or the Landlord's Solicitor for the purposes of this Agreement.

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This Agreement is dated and made between the parties specified in the Particulars.

It is agreed as follows:

1 Definitions and interpretation

1.1 Definitions

In this Agreement, unless the context otherwise requires, the following definitions apply:

Account means the Landlord's Solicitor's client account number 13569732 at National Westminster Bank Plc, City of London Office, PO Box 12258, 1 Princes Street, London EC2R 8PA (sort code 60-00-01) or such other client account of the Landlord's Solicitor in England and Wales as the Landlord's Solicitor may specify.

Act of Insolvency means any of the following:

- (a) in relation to a company, any action is taken in relation to or with a view to:
 - (i) appointing any type of liquidator, receiver, manager or trustee or an administrator, judicial custodian or similar officer in respect of the company or its assets and/or undertaking;
 - (ii) the winding up, liquidation (otherwise than as part of a genuine solvent reconstruction or amalgamation), administration, dissolution, or reorganisation of the company;
- (b) in relation to any person (whether an individual or a company):
 - (i) it is or admits to be unable to pay its debts or to be insolvent;
 - (ii) the value of its assets is less than its liabilities (taking account of contingent and prospective liabilities);
 - (iii) it suspends making payments on any of its debts or announces an intention to do so or it commences negotiations with any of its creditors with a view to rescheduling any of its indebtedness or the person proposes any form of arrangement with any of its creditors;
 - (iv) any distress or execution being levied on any of the person's assets;
 - (v) the person ceases to exist for any reason; or
- (c) any analogous proceedings or step is taken in any jurisdiction

and in this definition **action** means any action whatsoever including any legal proceedings or other procedure or convening a meeting for the purpose of considering or seeking to effect any of the events listed.

Actual Completion means actual completion of the Lease under this Agreement and **Actual Completion Date** shall be interpreted accordingly.

Authority means any statutory, public, local or other competent authority or a court of competent jurisdiction.

Encumbrances means the encumbrances and matters affecting the Premises (to the extent that such are still subsisting and capable of being enforced) mentioned, contained or referred to in the documents listed in [Schedule 1](#).

Enquiry Replies means any written replies made by the Landlord's Solicitor in reply to written questions or enquiries made by the Tenant's Solicitor.

Landlord's Surveyor means a competent and qualified surveyor appointed by the Landlord;

Legislation means statute, statutory instrument, statutory guidance, treaty, regulation, directive, by-law, code of practice, guidance note, circular and common law for the time being in force.

Notice means written notice (including faxes but not email) given by a Party to any other Party in accordance with Clause [11.8](#) (*Notices*).

Particulars means the particulars at the front of this Agreement.

Party means a party to this Agreement and **Parties** means more than one Party.

Planning Acts means legislation relating to town and country planning.

Standard Conditions means the Standard Commercial Property Conditions (Second Edition) and any reference to a **Standard Condition** shall be construed accordingly and have the same meaning as the expression **condition** in the Standard Commercial Conditions.

Tenant's Solicitor's Account means the Tenant's Solicitor's client premium account number 13662837 at HSBC Bank Plc, 16 King Street, Covent Garden, London WC2E 8JF (sort code 40-04-09) or such other client account of the Tenant's Solicitor in England and Wales as the Tenant's Solicitor may specify.

Title Documentation means the official copy register to the Title Number dated 28 August 2007 (13.54).

VAT means value added tax as provided for in the Value Added Taxes Act 1994 and any tax similar or equivalent to value added tax or performing a similar fiscal function.

1.2 Interpretation

In this Agreement (except where the context otherwise requires):

- 1.2.1 any phrase introduced by the terms **including, include, in particular** or any similar expression shall be construed as being by way of illustration or emphasis only and shall not limit the generality of the preceding words;
- 1.2.2 reference to **Legislation** is reference to it as it is in force for the time being taking account of any amendment, extension, re-enactment or replacement and includes any subordinate legislation (within the meaning of section 21(1) of the Interpretation Act 1978) for the time being made under it;
- 1.2.3 any reference to a document being **in the agreed form** means a document in the form agreed by the Parties to it and annexed to this Agreement, with such alterations (if any) as may subsequently be agreed in writing by or on behalf of such Parties;
- 1.2.4 reference to **liabilities** are to all liabilities of any nature whatsoever including actual or contingent liabilities, claims, demands, actions, proceedings, damages, losses, penalties, costs, fees and expenses and **liability** shall be construed accordingly;
- 1.2.5 references to Clauses and Schedules are to clauses of and schedules to this Agreement, and references to paragraphs are references to paragraphs of the Schedule in which the reference appears; and
- 1.2.6 the table of contents and clause headings are for ease of reference only and shall not affect the construction of this Agreement.

1.3 Other

- 1.3.1 Any references to **this Agreement** includes the Particulars and Schedules that form part of it and have effect as if set out in full in the body of this Agreement.

1.3.2 **Landlord** includes the Landlord's successors in title and any other person who is or becomes entitled to the reversion (whether immediate or not) expectant on the term to be created by the Lease.

1.3.3 **Tenant** does not include the Tenant's successors in title.

1.3.4 **Guarantor** means the person named as guarantor (if any) in the Particulars.

1.3.5 The expression **Solicitor** in this Agreement shall have the same meaning as given to the expression **conveyancer** in the Standard Conditions

1.3.6 The expressions contained in the Particulars have the meanings set opposite them in the Particulars.

1.3.7 Any obligation on the Parties to do something includes an obligation to procure that it be done and any obligation not to do something includes an obligation not to suffer or permit such thing to be done and to take all necessary action to prevent the same.

1.3.8 The phrase **termination of this Agreement** includes termination pursuant to any of Clause 2 (*Conditionality*), Clause 10 (*Termination*) or rescission of this Agreement at any time and for any reason.

1.4 Standard Commercial Property Conditions

1.4.1 Part 1 of the Standard Conditions are incorporated in this Agreement, in so far as they:

- (a) are applicable to the grant of a lease;
- (b) are not inconsistent with the other clauses in this Agreement; and
- (c) have not been modified or excluded by any of the other clauses in this Agreement

1.4.2 Part 2 of the Standard Conditions are not incorporated in this Agreement

1.4.3 Standard Conditions 1.3.5(c), 1.3.6, 1.3.7(e), 1.4, 2.2, 2.3, 3.2.1, 3.3, 4, 5, 6.1, 6.2, 6.3 6.4.2, 6.6.2, 7.1.1 to 7.1.4 (inclusive), 8.4, 9.3, 10.2.4 10.3 and 11 do not apply to this Agreement.

1.4.4 Standard Condition 1.1.1(a)(ii) is varied by the deletion of the words 'at interest on seven days notice of withdrawal' and the substitution of the word 'overnight' in their place.

1.4.5 Standard Condition 8.1.2 is varied by replacing '2.00 p.m.' with '5.30 p.m.'.

1.4.6 Standard Condition 8.2 is varied by inserting 'in the City of London or Surrey' after the words 'some other place'.

1.4.7 In the Standard Conditions reference to:

- (a) **the contract** shall be reference to this Agreement;
- (b) **landlord** and **tenant** shall be to the Landlord and Tenant; and
- (c) **the property** shall be to the Premises.

1.4.8 The expression **working day** in this Agreement shall have the same meaning as in the Standard Commercial Conditions.

1.5 Incorporation of Schedules

The provisions of the Schedules are to apply.

2 Conditionality

2.1 Conditions

- 2.1.1 Completion of the Lease is conditional on the satisfaction of all of the Conditions.
- 2.1.2 The Parties shall not do anything that might interfere with, obstruct or delay the satisfaction of all or any of the Conditions.

2.2 Satisfaction of the Conditions

The rights and obligations of the Parties regarding the satisfaction of the Conditions are set out in [Schedule 3](#) (*Superior Landlords' Consent*).

2.3 Notification

The Parties shall keep each other fully informed of all material matters relating to the satisfaction of the Conditions.

2.4 Conditions not satisfied

- 2.4.1 If the Conditions or any of them have not been satisfied at or before 5.30 pm on the Long Stop Date then either Party may serve Notice upon the other Party and upon service of such Notice, save to the extent provided in Clause [10.2](#) (*Consequences of Termination*), this Agreement shall terminate.
- 2.4.2 No Notice may be served under Clause [2.4.1](#) (*Conditions not satisfied*):
- (a) by any Party in breach of its obligations under this Agreement; or
 - (b) once all of the Conditions have been satisfied.

3 Payments and indemnity

3.1 Payments

- 3.1.1 All money payable by the Tenant by direct credit pursuant to this Agreement is to be paid to the Account.
- 3.1.2 Unless this Agreement expressly provides otherwise, all amounts due from any Party under this Agreement shall be paid in full without any deduction or withholding other than as required by law and no Party shall be entitled to assert any credit, set-off or counterclaim against any other Party in order to justify withholding payment of any such amount in whole or in part.

3.2 Indemnity

The Tenant shall indemnify and keep fully and effectively indemnified the Landlord against all liability arising out of any breach, non-observance or non-performance of the Tenant's obligations under this Agreement.

3.3 Interest

If any Party defaults in the payment when due of any sum payable by it under this Agreement (whether determined by agreement or pursuant to an order of a court or otherwise) interest shall be payable by that Party on such sum from the date when such payment is due until the date of actual payment in cleared funds (as well after as before judgment) at the Contract Rate. Such interest shall accrue from day to day and shall be compounded quarterly.

3.4 Payment of VAT and VAT Invoice

- 3.4.1 An obligation to pay money includes an obligation to pay any VAT chargeable in respect of that payment on receipt of a valid VAT invoice.
- 3.4.2 All sums made payable by this Agreement are exclusive of VAT.
- 3.4.3 The relevant Party shall issue a VAT invoice in respect of any VAT payable under this Agreement containing the information prescribed by law and within such time as may be required by law.
- 3.4.4 Where the Tenant is required to pay, refund or reimburse the Landlord and/or any superior landlord for the costs of any supplies made to them, the Tenant shall also indemnify the Landlord and/or any Superior Landlord against all liability to VAT in respect of such supply.

4 Grant of Lease

4.1 Grant of Lease

- 4.1.1 In consideration of the Tenant's obligations under this Agreement the Landlord shall grant and the Tenant shall take the Lease on the Completion Date for the Agreed Term at the Rent which shall commence to be payable on the Rent Commencement Date. No purchase price or deposit is payable.
- 4.1.2 The Tenant cannot require the Landlord to grant the Lease to any person other than the Tenant.

4.2 Matters to be inserted into the Lease

The following matters shall be inserted in the Lease:

- 4.2.1 The review dates specified in clause 7 of the Lease shall be the Review Dates specified in this Agreement;
- 4.2.2 The date specified in clause 1.1 of the Lease shall be the Term Commencement Date specified in this Agreement; and
- 4.2.3 The date specified in clause 1.1 of the Lease shall be the Rent Commencement Date specified in this Agreement;

4.3 Possession

The Premises are let with vacant possession on Completion subject to the provisions of this Agreement.

5 Title

5.1 Proof of title

- 5.1.1 The Landlord's title to the Property is registered at the Land Registry under the Title Number and comprises an official copy of the registers of the title to the Property and the title plan.
- 5.1.2 Title to the Premises and any rights granted by the Lease has been deduced to the Tenant's Solicitor before the date of this Agreement.
- 5.1.3 The Tenant shall take the Lease with full knowledge of the title to the Premises as set out in:

- (a) the Title Documentation; and

(b) Clause [5.3.1](#) (*Matters affecting the premises to be let*) (including all matters arising in connection with the Planning Acts);

and, subject to Clause 5.4.3, no enquiry, requisition, objection or claim shall be raised by the Tenant.

5.2 Title guarantee

The Landlord shall grant the Lease with the title guarantee referred to in the Lease (if any).

5.3 Matters affecting the Premises to be let

5.3.1 In addition to the matters listed in Standard Condition 3.1.2 the Premises are let subject to and where applicable with the benefit of the Encumbrances including all matters mentioned, contained or referred to in them.

5.3.2 The following shall be added to the end of Standard Condition 3.1.2:

- (f) all outgoing, consents, easements and liabilities affecting the Premises;
- (g) any matters arising by virtue of any Legislation which have been disclosed to the Tenant;
- (h) any unregistered interests falling within any of the paragraphs of schedule 1 or schedule 3 of the Land Registration Act 2002 and any interests falling within section 11(4)(c) of that Act; and
- (i) such unregistered interests as may affect the Premises to the extent and for so long as they are preserved by the transitional provisions of schedule 12 of the Land Registration Act 2002.'

5.4 Acknowledgements and requisitions

5.4.1 The Tenant and the Guarantor confirm that they have:

- (a) been provided with all information necessary to assess the state and condition of the Premises;
- (b) had full opportunity to enter the Premises to conduct such surveys and investigations as the Tenant and the Guarantor wished; and
- (c) formed their own view as to the condition and suitability of the Premises for the Tenant's purposes.

5.4.2 Subject to Clause 5.4.3 the Tenant shall not raise any enquiry, requisition or claim nor refuse to complete in respect of:

- (a) any of the matters referred to in Standard Condition 3.1.2 or Clause [5.3.1](#) (*Matters affecting the premises to be let*); or
- (b) the state of repair or condition of the Premises or the compliance or non-compliance of the Premises with any Legislation.

5.4.3 Clauses [5.1.3](#) (*Proof of title*) and [5.4.2](#) (*Acknowledgements and requisitions*) shall not prevent the Tenant and/or the Tenant's Solicitor raising an enquiry or requisition of the Landlord and/or the Landlord's Solicitor in respect of matters not disclosed to the Tenant before the date of this Agreement which are revealed by final searches in respect of the Premises at the Land Registry or the Central Land Charges Registry and the Landlord is to reply in writing within four working days to any requisition received from the Tenant.

5.5 Use

The Landlord does not warrant that the Premises may lawfully be used for any purpose authorised under the Lease.

6 Insurance and risk

6.1 Damage to Premises between exchange and completion

6.1.1 Damage to, destruction of, or deterioration in the condition of:

- (a) the whole or any part of the Premises; or
- (b) access to the Premises; or
- (c) any services to the Premises;

where caused by a risk that is at the time of such damage destruction or deterioration covered by an insurance policy and the costs of carrying out all necessary works of repair are recoverable under such insurance policy shall not entitle the Tenant to refuse to complete or delay completion.

6.1.2 From the date of this Agreement the Landlord shall observe and perform the insurance and reinstatement obligations in respect of the Property on the part of the Landlord contained in the Lease as if the Lease had been granted.

7 Completion

7.1 Time for completion

Completion of the Lease shall take place on the Completion Date when all apportionments and other moneys due shall be paid by direct credit.

7.2 Landlord's contribution

Subject to receipt of a valid VAT invoice addressed to the Landlord, on the date of this Agreement the Landlord shall pay to the Tenant's Solicitor's Account as contributions towards the costs of the Works:

- (a) Five Thousand Five Hundred and Ten Pounds (£5,510) for installing floor boxes in the Premises; and
- (b) Eighteen Thousand Three Hundred and Sixty Seven Pounds (£18,367) for carpeting the Premises.

7.3 Documents to be delivered on completion

7.3.1 On the Actual Completion Date, each Party shall deliver to the other's Solicitor:

- (a) a duly executed Lease or counterpart Lease (as the case may be); and
- (b) duly executed duplicates or counterparts of other documents the Party is required to enter into on or before the Actual Completion Date pursuant to this Agreement.

7.3.2 All money, bank drafts, documents, keys and other items delivered by any party through the post or document exchange in connection with this transaction and its completion shall be at the risk of any other party.

8 Registration matters

8.1 Registration of Lease

As soon as reasonably practicable after Actual Completion the Tenant shall submit an application to the Land Registry for the registration of the Lease and all rights granted by it. As soon as reasonably practicable after completion of the registration, the Tenant shall provide to the Landlord official copies with title plans of the registers showing the Tenant as proprietor of the Lease.

8.2 Protecting this Agreement

The Landlord agrees not to object to the registration of a unilateral notice against the Title Number in respect of this Agreement.

9 Guarantor Covenants

[Schedule 2](#) applies where a Guarantor has been named in the Particulars

10 Termination

10.1 Terminating events

If:

10.1.1 any Party commits any breach of the provisions of this Agreement and fails to remedy such breach within 5 working days after any other Party serves Notice on that Party specifying the breach;

10.1.2 there occurs in relation to any party an Act of Insolvency;

then any other Party may at any time after the occurrence of such event terminate this Agreement by Notice to that Party and upon service of such Notice, save to the extent provided in Clause [10.2](#) (*Consequences of Termination*), this Agreement shall terminate.

10.2 Consequences of termination

10.2.1 Without prejudice to Standard Condition 9.2, the termination of this Agreement shall be without prejudice to any rights or liabilities of the Parties accrued at the date of termination or rescission.

10.2.2 On termination of this Agreement, the Tenant shall:

- (a) return all Title Documentation supplied in respect of the Premises;
- (b) immediately apply to cancel all registrations made by or on behalf of the Tenant to protect this Agreement and the Tenant's interest in the Premises and supply to the Landlord's Solicitor certified copies of all such applications;
- (c) irrevocably appoint the Landlord as its agent to act at the Tenant's cost, in its name and on its behalf for the purposes of effecting or procuring such cancellations where the Tenant fails to comply within 14 days of termination with its obligations under Clause [10.2.2\(b\)](#) (*Consequences of Termination*);
- (d) (if in occupation of the Premises) immediately vacate the Premises;
- (e) if and to the extent required by the Landlord, remove (at its own expense) any works carried out by or on behalf of the Tenant to the Premises or other property registered under the Title Number and reinstate the same to their state and condition as at the date of this Agreement. If the Tenant defaults in carrying out such works of removal and reinstatement within a reasonable period of time (having regard to the nature and extent of the works and to the Landlord's proposals for occupation or letting of the Premises) after service of Notice by the Landlord, the Landlord shall be entitled to carry out such works at the Tenant's expense and all costs so incurred shall be repaid by the Tenant forthwith upon demand; and

(f) forthwith reimburse to the Landlord the sums paid by the Landlord pursuant to Clause [7.2](#)(*Landlord's Contribution*).

10.2.3 This Clause and Clauses [1](#) (*Definitions and Interpretation*), [3](#) (*Payments and Indemnity*) [9](#) (*Guarantor Covenants*) and Clause [11](#) (*General*) shall survive termination of this Agreement and shall continue to apply after the termination of this Agreement as shall any other Standard Condition or provision which by its nature is intended to survive termination or rescission.

11 General

11.1 Variation and waiver

11.1.1 No modification or variation of the terms of this Agreement shall be effective unless it is in writing and signed by or on behalf of each of the Parties and is in a form that complies with the requirements of the Law of Property (Miscellaneous Provisions) Act 1989.

11.1.2 The rights of each Party under this Agreement:

- (a) may be exercised as often as necessary;
- (b) are cumulative and not exclusive of its rights under the general law; and
- (c) may be waived only in writing and specifically; and

delay in exercising or non-exercise of any such right is not a waiver of that right.

11.2 Announcements

Save as may be required by law, none of the Parties shall make any statement or public announcement to the media or any other third parties in connection with the letting of the Premise or any matters referred to in this Agreement without prior written consent of the other Parties.

11.3 Assignment

No Party may (whether at law or in equity) assign, transfer, grant any security interest over, hold on trust or deal in any other manner with the benefit of the whole or any part of this Agreement nor sub-contract any or all of its obligations under this Agreement nor purport to do any of the same.

11.4 Third Party Rights

A person who is not a party to this Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement but this does not affect any right or remedy of a third party which exists or is available apart from that Act.

11.5 Survival

All provisions of this Agreement shall continue in full force and effect notwithstanding Actual Completion, except those provisions already performed at completion.

11.6 Joint and several liability

- 11.6.1 Unless expressly provided otherwise, all representations, warranties, indemnities, undertakings, covenants, agreements and obligations made, given or entered into by more than one person in this Agreement are made, given or entered into jointly and severally.
- 11.6.2 Where the Tenant or the Guarantor is more than one person, the Landlord may release or compromise the liability of any of those persons under this Agreement, may take action against any one or more those persons or grant time or other indulgence without affecting the liability of any one of them.

11.7 Entire Agreement

- 11.7.1 This Agreement, together with any documents that the Parties are to enter into pursuant to it (together the **Contractual Documents**) constitutes the entire agreement and understanding between the Parties relating to its subject matter and supersedes any and all previous agreements, arrangements and/or understandings (whether written or oral) between the Parties relating to such subject matter.
- 11.7.2 The Tenant and the Guarantor confirm that in entering into the Contractual Documents they do not rely on, and shall have no remedy in respect of, any statement, representation, warranty or understanding of any person (whether a party to a Contractual Document or not) other than as are expressly set out in the Contractual Documents or in Enquiry Replies.
- 11.7.3 Nothing in this Clause shall operate to limit or exclude any liability for fraud.

11.8 Notices

- 11.8.1 Standard Condition 1.3 applies to this Agreement as amended.
- 11.8.2 The words 'in the English language' shall be added to the end of Standard Condition 1.3.1.
- 11.8.3 The words 'where delivery of the original document is not essential' shall be deleted from Standard Condition 1.3.3 and Standard Condition 1.3.3(b) shall be deleted and replaced by the words '(b) by hand or by pre-paid first class post or recorded delivery to the address given in the Particulars for the relevant Party or as otherwise notified by the relevant Party from time to time.'
- 11.8.4 The words 'one hour after despatch' in Standard Condition 1.3.7(d) shall be deleted and replaced with the words 'when confirmation of its uninterrupted transmission has been recorded by the sender's fax machine'.
- 11.8.5 No notice or other communication served on either the Landlord's Solicitor or the Tenant's Solicitor shall be valid unless it quotes the reference for the recipient Solicitor set out in the Particulars and in the case of a communication sent by fax, it is transmitted to the fax number for the recipient Solicitor given in the Particulars or such other reference or fax number as may have been notified in accordance with the provisions of this Clause.
- 11.8.6 In Standard Condition 1.3, each occurrence of '4.00 pm' shall be replaced by '5.30 pm'.

11.9 Counterparts and duplicates

This Agreement and (unless this Agreement expressly provides otherwise) any other document to be entered into by the Parties pursuant to its terms may be executed (at the Landlord's option) as duplicates or in any number of counterparts each of which when executed shall be an original but all the counterparts shall together constitute one and the same instrument.

11.10 Governing Law and Jurisdiction

This Agreement shall be governed by and construed in accordance with the laws of England and each Party irrevocably agrees to submit to the exclusive jurisdiction of the courts of England and Wales over any claim or matter arising under or in connection with this Agreement.

12 Opinion Letter

Prior to completion of the Lease the Guarantor shall deliver to the Landlord an opinion in English dated not more than five working days before completion of the Lease addressed to the Landlord from a reputable firm of lawyers in the jurisdiction of incorporation of the Guarantor in substantially the form of the draft opinion letter attached to this agreement as Annexure B.

This Agreement has been entered into by the Parties or their duly authorised representatives and is executed and delivered as a deed by the Guarantor on the date set out in the Particulars.

Ref: LMM/ATS/0707864

Schedule 1
Encumbrances

The documents mentioned, contained or referred to in the property, proprietorship and charges registers of the Title Number NGL572469.

The Superior Lease (as defined in [Schedule 3](#) (*Superior Landlords' Consent*))

The Head Lease (as defined in Schedule 3 (*Superior Landlord's Consent*))

Schedule 2

Guarantor Covenants

In consideration of the Landlord entering into this Agreement at the Guarantor's request, the Guarantor covenants with the Landlord as primary obligor and not merely as guarantor, in the terms set out in this Schedule.

1. Guarantee and indemnity

- 1.1 The Guarantor agrees with the Landlord that the Tenant shall comply with the Tenant's obligations under this Agreement (the **Tenant's Obligations**) and also as a separate obligation to indemnify the Landlord against all liability sustained by the Landlord arising out of or in connection with any default by the Tenant in complying with the Tenant's Obligations.
- 1.2 Any sum payable by the Guarantor under this Agreement shall be paid on written demand and without deduction, set-off or counter claim.

2. Liability of Guarantor

- 2.1 The Guarantor shall be jointly and severally liable with the Tenant for the fulfilment of the Tenant's Obligations.
- 2.2 The Guarantor agrees that the Landlord, in the enforcement of its rights under this Agreement, may proceed against the Guarantor as if the Guarantor were named as the Tenant in this Agreement and without first making demand of the Tenant or exercising any other rights or enforcing any other security that it may have in respect of the Tenant's Obligations.
- 2.3 The liability of the Guarantor under this Agreement shall not be affected by:
 - (a) any Act of Insolvency of the Tenant;
 - (b) disclaimer of this Agreement by a liquidator or trustee in bankruptcy;
 - (c) any concession, time, indulgence or release given to the Tenant by the Landlord;
 - (d) any variation or rescission of this Agreement; or
 - (e) other act, omission, or thing by which but for this provision the Guarantor would be released wholly or in part.

3. Guarantor to enter into documents

The Guarantor shall at the request of the Landlord join in as a party to (and consent to the terms of) any other document made supplemental or collateral to this Agreement.

4. Guarantor not to claim in competition or take security

The Guarantor shall not:

(a) claim any rights of subrogation against the Tenant or prove as creditor in competition with the Landlord in any proceedings in connection with an Act of Insolvency or arrangement of the Tenant in respect of any payment made by the Guarantor pursuant to this guarantee and indemnity and if the Guarantor receives any money in such proceedings or arrangement, it will hold that money on trust for the Landlord to the extent of its liability to the Landlord; or

(b) take any security or other right from the Tenant or be entitled to claim or participate in any security held by the Landlord in respect of the Tenant's Obligations.

5. Guarantor bound by proceedings

If the Landlord brings proceedings against the Tenant, the Guarantor shall be bound by any findings of fact interim or final award or interlocutory or final judgment made by an arbitrator or the court in those proceedings in so far as the same relate to the subject matter of this Agreement.

Schedule 3

Condition: Superior Landlords' Consent

1. Definitions

In this Schedule the following definitions apply.

Head Lease means a lease of the demised premises dated 22 February 2001 made between (1) Winterdome Limited and (2) Microsoft Limited and all or any deeds and documents which are or are expressed to be supplemental thereto.

Superior Landlord means the person from time to time entitled to the reversion expectant on the determination of the Superior Lease and includes (where the context admits) any person or persons entitled to the reversion expectant on the determination of any interest superior to the Superior Lease.

Superior Landlords' Consent means the Superior Landlords' Lease Consent and the Superior Landlords' Works Consent.

Superior Landlords' Lease Consent means the written consent of the Superior Landlords to the grant of the Lease (satisfying the requirement of the Superior Lease and the Head Lease)

Superior Landlords' Works Consent means the written consent of the Superior Landlord to the Tenant's Works (satisfying the requirements of the Superior Lease and the Head Lease).

Superior Lease means a lease of the demised premises and other premises dated 25 June 2007 made between (1) Microsoft Limited and (2) Nokia UK Limited

2. The Condition

The condition referred to in the Particulars and Clause 2 (*Conditionality*) of this Agreement is the Landlord obtaining the Superior Landlords' Lease Consent and the Superior Landlords' Works Consent or at the Tenant's sole discretion the Landlord obtaining the Superior Landlords' Lease Consent.

3. Landlord's obligations

3.1 The Landlord shall:

- 3.1.1 immediately apply for and use all reasonable endeavours to obtain as quickly as possible the Superior Landlords' Consent;
- 3.1.2 promptly supply such information as shall reasonably be required of the Landlord by any Superior Landlord pursuant to and in accordance with the Superior Lease;
- 3.1.3 promptly pay all proper and reasonable fees costs and expenses of every Superior Landlord and all other costs properly and reasonably incurred by the Superior Landlord for the Superior Landlords' Lease Consent;
- 3.1.4 promptly respond to all correspondence and negotiate and agree all draft documentation relating to the application for the Superior Landlords' Consent;

- 3.1.5 immediately observe and perform all other obligations covenants and conditions contained or referred to in the Superior Lease to the extent such observance and performance is necessary to obtain the Superior Landlords' Consent;
- 3.1.6 properly execute the documents constituting the Superior Landlords' Consent (and any other documents required by the Superior Landlord in relation to the granting of the Superior Landlords' Consent) promptly after an engrossment in a form acceptable to the Landlord (acting properly and reasonably) has been submitted to the Landlord's Solicitor;
- 3.1.7 immediately give the Tenant Notice as soon as the Superior Landlords' Consent has been obtained.

4. Tenant's obligations

4.1 General

4.1.1 The Tenant and the Guarantor shall promptly:

- (a) supply all references and information reasonably required by the Superior Landlord pursuant to and in accordance with the Superior Lease in connection with the grant of Superior Landlords' Consent;
- (b) respond to all correspondence and negotiate and agree all draft documentation relating to the application for the Superior Landlords' Consent and reasonably required by the Superior Landlord pursuant to and in accordance with the Superior Lease;
- (c) comply with the Superior Landlords' requirements relating to the grant of the Superior Landlords' Consent pursuant to and in accordance with the Superior Lease;
- (d) provide such guarantees and security for the performance of the Tenant's covenants contained in the Lease as the Tenant (acting reasonably) may agree; and
- (e) give the Landlord Notice once the Superior Landlords' Consent has been obtained (should the Superior Landlords' Consent be sent to the Tenant (or the Tenant's Solicitor)).

4.1.2 The Tenant and the Guarantor shall also:

- (a) properly execute or procure the execution of the documents in a form acceptable to the Tenant (acting properly and reasonably) constituting the Superior Landlords' Consent (and any other documents in a form acceptable to the Tenant (acting properly and reasonably) and required by the Landlord and/or the Superior Landlord in relation to the granting of the Superior Landlords' Consent) promptly after an engrossment has been submitted to the Tenant's Solicitor; and
- (b) give such reasonable assistance as may be required to obtain the Superior Landlords' Consent (not including the payment of any fine or premium).

4.2 Costs

The Tenant shall pay the reasonable and proper costs and disbursements of the Superior Landlord in relation to the application for Superior Landlords' Works Consent (whether or not this Agreement is completed).

4.3 No objections

4.3.1 The Parties may not object to the Superior Landlords' Consent being given subject to a condition:

- (a) which under section 19(1A) of the Landlord and Tenant Act 1927 is regarded as reasonable; or
- (b) which is lawfully imposed under an express term of the Superior Lease.

4.3.2 If the Superior Landlord properly requires the agreed form Lease to be altered pursuant to and in accordance with the Superior Lease, such alterations shall with the prior written consent of the Tenant (which shall not be unreasonably withheld or delayed) be deemed to be alterations agreed in writing for the purposes of Clause [1.2.3](#).

4.4 Proceedings

Nothing in this Agreement shall oblige the Landlord to take any proceedings against the Superior Landlord in relation to either any delay in granting or refusal to grant the Superior Landlords' Consent or otherwise.

4.5 Guarantor

Where a guarantor is required to join in the Superior Landlords' Consent then references to the Tenant in this Schedule shall where the context admits include references to that guarantor.

Schedule 4

Tenant's Access prior to Actual Completion

1. Tenant's access prior to Actual Completion

1.1 The Tenant shall (notwithstanding that Actual Completion has not occurred) be entitled to access the Premises as from the date of this Agreement upon the terms and conditions of this Schedule.

1.2 Access will be for the purpose only of carrying out the Works (as defined in [Schedule 5](#)) and occupying the Premises in accordance with the terms and conditions of this Agreement.

2. No Lease

2.1 Until the grant of the Lease, this Agreement shall not operate or be deemed to operate as a demise of the Premises nor shall the Tenant have or be entitled to any estate right title or interest in the Premises (other than the licence granted by this Agreement).

2.2 Without prejudice to Clause [11.2](#) (*Assignment*) the Tenant may not transfer or deal in any way with the licence created by this Agreement.

3. Tenant's Obligations

The Tenant shall:

- (a) pay on demand to the Landlord for the period commencing on the date of this Agreement and ending on the day before the Completion Date, a daily licence fee in respect of the Tenant's occupation of the Premises at a rate equivalent to one 365th of the insurance rent and service charge and from the Rent Commencement Date one 365th of the annual rent reserved and any moneys paid pursuant to this paragraph shall upon completion of the Lease be set against any moneys that would otherwise be due under the Lease in respect of the same period;
 - (b) fully indemnify the Landlord against all liability which may be suffered by the Landlord as a result of the grant of this licence;
 - (c) be responsible for all outgoings (including any gas, telephone, electricity, water or drainage charges or rates) which arise in relation to the Premises from and including the Access Date;
 - (d) comply with any reasonable regulations made by the Landlord regarding the use and occupation of the Premises;
 - (e) not infringe any Legislation relating to the Premises;
 - (f) not infringe any matter relating to the title to the Premises;
 - (g) make good as soon as reasonably practicable any damage occasioned to the Premises and the Building as a result of the carrying out of the Works or the Tenant's Access to the Building (it being agreed that the Works themselves shall not be regarded as damage).
-

4. Tenant's risk

4.1 The Tenant's entry on the Premises will be entirely at its own risk.

4.2 Any equipment, tools, goods or items left by the Tenant or on the Tenant's behalf at the Premises are so left entirely at the Tenant's risk.

5. Termination

The licence created by this Schedule shall terminate on the earlier of the Actual Completion Date and the termination of this Agreement.

Tenant's Works Schedule

1. Definitions and interpretation

1.1 Definitions

In this Schedule the following definitions apply:

Landlord's Approval Date means the date on which the details of the Works (supplied under paragraph 2.1) are approved by the Landlord and the Superior Landlords.

Licence to Alter means a licence to alter in the form required by any Superior Landlord and approved by the Tenant (acting reasonably) relating to the Works (or such of them as require consent under the terms of the Lease) together with the Specification.

Specification means the plans, drawings and specifications supplied to the Landlord pursuant to paragraph 2.1.

Works means the fitting out works to the Premises comprising the provision of such interior fittings and equipment such fitting out works to be more particularly specified in the Specification.

Building means the property known as 10 Great Pulteney Street, of which the Premises forms part, together with any other adjoining or neighbouring premises of the Landlord.

CDM Regulations means the Construction (Design and Management) Regulations 2007.

Deleterious Materials means any materials or substances which in the particular circumstances in which they are to be used fail to satisfy the relevant British Standard and the principles of good building practice (including the essential requirements defined in the Construction Products Regulations 1991).

Insurers means the insurers for the time being of the Building.

Requisite Consents means all licences, certificates and permits required for the execution and retention of the Works including but not limited to any that may be required from any person having an interest in the Building or any adjoining or neighbouring premises.

Specification means the plans, drawings and specifications supplied to the Landlord pursuant to paragraph 2.1.

Term has the meaning given in the Lease.

Works means the fitting out works to the Premises comprising the provision of such interior fittings and equipment such fitting out works to be more particularly specified in the Specification.

1.2 Interpretation

In addition to the matters referred to at Clause 1 (Definitions and Interpretation) of this Agreement, where reference is made to the satisfaction of the Landlord, the Landlord may (but is not obliged to) consult its surveyor and any other appointed representatives in determining the Landlord's satisfaction.

2. Consent for Works

2.1 The Tenant shall as soon as reasonably practicable following the date of this Agreement, submit to the Landlord for approval, details of the Works in triplicate (including such plans, drawings and other information in respect of the Works as the Landlord or any Superior Landlord reasonably and properly requires).

2.2 The Tenant shall not commence the Works until

the details supplied under paragraph 2.1 have been approved by the Landlord and the Superior Landlord save that this need not require the Superior Landlords' Works Consent to have been granted.

3. Before commencement of the Works

The Tenant agrees with the Landlord before commencing the Works:

3.1 to obtain the Requisite Consents at its own expense;

3.2 to give the Requisite Consents to the Landlord;

3.3 to give at least 5 working days prior Notice to the Landlord of the Tenant's intention to commence the Works;

3.4 to give at least 5 working days prior Notice to the Insurers of the Tenant's intention to commence the Works, including a copy of the Specification; and

3.5 to take out and maintain fully comprehensive public liability insurance in the sum of not less than £5,000,000 for any one occurrence or series of occurrences arising out of one event against liability to any person arising from or in connection with the Works, and to produce evidence to the Landlord of such insurance.

4. During the Works

The Tenant covenants with the Landlord, if the Works are begun:

4.1 to carry out the Works in accordance with its obligations under this Schedule and with the Specification, at its own expense, in a good and workmanlike manner and using good, new and sound materials to the reasonable satisfaction of the Landlord's Surveyor;

4.2 to carry out the Works in a manner which does not cause any interruption to the business of the Landlord or any other person in the Building or any material nuisance, damage, inconvenience or annoyance to the Landlord or to any other person, and to make good any damage caused to the Building by the carrying out of the Works or access to the Building promptly and to the reasonable satisfaction of the Landlord's Surveyor;

- 4.3 to carry out the Works in compliance with the Requisite Consents and with the provisions of Legislation;
- 4.4 to supply to the Landlord on demand all such documents, information and evidence as it may reasonably require so as to satisfy itself that the provisions of this Schedule have been complied with;
- 4.5 if any Requisite Consent requires the execution of further works then to carry out such further works and complete them in their entirety before the end of the Term (whether or not such consent specifies a later date) and such further works shall be deemed to be part of the Works;
- 4.6 not to use any Deleterious Materials in the Works;
- 4.7 to comply with all requirements of the Insurers in connection with the Works and to pay on demand any additional premium which may be payable to the Insurers in respect of the insurance of the Building as a result of the Works being carried out;
- 4.8 not to leave, store or permit to be left or stored outside the Premises any builder's plant materials or debris;
- 4.9 during the carrying out of the Works not to:
 - 4.9.1 damage, weaken or render unsafe the structure of the Building or its plant or machinery;
 - 4.9.2 infringe, interrupt or destroy any right, easement or privilege;
 - 4.9.3 interrupt any service to or from or within the Building or adjoining or neighbouring property; or
 - 4.9.4 vitiate the insurance of the Premises and/or the Building;
- 4.10 to indemnify and keep the Landlord indemnified from and against all liability arising from the execution of the Works or the exercise or purported exercise of the rights granted by this Schedule and/or the breach of the Tenant's covenants or the other terms of this Schedule;
- 4.11 on not less than forty eight (48) hours prior written notice to permit the Landlord and those authorised by the Landlord to enter the Premises to inspect the progress and completion of the Works and for any other purpose connected with this Schedule;
 - 4.11.1 to complete the Works in accordance with the obligations on the part of the Tenant set out in this Schedule within three months from the date of this Agreement;
 - 4.11.2 on completion of the Works to remove all debris and equipment from the Premises, to make good any damage caused to the Building by the execution of the Works and to clean the Premises;
- 4.12 to give Notice to the Landlord immediately upon completion of the Works;
- 4.13 within seven days after completion of the Works to prepare and deliver to the Landlord three complete sets of drawings and specifications showing the Works as completed and a copy of any operational and maintenance manuals relating to the Works;

4.14 to grant (or procure the grant of) a royalty-free and irrevocable licence to copy and use the drawings specifications and operational and maintenance manuals referred to in paragraph 4.15 for any purpose connected with the Building, and such licence shall include the right to grant sub-licences and shall be assignable to third parties without consent;

4.15 until completion of the same, keep the Works insured against the Insured Risks (as defined in the Lease); and

4.16 immediately following completion of the Works, give Notice to the Landlord of the cost of the Works for insurance purposes.

5. CDM Regulations

5.1 This Clause applies to the extent that the CDM Regulations apply to the Works or to the carrying out of the Works.

5.2 The Tenant shall plan, carry out and complete all the Works in accordance with the CDM Regulations to the extent they apply to the Works.

5.3 To the extent that the Landlord may be a client for the purposes of the CDM Regulations in relation to the Works or the carrying out of the Works, the Tenant elects to be the only client in respect of the Works for the purposes of the CDM Regulations and the Landlord agrees to such election.

5.4 The Tenant must comply with its obligations as a client for the purposes of the CDM Regulations and must ensure that the CDM co-ordinator and the principal contractor that it appoints in relation to the Works comply with their respective obligations under the CDM Regulations. The Tenant must liaise with the CDM co-ordinator to allow the CDM co-ordinator to assist the Tenant in performing the Tenant's duties as client under the CDM Regulations.

5.5 At completion of the construction phase of the Works, in accordance with the CDM Regulations, the Tenant must ensure either that the CDM co-ordinator gives the Landlord all necessary documents relating to the Works that are required under the CDM Regulations to be kept in the health and safety file for the Premises or that the CDM co-ordinator updates the health and safety file for the Premises and, in either event, the Tenant must comply with its obligations in the Lease relating to the documents and the file. The Landlord shall co-operate with the CDM co-ordinator to the extent necessary to allow the CDM co-ordinator to update the health and safety file for the Premises.

6. Reinstatement

6.1 Removal of the Works

The Tenant covenants with the Landlord to dismantle and remove the Works and to reinstate and make good the Premises and to restore the Premises to their appearance immediately before the commencement of the Works to the reasonable satisfaction of the Landlord's Surveyor:

6.1.1 as soon as this Agreement is terminated; or

6.1.2 before the expiration or sooner determination of the Term, except if a new lease is to be granted to the Tenant at the end of the Term containing provisions to the same effect as those contained in this Schedule for the reinstatement of the Premises before the end of the term of such new lease.

6.2 Method of reinstatement

The Tenant covenants with the Landlord in carrying out such works of reinstatement to comply with the provisions of this Schedule for the carrying out of the Works.

7. Termination

The licences granted by this Schedule shall also terminate on the termination of this Agreement.

8. Agreement and declaration

It is agreed and declared that:

8.1 nothing in this Schedule authorises any alterations or additions to the Premises other than the Works;

8.2 the licence contained in this Schedule is granted subject to the rights of any person having an interest in the Building or any adjoining or neighbouring property or any other interested persons;

8.3 if the Works are carried out all the Tenant's covenants and the conditions in the Lease shall apply to the Premises when and as altered and shall extend to all additions which may be made to the Premises in the course of the Works;

8.4 the alterations comprised in the Works are not improvements within the meaning of Part 1 of the Landlord and Tenant Act 1927 and are being carried out by the Tenant to suit the Tenant's own personal requirements, and nothing in this Schedule nor any correspondence, notice, specification or plan of the Works shall be deemed to be notice under the Landlord and Tenant Act 1927 or the 1954 Act of an intention to make improvements to the Premises, and neither the Tenant nor any other person shall be entitled to any compensation in respect of the Works at the expiration or sooner determination of the Term or at any other time;

8.5 any decrease or increase in the rental value of the Premises caused by or arising from the execution or existence of the Works or the obligations contained in this Schedule shall be disregarded for the purpose of any review of rent under the Lease;

8.6 nothing contained in this Schedule implies any warranty by or on behalf of the Landlord that the Works may be lawfully or safely carried out;

8.7 nothing contained in this Schedule releases or in any way lessens the liability of any person to the Landlord under the covenants and conditions contained in the Lease or constitutes a waiver of any outstanding breach; and

8.8 **nothing in this Schedule imposes upon the Landlord any liability to insure the Works until they are complete and the Tenant has notified the Landlord in writing of completion of the Works and of any increase in the reinstatement value of the Premises (including the Works);**

Schedule 6

Exclusion of Sections 24-28 of the 1954 Act

1. The Parties agree to exclude the provisions of sections 24 to 28 (inclusive) of the 1954 Act in relation to the tenancy to be created by the Lease.
 2. The Tenant and Guarantor confirm that before the Tenant became contractually bound to enter into the tenancy to be created by the Lease:
 - 2.1 The Landlord served on the Tenant a notice dated 17 October 2007 in relation to the tenancy to be created by the Lease in a form complying with the requirements of schedule 1 to the Regulatory Reform (Business Tenancies) (England and Wales) Order 2003 (the 2003 Order);
 - 2.2 The Tenant, or a person duly authorised by the Tenant, made a statutory declaration (the Declaration) dated 19 October 2007 in a form complying with the requirements of schedule 2 of the 2003 Order.
 3. The Tenant further confirms that, where the Declaration was made by a person other than the Tenant, the declarant was duly authorised by the Tenant to make the Declaration on the Tenant's behalf.
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Signature Page

SIGNED by)
for and on behalf of)
Nokia UK Limited)
)
)
)
)

/s/ illegible
Company Secretary
/s/ illegible
22-11-07

SIGNED by)
for and on behalf of)
FOCUS Information Limited)
)
)
)

/s/ Paul Marples
Paul Marples
Managing Director

SIGNED by)
for and on behalf of)
CoStar Group, Inc.)
)
)
)

/s/ Andrew Florance
Andrew Florance
Chief Executive Officer

ANNEXURES

Annexe A:
Annexe B:

Lease
Opinion Letter

SUBSIDIARIES OF THE REGISTRANT

- a) CoStar Realty Information, Inc., a Delaware corporation
- b) CoStar Limited, a U.K. company
- c) CoStar U.K. Limited, a U.K. company
- d) Property Investment Exchange Limited, a U.K. company
- e) Grecam S.A.S., a Société par Actions Simplifiée

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in Registration Statements on Form S-8 Nos. 333-82599, 333-92165, 333-45770, 333-69548, 333-135709 and 333-143968 of our reports dated February 22, 2008 with respect to the consolidated financial statements of CoStar Group, Inc. 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, 2007, filed with the Securities and Exchange Commission.

/s/ Ernst & Young LLP

McLean, Virginia
February 22, 2008

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 Rules 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; and
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 functions):
 - 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: February 28, 2008

By: /s/ Andrew C. Florance
Andrew C. Florance
Chief Executive Officer
(Principal Executive Officer and
Duly Authorized Officer)

CERTIFICATION

I, Brian J. Radecki, 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 Rules 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; and
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 functions):
 - 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: February 28, 2008

By: /s/ Brian J. Radecki
Brian J. Radecki
Chief Financial Officer
(Principal Financial and Accounting Officer and Duly Authorized Officer)

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

February 28, 2008

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, 2007, I, Brian J. Radecki, 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, 2007, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o (d)); and
- 2) the information contained in such Annual Report on Form 10-K of CoStar Group, Inc., for the year ended December 31, 2007, fairly presents, in all material respects, the financial condition and results of operations of CoStar Group, Inc.

By: /s/ Brian J. Radecki
Brian J. Radecki
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.