

COSTAR GROUP INC
Form 10-Q
October 24, 2018

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

FORM 10-Q

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

For the quarterly period ended September 30, 2018

OR

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

For the transition period from _____ to _____

Commission file number 0-24531

CoStar Group, Inc.
(Exact name of registrant as specified in its charter)
Delaware 52-2091509
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

1331 L Street, NW
Washington, DC 20005
(Address of principal executive offices) (zip code)

(202) 346-6500
(Registrant's telephone number, including area code)

(877) 739-0486
(Registrant's facsimile number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

1934.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of October 19, 2018, there were 36,419,787 shares of the registrant's common stock outstanding.

COSTAR GROUP, INC.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues	\$305,525	\$247,533	\$876,261	\$711,239
Cost of revenues	72,072	55,483	201,685	162,102
Gross profit	233,453	192,050	674,576	549,137
Operating expenses:				
Selling and marketing (excluding customer base amortization)	89,251	72,705	290,706	240,833
Software development	26,173	21,536	75,357	67,054
General and administrative	39,012	35,998	117,658	104,550
Customer base amortization	8,329	4,298	22,948	13,642
	162,765	134,537	506,669	426,079
Income from operations	70,688	57,513	167,907	123,058
Interest and other income	3,035	555	8,674	1,589
Interest and other expense	(717)	(2,901)	(2,135)	(8,280)
Income before income taxes	73,006	55,167	174,446	116,367
Income tax expense	14,247	20,990	19,621	37,876
Net income	\$58,759	\$34,177	\$154,825	\$78,491
Net income per share - basic	\$1.63	\$1.05	\$4.30	\$2.42
Net income per share - diluted	\$1.61	\$1.04	\$4.25	\$2.40
Weighted average outstanding shares - basic	36,129	32,444	36,032	32,375
Weighted average outstanding shares - diluted	36,518	32,814	36,439	32,705

See accompanying notes.

COSTAR GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	\$58,759	\$34,177	\$154,825	\$78,491
Other comprehensive (loss) income, net of tax				
Foreign currency translation adjustment	(361)	1,190	(1,469)	3,432
Total other comprehensive (loss) income	(361)	1,190	(1,469)	3,432
Total comprehensive income	\$58,398	\$35,367	\$153,356	\$81,923

See accompanying notes.

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

	September 30, 2018	December 31, 2017
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,071,786	\$ 1,211,463
Accounts receivable, less allowance for doubtful accounts of approximately \$5,668 and \$6,469 as of September 30, 2018 and December 31, 2017, respectively	82,279	60,900
Prepaid expenses and other current assets	25,203	15,572
Total current assets	1,179,268	1,287,935
Long-term investments	10,070	10,070
Deferred income taxes, net	2,679	5,431
Property and equipment, net	81,937	84,496
Goodwill	1,548,976	1,283,457
Intangible assets, net	285,958	182,892
Deferred commission costs, net	76,062	—
Deposits and other assets	7,394	6,179
Income tax receivable	14,878	12,981
Total assets	\$ 3,207,222	\$ 2,873,441
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 10,114	\$ 9,262
Accrued wages and commissions	50,483	54,104
Accrued expenses	33,500	22,193
Deferred gain on the sale of building	2,523	2,523
Income taxes payable	1,269	8,166
Deferred rent	5,386	4,732
Deferred revenue	50,195	45,686
Total current liabilities	153,470	146,666
Deferred gain on the sale of building	14,299	16,192
Deferred rent	31,146	33,909
Deferred income taxes, net	64,865	12,070
Income taxes payable	15,128	13,354
Total liabilities	278,908	222,191
Total stockholders' equity	2,928,314	2,651,250
Total liabilities and stockholders' equity	\$ 3,207,222	\$ 2,873,441
See accompanying notes.		

COSTAR GROUP, INC.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(in thousands)

(unaudited)

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity
	Shares	Amount				
Balance at December 31, 2017	36,107	\$ 361	\$2,339,253	\$ (9,020)	\$320,656	\$2,651,250
Cumulative effect of adoption of new accounting standard, net of tax	—	—	—	—	54,464	54,464
Balance at January 1, 2018	36,107	\$ 361	\$2,339,253	\$ (9,020)	\$375,120	\$2,705,714
Net income	—	—	—	—	154,825	154,825
Other comprehensive loss	—	—	—	(1,469)	—	(1,469)
Exercise of stock options	176	2	21,954	—	—	21,956
Restricted stock grants	138	1	(1)	—	—	—
Restricted stock grants surrendered	(109)	(1)	(23,665)	—	—	(23,666)
Stock-based compensation expense	—	—	30,353	—	—	30,353
Employee stock purchase plan	11	—	4,235	—	—	4,235
Stock issued for acquisitions	103	1	36,365	—	—	36,366
Balance at September 30, 2018	36,426	\$ 364	\$2,408,494	\$ (10,489)	\$529,945	\$2,928,314

See accompanying notes.

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