COSTAR GROUP INC
Form 10-Q
July 30, 2015

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

FORM 10-Q

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

For the quarterly period ended June 30, 2015

OR

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

For the transition period from ______ to ______

Commission file number 0-24531

CoStar Group, Inc.
(Exact name of registrant as specified in its charter)

Delaware	52-2091509
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of July 24, 2015, there were 32,470,507 shares of the registrant’s common stock outstanding.

COSTAR GROUP, INC.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenues	$170,657	$147,708	$329,677	$266,784
Cost of revenues	44,634	39,481	90,030	73,124
Gross margin	126,023	108,227	239,647	193,660
Operating expenses:				
Selling and marketing	92,434	40,889	161,912	68,634
Software development	16,844	15,143	31,992	27,494
General and administrative	29,909	26,250	55,272	51,147
Purchase amortization	6,965	9,036	14,107	12,335
	146,152	91,318	263,283	159,610
Income (loss) from operations	(20,129)	16,909	(23,636)	34,050
Interest and other income	137	62	431	199
Interest and other expense	(2,354)	(3,753)	(4,697)	(5,368)
Income (loss) before income taxes	(22,346)	13,218	(27,902)	28,881
Income tax expense (benefit), net	(7,380)	4,969	(6,809)	10,892
Net income (loss)	$(14,966)	$8,249	$(21,093)	$17,989
Net income (loss) per share — basic	$(0.47)	$0.28	$(0.66)	$0.63
Net income (loss) per share — diluted	$(0.47)	$0.28	$(0.66)	$0.62
Weighted average outstanding shares — basic	31,991	29,061	31,911	28,667
Weighted average outstanding shares — diluted	31,991	29,486	31,911	29,163

See accompanying notes.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income (loss)	$(14,966)	$8,249	$(21,093)	$17,989
Other comprehensive income, net of tax				
Foreign currency translation adjustment	1,507	702	246	961
Net decrease in unrealized loss on investments	80	21	248	199
Total other comprehensive income	1,587	723	494	1,160
Total comprehensive income (loss)	$(13,379)	$8,972	$(20,599)	$19,149

See accompanying notes.

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

	June 30, 2015 (unaudited)	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$351,781	$527,012
Accounts receivable, net of allowance for doubtful accounts of approximately $7,160 and $4,815 as of June 30, 2015 and December 31, 2014, respectively	54,382	38,694
Deferred and other income taxes, net	28,509	20,007
Income tax receivable	1,027	1,027
Prepaid expenses and other current assets	11,351	9,736
Debt issuance costs, net	3,298	3,335
Total current assets	450,348	599,811
Long-term investments	16,049	17,151
Property and equipment, net	85,442	73,753
Goodwill	1,246,789	1,138,805
Intangible assets, net	263,831	241,622
Deposits and other assets	3,243	2,676
Debt issuance costs, net	8,245	9,864
Total assets	$2,073,947	$2,083,682
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$20,000	$20,000
Accounts payable	6,778	8,608
Accrued wages and commissions	24,666	23,155
Accrued expenses	48,166	27,001
Deferred gain on the sale of building	2,523	2,523
Deferred revenue	39,185	38,003
Total current liabilities	141,318	119,290
Long-term debt, less current portion	355,000	365,000
Deferred gain on the sale of building	22,501	23,762
Deferred rent	30,131	27,032
Deferred income taxes, net	14,069	30,349
Income taxes payable	4,775	4,703
Total liabilities	567,794	570,136
Total stockholders' equity	1,506,153	1,513,546
Total liabilities and stockholders' equity	$2,073,947	$2,083,682

See accompanying notes.

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

	Six Months Ended June 30, 2015	2014
Operating activities:		
Net income (loss)	$(21,093)	$17,989
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	9,184	7,161
Amortization	27,303	23,360
Amortization of debt issuance costs	1,656	1,555
Impairment loss	2,778	1,053
Excess tax benefit from stock-based compensation	(7,552)	(26,819)
Stock-based compensation expense	15,857	14,259
Deferred income tax expense (benefit), net	(15,784)	2,433
Provision for losses on accounts receivable	3,550	2,036
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(14,650)	(10,358)
Prepaid expenses and other current assets	(723)	(3,206)
Deposits and other assets	109	(133)
Accounts payable and other liabilities	25,812	11,078
Deferred revenue	509	2,926
Net cash provided by operating activities	26,956	43,334
Investing activities:		
Proceeds from sale and settlement of investments	1,350	550
Purchases of property and equipment and other assets	(17,930)	(11,437)
Acquisition, net of cash acquired	(172,667)	(584,218)
Net cash used in investing activities	(189,247)	(595,105)
Financing activities:		
Proceeds from long-term debt	—	550,000
Payments of long-term debt	(10,000)	(308,125)
Payments of debt issuance costs	—	(9,969)
Payments of deferred consideration	—	(1,344)
Excess tax benefit from stock-based compensation	7,552	26,819
Repurchase of restricted stock to satisfy tax withholding obligations	(15,373)	(49,755)
Proceeds from equity offering, net of transaction costs	—	529,360
Proceeds from exercise of stock options and employee stock purchase plan	4,704	3,547
Net cash provided by (used in) financing activities	(13,117)	740,533
Effect of foreign currency exchange rates on cash and cash equivalents	177	142
Net increase (decrease) in cash and cash equivalents	(175,231)	188,904
Cash and cash equivalents at the beginning of period	527,012	255,953
Cash and cash equivalents at the end of period	$351,781	$444,857

See accompanying notes.

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

1. ORGANIZATION

CoStar Group, Inc. (the "Company" or "CoStar") provides information, analytics and online marketplace services to the commercial real estate and related business community through its comprehensive, proprietary database of commercial real estate information covering the United States ("U.S."), the United Kingdom ("U.K."), Toronto, Canada and parts of France. The Company provides online marketplaces for commercial real estate listings, apartment rentals, lands for sale and businesses for sale. The Company operates within two operating segments, North America and International, and its services are typically distributed to its clients under subscription-based license agreements that renew automatically, a majority of which have a term of one year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Interim Financial Statements

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information. In the opinion of the Company's management, the financial statements reflect all adjustments necessary to present fairly the Company's financial position at June 30, 2015 and December 31, 2014, the results of its operations for the three and six months ended June 30, 2015 and 2014, its comprehensive income (loss) for the three and six months ended June 30, 2015 and 2014, and its cash flows for the six months ended June 30, 2015 and 2014. These adjustments are of a normal recurring nature.

Certain notes and other information have been condensed or omitted from the interim financial statements presented in this Quarterly Report on Form 10-Q. Therefore, these financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

The results of operations for the three and six months ended June 30, 2015 are not necessarily indicative of future financial results.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. On an ongoing basis, the Company evaluates its estimates and assumptions, including those related to revenue recognition, allowance for doubtful accounts, useful lives of property and equipment and intangible assets, recoverability of long-lived assets and intangible assets with definite lives, goodwill, income taxes, fair value of equity instruments, fair value of auction rate securities, accounting for business combinations, contingencies, among others. The Company bases these estimates on historical and anticipated results, trends, and various other assumptions that it believes are reasonable, including assumptions as to future events. These estimates form the basis for making judgments about the carrying values of assets and liabilities and recorded revenue and expenses. Actual results could differ from these estimates.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising costs include e-commerce, television, radio, print and other media advertising. Advertising costs were approximately $44.4 million and $8.9 million for the three months ended June 30, 2015 and 2014, respectively. Advertising costs were approximately $79.0 million and $11.5 million for the six months ended June 30, 2015 and 2014, respectively.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (CONTINUED)

Foreign Currency Translation

The Company’s functional currency in its foreign locations is the local currency. Assets and liabilities are translated into U.S. dollars using the exchange rates as of the balance sheet dates. Revenues, expenses, gains and losses are translated at the average exchange rates in effect during each period. Gains and losses resulting from translation are included in accumulated other comprehensive loss. Net gains or losses resulting from foreign currency exchange transactions are included in the condensed consolidated statements of operations. There were no material gains or losses from foreign currency exchange transactions for the three and six months ended June 30, 2015 and 2014.

Accumulated Other Comprehensive Loss

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

	June 30, 2015	December 31, 2014
Foreign currency translation adjustment	$(5,447)	$(5,693)
Accumulated net unrealized loss on investments, net of tax	(443)	(691)
Total accumulated other comprehensive loss	$(5,890)	$(6,384)

There were no amounts reclassified out of accumulated other comprehensive loss to the condensed consolidated statements of operations for the three and six months ended June 30, 2015 and 2014.

Net Income (Loss) Per Share

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Numerator:				
Net income (loss)	$(14,966)	$8,249	$(21,093)	$17,989
Denominator:				
Denominator for basic net income (loss) per share — weighted-average outstanding shares	31,991	29,061	31,911	28,667
Effect of dilutive securities:				
Stock options and restricted stock	—	425	—	496
Denominator for diluted net income (loss) per share — weighted-average outstanding shares	31,991	29,486	31,911	29,163
Net income (loss) per share — basic	$(0.47)	$0.28	$(0.66)	$0.63
Net income (loss) per share — diluted	$(0.47)	$0.28	$(0.66)	$0.62

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (CONTINUED)

Net Income (Loss) Per Share — (Continued)

The Company did not consider the impact of potentially dilutive securities for the three and six months ended June 30, 2015 when calculating the diluted net loss per share because the inclusion of the potentially dilutive common shares would have an anti-dilutive effect. Stock options to purchase approximately 80,000 shares that were outstanding for the three and six months ended June 30, 2014 were not included in the computation of diluted net income per share because the exercise price of the stock options was greater than the average market share price of the common stock during the period. Additionally, shares of restricted common stock that vest based on Company performance and service conditions that have not been achieved as of the end of the period are not included in the computation of basic or diluted earnings per share. Finally, shares of restricted common stock units that vest based on Company service conditions that have not been achieved as of the end of the period are not included in the computation of basic or diluted earnings per share. The following table summarizes the potential performance-based restricted stock awards and service-based restricted stock units excluded from the basic and diluted calculation (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Performance-based restricted stock awards	55	23	55	23
Service-based restricted stock units	1	1	1	1
Total shares excluded from computation	56	24	56	24

Stock-Based Compensation

Equity instruments issued in exchange for employee services are accounted for using a fair-value based method and the fair value of such equity instruments is recognized as expense in the condensed consolidated statements of operations.

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

Cash flows resulting from excess tax benefits are classified as part of cash flows from operating and financing activities. Excess tax benefits represent tax benefits for stock-based compensation in excess of the associated deferred tax asset for such equity compensation recorded as an increase to stockholders' equity. Net cash proceeds from the exercise of stock options and the purchase of shares under the Employee Stock Purchase Plan (“ESPP”) were approximately $649,000 and $546,000 for the three months ended June 30, 2015 and 2014, respectively. Net cash proceeds from the exercise of stock options and the purchase of shares under the ESPP were approximately $4.7 million and $3.5 million for the six months ended June 30, 2015 and 2014, respectively. The Company realized approximately $5.5 million and $3.4 million of excess tax benefits from stock options exercised and restricted stock awards vested for the three months ended June 30, 2015 and June 30, 2014, respectively. The Company realized approximately $7.6 million and $26.8 million of excess tax benefits from stock options exercised and restricted stock awards vested for the six months ended June 30, 2015 and 2014, respectively.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (CONTINUED)

Stock-Based Compensation — (Continued)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Cost of revenues	$1,339	$1,056	$2,709	$2,264
Selling and marketing	1,202	674	2,184	1,775
Software development	1,446	1,241	2,716	2,688
General and administrative	4,428	3,409	8,248	7,532
Total stock-based compensation	$8,415	$6,380	$15,857	$14,259

Options to purchase 2,617 and 2,419 shares were exercised during the three months ended June 30, 2015 and 2014, respectively. Options to purchase 41,068 and 45,835 shares were exercised during the six months ended June 30, 2015 and 2014, respectively.

Debt Issuance Costs

Costs incurred in connection with the issuance of long-term debt are capitalized and amortized as interest expense over the term of the related debt using the effective interest method. Upon a refinancing, previously capitalized debt issuance costs are expensed and included in loss on extinguishment of debt if the Company determines that there has been a substantial modification of the related debt. If the Company determines that there has not been a substantial modification of the related debt, any previously capitalized debt issuance costs are amortized as interest expense over the term of the new debt instrument using the effective interest method. The Company had capitalized debt issuance costs of approximately $11.5 million and $13.2 million as of June 30, 2015 and December 31, 2014, respectively. The debt issuance costs are associated with the financing commitment received from JPMorgan Chase Bank, N.A. (“J.P. Morgan Bank”) on April 27, 2011, the subsequent term loan facility and revolving credit facility established under a credit agreement dated February 16, 2012 (the “2012 Credit Agreement”), the financing commitment received from J.P. Morgan Bank, Bank of America, N.A., SunTrust Bank and Wells Fargo Bank, National Association on February 28, 2014, and the subsequent term loan facility and revolving credit facility established under a credit agreement dated April 1, 2014 (the “2014 Credit Agreement”). See Note 8 for additional information regarding the term loan facility and revolving credit facility. The Company amortized debt issuance costs of approximately $829,000 and $845,000 for the three months ended June 30, 2015 and 2014, respectively. The Company amortized debt issuance costs of approximately $1.7 million and $1.6 million for the six months ended June 30, 2015 and 2014, respectively.

Business Combinations

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (CONTINUED)

Recent Accounting Pronouncements

There have been no developments to the Recent Accounting Pronouncements discussion included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014, including the expected dates of adoption and estimated effects on the Company's condensed consolidated financial statements, except for the following:

In May 2014, the Financial Accounting Standards Board ("FASB") and International Accounting Standards Board ("IASB") jointly issued a new revenue recognition standard that is designed to improve financial reporting by creating common recognition guidance for U.S. GAAP and International Financial Reporting Standards ("IFRS"). This guidance provides a more robust framework for addressing revenue issues, improves the comparability of revenue recognition practices across industries, provides more useful information to users of financial statements through improved disclosure requirements and simplifies the presentation of financial statements. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance permits the use of either a full retrospective method or a modified retrospective approach. The modified retrospective approach would be applied only to the most current period presented along with a cumulative-effect adjustment at the date of adoption. The original effective date of the new standard was for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. In July 2015, the FASB decided to defer by one year the effective date of this new revenue recognition standard. As a result, the new standard will be effective for annual reporting periods beginning after December 15, 2017, with an option that permits companies to adopt the standard as early as the original effective date. Early application prior to the original effective date is not permitted. The Company has not yet determined when it will adopt the standard and it has not selected a transition method and is currently evaluating the impact this guidance will have on its financial statements.

In April 2015, the FASB issued authoritative guidance to simplify the presentation of debt issuance costs. This guidance requires a company to present debt issuance costs related to a recognized debt liability in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by this guidance. This guidance is effective on a retrospective basis for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. Early application is permitted. This guidance is not expected to have a material impact on the Company's results of operations or financial position, but will require changes to the presentation of the consolidated balance sheets and the notes to the consolidated financial statements.

3. ACQUISITIONS

Apartments.com

On February 28, 2014, the Company and Classified Ventures, LLC ("CV") entered into an Asset Purchase Agreement (the "Asset Purchase Agreement"). Pursuant to the Asset Purchase Agreement, on April 1, 2014 (the "Closing Date"), the Company purchased from CV certain assets and assumed certain liabilities, in each case, related to the Apartments.com business (collectively referred to herein as "Apartments.com"). Apartments.com is a national online apartment rentals resource for renters, property managers and owners. Apartments.com offers renters a database of apartment listings and provides professional property management companies and landlords with an advertising destination. Renters can conduct personalized searches of apartment listings and view video demonstrations and community reviews through the Apartments.com website and mobile applications. The Apartments.com network of rental websites also includes ApartmentHomeLiving.com, another national online apartment rentals resource. The acquisition increased the Company's presence in the multifamily vertical.

In consideration for the purchase of Apartments.com, on April 1, 2014, the Company paid $587.1 million in cash, including an estimated $2.1 million in connection with a preliminary net working capital adjustment as of the Closing Date. Pursuant to the terms of the Asset Purchase Agreement, the purchase price was reduced by approximately $2.9 million following the final determination of the net working capital of Apartments.com as of the Closing Date, and CV paid the Company $2.9 million on July 9, 2014.

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

3. ACQUISITIONS — (CONTINUED)

Apartments.com — (Continued)

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

Accounts receivable	$11,402
Goodwill	421,724
Acquired trade names and other intangible assets	71,779
Acquired customer base	69,684
Acquired database technology	11,489
Acquired building photography	1,006
Other assets and liabilities	(2,866)
Fair value of identifiable net assets acquired	$584,218

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

The acquired customer base for the acquisition consists of one distinct intangible asset, is composed of acquired customer contracts and the related customer relationships, and has an estimated useful life of ten years. The acquired database technology had an estimated useful life of one year due to the Company's intent to replace the acquired database technology, which occurred in February of 2015. The acquired trade names and other intangible assets have a weighted average estimated useful life of thirteen years. The acquired building photography has an estimated useful life of three years. Amortization of the acquired customer base is recognized on an accelerated basis related to the expected economic benefit of the intangible asset, while amortization of the acquired database technology, acquired building photography and acquired trade names and other intangible assets are recognized on a straight-line basis over their respective estimated useful lives. Goodwill recorded in connection with this acquisition is not amortized, but is subject to annual impairment tests. The $421.7 million of goodwill recorded as part of the acquisition is associated with the Company's North America operating segment and the entire amount of goodwill is expected to be deductible for income tax purposes in future periods.

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

As a result of the acquisition of Apartments.com, the Company recorded approximately $260,000 and $1.4 million in acquisition-related costs for the three and six months ended June 30, 2014. The Company did not record any acquisition-related costs as result of the acquisition of Apartments.com for the three and six months ended June 30, 2015. These costs include expenses directly related to acquiring Apartments.com, were expensed as incurred and were recorded in general and administrative expense.

Apartment Finder

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

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

3. ACQUISITIONS — (CONTINUED)

Apartment Finder — (Continued)

In consideration for the purchase of Apartment Finder, on June 1, 2015, the Company paid