

PEGASYSTEMS INC
Form DEF 14A
April 02, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
SCHEDULE 14A

(Rule 14a-101)

SCHEDULE 14A INFORMATION

**Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to Section 240.14a-11(c) or Section 240.14a-12

PEGASYSTEMS INC.

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

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Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

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Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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Dear Stockholder:

We cordially invite you to attend our 2012 Annual Meeting of Stockholders on Wednesday, May 23, 2012 at 101 Main Street, Cambridge, Massachusetts. The Annual Meeting will commence at 9:00 a.m., local time.

The following Notice of Annual Meeting of Stockholders and proxy statement describe the items to be considered by our stockholders and contain certain information about Pegasystems and our officers and Directors.

Please vote your shares by submitting your proxy in the manner described herein so that your shares can be voted at the Annual Meeting in accordance with your instructions. Even if you plan to attend the Annual Meeting, we urge you to vote your shares prior to the meeting. You can revoke your proxy at any time before the Annual Meeting, or vote your shares personally if you attend the Annual Meeting.

We look forward to seeing you on May 23, 2012.

Sincerely,

Alan Trefler

Chairman and Chief Executive Officer

April 9, 2012

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PEGASYSTEMS INC.

101 Main Street

Cambridge, MA 02142

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To be held on May 23, 2012

To our Stockholders:

The 2012 Annual Meeting of Stockholders of Pegasystems Inc. will be held at 101 Main Street, Cambridge, Massachusetts, on Wednesday, May 23, 2012 at 9:00 a.m., local time. At the meeting, stockholders will consider and vote on the following matters:

1. To elect the six members of the Board of Directors named in our proxy statement for a one-year term.
2. To conduct a non-binding advisory vote on the compensation of our named executive officers.
3. To approve an amendment to our Restated Articles of Organization to increase the number of authorized shares of our common stock from 70,000,000 to 100,000,000.
4. To ratify the selection by the Audit Committee of our Board of Directors of Deloitte & Touche LLP as our independent registered public accounting firm for the year ending December 31, 2012.

The stockholders will also act on any other business as may properly come before the meeting.

Stockholders of record at the close of business on March 14, 2012 are entitled to vote at the meeting.

We are pleased to comply with the Securities and Exchange Commission rules that direct companies to distribute their proxy materials over the Internet, as we have done in past years. This process is often informally referred to as e-proxy. As a result, we are mailing a Notice of Internet Availability of Proxy Materials (the Notice) instead of paper copies of this notice, our proxy statement, our proxy card, and our 2011 Annual Report on Form 10-K. The Notice contains instructions about how to access these materials via the Internet and how to request paper copies of these materials if you prefer.

You are cordially invited to attend the meeting in person if possible. Whether you plan to attend the meeting or not, please vote your shares by submitting your proxy via the Internet or telephone or by completing, signing, dating and returning a proxy card in the manner described in the proxy statement. You can change your vote and revoke your proxy at any time before the polls close at the meeting by following the procedures described in the proxy statement.

By Order of the Board of Directors,

Shawn Hoyt

General Counsel and Secretary

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Cambridge, Massachusetts

April 9, 2012

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2012 ANNUAL MEETING OF STOCKHOLDERS

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PEGASYSTEMS INC.

101 Main Street

Cambridge, MA 02142

PROXY STATEMENT

FOR ANNUAL MEETING OF STOCKHOLDERS

To be held on May 23, 2012

This proxy statement contains information about the 2012 Annual Meeting of Stockholders of Pegasystems Inc. (the Annual Meeting). The Annual Meeting will be held on Wednesday, May 23, 2012, beginning at 9:00 a.m., local time, at 101 Main Street, Cambridge, Massachusetts. Unless the context otherwise requires, references in this proxy statement to Pegasystems, the Company, we, us or our refer to Pegasystems Inc.

This proxy statement is furnished in connection with the solicitation of proxies by our Board of Directors for use at the Annual Meeting and at any adjournment of that meeting. All proxies will be voted in accordance with the instructions they contain. If no instruction is specified on a proxy, it will be voted in favor of Proposals 1, 2, 3 and 4 set forth in the notice of the Annual Meeting, except as otherwise noted below. A stockholder may change any vote and revoke any proxy at any time before it is exercised by giving our Secretary written notice to that effect.

Pursuant to Rule 14a-16 under the Securities Exchange Act of 1934 (the Exchange Act), our Annual Report on Form 10-K for the year ended December 31, 2011 (Annual Report) is being made available to stockholders along with these proxy materials on or about April 9, 2012 at the following URL: www.edocumentview.com/pega. The Annual Report does not constitute any part of this proxy statement.

INFORMATION ABOUT THE ANNUAL MEETING AND VOTING

What is the purpose of the Annual Meeting?

At the Annual Meeting, stockholders will consider and vote on the following matters:

1. The election of the six members of the Board of Directors named in this proxy statement for a one-year term. Please see the discussion under the topic Election of Directors in this proxy statement for further information regarding Proposal 1 that our stockholders should consider in determining their vote.
2. A non-binding advisory vote on the compensation of our named executive officers (also referred to as Say on Pay), as described in the Compensation Discussion and Analysis section and elsewhere in this proxy statement. Please see the discussion under the topics Advisory Vote on Executive Compensation, Compensation Discussion and Analysis, Executive Compensation and the Report of the Compensation Committee on Executive Compensation in this proxy statement for further information regarding Proposal 2 that our stockholders should consider in determining their vote.
3. The approval of an amendment to our Restated Articles of Organization to increase the number of authorized shares of common stock from 70,000,000 to 100,000,000. Please see the discussion under the topic Approval of the Amendment to our Restated Articles of Organization in this proxy statement for further information regarding Proposal 3 that our stockholders should consider in determining their vote.

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4. Ratification of the selection by the Audit Committee of our Board of Directors of Deloitte & Touche LLP as our independent registered public accounting firm for the year ending December 31, 2012.

Please see the discussion under the topic *Ratification of the Selection of Independent Registered Public Accounting Firm* in this proxy statement for further information regarding Proposal 4 that our stockholders should consider in determining their vote.

The stockholders will also act on any other business that may properly come before the Annual Meeting.

Who can vote?

To be able to vote, you must have been a stockholder of record at the close of business on March 14, 2012 (the *record date*). This date is the record date for the Annual Meeting. The number of outstanding shares of our common stock entitled to vote at the Annual Meeting is 37,825,037.

How many votes do I have?

Each share of our common stock that you owned on the record date entitles you to one vote on each matter that is before the stockholders at the Annual Meeting.

Is my vote important?

Your vote is important regardless of how many shares you own. Please take the time to vote. Take a moment to read the instructions below.

Why did I receive a notice in the mail regarding the Internet availability of proxy materials this year instead of a full set of proxy materials?

We are pleased to comply with the Securities and Exchange Commission, or SEC, rules that direct companies to distribute their proxy materials over the Internet, as we have done in past years. As a result, we have sent our stockholders and beneficial owners a Notice of Internet Availability of Proxy Materials (the *Notice*) instead of paper copies of this proxy statement, our proxy card, and our Annual Report. Detailed instructions on how to access these materials via the Internet may be found in the Notice.

How can I vote?

If you hold your shares of record, you may vote via the Internet or by mail, or you may vote in person at the Annual Meeting. If your shares are held in *street name* by a bank or brokerage firm, please see the first sentence of the *Can I vote if my shares are held in street name ?* section below for instructions regarding how to vote your shares.

Voting by Internet. You may submit your proxy via the Internet by following the instructions provided in the Notice and on the proxy card.

Voting by Telephone. You may vote your proxy over the telephone by following the instructions provided in the Notice and on the proxy card.

Voting by mail. You may vote by printing, completing, signing and dating the proxy card that accompanies this proxy statement and promptly mailing it in accordance with the instructions provided on the proxy card.

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The shares you own will be voted according to the instructions on the proxy you submit via the Internet or by mail, as applicable. If you return the proxy but do not give any instructions on a particular matter described in this proxy statement, the shares you own will be voted in accordance with the recommendations of our Board of Directors. The Board of Directors recommends a vote *FOR* Proposals 1, 2, 3, and 4.

Voting in person. If you attend the Annual Meeting, you may vote by delivering your completed proxy in person or you may vote by completing a ballot. Ballots will be available at the Annual Meeting.

Can I vote my shares by filling out and returning the Notice of Internet Availability of Proxy Materials?

No. The Notice contains instructions on how to vote via the Internet, by requesting and returning a paper proxy card, or by submitting a ballot in person at the Annual Meeting.

I prefer to read my proxy materials on paper. How do I get paper copies?

The Notice contains instructions on how to request paper copies by phone, email, or via the Internet. You will be sent the materials by first class mail within three business days of your request, at no cost to you. If you receive your proxy materials by mail, you may vote your shares by completing, signing and dating the proxy card that accompanies this proxy statement and promptly mailing it in the enclosed postage-prepaid envelope. Once you request paper copies, you will continue to receive the materials in paper form until you instruct us otherwise. Please note, however, that the online proxy materials will also be in a format suitable for printing on your own printer.

Can I change my vote after I have submitted my proxy?

Yes. You can change your vote and revoke your proxy at any time before the polls close at the Annual Meeting by doing any one of the following things:

signing another proxy with a later date;

giving our Secretary a written notice before or at the Annual Meeting that you want to revoke your proxy; or

voting in person at the Annual Meeting.

Your attendance at the Annual Meeting alone will not revoke your proxy.

Can I vote if my shares are held in street name ?

If the shares you own are held in street name by a bank or brokerage firm, your bank or brokerage firm, as the record holder of your shares, is required to vote your shares according to your instructions. To vote your shares, you will need to follow the directions your bank or brokerage firm provides you. Many banks and brokerage firms also offer the option of voting over the Internet or by telephone, instructions for which would be provided by your bank or brokerage firm on your vote instruction form.

If your shares are held in street name, you must bring an account statement or letter from your brokerage firm or bank showing that you are the beneficial owner of the shares as of the record date in order to be admitted to the Annual Meeting on May 23, 2012. To be able to vote your shares held in street name at the Annual Meeting, you will need to obtain a proxy card from the holder of record.

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What will happen if I do not give my bank or brokerage firm instructions on how to vote my shares?

If you do not give your bank or broker instructions as to how to vote on Proposal 1 (Election of Directors), Proposal 2 (Advisory Vote on Executive Compensation), or Proposal 3 (Approval of the Amendment to our Restated Articles of Organization), described in this proxy statement, your shares will not be voted as to that Proposal at the Annual Meeting. This is due to recent rule changes approved by the SEC, under which banks and brokers are no longer permitted to vote shares in such elections without express instruction from the beneficial owners of those shares. Therefore, your broker may not vote with respect to these items and those unvoted shares will be counted as broker non-votes, which are described in the section below. If you do not give your bank or broker instructions as to how to vote on Proposal 4 (Ratification of the Selection of Independent Registered Public Accounting Firm) described in this proxy statement, however, your bank or broker may be entitled to use its discretion in voting your shares as to that Proposal in accordance with industry practice.

What constitutes a quorum?

For business to be conducted at the Annual Meeting with respect to a particular matter, a quorum must be present for that particular matter. For each of the Proposals described in this proxy statement, a quorum consists of the holders of a majority of the votes entitled to be cast on the matter (including shares as to which a nominee has no voting authority) at the Annual Meeting, or at least 18,912,519 shares of our common stock.

Shares of common stock represented in person or by proxy (including shares that abstain or do not vote with respect to one or more of the matters to be voted upon) will be counted for the purpose of determining whether a quorum exists. A share once represented for any purpose at the Annual Meeting is deemed present for quorum purposes for the remainder of the meeting and for any adjournment of the meeting unless (1) the stockholder attends solely to object to lack of notice, defective notice or the conduct of the meeting on other grounds and does not vote the shares or otherwise consent that they are to be deemed present, or (2) in the case of an adjournment, a new record date is or will be set for that adjourned meeting. Shares of stock represented by broker non-votes will also be treated as present for purposes of determining whether a quorum exists. Broker non-votes are shares of stock held in record name by brokers or nominees as to which:

instructions have not been received from the beneficial owners or persons entitled to vote;

the broker or nominee does not have discretionary voting power under applicable rules or the instrument under which it serves in such capacity; and

the record holder has indicated on the proxy card or has executed a proxy and otherwise notified us that it does not have authority to vote such shares on that matter.

What vote is required for each item?

Election of Directors. With respect to each of the six nominees for Director, the number of votes cast at the Annual Meeting in favor of such nominee must represent a majority of the votes entitled to be cast in an Election of Directors by all issued and outstanding shares of common stock. This means that if any nominee is one of the six nominees receiving the highest number of votes cast at the Annual Meeting, but the number of votes cast for such nominee does not represent a majority of the votes entitled to be cast in an Election of Directors by all issued and outstanding shares, such nominee will not be elected as a Director.

Advisory Vote on Executive Compensation. The Company is seeking a non-binding advisory vote regarding the compensation of our named executive officers. The affirmative vote of the holders of shares representing a majority of the votes entitled to be cast at the Annual Meeting is required to approve this matter. While this vote is non-binding and advisory in nature, our Board of Directors and Compensation Committee will consider the outcome of the vote when determining executive compensation arrangements.

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Amendment to Restated Articles of Organization. The affirmative vote of the holders of a majority of the Company's common stock outstanding on the record date is required to approve the amendment to our Restated Articles of Organization to increase the number of authorized shares of common stock.

Other Matters. The other matters to be voted on at the Annual Meeting, including the ratification of our independent registered public accounting firm, will be approved if the votes cast at the Annual Meeting in favor of the matter exceed the votes cast opposing the matter.

How will votes be counted?

Each share of common stock will be counted as one vote according to the instructions contained on a proper proxy card, whether executed by you directly or on a ballot voted in person at the Annual Meeting. Shares will not be voted in favor of a matter, and will not be counted as voting on a matter, if they either, (1) abstain from voting on a particular matter, or (2) are broker non-votes. Banks and brokers that do not receive instructions with respect to Proposals 1, 2, and 3 will not be allowed to vote these shares, which will then be counted as broker non-votes instead of votes for or against. Accordingly, abstentions and broker non-votes will not be counted as votes in favor of a proposal and will also not be counted as votes cast or shares voted on such proposal.

Abstentions and broker non-votes will have no effect on the outcome of voting with respect to Proposal 4 (Ratification of the Selection of Independent Registered Public Accounting Firm), because this Proposal will be approved if the votes cast at the Annual Meeting in favor of the Proposal exceed the votes cast opposing the Proposal. Abstentions and broker non votes, however, will have the effect of negative votes with respect to Proposal 1 (Election of Directors) and Proposal 3 (Amendment to Restated Articles of Organization) because, as described above, each nominee for Director must receive the affirmative vote of the holders of a majority of the votes entitled to be cast in an Election of Directors by all issued and outstanding shares of common stock, and the amendment to the Restated Articles of Organization must be approved by the affirmative vote of the holders of a majority of the Company's outstanding common stock.

Who will count the votes?

The votes will be counted, tabulated and certified by our transfer agent and registrar, Computershare Investor Services, and our General Counsel and Secretary, will serve as the inspector of elections at the Annual Meeting.

How does the Board of Directors recommend that I vote on the Proposals?

The Board of Directors recommends that you vote:

FOR the election of the six members of the Board of Directors named in this proxy statement to hold office for one year (Proposal 1);

FOR the approval by non-binding advisory vote of the compensation of our named executive officers (Proposal 2);

FOR the approval of the amendment to our Restated Articles of Organization (Proposal 3); and

FOR the ratification of the selection by the Audit Committee of our Board of Directors of Deloitte & Touche LLP as our independent registered public accounting firm for the year ending December 31, 2012 (Proposal 4).

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Will any other business be conducted at the Annual Meeting or will other matters be voted on?

The Board of Directors does not know of any other matters that may come before the Annual Meeting. If any matter properly comes before the Annual Meeting, the persons named in the proxy card will exercise their judgment in deciding how to vote, or otherwise act, at the Annual Meeting with respect to that matter or proposal.

Where can I find the voting results?

We will report the voting results in a Current Report on Form 8-K, which will be filed within four business days after the Annual Meeting.

How and when may I submit a stockholder proposal for the 2013 annual meeting?

If you are interested in submitting a proposal for inclusion in the proxy statement for the 2013 annual meeting, you need to follow the procedures outlined in Rule 14a-8 under the Exchange Act and in the Company's Amended and Restated Bylaws. To be eligible for inclusion, we must receive your stockholder proposal intended for inclusion in the proxy statement for the 2013 Annual Meeting of Stockholders at our principal corporate offices in Cambridge, Massachusetts as set forth below no earlier than January 23, 2013 and no later than February 22, 2013.

If a stockholder wishes to present a proposal before the 2013 Annual Meeting of Stockholders, but does not wish to have the proposal considered for inclusion in the proxy statement and proxy card, the stockholder must also give written notice to us at the address noted below and follow the procedures outlined in the Company's Amended and Restated Bylaws. The required notice must be received by us no earlier than January 23, 2013 and no later than February 22, 2013.

Any proposals or notices should be sent to:

Pegasystems Inc.

101 Main Street

Cambridge, MA 02142-1590

Attention: General Counsel and Secretary

Who will bear the costs of soliciting these proxies?

We will bear the costs of solicitation of proxies. Brokers, custodians and fiduciaries will be requested to forward proxy soliciting material to the owners of shares of our common stock they hold in their names. We will reimburse banks and brokers for their reasonable out-of-pocket expenses incurred in connection with the distribution of proxy materials.

How can I obtain an Annual Report on Form 10-K?

Our Annual Report is available on or about April 9, 2012 at the following URL: www.edocumentview.com/pega. If you would like a copy of this document, we will send it to you without charge. Please contact:

Pegasystems Inc.

101 Main Street

Cambridge, MA 02142-1590

Attention: General Counsel and Secretary

Telephone: (617) 374-9600

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Whom should I contact if I have any questions?

If you have any questions about the Annual Meeting or your ownership of our common stock, please contact our General Counsel and Secretary at the address or telephone number listed above.

Householding of Annual Meeting Materials

Some banks, brokers and other nominee record holders may be participating in the practice of householding proxy statements and annual reports. This means that only one copy of our proxy statement and Annual Report to stockholders may have been sent to multiple stockholders in your household. We will promptly deliver a separate copy of either document to you if you contact us at the following address or telephone number:

Pegasystems Inc.

101 Main Street

Cambridge, MA 02142-1590

Attention: General Counsel and Secretary

Telephone: (617) 374-9600

If you want to receive separate copies of the proxy statement or Annual Report to stockholders in the future, or if you are receiving multiple copies and would like to receive only one copy per household, you should contact your bank, broker, or other nominee record holder, or you may contact us at the above address or telephone number.

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The following table sets forth certain information, which, except as otherwise noted below, is as of January 31, 2012, with respect to the beneficial ownership of our common stock by:

- the stockholders we know to beneficially own more than 5% of our outstanding common stock;
- each Director;
- each executive officer named in the Summary Compensation Table included below in this proxy statement; and
- all of our executive officers and Directors as a group.

Unless otherwise indicated, the address of each person listed below is c/o Pegasystems Inc., 101 Main Street, Cambridge, MA 02142.

NAME OF BENEFICIAL OWNER	NUMBER OF SHARES OWNED		NUMBER OF OPTIONS EXERCISABLE		NUMBER OF RESTRICTED STOCK UNITS VESTING		TOTAL SHARES BENEFICIALLY OWNED (1)		PERCENTAGE OF SHARES BENEFICIALLY OWNED (2)	
	Stockholders	Above	Stockholders	Above	Stockholders	Above	Stockholders	Above	Stockholders	Above
5% Stockholders										
Alan Trefler (3)	20,028,349						20,028,349		53.08%	
Directors										
Alan Trefler	See 5%		See 5%		See 5%		See 5%		See 5%	
Peter Gyenes	10,729				1,452		12,181			*
Richard Jones (4)	452,553		40,000				492,553		1.30%	
Steven Kaplan	23,725		55,000				78,725			*
James O Halloran	66,751						66,751			*
William Wyman	34,525		30,000				64,525			*
Named Executive Officers										
Alan Trefler	See 5%		See 5%		See 5%		See 5%		See 5%	
Craig Dynes	5,054		33,672		1,366		40,092			*
Douglas Kra	8,181		56,092		1,357		65,630			*
Michael Pyle	10,181		70,084		3,449		83,714			*
Leon Trefler	1,771		11,695		1,948		15,414			*
All executive officers and Directors as a group (5)	20,642,079		298,949		9,676		20,950,704		55.07%	

* Represents beneficial ownership of less than 1% of our outstanding common stock.

(1) The number of shares of common stock beneficially owned by each person is determined under rules promulgated by the SEC. Under these rules, a person is deemed to have beneficial ownership of any shares over which that person has or shares voting or investing power, plus any shares that the person has the right to acquire within 60 days, including through the exercise of stock options. To our knowledge, unless otherwise indicated, all of the persons listed above have sole voting and investment power with respect to their shares of common stock, except to the extent authority is shared by spouses under applicable law.

(2) The percent ownership for each stockholder is calculated by dividing the total number of shares beneficially owned by the stockholder by 37,731,841 shares (the number of shares of our common stock outstanding on January 31, 2012) plus any shares acquirable (including pursuant to stock options exercisable and RSUs vesting) by the stockholder within 60 days after January 31, 2012, and multiplying the result by 100.

(3)

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Includes 72,000 shares of common stock held by the Trefler Foundation, of which Alan Trefler is a trustee. Mr. Trefler has voting and dispositive power over such shares, but has no pecuniary interest with respect to such shares. Mr. Trefler maintains margin securities accounts at one or more brokerage firms, and the positions held in such accounts, which may from time to time include shares of our common stock, may be used as collateral security for the repayment of any debit balances in those accounts, if any. As of January 31, 2012, Mr. Trefler held 795,000 shares of our common stock in these accounts.

(4) Mr. Jones has voting and dispositive power over such shares, but has no pecuniary interest with respect to such shares. Mr. Jones maintains margin securities accounts at one or more brokerage firms, and the positions held in such accounts, which may from time to time include shares of our common stock, may be used as collateral security for the repayment of any debit balances in those accounts, if any. As of January 31, 2012, Mr. Jones held 235,000 shares of our common stock in these accounts.

(5) Includes all persons who were Directors or executive officers of the Company (11 persons) on January 31, 2012.

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ELECTION OF DIRECTORS

(Proposal 1 of Notice)

There are currently six members of our Board of Directors, each of whom serves for a one-year term expiring at each annual meeting of stockholders. This year, upon the recommendation of the Nominating Committee of our Board of Directors, the Board has nominated Peter Gyenes, Richard Jones, Steven Kaplan, James O Halloran, Alan Trefler and William Wyman for re-election to the Board of Directors.

The persons named in the proxy card as proxies will vote to elect each of the nominees, unless you vote against the election of one or more nominees or abstain from voting on the election of one or more nominees, in each case, by marking the proxy card to that effect. If any of the nominees shall become unable or unwilling to serve, the proxies, unless authority has been withheld as to such nominee, may be voted for election of a substitute nominee designated by our Board of Directors, or the Board of Directors may reduce the number of Directors. Proxies may not be voted for more than six persons.

There are no family relationships among any of our executive officers or Directors, with the exception of Alan Trefler, whose brother, Leon Trefler, became the Senior Vice President, Sales, in January 2010, and an executive officer of the Company at that time.

The Board of Directors recommends that you vote *FOR* the election of the nominees as Directors, and proxies solicited by the Board will be voted in favor thereof unless a stockholder has indicated otherwise on the proxy.

The following information is furnished with respect to each of our Directors, which information is as of January 31, 2012. The information presented details the characteristics, qualifications, attributes and skills that led to the Board's conclusion that each of our Directors is qualified to serve on the Board, including significant professional experience and service on the boards of other companies. It includes information each Director has given us about his age, all positions he holds with us, his principal occupation and business experience during at least the past five years, and the names of other publicly-held companies of which he serves as a Director. Additionally, it is our view that each Director exhibits integrity and high ethical standards, as well as sound business judgment and acumen, which are valued and expected characteristics for our Directors. Information about the number of shares of common stock beneficially owned by each Director, directly and indirectly, appears above under the heading Security Ownership of Certain Beneficial Owners and Management.

Nominees for Election for a Term of One Year Expiring in 2013

Peter Gyenes, 66, has been a Director of Pegasystems since March 2009. He also serves on our Audit and Nominating Committees. Mr. Gyenes has four decades of experience in global technical, sales, marketing, and general management positions within the software and computer systems industries. He is currently the Non-Executive Chairman of Sophos plc, a global security software company. He is an active investor and board member focusing on technology market opportunities. Mr. Gyenes also serves on the board of VistaPrint Limited, a global e-commerce provider of marketing services to small businesses, IntraLinks, Inc., a global provider of virtual data rooms, RealPage, Inc., a provider of web-based property management software, as well as a number of privately held technology companies, and is a Trustee Emeritus of the Massachusetts Technology Leadership Council. Mr. Gyenes previously served on the board of Lawson Software, Inc. (until 2011), Netezza Corporation (until 2010), Bladelogic, Inc. (until 2008), webMethods, Inc. (until 2007) and Applix, Inc. (until 2007). He served as Chairman and CEO of Ascential Software, as well as of its predecessor companies VMark Software, Ardent Software and Informix, and led its growth into the data integration market leader, from 1996 until it was acquired by IBM in 2005. Previously, Mr. Gyenes served as President and CEO of Racal InterLan, Inc., and in executive positions at Data General Corporation, Encore Computer Corporation and Prime Computer, Inc. Earlier in his career, he held sales and technical positions at Xerox Data Systems and IBM. He is a graduate of Columbia University where he received both his B.A. in mathematics and his M.B.A. degree.

9 Warren H. Haber has been, for more than thirty-five years, Chairman of the Board and Chief Executive Officer of Founders Equity, Inc. and its affiliates, private investment concerns. Mr. Haber is also Managing General Partner of FEF Management Services, LLC, which manages Founders Equity SBIC I, L.P. and Founders Equity NY L.P., and a Partner of Founders Property LLC, an affiliate of FEF Management Services, LLC. Mr. Haber serves on the boards of directors of several privately-held companies, including Advantage Healthcare Systems, Inc.; Core BTS (formerly known as Core Business Solutions); Richardson Foods, Inc.; Stone Source, Inc.; and Pay-O-Matic, Inc., of which he is Chairman. Mr. Haber holds a BBA in Finance from Baruch College. He is 71 years old.

Through his more than 40 years of investment banking experience, Mr. Haber has served as an executive officer and/or director of a number of portfolio companies. As a result of his experience, he brings financial and business development expertise to the Company's Board, leadership experience, as well as public company board and management experience. The Board also draws upon Mr. Haber's mergers & acquisitions experience when developing strategies for business combinations and integrating acquired companies. Through his 17 years of service on the Board, Mr. Haber has also developed extensive knowledge of the commercial real estate and information services industries and the Company's products, services and business strategies.

Christopher J. Nassetta has been the President and Chief Executive Officer of Hilton Worldwide (fka Hilton Hotels corporation), a global hospitality company, since December 2007. Prior to joining Hilton Worldwide, Mr. Nassetta served as the President and Chief Executive Officer of Host Hotels & Resorts (fka Host Marriott Corporation), a lodging real estate investment trust and owner of luxury and upper upscale hotels, from May 2000 to December 2007. Mr. Nassetta joined Host Hotels & Resorts in 1995 as Executive Vice President and was elected the Chief Operating Officer in 1997. Prior to joining Host Hotels & Resorts, Mr. Nassetta served as President of Bailey Realty Corporation from 1991 until 1995, and he had previously served as Chief Development Officer and in various other positions with the Oliver Carr Company from 1984 through 1991. Mr. Nassetta serves on the board of directors of the Real Estate Roundtable. He is also a member of the McIntire School of Commerce Advisory Board for the University of Virginia. Mr. Nassetta previously served on the board of directors of Host Hotels & Resorts. Mr. Nassetta received a degree in finance from the University of Virginia McIntire School of Commerce. Mr. Nassetta is 49 years old.

Through his current and previous positions, Mr. Nassetta brings to the Board significant operational and business development experience, mergers & acquisitions experience, public company board and management experience, leadership experience, as well as commercial real estate industry expertise. As a user of commercial real estate information, Mr. Nassetta also provides the Board with a client's perspective on the Company's business development and mergers & acquisitions strategies, including valuable insight into the potential "fit" of acquisition targets and the development and marketing of products and services.

David J. Steinberg has been the Chief Executive Officer of SnappCloud, Inc., a technology company that integrates online cloud software applications for distribution by large PC and software OEMs, since September 2009. From November 2008 to September 2009, Mr. Steinberg worked with investors and the board of directors of SnappCloud (formerly known as ARPU) on funding and revising the company's operational focus. Prior to joining SnappCloud, Mr. Steinberg was the Chairman and Chief Executive Officer of SwapDrive, Inc., an online storage cloud solution from May 2001 to October 2008, during which time SwapDrive was sold to Symantec. Mr. Steinberg also founded bridge2bridge, where he helped companies at all stages with strategy in the areas of business development, channels, and capital formation. Prior to founding bridge2bridge, Mr. Steinberg was Vice President of BioNetrix Software, Inc., where he was responsible for worldwide sales and market development. Mr. Steinberg also previously served as the director of worldwide vertical channels at then start up Check Point Software, Inc. and as a founding member of SynOptics Communications, Inc. (which became Bay Networks after a merger), establishing SynOptics' U.S. Eastern and federal systems operations. Mr. Steinberg serves on the boards of directors of three privately-held companies, SingleClick Systems, MessageRadius and SolSystems. He is a member of the advisory board of the Washington, DC venture capital firm Core Capital Partners, and he serves on the boards of directors for several not-for-profit entities, including SEED School of DC, We are Family and St. John's Pre School, all located in Washington, DC. Mr. Steinberg received a B.S. in physiological psychology from the University of Cincinnati. Mr. Steinberg is 54 years old.

Mr. Steinberg has over thirty years of sales, technical and executive experience in the data communication, network security, and Internet services industries. As a result of his experience, Mr. Steinberg brings to the Board significant business development, marketing, and executive management experience, as well as significant Internet services industry, financial and growth strategies expertise.

THE BOARD RECOMMENDS A VOTE "FOR" EACH OF THESE NOMINEES.

Continued on next page.

ITEM 2
APPROVAL OF A PROPOSED CHARTER AMENDMENT
TO INCREASE THE AUTHORIZED COMMON STOCK OF THE COMPANY

Effective April 2, 2012, the Board unanimously adopted resolutions declaring advisable and recommending to the Company's stockholders for their approval an amendment to the Company's Restated Certificate of Incorporation to increase the authorized shares of common stock from 30,000,000 shares to 60,000,000 shares. The number of shares of preferred stock authorized for issuance under our Restated Certificate of Incorporation would remain unchanged, at Two Million (2,000,000) shares.

If the proposal is approved and the amendment becomes effective, the first paragraph of Article Four of our Restated Certificate of Incorporation, which sets forth our currently authorized capital stock, will be amended to read in its entirety as follows:

“The total number of shares of all classes of stock which the Corporation shall have authority to issue is Sixty-Two Million (62,000,000) shares, of which Two Million (2,000,000) shares, designated as Preferred Stock, shall have a par value of \$0.01 per share (the “Preferred Stock”), and Sixty Million (60,000,000) shares, designated as Common Stock, shall have a par value of \$0.01 per share (the “Common Stock”).”

The amendment would be reflected in an Amended and Restated Certificate of Incorporation of CoStar Group, Inc. The newly authorized shares of common stock will have all the rights and privileges of the shares of common stock presently authorized. Therefore, approval of this proposal and any subsequent issuance of additional common stock would not affect your current rights as a stockholder, except for any dilutive effects of a potential increase in the number of outstanding shares of common stock to, among other things, earnings per share, book value per share and the voting power of current holders of our common stock.

Our Board believes that it is in the best interests of our Company that we maintain the flexibility to issue additional shares of common stock in connection with stock splits, stock dividends, acquisitions and other strategic transactions, financings, grants under employee incentive compensation plans and other proper corporate purposes, should our Board deem any of those actions to be in the best interests of our Company and our stockholders. As of the April 9, 2012 record date, there were 4,194,084 authorized and unissued shares of our common stock, 1,840,934 of which have been reserved for issuance under our existing stock incentive and stock purchase plans. In addition, 2,250,000 authorized and unissued shares of our common stock have been reserved and registered under the Securities Act of 1933, as amended (the “Securities Act”) for issuance in connection with our proposed acquisition of LoopNet, Inc., as previously disclosed in the Company's filings with the Securities and Exchange Commission (the “SEC”), including our proxy statement/prospectus dated June 6, 2011. Therefore, only 103,150 authorized and unissued shares of our common stock remain available for other purposes.

If our stockholders do not approve the proposed amendment to our Restated Certificate of Incorporation, we may not be able to complete future strategic transactions, retain employees and pursue other business opportunities integral to our growth and success. Our Board believes that the proposed increase in authorized common stock will make a sufficient number of shares available to maintain the flexibility necessary to pursue these and other strategic opportunities in the foreseeable future.

The Board regularly evaluates the Company's needs and opportunities to utilize shares of the Company's common stock:

- to raise additional equity capital for funding corporate opportunities, growth opportunities (including internally generated growth and acquisitions) and/or deleveraging,

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- to acquire companies, products, technologies or businesses in exchange, in whole or in part, for common stock;
- to satisfy or fund obligations, issue stock dividends, or as substitutes for cash payments (including those with respect to compensation of directors, officers and employees);
 - for employee incentive compensation plans; or
 - for other strategic transactions and proper corporate purposes.

Except as set forth above, we have no current plans and there are currently no agreements or arrangements to issue any authorized and unissued shares of common stock. We also have no current plans and there are currently no agreements or arrangements to issue any of the additional shares of common stock that would be authorized by the proposed amendment. However, if stockholders approve the proposed amendment, the additional authorized shares would give the Board more flexibility in responding to a variety of corporate opportunities, including those listed above, which, if they become available, are likely to require prompt action on our part. The Board believes that the increase in the authorized number of shares of common stock will enable the Company to take timely advantage of market conditions and the availability of favorable opportunities without the delay and expense associated with convening a special meeting to obtain stockholder approval at that time (unless otherwise required by the rules of NASDAQ).

In the future, we may enter into or develop a plan, proposal or arrangement, written or otherwise, to issue all or a portion of the newly authorized shares of common stock. Once shares of the common stock are authorized, no additional action or authorization by our stockholders would be necessary prior to the issuance of such additional shares, unless required by applicable law or the rules of any stock exchange or national securities association trading system on which our common stock is then listed or quoted. Acquisitions involving stock issuances above certain enumerated thresholds would require stockholder approval under applicable rules of NASDAQ and in some circumstances Delaware law.

Effects of the Increase in Authorized Common Stock

The Board is required to make any determination to issue shares of common stock based on its judgment regarding the best interests of our stockholders and our Company. We have not proposed the increase in the number of authorized shares of common stock with the intent of using the additional shares to prevent or discourage any actual or threatened takeover of our Company. However, under certain circumstances, it could have an anti-takeover effect. Additional shares could be issued (within the limits imposed by applicable law) in one or more transactions that could resist, frustrate or make more difficult a third-party transaction that was favored by a majority of the independent stockholders and that might provide an above-market premium. The holders of our common stock are not entitled to preemptive rights and consequently, additional shares could be issued to dilute the stock ownership or voting rights of persons seeking to obtain control of our Company. Similarly, the issuance of additional shares to persons allied with the Board or management could have the effect of making it more difficult to remove directors or members of management by diluting the stock ownership or voting rights of persons seeking to effect such a removal. The additional shares could also be issued in private placements and without stockholder approval or further action by our stockholders, subject to applicable law or the rules of any stock exchange or national securities association trading system on which our common stock is then listed or quoted. Accordingly, if the proposed amendment is approved, the additional shares of authorized common stock may render more difficult or discourage a merger, tender offer or proxy contest, the assumption of control by a holder of a large block of our common stock, or the replacement or removal of management or our Board. Any such anti-takeover effect may be beneficial to management and our Board and could have an adverse impact on stockholders.

We are not currently aware of any specific third-party effort to accumulate shares of common stock or to obtain control of our Company by means of a merger, tender offer or solicitation in opposition to management or our Board. Moreover, we currently have no plans to issue newly authorized shares of common stock or adopt other anti-takeover proposals with the intent of discouraging third parties from attempting to take over our Company. Although our Board is motivated by business and financial considerations in proposing the increase in the number of authorized shares of common stock, and not the threat of any attempt by a third party to gain control of our Company, stockholders nevertheless should be aware that increasing the number of authorized shares of common stock could facilitate our Board's and management's ability to deter or prevent changes in control in the future, and any issuance of newly authorized shares of common stock, regardless of the intent, could have an anti-takeover effect.

The proposed increase in the number of authorized shares of our common stock will not have any immediate dilutive effect on the proportionate voting power or other rights of our existing stockholders. However, because stockholders are not entitled to preemptive rights, shares of common stock issued otherwise than for a stock split or a dividend may decrease existing stockholders' percentage equity ownership and, depending on the price at which they are issued, could be dilutive to the voting rights of existing stockholders and have a negative effect on the market price of the common stock.

Required Vote and Effective Date of Proposed Amendment

Approval of the charter amendment to increase the authorized common stock of the Company requires the affirmative “FOR” vote of a majority of the total number of shares of common stock outstanding and entitled to be voted on the proposal. Accordingly, abstentions and broker non-votes will have the same effect as a vote against the amendment. Unless marked to the contrary, proxies received will be voted “FOR” approval of the amendment to increase the authorized number of shares of common stock of the Company by 30,000,000.

If our stockholders approve the proposed amendment, it will become effective upon filing of an Amended and Restated Certificate of Incorporation with the Delaware Secretary of State, which we anticipate doing as soon as practicable following stockholder approval. However, if our stockholders approve the proposed amendment to our Restated Certificate of Incorporation, our Board retains discretion under Delaware law not to implement the proposed amendment. If our Board were to exercise such discretion, the number of authorized shares would remain at current levels.

Neither Delaware law, the Company’s Restated Certificate of Incorporation, nor the Company’s Amended and Restated Bylaws provides for appraisal or other similar rights for dissenting stockholders in connection with this proposal. Accordingly, stockholders will have no right to dissent and obtain payment for their shares.

Recommendation

We believe that approval of the amendment to our Restated Certificate of Incorporation to increase the authorized common stock of the Company by 30,000,000 shares is an important part of our continued success. For the reasons stated above, stockholders are being asked to approve this proposal. If approved, the amendment will be reflected in an Amended and Restated Certificate of Incorporation of CoStar Group, Inc.

THE BOARD RECOMMENDS THAT YOU VOTE “FOR” THE APPROVAL OF THE CHARTER AMENDMENT TO INCREASE THE AUTHORIZED COMMON STOCK OF THE COMPANY.

Continued on next page.

ITEM 3
APPROVAL OF QUALIFYING PERFORMANCE CRITERIA
UNDER THE 2007 STOCK INCENTIVE PLAN

As discussed below in Item 4, we are asking our stockholders to approve an amendment to the CoStar Group, Inc. 2007 Stock Incentive Plan (as amended, the “2007 Plan”) to increase the number of authorized shares under the plan. Separate from the approval of the amendment to the 2007 Plan, in this Item 3 we are asking stockholders to approve the qualifying performance criteria under the 2007 Plan so that performance-based awards under the 2007 Plan can be tax deductible for the Company. Stockholders are not being asked under this Item 3 to approve any amendments to the 2007 Plan or to approve the 2007 Plan itself. In particular, stockholders are not being asked to approve an increase in the number of shares available for grant under the 2007 Plan under this Item 3. This Item 3 is separate from, and not contingent upon stockholder approval of, Item 4, in which we are asking stockholders to approve an amendment to the 2007 Plan to increase the number of authorized shares available under the plan.

The Board believes that it is in the best interests of the Company and its stockholders to continue to provide for an equity incentive plan under which compensation awards made to the Company’s executive officers are eligible to qualify for deductibility by the Company for federal income tax purposes. Accordingly, the 2007 Plan is structured in a manner such that awards granted under it can satisfy the requirements for “performance-based” compensation within the meaning of Section 162(m) (“Section 162(m)”) of the Internal Revenue Code of 1986 (the “Tax Code”) and thus not be subject to Section 162(m)’s deductibility cap, however there can be no guarantee that amounts payable under the 2007 Plan will be treated as qualified “performance-based” compensation under Section 162(m). In general, under Section 162(m), in order for the Company to be able to deduct compensation in excess of \$1,000,000 paid in any one year to the Company’s chief executive officer or any of the Company’s three other most highly compensated executive officers (other than the Company’s chief financial officer), such compensation must qualify as “performance-based.” One of the requirements of “performance-based” compensation for purposes of Section 162(m) is that the material terms of the performance goals under which compensation may be paid be disclosed to and approved by the Company’s stockholders every five years. For purposes of Section 162(m), the material terms include (i) the individuals eligible to receive compensation, (ii) a description of the business criteria on which the performance goal is based, and (iii) the maximum amount of compensation that can be paid to an individual under the performance goal. Each of these aspects is discussed below, and stockholder approval of this Item 3 constitutes approval of each of these aspects of the 2007 Plan for purposes of the approval requirements of Section 162(m).

The following summary of certain material terms of the 2007 Plan is qualified in its entirety by reference to the complete text of the 2007 Plan (which also includes the changes to the 2007 Plan described below in Item 4), which is set forth in Appendix A to this Proxy Statement. Stockholders should also refer to “Item 4—Approval of an Amendment to the CoStar Group, Inc.’s 2007 Stock Incentive Plan” for the summary of other material terms of the 2007 Plan and a discussion of the 2007 Plan benefits.

Individuals Eligible to Receive Compensation

The 2007 Plan is administered by the Compensation Committee (the “Administrator”). The 2007 Plan permits awards to employees, officers, consultants and directors of the Company and its subsidiaries. There are approximately 6 non-employee directors, 15 executives and 1,500 employees who are currently eligible to receive awards under the 2007 Plan.

Description of the Business Criteria on which the Performance Goal Is Based

Awards of incentive and nonqualified stock options, stock appreciation rights, restricted stock and restricted stock units that are intended to qualify as “performance-based compensation” within the meaning of Section 162(m) of the

Tax Code will be subject to the attainment of performance goals relating to the performance criteria selected by the Administrator. Performance goals must be based solely on one or more of the following business criteria (as selected and defined by the Administrator): (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. Any of these performance criteria may be used to measure the performance of the Company as a whole or any business unit or subsidiary of the Company, either individually or in any combination. Further, the performance criteria may be measured 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, as specified by the Administrator.

To the extent consistent with Section 162(m) of the Tax Code, the Administrator will 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 Accounting Standards Codification ("ASC") 225 Extraordinary and Unusual Items 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. In addition, to the extent consistent with Section 162(m) of the Tax Code, the Administrator 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 the 2007 Plan or any other compensation arrangement maintained by the Company.

Maximum Amount of Compensation that Can Be Paid to an Individual Under the Performance Goal

Subject to adjustment as provided in the 2007 Plan, the aggregate number of shares subject to awards granted under the 2007 Plan during any one year to any one participant will not exceed 400,000 shares. The Administrator shall adjust the maximum annual individual award limit in the case of a combination of shares, stock split, stock dividend, reorganization, or other equity restructuring transaction (as defined in ASC 718 Stock Compensation).

Required Vote

Approval of the qualifying performance criteria under the 2007 Plan requires the affirmative "FOR" vote of a majority of the votes cast on the proposal. Unless marked to the contrary, proxies received will be voted "FOR" approval of the qualifying performance criteria under the 2007 Plan.

Recommendation

We believe that approval of the amendment to the 2007 Plan is an important part of our continued success as it would allow performance-based awards under the 2007 Plan to continue to be tax deductible for the Company. Our employees are one of our most valuable assets. Stock options and other incentive awards, such as those available under the 2007 Plan, are critical for attracting and retaining outstanding and highly skilled individuals. These awards also are vital to our ability to motivate employees to achieve our goals. For the reasons stated above, stockholders are being asked to approve the qualifying performance criteria under the 2007 Plan.

THE BOARD RECOMMENDS THAT YOU VOTE "FOR" THE APPROVAL OF THE QUALIFYING PERFORMANCE CRITERIA UNDER THE 2007 PLAN.

ITEM 4

APPROVAL OF AN AMENDMENT TO THE COSTAR GROUP, INC. 2007 STOCK INCENTIVE PLAN

At the Annual Meeting, stockholders will be asked to approve an amendment to the 2007 Plan to increase the maximum number of shares of our common stock that may be issued under the 2007 Plan by 900,000 shares.

In April 2007, the Compensation Committee of the Board of Directors approved and recommended to the Board, and the Board of Directors adopted, subject to stockholder approval, the 2007 Plan. Stockholders approved the 2007 Plan in June 2007; an amendment to the 2007 Plan in June 2010, which increased the number of authorized shares that can be issued under the 2007 Plan (the “June 2010 Amendment”); and, an amendment to the 2007 Plan in June 2011, which increased the limit on the number of shares of common stock that may be granted under the 2007 Plan pursuant to the Tax Code, to any one participant during a calendar year. On April 2, 2012, the Board of Directors adopted, subject to stockholder approval, an amendment to the 2007 Plan to increase the maximum number of shares of our common stock that may be issued under the 2007 Plan by 900,000. Stockholders have previously authorized us to issue under the 2007 Plan up to a total of 2,300,000 shares of common stock, plus 121,875 shares that remained available under the Company’s 1998 stock incentive plan (the “1998 Plan”), shares received upon cancellation, expiration or forfeiture of awards under the 2007 Plan or the 1998 Plan and shares received by the Company as the result of the exchange of shares by a participant in the 2007 Plan as full or partial payment of the exercise price or tax withholding with respect to awards issued under the 2007 Plan, in each case subject to adjustment upon certain changes in our capital structure.

Stock incentive plans allow companies to provide equity compensation under a stockholder-approved plan in order to attract, motivate and retain key personnel, encourage equity ownership among this group, and enhance a mutuality of interest with stockholders in improving the long-term performance of the Company and the value of the Company’s common stock. There are approximately 6 non-employee directors, 15 executives and 1,500 employees who are currently eligible to receive awards under the 2007 Plan.

Since our stockholders approved the 2007 Plan in June 2007, we have acquired four companies and have made additions to our management team. One of those recent acquisitions occurred after our stockholders approved the June 2010 Amendment, and in April 2011, we entered into an agreement to acquire a fifth company, LoopNet, Inc. The Company utilizes equity compensation as an incentive for employees of acquired companies to stay with the combined entity and to work to realize the benefits of the combination. We also recently commenced granting performance-based restricted stock awards to our executive officers and currently contemplate awarding similar performance-based restricted stock awards to employees in the future, which awards generally utilize a greater number of shares than our more typical restricted stock grants which vest over time. The performance-based restricted stock awards are expected to further align employee incentives with long-term stockholder value. To permit us to continue to grow organically and through acquisitions and to continue to have the ability to grant stock options and restricted stock to our new and existing employees and directors and to incentivize those individuals by granting a continuing interest in the long-term success of the Company, the Board of Directors has amended the 2007 Plan to increase the number of shares available for issuance under the 2007 Plan by 900,000 shares.

The Compensation Committee and the Board of Directors believe that in order for us to successfully attract and retain the best possible candidates, we must continue to offer a competitive equity compensation program. This increase is important so we can continue to grant stock options and restricted stock that are vital to our ability to attract and retain outstanding and highly skilled individuals in the extremely competitive labor markets in which we operate. In addition, the increase will permit more flexibility in determining the form of future equity awards to our key employees, including performance-based stock grants and/or multi-year long-term incentive awards if the Board or Compensation Committee chooses to implement such programs. Our employees are one of our most valuable assets and attracting and retaining them is crucial to our business. In addition, we believe that stock awards generally align the interests of our employees with the interests of our stockholders.

As of March 30, 2012, 838,689 shares of common stock remained available for future grants of awards under the 2007 Plan, an amount that the Compensation Committee and the Board of Directors believe is not adequate to meet our anticipated needs. Therefore, the Compensation Committee approved and recommended to the Board, and the Board of Directors adopted, subject to stockholder approval, an amendment to the 2007 Plan to increase the maximum number of shares of our common stock that may be issued under the 2007 Plan by 900,000 shares to a total of 3,200,000 shares, plus shares that remained available under the 1998 Plan, shares received upon cancellation, expiration or forfeiture of awards under the 2007 Plan or the

1998 Plan and shares received by the Company as the result of the exchange of shares by a participant in the 2007 Plan as full or partial payment of the exercise price or tax withholding with respect to awards issued under the 2007 Plan, in each case subject to adjustment upon certain changes in our capital structure.

In addition, the increase in the number of shares available for issuance under the 2007 Plan will allow us to continue to grant stock awards to our new and existing employees and directors, as well as receive a federal income tax deduction for “qualifying performance-based” compensation paid under the 2007 Plan, although there can be no assurance that any compensation awarded or paid under the 2007 Plan will be fully deductible under all circumstances. Should the amendment not be approved, the 2007 Plan as currently in effect will remain in full force and effect. Granting stock awards under the 2007 Plan has certain benefits for both the Company and the holder. For example, in order for an option to qualify as an “incentive stock option” under the Tax Code, the option must be granted under a plan approved by the issuer's stockholders. Individuals who receive incentive stock options and comply with certain holding period requirements will receive favorable tax treatment with respect to any gains realized on the sale of shares acquired on exercise of the options. In addition, the Company may receive a federal income tax deduction for performance-based compensation in excess of \$1 million, if any, granted under the 2007 Plan to the Chief Executive Officer and the three other most highly compensated executive officers (other than the Chief Financial Officer) if, among other things, the 2007 Plan has been approved by the Company's stockholders.

Summary of the 2007 Plan

The following summary of the 2007 Plan is qualified in its entirety by the specific language of the 2007 Plan, as proposed to be amended, which is set forth in Appendix A to this Proxy Statement.

Plan Administration. The 2007 Plan is administered by the Compensation Committee, which is composed of individuals who are “non-employee directors” (as that term is defined under Rule 16b-3 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) and “outside directors” (within the meaning of Section 162(m) of the Tax Code). All of the members of the Compensation Committee are independent as defined under Rule 5605(a)(2) of the Nasdaq listing rules. The Compensation Committee has authority to, among other things:

- Interpret and administer the 2007 Plan;
- Make rules and regulations relating to the administration of the 2007 Plan; and
- Make any other determinations and take any other action that it deems necessary or desirable for the administration of the 2007 Plan.

Decisions of the Committee or another person delegated responsibilities under the 2007 Plan shall be final, conclusive and binding on all persons.

Stock Subject to the Plan. Assuming stockholders approve this proposal, a total of 3,200,000 shares of common stock will have been reserved for issuance pursuant to the 2007 Plan, which includes shares that remained available for issuance under the 1998 Plan that were rolled into the 2007 Plan upon adoption of the 2007 Plan. Any shares that are subject to an award under the 2007 Plan or the 1998 Plan that are forfeited, cancelled, or expire without the issuance of such shares will again be available for grant under the 2007 Plan. Further, any shares that are subject to an award under the 2007 Plan that are received by the Company as the result of the exchange of shares by a participant in the 2007 Plan as full or partial payment of the exercise price or tax withholding with respect to awards issued under the 2007 Plan will be available for grant under the 2007 Plan. The shares issued under the 2007 Plan may consist, in whole or in part, of authorized but unissued shares or treasury shares or shares held in trust for issuance under the 2007 Plan. On March 30, 2012, options to purchase a total of 941,535 shares and 699,146 unvested shares of restricted

stock were outstanding under the 2007 Plan and 1998 Plan, which comprise all of the Company's stock incentive plans. The outstanding stock options had a weighted-average exercise price of \$42.02 per share and a weighted-average remaining contractual life of 5.96 years. On March 30, 2012, 838,689 shares of common stock remained available for future grants of awards under the 2007 Plan and no shares remained available for future grants under the 1998 Plan.

Limitations. Subject to adjustment as provided in the 2007 Plan, no participant shall be eligible to receive in any one calendar year awards relating to more than 400,000 shares of our common stock.

Eligibility. The 2007 Plan permits awards to employees, officers, consultants and directors of the Company and its subsidiaries.

Awards. The 2007 Plan provides for the grant of options (including nonqualified options), stock appreciation rights, restricted stock, and restricted stock units.

Options. Incentive stock options and nonqualified stock options may be granted under the 2007 Plan, either alone or in combination with other awards. The terms of any option grant generally are determined by the Compensation Committee. The price at which a share may be purchased under an option may not be less than the fair market value of a share on the date the option is granted. Fair market value generally means the closing price for the Company's common stock on the Nasdaq Global Select Market on the date of grant. The 2007 Plan provides that the Compensation Committee shall establish the term of each option, which in no case shall exceed a period of ten years from the date of grant.

Stock Appreciation Rights. Stock appreciation rights entitle a participant to receive payment from the Company in an amount determined by multiplying the difference between the fair market value of the shares on the date of exercise and the fair market value on the date of grant by the number of shares subject to the award. The terms of any grant of stock appreciation rights generally are determined by the Compensation Committee. Stock appreciation rights may be granted in tandem with an option or alone. The grant price of a tandem stock appreciation right is equal to the exercise price of the related option, and the grant price of a freestanding stock appreciation right is equal to the fair market value of the common stock on the grant date. The 2007 Plan provides that the Compensation Committee shall establish the term of each grant of stock appreciation rights, which in no case shall exceed a period of ten years from the date of grant.

Restricted Stock and Stock Units. Restricted stock and stock units reflect a right to receive shares of stock upon the satisfaction of certain terms, conditions and restrictions. Both may be issued under the 2007 Plan on such terms and conditions as the 2007 Plan permits and generally are subject to terms determined by the Compensation Committee. Stock unit awards may be paid in cash, stock or a combination of cash and stock. Except as set forth below, participants holding restricted stock or stock units may be permitted to receive dividends paid with respect to underlying shares or dividend equivalents, subject to such terms and conditions as may be established by the Compensation Committee. Participants holding restricted stock or stock units that are subject to qualifying performance criteria under the 2007 Plan are not entitled to dividends or dividend equivalents unless and until the applicable qualifying performance criteria have been met.

No Repricing. The repricing of stock options or stock appreciation rights is prohibited. The terms of outstanding stock options and stock appreciation rights may not be amended to reduce the exercise price or cancel, exchange, substitute, buyout or surrender an outstanding stock option or stock appreciation right in exchange for cash or other awards with an exercise price that is less than the exercise price of the original award without stockholder approval.

Minimum Vesting Period. Except upon a change of control of the Company, the death or disability of the participant or awards granted to employees of the Company or its subsidiaries 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, no award of restricted stock or stock units payable in shares shall vest earlier than one year from the date of grant, except that an award of restricted stock or stock units that vests based solely on continued service (as opposed to attainment of performance goals) shall not vest earlier than three years from the date of grant.

Performance Goals. Awards under the 2007 Plan may be made subject to the attainment of performance goals relating to one or more of the following business criteria: (1) cash flow (before or after dividends), (2) earnings or earnings per share (including earnings before interest, taxes, depreciation and amortization), (3) stock price, (4) return on equity,

(5) total stockholder return, (6) return on capital or investment (including return on total capital, return on invested capital, or return on investment), (7) return on assets or net assets, (8) market capitalization, (9) economic value added, (10) debt leverage (debt to capital), (11) revenue, (12) income or net income, (13) operating income, (14) operating profit or net operating profit, (15) operating margin or profit margin, (16) return on operating revenue, (17) cash from operations, (18) operating ratio, (19) operating revenue, or (20) customer service (collectively, the “Performance Criteria”).

The Performance Criteria may be used to measure the performance of the Company as a whole or with respect to any business unit, subsidiary or business segment of the Company, either individually, alternatively or in any combination, and may be measured either annually or cumulatively over a period of years, on an absolute basis or relative to a pre-established target, to previous period results or to a designated comparison group, in each case as specified by the Compensation Committee. To the extent consistent with Section 162(m) of the Tax Code, the Compensation Committee (A) shall appropriately adjust any evaluation of performance under a 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 the Accounting Principles Board 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 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.

Tax Withholding. The Company may specify the terms and conditions on which any award recipient must satisfy any tax obligations occurring under federal, state, local or foreign law, and may withhold issuance of any shares of common stock until such terms and conditions are met.

Assignability. Awards granted under the 2007 Plan are generally not transferable or assignable, except by will or the laws of descent and distribution. However, participants may be permitted to assign or transfer an award to the extent allowed by the Compensation Committee in its discretion and subject to Section 422 of the Tax Code.

Adjustments. The number and kind of securities available for issuance under the 2007 Plan (including under any awards then outstanding), and the number and kind of securities subject to the limits set forth in Section 5 of the 2007 Plan, shall be equitably adjusted by the Compensation 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 ASC 718 Stock Compensation. Such adjustment may be designed to comply with Section 424 of the Tax Code or, except as otherwise expressly provided in Section 5(c) of the 2007 Plan, may be designed to treat the securities available under the 2007 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 securities to reflect a deemed reinvestment in securities of the amount distributed to the Company's stockholders. The terms of any outstanding award under the 2007 Plan shall also be equitably adjusted by the Compensation Committee as to price, number or kind of securities 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 are any other changes in the Company's common stock, 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 ASC 718 Stock Compensation, then the Compensation Committee shall determine the appropriate adjustment, if any, to be effected. In addition, in the event of a change described in this paragraph, the Compensation Committee may accelerate the time or times at which any award under the 2007 Plan may be exercised and may provide for cancellation of such accelerated awards that are not exercised within a time prescribed by the Compensation Committee in its sole discretion.

There is no right to purchase fractional shares that result from any adjustment in awards under the 2007 Plan. In case of any such adjustment, the shares of common stock subject to the award shall be rounded down to the nearest whole share.

Change in Control. The Compensation Committee shall have the discretion, exercisable at any time before a sale, merger, consolidation, reorganization, liquidation, dissolution or change in control of the Company, to take such action as it determines to be necessary or advisable with respect to awards under the 2007 Plan.

Amendment and Termination. The Board may amend, alter or discontinue the 2007 Plan and the Compensation Committee may amend, or alter any agreement or other document evidencing an award made under the 2007 Plan but, except as specifically provided for in the 2007 Plan, 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 the 2007 Plan or (c) otherwise amend the 2007 Plan in any manner requiring stockholder approval by law or under the Nasdaq listing rules. No amendment or alteration to the 2007 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 Compensation Committee determines in its sole discretion and prior to the date of any change in control that such amendment or alteration either is required or advisable in order for the Company, the 2007 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.

Unless sooner terminated as provided in the 2007 Plan, the 2007 Plan shall terminate ten years after approval by the stockholders. Termination would not affect grants and awards then outstanding.

Deferral. The Compensation Committee may permit or require a participant to defer receipt of the payment of any award of restricted stock or restricted stock units to the extent permitted by Section 409A of the Tax Code.

Federal Income Tax Consequences

The following discussion summarizes certain federal income tax consequences of the issuance and receipt of options and other awards under the 2007 Plan under the law as in effect on the date of this Proxy Statement. The summary does not purport to cover all federal employment tax or other federal tax consequences that may be associated with the 2007 Plan, nor does it cover state, local, or non-U.S. taxes.

Non-Qualified Options ("NSOs"). A participant will not have taxable income upon the grant of a NSO. Upon the exercise of a NSO, the participant will recognize ordinary income equal to the difference between (i) one share of stock valued at the closing price on the day the option is exercised and (ii) the exercise price of one share, times the number of shares exercised.

The participant will be subject to income tax withholding at the time when the ordinary income is recognized. The Company will be entitled to a tax deduction at the same time and in the same amount.

The subsequent sale of the shares by a participant generally will give rise to capital gain or loss equal to the difference between the sale price and the sum of the exercise price paid for the shares plus the ordinary income recognized with respect to the shares, and the capital gains will be taxable as long-term capital gains if the participant held the shares for more than one year.

Incentive Stock Options ("ISOs"). There generally are no tax consequences upon the grant or vesting of an ISO, provided that an option that is otherwise intended to be an ISO will no longer qualify for ISO tax treatment (and instead will be taxed as an NSO) if the option is not exercised while the participant is an employee of the Company or within three months following termination of employment (one year in the case of termination due to total and permanent disability as defined in the Tax Code). If a participant sells or otherwise disposes of the shares acquired upon the exercise of an ISO at any time within one year after the date shares are transferred to the participant or two years after the date the ISO is granted to the participant, then:

- if the sales price exceeds the exercise price of the ISO, the participant will recognize capital gain equal to the excess, if any, of the sales price over the fair market value of the shares on the date of exercise, and the participant

will recognize ordinary income equal to the excess, if any, of the lesser of the sales price or the fair market value of the shares on the date of exercise over the exercise price of the ISO; or

- if the participant's sales price is less than the exercise price of the ISO, the participant will recognize a capital loss equal to the excess of the exercise price of the ISO over the sales price of the shares.

In this event, the Company will generally be entitled to a tax deduction equal to the ordinary income the participant recognizes.

If the participant sells or otherwise disposes of shares acquired upon exercise of an ISO at any time after the participant has held the shares for at least one year after the date the Company transfers the shares to the participant pursuant to the participant's exercise of the ISO and at least two years after the date the Company grants the ISO to the participant, then the participant will recognize long-term capital gain or loss equal to the difference between the sales price and the exercise price of the ISO, and the Company will not be entitled to any deduction.

The amount by which the fair market value of the shares the participant acquires upon exercise of an ISO exceeds the exercise price on the date of exercise will be included as a positive adjustment in the calculation of the participant's "alternative minimum taxable income" in the year of exercise. Before exercising an ISO, a participant should determine whether and to what extent exercise of an ISO will result in alternative minimum tax in the year of exercise.

Stock Appreciation Rights ("SARs"). The grant of a SAR is generally not a taxable event for a participant. Upon exercise of the SAR, the participant will generally recognize ordinary income equal to the amount of cash and/or the fair market value of any shares received. The participant will be subject to income tax withholding at the time when the ordinary income is recognized. The Company will be entitled to a tax deduction at the same time for the same amount. If the SAR is settled in shares, the participant's subsequent sale of the shares generally will give rise to capital gain or loss equal to the difference between the sale price and the ordinary income recognized when the participant received the shares, and these capital gains will be taxable as long-term capital gains if the participant held the shares for more than one year.

Restricted Stock. The tax consequences of a grant of restricted stock depends upon whether or not a participant elects under Section 83(b) of the Tax Code to be taxed at the time of the grant.

If no election is made, the participant will not recognize taxable income at the time of the grant of the restricted stock. When the restrictions on the restricted stock lapse, the participant will recognize ordinary income equal to the value (determined on the lapse date) of the restricted stock.

If the election is made, the participant will recognize ordinary income at the time of the grant of the restricted stock equal to the value of the stock at that time, determined without regard to any of the restrictions. If the restricted stock is forfeited before the restrictions lapse, the participant will generally not be entitled to a deduction on account thereof.

The participant will be subject to income tax withholding at the time when the ordinary income (including any dividends taxed as ordinary income) is recognized. Subject to the Section 162(m) restrictions discussed below, the Company will be entitled to a tax deduction at the same time and for the same amount.

A subsequent sale of restricted stock generally will give rise to capital gain or loss equal to the difference between the sale price and the ordinary income the participant recognized with respect to the stock. The capital gains will be taxable as long-term capital gains if the participant held the stock for more than one year. The holding period to determine whether a participant has long-term or short-term capital gain or loss on a subsequent sale generally begins when the stock restrictions lapse, or on the date of grant if the participant made a valid Section 83(b) election.

Stock Units. A participant will not have taxable income upon the grant of a stock unit. Rather, taxation will be postponed until the stock becomes payable, which will be either immediately following the lapse of the restrictions on the stock units, or, if the participant has elected deferral to a later date, such later date. At that time, the participant will recognize ordinary income equal to the value of the amount then payable.

The participant will be subject to income tax withholding at the time when the ordinary income (including any dividend equivalents taxed as ordinary income) is recognized. Subject to the Section 162(m) restrictions discussed below, the Company will be entitled to a tax deduction at the same time and for the same amount.

If a stock unit is settled in shares, subsequent sale of the shares generally will give rise to capital gain or loss equal to the difference between the sale price and the ordinary income recognized when the participant received the shares, and these capital gains will be taxable as long-term capital gains if the participant held the shares for more than one year.

Other. In general, under Section 162(m), remuneration paid by a public corporation to its chief executive officer or any of its other top three named executive officers other than the chief financial officer, ranked by pay, is not deductible to the extent it exceeds one million dollars (\$1,000,000) for any year. Taxable payments or benefits under the 2007 Plan may be subject to this deduction limit. However, under Section 162(m), qualifying performance-based compensation, including income from stock options and other performance-based awards that are made under stockholder-approved plans and that meets certain other requirements, is exempt from the deduction limitation. The 2007 Plan has been designed so that the Compensation Committee in its discretion may grant qualifying exempt performance-based awards under the 2007 Plan. The rules and regulations promulgated under Section 162(m) are complicated, however, and subject to change from time to time, sometimes with retroactive effect. In addition, a number of requirements must be met in order for particular compensation to so qualify. As such, there can be no assurance that any compensation awarded or paid under the 2007 Plan will be fully deductible under all circumstances.

Under the so-called “golden parachute” provisions of the Tax Code, the accelerated vesting of stock options and benefits paid under other awards in connection with a change in control of a corporation may be required to be valued and taken into account in determining whether participants have received compensatory payments, contingent on the change in control, in excess of certain limits. If these limits are exceeded, a portion of the amounts payable to the participant may be subject to an additional twenty percent (20%) federal tax and may be nondeductible to the Company.

Plan Benefits

The amount and timing of future awards granted under the 2007 Plan are determined in the sole discretion of the Compensation Committee and therefore cannot be determined in advance. The future benefits or amounts that would be received under the 2007 Plan by executive officers, non-executive directors and non-executive officer employees are discretionary and are therefore not determinable at this time. As of March 30, 2012, the closing price of a share of the Company’s common stock on the Nasdaq Global Select Market was \$69.05. The following table shows the number of shares underlying grants of all types of awards under the 2007 Plan that have been granted since the 2007 Plan was adopted to (a) each executive officer named in the Summary Compensation Table, (b) all current executive officers as a group, (c) all employees, including all current officers who are not executive officers, as a group, (d) all current non-employee directors as a group, (e) each director nominee and (f) each person who has received 5% of the shares authorized for issuance under the 2007 Plan.

Name and Position	Total Number of Shares Underlying Awards Granted(1)
Andrew C. Florance, Chief Executive Officer & President	476,539
Brian J. Radecki, Chief Financial Officer	144,321
John L. Stanfill, Senior Vice President, Sales & Customer Service	148,737
Jennifer L. Kitchen, Senior Vice President, Research	62,139
Paul Marples, Managing Director, CoStar UK Limited	60,717
Executive Officer Group (executive officers named above)	892,453
Non-Executive Officer Employee Group	916,066
Michael R. Klein (Director Nominee)	8,008
David Bonderman (Director Nominee)	7,712
Michael J. Glosserman (Director Nominee)	7,669

Warren H. Haber (Director Nominee)	10,926
Christopher J. Nassetta (Director Nominee)	9,319
David J. Steinberg (Director Nominee)	1,715
Non-Employee Director Group	45,349

(1) Includes stock options and restricted stock as of March 30, 2012.

Miscellaneous

The 2007 Plan is not exclusive and does not limit the authority of the Board or its committees to grant awards or authorize any other compensation, with or without reference to shares, under any other plan or authority.

Required Vote

Approval of the proposed amendment to the 2007 Plan requires the affirmative “FOR” vote of a majority of the votes cast on the proposal. Unless marked to the contrary, proxies received will be voted “FOR” approval of the amendment to increase the number of shares issuable under the 2007 Plan by 900,000 shares.

Recommendation

We strongly believe that approval of the amendment to the 2007 Plan is essential to our continued success. Our employees are one of our most valuable assets. Stock options and other incentive awards, such as those available under the 2007 Plan, are critical for attracting and retaining outstanding and highly skilled individuals. These awards also are vital to our ability to motivate employees to achieve our goals. For the reasons stated above, stockholders are being asked to approve the amendment to the 2007 Plan.

THE BOARD RECOMMENDS THAT YOU VOTE “FOR” THE APPROVAL OF AN AMENDMENT TO INCREASE THE NUMBER OF SHARES ISSUABLE UNDER THE 2007 PLAN BY 900,000 SHARES.

Continued on next page.

ITEM 5
RATIFICATION OF THE APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC
ACCOUNTING FIRM

The Audit Committee has recommended and the Board has approved the appointment of Ernst & Young LLP as the independent registered public accounting firm for the Company for 2012. As a matter of good corporate governance, the Board is asking stockholders to ratify this appointment, even though ratification is not legally required. If stockholders do not ratify this appointment, the Board may, but is not required to, reconsider such appointment. Even if stockholders ratify this appointment, the Board may direct the appointment of a different independent auditor at any time during 2012 if, in its discretion, it determines that such a change would be in the Company's best interests.

Ernst & Young LLP has served as the independent registered public accounting firm for the Company, its subsidiaries, and its predecessors since 1994. A representative from Ernst & Young LLP is expected to attend the Annual Meeting, will have the opportunity to make a statement if he or she desires to do so and is expected to be available to respond to appropriate questions.

For the years ended December 31, 2010 and 2011, Ernst & Young LLP billed CoStar the fees set forth below, including expenses, in connection with services rendered to CoStar:

	Year Ended December 31, 2010	Year Ended December 31, 2011
Audit Fees	\$ 799,736	\$ 956,422
Audit Related Fees	\$ 70,000	\$ 226,265
Tax Fees	\$ 171,822	\$ 30,000
Total	\$ 1,041,558	\$ 1,212,687

Audit Fees include fees for services performed for the audit of CoStar's annual financial statements, review of financial statements included in CoStar's periodic filings with the SEC, audit of CoStar's internal control over financial reporting and statutory audits required internationally. This category also includes fees for consents and assistance with and review of documents filed with the SEC.

Audit Related Fees include fees associated with assurance and related services that are reasonably related to the performance of the audit or review of CoStar's financial statements. For fiscal year 2011, the reported audit related fees represent fees for accounting services billed by Ernst & Young LLP in connection with acquisitions, including the acquisition of VirtualPremise, Inc. and the pending acquisition of LoopNet, Inc. For fiscal year 2010, the reported audit related fees represent fees for accounting services billed by Ernst & Young LLP in connection with the 2010 purchase and pending sale of our headquarters building located in Washington, DC.

Tax Fees primarily include fees associated with tax return preparation, tax compliance, tax advice and tax planning. In addition, for fiscal year 2010, this category also included fees associated with tax planning for the purchase and pending sale of our headquarters building located in Washington, DC.

Audit Committee Pre-Approval Policy

The Audit Committee's policy is that all audit and non-audit services provided by CoStar's independent registered public accounting firm shall either be approved before the independent registered public accounting firm is engaged for the particular services or shall be rendered pursuant to pre-approval procedures established by the Audit Committee. These services may include audit services and permissible audit-related services, tax services and other services. Pre-approval spending limits for services to be performed by CoStar's independent registered public accounting firm are established on an annual (for audit services) or periodic (for permissible non-audit services) basis, detailed as to a particular service or category of services to be performed and implemented by CoStar's financial officers. Any audit or non-audit service fees that may be incurred by CoStar that fall outside the limits pre-approved by the Audit Committee for a particular service or category of services must be reviewed and approved by the Chairperson of the Audit Committee or the Audit Committee as a whole prior to the performance of services. CoStar's Chief Financial Officer or General Counsel reports to the Audit Committee on a quarterly basis on all services rendered by the independent registered public accounting firm for which pre-approval has been granted and all fees paid to the independent registered public accounting firm for such services since the previous quarter's Audit Committee meeting. The Audit Committee may revise its pre-approval spending limits and policies at any time.

All fees paid to the independent registered public accounting firm in 2011 were pre-approved by the Audit Committee, and therefore no services were approved after the services were rendered pursuant to the "de minimus" exception established by the SEC for the provision of non-audit services.

THE BOARD RECOMMENDS THAT YOU VOTE "FOR" RATIFYING THE APPOINTMENT OF ERNST & YOUNG LLP AS INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE COMPANY FOR 2012.

Continued on next page.

ITEM 6
ADVISORY RESOLUTION TO APPROVE EXECUTIVE COMPENSATION

We are asking stockholders to approve, on an advisory basis, a resolution on the Company's executive compensation as reported in this Proxy Statement. As described below in the "Compensation Discussion and Analysis" section of this Proxy Statement, the Compensation Committee has structured our executive compensation program to achieve the following key objectives:

- link executive compensation with the achievement of overall corporate goals,
 - encourage and reward superior performance, and
- assist the Company in attracting, motivating and retaining talented executives.

Our executive compensation program has a number of features designed to promote these objectives and is designed to motivate our executives to successfully manage and grow our business.

We urge stockholders to read the "Compensation Discussion and Analysis" beginning on page 38 of this Proxy Statement, which describes in more detail how our executive compensation policies and procedures operate and are designed to achieve our compensation objectives, as well as the Summary Compensation Table and other related compensation tables and narrative, appearing on pages 56 through 62, which provide detailed information on the compensation of our named executive officers. The Compensation Committee and the Board of Directors believe that the policies and procedures articulated in the "Compensation Discussion and Analysis" are effective in achieving our goals and that the compensation of our named executive officers reported in this Proxy Statement has supported and contributed to the Company's recent and long-term success.

In accordance with recently adopted Section 14A of the Exchange Act, and as a matter of good corporate governance, we are asking stockholders to approve the following advisory resolution at the Annual Meeting:

RESOLVED, that the stockholders of CoStar Group, Inc. (the "Company") approve, on an advisory basis, the compensation of the Company's named executive officers disclosed in the Compensation Discussion and Analysis, the Summary Compensation Table and the related compensation tables, notes and narrative in the Proxy Statement for the Company's 2012 Annual Meeting of Stockholders.

This advisory resolution, commonly referred to as a "say-on-pay" resolution, is non-binding on the Board. Although non-binding, the Board and the Compensation Committee will review and consider the voting results when making future decisions regarding our executive compensation program. The Company provided its stockholders a "say-on-pay" advisory vote to approve its executive compensation in 2011. At the 2011 Annual Meeting, stockholders expressed substantial support for the compensation of the Company's named executive officers, with approximately 98% of the votes cast for approval of the "say-on-pay" advisory vote. The Committee evaluated the results of the 2011 advisory vote in connection with its evaluation of the Company's executive compensation programs generally and believes that the results confirm stockholder support for the Company's executive compensation policies and decisions. The Committee's approach to 2012 executive compensation programs remained consistent with the 2011 approach, which included the Committee's emphasis on linking executive incentives with long-term stockholder value. As a result, the Committee decided not to make any material changes to the Company's executive compensation program as a result of the 2011 "say-on-pay" vote, but did award a special performance-based long-term equity grant in early 2012 that is tied to the Company's earnings performance in 2012 and beyond.

At our last annual meeting of stockholders held on June 2, 2011, our stockholders voted to adopt the recommendation of our Board to vote on the say-on-pay proposal every year at our annual meeting. As a result, we expect to continue to submit our say-on-pay proposal to our stockholders at each annual meeting. We expect to ask our stockholders in

2017 to vote on a proposal regarding the frequency of the vote on the say-on-pay proposal, as required by the Dodd-Frank Act.

THE BOARD RECOMMENDS THAT YOU VOTE “FOR” THE APPROVAL OF THE ADVISORY RESOLUTION ON EXECUTIVE COMPENSATION.

OTHER MATTERS

We do not know of any other matter that will be presented for consideration at the Annual Meeting. If any other matter does properly come before the Annual Meeting, the proxy holders will, unless otherwise specified in the proxy, vote on it as they think best in their discretion.

STOCKHOLDER PROPOSALS AND NOMINATIONS FOR DIRECTORS FOR THE 2013 ANNUAL MEETING

A stockholder who intends to introduce a proposal for consideration at our 2013 Annual Meeting of Stockholders may seek to have that proposal and a statement in support of the proposal included in our Proxy Statement if the proposal relates to a subject that is permitted under Rule 14a-8 under the Exchange Act. Additionally, in order to be eligible for inclusion in our Proxy Statement, the stockholder must submit the proposal and supporting statement to our Corporate Secretary in writing not later than December 26, 2012, and must satisfy the other requirements of Rule 14a-8. Stockholders interested in submitting such a proposal are advised to contact knowledgeable counsel with regard to the detailed requirements of applicable securities laws. The submission of a stockholder proposal does not guarantee that it will be included in our Proxy Statement.

A stockholder may otherwise propose business for consideration or nominate persons for election to the Board, in compliance with federal proxy rules, applicable state law and other legal requirements and without seeking to have the proposal included in our Proxy Statement pursuant to Rule 14a-8. Our Amended and Restated Bylaws provide that any such proposals or nominations must be submitted to us not later than the close of business on the 75th day and not earlier than the close of business on the 105th day before the first anniversary date of the preceding year's annual meeting. In the event that the date of the Company's annual meeting is more than 30 days before or more than 70 days after the first anniversary of the preceding year's annual meeting (other than as a result of adjournment or postponement), then, to be timely, such stockholder's notice must be submitted in writing not earlier than the close of business on the 105th day prior to such annual meeting and not later than the close of business on the later of the 75th day prior to such annual meeting or the 10th day following the date on which the public announcement of the date of such meeting is first made by the Company. Accordingly, stockholders who wish to nominate persons for election as directors or bring forth other proposals outside of Rule 14a-8 at the 2013 Annual Meeting must give notice of their intention to do so in writing to our Corporate Secretary on or before March 22, 2013, but no sooner than February 20, 2013. The stockholder's submission must include certain specified information concerning the proposal or nominee, as the case may be, and information as to the stockholder's ownership of common stock as required by the Company's Amended and Restated Bylaws. Stockholder proposals or nominations not meeting these requirements will not be entertained at the 2013 Annual Meeting.

ADDITIONAL INFORMATION

Corporate Governance Matters

Identifying and Evaluating Nominees

The Nominating & Corporate Governance Committee identifies nominees for director on its own as well as by considering recommendations from other members of the Board, officers and employees of CoStar, and other sources that the Nominating & Corporate Governance Committee deems appropriate. The Nominating & Corporate Governance Committee will also consider Board nominees suggested by stockholders, subject to such recommendations being submitted during the period and including the required information specified in CoStar's Amended and Restated Bylaws for stockholders to nominate directors, as described under "Stockholder Proposals and Nominations for Directors for the 2013 Annual Meeting" above. The Company may require any proposed nominee to

furnish other information as reasonably required to determine eligibility to serve as a director of the Company, including information regarding the proposed nominee's independence.

When evaluating nominees for director, the Nominating & Corporate Governance Committee considers, among other things, an individual's business experience and skills, background, independence, judgment, integrity and ability to commit sufficient time and attention to the activities of the Board, as well as the absence of any potential conflicts with the Company's interests. When considering a director standing for reelection as a nominee, in addition to the attributes described above, the Nominating & Corporate Governance Committee also considers that individual's past contribution and future commitment to CoStar. The Nominating & Corporate Governance Committee evaluates the totality of the merits of each prospective nominee that it considers and does not restrict itself by establishing minimum qualifications or attributes. The Nominating & Corporate Governance Committee evaluates candidates within the context of the perceived needs of the Board as a whole, so that the members of the Board collectively will possess the necessary skills, experience and background. While the Nominating & Corporate Governance Committee does not have a formal policy with respect to diversity, the committee believes that it is important that Board members represent diverse viewpoints. There is no difference in the manner by which the Nominating & Corporate Governance Committee evaluates prospective nominees for director based on the source from which the individual was first identified.

Board Leadership Structure

Currently, an independent director, Mr. Klein, serves as Chairman of the Board and a separate director, Mr. Florance, serves as Chief Executive Officer. Mr. Klein has served on the Company's Board of Directors since inception and is well positioned to serve as Chairman of the Board. The Board does not have a policy regarding the separation of the roles of Chief Executive Officer and Chairman of the Board as the Board believes it is in the best interests of the Company to make that determination based on the position and direction of the Company and the membership of the Board at the particular time. The Board has determined that this leadership structure, under which the roles of Chairman and CEO are separate and an independent director serves as Chairman, currently is in the best interest of the Company's stockholders. This structure provides a greater role for the independent directors in the oversight of the Company and in setting agendas and establishing Board priorities and procedures. In addition, this structure permits the Chief Executive Officer to focus on the management of the Company's day-to-day operations.

Independent Directors and Executive Sessions

CoStar's Board has determined that Messrs. Klein, Bonderman, Glosserman, Haber, Nassetta, and Steinberg are each independent as defined under Rule 5605(a)(2) of the Nasdaq listing rules. As part of the Board's determination of each member's independence, the Board was presented with information regarding Mr. Klein's position as Chairman of the Shakespeare Theatre Company, a non-profit organization, and Mr. Glosserman's position as Chairman of the National Building Museum, an independent non-profit organization, to which the Company made aggregate contributions of \$85,000 and \$120,000, respectively, in 2011.

The independent directors of the Board of Directors meet in regularly scheduled executive sessions, which are typically run by the Chairman of the Board, Mr. Klein. In 2011, the independent directors met in executive session at half of the regularly scheduled meetings of the Board of Directors (two times).

The Board's Role in Risk Oversight

One of the Board's functions is oversight of risk management at CoStar. This risk oversight function is administered both through the full Board and through individual Board Committees that are tasked by the Board with oversight of specific risks, as described below.

Companies face a variety of risks, including macro-economic risks, such as inflation, economic downturns, or recession; business-specific risks related to strategic position, operations, financial structure, legal and regulatory

compliance and corporate governance; and event-specific risks, such as natural disasters or wars. The Company believes that an effective risk management system will:

- timely identify the material risks that the Company faces,
- communicate necessary information with respect to material risks to senior executives and, as appropriate, to the Board or relevant Board Committee,
- implement appropriate and responsive risk management strategies consistent with the Company's risk profile, and
 - integrate risk management into Company decision-making.

The Board encourages management to promote a corporate culture that incorporates risk management into the Company's corporate strategy and day-to-day business operations. Management is responsible for identifying risk and risk controls related to significant business activities and developing programs and recommendations to determine the sufficiency of risk identification, the balance of potential risk to potential reward, and the appropriate manner in which to control risk.

The Board implements its risk oversight responsibilities by having management, typically the Chief Financial Officer or General Counsel, provide periodic briefing and informational sessions on the significant voluntary and involuntary risks that the Company faces and how the Company is seeking to control risk if and when appropriate. In some cases, as with risks related to product or service acceptance, risk oversight is addressed as part of the full Board's engagement with the Chief Executive Officer and management. In other cases, a Board Committee is responsible for oversight of specific risk topics, in which case management meets directly with the Board Committee. For example, the Audit Committee oversees issues related to internal control over financial reporting and issues related to the Company's risk tolerance in cash-management investments, and the Compensation Committee oversees risks related to compensation plans and programs, as discussed in greater detail below. The Company's Audit Committee meets regularly and the Compensation and Nominating & Corporate Governance Committees meet at least annually, and each Committee reports back to the full Board. The Board also works with the Company's management to assess, analyze and address the most likely areas of future risk for the Company.

Risk Assessment in Compensation Programs.

We have assessed the Company's compensation programs. Management assessed the Company's executive and broad-based compensation and benefits programs to determine if the programs' provisions and operations encourage or create undesired or unintentional risk of a material nature. This risk assessment process included:

- a review of CoStar's compensation program policies and practices;
- program analysis to identify risk and risk control related to the programs; and
- determinations as to the sufficiency of risk identification, the balance of potential risk to potential reward and risk control.

Although we reviewed all compensation programs, we focused on the programs with variability of payout, with the ability of a participant to directly affect payout and the controls on participant action and payout. The Company supports the use of base salary, performance-based compensation, and retirement plans that are generally uniform in design and operation throughout the Company. In most cases, the compensation policies and practices are centrally designed and administered, and are substantially identical at each business unit, except that sales personnel are also eligible to receive sales commissions depending upon performance. Programs may differ by country due to variations in local laws and customs.

Based on the foregoing, we believe that our compensation policies and practices do not create inappropriate or unintended significant risk to the Company as a whole and are not reasonably likely to have a material adverse effect on the Company. We also believe that our incentive compensation arrangements provide incentives that do not encourage risk-taking beyond the organization's ability to effectively identify and manage significant risks; are compatible with effective internal controls and the risk management practices of the Company; and are supported by the oversight and administration of the Compensation Committee with regard to executive compensation programs.

Stockholder Communications with the Board

Stockholders may communicate with our Board by sending written correspondence to CoStar Group, Inc., Attention: Corporate Secretary, 1331 L Street N.W., Washington, DC 20005. Such communications will be opened by the Corporate Secretary. A copy of the contents will be made and retained by the Corporate Secretary and the contents will be promptly forwarded to the Chairman of the Nominating & Corporate Governance Committee and, if addressed to a particular committee or Board member, to that committee's Chairman or the particular Board member. The Corporate Secretary together with the Chairman of the Nominating & Corporate Governance Committee and his duly authorized agents are responsible for collecting and organizing stockholder communications. Absent a conflict of

interest, the Chairman of the Nominating & Corporate Governance Committee is responsible for evaluating the materiality of each stockholder communication and determining which stockholder communications are to be presented to the full Board, individual directors or other appropriate body.

Policy Regarding Attendance at Annual Meetings

CoStar encourages, but does not require, directors to attend the Annual Meetings of Stockholders. In 2011, five directors attended the Annual Meeting of Stockholders.

Codes of Conduct

CoStar has adopted a Code of Conduct for its directors. In addition, CoStar has adopted a separate Code of Conduct for its officers and employees, including its principal executive, financial and accounting officers, or persons performing similar functions. Copies of each of these codes may be found in the “Investors” section of the Company’s website at www.CoStar.com/Investors/CorpGovernance.aspx. We intend to disclose future amendments to certain provisions of our Codes, or waivers of such provisions granted to executive officers and directors, as required by SEC rules on the website within four business days following the date of such amendment or waiver.

Board Meetings and Committees

In accordance with applicable Delaware law and the Company’s Amended and Restated Bylaws, the business and affairs of the Company are managed under the direction of its Board. The Board, which is elected by the Company’s stockholders, is the ultimate decision-making body of the Company except with respect to those matters reserved to the stockholders. The Board selects, advises and monitors the performance of the Company’s senior management team, which is charged with the conduct of the Company’s business. The Board has established certain standing committees to assist it in fulfilling its responsibilities as described below.

During 2011, the Board of Directors held 11 meetings. The Board has Audit, Compensation and Nominating & Corporate Governance committees. Mr. Bonderman attended 67% of the meetings of the Board and the committees of which he was a member and all other directors attended at least 75% of the meetings of the Board and the committees of which they were members, which were held during the period in which each such director served in that capacity.

Board Committees

The following table sets forth the composition of each of our Board committees as of the date of this Proxy Statement as well as the number of meetings held by each committee in 2011.

Name	Audit Committee	Compensation Committee	Nominating & Corporate Governance Committee
Michael R. Klein		X*	X
Andrew C. Florance			
David Bonderman		X	X
Michael J. Glosserman	X		X
Warren H. Haber	X*		
Christopher J. Nassetta		X	X*
David J. Steinberg	X		
Number of Meetings	5	1	1

*Chairman of the Committee

Audit Committee. The Board has determined that each of the current members of our Audit Committee is independent as defined under Rule 5605(a)(2) of the Nasdaq listing rules. In addition, the Board has determined that Committee members Haber, Glosserman and Steinberg are “audit committee financial experts,” as defined by regulations promulgated by the SEC, based on, among other things, the experience, qualifications and skills described above under “Item 1 – Election of Directors – Nominees’ Business Experience, Qualifications and Directorships.” The Audit Committee’s responsibility is to assist the Board in fulfilling its oversight responsibilities as to accounting policies, internal controls, audit activities and reporting practices of the Company. The Audit Committee is also responsible for producing the report of the Audit Committee for inclusion in the Company’s Proxy Statement. The Audit Committee operates under a written charter adopted by the Board and reviewed annually by the Audit Committee.

Compensation Committee. The Board has determined that each of the current members of our Compensation Committee is independent as defined under Rule 5605(a)(2) of the Nasdaq listing rules. The Compensation Committee operates under a written charter adopted by the Board and reviewed annually by the Compensation Committee.

The purpose of the Compensation Committee is to discharge the responsibilities of the Board relating to compensation of the Company's executive officers and directors, as well as to produce the Compensation Committee report on executive compensation for inclusion in the Company's Proxy Statement. The Compensation Committee's authority and responsibilities include:

- overseeing the Company's compensation structure, policies and programs for executive officers and assessing whether the compensation structure establishes appropriate incentives for the executive officers;
- reviewing and approving corporate goals and objectives relevant to the compensation of the Chief Executive Officer and other executive officers of the Company, evaluating those executive officers' performance in light of their goals and setting their compensation levels based on the Compensation Committee's evaluation and, with respect to the other executives, the recommendations of the CEO and CFO;
 - approving stock options and other stock incentive awards for executive officers;
 - reviewing and approving the design of benefit plans pertaining to executive officers;
 - reviewing and recommending employment agreements for executive officers;
- approving, amending or modifying the terms of any compensation or benefit plan that does not require stockholder approval; and
- reviewing the compensation of directors for service on the Board and its committees and recommending changes in compensation to the Board.

In addition, the Board has designated the Compensation Committee as the Administrator of the 1998 Plan, the 2007 Plan and the Company's 2011 Cash Incentive Plan (the "2011 Incentive Plan"). The Compensation Committee may delegate its duties or responsibilities to a subcommittee of the Compensation Committee, and it has authority to retain and to direct management to retain outside advisors and experts that it determines appropriate to assist with performance of its functions.

Our Chief Executive Officer and Chief Financial Officer make recommendations to the Compensation Committee for each element of compensation awarded to executives, but the Compensation Committee must approve each element of (and any changes to) executive compensation. Periodically, the Compensation Committee also retains independent compensation consulting firms to assist it in gathering market data and to provide it with information about trends in compensation among comparable companies, determined based on factors such as market capitalization, annual revenues, service offerings, and potential competition for talent or business. The Compensation Committee retained Towers Watson in 2010, and utilized the findings from its study in connection with the Company's executive compensation decisions for 2011. Further, the Compensation Committee retained Towers Watson in 2011 in connection with compensation determinations for 2012, as discussed below in the section titled "Compensation Discussion and Analysis" beginning on page 38 of this Proxy Statement. Towers Watson reported directly to the Compensation Committee through its chair and, at the direction of the Compensation Committee chair, also worked directly with the Company's management to develop materials and proposals with respect to executive officer compensation. Other than the work pursuant to its engagement by the Compensation Committee, Towers Watson did not perform any other work for the Company in 2011. In future years, the Compensation Committee may at its discretion retain Towers Watson (or another consulting firm) to update or perform new studies to be used in connection with its executive compensation decisions.

Nominating & Corporate Governance Committee. The Board has determined that each of the current members of our Nominating & Corporate Governance Committee is independent as defined under Rule 5605(a)(2) of the Nasdaq listing rules. The purpose of the Nominating & Corporate Governance Committee is to identify individuals qualified to become Board members, recommend to the Board director candidates to be nominated at the Annual Meeting of Stockholders and perform a leadership role in shaping the Company's corporate governance. The Nominating & Corporate Governance Committee operates under a written charter adopted by the Board and reviewed annually by the Nominating & Corporate Governance Committee.

All of the charters for the Company's Board committees are available in the "Investors" section of the Company's website at www.CoStar.com/Investors/CorpGovernance.aspx.

Report of the Audit Committee

The Audit Committee reviews the Company's financial reporting process on behalf of the Board. Management has the primary responsibility for the financial statements and the reporting process. The Company's independent registered public accounting firm is responsible for expressing an opinion on the conformity of the Company's audited consolidated financial statements to generally accepted accounting principles.

In this context, the Audit Committee has reviewed and discussed with management and the independent registered public accounting firm the Company's audited consolidated financial statements for 2011. The Audit Committee has discussed with the independent registered public accounting firm the matters required to be discussed by the statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1. AU section 380), as adopted by the Public Company Accounting Oversight Board (the "PCAOB"). In addition, the Audit Committee has received from the independent registered public accounting firm the written disclosures and the letter required by applicable requirements of the PCAOB regarding the independent registered public accounting firm's communications with the Audit Committee concerning independence, and the Audit Committee has discussed with the independent registered public accounting firm its independence from the Company and management. The Audit Committee has also considered whether the independent registered public accounting firm's provision of non-audit services to the Company is compatible with the auditors' independence.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board that the audited consolidated financial statements be included in the Company's annual report on Form 10-K for the year ended December 31, 2011, for filing with the SEC.

By the Audit Committee
of the Board of Directors

Warren H. Haber, Chairman
Michael J. Glosserman
David J. Steinberg

Director Compensation

The Compensation Committee of the Board annually reviews director compensation for service on the Board and for service on any Board committees and recommends director compensation and any changes to such compensation to the Board for approval. The Board annually reviews and approves director compensation for Board and committee service based on the recommendations of the Compensation Committee. Current non-employee director compensation is set out below. Directors who are also employees of the Company do not receive any compensation

for service on the Board in addition to their regular employee compensation.

Board Fees. Each non-employee director, other than the Chairman of the Board, receives \$20,000 annually as compensation for serving on the Company's Board.

Attendance Fees. Each non-employee director, other than the Chairman of the Board, receives \$2,000 for each regular meeting of the Board attended in person or by telephone.

Chairman. The Chairman of the Board receives \$120,000 annually as compensation for services that he is required to perform in his role as Chairman.

Stock Grants. Annually on the date of the first regular Board meeting following the date of the annual meeting of stockholders (typically, a date in September of the respective year): (a) each non-employee Board member is entitled to receive a restricted stock grant valued at least \$72,000 on the date of grant; (b) the Chairperson of the Audit Committee also is entitled to receive a restricted stock grant valued at least \$30,000 on the date of grant; (c) each member of the Audit Committee (other than the Chairperson) also is entitled to receive a restricted stock grant valued at least \$15,000 on the date of grant; and (d) the Chairperson of each of the Compensation and Nominating & Corporate Governance Committees also is entitled to receive a restricted stock grant valued at least \$15,000 on the date of grant. The number of shares of restricted stock granted pursuant to each such restricted stock grant to the directors is determined by dividing the total dollar amount awarded by the closing price of the Company's common stock on the date of grant. Each award vests in equal installments on the first four anniversaries of the date of grant, as long as the director is still serving on our Board on the respective vesting date.

Pursuant to the Company's 1998 and 2007 Plans and related award agreements, upon a change of control, all restrictions on stock grants will lapse. For more detailed information, see "Change of Control Provisions under the Company's 1998 and 2007 Plans" on pages 64-65. In addition, under the 1998 and 2007 Plans, recipients of restricted stock are entitled to receive dividends and other distributions, if any, paid with respect to the common stock. The Compensation Committee will determine if any such dividends or distributions will be automatically reinvested in additional shares of restricted stock and subject to the same restrictions as the restricted stock or whether the dividend or distribution will be paid in cash.

Expenses. Each non-employee director is entitled to reimbursement of his expenses for serving as a member of our Board, including expenses in connection with attending each meeting of the Board and each meeting of any committee.

Director Compensation Table for Fiscal Year 2011

The following Director Compensation table shows the compensation we paid in 2011 to our non-employee directors.

Name	Fees		
	Earned or Paid in Cash(1) (\$)	Stock Awards(2) (\$)	Total (\$)
Michael R. Klein, Chairman	\$120,000	\$87,019	\$207,019
David Bonderman	\$24,000	\$72,000	\$96,000
Michael J. Glosserman	\$30,000	\$87,019	\$117,019
Warren H. Haber	\$30,000	\$102,038	\$132,038
Christopher J. Nassetta	\$30,000	\$87,019	\$117,019
David J. Steinberg(3)	\$22,667	\$87,019	\$109,686

(1) This column shows the amount of cash compensation earned in 2011 for Board and Committee service.

(2) This column shows the aggregate grant date fair value of shares of restricted stock granted in 2011 to each non-employee director, computed in accordance with SEC rules. Each non-employee director received one grant of restricted stock on September 8, 2011 for his service on the Board and any committees, as applicable. Generally, the grant date fair value is the amount the Company expenses in its financial statements over the awards' vesting period and is based on the closing price of our common stock on the date of grant, which was \$50.74 on September 8, 2011.

The following table shows the number of shares of restricted stock granted to each non-employee director during 2011, as well as the aggregate number of shares of restricted stock and stock options held by each non-employee director as of December 31, 2011.

Name	Number of Shares of Restricted Stock Granted 9/8/11	Aggregate Shares of Unvested Restricted Stock Held as of 12/31/11	Aggregate Stock Options Held as of 12/31/11
Michael R. Klein, Chairman	1,715	4,268	16,000
David Bonderman	1,419	3,972	15,000
Michael J. Glosserman	1,715	4,799	—
Warren H. Haber	2,011	5,628	21,000
Christopher J. Nassetta	1,715	4,799	15,000
David J. Steinberg	1,715	1,715	—

(3) Mr. Steinberg joined the Company's Board of Directors as of last year's annual meeting held on June 2, 2011. Accordingly, Mr. Steinberg's Board fees were pro-rated for the portion of the year during which he served on the Board and include fees for attendance at regular Board meetings.

Executive Officers and Key Employees

The following table lists our current executive officers and key employees:

Name	Age(1)	Years of Service(2)	Position
Andrew C. Florance*	48	25	Chief Executive Officer, President and Director
Brian J. Radecki*	41	15	Chief Financial Officer
John L. Stanfill*	44	17	Sr. Vice President of Sales and Customer Service
Jennifer L. Kitchen*	39	18	Sr. Vice President of Research
Paul Marples*	50	11(3)	Managing Director, CoStar UK Limited
Jonathan Coleman	47	12	General Counsel and Secretary
Frank Simuro	45	13	Chief Information Officer
Frank Carchedi	54	13(4)	Sr. Vice President, Corporate Development
Eric Forman	52	22(3)	Chief Executive Officer, Resolve Technology
Susan Jeffress	46	23	Vice President, Customer Service
Hans Nordby	45	10(3)	Managing Director, PPR
Ruijue Peng	54	18(3)	Chief Research Officer, PPR
M. Andrew Thomas	49	12(3)	President, Virtual Premise

* Executive Officer.

(1) Age determined as of June 1, 2012.

(2) Years of service include the current year of service.

(3) Includes years of service with acquired companies.

(4) Includes all years of service with the Company, although not consecutive.

Biographical information about Mr. Florance appears above under "Item 1 — Election of Directors." Biographical information about each of the other individuals in the table appears below.

Brian J. Radecki, our Chief Financial Officer, joined the Company in 1997 as our Corporate Controller. Prior to his appointment as Chief Financial Officer in 2007, Mr. Radecki served as Vice President of Research Operations, the Company's largest operating area, and before that he was Director of Accounting and Finance where he was involved in every aspect of the Company's accounting and finance functions in the United States and United Kingdom. From February 2000 until February 2001, Mr. Radecki was Chief Financial Officer of Comps, Inc. (formerly a wholly owned subsidiary of the Company). Before joining CoStar, Mr. Radecki was the Accounting Manager at Axent Technologies, Inc., a publicly-held international security software company. Prior to Axent, Mr. Radecki worked at Azerty, Inc. and the public accounting firm, Lumsden & McCormick, LLP, in Buffalo, NY. Mr. Radecki received a B.S. in business administration and a dual degree in both accounting and finance from the State University of New York at Buffalo.

John L. Stanfill, our Senior Vice President of Sales & Customer Service, joined us in June 1995 as an Account Executive for the New York City market. Since then, he has held positions of increasing responsibility at CoStar, ranging from positions in business development and national market expansion to management of the Company's Inside Sales Division. Before being appointed Senior Vice President of Sales & Customer Service in June 2008, Mr. Stanfill held the positions of Senior Vice President of Marketing & Product Management from January 2008 to June 2008, Vice President of Product Management from December 2006 to December 2007, and Vice President of Outbound Sales from March 2004 to November 2006. Mr. Stanfill received a B.A. in sociology from Boston University.

Jennifer L. Kitchen, our Senior Vice President of Research, joined CoStar in 1994 as a research analyst for the Company's first New York City research team. Prior to her appointment as Senior Vice President of Research in 2006, Ms. Kitchen held management positions with increasing responsibility. Between 1995 and 1997, she led CoStar's research expansion into the Los Angeles market and managed its research operations on the West Coast. In 1998, Ms. Kitchen established CoStar's first field research and photography operations and was subsequently promoted to Director of Field Research and Photography. She was appointed Vice President of Field Research in 2004, where she led the Company's overall field operations for collecting building-level data and photographing properties throughout the United States. Ms. Kitchen is currently responsible for our entire research operations. Ms. Kitchen holds a B.A. in history from Wellesley College.

Paul Marples, the Managing Director of our U.K. subsidiary, CoStar UK Limited, is in charge of our CoStar FOCUS service and our European operations. Mr. Marples joined us upon the acquisition of Property Investment Exchange Limited ("Propex"), a provider of commercial property information and operator of an electronic platform that facilitates the exchange of investment property located in London, England, in February 2007. Mr. Marples previously served as Managing Director of Propex from 2001 to 2007. Mr. Marples began his career in the commercial property industry in 1984, as a Chartered Surveyor for Weatherall Green and Smith (Atisreal) in London and Spain. From 1984 to 1996, Mr. Marples rose from Chartered Surveyor to Partner (London) to Managing Director (Spain) of Weatherall Green and Smith. In 1996, he established Brown Cooper Marples (BCM), a London-based investment brokerage firm where he served as Managing Director, before helping launch Propex beginning in 2001 through the consolidation of a number of property-related, Internet-based businesses. Mr. Marples received a M.A. in geography from Oxford University.

Jonathan Coleman, our General Counsel and Secretary, joined us in May 2000 as Deputy General Counsel. He has served as General Counsel and Secretary since July 2005. From October 1996 to May 2000, Mr. Coleman was a Trial Attorney with the U.S. Department of Justice's Civil Division. Prior to that, Mr. Coleman was an associate at Fried, Frank, Harris, Shriver & Jacobson, where he practiced commercial litigation. Mr. Coleman received a B.A. in economics and public policy studies from Dickinson College and his J.D. from George Washington University.

Frank Simuro, our Chief Information Officer, joined the Company in December 1999 as Director of Information Systems. He served as Senior Vice President of Information Systems from May 2005 to January 2008. Prior to joining CoStar, Mr. Simuro was Director of Data Warehousing at GRC International ("GRC"). Prior to GRC, Mr. Simuro was a technology consultant specializing in operational efficiency and database technologies. Mr. Simuro received a M.S. in information systems from George Washington University and a B.A. in computer science from State University of New York — Geneseo.

Frank A. Carchedi, our Senior Vice President of Corporate Development, returned to the Company in June 2009, having served as our Chief Financial Officer and Treasurer from May 1997 through June 2007. Between 2007 and 2009, Mr. Carchedi was Chief Financial Officer of Avectra, Inc., a provider of enterprise and SAAS-based software and services. Prior to 1997, he was with ITC Learning Corporation, a publicly held publisher and distributor of multi-media training products, where he had been Vice President, Treasurer and Chief Financial Officer since 1995.

Prior to that, Mr. Carchedi was with Ernst & Young, LLP for ten years, most recently as a consultant in the firm's New York-based Mergers and Acquisitions Group and Entrepreneurial Services Group in Washington, D.C. He received a B.S. in accounting from Wake Forest University.

Eric Forman, the Chief Executive Officer of Resolve Technology (Resolve), a wholly owned subsidiary of the Company, founded Resolve in October 1990. As founder and CEO of Resolve, Mr. Forman led Resolve to become the commercial real estate industry's leading provider of real estate portfolio management and business intelligence software solutions. Mr. Forman currently leads Resolve's overall strategy development and operations. Mr. Forman received a B.A. in English at the University of Rochester and an M.B.A. from Boston University.

Susan Jeffress, our Vice President of Customer Service, joined the Company in August 1989 as our receptionist. Over the years, she has worked in almost all departments of the Company including research, operations, human resources and accounting. Ms. Jeffress moved into Customer Service in 1995 and helped create the Customer Service team as it operates today. Ms. Jeffress received a B.A. in psychology from University of California, Davis.

Hans G. Nordby, the Managing Director of Property and Portfolio Research (PPR), a wholly owned subsidiary of the Company, leads PPR's overall strategy development and operations. Mr. Nordby joined PPR as a Research Strategist in July 2002. In that role, he managed research projects for REITs, opportunity funds, plan sponsors, and commercial banks. Most recently, he served as Director of Advisory Services, where he led risk management, investment strategy, and other projects for some of the world's largest commercial real estate investors. Prior to joining PPR, he worked in portfolio management and acquisitions for a pension fund advisor and as a commercial real estate strategy consultant with KPMG Peat Marwick. Mr. Nordby received a B.A. from the University of Minnesota and an M.B.A. from Indiana University.

Ruijue Peng, the Chief Research Officer of Property and Portfolio Research (PPR), a wholly owned subsidiary of the Company, joined PPR in December 1994 as Director of Quantitative Research and built PPR's forecasting models and related analytics. Dr. Peng also served as PPR's Chief Operating Officer from January 2005 to November 2006. Most recently, Dr. Peng has been focusing on research initiatives and the development of new analytics. Prior to joining PPR, Dr. Peng was a research fellow at the Joint Center for Housing Studies of Harvard University. She earned an M.S. and Ph.D. from MIT, focusing on urban and real estate economics.

M. Andrew Thomas, the President of Virtual Premise, a wholly owned subsidiary of the Company, joined Virtual Premise as President and Chief Operating Officer in 2001 when the company was still in the start-up phase. He currently leads Virtual Premise's overall strategy development and operations. Prior to joining Virtual Premise, he spent twelve years at Equitable Real Estate, serving as an Executive Vice President with involvement in acquisitions, debt placement, CMBS investment and servicing, and asset management of commercial real estate assets. Mr. Thomas received an M.B.A. from the University of Pennsylvania's Wharton School and a B.S. in Building Construction from the Georgia Institute of Technology.

Continued on next page.

Stock Ownership Information

The following table provides certain information regarding the beneficial ownership of our common stock as of March 30, 2012, unless otherwise noted, by:

our Chief Executive Officer and President, our Chief Financial Officer and the three most highly compensated executive officers of the Company (other than the CEO and CFO) who were serving as executive officers on December 31, 2011, consisting of our three other executive officers (whom we refer to collectively in this Proxy Statement as the “named executive officers”);

- each of our directors and director nominees;

each person we know to be the beneficial owner of more than 5% of our outstanding common stock (based upon Schedule 13D and Schedule 13G filings with the SEC, which can be reviewed for further information on each such beneficial owner’s holdings); and

- all of our executive officers and directors as a group.

Name and Address(1)	Shares Beneficially Owned(1)	Percentage of Outstanding Shares(1)
Michael R. Klein(2)	431,390	1.7%
Andrew C. Florance(3)	624,925	2.4%
Brian J. Radecki(4)	134,979	*
John L. Stanfill(5)	115,741	*
Jennifer L. Kitchen(6)	51,412	*
Paul Marples(7)	50,831	*
David Bonderman(8)	291,086	1.1%
Michael J. Glosserman(9)	7,669	*
Warren H. Haber(10)	126,026	*
Christopher J. Nassetta(11)	28,405	*
David J. Steinberg(12)	1,715	*
AllianceBernstein LP(13)	1,434,184	5.6%
Baron Capital Group, Inc and related entities and person(14)	2,001,401	7.8%
Blackrock, Inc.(15)	1,327,155	5.1%
Janus Capital Management LLC(16)	1,747,323	6.8%
Morgan Stanley and related entity(17)	1,777,037	6.9%
T. Rowe Price Associates, Inc.(18)	1,476,824	5.7%
TimesSquare Capital Management, LLC(19)	1,919,445	7.4%
All directors and executive officers as a group (11 persons)(20)	1,864,179	7.1%

(1) Unless otherwise noted, each listed person’s address is c/o CoStar Group, Inc., 1331 L Street, NW, Washington, DC 20005. Beneficial ownership, as determined in accordance with Rule 13d-3 under the Exchange Act, includes sole or shared power to vote or direct the voting of, or to dispose or direct the disposition of shares, as well as the right to acquire beneficial ownership within 60 days of March 30, 2012, through the exercise of an option or otherwise. Except as indicated in the footnotes to the table and to the extent authority is shared by spouses under applicable law, we believe that the persons named in the table have sole voting and dispositive power with respect to their reported shares of common stock. The use of * indicates ownership of less than 1%. As of March 30, 2012, the Company had 25,807,722 shares of common stock outstanding.

- (2) Includes 16,000 shares issuable upon options exercisable within 60 days of March 30, 2012, as well as 4,268 shares of restricted stock that are subject to vesting restrictions.
- (3) Includes 277,981 shares issuable upon options exercisable within 60 days of March 30, 2012, as well as 190,601 shares of restricted stock that are subject to vesting restrictions.
- (4) Includes 60,807 shares issuable upon options exercisable within 60 days of March 30, 2012, as well as 50,468 shares of restricted stock that are subject to vesting restrictions.

(5) Includes 27,048 shares issuable upon options exercisable within 60 days of March 30, 2012, as well as 78,101 shares of restricted stock that are subject to vesting restrictions.

(6) Includes 24,732 shares issuable upon options exercisable within 60 days of March 30, 2012, as well as 19,734 shares of restricted stock that are subject to vesting restrictions.

(7) Includes 20,199 shares issuable upon options exercisable within 60 days of March 30, 2012, as well as 19,734 shares of restricted stock that are subject to vesting restrictions.

(8) Includes 15,000 shares issuable upon options exercisable within 60 days of March 30, 2012, as well as 3,972 shares of restricted stock that are subject to vesting restrictions.

(9) Includes 4,799 shares of restricted stock that are subject to vesting restrictions.

(10) Includes 6,000 shares held by Mr. Haber's spouse and excludes 20,000 shares held by Mr. Haber's adult son for which Mr. Haber disclaims beneficial ownership. Also includes 21,000 shares issuable upon options exercisable within 60 days of March 30, 2012, as well as 5,628 shares of restricted stock that are subject to vesting restrictions.

(11) Includes 15,000 shares issuable upon options exercisable within 60 days of March 30, 2012, as well as 4,799 shares of restricted stock that are subject to vesting restrictions.

(12) Includes 1,715 shares of restricted stock that are subject to vesting restrictions.

(13) Number of shares beneficially owned is as of December 31, 2011 and is based on a Schedule 13G filed by AllianceBernstein LP on February 13, 2012. The reporting person had sole voting power with respect to 1,243,564 shares, shared voting power with respect to no shares, sole dispositive power with respect to 1,391,525 shares, and share dispositive power with respect to 42,659 shares. The address of the reporting person is 1345 Avenue of the Americas, New York, NY 10105.

(14) Number of shares beneficially owned is as of December 31, 2011 and is based on a Schedule 13G/A filed by Baron Capital Group, Inc. ("BCG"), BAMCO INC. ("BAMCO"), Baron Capital Management, Inc. ("BCM") and Ronald Baron on February 14, 2012. BCG and Ronald Baron both had sole voting and sole dispositive power with respect to no shares, shared voting power with respect to 1,841,901 shares, and shared dispositive power with respect to 2,001,401 shares. BAMCO had sole voting and sole dispositive power with respect to no shares, shared voting power with respect to 1,727,750 shares, and shared dispositive power with respect to 1,883,750 shares. BCM had sole voting and sole dispositive power with respect to no shares, shared voting power with respect to 115,151 shares, and shared dispositive power with respect to 117,651 shares. BAMCO and BCM are subsidiaries of BCG. Ronald Baron owns a controlling interest in BCG. The address of the reporting persons is 767 Fifth Avenue, 49th Floor, New York, NY 10153.

(15) Number of shares beneficially owned is as of December 30, 2011 and is based on a Schedule 13G filed by Blackrock, Inc. on February 9, 2012. The address of the reporting person is 40 East 52nd Street, New York, NY 10022.

(16) Number of shares beneficially owned is as of December 31, 2011 and is based on a Schedule 13G/A filed by Janus Capital Management LLC ("Janus Capital") on February 14, 2012. The address of the reporting person is 151 Detroit Street, Denver, CO 80206. Janus Capital has a direct 94.8% ownership stake in INTECH Investment Management ("INTECH") and a direct 77.8% ownership stake in Perkins Investment Management LLC

(“Perkins”). Due to this ownership structure, holdings for Janus Capital, Perkins and INTECH are aggregated in their Schedule 13G/A.

(17) Number of shares beneficially owned is as of December 31, 2011 and is based on a Schedule 13G/A filed by Morgan Stanley and Morgan Stanley Investment Management Inc. on February 8, 2012. Morgan Stanley and Morgan Stanley Investment Management Inc. had sole voting power with respect to 1,654,967 shares, shared voting and shared dispositive power with respect to no shares, and sole dispositive power with respect to 1,777,037 shares. The securities being reported on by Morgan Stanley as a parent holding company are owned, or may be deemed to be beneficially owned, by Morgan Stanley Investment Management Inc., an investment adviser in accordance with Rule 13d-1(b)(1)(ii)(E) under the Exchange Act. Morgan Stanley Investment Management Inc. is a wholly owned subsidiary of Morgan Stanley. The address of Morgan Stanley is 1585 Broadway, New York, NY 10036, and the address of Morgan Stanley Investment Management Inc. is 522 Fifth Avenue, New York, NY 10036.

(18)Number of shares beneficially owned is as of December 31, 2011 and is based on a Schedule 13G/A filed by T. Rowe Price Associates, Inc. on February 8, 2012. The reporting person had sole voting power with respect to 308,342 shares, shared voting and shared dispositive power with respect to no shares, and sole dispositive power with respect to 1,476,824 shares. The address of the reporting person is 100 E. Pratt Street, Baltimore, MD 21202.

(19)Number of shares beneficially owned is as of December 31, 2011 and is based on a Schedule 13G/A filed by TimesSquare Capital Management, LLC on February 8, 2012. The reporting person had sole voting power with respect to 1,612,245 shares, shared voting and shared dispositive power with respect to no shares, and sole dispositive power with respect to 1,919,445 shares. The address of the reporting person is 1177 Avenue of the Americas, 39th Floor, New York, NY 10036.

(20)Includes 477,767 shares issuable upon options exercisable within 60 days of March 30, 2012, as well as 383,819 shares of restricted stock that are subject to vesting restrictions.

Equity Compensation Plan Information

The following table sets forth information with respect to the Company's equity compensation plans approved by security holders. The Company does not have any equity compensation plans not approved by security holders. The information in this table is as of December 31, 2011.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights	Weighted-average exercise price of outstanding options, warrants, and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)(2)
Equity compensation plans approved by security holders (1)	847,102	\$39.93	1,375,091
Equity compensation plans not approved by security holders	—	—	—

(1) Consists of the following plans: the 1998 Plan, the 2007 Plan and the Company's Employee Stock Purchase Plan. The Company's 1998 Plan and the Company's 2007 Plan provide for various types of awards, including options and restricted stock grants. In April 2007, the Company's Board of Directors adopted the 2007 Plan, subject to stockholder approval, which was obtained on June 7, 2007. The 2007 Plan was amended in June 2010 and again in June 2011. Stockholders approved these amendments on June 2, 2010 and June 2, 2011, respectively. 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 remained available for issuance pursuant to new awards 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 Employee Stock Purchase Plan was adopted by the Board of Directors on April 17, 2006, and approved by the Company's stockholders on June 8, 2006. The Employee Stock Purchase Plan was later amended by the Board of Directors on July 1, 2006 and January 1, 2010. Those amendments to the Employee Stock Purchase Plan were ministerial in nature and were not subject to stockholder approval.

- (2) Includes 56,339 shares of common stock available for future issuance under the Company's stockholder-approved Employee Stock Purchase Plan, which amount includes 256 shares subject to purchase during the then-current purchase period.

Compensation Committee Interlocks and Insider Participation

Messrs. Klein, Bonderman, Nassetta and Haber, each a non-employee director, served on the Compensation Committee during fiscal year 2011. Mr. Klein serves as the Chairman of the Board of the Company. None of the members of the Compensation Committee during fiscal year 2011 were officers or employees of the Company or any of its subsidiaries during or prior to fiscal year 2011. During 2011, none of the Company's executive officers served as a director or compensation committee member of any entity with an executive officer or director who served as a director or Compensation Committee member of the Company.

Compensation Committee Report

The Compensation Committee has reviewed and discussed with management the following Compensation Discussion and Analysis section of the Company's 2012 Proxy Statement. Based on its review and discussions with management, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the Company's Annual Report on Form 10-K and this Proxy Statement.

By the Compensation Committee
of the Board of Directors

Michael R. Klein, Chairman
David Bonderman
Christopher J. Nassetta

Compensation Discussion and Analysis

Executive Summary

CoStar Group's executive compensation program is designed to hold our executives accountable for corporate results over the long term and to reward them for successful execution. As a result, a substantial portion of our executives' overall compensation is tied to performance. The Compensation Committee links executive compensation to the attainment of challenging goals. Cash compensation includes payments under our annual incentive cash plan that are based on company performance relative to operational goals and individual performance. Equity-based compensation is used to align compensation with the long-term interests of our stockholders by focusing our executive officers on total stockholder return (TSR). Total compensation for each executive officer varies with individual performance and the Company's performance in achieving financial and non-financial objectives.

During the recent economic downturn, CoStar continued to invest in its business, including product development and acquisitions. During 2011, we continued to see some of the benefits from those investments, achieving more than \$250 million in annual revenue for the first time, which is an increase of 11% compared to 2010. The Company's executive compensation for 2011 reflects our financial and operational results.

Compensation Philosophy and Objectives

The Company's Compensation Committee (the "Committee") is responsible for designing and maintaining the Company's executive compensation program consistent with the objectives below. The Committee operates under a written charter approved by the Board. For additional information about the Committee's authority and its ability to delegate its authority, see the section of this Proxy Statement titled "Additional Information—Board Meetings and Committees—Compensation Committee" on page 29. The Committee annually establishes and reviews all forms of direct compensation, including base salaries, annual incentive bonuses, and both the terms and types of equity awards, for the Company's named executive officers as well as other officers of the Company.

The Company's executive compensation program seeks to

- link executive compensation with the achievement of overall corporate goals,
 - encourage and reward superior performance, and
- assist the Company in attracting, motivating and retaining talented executives.

Accordingly, executive compensation is structured so that a significant portion of compensation paid to named executive officers is directly related to the Company's short-term and long-term performance, thereby aligning the interests of named executive officers with those of the Company's stockholders. For example, as discussed below, a significant portion of the named executive officers' opportunities under the Company's cash incentive and equity compensation programs is tied to the Company's achievement of revenue growth and earnings objectives. The Committee also recognizes that the market for executives in the commercial real estate information services industry is

highly competitive, and therefore seeks to provide a competitive total compensation package so that the Company may maintain its leadership position in this industry by attracting, retaining, and motivating executives capable of enhancing stockholder value.

Results of “Say-on-Pay” Advisory Vote

The Company provided its stockholders a “say-on-pay” advisory vote to approve its executive compensation in 2011 under recently adopted rules under Section 14A of the Exchange Act. At the 2011 Annual Meeting, stockholders expressed substantial support for the compensation of the Company’s named executive officers, with approximately 98% of the votes cast for approval of the “say-on-pay” advisory vote. The Committee evaluated the results of the 2011 advisory vote in connection with its evaluation of the Company’s executive compensation programs generally and believes that the results confirm stockholder support for the Company’s executive compensation policies and decisions. The Committee’s approach to 2012 executive compensation programs remained consistent with the 2011 approach, which included the Committee’s emphasis on linking executive incentives with long-term stockholder value. As a result, the Committee decided not to make any material changes to the Company’s executive compensation program as a result of the 2011 “say-on-pay” vote, but did award a special performance-based long-term equity grant in early 2012 that is tied to the Company’s earnings performance in 2012 and beyond.

Determination of Executive Compensation

As part of the compensation review process, the Committee annually reviews and approves each element and the mix of compensation that comprises each named executive officer’s total compensation package. Our Chief Executive Officer and Chief Financial Officer make recommendations to the Committee for each element of compensation awarded to named executive officers (including establishment of individual and corporate financial goals), but the Committee must approve each element of (and any changes to) a named executive officer’s compensation. The Committee may consider a number of factors in establishing or revising each named executive officer’s total compensation, including individual performance, the Company’s financial performance, external market and peer group practices, current compensation arrangements, internal pay equity considerations and long-term potential to enhance stockholder value. Particular factors considered by the Committee with respect to each element of executive compensation are discussed below.

Periodically the Committee also retains independent compensation consulting firms to assist it in gathering benchmarking data and to provide it with information about trends in compensation among comparable companies based on factors such as market capitalization, annual revenues, service offerings and potential competition for talent or business. The Committee believes that comparing the compensation of each of the Company’s named executive officers with executives in comparable positions at these peer companies supports the Committee’s goal that the total compensation provided to the Company’s named executive officers is set at an appropriate level to attract, reward and retain top performers over the long term. In general, the Committee currently believes that compensation is competitive if it falls within +/- 15% of the median levels of peer company data provided by its compensation consultant, as discussed below. Where peer company data is not available, the Committee reviews individual responsibility and performance, prior compensation, external market and competitive practices (including available general industry executive compensation data), and internal pay equity considerations when setting an executive officer’s compensation.

The Committee assesses each element of the compensation program within the whole, however, and may target certain elements of executive compensation at different levels (i.e. higher or lower than +/- 15% of the median levels of peer companies) depending on the Company’s current goals, individual achievement and internal pay equity considerations, as discussed in more detail below. Changes to different elements may result in total target compensation being higher or lower than +/- 15% of the median levels of the peer company data. In early 2011, the

Committee determined to increase the proportion of executives' total compensation that is equity-based. Therefore, the Committee revised the target award values for the equity compensation component of the executives' compensation granted in 2011 for 2010 performance (as the executives' equity component is currently subject to approval in the year following performance) so as to fall between the 50th and 75th percentile of the peer company data, where available. The target award values for equity compensation awarded in early 2012 for 2011 performance did not change from

levels awarded in 2011, as discussed below. As a result, the target total direct compensation for 2011 fell between the 50th and 75th percentiles of the peer company data, where available, even though executives' base salaries and annual cash bonuses were generally set within +/- 15% of the median levels of the peer company data, where available.

The Committee engaged an independent compensation consultant, Towers Watson, in 2010 to provide peer data, assess the competitiveness of the Company's executive compensation program, assess the financial efficiency of the executive compensation program, assess internal equity considerations, and identify potential modifications based on market practices and trends, the Company's business priorities, structure and growth expectations, and view of management and the Committee. The Committee engaged Towers Watson again in 2011 to review and revise the Company's competitive peer group and generally to update its review and competitive assessment of the Company's executive compensation program based on the updated peer group. The Committee's decisions regarding executive compensation for 2011, including executive's long-term incentive or equity compensation for 2011, were based on Towers Watson's recommendations resulting from its 2010 engagement. Details of the Company's executive compensation structure for 2011 are discussed below.

Towers Watson reported directly to the Committee through its chair when performing the executive compensation studies and, at the direction of the Committee chair, also worked directly with the Company's management to develop materials and proposals with respect to named executive officer compensation. In the future, the Committee plans at its discretion to retain Towers Watson or another consulting firm from time to time to update or perform new studies to be used in connection with its executive compensation decisions.

The following is the list of peer companies selected and approved by the Committee in 2011, based upon the recommendation of Towers Watson from its 2010 study, as comparable to the Company in terms of size (including revenues, earnings and market capitalization), business model and financial performance. Within the selected peer group, the Company fell near the 40th percentile in terms of revenues, 50th percentile in terms of earnings and 60th percentile in terms of market capitalization.

- Advent Software, Inc.
- Advisory Board Company
- Arbitron Inc.
- Blackbaud Inc.
- Blackboard Inc.
- comScore Inc.
- Corporate Executive Board Company
- DealerTrack Holdings Inc.
- Digital River Inc.
- ExlService Holdings Inc.
- FactSet Research Systems Inc.
- Forrester Research Inc.
- Global Traffic Network Inc.
- Harris Interactive Inc.
- Lionbridge Technologies Inc.
- Liquidity Services Inc.
- LoopNet Inc.
- Morningstar Inc.
- Move Inc.
- NeuStar Inc.
- RealPage, Inc.
- Rightnow Technologies Inc.
- Taleo Corp.
- TradeStation Group Inc.
- Travelzoo Inc.
- Ultimate Software Group Inc.
- Vocus Inc.
- WebMD Health Corp.
- Wright Express Corp.

The 2010 Towers Watson study also considered general industry executive compensation data from Towers Watson's 2010 Executive Compensation Databank and Top Management Compensation Reports, size-adjusted based on CoStar's annual revenues. The Committee was not made aware of the names of the companies included in Towers Watson's general industry executive compensation data.

Where available, the Committee utilized peer company data from the 2010 Towers Watson study as the primary competitive benchmark when evaluating the executives' 2011 compensation, including base salaries, cash incentives, and long-term equity incentive awards, as the peer company data reflects higher growth companies believed to be more similar to CoStar (as opposed to more mature general industry companies reflected in the survey data). In those cases where peer data was unavailable, the Committee took into account individual responsibility and performance, previous cash compensation and equity awards to the respective named executive officers, external market and

competitive practices (including available general industry executive compensation data), as well as internal pay equity considerations. Towers Watson's preliminary findings and recommendations from its engagement in 2010 were presented to the Chairman of the Compensation Committee in early 2011 and final findings and recommendations were presented to the full Committee in February 2011.

In connection with its engagement in 2011, Towers Watson recommended a revised list of peer companies to be used when evaluating the executives' 2012 compensation, including equity grants awarded in 2012 for 2011 performance and equity grants awarded in 2012. The following is the list of peer companies selected and approved, based upon the recommendation of Towers Watson, as comparable to the Company in terms of size (including revenues, earnings and market capitalization), business model and financial performance. Within the selected peer group, the Company fell near the 40th percentile in terms of revenues, 50th percentile in terms of earnings and 70th percentile in terms of market capitalization. The peer group from the 2011 Towers Watson study included a smaller number of companies (reduced from 29 to 15) as is more customary and which better reflects a set of more comparable peers.

- Advent Software, Inc.
- Arbitron Inc.
- CommVault Systems, Inc.
- comScore Inc.
- Corporate Executive Board Company
- DealerTrack Holdings Inc.
- Digital River Inc.
- ExlService Holdings Inc.
- Fair Isaac Corp.
- Liquidity Services Inc.
- NeuStar Inc.
- SuccessFactors, Inc.
- Ultimate Software Group Inc.
- Vocus Inc.
- WebMD Health Corp.

The 2011 Towers Watson study also considered general industry executive compensation data from Towers Watson's 2011 Executive Compensation Database, size-adjusted based on CoStar's estimated annual revenues. In addition, with respect to Mr. Marples, our Managing Director, CoStar UK, Towers Watson used published survey data collected in the United Kingdom. The Committee was not made aware of the names of the companies included in Towers Watson's general industry executive compensation data or in the published UK survey data.

The Committee has designed the executive compensation program to align executives' compensation with the Company's performance and to enable the Company to attract, motivate and retain talented executives and reward superior performance. The Committee reevaluates and approves executive compensation each year and, as indicated above, may retain consulting firms in the future to assist with updating or performing studies to be used to assist with executive compensation decisions.

Elements of the Compensation Program

The Company's executive compensation program consists primarily of base salary, annual cash bonuses and an annual award of restricted stock and stock options. Additionally, our U.S. named executive officers are eligible to receive Company-paid matching contributions to their 401(k) plan accounts, as well as health insurance and other welfare benefits that are generally available to the Company's U.S. employees. Our U.K. named executive officer is eligible to receive compensation in the form of a pension scheme contribution to a defined contribution plan and Company-paid private medical insurance. As discussed more fully below, our Senior Vice President of Sales and Customer Service, John Stanfill, also is eligible to receive commission payments based on monthly production of our U.S. sales force as a component of his total compensation.

Each year, the Committee approves a compensation arrangement for each of its named executive officers that specifies a named executive officer's (i) base salary, (ii) annual cash bonus potential based on a percentage of base compensation subject to achievement of individual and corporate goals, and (iii) equity awards, including restricted

stock that is granted based on achievement of corporate goals and stock options, both of which vest over time and/or in full after a specified period of time. Each of these components is discussed in further detail below. The Compensation Committee assesses executive compensation each year and may, in its discretion, award additional or different types of compensatory awards. No such additional awards were granted in 2011, however, in 2012, the Committee granted the executive officers a special performance-based restricted stock grant, which vests upon the Company's achievement of \$90 million of cumulative earnings before interest, income taxes, depreciation and amortization (EBITDA) over a period of four consecutive calendar quarters, provided that the performance criteria is met by March 31, 2017. Overall, the Company strives to motivate its executives with straightforward, transparent and competitive compensation arrangements intended to reward excellent individual and corporate performance and enhance stockholder value.

Base Salaries

Base salaries provide a minimum, fixed level of cash compensation for the named executive officers. Salary levels are reviewed annually by the Committee. In establishing salary levels, the Committee considers each executive's individual responsibilities and performance, prior base salary and total compensation, the pay levels of similarly situated executives within the Company, market data on base salary and total compensation levels (including Towers Watson peer group and survey data) and current market conditions. The 2010 Towers Watson study found that overall the named executive officers' base salaries were more than 10% below the median levels of the peer company and/or survey data. Based on the 2010 Towers Watson study and in recognition of the Committee's subjective view of their overall individual performance, the Committee determined in early 2011 to increase base salaries for the named executive officers to bring them within +/- 15% of the median levels of the peer company and/or survey data provided by the 2010 Towers Watson study thereby making them more competitive in the marketplace. The annual base salaries of our named executive officers effective as of March 7, 2011 were as follows:

2011 Base Salaries

Name	Title	Annual Base Salary
Andrew C. Florance	CEO & President	\$ 512,500
Brian J. Radecki	CFO	\$ 290,000
John L. Stanfill	Sr. Vice President, Sales & Customer Service	\$ 295,000
Jennifer L. Kitchen	Sr. Vice President, Research	\$ 205,500
Paul Marples	Managing Director, CoStar UK Limited	\$ 239,491(1)

(1) All dollar amounts listed for Mr. Marples have been converted from British pounds using a conversion rate of 1.55, which is the average exchange rate for the period from January 1, 2010 to December 31, 2010.

2012 Base Salaries

The 2011 Towers Watson study found that except for Mr. Florance (whose salary approximated the 50th percentile of the peer data), the named executive officers' base salaries fell between 9% and 14% below the median levels of the peer company and/or survey data. Based on the Towers Watson study that was updated in 2011 and in recognition of the Committee's subjective view of their overall individual performance, the Committee determined in early 2012 to increase the base salaries to keep them competitive in the marketplace, but also determined to keep them within +/- 15% of the median levels of the updated peer company and/or survey data provided by the Towers Watson Study. The annual base salaries of our named executive officers effective as of February 21, 2012 are as follows:

Name	Title	Annual Base Salary
Andrew C. Florance	CEO & President	\$ 550,000
Brian J. Radecki	CFO	\$ 350,000
John L. Stanfill	Sr. Vice President, Sales & Customer Service	\$ 325,000
Jennifer L. Kitchen	Sr. Vice President, Research	\$ 220,000
Paul Marples	Managing Director, CoStar UK Limited	\$ 272,000(1)

All dollar amounts listed for Mr. Marples have been converted from British pounds using a conversion rate of (1) 1.60, which is the average exchange rate for the period from January 1, 2011 to December 31, 2011.

Annual Cash Incentive Program

The Committee administers an annual cash incentive program under which the Company's named executive officers may earn a cash incentive bonus based on a fixed target percentage of base salary during the fiscal year, if individual and corporate performance objectives for the fiscal year are achieved. At the beginning of each year, the Committee establishes individual goals for each named executive officer based upon recommendations from our Chief Executive Officer, as well as Company financial goals that apply to all named executive officers that are based upon recommendations from our Chief Executive Officer and our Chief Financial Officer. The Committee determines the target percentages of base pay for each named executive officer based on market and competitive conditions, peer company practices, and internal pay equity considerations. The Committee also determines the weighting of the various individual and Company financial goals, based upon position and functional accountability and responsibility, as well as recommendations from our Chief Executive Officer. The target percentages and weighting of the various individual and Company financial goals may vary among the named executive officers and are subject to change from year to year. The Committee seeks to establish performance goals that are challenging but realistic given the expected operating environment at the time they are established. These performance goals are intended to focus named executive officers on achieving the Company's financial and operating goals. After the completion of each year, the Committee reviews individual and Company performance to determine the extent to which the goals were achieved and the actual cash bonuses to be paid to the named executive officers.

In the Committee's view, the use of annual performance-based cash incentive bonuses creates a direct link between executive compensation and individual and corporate performance. Therefore, the annual performance-based cash incentive bonus is divided into two components, one tied to corporate performance and one tied to individual performance. As discussed in greater detail below, the Committee sets a target and maximum award for both the corporate performance objectives and for each executive officer's individual performance. The Committee also sets a threshold award for the corporate performance objectives. If the threshold level is not reached, the executive officer does not receive any amount in respect of that portion of the award. The following table shows each named executive officer's fiscal 2011 threshold, target, and maximum award amounts for the corporate performance component, which are expressed as a percentage of the executive's base salary. Achievement of the individual performance goals are subjective and executives can receive between 0 and 200% credit for that portion of the award.

Name	Title	Threshold		Target		Maximum	
Andrew C. Florance	CEO & President	50.0	%	100.0	%	200.0	%
Brian J. Radecki	CFO	27.5	%	55.0	%	110.0	%
John L. Stanfill(1)	Sr. Vice President, Sales & Customer Service	5.0	%	10.0	%	20.0	%
Jennifer L. Kitchen	Sr. Vice President, Research	27.5	%	55.0	%	110.0	%
Paul Marples	Managing Director, CoStar UK Limited	20.0	%	40.0	%	80.0	%

(1) Mr. Stanfill's target percentage is lower relative to other named executive officers because he also is eligible to receive commission payments based on achievement of Company-based performance objectives described below.

In March 2011, the Committee reassessed the named executive officers threshold, target and maximum award values with respect to the 2011 cash incentives. The 2010 Towers Watson study found that, except for Mr. Stanfill and Ms. Kitchen, the named executive officers' target award values were below the median levels of the peer company and/or survey data. Based on the 2010 Towers Watson study and in recognition of the Committee's subjective view of their overall individual performance, the Committee determined in early 2011 to increase the award values for Mr. Florance

and Mr. Radecki to set the targets at the median levels of the peer company data provided by the 2010 Towers Watson study, thereby making them more competitive in the marketplace. In addition, because Mr. Stanfill's potential compensation, including potential commission payments, increased for 2011, the Committee reduced his 2011 target award value to balance out his target cash incentive compensation and overall compensation package. The Committee reviewed and left unchanged Ms. Kitchen's and Mr. Marples' target award values for 2011 based upon their individual responsibilities, competitive practices and internal pay equity considerations. The annual cash incentive plan provides each named executive officer with the potential to earn awards up to two times the amount of their target for exceptional performance as measured against pre-established metrics and goals, each of which is discussed below.

Each named executive officer may earn an incentive bonus equal to, greater than or less than the target percentage of his or her base salary depending on whether the individual and the Company achieve the specified performance objectives. These objectives include individual qualitative performance goals (except for our Chief Executive Officer), as well as Company-wide financial goals. For 2011, the Committee selected Company-wide financial goals based on the Company's achievement of: (1) annual revenue targets included in the Company's 2011 operating plan approved by the Company's Board at the beginning of 2011 (the "2011 Operating Plan"); and (2) net income (loss) before interest, income taxes, depreciation and amortization ("EBITDA") targets included in the 2011 Operating Plan. EBITDA is our GAAP-basis net income (loss) before interest, income taxes, depreciation and amortization. These financial goals were selected by the Committee because it believes that revenue and EBITDA are good measures of stockholder value.

The individual performance goals established for the named executive officers at the beginning of 2011 are strategic and leadership goals tailored to the individual's position and focused on the Company's strategic initiatives. The individual goals assist the Committee in assessing the named executive officer's individual performance in key areas that help drive the Company's operating and financial results. The use of both individual and corporate goals advances the Company's executive compensation philosophy that individual executives be held accountable for both their own individual performance as well as the Company's performance. Based on peer data from past compensation consultant studies, which indicate that more commonly the chief executive officer's annual incentive is tied solely to corporate results, and the Committee's determination that it is in the best interests of the Company to have our Chief Executive Officer's annual incentive award based exclusively on the financial performance of the Company, Mr. Florance's incentive cash award is not based on achievement of individual performance goals.

Performance goals and the weighting given to each may change in the Committee's discretion from year to year. The measures and the relative weighting of individual and corporate financial performance goals for each of the named executive officers is reviewed by the Committee annually at the beginning of the respective year. The Chief Executive Officer proposes to the Committee for its consideration changes to the measures and the weighting of the performance goals based on the Company's current strategic initiatives and goals. The weighting of the individual and corporate objectives for the named executive officers for 2011 is shown in the table below.

2011 Performance Against Corporate and Individual Objectives

In February 2012, the Committee assessed the Company's and each named executive officer's achievement of the goals and targets for 2011 that had been established at the beginning of 2011. Information regarding the target percentages of base salary for each named executive officer's 2011 cash incentive award, percentage of target achieved and actual 2011 cash incentive awards paid to each named executive officer, as well as the weighting of individual and financial performance goals for 2011, are shown in the table below. A description of 2011 performance compared to the corporate and individual goals follows the table.

2011 Annual Cash Incentive Awards

Name	Title	Target as a % of Salary	Percentage of Target Achieved	Actual Award as a % of Salary	Actual Cash Award (\$)	Individual	Revenue	EBITDA
						Goals as a % of Target Award	Target as a % of Target Award	Target as a % of Target Award
Andrew C. Florance(1)	CEO & President	100 %	200.0 %	200.0 %	\$ 1,025,000	—	50 %	50 %
Brian J. Radecki(2)	CFO	55 %	180.0 %	99.0 %	\$ 287,100	20 %	30 %	50 %
John L. Stanfill(3)	Sr. Vice President, Sales & Customer Service	10 %	142.5 %	14.3 %	\$ 42,038	50 %	—	50 %
Jennifer L. Kitchen(4)	Sr. Vice President, Research Managing Director, CoStar UK Limited	55 %	125.0 %	68.8 %	\$ 141,281	50 %	20 %	30 %
Paul Marples(5)	Limited	40 %	34.6 %	13.8 %	\$ 34,378	20 %	50 %	30 %

- (1) As discussed above, Mr. Florance's 2011 annual cash incentive award is based solely on corporate performance goals.
- (2) The weighting of the goals for Mr. Radecki was revised in 2011 to give more weight to the financial targets, which reflects the Company's emphasis on overall earnings. In addition, because of the Company's continued focus on earnings, the Committee decided to weight the EBITDA target greater as compared to the revenue target for all named executive officers except Messrs. Florance and Marples.
- (3) The weighting of the goals for Mr. Stanfill was revised in 2011 to give more weight to the EBITDA target, which reflects the Company's emphasis on overall earnings. Mr. Stanfill's goals do not have a revenue component because he is entitled to receive commission payments based on a percentage of the Company's U.S. monthly net new sales.
- (4) The weighting for Ms. Kitchen's individual goals remained unchanged in 2011 from 2010 and the emphasis continues to be placed on her individual goals. Ms. Kitchen's individual goals consist of strategic, operational goals that the Committee deems important in connection with the Company's growth and development, but which may not result in immediate financial results. Therefore, the Committee determined to continue the emphasis on achievement of her individual goals compared to the corporate performance goals. In addition, because of the Company's continued focus on earnings, the Committee decided to weight the EBITDA target greater as compared to the revenue target for all named executive officers except Messrs. Florance and Marples.
- (5) Mr. Marples' weighting was revised to reflect the emphasis in our international segment on sales and revenue. Mr. Marples' financial goals for 2011 are based on the Company's European entities' achievement of annual revenue and EBITDA targets included in the Company's 2011 Operating Plan approved by the Company's Board at the beginning of 2011. All dollar amounts used in the discussion of Mr. Marples' compensation have been converted from British pounds using a conversion rate of 1.60, which is the average exchange rate for the period from January 1, 2011 to

December 31, 2011.

Individual Performance Goals for 2011 Annual Cash Incentive Awards

Individual performance goals vary by position, functional accountability and responsibility, and may include, among other goals, department-specific financial goals, the development and release of new services, the implementation of geographic and/or service expansion plans, recruitment and hiring for key positions, the implementation of customer service and quality control measures and database growth objectives. The 2011 individual performance goals for the named executive officers included the goals described in the table below, with the exception of Mr. Florance whose 2011 annual cash incentive award is based solely on corporate performance goals. The Company is not disclosing the named executive officers' specific individual performance goals because they are based on key short-term operational objectives that would signal the Company's strategic direction and could be used by competitors to gain insight into market dynamics.

Name	Title	Individual Goals
Brian J. Radecki	CFO	<ul style="list-style-type: none"> · recruit and hire key personnel · reduce the Company's costs · facilitate the Company's mergers and acquisitions activity · complete the annual audit · effectively communicate with the Company's investor base and analysts
John L. Stanfill	Sr. Vice President, Sales & Customer Service	<ul style="list-style-type: none"> · build an effective sales strategy for the Company's combined services · recruit and hire key personnel, effective sales managers and employees · build and manage sales pipeline · develop sales force and improve training methods
Jennifer L. Kitchen	Sr. Vice President, Research	<ul style="list-style-type: none"> · recruit and hire key personnel and research staff · improve training methods · develop and release new services · ensure data quality and implement accuracy controls · control costs and improve research efficiency · execute research strategy
Paul Marples	Managing Director, CoStar UK Limited	<ul style="list-style-type: none"> · develop and release new services · increase sales · ensure data quality and implement accuracy controls

The Committee sets aggressive individual performance criteria for annual cash incentive awards that are challenging but realistic to achieve in order to motivate named executive officers to excel and perform at a high level and to focus on overall corporate objectives. Named executive officers could receive between 0% and 200% credit for the individual performance component of their annual cash incentive depending upon achievement of established goals for 2011. This percentage credit is then multiplied by the weighting applicable to the individual performance component of the cash incentive award. The Committee determines the credit earned for achievement of the individual performance criteria based upon recommendations from our Chief Executive Officer. The Committee intends to set the individual performance criteria for the annual cash incentive awards such that the relative difficulty of achieving the target level is consistent from year to year. With respect to awards for fiscal years 2008 through 2011, the named executive officers earned between 40% and 180% credit (or an average of approximately 87%) for their individual goals. The table below sets forth the percentage of individual performance goals achieved by each of

the named executive officers for the 2011 annual cash incentive award, as determined by the Committee in early 2012.

Name	Title	Percentage of Individual Performance Goals Achieved
Andrew C. Florance(1)	CEO & President	—
Brian J. Radecki	CFO	100%
John L. Stanfill	Sr. Vice President, Sales & Customer Service	85%
Jennifer L. Kitchen	Sr. Vice President, Research	50%
Paul Marples	Managing Director, CoStar UK Limited	50%

(1) Mr. Florance's 2011 cash incentive award was based solely on corporate revenue and EBITDA targets.

Revenue Target for 2011 Annual Cash Incentive Awards

The 2011 revenue target for the named executive officers other than Mr. Marples was \$243.2 million in revenue earned by the Company, while Mr. Marples' revenue target was £13.0 million in revenue earned by the Company's European entities. Named executive officers could receive between 0% and 200% credit for the revenue component of their annual cash incentive, depending upon actual revenue earned in 2011. If the revenue earned was equal to the target, the named executive officers would receive 100% credit for the revenue component of the goals. If the revenue earned was equal to 95% of the target, the named executive officers would receive 50% credit for the revenue component of the goals, while the named executive officers would not receive any credit towards the revenue component of the goals if the revenue earned was below 95% of the target. If the revenue earned was equal to 102% of the target, the named executive officers would receive 200% credit for the revenue component of the goals, while revenue above 102% of the target would not increase the percentage credited for that component of the award above 200%. If actual annual revenue falls between 95% and 102% (or more) of the revenue target, the named executive officers would receive a corresponding percentage (between 50% and 200%) of credit for the revenue component of the goals. The percent credited for the revenue component of the goals is then multiplied by the weighting applicable to the revenue component of the cash incentive award. The Company's revenue for 2011 was \$251.7 million, and the named executive officers (other than Mr. Marples) received credit for 103.5% achievement of the 2011 revenue target (\$243.2 million). The Company's European entities' revenue for 2011 was £12.2 million, and Mr. Marples received credit for 93.3% achievement of his 2011 revenue target (£13.0 million).

EBITDA Target for 2011 Annual Cash Incentive Awards

The 2011 EBITDA target for the named executive officers other than Mr. Marples was \$37.7 million in EBITDA earned by the Company, while Mr. Marples' EBITDA target was negative £2.0 million in EBITDA earned by the Company's European entities. Named executive officers could receive between 0% and 200% credit for the EBITDA component of their annual cash incentive, depending upon actual EBITDA achieved for 2011. If the EBITDA earned was equal to the target, the named executive officers would receive 100% credit for the EBITDA component of the goals. If the EBITDA earned was equal to 80% of the target, the named executive officers would receive 50% credit for the EBITDA component of the goals, while the named executive officers would not receive any credit towards the EBITDA component of the goals if the EBITDA earned was below 80% of the target. If the EBITDA earned was equal to 110% of the target, the named executive officers would receive 200% credit for the EBITDA component of the goals, while EBITDA above 110% of the target would not increase the percentage credited for that component of the award above 200%. If actual annual EBITDA falls between 80% and 110% (or more) of the EBITDA target, the named executive officers would receive a corresponding percentage (between 50% and 200%) of credit for the EBITDA component of the goals. The percent credited for the EBITDA component of the goals is then multiplied by the weighting applicable to the EBITDA component of the cash incentive award. The Company's EBITDA, adjusted for merger-related costs, for 2011 was \$48.8 million, and the named executive officers (other than Mr. Marples) received credit for 129.5% achievement of the 2011 EBITDA target (\$37.7 million). The Company's European entities' EBITDA for 2011 was negative £2.2 million, and Mr. Marples received credit for 92.75% achievement of his 2011 EBITDA target (negative £2.0 million).

2012 Annual Cash Incentive Awards

In February 2012, the Committee reassessed the named executive officers target and maximum award values with respect to the 2012 cash incentives. The 2011 Towers Watson study found that Mr. Florance's, Mr. Radecki's and Mr. Marples' target award values were generally aligned with market common practice (within +/- 15% of the median levels of the peer company or survey data), and that Ms. Kitchen's target award value exceeded the 75th percentile of the survey data. Mr. Stanfill's 2011 target award value was found to be significantly below the 50th percentile of the peer company data. Based on the 2011 Towers Watson study and in recognition of individual performance, the

Committee reviewed 2012 target and maximum award values in early 2012 and determined to increase the 2012 target and maximum award values for Mr. Radecki and Mr. Stanfill. Mr. Radecki's 2012 target award value remains within +/- 15% the median level of the peer company data. Mr. Stanfill's 2012 target award value was increased, but still falls significantly below the median level of the peer company data because his potential compensation, including potential commission payments, balance out his target cash incentive compensation and overall compensation package. The Committee reviewed and left unchanged Mr. Florance's and Mr. Marples' target and maximum award values for 2012 based upon their individual responsibilities, competitive practices and internal pay equity considerations. The Committee reviewed and revised Ms. Kitchen's target and maximum award values for 2012 to bring those values within +/- 15% of the median level of the survey data.

The following table shows each named executive officer's fiscal 2012 threshold, target, and maximum award amounts for the corporate performance component, which are expressed as a percentage of the executive's base salary. Achievement of the individual performance goals are subjective and executives can receive between 0 and 200% credit for that portion of the award.

Name	Title	Threshold		Target		Maximum	
Andrew C. Florance	CEO & President	50.0	%	100.0	%	200.0	%
Brian J. Radecki	CFO	32.5	%	65.0	%	130.0	%
John L. Stanfill(1)	Sr. Vice President, Sales & Customer Service	7.5	%	15.0	%	30.0	%
Jennifer L. Kitchen	Sr. Vice President, Research	25.0	%	50.0	%	100.0	%
Paul Marples	Managing Director, CoStar UK Limited	20.0	%	40.0	%	80.0	%

(1) Mr. Stanfill's target percentage is lower relative to other named executive officers because he also is eligible to receive commission payments based on achievement of Company-based performance objectives described below.

In February 2012, the Committee approved the named executive officers' individual goals and determined the relative weighting of individual and corporate financial performance goals for the 2012 cash incentive awards to be paid in early 2013. As indicated above, individual performance goals vary by position, functional accountability and responsibility, and may include department-specific financial goals, the development and release of new services, the implementation of geographic and/or service expansion plans, recruitment and hiring for key positions, the implementation of customer service and quality control measures and database growth objectives, among others. The named executive officers individual and corporate goals for 2012 include goals similar to those described for the 2011 annual cash incentive awards. As indicated below, the Chief Executive Officer's 2012 annual cash incentive award is based solely on corporate performance.

In order for the weightings of the goals used for the annual cash incentive awards to best support the Company's current business and strategic objectives, in early 2012, the Committee revised the weightings from those in place for 2011 awards for all named executive officers except Mr. Florance. The weighting of the goals for Messrs. Stanfill and Marples and Ms. Kitchen were revised to give more weight to the EBITDA target, which reflects the Company's emphasis on overall earnings. Mr. Stanfill's goals do not have a revenue component because he already earns commissions based on the Company's monthly net new sales. Messrs. Radecki and Marples' weighting was revised to place additional emphasis on their individual goals, which consist of strategic, operational goals that the Committee deems important in connection with the Company's growth and development and, in the case of Mr. Marples, our international growth and development. The Committee continues to believe that it is in the best interest of the Company to have Mr. Florance's cash incentive award based exclusively on the financial performance of the Company. The relative weighting of individual and financial performance goals for each of the current named executive officers for 2012 are set forth in the table below:

Name	Title	Individual Goals as a % of Target Award		Revenue Target as a % of Target Award		EBITDA Target as a % of Target Award	
Andrew C. Florance(1)	CEO & President	—		50	%	50	%
Brian J. Radecki	CFO	30	%	30	%	40	%
John L. Stanfill	Sr. Vice President, Sales & Customer Service	30	%	—		70	%

Jennifer L. Kitchen	Sr. Vice President, Research	40	%	20	%	40	%
Paul Marples(2)	Managing Director, CoStar UK Limited	30	%	30	%	40	%

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- (1) Similar to his 2011 annual cash incentive award, Mr. Florance’s 2012 annual cash incentive award is based solely on achievement of corporate performance goals.
- (2) Mr. Marples’ financial goals for 2012 are based on the Company’s European entities’ achievement of annual revenue and EBITDA targets included in the Company’s 2012 operating plan approved by the Company’s Board at the beginning of 2012.

Commission Payments

In addition to an annual cash incentive award, Mr. Stanfill is entitled to receive monthly commissions based on a percentage of the Company's U.S. monthly net new contract amounts. Mr. Stanfill's annual cash incentive award target described above is less than other named executive officers because he is entitled to receive these commission payments. The commission payments provide incentive for Mr. Stanfill to continue to grow the Company's business and generate revenues, and the rates of payment are set to provide challenging but achievable goals to motivate Mr. Stanfill to maintain his focus on sales of the Company's subscription-based services, the Company's primary source of revenue. The Company is not disclosing the specific commission rates because they are based on key operational objectives that would signal the Company's strategic direction and also could be used by competitors to target recruitment of Mr. Stanfill. The total commission payments paid to Mr. Stanfill for 2010 and 2011 are shown in the Summary Compensation Table on page 56 of this Proxy Statement. Mr. Stanfill did not earn any commission payments for 2009.

Equity Incentive Plan

The Committee has designed the executive equity incentive compensation program with the intent of aligning executive incentives with long-term stockholder value and with a view toward executive retention. The Committee believes that equity-based compensation and executive ownership of the Company's stock help support the Committee's goal that the Company's named executive officers have a continuing stake in the long-term success of the Company.

Each named executive officer is eligible to receive equity awards under the Company's 2007 Stock Incentive Plan, as amended (the "2007 Plan"). The Committee generally grants time-based restricted stock and/or stock options to each executive when he or she joins the Company or upon promotion to an executive position as an incentive to accept employment and become a member of the Company's executive team. As set forth in more detail below, the Committee currently also makes annual grants of equity awards as part of the executive compensation program, including restricted stock and stock options. Under the current program, the amount of restricted stock granted each year is based on the Company's performance during the prior year.

The current performance measures selected by the Committee for determination of the restricted stock award amounts are revenue and EBITDA and each is weighted equally. The revenue and EBITDA goals are aligned with those for the annual cash incentive plan. The Committee chose these metrics for the plan because of its belief that they are currently the most relevant measures of the Company's financial performance and are a good measure of stockholder value. The performance criteria established by the Committee for restricted stock awards granted in early 2011 based on 2010 performance are described further below under the caption "2010 Performance-Based Stock Awards." The performance criteria established by the Committee for restricted stock awards granted in early 2012 based on 2011 performance are described further below under the caption "2011 Performance-Based Stock Awards."

The Committee decided to grant a mix of equity awards because each type of award helps achieve some of the objectives of the executive compensation program. Stock options provide value to the holder only if the price of the Company's common stock has increased from the grant date at the time the option is exercised. In contrast, restricted stock awards have value when they vest regardless of the stock price, so they have retention value even if the Company's common stock price declines or stays flat. Stock options motivate executive officers by providing greater potential upside while restricted stock awards promote executive retention, focus executives' attention on total stockholder return and balance the Company's compensation program. The Committee believes that the use of multi-year vesting periods for equity awards (for both stock options and restricted stock) emphasizes a longer-term perspective and therefore encourages executive retention. Under the current program, all stock option and restricted stock awards that vest over time are subject to a three-year vesting period from the date of grant.

The Committee assesses executive compensation each year. Accordingly, the Company's executive compensation program, including the long-term equity incentive plan, is subject to change at the Committee's discretion. The Committee will determine the actual terms of any future grant of options or restricted stock. The details of the Company's current long-term incentive program may change in the future to reflect the impact of changes in the Company's business, executives' individual performance or new information about trends in compensation among the Company's peer group. For example, the Committee may modify the financial goals that form the basis for the annual performance-based stock grants (e.g. as a result of acquisition activity or unusual or non-recurring accounting transactions), or it could change the types or terms of the awards or award additional compensatory grants. In fact, in February 2012, the Committee approved a special performance-based restricted stock grant in addition to the named executives' annual options and restricted stock grants awarded for 2011 performance. The special performance-based grant was granted in February 2012 in order to increase executives' focus on longer-term financial goals, and will vest upon the Company's achievement of \$90 million of cumulative earnings before interest, income taxes, depreciation and amortization (EBITDA) over a period of four consecutive calendar quarters, provided the performance criteria is met no later than March 31, 2017.

The value of each of the annual performance-based restricted stock awards granted to our named executive officers are based on a target award dollar amount, and vary among named executive officers by position depending upon individual responsibility and performance, external market and peer group practices and internal pay equity considerations, as well as achievement of the performance criteria as described below. Consistent with its determinations for executive compensation generally, the Committee has historically set equity compensation within +/- 15% of the median levels of the peer company data provided by its compensation consultant, where available. However, in early 2011, the Committee determined to revise the target amounts for 2010 performance to increase the proportion of executives' total compensation that is equity-based, consistent with its focus on linking executive incentives with increases in long-term stockholder value. Therefore, based on the 2010 Towers Watson study, the target award values for the equity compensation component of the executives' compensation for 2010 performance were set by the Committee so as to fall between the 50th and 75th percentile of the peer company data, where available.

After review of the executive compensation program in early 2012 and after taking into consideration the special performance-based restricted stock grant awarded in February 2012, the Committee determined to freeze the target award values for 2011 performance (which were also granted in February 2012) at levels consistent with those for 2010 performance. Therefore, the target award values for the equity compensation component of the executives' compensation for 2011 performance were set by the Committee so as to continue to fall between the 50th and 75th percentile of the 2010 Towers Watson peer company data, where available. Where available, the Committee utilized peer company data from the Towers Watson studies as the primary competitive benchmark when evaluating the executives' target award values, as the peer company data reflects higher growth companies believed to be more similar to CoStar (as opposed to more mature general industry companies reflected in the survey data). In those cases where peer data was unavailable, the Committee took into account previous equity awards to the respective named executive officers as well as internal pay equity considerations. As discussed below, no peer company data was available with respect to long term equity incentive compensation for the Senior Vice President of Research and Managing Director of CoStar UK Limited.

Once the achievement level of each performance target and the total amount of the award for each named executive officer has been determined by the Committee, the number of shares of restricted stock actually granted to a named executive officer is determined using the fourth quarter average daily closing price of the Company's common stock and approved by the Committee. The grant date of the annual performance-based restricted stock awards is the date that the Committee approves the grants. These awards are granted under our 2007 Plan and they vest in equal installments on the first three anniversaries of the date of grant. Grants of performance-based restricted stock are accounted for using the fair market value of such stock on the date of grant.

The Committee supplements the named executive officers' annual performance-based restricted stock award with an annual award of stock options. Annual option grants are also based on target award values and vest pro rata over three years. The value actually awarded to each named executive officer is converted to the number of options based on Towers Watson's recommended value per option, which may be updated from time to time. The exercise price for each option is equal to the closing price of the Company's common stock on the date of grant, which is the date of approval by the Committee.

Target Equity Incentive Awards Granted in 2011

The chart below sets forth the target award values for the annual performance-based restricted stock awards granted in 2011 for 2010 performance and the annual stock option awards granted in 2011. The Committee reviewed the target amounts for 2010 performance in light of the Company's emphasis on linking executive incentives with long-term stockholder value. The long-term equity incentive target award values for Messrs. Florance, Stanfill and Radecki were revised upward for 2010 performance and the values for Ms. Kitchen and Mr. Marples were left unchanged after review of the Company's goals, the 2010 Towers Watson peer data (where available), previous equity awards to the respective named executive officers, individual performance, and internal pay equity and competitive considerations.

With the exception of Ms. Kitchen and Mr. Marples, for whom peer data was not available with respect to long-term equity incentive compensation, the Committee set the target award values for the equity compensation component of the executives' compensation for 2010 so that they fall between the 50th and 75th percentile of the peer company data. The target award value set by the Committee for the Chief Executive Officer was increased by 20 percent over his target award value for annual equity awards granted in 2010 and falls between the 50th and 75th percentile of the 2010 Towers Watson peer data. The target award value for the Chief Financial Officer was increased 20 percent over his target award value for annual equity awards granted in 2010 and falls between the 50th and 75th percentile of the 2010 Towers Watson peer data. The target award value for the Senior Vice President of Sales and Customer Service was increased 122 percent over his target award value for annual equity awards granted in 2010 and falls between the 50th and 75th percentile of the 2010 Towers Watson peer data. Mr. Stanfill, the Senior Vice President of Sales and Customer Service, previously received a one-time grant of restricted stock and stock options upon his promotion to his current position in 2008. Mr. Stanfill's target award values for 2009 and 2010 took into account the value of his promotion grant and, therefore, were set below the 50th percentile of the previous compensation consultant peer data. The Committee has decided to begin setting his annual target amount closer to that of his peers and colleagues, and, therefore, has increased his target award value for equity awards granted in 2011 as set forth above. The target award values set by the Committee for both the Senior Vice President of Research and Managing Director of CoStar UK Limited were not changed for 2010 based upon internal pay equity considerations taking into account their positions and level of responsibility within the Company because no peer data was available with respect to long-term equity incentive compensation for these positions.

The value of performance-based restricted stock ultimately awarded to our named executive officers in early 2011 for 2010 performance was determined based upon achievement of financial performance criteria described below. Each named executive officer had the potential to earn up to two times his or her annual performance-based restricted stock target award value for exceptional performance as measured against pre-established metrics and goals.

Name	Title	Annual Stock Target Award Values	Annual Option Target Award Values
Andrew C. Florance	CEO & President	\$ 900,000	\$ 900,000
Brian J. Radecki	CFO	\$ 300,000	\$ 300,000
John L. Stanfill	Sr. Vice President, Sales & Customer Service	\$ 250,000	\$ 250,000
Jennifer L. Kitchen	Sr. Vice President, Research	\$ 125,000	\$ 125,000
Paul Marples	Managing Director, CoStar UK Limited	\$ 125,000	\$ 125,000

2010 Performance-Based Stock Awards

On March 4, 2011, the Committee approved and awarded each named executive officer a grant of restricted stock, the size of which was based on the target award values set forth above and achievement of specified Company financial

goals for 2010 performance (the “2010 Performance-Based Stock Awards”). The revenue and EBITDA goals are aligned with the goals used in the annual cash incentive plan, except that Mr. Marples’ goals are based on the same Company financial goals used for the other named executive officers rather than goals related to the Company’s European entities. The revenue and EBITDA goals established by the Committee are equally-weighted and the actual value of the 2010 performance-based stock awards granted to named executive officers is based on the Company’s achievement of these goals.

Revenue Target for 2010 Performance-Based Stock Awards

The annual revenue target for the 2010 Performance-Based Stock Awards was \$224.6 million. Named executive officers could receive between 0% and 200% credit for the revenue component of their annual performance-based stock awards, depending upon actual revenue earned in 2010. The percent of credit received for different levels of achievement of the revenue component of the performance-based stock award is the same as described above in “Revenue Target for 2010 Annual Cash Incentive Awards.” The percent credited for the revenue component of the goals is multiplied by the weighting (50%) applicable to the revenue component of the performance-based stock award. The Company’s revenue for 2010 was \$226.3 million, and the named executive officers received credit for 100.7% achievement of the 2010 revenue target (\$224.6 million).

EBITDA Target for 2010 Performance-Based Stock Awards

The EBITDA target for the 2010 Performance-Based Stock Awards was \$37.9 million. Named executive officers could receive between 0% and 200% credit for the EBITDA component of their annual performance-based stock awards, depending upon actual EBITDA earned in 2010. The percent of credit received for different levels of achievement of the EBITDA component of the performance-based stock award is the same as described above in “EBITDA Target for 2010 Annual Cash Incentive Awards.” The percent credited for the EBITDA component of the goals is multiplied by the weighting (50%) applicable to the EBITDA component of the annual performance-based stock award. The Company’s EBITDA for 2010 was \$36.4 million, and the named executive officers received credit for 96.1% achievement of the EBITDA target (\$37.9 million).

2010 Performance-Based Stock Awards Granted in 2011

For 2010 performance, each named executive officer received 102.4% of his or her target award value. The 2010 Performance-Based Stock Awards were granted on March 4, 2011, and the stock award value earned by each named executive officer is shown in the table below. For additional information, see the “Grants of Plan-Based Awards” table on page 58 of this Proxy Statement.

Name	Title	Award Earned Value (\$)	Actual Award of Shares #(1)
Andrew C. Florance	CEO & President	\$921,393	17,600
Brian J. Radecki	CFO	\$307,131	5,900
John L. Stanfill	Sr. Vice President, Sales & Customer Service	\$255,943	4,900
Jennifer L. Kitchen	Sr. Vice President, Research	\$127,971	2,500
Paul Marples	Managing Director, CoStar UK Limited	\$127,971	2,500

(1) The number of shares granted is determined by dividing the earned award value by the fourth quarter average daily price (\$52.64), rounded up to the nearest 100 shares. As a result, the amounts reported in this table under “Award Earned Value” differ from the grant date fair values for these awards reported in the “Grants of Plan-Based Awards” table on page 58 of this Proxy Statement.

2011 Stock Option Awards

On March 4, 2011, the Committee awarded the named executive officers stock options. The number of shares of common stock underlying the option awards granted to named executive officers was based on the target award values described above. The table below sets forth the option award values and the number of shares of common stock

underlying each option award for the option grants to the named executive officers granted in March 2011.

Name	Title	Option Award Values	Shares Underlying Option Awards(1)
Andrew C. Florance	CEO & President	\$ 900,000	41,800
Brian J. Radecki	CFO	\$ 300,000	14,000
John L. Stanfill	Sr. Vice President, Sales & Customer Service	\$ 250,000	11,700
Jennifer L. Kitchen	Sr. Vice President, Research	\$ 125,000	5,900
Paul Marples	Managing Director, CoStar UK Limited	\$ 125,000	5,900

(1) The number of shares granted is determined by dividing the option award value by Towers Watson's recommended value per option, rounded up to the nearest 100 shares. The amounts reported in this table under "Option Award Values" differ from the grant date fair values for these awards reported in the "Grants of Plan-Based Awards" table on page 58 of this Proxy Statement.

Target Equity Incentive Awards Granted in 2012

The chart below sets forth the target award values for the annual performance-based restricted stock awards granted in 2012 for 2011 performance and the annual stock option awards granted in 2012. As indicated above, the Committee set the target amounts for 2011 performance after review of the Company's goals (including linking executive incentives with long-term stockholder value), the 2010 Towers Watson peer data, previous equity awards to the respective named executive officers, concurrent equity awards to the named executive officers (including the special performance-based restricted stock grant awarded in February 2012), individual performance and internal pay equity and competitive considerations. The Committee determined to leave the long-term equity incentive target award values for all named executive officers unchanged for 2011 performance. When these values were set by the Committee in 2011 for 2010 performance, the target award values for the equity compensation component fell between the 50th and 75th percentile of the peer company data.

The value of performance-based restricted stock ultimately awarded to our named executive officers in early 2012 for 2011 performance was determined based upon achievement of financial performance criteria described below. Each named executive officer had the potential to earn up to two times his or her annual performance-based restricted stock target award value for exceptional performance as measured against pre-established metrics and goals.

Name	Title	Annual Stock Target Award Values	Annual Option Target Award Values
Andrew C. Florance	CEO & President	\$ 900,000	\$ 900,000
Brian J. Radecki	CFO	\$ 300,000	\$ 300,000
John L. Stanfill	Sr. Vice President, Sales & Customer Service	\$ 250,000	\$ 250,000
Jennifer L. Kitchen	Sr. Vice President, Research	\$ 125,000	\$ 125,000
Paul Marples	Managing Director, CoStar UK Limited	\$ 125,000	\$ 125,000

2011 Performance-Based Stock Awards

On February 21, 2012, the Committee approved and awarded each named executive officer a grant of restricted stock, the size of which was based on the target award values set forth above and achievement of specified Company financial goals for 2011 performance (the "2011 Performance-Based Stock Awards"). Consistent with the 2010 Performance-Based Stock Awards, the revenue and EBITDA goals are aligned with the goals used in the annual cash incentive plan, except that Mr. Marples' goals are based on the same Company financial goals used for the other named executive officers rather than goals related to CoStar UK Limited. The revenue and EBITDA goals established by the Committee are equally-weighted and the actual value of the 2011 performance-based stock awards granted to named executive officers is based on the Company's achievement of these goals.

Revenue Target for 2011 Performance-Based Stock Awards

The annual revenue target for the 2011 Performance-Based Stock Awards was \$243.2 million. Named executive officers could receive between 0% and 200% credit for the revenue component of their annual performance-based stock awards, depending upon actual revenue earned in 2011. The percent of credit received for different levels of achievement of the revenue component of the performance-based stock award is the same as described above in "Revenue Target for 2011 Annual Cash Incentive Awards." The percent credited for the revenue component of the goals is multiplied by the weighting (50%) applicable to the revenue component of the performance-based stock award. The Company's revenue for 2011 was \$251.7 million, and the named executive officers received credit for 103.5% achievement of the 2011 revenue target (\$243.2 million).

EBITDA Target for 2011 Performance-Based Stock Awards

The EBITDA target for the 2011 Performance-Based Stock Awards was \$37.7 million. Named executive officers could receive between 0% and 200% credit for the EBITDA component of their annual performance-based stock awards, depending upon actual EBITDA earned in 2011. The percent of credit received for different levels of achievement of the EBITDA component of the performance-based stock award is the same as described above in “EBITDA Target for 2011 Annual Cash Incentive Awards.” The percent credited for the EBITDA component of the goals is multiplied by the weighting (50%) applicable to the EBITDA component of the annual performance-based stock award. The Company’s EBITDA for 2011, adjusted for merger-related costs, was \$48.8 million, and the named executive officers received credit for 129.5% achievement of the EBITDA target (\$37.7 million).

2011 Performance-Based Stock Awards Granted in 2012

For 2011 performance, each named executive officer received 200.0% of his or her target award value. The 2011 Performance-Based Stock Awards were granted on February 21, 2012, and the stock award value earned by each named executive officer is shown in the table below. As these awards were granted in early 2012, the grant date fair values of these awards are not included in the Summary Compensation Table or Grants of Plan-Based Awards Table below, but will be reflected in next year’s proxy statement.

Name	Title	Award Earned Value (\$)	Actual Award of Shares #(1)
Andrew C. Florance	CEO & President	\$1,800,000	29,500
Brian J. Radecki	CFO	\$600,000	9,900
John L. Stanfill	Sr. Vice President, Sales & Customer Service	\$500,000	8,200
Jennifer L. Kitchen	Sr. Vice President, Research	\$250,000	4,100
Paul Marples	Managing Director, CoStar UK Limited	\$250,000	4,100

(1) The number of shares granted is determined by dividing the earned award value by the fourth quarter average daily price (\$61.20), rounded up to the nearest 100 shares.

Executive Ownership of Company Stock

Although the Company does not currently have security ownership requirements or guidelines for its executive officers or directors, the Committee may adopt such ownership requirements in the future. As of March 30, 2012, each of the named executive officers, other than the Chief Executive Officer, held Company common stock, including restricted stock but excluding options, with a value that exceeded two times his or her base salary, calculated using the closing price on March 30, 2012. In addition, as of March 30, 2012, the Chief Executive Officer held Company common stock, including restricted stock but excluding options, with a value that exceeded five times his base salary, calculated using the closing price on March 30, 2012. Pursuant to the Company’s insider trading policy, the Company does not permit directors, officers or other employees to engage in speculative or short-term financial activities involving the Company’s stock or derivatives based on the Company’s securities without the consent of the Company’s compliance officer. In addition, the Company does not generally allow any such activities or other hedging activities by its executive officers or directors absent an extraordinary circumstance.

The Company does not have any program, plan or practice to time equity awards in coordination with the release of material non-public information, nor does the Company time the release of material nonpublic information for the purpose of affecting the value of executive compensation.

Termination and Change of Control Payments

Except for Messrs. Florance and Marples, each of whom has termination provisions in his respective employment agreement, the Company is not obligated to provide significant severance or termination payments to named executive officers. In 2008, the Company adopted a company-wide severance plan that provides payments that do not discriminate in scope, terms or operation in favor of executive officers of the Company and that are available generally to all salaried employees, including the named executive officers. Pursuant to the Company's severance policy, in recognition of their service to the Company, full-time staff who are part of a position reduction may receive

severance pay equal to two weeks current base pay for the first year or less of employment, plus one week current base pay for each completed additional year of continuous service (up to a 16-week maximum payout) in exchange for a full release of claims. All Company employees are employed at will and, unless specified otherwise by an employment agreement, CoStar is not liable to pay severance but has chosen to adopt this severance policy to apply only in limited circumstances. The Company may choose to pay severance outside of the severance policy in its sole discretion and may amend, alter or discontinue the severance policy at any time.

Similarly, except for Mr. Florance, who negotiated change of control provisions in his employment agreement, the Company does not provide significant cash payments to named executive officers upon a change of control or other similar significant corporate event. However, in order to protect the rights granted under the Company's 1998 and 2007 stock incentive plans, the form of grant agreement provides for acceleration of vesting of stock and option grants and rights to exercise stock options upon certain significant events, including a change of control, liquidation or dissolution of the Company or the sale or disposition of all or substantially all of the Company's assets (except in the event that the awards are assumed or substitute grants are awarded pursuant to the terms of the grant). Those rights do not discriminate in scope, terms or operation in favor of named executive officers of the Company and are available generally to all employees who participate in those plans, including the named executive officers. Details of the potential termination payments for Messrs. Florance and Marples, of the rights triggered under the 1998 and 2007 stock incentive plans in the case of a significant corporate event and potential payments under the Company-wide severance policy are set out below in the section entitled "Potential Payments Upon Termination or Change of Control" beginning on page 62 of this Proxy Statement.

Policy on Deductibility of Compensation

Section 162(m) of the Internal Revenue Code disallows the deduction of compensation paid by a public company to its Chief Executive Officer and each of the other three most highly compensated executive officers (not including the Company's Chief Financial Officer) that exceeds \$1 million. Compensation that is considered "performance-based" is excluded from the \$1 million limit if, among other requirements, the compensation is payable only upon attainment of pre-established, objective performance goals under a plan approved by the stockholders. The CoStar Group, Inc. 2007 Stock Incentive Plan, as amended, has been structured so that stock options, stock appreciation rights and certain restricted stock and restricted stock unit awards may qualify as "performance-based" compensation under Section 162(m). In addition, bonuses payable under the CoStar Group, Inc. 2011 Incentive Bonus Plan are intended to qualify as "performance-based" compensation under Section 162(m). The rules and regulations promulgated under Section 162(m) are complicated, however, and subject to change from time to time, sometimes with retroactive effect. In addition, a number of requirements must be met in order for particular compensation to so qualify. As such, there can be no assurance that any compensation awarded or paid by the Company will be fully deductible under all circumstances. Furthermore, while the Committee may consider tax deductibility as one of the factors in determining executive compensation, to retain maximum flexibility in designing compensation programs that meet the Committee's stated objectives, the Committee may not necessarily limit or structure compensation so that it is deductible under Section 162(m).

Executive Compensation Recovery Policy

The Company does not have a specific policy requiring the recovery of awards.

Executive Compensation Tables and Discussion

The following table includes information concerning compensation paid to or earned by the Company's "named executive officers" listed in the table for 2009, 2010 and 2011.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards(1) (\$)	Option Awards(1) (\$)	Non-Equity Incentive Plan Compensation(2) (\$)	All Other Compensation (\$)	Total (\$)
Andrew C. Florance Chief Executive Officer and President	2011	\$ 500,122	—	\$ 1,006,016	\$ 900,769	\$ 1,025,000	\$ 6,104 (3a)	\$ 3,438,011
	2010	\$ 456,560	—	\$ 871,174	\$ 745,416	\$ 350,559	\$ 9,362	\$ 2,433,071
	2009	\$ 456,560	—	\$ 535,000	\$ 584,326	\$ 385,379	\$ 10,942	\$ 1,972,207
Brian J. Radecki Chief Financial Officer	2011	\$ 281,454	—	\$ 337,244	\$ 301,693	\$ 287,100	\$ 7,191 (3b)	\$ 1,214,682
	2010	\$ 249,600	—	\$ 321,404	\$ 274,456	\$ 136,487	\$ 8,250	\$ 990,197
	2009	\$ 249,600	—	\$ 180,000	\$ 195,109	\$ 104,115	\$ 9,114	\$ 737,938
John L. Stanfill Sr. Vice President Sales & Customer Service	2011	\$ 285,426	—	\$ 280,084	\$ 252,129	\$ 527,374 (4)	\$ 6,756 (3b)	\$ 1,351,769
	2010	\$ 250,000	—	\$ 132,616	\$ 112,056	\$ 233,426	\$ 8,250	\$ 736,348
	2009	\$ 250,000	—	\$ 72,500	\$ 78,043	\$ 25,000	\$ 9,115	\$ 434,658
Jennifer L. Kitchen Sr. Vice President Research	2011	\$ 201,859	—	\$ 142,900	\$ 127,142	\$ 141,281	\$ 7,088 (3b)	\$ 620,270
	2010	\$ 197,600	—	\$ 148,015	\$ 125,048	\$ 76,059	\$ 7,078	\$ 553,800

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	2009	\$ 197,600	—	\$ 84,039	\$ 88,050	\$ 112,780	\$ 7,778	\$ 490,247
Paul Marples(5)	2011	\$ 245,958	—	\$ 143,904	\$ 127,142	\$ 34,378	\$ 12,127 (3c)	\$ 563,509
Managing Director, CoStar UK Limited	2010	\$ 224,966	—	\$ 148,015	\$ 125,048	\$ 34,650	\$ 10,955	\$ 543,634
	2009	\$ 227,999	—	\$ 72,500	\$ 78,043	\$ 46,439	\$ 11,423	\$ 436,404

- (1) This column shows the aggregate grant date fair value of the awards granted in the years shown, computed in accordance with FASB ASC Topic 718 pursuant to SEC rules. These amounts reflect the Company's accounting expense and do not correspond to the actual value that will be realized by the named executive officers. Additional information regarding the size of the awards is set forth in the notes to the "Grants of Plan Based Awards" and "Outstanding Equity Awards" tables. Assumptions used in calculating the fair value for awards granted in 2011 are described in Note 14 to the audited financial statements in the Company's Annual Report on Form 10-K for the period ended December 31, 2011.
- (2) Except as specifically noted otherwise in footnote 4 with respect to Mr. Stanfill, this amount represents the annual cash incentive earned under the Company's annual incentive bonus plan based on the executive's achievement of pre-determined individual and Company financial goals. These bonuses are awarded and paid in the following year after actual financial results are determined for the year for which performance was measured. For additional information regarding the annual cash incentives paid for 2011 performance, see "Compensation Discussion and Analysis" at pages 43-48 of this Proxy Statement.
- (3a) Pursuant to the CoStar Realty Information, Inc. 401(k) Plan (a defined contribution plan available generally to employees of the Company) (the "401(k) Plan"), for the 2011 plan year, Mr. Florance deferred a portion of his annual compensation and CoStar made a matching contribution in the amount of \$4,992. In 2011, the employer contribution was capped at 50% of the executive's deferral amount on a maximum of six percent of the executive's gross pay. The Company paid \$1,112 in annual premiums to maintain a \$1 million life insurance policy for the benefit of Mr. Florance.

- (3b) Pursuant to the 401(k) Plan, for the respective plan year, the named executive officer deferred a portion of his or her annual compensation and the Company made a matching contribution based on the amount deferred by each executive officer. The amount shown is the Company's matching contribution. In 2011, the employer contribution was capped at 50% of the executive's deferral amount on a maximum of six percent of the executive's gross pay.
- (3c) Pursuant to a defined contribution scheme available generally to employees of the Company's wholly owned subsidiary, CoStar UK Limited, Mr. Marples defers a portion of his annual compensation and CoStar UK Limited makes a corresponding contribution in an amount tied to the amount deferred by Mr. Marples, based on the Company's contribution rules for defined contribution schemes and Mr. Marples' employment agreement. In 2011, the employer contribution was capped at 50% of the executive's deferral amount on a maximum of six percent of the executive's gross pay. CoStar UK Limited's corresponding contribution for 2011 was \$7,378. Executives are entitled to make contributions either to the CoStar UK Limited pension scheme or their personal pension scheme. Mr. Marples has elected to have his contributions made to his personal pension scheme. In addition, the Company paid \$4,748 in health insurance premiums for the benefit of Mr. Marples.
- (4) This amount represents total monthly commission payments of \$485,336 paid to Mr. Stanfill for performance in 2011, which are based on the Company's monthly net new subscription contract amounts, and his annual cash incentive of \$42,038, earned for 2011 under the Company's annual incentive bonus plan.
- (5) All dollar amounts listed for Mr. Marples for 2011 have been converted from British pounds using a conversion rate of 1.60, which is the average exchange rate for the period from January 1, 2011 to December 31, 2011. All dollar amounts listed for Mr. Marples for 2010 have been converted from British pounds using a conversion rate of 1.55, which is the average exchange rate for the period from January 1, 2010 to December 31, 2010, and all dollar amounts listed for Mr. Marples for 2009 have been converted from British pounds using a conversion rate of 1.57, which is the average exchange rate for the period from January 1, 2009 to December 31, 2009.

Continued on next page.

Grants of Plan-Based Awards for Fiscal Year 2011

The following Grants of Plan-Based Awards table provides additional information about stock and option awards and non-equity incentive plan awards granted to our named executive officers during the year ended December 31, 2011.

Name	Grant Date	Threshold (\$)	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards(1)		All Other Stock Awards: Number of Shares of Stock or Units(2) (#)	All Other Option Awards: Number of Securities Underlying Options(3) (#)	Exercise or Base Price of Option Awards(4) (\$/Sh)	Grant Date Fair Value of Stock and Option Awards(5)
			Target (\$)	Maximum (\$)				
Andrew C. Florance								
		\$ 256,250	\$ 512,500	\$ 1,025,000				
	3/4/11				17,600			\$ 1,006,016
	3/4/11					41,800	\$ 57.16	\$ 900,769
Brian J. Radecki								
		\$ 79,750	\$ 159,500	\$ 319,000				
	3/4/11				5,900			\$ 337,244
	3/4/11					14,000	\$ 57.16	\$ 301,693
John L. Stanfill								
		\$ 14,750	\$ 29,500	\$ 59,000				
	3/4/11				4,900			\$ 280,084
	3/4/11					11,700	\$ 57.16	\$ 252,129
Jennifer L. Kitchen								
		\$ 56,513	\$ 113,025	\$ 226,050				
	3/4/11				2,500			\$ 142,900
	3/4/11					5,900	\$ 57.16	\$ 127,142
Paul Marples								
		\$ 49,738 (6)	\$ 99,476 (6)	\$ 198,952 (6)				
	3/4/11				2,500			\$ 142,900
	3/4/11					5,900	\$ 57.16	\$ 127,142
	8/1/11				17 (7)			\$ 1,004

(1) Amounts shown in these columns are possible amounts payable under the Company's cash incentive plan for 2011. The actual cash payments made in 2012 for 2011 performance under the Company's cash incentive plan are reported in the Summary Compensation table above. The Company's cash incentive plan in effect for 2011 is

described more fully in the section titled “Compensation Discussion and Analysis” at pages 43-48 of this Proxy Statement.

- (2) Amounts shown in this column represent restricted stock awards granted to named executive officers in 2011.
- (3) Amounts shown in this column represent stock options granted to named executive officers in 2011.
- (4) The exercise price is the closing price of our common stock on the date of grant, as reported on the Nasdaq Global Select Market.
- (5) The amounts shown in this column represent the grant date fair value of each equity award computed in accordance with FASB ASC Topic 718 pursuant to SEC rules. For a discussion of the assumptions used in calculating the fair value of each equity award see Note 14 to the audited financial statements in the Company’s Annual Report on Form 10-K for the period ended December 31, 2011.
- (6) The dollar amount listed for Mr. Marples has been converted from British pounds using a conversion rate of 1.60, which is the average exchange rate for the period from January 1, 2011 to December 31, 2011.
- (7) Mr. Marples received a stock grant of 17 restricted shares of common stock in connection with his 10th anniversary of employment with the Company, pursuant to the Company’s service award program which grants anniversary awards to all employees on the same terms on every five-year anniversary. The date of grant was Monday, August 1, 2011. The closing price of our common stock on the date of grant was \$59.04.

Narratives to Summary Compensation Table and Grants of Plan-Based Awards Table

Employment Agreements and Arrangements

We have employment agreements with Messrs. Florance and Marples, and we have at will employment terms with Mr. Radecki, Mr. Stanfill and Ms. Kitchen. Our employment agreement with Mr. Florance became effective as of January 1, 1998, and Mr. Marples' employment agreement became effective February 16, 2007. All employees, including our named executive officers, are required to execute terms and conditions of employment, which state that employment is at will and set forth restrictive covenants, including duties of confidentiality, non-solicitation of customers and employees and non-competition. Mr. Radecki's current employment terms became effective December 1, 1997. Mr. Stanfill's current employment terms became effective April 28, 2001. Ms. Kitchen's current employment terms became effective March 6, 2001.

Chief Executive Officer Employment Agreement

Pursuant to his employment agreement, Mr. Florance is entitled to receive base salary, an annual cash bonus, six weeks of paid vacation per year, the same health insurance, accident and disability insurance, life insurance, and other fringe benefits provided to most senior executives of the Company, and additional term life insurance coverage not to exceed \$1 million (at a cost to the Company not to exceed \$2,000 per year), payable as designated by Mr. Florance. Mr. Florance's employment agreement automatically renews for successive one-year terms unless either the Company or Mr. Florance provides the other with written notice of termination at least three months prior to the end of the then-current term.

The Company is permitted to terminate Mr. Florance's employment at any time without "cause" upon 60 days written notice, and Mr. Florance may voluntarily terminate his employment for "good reason" upon at least 60 days written notice, at which time Mr. Florance is entitled to receive severance payments set out in more detail below under "Potential Payments Upon Termination or Change of Control." The acquisition or change of control of the Company is one of the events included within the meaning of the term "good reason" if Mr. Florance terminates his employment within one year after such an event. If the Company terminates Mr. Florance without cause or Mr. Florance terminates his employment for good reason, all of Mr. Florance's unvested stock options would immediately vest and Mr. Florance would have 180 days post-termination to exercise all vested options. If all or any portion of Mr. Florance's stock options cannot be accelerated under the terms of the applicable stock incentive plan, Mr. Florance is entitled to receive cash consideration in lieu of acceleration for that portion that could not be accelerated. Mr. Florance also has the right at any time to terminate his employment without good reason upon 180 days written notice to the Company, and the Company has the right at any time to terminate Mr. Florance for cause. In either such event, Mr. Florance would not be entitled to any base salary or fringe benefits for any period after termination, and he would forfeit any unvested stock options and his right to participate in the Company's cash incentive program. In the event of a termination for cause or by Mr. Florance without "good reason," Mr. Florance would have 60 days post-termination to exercise all vested options. "Cause" and "good reason" in the context of Mr. Florance's employment agreement are defined below under "Potential Payments Upon Termination or Change of Control."

Mr. Florance's employment agreement also provides that in the event of his disability, the Company has the right to terminate his employment. In the event of termination of his employment due to disability or his death, Mr. Florance (or his estate) would be entitled to receive (i) a prorated portion of his unvested stock options due to vest during the calendar year of his disability or death, and (ii) a prorated share of his bonus for the year of his disability or death. In the event of termination due to disability or his death, Mr. Florance (or his estate) would have one year to exercise all vested options.

Pursuant to his employment agreement, Mr. Florance is subject to confidentiality and non-compete restrictive covenants. The non-compete restrictions apply during the term of the agreement, any period of time during which he remains employed with the Company “at will” and through the second anniversary of the date of his termination.

Other Executive Employment Agreements

Pursuant to his executive service contract, Mr. Marples is entitled to receive base salary, participate in the Company's stock incentive plan, and receive health and life insurance benefits, disability benefits, Company contributions in an amount that corresponds to his individual contributions to an HMRC (Her Majesty's Revenue and Customs) approved pension scheme, and 25 days of paid vacation per year. Mr. Marples' service contract continues until terminated pursuant to the terms of the agreement. Mr. Marples may terminate his service contract on not less than three months' prior written notice. The Company may terminate Mr. Marples' employment by providing him with six months' prior written notice or a payment in lieu thereof as described below under "Potential Payments Upon Termination or Change of Control."

In addition, the Company may terminate Mr. Marples' service contract immediately upon notice if one of the events listed under "Potential Payments Upon Termination or Change of Control" below occurs. In the event of termination by the Company as a result of one of those events, Mr. Marples forfeits all unvested restricted stock and any unpaid bonus. Pursuant to his employment agreement, Mr. Marples is subject to confidentiality and non-compete restrictive covenants. The non-compete restrictions apply for 12 months following termination of employment.

Equity Awards

All grants of equity awards made in 2011 were made under the Company's 2007 Plan. In April 2007, the Company's Board adopted the 2007 Plan, subject to stockholder approval. Stockholders approved the 2007 Plan in June 2007, an amendment to the 2007 Plan in June 2010, which increased the number of authorized shares that can be issued under the 2007 Plan by 1,300,000 shares, and an amendment to the 2007 Plan in June 2011, which increased the Tax Code limit on the number of shares of common stock that may be granted under the 2007 Plan to any one participant during a calendar year. In April 2012, the Board of Directors adopted, subject to stockholder approval of "Item 4—Approval of an Amendment to the CoStar Group, Inc. 2007 Stock Incentive Plan" as described above, an amendment to the 2007 Plan. 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 remained available for issuance pursuant to new awards under the 1998 Plan.

Stock options and restricted stock granted to named executive officers in 2011 and restricted stock granted in 2012 for performance in 2011 vest in equal installments over the first three anniversaries following the date of grant. For a description of the criteria applied in determining the number of shares of restricted stock awarded in 2011 and 2012 for performance in 2010 and 2011, respectively, see "Compensation Discussion and Analysis—Equity Incentive Plan" above. For a discussion of the effect of a change of control on outstanding restricted stock and option awards, see "Potential Payments Upon Termination or Change of Control—Change of Control Provisions under the Company's 1998 and 2007 Plans" below. For a discussion of the effect of Mr. Florance's termination on his outstanding equity awards, see "Potential Payments Upon Termination or Change of Control—Termination and Change of Control Provisions pursuant to Employment Agreements" below. Under the 2007 Plan, recipients of restricted stock are entitled to receive all dividends and other distributions, if any, paid with respect to the common stock. The Compensation Committee will determine if any such dividends or distributions will be automatically reinvested in additional shares of restricted stock and subject to the same restrictions as the restricted stock or whether the dividend or distribution will be paid in cash.

Continued on next page.

Outstanding Equity Awards at 2011 Fiscal Year-End

The following table summarizes the equity awards we have made to our named executive officers that are outstanding as of December 31, 2011.

Name	Option Awards(1)				Stock Awards		
	Grant Date(1)	Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested(2)
Andrew C. Florance	9/23/2003	46,448		\$ 28.15	9/22/2013		
	3/1/2004	50,000		\$ 39.00	2/28/2014		
	12/12/2006	39,300		\$ 51.92	12/11/2016		
	2/27/2008	39,300		\$ 43.99	2/26/2018		
	3/2/2009	38,933	19,467	\$ 25.00	3/1/2019		
	3/12/2010	15,300	30,600	\$ 42.29	3/11/2020		
	3/4/2011		41,800	\$ 57.16	3/3/2021		
							38,468 (3a)
Brian J. Radecki	12/2/2002	1,875		\$ 18.28	12/1/2012		
	2/6/2004	6,000		\$ 39.81	2/5/2014		
	1/29/2007	4,000		\$ 48.25	1/28/2017		
	6/5/2007	3,000		\$ 54.12	6/4/2017		
	2/27/2008	10,500		\$ 43.99	2/26/2018		
	3/2/2009	13,000	6,500	\$ 25.00	3/1/2019		
	3/12/2010	5,633	11,267	\$ 42.29	3/11/2020		
	3/4/2011		14,000	\$ 57.16	3/3/2021		
						13,367 (3b)	\$ 891,980
John L. Stanfill	8/6/2002	750		\$ 19.71	8/5/2012		
	5/5/2004	196		\$ 39.53	5/4/2014		
	9/4/2008	15,000		\$ 55.07	9/3/2018		
	3/2/2009	2	2,600	\$ 25.00	3/1/2019		
	3/12/2010	2,300	4,600	\$ 42.29	3/11/2020		
	3/4/2011		11,700	\$ 57.16	3/3/2021		
						45,434 (3c)	\$ 3,031,811
Jennifer L. Kitchen	12/12/2006	3,533		\$ 51.92	12/11/2016		
	2/27/2008	5,300		\$ 43.99	2/26/2018		
	3/2/2009	5,866	2,934	\$ 25.00	3/1/2019		

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	3/12/2010	2,566	5,134	\$ 42.29	3/11/2020	
	3/4/2011		5,900	\$ 57.16	3/3/2021	
						5,934 (3d) \$ 395,976
Paul Marples	2/27/2008	5,300		\$ 43.99	2/26/2018	
	3/2/2009	5,200	2,600	\$ 25.00	3/1/2019	
	3/12/2010	2,566	5,134	\$ 42.29	3/11/2020	
	3/4/2011		5,900	\$ 57.16	3/3/2021	
						5,801 (3e) \$ 387,101

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- (1) The dates of grant of each named executive officer's stock option awards outstanding as of December 31, 2011 are set forth in the table above, and the vesting dates for each stock option award can be determined based on the vesting schedules described in this footnote. Stock options granted on December 12, 2006, January 29, 2007, June 5, 2007, February 27, 2008, September 4, 2008, March 2, 2009, March 12, 2010, and March 4, 2011 become exercisable in installments of one third on the first three anniversaries of the date of grant, assuming continued employment. All other awards of stock options in the table above became exercisable in installments of 25 percent on the first four anniversaries of the date of grant.
- (2) Market value based on the closing price of the Company's common stock as of December 30, 2011 of \$66.73 per share.
- (3a) As of December 31, 2011, Mr. Florance held (i) 7,134 shares of restricted stock, which vest in their entirety on March 2, 2012; (ii) 13,734 shares of restricted stock, which vest in equal installments on March 12, 2012 and 2013; and (iii) 17,600 shares of restricted stock, which vest in equal installments on March 4, 2012, 2013 and 2014.

- (3b) As of December 31, 2011, Mr. Radecki held (i) 2,400 shares of restricted stock, which vest in their entirety on March 2, 2012; (ii) 5,067 shares of restricted stock, which vest in equal installments on March 12, 2012 and 2013; and (iii) 5,900 shares of restricted stock, which vest in equal installments on March 4, 2012, 2013, and 2014.
- (3c) As of December 31, 2011, Mr. Stanfill held (i) 2,500 shares of restricted stock, which vest in their entirety on February 13, 2012; (ii) 35,000 shares of restricted stock, which vest in their entirety on September 4, 2012; (iii) 967 shares of restricted stock, which vest in their entirety on March 2, 2012; (iv) 2,067 shares of restricted stock, which vest in equal installments on March 12, 2012 and 2013; and (v) 4,900 shares of restricted stock, which vest in equal installments on March 4, 2012, 2013 and 2014.
- (3d) As of December 31, 2011, Ms. Kitchen held (i) 1,100 shares of restricted stock, which vest in their entirety on March 2, 2012; (ii) 2,334 shares of restricted stock, which vest in equal installments on March 12, 2012 and 2013; and (iii) 2,500 shares of restricted stock, which vest in equal installments on March 4, 2012, 2013 and 2014.
- (3e) As of December 31, 2011, Mr. Marples held (i) 967 shares of restricted stock, which vest in their entirety on March 2, 2012; (ii) 2,334 shares of restricted stock, which vest in equal installments on March 12, 2012 and 2013; and (iii) 2,500 shares of restricted stock, which vest in equal installments on March 4, 2012, 2013 and 2014.

Option Exercises and Stock Vested for Fiscal-Year 2011

The following Option Exercises and Stock Vested table provides information about the value realized by the named executive officers on option award exercises and stock award vesting during the year ended December 31, 2011.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise(1) (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting(2) (\$)
Andrew C. Florance	45,074	\$1,759,432	21,983	\$1,254,852
Brian J. Radecki	—	—	16,424	\$944,534
John L. Stanfill	11,002	\$400,823	4,750	\$276,789
Jennifer L. Kitchen	12,767	\$303,674	3,066	\$173,859
Paul Marples	—	—	5,450	\$319,898

- (1) With respect to shares of common stock sold upon exercise (on the date acquired), the value was calculated by multiplying the difference between the sale price per share and the exercise price per share by the number of shares sold and aggregating all such sales during 2011. With respect to shares of common stock held upon exercise, the value was calculated by multiplying the difference between the closing price of our common stock on the date of exercise and the exercise price per share by the number of shares acquired and aggregating all such exercises during 2011.
- (2) Calculated by multiplying the number of shares acquired upon vesting by the closing price of our common stock on the vesting date.

Potential Payments Upon Termination or Change of Control

This section discusses the incremental compensation that would be payable by the Company to each named executive officer in the event of a change of control of the Company or a termination of the named executive officer's employment with the Company for various reasons described below, sometimes referred to herein as a "triggering event." In accordance with applicable SEC rules, the following discussion assumes that the triggering event in question — the change of control, termination of employment, death or disability — occurred on December 30, 2011, the last business day of 2011.

Pursuant to applicable SEC rules, the analysis contained in this section does not consider or include payments made to a named executive officer with respect to contracts, agreements, plans or arrangements to the extent they do not discriminate in scope, terms or operation, in favor of executive officers of the Company and that are available generally to all salaried employees.

The actual amounts that would be paid upon a named executive officer's termination of employment or change of control can only be determined at the time of the applicable event. Due to the number of factors that affect the nature and amount of any benefits provided upon the events discussed below, any actual amounts paid or distributed may be higher or lower than reported below. Factors that could affect these amounts include the timing during the year of any such event and the Company's stock price.

Termination and Change of Control Provisions pursuant to Employment Agreements

Mr. Florance

The Company is permitted to terminate Mr. Florance's employment at any time, without "cause", upon 60 days written notice, and Mr. Florance may voluntarily terminate his employment for "good reason" upon at least 60 days written notice. "Cause" is defined as (a) a material failure by Mr. Florance to perform his duties, which remains uncured for 60 days after written notice of the failure is provided by the Company, (b) Mr. Florance being convicted of a felony or pleading nolo contendere to a felony, or (c) any other willful act or omission by Mr. Florance which materially harms the financial condition or business reputation of the Company. "Good reason" is defined as (a) requiring Mr. Florance to relocate more than 45 miles from his current principal office, (b) Mr. Florance ceasing involuntarily to be Chief Executive Officer of the Company or being required to perform duties that are materially inconsistent with those normally performed by a chief executive officer, (c) the Company materially reducing the nature of his authority and duties, (d) requiring Mr. Florance to report to someone other than the Board, (e) the Company materially breaching its obligations under his employment agreement, which remain uncured for 90 days after written notice is provided by Mr. Florance to the Company, or (f) an acquisition or change of control of the Company occurring and Mr. Florance terminating his employment within one year after such event. For these purposes, an acquisition or change of control means (i) the acquisition of beneficial ownership of more than 50% of the outstanding common stock of the Company, (ii) election or appointment as directors comprising one-half or more of the Board of persons who were not nominated, recommended or appointed by the Company's incumbent Board, (iii) the Company entering into a merger pursuant to which it is not the surviving entity, or (iv) sale by the Company of all or substantially all of its assets.

In the event that the Company terminates Mr. Florance's employment without cause or if he terminates his employment for good reason, Mr. Florance is entitled to receive his base salary for one year payable in installments in accordance with the Company's payroll practices, his bonus for the year in which the termination occurred, the immediate vesting of all of his unvested stock options and a gross-up payment, if any, to cover any taxes assessed under Section 4999 of the Tax Code. Upon termination by the Company without cause or by Mr. Florance for good reason, all of his unvested stock options will become immediately exercisable and he will have 180 days to exercise all vested options. If all or any portion of Mr. Florance's stock options cannot be accelerated under the terms of the applicable stock incentive plan, Mr. Florance is entitled to receive cash consideration in lieu of acceleration for each share underlying that portion of his stock options that cannot be so accelerated equal to the excess (if any) of the highest closing price of the Company's common stock during the 180 days following the executive's date of termination (or, if the Company is no longer publicly traded as of the date of termination, the per-share price in connection with the transaction(s) that resulted in the Company no longer being publicly traded) over the exercise price of such option.

Mr. Florance's employment agreement also provides that in the event of his termination due to his disability or death, he (or his estate) would be entitled to receive (i) a prorated portion of his unvested stock options due to vest during the

calendar year of his disability or death, and (ii) a prorated share of his bonus for the year of his disability or death. For the purposes of this analysis, which assumes a triggering event on December 30, 2011, he (or his estate) would be entitled to the full amount of his bonus for 2011.

Mr. Marples

If the Company terminates Mr. Marples' employment without cause, he is entitled to receive either six months' prior written notice or six months' base salary payable over a period of six months in lieu of such notice. Any such payment is subject to Mr. Marples' execution of a release of all claims arising from termination of his employment.

If Mr. Marples (a) commits a serious breach or, after notice, any repeated or continued material breach of his obligations to the Company, (b) fails to satisfactorily perform his duties, (c) is guilty of an act of gross negligence, dishonesty or serious misconduct, (d) is declared bankrupt, (e) is convicted of any criminal offense, (f) is disqualified from holding any Company office or resigns from such office without prior written approval, (g) is prevented by illness, injury or other incapacity from performing his obligations to the Company for 130 days in any 12-month period, (h) commits a breach of the Propex acquisition agreement, (i) refuses to abide by or comply with the directives of the Board, (j) materially violates the Company's code of conduct or (k) abuses alcohol or drugs, the Company may terminate his employment for cause immediately upon notice. In such an event, Mr. Marples forfeits all unvested restricted stock and any unpaid bonus.

Others

Except as may be provided to all employees of the Company generally and as provided pursuant to the Company's stock incentive plans (as described below), Mr. Radecki, Mr. Stanfill and Ms. Kitchen are not entitled to any post-employment compensation if their employment is terminated without cause.

Change of Control Provisions under the Company's 1998 and 2007 Plans

Pursuant to the Company's 1998 Plan and 2007 Plan and related award agreements, upon a change of control, all options will immediately vest and all restrictions on stock grants will lapse. For purposes of the stock incentive plans, a "change of control" means: (a) acquisition by a third party of more than 80% of the undiluted total voting power of the Company's then outstanding securities eligible to vote to elect members of the Board, (b) consummation of a merger or consolidation of the Company into any other entity, unless the holders of the Company's voting securities outstanding immediately before such transaction hold securities that represent immediately after such merger or consolidation at least 20% of the combined voting power of the then outstanding voting securities of either the Company or the other surviving entity or its parent, or (c) the stockholders of the Company approve (i) a plan of complete liquidation or dissolution of the Company or (ii) an agreement for the Company's sale or disposition of all or substantially all the Company's assets, and such liquidation, dissolution, sale, or disposition is consummated. Further, upon a substantial corporate change, if awards are not assumed, substituted or continued, the awards shall immediately vest and become exercisable before the consummation of the transaction. For purpose of the stock incentive plans, a "substantial corporate change" means: (w) dissolution or liquidation of the Company, (x) merger, consolidation, or reorganization of the Company with one or more corporations in which the Company is not the surviving corporation, (y) the sale of substantially all of the assets of the Company to another corporation, or (z) with respect to the 1998 Plan, any transaction (including a merger or reorganization in which the Company survives) approved by the Board that results in any person or entity (other than any affiliate of the Company as defined in Rule 144(a)(1) under the Securities Act) owning 100% of the combined voting power of all classes of stock of the Company, and, with respect to the 2007 Plan, a person acquires ownership of 100% of the combined voting power of all classes of stock of the Company.

The table below summarizes the potential termination and change of control payments described above for each of the named executive officers, excluding any payments that may be available under the Company's company-wide severance plan, which provides payments that do not discriminate in scope, terms or operation, in favor of executive officers of the Company and that are available generally to all salaried employees, including the named executive

officers. The terms defined above apply to those used in this table. Unless otherwise specifically noted below, all amounts assume that the triggering event in question — the termination upon a change of control, termination without cause or for good reason, death or disability — occurred on December 30, 2011, the last business day of 2011.

Name	Termination by Company “without cause”	Termination by Executive for “good reason”	Termination due to death or disability	Termination upon change of control	Change of control without termination(1)
Andrew C. Florance	\$3,497,748 (2)	\$3,497,748 (2)	\$1,025,000 (3)	\$6,064,718 (4)	\$ 4,527,218
Brian J. Radecki	—	—	—	\$1,572,570 (1)	\$ 1,572,570
John L. Stanfill	—	—	—	\$3,364,702 (1)	\$ 3,364,702
Jennifer L. Kitchen	—	—	—	\$700,350 (1)	\$ 700,350
Paul Marples	\$122,972 (5)	—	—	\$677,537 (1)	\$ 677,537

(1) Consists of the values realizable by the named executive officers with respect to unvested stock options (that are in-the-money) and restricted stock under the Company’s 1998 and 2007 Plans in the event of a change of control or substantial corporate change, as defined in the plans and described above, as of December 30, 2011, which values are summarized in the table below. The intrinsic value of the stock options was calculated by multiplying the number of shares underlying the unvested options by the difference between the exercise price of each unvested option and the closing price of the Company’s common stock (\$66.73) on December 30, 2011, excluding options with an exercise price greater than the closing price on December 30, 2011. The intrinsic value of the restricted stock was calculated using the closing price of the Company’s common stock on December 30, 2011 (\$66.73).

Name	Unvested (in-the-money) Options (# shares)	Intrinsic Value	Unvested Restricted Stock (# shares)	Intrinsic Value	Total
Andrew C. Florance	91,867	\$ 1,960,248	38,468	\$ 2,566,970	\$ 4,527,218
Brian J. Radecki	31,767	\$ 680,590	13,367	\$ 891,980	\$ 1,572,570
John L. Stanfill	18,900	\$ 332,891	45,434	\$ 3,031,811	\$ 3,364,702
Jennifer L. Kitchen	13,968	\$ 304,374	5,934	\$ 395,976	\$ 700,350
Paul Marples	13,634	\$ 290,436	5,801	\$ 387,101	\$ 677,537

(2) Includes base salary for one year (\$512,500), bonus for 2011 (\$1,025,000), and the immediate vesting of all unvested stock options (\$1,960,248). The value of stock option vesting included in this amount was calculated by multiplying the number of unvested options by the difference between the exercise price of each unvested option and the closing price of the Company’s common stock (\$66.73) on December 30, 2011, excluding options with an exercise price greater than the closing price on December 30, 2011.

(3) Consists of the cash incentive bonus for 2011.

(4) Mr. Florance’s employment agreement provides for a termination payment if there is an acquisition or change of control of the Company and Mr. Florance terminates his employment within one year after that event. Assuming, for these purposes, that those conditions are met as of December 30, 2011, Mr. Florance would be entitled to the amount set forth, which includes base salary for one year (\$512,500), his cash incentive bonus for 2011 (\$1,025,000), and the immediate vesting of all unvested stock options (\$1,960,248) and all unvested restricted stock (\$2,566,970) under the respective stock incentive plans. The value of stock option vesting included in this amount was calculated by multiplying the number of unvested options by the difference between the exercise price of each unvested option and the closing price of the Company’s common stock (\$66.73) on December 30, 2011, excluding options with an exercise price greater than the closing price on December 30, 2011. The value of the restricted stock was calculated by multiplying the number of outstanding restricted shares by the closing price of the Company’s common stock on December 30, 2011 (\$66.73).

- (5) Consists of six months' base salary. The amount set forth has been converted from British pounds using a conversion rate of 1.60, which is the average exchange rate for the period from January 1, 2011 to December 31, 2011.

Company-Wide Severance Policy

As described above under "Termination and Change of Control Payments" on page 54 of this Proxy Statement, in 2008, the Company adopted a company-wide severance plan that provides payments that do not discriminate in scope, terms or operation in favor of executive officers of the Company and that are available generally to all salaried employees, including the named executive officers. Pursuant to the company-wide severance policy, full-time staff who are part of a position reduction may receive severance pay equal to two weeks current base pay for the first year or less of employment, plus one week current base pay for each completed additional year of continuous service (up to a 16-week maximum payout) in exchange for a full release of claims. In the event of termination of employment as a result of a position reduction, under the Company-wide severance policy, Mr. Radecki would be entitled to \$83,654, Mr. Stanfill would be entitled to \$90,769 and Ms. Kitchen would be entitled to \$63,231. Messrs. Florance and Marples would be entitled to the payments set forth in their employment agreements, which are described above.

Certain Relationships and Related Transactions

None of our executive officers or directors engaged in or had a direct or indirect interest in any transactions with us during fiscal year 2011 that are required by SEC rules to be disclosed in this Proxy Statement.

The Board recognizes that Interested Transactions (as defined below) can present potential or actual conflicts of interest and create the appearance that Company decisions are based on considerations other than the best interests of the Company and its stockholders. In April 2006, the Board delegated authority to the Audit Committee to review and approve Interested Transactions, and the Audit Committee has adopted written procedures as detailed below for the review, approval, or ratification of Interested Transactions.

Pursuant to the Audit Committee's procedures, an "Interested Transaction" is any transaction, arrangement or relationship (including any indebtedness or guarantee of indebtedness), or any series of similar transactions, arrangements or relationships, in which (a) the aggregate amount involved will or may be expected to exceed \$100,000 in any calendar year, (b) the Company is a participant, and (c) any Related Party (as defined below) has or will have a direct or indirect interest (other than solely as a result of being a director or trustee (or any similar position) or a less than 10 percent beneficial owner of another entity). A "Related Party" is any (a) person who is or was (since the beginning of the last year for which the Company has filed an annual report on Form 10-K and proxy statement, even if they do not presently serve in that role) an executive officer, director or nominee for election as a director of the Company, (b) greater than 5% beneficial owner of the Company's outstanding common stock, or (c) Immediate Family Member of any of the foregoing. An "Immediate Family Member" is any child, stepchild, parent, stepparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law or sister-in-law and any person (other than a tenant or employee) sharing the household of a person.

The Audit Committee will review all of the relevant facts and circumstances of all Interested Transactions and either approve or disapprove of the entry into the Interested Transaction, subject to a limited list of enumerated transactions which are deemed to be pre-approved as described in the Interested Transactions policy. In determining whether to approve an Interested Transaction, the Audit Committee will take into account, among other factors it deems appropriate, whether the Interested Transaction is on terms no less favorable than terms generally available to an unaffiliated third-party under the same or similar circumstances and the extent of the Related Party's interest in the transaction.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires that our directors and executive officers, and anyone who beneficially owns more than 10% of our common stock, file with the SEC reports of initial ownership and reports of changes in ownership of our common stock, and to furnish us with copies of those reports. Based solely on a review of the reports furnished to us and on written representations from reporting persons, we believe that during 2011, our directors, executive officers and 10% stockholders filed the required reports under Section 16(a) on a timely basis.

Other Information

We have made available a copy of our Annual Report for the year ended December 31, 2011 and our annual report on Form 10-K for the year ended December 31, 2011 with this Proxy Statement. In addition, you may obtain a copy of our annual report on Form 10-K, including the financial statements and financial statement schedules, without charge by sending a written request to Rich Simonelli, Director of Strategic Communications, CoStar Group, Inc., 1331 L Street N.W., Washington, DC 20005.

If you and others who share your mailing address own common stock in street name, meaning through bank or brokerage accounts, you may have received a notice that your household will receive only one set of proxy materials from each company whose stock is held in such accounts. This practice, known as “householding,” is designed to reduce the volume of duplicate information and reduce printing and postage costs. Unless you responded that you

did not want to participate in householding, you were deemed to have consented to it and a single copy of the Notice of Availability of Proxy Materials has been sent to your address. Each stockholder will continue to receive a separate voting instruction form. If you would like to revoke your consent to householding and in the future receive your own

Notice of Availability of Proxy Materials or your own set of proxy materials, as applicable, you may revoke your consent at any time by contacting Broadridge Financial Services, Inc. either by calling 1-800-542-1061 or by writing to Broadridge Household Department, 51 Mercedes Way, Edgewood NY 11717. A revocation of consent to householding will be effective 30 days following its receipt. We will deliver promptly, upon written or oral request, a separate copy of the proxy materials for the Annual Meeting to a stockholder at a shared address to which a single copy of the materials was delivered. This request should be made by sending a written request to Rich Simonelli, Director of Strategic Communications, CoStar Group, Inc., 1331 L Street N.W., Washington, DC 20005 or by calling Mr. Simonelli at (202) 346-6500.

This Proxy is solicited on behalf of the Board of Directors. The Company will bear all expenses in connection with the Annual Meeting and this proxy solicitation. We have also retained Innisfree M&A Incorporated to assist in distribution of these proxy materials and soliciting proxy voting instructions, at an estimated cost not to exceed \$10,000, plus reasonable expenses. Proxies may be solicited by certain of our directors, officers and employees, without additional compensation, in person, by telephone, by mail, telegram, facsimile, or other electronic or other means. Innisfree M&A Incorporated will request that brokerage houses, banks and other custodians forward proxy material to beneficial owners of our common stock. We will reimburse brokerage houses, banks, and other custodians for their reasonable expenses for forwarding these materials to beneficial owners. Broadridge Financial Services, Inc. will act as proxy tabulator.

COSTAR GROUP, INC.
2007 STOCK INCENTIVE PLAN

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 3,200,000 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 400,000, 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 terms of outstanding Options may not be amended to reduce the exercise price of an Option or cancel, exchange, substitute, buyout or surrender an outstanding Option in exchange for cash, other awards or Options with an exercise price that is less than the exercise price of the original Option without stockholder approval.

(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. 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 terms of outstanding Stock Appreciation Rights may not be amended to reduce the exercise price of a Stock Appreciation Right or cancel, exchange, substitute, buyout or surrender an outstanding Stock Appreciation Right in exchange for cash, other awards or Stock Appreciation Rights with an exercise price that is less than the exercise price of the original Stock Appreciation Right without stockholder approval.

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. Notwithstanding the foregoing, Restricted Stock and Common Shares underlying Restricted Stock Units that are subject to Qualifying Performance Criteria (as defined below) shall not be entitled to dividends or dividend equivalents unless and until the applicable Qualifying Performance Criteria have been achieved.

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.

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(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 Accounting Standards Codification (ASC) 225 Extraordinary and Unusual Items 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

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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.

Appendix B
