

COSTAR GROUP INC  
Form DEF 14A  
April 24, 2019  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

SCHEDULE 14A

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES  
EXCHANGE ACT OF 1934

Filed by the Registrant  [X]  
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))  
 [X] Definitive Proxy Statement  
 [ ] Definitive Additional Materials  
 [ ] Soliciting Material Pursuant to §240.14a-12

COSTAR GROUP, INC.

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(Name of Registrant as Specified in Its Charter)

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

Payment of Filing Fee (Check the appropriate box):  
 [X] No fee required.  
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(1) Title of each class of securities to which transaction applies:

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(1) Amount previously paid:

(2) Form, schedule or registration statement no.:

(3) Filing party:

(4) Date filed:

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April 23, 2019

Dear Stockholder:

You are cordially invited to attend the 2019 Annual Meeting of Stockholders of CoStar Group, Inc., to be held at 10:00 a.m., local time, on Wednesday, June 5, 2019 at 1331 L Street N.W., Washington, DC 20005.

At the Annual Meeting, you will be asked to (1) elect the seven directors named in the Proxy Statement, (2) ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for 2019, and (3) approve, on an advisory basis, CoStar Group, Inc.'s executive compensation. The accompanying Notice of 2019 Annual Meeting of Stockholders and Proxy Statement describe these matters.

The Board of Directors recommends that stockholders vote in favor of each of the director nominees and the other proposals.

Important Notice Regarding the Availability of Proxy Materials  
for the 2019 Annual Meeting of Stockholders:

The Proxy Statement and our 2018 Annual Report are available at <http://investors.costargroup.com/financials>.

Whether or not you plan to attend the meeting, please vote your shares as promptly as possible. Your participation will help to ensure the presence of a quorum at the meeting and save CoStar the extra expense associated with additional solicitation.

Sincerely,

ANDREW C. FLORANCE  
Chief Executive Officer and President

COSTAR GROUP, INC.

April 23, 2019

NOTICE OF 2019 ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD WEDNESDAY, JUNE 5, 2019

The 2019 Annual Meeting of Stockholders (the “Annual Meeting”) of CoStar Group, Inc. (“CoStar”, “we” or the “Company”) will be held at 1331 L Street, N.W., Washington, DC 20005, at 10:00 a.m., local time, on Wednesday, June 5, 2019, for the following purposes:

1. To elect the seven directors named in the Proxy Statement to hold office until the next Annual Meeting of Stockholders, or until their respective successors are elected and qualified;
2. To ratify the appointment of Ernst & Young LLP as the Company’s independent registered public accounting firm for 2019;
3. To approve, on an advisory basis, the Company’s executive compensation; and
4. To transact any other business properly presented before the Annual Meeting.

The Board of Directors has fixed Wednesday, April 10, 2019, as the record date for determining stockholders entitled to receive notice of and to vote at the Annual Meeting (or any adjournment or postponement of it). Only stockholders of record at the close of business on that date are entitled to notice of and to vote at the Annual Meeting.

INTERNET AVAILABILITY

We are furnishing proxy materials to some of our stockholders through the Internet instead of through the mail. On or about April 23, 2019, we mailed to stockholders as of the record date a Notice Regarding the Availability of Proxy Materials. The Notice tells you how to access this Proxy Statement and our 2018 Annual Report on Form 10-K, as well as how to submit your proxy, over the Internet. If you received the Notice and would still like to receive a printed copy of our proxy materials, please follow the instructions in the Notice.

WE INVITE YOU TO ATTEND THE ANNUAL MEETING IN PERSON, BUT WHETHER OR NOT YOU EXPECT TO ATTEND, PLEASE VOTE YOUR SHARES AS SOON AS POSSIBLE.

By Order of the Board of Directors,

JONATHAN COLEMAN  
Secretary

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NOTICE: Brokers are not permitted to vote on the election of directors or advisory resolution to approve executive compensation without instructions from the beneficial owner, as discussed in more detail in the Proxy Statement. If your shares are held through a brokerage firm, bank or other nominee, they will not be voted on these matters unless you affirmatively vote your shares in one of the ways described in the Notice.

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COSTAR GROUP, INC.

PROXY STATEMENT

ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD ON WEDNESDAY, JUNE 5, 2019

The Board of Directors (the “Board”) of CoStar Group, Inc. (“CoStar”, “we” or the “Company”) solicits your proxy for use at the Annual Meeting of Stockholders (the “Annual Meeting”) to be held at 10:00 a.m., local time, on Wednesday, June 5, 2019, at the Company’s principal executive offices at 1331 L Street N.W., Washington, DC 20005, and at any adjournment or postponement of the Annual Meeting.

We are mailing the Notice Regarding the Availability of Proxy Materials to our stockholders eligible to vote at the Annual Meeting on or about April 23, 2019.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE  
STOCKHOLDER MEETING TO BE HELD ON JUNE 5, 2019

The Notice of Meeting and this Proxy Statement, as well as our 2018 Annual Report on Form 10-K, are available on our corporate website at <http://investors.costargroup.com/financials>.

OUTSTANDING SECURITIES, VOTING RIGHTS AND QUORUM

At the close of business on the record date, Wednesday, April 10, 2019, there were 36,541,613 shares of common stock outstanding and entitled to vote at the Annual Meeting. Each outstanding share of common stock is entitled to one vote on each of the seven director nominees and on each of the other proposals.

The presence at the Annual Meeting, in person or by proxy, of a majority of the outstanding shares as of the record date constitutes a quorum (the minimum number of shares required to take action) for the Annual Meeting. Both abstentions and broker non-votes will be counted as shares present for purposes of obtaining a quorum.

The required vote and the calculation method for each of the matters scheduled for consideration at the Annual Meeting are as follows:

**Election of Directors.** Each director will be elected if the number of shares voted “FOR” a director exceeds the number of shares voted “AGAINST” that director. If the votes cast for an incumbent director do not exceed the votes cast against the director, our Board will consider whether to accept or reject such director’s resignation, which is tendered to the Board pursuant to the Board’s director resignation policy.

**Each of the Other Proposals.** Each of the other proposals to be voted on at the Annual Meeting will be approved if the number of shares voted “FOR” the proposal exceeds the number of shares voted “AGAINST” the proposal.

**Treatment of Abstentions**

Abstentions will not affect the outcome of the election of directors or the other proposals because they are disregarded in calculating the total number of votes cast. Abstentions will be counted as present and entitled to vote for purposes of determining the presence of a quorum at the Annual Meeting.





## Treatment of Broker Non-Votes

Brokers or other nominees have the discretion to vote shares held in street name on routine corporate matters, such as ratification of the appointment of the Company's independent registered public accounting firm, without specific voting instructions from the beneficial owner. Nominees may not vote shares held in street name on non-routine matters, such as election of directors and approval of the advisory resolution to approve executive compensation, without specific voting instructions from the beneficial owner, resulting in a "broker non-vote."

Broker non-votes will be counted as present and entitled to vote for purposes of determining the presence of a quorum at the Annual Meeting but will not affect the outcome of the election of directors or the other proposals because they are disregarded in calculating the total number of votes cast on the election of directors and each of the other proposals.

## PROXY VOTING AND REVOCATION

There are four ways you can vote:

1. By Internet ([www.proxyvote.com](http://www.proxyvote.com)): Follow the instructions provided in the Notice or, if you receive a complete set of proxy materials by U.S. mail, the instructions on your proxy card.
2. By Telephone: If you receive a complete set of proxy materials by U.S. mail, follow the instructions on your proxy card.  
By Mail: If you receive a complete set of proxy materials by U.S. mail, complete, sign and return the accompanying proxy card in the postage-paid envelope provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.
3. In Person: Vote in person at the Annual Meeting. Submitting a proxy will not prevent a stockholder from attending the Annual Meeting, revoking his or her earlier-submitted proxy or voting in person.
- 4.

If you properly complete and execute your proxy card in one of the ways set forth above:

• Your shares will be voted in accordance with your instructions.

If you sign, date and return your proxy card and there are any items for which you do not provide instructions, your shares will be voted in accordance with the Board's recommendations as follows: "FOR" election of each of the director nominees, "FOR" ratification of the independent registered public accounting firm, and "FOR" approval of the advisory resolution to approve executive compensation.

You may revoke your proxy at any time before it is voted by:

• Delivering to the Corporate Secretary written notice that you are revoking your proxy;

• Submitting a properly executed proxy bearing a later date; or

• Attending the Annual Meeting and voting in person. If you are not the owner of record, but rather hold your shares through a broker or bank, you should take appropriate steps to obtain a legal proxy from the owner of record if you wish to attend and vote at the Annual Meeting.

Simply attending the Annual Meeting will not revoke your proxy. If you instructed a broker to vote your shares, you must follow your broker's directions for changing those instructions.

## ATTENDING THE ANNUAL MEETING

Only stockholders as of the record date, their proxy holders and our invited guests may attend the Annual Meeting. Beneficial owners whose ownership is registered under another party's name and who plan to attend the Annual

Meeting in person should obtain an admission ticket in advance by sending written requests, along with proof of beneficial ownership, such as a bank or brokerage firm account statement, to: Rich Simonelli, Vice President of Investor Relations, CoStar Group, Inc., 1331 L Street N.W., Washington, DC 20005. Beneficial owners who do not present valid admission tickets at the registration counter at the Annual Meeting will be admitted at CoStar's sole discretion and may be required

to verify share ownership, which may be established by providing a bank or brokerage firm account statement. Stockholders as of the record date or their proxy holders who plan to attend the Annual Meeting may also be asked to present photo identification at the registration counter at the Annual Meeting to gain admittance to the Annual Meeting. Each stockholder may appoint only one proxy holder or representative to attend the meeting on his or her behalf.

## ITEM 1 ELECTION OF DIRECTORS

The Board has currently fixed the number of directors constituting the Board at eight. Warren H. Haber will not be standing for reelection at the Annual Meeting. We thank Mr. Haber for his dedication and commitment to the Company over the past 24 years. Effective as of the Annual Meeting, the Board has reduced the size of the Board to seven members.

The Nominating & Corporate Governance Committee has recommended and the Board has nominated the remaining seven current directors for reelection, all of whom were last elected at the 2018 Annual Meeting of Stockholders.

Each director elected at the Annual Meeting will serve until the next Annual Meeting of Stockholders or until his or her successor is elected and qualified. We know of no reason why any nominee would be unable to serve. If any nominee becomes unable to serve prior to the Annual Meeting, the Board may reduce the size of the Board or designate substitute nominees, and proxies that do not withhold authority to vote for directors will be voted for such substitute nominees. In no event may proxies be voted for a greater number of persons than the number of nominees named. We did not receive any stockholder nominations for director in connection with the 2019 Annual Meeting.

### BOARD COMPOSITION

Our Nominating & Corporate Governance Committee reviews and assesses with the Board the Board's membership criteria. The criteria include independence; judgment; integrity; ability to commit sufficient time and attention to the activities of the Board; business experience, skills and background, including an understanding of and experience with commercial real estate, information services and technology industries; finance and marketing expertise; and absence of potential conflicts with the Company's interests. The Nominating & Corporate Governance Committee seeks a diversity of occupational and personal backgrounds on the Board in order to obtain a range of viewpoints and perspectives. As part of an ongoing Board refreshment process, the Board has been actively conducting a search for one or more additional independent directors. At the direction of the Nominating & Corporate Governance Committee, the Company engaged a third-party search firm to help identify and recruit potential new Board members, with a focus on increasing diversity on the Board. The Committee instructed the search firm to include diverse candidates, with a particular focus on gender diversity, among the list of the most qualified candidates. The Board plans to increase the size of the Board when a qualified candidate is nominated and appointed or elected.

In addition, the Nominating & Corporate Governance Committee evaluates the composition of the Board to assess the skills and experience that are currently represented on the Board, as well as the skills and experience that the Nominating & Corporate Governance Committee believes the Board will find valuable in the future, given the Company's current standing and strategic plans. This evaluation enables the Nominating & Corporate Governance Committee to assess its effectiveness at achieving these Board membership objectives.

We expect that our Board members will have a diverse portfolio of skills, experiences and backgrounds and that each will contribute to the composition of the Board so that collectively the Board will possess the necessary skills, experience and background to oversee our business and affairs. Below is a list of key skills and experience that our directors bring to our Board that we consider important in light of our current business and structure. The directors' individual biographies below describe each director's most relevant experience, qualifications and skills.

Directors' Key Skills and Experience

Industry Expertise	Experience in the commercial real estate, information services and technology industries areas is valuable in understanding our growth and development efforts, as well as the market segments in which we operate.
Financial Expertise	An understanding of accounting and financial reporting processes is important because it assists our directors in understanding, advising and overseeing our operating performance (which we measure by reference to financial targets), investing activities, financial reporting and internal controls. We expect all of our directors to be financially knowledgeable.
Mergers & Acquisitions Experience	Directors who have a background in mergers & acquisitions transactions can provide insight into developing and implementing strategies for growing our operations through business combinations and also provide relevant input regarding our business strategy. Relevant experience in this area includes experience identifying and valuing proposed transactions, analyzing the 'fit' of a proposed acquisition target with our strategy, and integrating acquired companies with our existing operations.
Business Development	Directors who have expertise in business development can provide insight into developing and implementing strategies for growing our business organically.
Public Company Board and Management Experience	Directors who have served on other public company boards and/or as executives of other public companies can offer advice and insight regarding the dynamics and operation of a board of directors, the relationship between a board and the CEO and other management personnel, and an understanding of good corporate governance practices and risk management.
Leadership Experience	Directors who have served in a leadership capacity or as executives at other companies provide valuable operational insight and can help the Board operate efficiently and effectively.

NOMINEES FOR THE BOARD OF DIRECTORS

The following table lists the seven director nominees and their current committee memberships:

Name	Employment	Years as a Director <sup>(1)</sup>	Committee Membership
Michael R. Klein	Chairman, CoStar Group, Inc.; Chairman, The Sunlight Foundation; Vice Chairman Tutor Perini Corporation	32	Compensation; Nominating & Corporate Governance
Andrew C. Florance <sup>(2)</sup>	CEO & President, CoStar Group, Inc.	32	None
Laura Cox Kaplan	Adjunct Professor, American University	3	Nominating & Corporate Governance
Michael J. Glosserman	Trustee, JBG Smith Properties	11	Audit; Nominating & Corporate Governance
John W. Hill	Founder & CEO, J Hill Group	7	Audit
Christopher J. Nassetta	CEO & President, Hilton Worldwide	17	Compensation; Nominating & Corporate Governance
David J. Steinberg	Co-Founder & Chairman, Radius Networks, Inc.	8	Audit

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

(2) Executive Officer

## NOMINEES' BUSINESS EXPERIENCE, QUALIFICATIONS AND DIRECTORSHIPS

Michael R. Klein has been the Chairman of our Board of Directors since 1987. Mr. Klein also currently serves as Chairman of the board of directors and Chief Executive Officer of The Sunlight Foundation, a non-profit public education organization which he founded in 2005, Chairman of Gun Violence Archive, a non-profit public education organization which he founded in 2014, and as Vice Chairman of the board of directors, Lead Director, Chairman of the Corporate Governance & Nominating Committees, and member of the Audit and Compensation Committees of Tutor Perini Corporation, a publicly-held construction company. Mr. Klein serves as a director of ThinkFood Group, LLC, a privately held company. He also serves as Chairman of the board of directors of The Shakespeare Theatre Company, as a director and secretary of the American Himalayan Foundation, as a director of the NAACP Legal Defense and Education Fund, and as Chairman of the Board of Trustees of the Aspen Music Festival and School and as a trustee of the Aspen Institutes. Mr. Klein received a B.B.A. and a J.D. from the University of Miami and an L.L.M. from Harvard University. Mr. Klein is 77 years old.

As a result of his service on our Board since the Company's inception, Mr. Klein has extensive knowledge of the commercial real estate, information services and technology industries, as well as the Company's products, services and business strategies. Mr. Klein also brings to the Board extensive experience through his service over the past 30 years on the boards of directors of various publicly-held companies, as well as several privately-held businesses and non-profit organizations, including in the role of Chairman and Lead Director. Mr. Klein's experience gained as a result of his involvement as a founder, director and/or investor in those entities over the past 30 years, including active participation in their business development and management, enables him to contribute significantly to the oversight and governance of the Company. Mr. Klein also has three decades of service as a corporate and securities lawyer with significant participation in corporate financings and mergers & acquisitions, allowing him to provide valuable insight regarding the Company's business and growth strategies.

Andrew C. Florance founded the Company in 1987. As President and CEO of CoStar, Mr. Florance has directed CoStar Group's successful expansion from start-up, to its IPO in July 1998, to its market-leading position today with a staff of over 3,700 worldwide and a client base that includes the real estate industry's leading brokerage firms, property owners, and lenders. He manages an international service platform that includes the United States, United Kingdom, France, Spain, Germany and Canada and was utilized by an average of 40 million users a month in 2018. While leading CoStar Group, he has identified, negotiated, and closed more than 30 acquisitions across six countries. Mr. Florance is a recognized authority for analysis of real estate markets. He co-authored a study about the utilization and usefulness of a massive data set to track apartment rents effectively, titled "What's Really Happening With Apartment Rents." The study received a 2016 Manuscript Prize Award from the American Real Estate Society (ARES), an association of real estate thought leaders. He conceived of and co-authored the study resulting in the 2010 launch of the CoStar Commercial Repeat-Sale Indices (CCRSI), which is believed to be the most comprehensive and thorough commercial real estate repeat-sale price index available in the market today. The study was recognized as "Best Manuscript" by the James R. Webb American Real Estate Society (ARES) Foundation. In addition, Mr. Florance is the recipient of numerous other awards recognizing his accomplishments as an entrepreneur and corporate leader. He served on the board of directors of Walker & Dunlop, Inc. from November 2012 to May 2016 and previously served on the Governing Boards of Beauvoir, The National Cathedral Elementary School and of St. Albans School. Mr. Florance currently serves on several non-profit boards of directors, including the board of directors of ARES, and the governing board of Management Leadership for Tomorrow, a nonprofit working to develop diverse leaders and expand talent pipelines. Mr. Florance is the Chair of the Cathedral Chapter overseeing the Washington National Cathedral. Mr. Florance received a B.A. in economics from Princeton University. He is 55 years old.

As the founder of the Company and the only member of the Company's senior management team who serves on our Board, Mr. Florance brings to the Board significant knowledge and understanding of the real estate and information services industries, unique expertise on the Company's products and services, and extensive leadership experience.

Over his 30-year tenure with the Company, Mr. Florance has served as the Chief Executive Officer and has been actively involved in all facets of the Company's business, including developing the Company's products and services, identifying and developing markets for the Company's products and services and identifying and integrating acquisition targets. This experience enables Mr. Florance to make significant contributions to the Company's business development and strategy.

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Laura Cox Kaplan is the former Principal-in-Charge of Government, Regulatory Affairs and Public Policy for professional services and accounting firm PricewaterhouseCoopers (PwC), where she spent more than 11 years, from December 2004 to July 2016, managing the firm's public policy engagement strategy, and almost a decade on the executive management team. In her role at PwC, she also provided advice to clients, particularly at the executive and board level, on developments in public policy and public policy strategy. Ms. Kaplan served on PwC's Global Public Policy and Regulatory Board, which coordinated public policy strategies across the more than 150 countries in which PwC operates. She served as Chair of the American Institute of Certified Public Accountants' (AICPA) Federal Legislative Task Force, which coordinated strategies for shaping legislative policy that impacts the accounting profession, and was a member of the Center for Audit Quality's (CAQ) Executive Management Committee. Prior to joining PwC, Ms. Kaplan served in senior level positions at the U.S. Securities and Exchange Commission and the U.S. Department of the Treasury, where she focused largely on the legislative and regulatory response to corporate governance and accounting failures in the late 1990s and on the implementation of the Sarbanes-Oxley Act of 2002. Ms. Kaplan has been an adjunct professor at American University since January 2017, and currently serves as an External Board Member of Hunt Companies and on the following non-profit boards: Running Start, where she serves as Board Co-Chair; American Council on Germany; All in Together; and Empowered Women. She also serves on the advisory boards for: the Bush School of Government and Public Service at Texas A&M University, The Wilson Center Women in Public Service Project, and the US Chamber of Commerce Foundation. Ms. Kaplan is the creator and host of the "She Said/She Said Podcast" and blog which showcases women leaders and their impact. Ms. Kaplan received a Master's degree from American University and a B.A. from the University of Texas, Austin. She is 49 years old.

Ms. Kaplan has more than 25 years of experience in communications, corporate governance, stakeholder engagement and public policy strategy. She lends her experience and voice publicly to a range of topics important to the public and private sectors including career and talent development, the importance of developing a diversified workforce and of the value of diversified teams, women's leadership, and corporate governance. As a result of her experience, Ms. Kaplan brings to the Board valuable leadership, management and corporate governance experience.

Michael J. Glosserman served as a Managing Member of the JBG Companies (JBG), from 1982 to 2017, and as Chairman of its Executive Committee from 2008 to 2017. In 2017, a newly formed public company, JBG Smith, acquired the management business and certain assets and liabilities of JBG, then the Washington Area's largest commercial real estate company. He currently serves as a Board Member of JBG Smith Properties a publicly traded real estate investment trust. He began his career as a staff attorney with the U.S. Department of Justice, shortly thereafter moving into commercial real estate investment and development with the Rouse Company in 1972 and joined JBG in 1979. His non-professional affiliations include or have included: Trustee, The Better Angels Society; Board Chair and Honorary Trustee, National Building Museum; Trustee, Federal City Council; Advisory Board Member of the University of Pennsylvania Institute for Urban Research; Trustee, Georgetown Day School; and Trustee, Woodley House. He received a B.S. in Economics from the Wharton School at the University of Pennsylvania and received his J.D. from the University of Texas Law School. He is 73 years old.

Mr. Glosserman has over 46 years of experience investing in, developing and owning commercial real estate. As a result of his experience, Mr. Glosserman brings to the Board significant business development, financial and commercial real estate industry expertise. As a user of commercial real estate information, Mr. Glosserman 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.

John W. Hill is Founder and Chief Executive Officer of J Hill Group, a professional services practice specializing in assisting clients in improving their management operations, which he started in 2012. He served as the CFO of the



City of Detroit, Michigan on a personal services contract from November 2013 to December 2018. Prior to starting his consulting practice, from 2004 to 2012, Mr. Hill served as Chief Executive Officer of Federal City Council, a non-profit, non-partisan organization dedicated to improving the Nation's Capital. Mr. Hill has previously served in multiple other executive and financial leadership positions, including as Chief Executive Officer of In2Books, Inc. and as a Partner at Andersen, LLP. Mr. Hill currently serves as a trustee, and the Chair of the Compensation Committee and as a member of the Nominating and Corporate Governance Committee of Chesapeake Lodging Trust, a publicly traded REIT, and he previously served as a member of the Audit Committees of various public companies, including Highland

Hospitality Inc. and Chesapeake Lodging Trust, and various private entities, including Prestwick Pharmaceuticals, Inc. Mr. Hill also serves as Treasurer on The Shakespeare Theatre Company board of trustees, as a member of the board of directors of Step Afrika!, and as Chair of the board of directors of the National Minority AIDS Council. Mr. Hill received a B.S. in Accounting from the University of Maryland, passed the CPA exam and became a Certified Public Accountant in 1977. He is 64 years old.

Through his current and previous positions, Mr. Hill has gained over 40 years of experience in accounting, auditing and financial matters, as well as significant management expertise. As a result of his extensive experience, Mr. Hill brings to the Board valuable financial knowledge and executive management experience.

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 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 as a member of the Real Estate Roundtable, as an Advisory Board member for the McIntire School of Commerce at the University of Virginia, and as Vice Chairman of the Corporate Fund for The John F. Kennedy Center for the Performing Arts. Mr. Nassetta is a member of Federal City Council, a member of the Steering Committee of Partners for a New Beginning, and is on the boards of the International Youth Foundation, the Wolf Trap Foundation for the Performing Arts, and the Economic Club of Washington, D.C. Mr. Nassetta received a degree in finance from the University of Virginia McIntire School of Commerce. Mr. Nassetta is 56 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 Co-Founder and Chairman of Radius Networks, Inc., a Washington D.C.-based technology company, since October 2012. Mr. Steinberg also served as the Chief Executive Officer of Nextility, Inc., a technology company that creates an intelligent data based market for energy, from September 2015 to June 2017. He served as Chief Executive Officer of SnappCloud, Inc., a technology company that integrates online cloud software applications for distribution by large PC and software OEMs, from September 2009 to September 2015. 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 the following privately-held companies: SolSystems; Radius Networks, where he serves as Chairman; and The Wireless Registry, where he serves as Chairman. He is a member of the advisory board of the Washington, D.C. venture capital firm Core Capital

Partners, and he serves on the boards of directors of the following not-for-profit entities: SEED School of Washington, D.C. and We are Family. Mr. Steinberg received a B.S. in physiological psychology from the University of Cincinnati. Mr. Steinberg is 61 years old.

Mr. Steinberg has over 35 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.

## ITEM 2

## RATIFICATION OF THE APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee recommended, and the Board approved, the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for 2019. As a matter of good corporate governance, the Board is asking stockholders to ratify this appointment. 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 2019 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 Company's independent registered public accounting firm, its subsidiaries, and its predecessors since 1994. A representative from Ernst & Young LLP is expected to attend the Annual Meeting, and will have the opportunity to make a statement and to respond to appropriate questions.

For the years ended December 31, 2017 and 2018, Ernst & Young LLP billed CoStar the fees set forth below, including expenses, in connection with services rendered to CoStar:

	Year Ended December 31, 2017	Year Ended December 31, 2018
Audit Fees <sup>(1)</sup>	\$1,895,028	\$1,858,041
Audit Related Fees	—	—
Tax Fees <sup>(2)</sup>	30,000	—
All Other Fees	—	—
Total	\$1,925,028	\$1,858,041

Audit fees include fees for the annual audit and quarterly reviews of CoStar's consolidated financial statements, the (1) audit of CoStar's internal controls over financial reporting and statutory audits required internationally, review of documents filed with the SEC and business acquisitions.

(2) Tax fees include tax services related to a research and development tax credit study.

## 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 pre-approved limits 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 that were pre-approved 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 2018 were pre-approved by the Audit Committee, and therefore no services were approved after the services were rendered pursuant to the “de minimis” exception established by the SEC for the provision of non-audit services.

THE BOARD RECOMMENDS THAT YOU VOTE “FOR” RATIFICATION OF THE APPOINTMENT OF ERNST & YOUNG LLP AS INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE COMPANY FOR 2019.

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ITEM 3  
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.

We urge stockholders to read the "Compensation Discussion and Analysis" section of this Proxy Statement, which describes in 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 in the sections titled "Executive Compensation Tables and Discussion" and "Narratives to Summary Compensation Table and Grants of Plan-Based Awards Table" in this Proxy Statement, 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 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 2019 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. At the 2018 Annual Meeting, approximately 89% of the votes cast were for approval of the "say-on-pay" advisory vote. The Compensation Committee believes these results demonstrate that our stockholders support our compensation approach.

At our annual meeting of stockholders held on June 6, 2017, 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 to vote, on an advisory basis, on a proposal regarding the frequency of the vote on the say-on-pay proposal at our 2023 Annual Meeting, as required by the Dodd-Frank Act.

THE BOARD RECOMMENDS THAT YOU VOTE "FOR" THE APPROVAL OF THE ADVISORY RESOLUTION TO APPROVE 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 properly comes before the Annual Meeting, the accompanying proxy authorizes the persons named as proxies or their substitutes to vote on such matter as they determine appropriate.

## STOCKHOLDER PROPOSALS AND NOMINATIONS FOR DIRECTORS FOR THE 2020 ANNUAL MEETING

A stockholder who intends to introduce a proposal for consideration at our 2020 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. 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 25, 2019, 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 75<sup>th</sup> day and not earlier than the close of business on the 105<sup>th</sup> day before the first anniversary date of the preceding year's annual meeting. If 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 10<sup>th</sup> day prior to such annual meeting and not later than the close of business on the later of the 75<sup>th</sup> day prior to such annual meeting or the 10<sup>th</sup> 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 2020 Annual Meeting must give notice of their intention to do so in writing to our Corporate Secretary on or before the close of business on March 22, 2020, but no sooner than the close of business on February 21, 2020. The stockholder's submission must include 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 our Amended and Restated Bylaws. Stockholder proposals or nominations not meeting these requirements will not be entertained at the 2020 Annual Meeting.

## ADDITIONAL INFORMATION CORPORATE GOVERNANCE MATTERS

### Corporate Governance Guidelines

The Board, on the recommendation of the Nominating & Corporate Governance Committee, adopted the Company's Principles of Corporate Governance, which directs our Board's actions with respect to, among other things, Board composition, director membership criteria, composition of the Board's standing committees, and the Board's performance evaluations. The Company's Principles of Corporate Governance can be found in the "Leadership" section of the Company's website under Governance Documents located at <http://investors.costargroup.com/leadership>.

### 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, which may include professional search firms. The Nominating & Corporate Governance Committee will also consider Board nominees suggested by stockholders if such recommendations are submitted during the period, and include the required information specified in our Amended and Restated Bylaws, as described under “Stockholder Proposals and Nominations for Directors for the 2020 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. 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.

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. If the nominee is a director standing for reelection, that individual’s past contribution and future commitment to CoStar are also considered. The Nominating & Corporate Governance Committee evaluates the totality of the merits of each prospective nominee that it considers and does not establish minimum qualifications or attributes. Candidates are evaluated 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, it believes that it is important that Board members represent diverse viewpoints. The Nominating and Corporate Governance Committee assesses the effectiveness of its approach toward maintaining and encouraging diversity on the Board through on-going, informal feedback from Board members.

#### 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. 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 currently is in the best interest of the Company’s stockholders. This structure provides a greater role for the independent directors in overseeing the Company and in setting agendas and establishing Board priorities and procedures; it also permits the Chief Executive Officer to focus on managing the Company’s day-to-day operations.

#### Independent Directors

The Board has determined that Messrs. Klein, Glosserman, Haber, Hill, Nassetta, and Steinberg and Ms. Kaplan are each independent as defined under Rule 5605(a)(2) of the Nasdaq listing rules. In assessing directors’ independence, the Board took into account certain transactions, relationships, and arrangements involving some of the directors and concluded that such transactions, relationships, and arrangements did not impair the independence of the relevant director. As part of this determination, the Board received information regarding Mr. Klein’s position as Chairman of the Shakespeare Theatre Company, a non-profit organization, Mr. Hill’s positions on the board of directors of Step Afrika!, a 501(c)(3) charitable organization, and on the board of trustees of the Shakespeare Theatre Company, and Mr. Haber’s position as a Trustee on the board of directors of Leadership Enterprise for a Diverse America. The Company expensed contributions to the Shakespeare Theatre Company of \$80,000 in 2016, \$85,000 in 2017 and \$100,000 in 2018. In addition, in 2016 and 2017, the Company paid approximately \$20,000, \$15,000 respectively, to the Shakespeare Theatre Company for promotional and hospitality services promoting the Company’s Apartments.com and CoStar services, as well as season-long benefits, which aggregate annual amounts are less than five percent of the consolidated gross annual revenues of the Shakespeare Theatre Company for those years. The Company did not make

any payments for promotional and hospitality services to the Shakespeare Theatre Company in 2018. The Company expensed contributions to Step Afrika! of \$40,000 in 2017 (which amount is less than five percent of the consolidated gross annual revenues of Step Afrika!). The Company did not expense any contributions to Step Afrika! in 2016 or 2018. The Company expensed contributions to Leadership Enterprise for a Diverse America of \$10,000 in 2018. The Company did not expense any contributions of Leadership Enterprise for a Diverse America in 2016 or 2017. In addition, the

Board considered Mr. Nassetta's service as an executive officer of a company that subscribes to the Company's services. The Board also considered that Ms. Cox Kaplan serves as an External Board Member of a company that subscribes to the Company's services and that Mr. Glosserman serves as a Trustee of a company that subscribes to the Company's services. In each such case, the payments to the Company were less than one percent of the consolidated gross annual revenues of the Company in each of the last three fiscal years. Further, the services provided by the Company to Mr. Nassetta's company and to the companies for which Ms. Cox Kaplan and Mr. Glosserman serve as a board member and Trustee, respectively, are on terms no less favorable than terms generally available to an unaffiliated third-party under the same or similar circumstances.

#### The Board's Role in Risk Oversight

One of the Board's functions is oversight of risk management, which is administered both through the full Board and through Board Committees that oversee specific risks, as described below.

The Company faces 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 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.

Management, typically the Chief Financial Officer or General Counsel, periodically discusses with the Board or appropriate Board committee the significant voluntary and involuntary risks that the Company faces and how the Company is seeking to control risk if and when appropriate. When appropriate, other members of management provide information to the Board or appropriate Board committees with respect to a specific area of potential risk and how the Company manages or seeks to control the identified risk. The Board reviews the Company's cybersecurity risk profile and is informed about the Company's cybersecurity risk program in periodic presentations by the Company's Chief Technology Officer. This program provides the Board with an overview of the cybersecurity risks and threats landscape as well as the Company's risk posture. 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 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

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. The Compensation Committee also engaged its independent compensation consultant, Willis Towers Watson, to assess the Company's executive compensation program. The risk assessment process included:

- A review of CoStar's compensation programs, 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.

We reviewed all compensation programs, but 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 risks that are 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 our ability to effectively identify and manage significant risks; are compatible with effective internal controls and our risk management practices; and are supported by the Compensation Committee's oversight and administration of 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. The Corporate Secretary opens and retains a copy of the contents of such correspondence, and promptly forwards such correspondence 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 such 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 will be presented to the full Board, individual directors or other appropriate body.

## Policy Regarding Attendance at Annual Meetings

CoStar Group encourages, but does not require, directors to attend the Annual Meetings of Stockholders. In 2018, one director attended the Annual Meeting of Stockholders.

## BOARD MEETINGS AND COMMITTEES

Directors are expected to attend all meetings of the Board and the committees on which they serve. During 2018, the Board of Directors held four meetings. The Audit, Compensation, and Nominating & Corporate Governance committees held four meetings, two meetings, and one meeting, respectively, in 2018. During 2018, each director attended at least 75% of the aggregate of the total number of meetings of the Board and the total number of meetings

held by each committee of the Board on which the director served.



## Board Committees

The Board has standing Audit, Compensation and Nominating & Corporate Governance committees, the composition of which as of the date of this Proxy Statement is set forth below. .

Name	Audit Committee	Compensation Committee	Nominating & Corporate Governance Committee
Michael R. Klein	X*		X
Andrew C. Florance			
Laura Cox Kaplan			X
Michael J. Glosserman	X		X
Warren H. Haber	X		
John W. Hill	X*		
Christopher J. Nassetta		X	X*
David J. Steinberg	X		

\*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 and that Audit Committee members Haber, Hill, Glosserman and Steinberg are “audit committee financial experts,” as defined by SEC regulations, 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 assists the Board in fulfilling its oversight responsibilities as to accounting policies, internal controls, audit activities and reporting practices of the Company. The Audit Committee also produces the report of the Audit Committee included 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 Compensation Committee discharges the Board’s responsibilities relating to compensation of the Company’s executive officers and directors, and produces the Compensation Committee report on executive compensation included in the Company’s Proxy Statement. In addition, the Board has designated the Compensation Committee as the Administrator of the Company’s 2007 Stock Incentive Plan, as amended (the “2007 Plan”), the Company’s 2016 Stock Incentive Plan (the “2016 Plan”), the Company’s 2016 Cash Incentive Plan, the Company’s Employee Stock Purchase Plan, and the Company’s Management Stock Purchase Plan (the “MSPP”).

**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 Nominating & Corporate Governance Committee identifies individuals qualified to become Board members, recommends to the Board director candidates and performs 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 “Leadership” section of the Company’s website under Governance Documents located at <http://investors.costargroup.com/leadership>.



## 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 2018. The Audit Committee has discussed with the independent registered public accounting firm the matters required to be discussed by applicable standards of 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, 2018, for filing with the SEC.

By the Audit Committee  
of the Board of Directors

John W. Hill, Chairman  
Warren H. Haber  
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. The Compensation Committee engaged Willis Towers Watson in 2013 to assess the competitiveness of the non-employee directors' compensation program. Based on the results of this assessment, in September 2013, the Compensation Committee and the Board approved an increase in director compensation to bring the annual, standard retainer and annual equity grants to non-employee directors in line with the median levels of peer company data provided by Willis Towers Watson, to provide compensation to committee members in line with median levels of peer company data and to make non-employee director compensation more competitive in the marketplace. No changes have been made to the non-employee directors' compensation since September 2013. Non-employee director compensation for 2018 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.

Annual Cash Retainers <sup>(1)</sup>	
Board Members (other than Chairman)	\$50,000
Chairman of the Board	\$120,000
Annual Equity Awards <sup>(2)</sup>	
Board Members (including Chairman)	\$175,000
Audit Committee Chairman	\$30,000
Compensation Committee Chairman	\$15,000
Nominating & Corporate Governance Committee Chairman	\$15,000
Audit Committee Member	\$15,000
Compensation Committee Member	\$8,000
Nominating & Corporate Governance Committee Member	\$6,000

(1) The Company reimburses all directors for reasonable travel and out-of-pocket expenses incurred in connection with their duties as directors, including attendance at meetings.

(2) Annual equity awards are granted on the date of the first regular Board meeting following the date of the annual meeting of stockholders, are payable in the form of restricted stock, are valued at the grant date, and vest in equal, annual installments over a 4-year period around the anniversary of the date of grant as long as the director is still serving on our Board on the respective vesting date. 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.

Pursuant to the Company's 2007 Plan and 2016 Plan 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 2007 and 2016 Plans" in the section titled "Potential Payments Upon Termination or Change of Control" in this Proxy Statement. Recipients of restricted stock granted under the 2007 and 2016 Plans are entitled to receive dividends and other distributions, if any, paid with respect to the common stock. The Compensation Committee determines 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.

## DIRECTOR STOCK OWNERSHIP POLICY

Under the Company's Director Stock Ownership Policy, each non-employee director is required to own shares of the Company's common stock with a value equal to five times the annual, standard director cash retainer. The current

directors all currently meet this ownership requirement.

## Director Compensation Table for Fiscal Year 2018

The following Director Compensation table shows the compensation we paid in 2018 to our non-employee directors.

Name	Fees Earned or Paid in			Stock Awards <sup>(2)</sup> Total (\$)
	Cash <sup>(1)</sup> (\$)	(\$)	(\$)	
Michael R. Klein, Chairman	\$120,000	\$196,210	\$316,210	
Laura Cox Kaplan	\$50,000	\$181,085	\$231,085	
Michael J. Glosserman	\$50,000	\$196,210	\$246,210	
Warren H. Haber	\$50,000	\$190,328	\$240,328	
John W. Hill	\$50,000	\$205,033	\$255,033	
Christopher J. Nassetta	\$50,000	\$198,311	\$248,311	
David J. Steinberg	\$50,000	\$190,328	\$240,328	

(1) This column shows the amount of cash compensation earned in 2018 for Board and Committee service.

This column shows the aggregate grant date fair value of shares of restricted stock granted in 2018 to each non-employee director, computed in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 718, "Compensation – Stock Compensation". Each non-employee director received one

(2) grant of restricted stock on September 20, 2018 for his or her 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 award's vesting period and is based on the closing price of our common stock on the date of grant, which was \$420.15 on September 20, 2018.

The following table shows the number of shares of restricted stock granted to each non-employee director during 2018, as well as the aggregate number of shares of unvested restricted stock held by each non-employee director as of December 31, 2018. Other than as set forth below, the non-employee directors did not hold any other outstanding equity awards at fiscal year-end.

Name	Number of Shares of Restricted Stock Granted 9/20/18	Aggregate Shares of Unvested Restricted Stock Held as of 12/31/18
Michael R. Klein, Chairman	467	1,743
Laura Cox Kaplan	431	1,353
Michael J. Glosserman	467	1,743
Warren H. Haber	453	1,689
John W. Hill	488	1,820
Christopher J. Nassetta	472	1,760
David J. Steinberg	453	1,689



## EXECUTIVE OFFICERS AND KEY EMPLOYEES

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

Name	Age <sup>(1)</sup>	Years of Service <sup>(2)</sup>	Position
Andrew C. Florance*	55	32	Chief Executive Officer, President and Director
Scott T. Wheeler*	55	4	Chief Financial Officer
Matthew F. W. Linnington*	50	5	Executive Vice President of Sales
Lisa C. Ruggles*	52	20	Senior Vice President, Global Research
Eric Brodnax	54	4	President, LoopNet
Jonathan M. Coleman	54	19	General Counsel and Secretary
Frederick G. Saint	53	20 <sup>(3)</sup>	President, Apartments.com
Frank A. Simuro	52	20	Chief Technology Officer

\* Executive Officer as defined by the Securities Exchange Act of 1934, as amended

(1) Age determined as of June 1, 2019.

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

(3) Includes years of service with acquired companies.

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.

Scott T. Wheeler, our Chief Financial Officer, joined the Company in January 2016. Prior to his appointment as Chief Financial Officer, from 2006 until January 2016, Mr. Wheeler served in various roles with Experian, a global information services company. From 2013 until January 2016, Mr. Wheeler served as Chief Financial Officer – Experian North America and Global Technology Services. Experian North America is a regional business group with \$2.5 billion in sales across four business segments and twelve operating units. Prior to this, Mr. Wheeler held various positions at Experian in addition to his role as Chief Financial Officer – Experian North America, including Director – SalesShare and Innovation from 2008 to 2012 and Chief Financial Officer of Experian’s Central and South American operations from 2006 to 2007. Mr. Wheeler came to CoStar with 30 years of financial and leadership experience, including four years with Avery Dennison Corporation, a producer of pressure-sensitive labeling, retail tag and ticketing systems; six years with General Electric Company; and ten years with Deloitte & Touche, LLP. He received a B.A. in Business Administration with Accounting concentration from University of Washington, Seattle.

Matthew (Max) F. W. Linnington, our Executive Vice President of Sales, joined us in June 2014. In 2014, prior to joining CoStar, he served as Vice President of Sales for Scivantage, a financial technology firm, and prior to that, he was the Founder and Managing Director at SpeedBird Ventures UK Ltd., a private investment firm, from 2012 to 2014. Mr. Linnington served in various roles at Bloomberg LP from 1995 to 2012, including his most recent roles as Regional Head, Emerging Markets from 2008 to 2012, where he led the expansion of Bloomberg’s operations in Africa, the Middle East and South Asia, and as Senior Vice President, Sales and Marketing for Bloomberg LP Americas from 2001 to 2008. Mr. Linnington received a B.A. Hons degree in Financial Services from the University of West England.

Lisa C. Ruggles, our Senior Vice President, Global Research, joined the Company in November 1999 as a Field Research Photographer. Since joining the Company, Ms. Ruggles has served in various roles of increasing responsibility, including Field Research Operations Manager from 2000 to 2006, Director of Field Research from 2006 to 2009, Senior Director of Field Research from 2009 to 2011, Vice President of Field Research from 2011 to early 2016, and Senior Vice President of Portfolio Research from early 2016 until her appointment as Senior Vice President of Global Research in October 2016. During her tenure, she launched CoStar’s research coverage of



numerous markets throughout the United States, facilitating the Company's national expansion, launched research coverage in the United Kingdom, and was instrumental in establishing a Toronto-based research center and launching research coverage in Toronto, Canada. She

developed CoStar's first aerial research plane to collect high quality images of new construction in an expedited manner. Ms. Ruggles established CoStar's new research headquarters in Richmond, Virginia, which focuses on CoStar Property and Tenant data. Ms. Ruggles received a B.A. in Photography from Savannah College of Art and Design.

Charles (Eric) Brodnax, the President of LoopNet, is responsible for product, marketing, and business development within CoStar Group's commercial real estate marketplace businesses, including LoopNet, CityFeet and Showcase. Prior to being appointed President of LoopNet in December 2018, from January 2015 to November 2018, Mr. Brodnax served as President of Lands, CoStar's family of dedicated land sites and the largest database of rural real estate listings in the U.S.. Mr. Brodnax joined CoStar in May 2015 as Chief Digital Officer. Previously, he was with the National Geographic Society where he served as Executive Vice President, Digital Products from January 2013 to March 2015, with responsibility for product, marketing, and business operations for the Society's digital businesses, and as Senior Vice President, Ecommerce from December 2010 to January 2013 with responsibility for ecommerce, email marketing, and CRM. Prior to that, he worked for Orbitz Worldwide from January 2005 to December 2012, where he served as a divisional general manager, and The Away Network (acquired by Orbitz Worldwide) from February 1999 to January 2005, where he was part of the founding management team and lead product, marketing, and operations. He received a B.A. in classics from Princeton University and an M.B.A. in entrepreneurial management from The Wharton School of the University of Pennsylvania.

Jonathan M. 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.

Frederick (Fred) G. Saint, the President of Apartments.com, a network of online apartment listing websites and a wholly owned subsidiary of the Company, is responsible for Apartments.com's product, marketing and business development. Mr. Saint joined the Company as a result of the Company's acquisition of LoopNet in 2012. He had previously joined LoopNet as President of Cityfeet and Vice President of LoopNet Business Development in August 2007 upon the acquisition of Cityfeet, where he had served as Chief Executive Officer from January 2004 to August 2007. Mr. Saint received a B.S. in business administration from Wake Forest University and an M.B.A. in finance and real estate from The Wharton School of the University of Pennsylvania.

Frank A. Simuro, our Chief Technology 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 and was promoted to Chief Information Officer in January 2008. Most recently, in March 2015, Mr. Simuro was promoted to Chief Technology Officer. 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.

## STOCK OWNERSHIP INFORMATION

The following table provides certain information regarding the beneficial ownership of our common stock as of April 1, 2019, unless otherwise noted, by:

The individuals listed in the Summary Compensation Table in this Proxy Statement (whom we refer to collectively in this Proxy Statement as the “named executive officers”);

Each of our current directors;

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 current executive officers and current directors as a group.

Name and Address <sup>(1)</sup>	Shares Beneficially Owned <sup>(1)</sup>	Percentage of Outstanding Shares <sup>(1)</sup>
Michael R. Klein <sup>(2)</sup>	265,196	*
Andrew C. Florance <sup>(3)</sup>	253,881	*
Scott T. Wheeler <sup>(4)</sup>	37,363	*
Francis A. Carchedi <sup>(5)</sup>	6,540	*
Matthew F. W. Linnington <sup>(6)</sup>	36,455	*
Lisa C. Ruggles <sup>(7)</sup>	15,938	*
Laura Cox Kaplan <sup>(8)</sup>	1,944	*
Michael J. Glosserman <sup>(9)</sup>	9,338	*
Warren H. Haber <sup>(10)</sup>	127,049	*
John W. Hill <sup>(11)</sup>	3,907	*
Christopher J. Nassetta <sup>(12)</sup>	26,456	*
David J. Steinberg <sup>(13)</sup>	6,988	*
Baron Capital Group, Inc. and related entities and person <sup>(14)</sup>	2,450,631	6.70%
BlackRock, Inc. <sup>(15)</sup>	3,061,248	8.37%
Janus Henderson Group PLC <sup>(16)</sup>	2,439,021	6.67%
T. Rowe Price Associates, Inc. <sup>(17)</sup>	2,492,932	6.82%
The Vanguard Group <sup>(18)</sup>	3,217,657	8.80%
All current executive officers and directors as a group (11 persons) <sup>(19)</sup>	784,515	2.14%

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 April 1, 2019, through the exercise of an option or otherwise.

(1) 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 April 1, 2019, the Company had 36,553,998 shares of common stock outstanding.

(2) Includes 1,743 shares of restricted stock that are subject to vesting restrictions.

(3) Includes 135,799 shares issuable upon options exercisable within 60 days of April 1, 2019, as well as 69,334 shares of restricted stock that are subject to vesting restrictions.

- (4) Includes 8,300 shares issuable upon options exercisable within 60 days of April 1, 2019, as well as 26,787 shares of restricted stock that are subject to vesting restrictions.
- (5) Number of shares beneficially owned is as of September 28, 2018, and is based on a Form 4 filed by Mr. Carchedi on October 2, 2018.

(6) Includes 13,033 shares issuable upon options exercisable within 60 days of April 1, 2019, as well as 15,474 shares of restricted stock that are subject to vesting restrictions.

(7) Includes 2,166 shares issuable upon options exercisable within 60 days of April 1, 2019, as well as 12,600 shares of restricted stock that are subject to vesting restrictions.

(8) Includes 1,353 shares of restricted stock that are subject to vesting restrictions.

(9) Includes 1,743 shares of restricted stock that are subject to vesting restrictions.

(10) Includes 6,000 shares held by Mr. Haber's spouse and excludes 25,880 shares held by Mr. Haber's adult sons for which Mr. Haber disclaims beneficial ownership. Also includes 1,689 shares of restricted stock that are subject to vesting restrictions.

(11) Includes 1,820 shares of restricted stock that are subject to vesting restrictions.

(12) Includes 1,760 shares of restricted stock that are subject to vesting restrictions.

(13) Includes 1,689 shares of restricted stock that are subject to vesting restrictions.

(14) Number of shares beneficially owned is as of December 31, 2018 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, 2019. BCG and Ronald Baron each had sole voting and sole dispositive power with respect to no shares, shared voting power with respect to 2,302,006 shares, and shared dispositive power with respect to 2,450,631 shares. BAMCO had sole voting and sole dispositive power with respect to no shares, shared voting power with respect to 2,288,040 shares, and shared dispositive power with respect to 2,436,665 shares. BCM had sole voting and sole dispositive power with respect to no shares, shared voting and shared dispositive power with respect to 135,966 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, 49<sup>th</sup> Floor, New York, NY 10153.

(15) Number of shares beneficially owned is as of December 31, 2018 and is based on a Schedule 13G filed by BlackRock, Inc. on February 8, 2019. The reporting person had sole voting power with respect to 2,645,742 shares and sole dispositive power with respect to 3,061,248 shares, and shared voting and shared dispositive power with respect to no shares. The address of the reporting person is 55 East 52nd Street, New York, NY, 10055.

(16) Number of shares beneficially owned is as of December 31, 2018 and is based on a Schedule 13G filed by Janus Henderson Group PLC on February 12, 2019. The reporting person had sole voting and sole dispositive power with respect to no shares, and shared voting and shared dispositive power with respect to 2,439,021 shares. The address of the reporting person is 201 Bishopsgate EC2M 3AE, United Kingdom.

(17) Number of shares beneficially owned is as of December 31, 2018 and is based on a Schedule 13G filed by T. Rowe Price Associates, Inc. on February 14, 2019. The reporting person had sole voting power with respect to 726,824, sole dispositive power with respect to 2,492,932 shares, and shared voting and shared dispositive power with respect to no shares. The address of the reporting person is 100 E. Pratt Street, Baltimore, MD 21202.

(18) Number of shares beneficially owned is as of December 31, 2018 and is based on a Schedule 13G/A filed by The Vanguard Group on February 11, 2019. The reporting person had sole voting power with respect to 27,600 shares, shared voting power with respect to 7,087 shares, sole dispositive power with respect to 3,183,203 shares, and shared dispositive power with respect to 34,454 shares. The address of the reporting person is 100 Vanguard

Boulevard, Malvern, PA 19355.

(19) Includes 159,298 shares issuable upon options exercisable within 60 days of April 1, 2019, as well as 135,992 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 under which our equity securities are authorized for issuance as of December 31, 2018.

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)
Equity compensation plans approved by security holders <sup>(1)</sup>	345,128 <sup>(3)</sup>	\$212.28 <sup>(4)</sup>	1,855,321 <sup>(5)</sup>
Equity compensation plans not approved by security holders <sup>(2)</sup>	—	—	150,000

- (1) Consists of the following plans: the 2007 Plan, the 2016 Plan, and the Company's Employee Stock Purchase Plan. Consists of the Company's MSPP. The MSPP was approved by the Board of Directors on December 7, 2017 and was not subject to approval by the Company's stockholders. The MSPP provides selected employees of the Company the opportunity to defer a portion of their bonus and commission compensation, and enables the Company to align management and shareholder interests, through awards of Deferred Stock Units ("DSUs"), with an aggregate grant date value equal to the deferred compensation, issued under the MSPP and awards of matching
- (2) restricted stock units issued under the 2016 Plan. DSUs issued under the MSPP are fully vested at grant and are settled upon the earliest of (i) four years after the date of grant; (ii) the participant's death; (iii) the participant's disability; (iv) the participant's separation from service from the Company, or (v) a change in control (as defined in the MSPP) of the Company. Matching RSUs vest four years after the date of grant, subject to the participant's continued employment through that date, or upon a change in control of the Company that occurs prior to such date.
- (3) Includes 852 shares of common stock subject to restricted stock unit awards that vest over time. The actual number of shares issued with respect to these awards depends on whether the vesting conditions are met.
- (4) Does not include restricted stock unit awards.  
Includes 65,174 shares of common stock available for future issuance under the Company's stockholder-approved
- (5) Employee Stock Purchase Plan, which amount includes 463 shares subject to purchase during the then-current purchase period.

#### COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Messrs. Klein and Nassetta, each a non-employee director, served on the Compensation Committee during fiscal year 2018. Mr. Klein serves as the Chairman of the Board of the Company. None of the members of the Compensation Committee during fiscal year 2018 were officers or employees of the Company or any of its subsidiaries during or prior to fiscal year 2018. During 2018, 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 2019 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  
Christopher J. Nassetta

## COMPENSATION DISCUSSION AND ANALYSIS

This Compensation Discussion and Analysis describes CoStar’s executive compensation program for 2018, elements of the program’s design that were implemented and maintained in response to past stockholder concerns, and the goals that drive the design of the program. Our Compensation Committee is responsible for reviewing our executive compensation program and for reviewing and approving the compensation arrangements for our executive officers.

Our “named executive officers” or “NEOs” are the executive officers who are included in the Summary Compensation Table in this Proxy Statement. They include the following current officers:

Name	Title
Andrew C. Florance	Chief Executive Officer, President and Founder
Scott T. Wheeler	Chief Financial Officer
Matthew F.W. Linnington	Executive Vice President of Sales
Lisa C. Ruggles	Senior Vice President, Global Research

Under applicable SEC rules, our named executive officers for 2018 also include Francis A. Carchedi, a former executive officer. Mr. Carchedi resigned as Executive Vice President of Corporate Development in 2018.

## EXECUTIVE SUMMARY

### BUSINESS OVERVIEW

CoStar is the leading provider of commercial real estate information, analytics and online marketplaces. Founded in 1987, CoStar conducts expansive, ongoing research to produce and maintain the largest and most comprehensive database of commercial real estate information. Headquartered in Washington, D.C., CoStar maintains offices throughout the U.S. and in Europe and Canada with a staff of over 3,700 worldwide, including the industry's largest professional research organization. CoStar has five flagship brands - CoStar, LoopNet, Apartments.com, BizBuySell and LandsofAmerica.

2018 was an outstanding year for CoStar from both a financial and operational perspective. In 2018, CoStar generated \$169 million of net new bookings, up 14% compared to 2017. This impressive sales growth drove strong organic revenue growth in 2018 and positions the Company for continued strong growth. The Company increased revenue by \$227 million, or 24%, from \$965 million in 2017 to \$1,192 million in 2018. CoStar reported \$238 million in net income in 2018, an increase of 94% compared to \$123 million in 2017. EBITDA increased from \$237 million in 2017 to \$351 million in 2018. A reconciliation of 2018 and 2017 EBITDA to net income can be found in footnote 13 (on page F-32) to the financial statements in the Company’s Annual Report on Form 10-K filed with the Commission on February 28, 2019.

CoStar Suite - CoStar Suite revenue for 2018 was \$545 million, an increase of 18% compared to 2017. This outstanding growth rate reflected a significant increase from the 13% increase achieved in the prior year and was completely organic, without any impact from acquisitions. CoStar Suite's strong revenue growth showed continued strong momentum throughout 2018, with fourth quarter growth reaching 16%.

Multifamily - Multifamily revenue increased 45% to \$406 million in the full year of 2018 compared to 2017. CoStar acquired ForRent in February 2018 and moved aggressively to protect the acquired revenue and integrate ForRent’s operations with CoStar’s existing multifamily marketing business. We believe our continued strong multifamily revenue growth is a reflection of the Company’s wide and expanding lead over other apartment listing sites in content and web traffic, including unique visitors and visits as reported by comScore in 2018.





Commercial property and land - Commercial property and land revenue reached \$173 million, up 16% compared to 2017. Commercial property and land includes revenue from the Company's LoopNet marketplace, LandsofAmerica marketplace and the BizBuySell marketplace. Each of these marketplaces continues to maintain a leadership position in their respective categories and each continues to generate strong revenue growth.

Revenue by services can be found in footnote 3 (on page F-19) to the financial statements in the Company's Annual Report on Form 10-K filed with the Commission on February 28, 2019.

In addition to maintaining strong revenue growth and increasing profitability, the Company continued to execute well operationally in a number of areas, and to invest in initiatives that support and sustain the long-term growth of its business. The Company set a long-term goal in 2014 to achieve \$1 billion in annual revenue and 40% adjusted EBITDA margin for the fourth quarter of 2018. The Company exceeded those goals with \$1.2 billion in revenue for the full year 2018 and a 44% adjusted EBITDA margin in the fourth quarter of 2018. Adjusted EBITDA margin represents adjusted EBITDA divided by revenues for the period. A reconciliation of adjusted EBITDA for the fourth quarter of 2018 can be found within the tables in the Company's earnings release filed as Exhibit 99.1 to its Current Report on Form 8-K filed with the Commission on February 26, 2019.

Over the past five years, the Company has grown revenues and expanded margins, while continuing to make investments in the business. Recent investments include establishment of the Company's Richmond research center; expansion and marketing of the Apartments.com network; and integration of the CoStar and LoopNet databases and relaunch of the CoStar service with significant improvements to the user interface. In 2018, following completion of integration of the CoStar and LoopNet databases, the Company positioned LoopNet as a pure online marketplace similar to Apartments.com. Further, in 2018, we completed three acquisitions in an effort to continue to expand our U.S. and European businesses. In February 2018, we acquired ForRent, whose primary service is digital advertising through a network of multifamily websites. In just ten months, the Company integrated ForRent, the largest acquisition the Company has ever completed in terms of revenues and employee headcount. In October 2018, we acquired Realla Ltd., a U.K. commercial property listings and data management platform, and promptly began integrating Realla with our European operations, including development of a single point of data entry so clients can display their listings through CoStar Suite and make them visible to prospective tenants and investors through Realla's marketing portal. In November 2018, we acquired Cozy Services Ltd., a provider of online rental solutions and began integrating Cozy's suite of technology into the Apartments.com platform to create an integrated online rental solution. The Company's investments have allowed it to build profitable businesses with strong leadership positions and have created a platform for growth.

As part of its investor outreach, CoStar's management continues to regularly communicate with its investor base about its plans and associated investments. Management communicated with investors throughout the year through quarterly press releases and conference calls that were recorded and made available on the Company's website, as well as by participating in hundreds of in-person meetings and presentations at investor conferences across the United States, as well as in Canada and Europe. The Company also conducted hundreds of additional investor telephone calls throughout the year. The Company actively communicates and discusses with investors its progress against stated strategic initiatives, as well as expected investments and the rationale and expected returns on those investments.

## EXECUTIVE COMPENSATION PLAN AND PERFORMANCE HIGHLIGHTS

CoStar Group's executive compensation program is designed to hold our executives accountable for corporate results over the short and 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 charts below illustrate the percentage of 2018 compensation (based on target award opportunities) that was performance-based, including cash incentives, restricted stock, the value of which was determined based on performance in the prior fiscal year (2017), long-term performance shares and options, and the percentage that is fixed, consisting solely of base salary.



The Compensation Committee links executive compensation to the attainment of challenging goals. Cash compensation includes payments under our executive annual cash incentive plan that are based on Company performance relative to operational goals as well as individual performance. Equity-based compensation is used to align executive compensation with the long-term interests of our stockholders, including a focus on increasing the Company's total stockholder return (TSR) both on an absolute and a relative basis.

#### 2018 Variable Compensation Drivers and Outcomes

Both annual and long-term incentives are based on measurable and objective performance metrics. The following summarizes Company-wide performance targets against actual 2018 performance for certain key financial metrics. The Company's executive compensation for 2018 performance reflects the investments made in the business as well as our financial and operational results. The Company's achievement of outstanding financial results in 2018 resulted in the executive officers achieving 200% credit for the net income and EBITDA goals tied to their annual stock and cash incentive awards, respectively. The Company's achievement of cumulative revenue for the three-year performance period from January 1, 2016 through December 31, 2018, with respect to the long-term performance-based restricted stock awards granted in 2016, was in excess of 102% of the target goal, which resulted in the executive officers achieving 200% credit for the revenue portion of the award. Because the Company's TSR for the three-year performance period was above the 75<sup>th</sup> percentile, the executive officers achieved 120% credit for the TSR portion of the award. Because the TSR for the three-year period was above the target and reached the maximum, the award was adjusted upward and 240% of the target shares awarded to the executive officers on March 11, 2016 vested on March 11, 2019, after certification of achievement by the Compensation Committee on February 7, 2019.

#### Incentive Plan Metrics Used to Assess Performance in 2018

Plan	Financial Metric	2018 Target	2018 Actual	2018 Achievement	2017 Actual
Annual Restricted Stock Award Based on Prior Year Performance (which we refer to as "annual performance-based restricted stock")	Net Income, as adjusted	\$167.1 million <sup>(1)</sup>	\$240.7 million <sup>(1)</sup>	Exceeded	\$132.6 million <sup>(2)</sup>
Annual Cash Incentive Plan	EBITDA, as adjusted <sup>(3)</sup>	\$305.6 million <sup>(4)</sup>	\$353.5 million <sup>(4)</sup>	Exceeded	\$250.8 million <sup>(5)</sup>

The Net Income target goal and actual achievement have been adjusted by \$1.5 million and \$1.8 million, (1) respectively, for litigation-related expenses in accordance with the terms of the Company's 2016 Stock Incentive Plan.

Net Income of \$122.7 million for year end 2017 was adjusted for these purposes by \$9.9 million for (2) litigation-related expenses and the associated income tax effect in accordance with the terms of the Company's 2016 Stock Incentive Plan.

Definition for EBITDA and a reconciliation of the 2018 actual EBITDA set out above to its GAAP-basis result can be found in footnote 13 to the financial statements included in the Company's Annual Report on Form 10-K filed with the Commission on February 28, 2019 (the "Company's 2018 Annual Report"). The difference between the 2018 (3) actual amount reported in the table above and the result reported in footnote 13 (on page F-32) to the financial statements included in the Company's 2018 Annual Report is solely due to an adjustment of \$2.2 million for litigation-related expenses. EBITDA is also defined below

under the subsection titled “2018 Annual Cash Incentive Program” within the section titled “Compensation Discussion and Analysis” of this Proxy Statement.

The 2018 EBITDA target goal and actual achievement for 2018 have been adjusted by \$2.0 million and \$2.2 (4) million, respectively, for litigation-related expenses in accordance with the terms of the executive annual cash incentive plan.

(5) EBITDA of \$237.5 million for year end 2017 was adjusted for these purposes by \$13.3 million for litigation-related expenses in accordance with the terms of the executive annual cash incentive plan.

Consistent with awards granted in 2018 for 2017 performance, the Committee determined to use net income as the financial metric for the annual performance-based restricted stock awards granted in 2019 for 2018 performance to align the compensation target with GAAP-basis results. Further, consistent with the executives’ 2017 cash incentive, the Committee decided to base the executives’ 2018 cash incentive on EBITDA. The level of achievement of the goals for 2018 was not impacted by the adjustments for litigation-related expenses.

Plan	Financial Metric	2016-18 Target	2016-18 Actual	2016-18 Achievement	2015-17 Actual
Long-Term Performance-Based Restricted Stock*	Revenue	\$2,852 million	\$2,995 million	Exceeded	\$2,515 million
Long-Term Performance-Based Restricted Stock (modifier)	TSR	50 <sup>th</sup> percentile	83 <sup>rd</sup> percentile	Exceeded	80 <sup>th</sup> percentile

The Long-Term Performance-Based Restricted Stock awards are subject to vesting based on achievement of a \*three-year cumulative revenue goal and are subject to adjustment based on the Company’s total stockholder return over the same period.

#### Setting Challenging Targets Based on Market Conditions and Corporate Strategy

Targets for annual incentive and annual restricted stock awards based on prior year performance were set based on the Company’s operating plan and growth expectations, which include significant growth in profitability as measured by net income and EBITDA. Net income was targeted to increase from \$132.6 million in 2017 (\$122.7 million, adjusted by \$9.9 million for litigation-related expenses) and \$85.1 million in 2016 to \$167.1 million in 2018 (after an adjustment of \$1.5 million for litigation-related expenses) reflecting a 26% growth target. The target for EBITDA was \$305.6 million in 2018 (after an adjustment of \$2.0 million for litigation-related expenses), which increased from \$250.8 million in 2017 (\$237.5 million, adjusted by \$13.3 million for litigation-related expenses), targeting 22% growth from 2017. These aggressive profitability growth targets were expected to be achieved while continuing to make strategic investments in research, product development and technology infrastructure and through acquisitions. The Company also continued to invest in the Apartments business by continuing the significant and highly effective Apartments marketing campaign and integrating the ForRent acquisition that was completed in February 2018. CoStar’s successful integration of the ForRent business allowed the Company to maintain the majority of the acquired revenue while eliminating a significant part of the acquired cost base. The 2018 profitability targets were aggressive but also struck a balance between profitability growth and investment for future growth.

As result of the investments made in the business and the exceptional performance of our strong management team, the Company exceeded its profitability goals for the year while continuing to drive strong revenue growth and investing in the business. Total revenue growth for the year was 23%. Net income grew to \$238.3 million, or \$240.7 million after an adjustment of \$1.8 million for litigation-related expenses, \$73.6 million above target after adjusting for litigation-related expenses. EBITDA for 2018 grew to \$351.3 million, or \$353.5 million, after an adjustment of \$2.2 million for litigation-related expenses, exceeding the adjusted target by approximately 16%, or \$47.9 million above the adjusted target. For the fourth year in a row, the Company delivered strong net new subscription sales, which together with management’s continued focus on operational efficiency and cost reduction, resulted in stronger than forecasted earnings results. Further, the Company believes that the investments made over the past few years and the success the Company and its management team have achieved as a result have created the opportunity for strong

revenue growth and expanding profit margins in the years following those significant investments.

Performance for the Year 2018

\* The definition of EBITDA and a reconciliation of the EBITDA numbers above to their respective GAAP basis results can be found in footnote 13 (on page F-32) to the financial statements included the Company's 2018 Annual Report.

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## 2018 STOCKHOLDER OUTREACH AND SAY ON PAY RESPONSE

CoStar annually offers stockholders the opportunity to cast an advisory vote on our executive compensation program. This annual vote is known as the “say-on-pay” proposal. At our annual meeting in June 2018, approximately 89% of the vote cast was voted in favor of the say-on-pay proposal covering our executive compensation program for 2017. As evidenced by this high level of stockholder support for the compensation of the Company’s named executive officers, the Compensation Committee values stockholder feedback and endeavors to respond to stockholders’ concerns. We regularly communicate with our stockholders to better understand their opinions on our business strategy and objectives and to obtain feedback regarding other matters of investor interest, such as executive compensation. Many of the current program features are a result of the Company proactively reaching out to stockholders to discuss the Company’s executive compensation program. In response to previous stockholder discussions, the Committee implemented and approved a long-term performance component within the executive compensation program; distinct financial metrics for the annual awards of cash incentives, performance-based restricted stock and the three-year performance-based restricted stock awards; the executive stock ownership policy; and the clawback policy. In light of the high level of stockholder support, the Committee did not make any changes to the executive compensation program directly as a result of the 2018 say-on-pay vote.

## 2018 INVESTOR OUTREACH

In 2018, the Company continued to proactively reach out to stockholders to discuss the Company’s executive compensation philosophy, goals and plans and to obtain feedback on our executive pay program. The Company spoke with stockholders representing approximately 85% of the Company’s outstanding common stock, including 17 of the top 20 stockholders who represent approximately 66% of the Company’s outstanding common stock, to obtain any feedback on executive compensation. The stockholders generally expressed approval of the current executive compensation program.

The Compensation Committee carefully considered feedback the Company received as part of its annual review of our executive compensation program and, accordingly, retained the basic structure of our executive compensation program, which includes significant changes we previously made. While retaining the design of our executive compensation program, the Compensation Committee decided to adjust the mix of equity grants from 40% annual performance-based restricted stock, 40% stock options, and 20% long-term performance shares to 40% annual performance-based restricted stock, 25% stock options, and 35% long-term performance shares in order to increase executives’ focus on the Company’s long term goals. The next page sets out highlights of the design of the current executive compensation program and the Company’s corporate policies.



HIGHLIGHTS OF THE EXECUTIVE COMPENSATION PROGRAM

Purpose	Compensation Program/ Policy
Structure executive compensation program with focus on achievement of Company performance goals.	Equity incentive compensation granted in 2018 consisted of 40% annual performance-based restricted stock (which vest ratably over three years after grant), 40% stock options (which vest ratably over three years after grant), and 20% long-term performance shares (which vest based on achievement of a three-year cumulative revenue goal and are subject to adjustment based on the Company’s total stockholder return over the same period). The Committee reallocated the mix for equity incentive compensation granted in 2019 to 40% annual performance-based restricted stock, 25% stock options, and 35% long-term performance shares.
Structure executive compensation program to include both long-term and short-term performance goals.	Equity incentive compensation includes a three-year performance metric for the long-term performance shares, a one-year performance metric for the annual performance-based restricted stock and our annual incentive plan includes a one-year performance metric for cash incentive awards.
Align executives’ interests with stockholders’ interests.	In order to even more closely align long-term incentives with stockholder results, the equity incentive compensation provides for adjustment of the long-term performance shares issued to executives based on the Company’s total stockholder return relative to the Russell 1000 index.
Structure annual and long-term incentive compensation so that payouts are based on different performance metrics.	The executive compensation program utilizes distinct performance metrics as follows: <ul style="list-style-type: none"> <li>• Annual incentive plan – EBITDA and individual objectives</li> <li>• Annual performance-based restricted stock – net income</li> <li>• Performance shares – 3-year cumulative revenue goal, adjusted by relative total stockholder return (measured against the Russell 1000 index)</li> </ul>
Structure executive compensation to motivate and reward performance and retain executives, but generally keep in line with median peer values.	Aggregate equity compensation granted to executives in 2018 generally targeted within +/-15% of the median peer values.
Maintain robust executive compensation corporate governance policies.	The Company has executive and Director stock ownership policies as follows: <ul style="list-style-type: none"> <li>• CEO and President – 6X base salary</li> <li>• Other executive officers - 2X base salary</li> <li>• Non-employee Directors – 5X annual, standard Director cash retainer</li> </ul> The Company has a clawback policy The Company maintains Principles of Corporate Governance The Company prohibits directors, officers and employees from engaging in hedging transactions in Company stock

## EXECUTIVE COMPENSATION PRACTICES

Below we highlight certain executive compensation practices we employ to align executive compensation with stockholder interests. Also listed below are certain compensation practices we do not employ because we do not believe they would serve our stockholders' long-term interests.

### What We Do

**Pay for Performance.** We tie annual pay to objective performance metrics, including our fiscal year 2018 EBITDA and net income. We tie long-term pay to three-year cumulative revenue and total stockholder return. We ask our independent compensation consultant to evaluate the alignment of pay and performance relative to our peer group.

**Total Stockholder Return Metric.** Linking executive compensation to stockholder performance is important, therefore the Compensation Committee made relative stockholder return a factor in determining performance share payouts. Further, stock options and performance-based restricted stock are awarded annually, and the value of those awards to the executives is ultimately based on stock price performance.

**Executive Stock Ownership Guidelines.** Executives are expected to own shares of CoStar common stock with a value equal to at least two to six times base salary, depending on position.

**Vesting Period on Equity Awards.** Options and annual performance-based restricted stock vest ratably over three years.

**Clawback Policy.** If a restatement of our financial statements is required due to material non-compliance with financial reporting requirements and the Board determines that cash incentive payments or performance-based equity grants, which were granted or vested based on financial results during the three years prior to the date the restatement is required, would have been lower had they been determined or calculated based on restated results, the Board will, to the extent permitted by governing law, seek to recover the value of such payments made to executive officers whom the Board determines engaged in willful misconduct or gross negligence. The Compensation Committee believes that this policy will lessen any potential for excessive risk-taking.

**Target Pay.** We generally target each component of pay at +/- 15% of the median of the peer group, except as may otherwise be appropriate to reflect promotions, tenure, new-hire needs, internal pay equity, etc. The Compensation Committee periodically reviews the compensation peer group and makes adjustments, when appropriate, to keep pay practices competitive and in line with investor expectations.

### What We Don't Do

**Limited Employment Agreements.** We do not provide our named executive officers, with the exception of the Chief Executive Officer, with employment agreements that provide severance payments, medical or insurance benefits or other perquisites in the event the executive is terminated or resigns. Mr. Wheeler, our Chief Financial Officer, has employment terms pursuant to an offer letter that provide for a severance payment in the event he is terminated by the Company without cause or he terminates his employment for good reason. Mr. Linnington, our Executive Vice President of Sales, has employment terms pursuant to an offer letter that provide for a severance payment in the event he is terminated without cause. A Company-wide severance policy provides minimal severance pay tied to tenure to executives when employment ends and is available generally to all salaried employees.

**Limited Golden Parachute Gross-Up.** We do not provide a 280G golden parachute excise tax gross up to any executive other than our Chief Executive Officer, who has had the provision in his employment agreement since 1998.

**No Minimum Payouts.** We do not have guaranteed minimum payment levels for executives' cash incentives or performance-based equity awards.

No Repricings. Our stock incentive plans and Nasdaq listing standards prohibit us from repricing options without stockholder approval.

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## EXECUTIVE COMPENSATION PROGRAM 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 Company's executive compensation program seeks to:

- Link executive compensation with the achievement of overall corporate goals
- Encourage and reward superior performance
- Maintain competitive compensation levels in order to attract, motivate and retain talented executives
- Align executives' interests with those of the Company's stockholders

## DETERMINING EXECUTIVE COMPENSATION

The Committee annually establishes and reviews all forms of direct compensation, including base salaries, annual cash 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. 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 independent compensation consulting firm and Chief Executive 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 has retained independent compensation consulting firm Willis Towers Watson to assist it in gathering comparison data and to provide it with information about trends in compensation among comparable companies based on factors such as market capitalization, annual revenues, earnings, operating cash flow, and business focus and operations. 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 be 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 or particular elements of an executive's compensation or significant changes to peer practices may result in total target compensation being higher or lower than +/- 15% of the median levels of the peer company data.

In connection with the Committee's executive compensation determinations in February 2018, the Committee engaged Willis Towers Watson in early 2018 to review and revise the Company's competitive peer group and to update its review and competitive assessment of the Company's executive compensation program based on the updated peer group. In connection with executive compensation determinations made by the Committee in February 2019, the Committee engaged Willis Towers Watson again in late 2018 to review the Company's competitive peer group and to update its review and competitive assessment of the Company's executive compensation program. The Committee's decisions regarding executive compensation for 2018,

including executives' long-term incentives or equity compensation for 2018, were based on Willis Towers Watson's recommendations resulting from both its early 2018 and late 2018 engagements.

Willis 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 Willis 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 early 2018, based upon the recommendation of Willis Towers Watson from its early 2018 study. Willis Towers Watson's recommended peer companies culminated from review of peer companies included in the Internet Software & Services GICS code (including peer companies previously selected by CoStar and peers selected by proxy advisors), to which size screening criteria were applied. Willis Towers Watson screened these peers by considering companies with revenue, net income, EBITDA, market cap, and/or number of employees, between .5x and 2.5x of CoStar's. The potential peer list was further refined based on the number of criteria met through the size screening, similar business model or focus, and peer companies selected by proxy advisors. After its review, Willis Towers Watson recommended removing two peers from the previous peer group who had been acquired and replacing them in order to keep the number of peers within the recommended peer group size range. After removal of the two acquired companies, CoStar's peer group consisted of 15 companies similar to the Company in terms of size (including revenues, earnings, assets and market capitalization), employee headcount, and business model.

The following is the list of peer companies selected and approved based upon the recommendation of Willis Towers Watson in early 2018 as comparable to the Company. Within the selected peer group, the Company fell near the 21<sup>st</sup> percentile in terms of revenues, 60<sup>th</sup> percentile in terms of net income, and 58<sup>th</sup> percentile in terms of market capitalization (as of January 5, 2018).

- athenahealth, Inc.
- CommVault Systems, Inc.
- CoreLogic, Inc.
- Fair Isaac Corp.
- FactSet Research Systems Inc.
- Mercadolibre, Inc.\*
- MSCI Inc.
- RealPage, Inc.
- ServiceNow, Inc.
- Splunk, Inc.\*
- The Ultimate Software Group, Inc.
- VeriSign, Inc.
- Verisk Analytics, Inc.
- Workday, Inc.
- Zillow Group, Inc.

\* Added to peer group in early 2018.

In addition to the proxy statement data from the peer group above, the early 2018 Willis Towers Watson study also considered general industry executive compensation data from Mercer's 2017 Executive Compensation Survey, Radford's 2018 Executive Compensation Survey – Global Tech Custom Cut, and high technology industry data from Willis Towers Watson's 2017 CDB High-Tech Industry Executive Compensation Report, in each case aged to February 1, 2018 using a 3% update factor. Proxy data was also aged to February 1, 2018 using a 3% update factor unless a future rate was disclosed. Survey data from Willis Towers Watson and Mercer were also size-adjusted based on CoStar's estimated annual revenues for 2018. The Company was not made aware of the names of the companies included in either the general industry executive compensation data or in the high technology industry data. Where available for the competitive analysis, Willis Towers Watson created blended market data using a 75% weighting for

proxy data and a 25% weighting for published survey data. Further, where available, the Committee utilized the peer company data (including the blended market data where available) as the primary competitive benchmark when evaluating the executives' compensation as the peer company data reflects companies that are believed to be more similar to CoStar in terms of size, business model and financial performance. In those cases where peer data is unavailable, the Committee takes into account individual responsibility and performance, previous compensation awards to the respective named executive officers, external market and competitive practices (including available industry executive compensation data), as well as internal pay equity considerations.

In connection with its engagement in late 2018 and its recommendations with respect to executives' 2019 compensation, including equity grants awarded in 2019 for 2018 performance and options and performance share awards granted in 2019, Willis Towers Watson recommended that the peer group remain the same with no changes. Willis Towers Watson's peer

group study in late 2018 showed that although CoStar's GICS code was recently reclassified to Research and Consulting, the peer group of 15 companies remained similar to the Company in terms of size (including revenues, earnings, and market capitalization), employee headcount and business model. Within the selected peer group, the Company fell near the 24<sup>th</sup> percentile in terms of revenues, 73<sup>rd</sup> percentile in terms of net income, and 57<sup>th</sup> percentile in terms of market capitalization (as of December 5, 2018).

The late 2018 Willis Towers Watson study also considered general industry executive compensation data from Mercer's 2018 Executive Compensation Survey, Radford's 2018 Executive Compensation Survey – Global Tech Custom Cut, Willis Towers Watson's 2018 General Industry Executive Compensation Report, and high technology industry data from Willis Towers Watson's 2018 High-Tech Industry Executive Compensation Report, in each case aged to January 1, 2019 using a 3% annual update factor. Proxy data was also aged to January 1, 2019 using a 3% update factor. Survey data from Willis Towers Watson and Mercer were also size-adjusted based on CoStar's estimated annual revenues for 2018. The Company was not made aware of the names of the companies included in either the general industry executive compensation data or in the high technology industry data. Where available for the competitive analysis, Willis Towers Watson created blended market data using a 75% weighting for proxy data and a 25% weighting for published survey data. Further, where available, the Committee utilized the peer company data (including the blended market data where available) as the primary competitive benchmark when evaluating the executives' compensation as the peer company data reflects companies that are believed to be more similar to CoStar in terms of size, business model and financial performance. In those cases where peer data is unavailable, the Committee takes into account individual responsibility and performance, previous compensation awards to the respective named executive officers, external market and competitive practices (including available industry executive compensation data), as well as internal pay equity considerations.



ELEMENTS OF 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 incentive (bonus) potential based on a percentage of base compensation subject to achievement of individual and/or corporate goals, and (iii) equity awards, including the annual performance-based restricted stock that is granted based on achievement of prior year corporate goals and stock options, both of which vest over time and/or in full after a specified period of time, as well as performance-based restricted stock that vests based on achievement of pre-determined, objective goals over a multi-year period.

	Component	Role	How It's Set/Links to Performance
FIXED	Base Salary	<ul style="list-style-type: none"> <li>To provide a stable, reliable monthly income</li> <li>Set at levels that should comprise a low percentage of total compensation</li> <li>To reward the achievement of annual financial goals and personal performance</li> </ul>	<ul style="list-style-type: none"> <li>Reviewed annually in light of responsibilities, performance, internal pay equity, total compensation, market practices and advice of the Committee's independent consultant</li> </ul>
	Annual Cash Incentive Compensation	<ul style="list-style-type: none"> <li>Links compensation to performance since award amounts are determined after fiscal year end based on actual results</li> </ul>	<ul style="list-style-type: none"> <li>Variable based on the Company's corporate performance and achievement of individual goals for the prior year</li> <li>Key financial metric for fiscal 2018: EBITDA</li> </ul>
	Stock Options and Annual Performance-Based Restricted Stock	<ul style="list-style-type: none"> <li>To increase alignment with stockholders</li> <li>To retain executive officers through multi-year vesting</li> </ul>	<ul style="list-style-type: none"> <li>For the annual performance-based restricted stock awards: variable and based on the Company's corporate performance over the prior year; key metric for fiscal 2017 and fiscal 2018 was net income (which determined the value of the awards granted in early 2018 and early 2019, respectively); and payout range is 0-200% of target award based on achievement.</li> <li>Aligns executive interests with those of stockholders as potential value of awards increases or decreases with stock price</li> <li>Options and annual performance-based restricted stock vest over three-year period</li> </ul>
VARIABLE		<ul style="list-style-type: none"> <li>To reward achievement of longer-term financial goals</li> <li>To retain executives through three-year vesting period</li> </ul>	<ul style="list-style-type: none"> <li>Payout range is 0-200% of target award</li> <li>Vests based on achievement of a three-year cumulative revenue performance goal, subject to adjustment based on TSR</li> </ul>
	Performance Share Awards	<ul style="list-style-type: none"> <li>Realized value attributable to three-year revenue growth performance achievement and relative total stockholder return</li> </ul>	<ul style="list-style-type: none"> <li>Payout based on financial metric (cumulative three-year revenue)</li> <li>Relative total stockholder return can modify the ultimate payout +/-20%</li> </ul>

- Other Compensation
- To allow executive officers to participate in other employee benefit plans
  - Executives may participate in all other CoStar compensation and benefit programs on the same terms as other employees, such as health and welfare benefit plans and Company-paid matching contributions to 401(k) Plan accounts

## PERFORMANCE MEASURES AND TIME HORIZONS

We use a combination of metrics and time horizons to foster and reward performance. The following chart summarizes the relevant performance measures and time frames used for our variable pay elements.

### 2018 Base Salaries

Base salaries provide a minimum, fixed level of cash compensation for the named executive officers. Salary levels of the executive officers 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 Willis Towers Watson peer group and survey data) and current market conditions. The early 2018 Willis Towers Watson study found that, except for Mr. Carchedi and Ms. Ruggles, all other named executive officers' base salaries were generally in line with the median levels of blended market data, as they fell within +/- 15% of those median levels. The study noted that Mr. Carchedi's base salary was slightly below the median level and fell within 20% of the median level. Ms. Ruggles was appointed an executive officer of the Company in September 2017. Her salary was previously determined by her manager based on her individual responsibilities and performance and was not immediately changed upon her appointment as an executive officer. Therefore, the Committee was reviewing her salary for the first time in February 2018 in light of her appointment and the findings of the Willis Towers Watson study. Based on the early 2018 Willis Towers Watson study and in recognition of the Committee's subjective view of their overall individual performance and responsibilities, in February 2018, the Committee increased base salaries for 2018 for the named executive officers (other than Mr. Florance) to remain competitive in the marketplace and within or closer to +/- 15% of the median levels of the blended market data, while keeping in mind internal pay equity considerations. Mr. Wheeler's, Mr. Carchedi's, Mr. Linnington's and Ms. Ruggles' base salaries were increased approximately 1%, 3%, 3%, and 31%, respectively. The Committee significantly increased Ms. Ruggles' base salary for 2018 in light of her appointment and based on her responsibilities, total compensation and pay levels of similarly situated executives within the Company. The named executive officers increased base salaries are all within approximately +/- 15% of the median levels of the blended market data as reflected in the early 2018 Willis Towers Watson study, with the exception of Mr. Carchedi and Ms. Ruggles whose base salaries are within 20% of the median level of blended market data and just slightly below the 15% mark.

## DECISION SUPPORT

As the Committee made its compensation decisions in early 2018, it took into account that approximately 88% of the CoStar stockholders who voted on the advisory vote on executive compensation at the 2017 Annual Meeting of stockholders had voted in favor of approving the Company's executive compensation, and concluded after discussions with stockholders that these voting results suggested that the stockholders generally supported the Committee's approach.

The named executive officers' salaries were set by the Committee effective as of February 28, 2018. The annual base salaries of our named executive officers for 2018 were as follows:

Name	Title	Annual Base Salary
Andrew C. Florance	CEO & President	\$750,000
Scott T. Wheeler	Chief Financial Officer	\$470,000
Francis A. Carchedi <sup>(1)</sup>	Executive Vice President, Corporate Development	\$405,000
Matthew F.W. Linnington	Executive Vice President, Sales	\$390,000
Lisa C. Ruggles	Senior Vice President, Global Research	\$400,000

(1) Mr. Carchedi served as the Company's Executive Vice President, Corporate Development until September 28, 2018.

#### 2018 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, other than the Chief 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 generally divided into two components, one tied to corporate performance and one tied to individual performance. As discussed in greater detail below, the Committee generally sets a threshold, target and maximum award for the corporate performance objectives. For 2018, the Committee removed the threshold, so that no cash incentive award would be payable for 2018 performance if the target was not achieved. The executive annual cash incentive plan provides each named executive officer with the potential to earn awards up to two times the amount of their target award value for exceptional performance as measured against metrics and goals, each of which is discussed below. If the maximum is achieved, the named executive officers receive 200% credit for the corporate performance portion of the award. If the target is achieved, the named executive officers receive 100% credit for the corporate performance portion of the award. For 2018, if the target level of corporate performance is not reached, the

executive officer does not receive any amount in respect of that portion of the award. Achievement of the individual performance goals are subjective and executives can receive between 0 and 200% credit for that portion of the award.

The Committee reviewed 2018 target and maximum award values (as a percentage of base salary) in February 2018 for all named executive officers.

The Committee increased the target and maximum award values for 2018 for all named executive officers, except for Mr. Linnington. The target and maximum award values for 2018 were set based upon the named executive officers' individual responsibilities, competitive practices and internal pay equity considerations. All named executive officers' 2018 target award values were generally aligned with market common practice (within +/- 15% of the median levels of the blended market data in the early 2018 Willis Towers Watson study). The following table shows each named executive officer's fiscal 2018 potential cash incentive award values at target and maximum, expressed as a percentage of his or her base salary.

Name	Title	Target	Maximum (200% of target)
Andrew C. Florance	CEO & President	115%	230%
Scott T. Wheeler	CFO	70%	140%
Francis A. Carchedi <sup>(1)</sup>	Executive Vice President, Corporate Development	65%	130%
Matthew F.W. Linnington	Executive Vice President, Sales	75%	150%
Lisa C. Ruggles	Senior Vice President, Global Research	70%	140%

(1) Mr. Carchedi resigned as the Company's Executive Vice President, Corporate Development effective September 28, 2018, and as a result he was not eligible to receive a cash incentive payment for 2018 performance.

Pursuant to the cash incentive program, each named executive officer may earn an incentive bonus equal to, greater than or less than the target percentage of his base salary depending on whether the individual and the Company achieve the specified performance objectives. These objectives include individual qualitative performance goals (except for Mr. Florance), as well as Company-wide financial goals. The Compensation Committee approved a Company-wide financial goal for the executive annual cash incentive plan based on the Company's achievement of EBITDA included in the Company's 2018 Operating Plan, which is a distinct metric from the net income goal used for the annual performance-based restricted stock awards within the executive compensation program. The EBITDA goal for 2018 reflects the Company's expected investments and strategic initiatives, which are expected to support and sustain the long-term growth of the Company. The EBITDA target for 2018 was set at a level the Compensation Committee believed was challenging given the aggressive profitability growth target expected to be achieved while continuing to make strategic investments.

EBITDA is our GAAP-basis net income (loss) before interest, income taxes, depreciation and amortization. The Committee determined that EBITDA is a good measure of stockholder value and use of this metric (which differs from the metrics used for the performance-based stock grants) avoids any potential for duplicative payouts to the named executive officers for the same areas of performance.

#### 2018 Annual Cash Incentive Awards – Financial Goal<sup>(1)</sup>

(dollar amounts in millions)

Performance Metric (Revised)	Target Goal	Maximum Goal	2018 Actual
EBITDA, as adjusted <sup>(2)</sup>	\$305.6	\$320.9	\$353.5
Payout Percentage	100%	200%	200%

Named executive officers could receive between 0% and 200% credit for the EBITDA component of their annual cash incentive award, depending upon actual EBITDA achieved in 2018. Credit for performance between target and maximum is determined by linear interpolation. For 2018, no credit is given for performance below target and credit is capped at 200% of target. The percent credited for the EBITDA component of the award (as shown in the table) is then multiplied by the weighting applicable to the financial goal component of the cash incentive award.

(2) The EBITDA target goal and actual achievement have been adjusted for litigation-related expenses in accordance with the terms of the executive annual cash incentive plan.

The individual performance goals established for the named executive officers, other than the Chief Executive Officer, at the beginning of 2018 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, the Committee determined 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. Linnington's cash incentive plan continues to be tailored to his sales role and emphasizes and bases the potential payout on the level of sales of the Company's U.S. and Canadian core information and marketplace services net of cancellations subject to adjustment for achievement of service goals, in addition to the Company's EBITDA. The Company is not disclosing Mr. Linnington's sales target because the information is confidential, the target is based on key operational objectives and could be used by competitors to target recruitment of Mr. Linnington. The target provides Mr. Linnington incentive to continue to grow the Company's business and generate revenues, and the rate of payment is set to provide a challenging but achievable goal to motivate Mr. Linnington to maintain his focus on sales of the Company's services. Mr. Linnington achieved 97.2% of the 2018 target and as a result of linear interpolation between threshold and the target received 94.3% credit for the sales portion of his cash incentive award for 2018. Mr. Linnington is not subject to subjective individual 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 2018 is shown in the table below.

#### Individual Performance Goals for 2018 Annual Cash Incentive Awards

The applicable 2018 individual performance goals and percentage of such goals achieved for Mr. Wheeler and Ms. Ruggles are summarized in the table below. Mr. Carchedi resigned as the Company's Executive Vice President, Corporate Development effective September 28, 2018, and as a result he was not eligible to receive a cash incentive payment for 2018 performance. 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. 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.

Name	Title	2018 Individual Goals	% of Goals Achieved
Scott T. Wheeler	CFO	<ul style="list-style-type: none"> <li>• Help Company exceed goal of 40% adjusted EBITDA margin in fourth quarter of 2018</li> <li>• Implement pricing and licensing controls process for sales contracts</li> <li>• Manage restructuring of sales operations and contracts</li> <li>• Help Company exceed goal of 40% adjusted EBITDA margin in fourth quarter of 2018</li> <li>• Manage consolidation of research centers and development of Richmond research headquarters, including management training program</li> </ul>	140%
Lisa C. Ruggles	Senior Vice President, Global Research	<ul style="list-style-type: none"> <li>• Increase broker contact frequency and improve the accuracy of listings and transactions in the company's database</li> <li>• Establish metrics for quality assurance</li> <li>• Ensure accuracy and completeness of the company's tenant database</li> <li>• Enhance research process for sales comparables to improve timeliness and quality</li> </ul>	175%

#### 2018 Performance Against Corporate and Individual Objectives

In February 2019, the Committee assessed the Company's and each named executive officer's achievement of the goals and targets for 2018. As a result of the investments made in the business and the exceptional performance of our strong management team, the Company achieved stronger than expected net new subscription sales, which together with management's focus on operational efficiency and cost reduction and management initiatives implemented in 2018, resulted in stronger than forecasted earnings results. Information regarding the target percentages of base salary for each named executive officer's 2018 cash incentive award, percentage of target achieved and actual 2018 cash incentive awards paid to each named executive officer, as well as the weighting of individual and financial performance goals for 2018, are shown in the table below. A description of 2018 performance compared to the corporate and individual goals follows the table.



## 2018 Annual Cash Incentive Awards

Name	Title	Weighting for Individual Goals	Weighting for Sales Goal	Weighting for EBITDA Target	Weighting for Target as a % of Salary	Percentage of Target Achieved	Actual Award as a % of Salary	Actual Cash Award (\$)
Andrew C. Florance <sup>(1)</sup>	CEO & President	—	—	100%	115%	200.0%	230.0%	\$1,725,000
Scott T. Wheeler <sup>(2)</sup>	CFO	35%	—	65%	70%	179.0%	125.3%	\$588,910
Francis A. Carchedi <sup>(3)</sup>	EVP, Corp. Development	35%	—	65%	65%	—	—	—
Matthew F. W. Linnington <sup>(4)</sup>	EVP, Sales	—	75%	25%	75%	120.8%	90.6%	\$353,203
Lisa C. Ruggles <sup>(5)</sup>	SVP, Global Research	40%	—	60%	70%	190.0%	133.0%	\$532,000

(1) As discussed above, Mr. Florance's 2018 annual cash incentive award is based solely on corporate performance goals.

The weighting for Mr. Wheeler's Company financial and individual goals was set consistent with the prior year.

(2) Mr. Wheeler's Company financial goals continue to be weighted more heavily than his individual goals reflecting the Company's continued emphasis on overall earnings.

The weighting for Mr. Carchedi's Company financial and individual goals was set consistent with the prior year.

(3) Mr. Carchedi's Company financial goals continue to be weighted more heavily than his individual goals reflecting the Company's continued emphasis on overall earnings. Mr. Carchedi did not receive a cash incentive payment for 2018 performance as he no longer served as an executive officer at the end of the fiscal year.

The weighting for Mr. Linnington's Company financial and sales goals was revised slightly in 2018 to give a little more weight to the Company's financial goal in light of the Company's continued emphasis on overall earnings.

(4) However, Mr. Linnington's sales goal, consisting of target sales of the Company's information and marketplace services, continued to be set higher than the Company's financial goal, which reflects his role as head of sales of the Company.

The weighting for Ms. Ruggles' Company financial and individual goals was set to reflect the Company's

(5) continued emphasis on overall earnings. As such, Ms. Ruggles' Company financial goal was given a little more weight than her individual, subjective goals for 2018.

## Equity Incentive Compensation

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 was eligible to receive equity awards under the 2016 Plan. The Committee generally grants time-based restricted stock and/or stock options to each executive when he or she joins the Company or in connection with 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. Over the past few years, those grants have consisted of restricted stock and stock options. In response to, and in support of, stockholders' belief that a greater portion of the equity awards should be long-term performance awards, commencing in 2014, the Committee enhanced the program

so that the restricted stock portion of the annual grants consists of a number of shares of restricted stock determined based on the achievement of the prior year's net income goal and is subject to time-based vesting following grant and a performance-based grant of restricted stock which vests based on achievement of a three-year cumulative revenue goal and is subject to adjustment based on the Company's TSR over the three-year performance period. In addition, in early 2019, based on findings set forth in the report from the late 2018 Willis Towers Watson study that found options are less prevalent within the long term incentive compensation component for executives at peer companies, the Committee approved a reallocation of the annual grants so that a greater percentage of the overall award value is allocated to the long-term performance based restricted stock, as shown in the chart below titled "Overview of Long-Term Incentive Components." Under the program, target award values are determined at the time of grant.

The three-year performance shares provide a long-term or multi-year performance measurement encouraging executives to achieve sustained growth and provide a direct link in the long-term incentive plan to long-term revenue growth. The three-year performance shares are subject to adjustment based on the Company's total stockholder return over the three-year period. The shares earned, if any, as a result of the Company's three-year revenue relative to the revenue goal will be positively or negatively adjusted based on the Company's three-year TSR relative to the three-year TSR of the companies included within the Russell 1000 index, in order to tie the value of the equity awards to the Company's performance and appreciation of the Company's stock price relative to the performance of other companies within the index. The Committee chose the Russell 1000 index in order to closely align the three-year performance goal with that of the U.S. equity market. The Russell 1000 measures the performance of the large cap segment of the U.S. equity markets and represents approximately 90% of the U.S. market as measured by capitalization. The Committee determined that the Russell 1000 index would provide a comprehensive and unbiased barometer against which to compare the Company's TSR. The Company is currently included in the Russell 1000 index.

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.

The Committee believes that options have a performance-based element because the option holder realizes value only if the stockholders also realize value – 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.

Grants of performance shares that vest based on achievement of a long-term performance goal also provide a long-term or multi-year performance measurement encouraging executives to achieve sustained growth, increasing executives' focus on longer-term financial goals and further linking executives' interests with those of our stockholders.

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 issued to the named executive officers that vest over time are subject to a three-year vesting period from the date of grant.

The value of the annual equity compensation awards granted to our named executive officers is based on a target award dollar amount and varies among named executive officers by position depending upon individual responsibility and performance, external market and peer group practices, internal pay equity considerations, and, with respect to the annual performance-based restricted stock awards, achievement of the performance criteria as described below. Consistent with its determinations for executive compensation generally, the Committee has generally set the aggregate target equity compensation within +/- 15% of the median levels of the peer company data provided by its compensation consultant, where available, but retains discretion to set target award levels based on the considerations set forth above.

Overview of Long-Term Incentive Components

	Stock Options	Performance-Based Restricted Stock	Performance Share Plan
% of Target Value <sup>(1)</sup>	25%	40%	35%
Grant Determination Process	Target value ranges by position	Target value ranges by position; actual grant set by previous year's performance	Target value ranges by position
Vesting / Performance Period	3-year vesting		3-year performance cycle with vesting upon achievement and Compensation Committee certification
Performance Goals	N/A	Net income for prior fiscal year; performance scale up to maximum of 200%	Multi-year goals - 3-year cumulative revenue, plus relative total stockholder return kicker (+/- 20% payout modifier)

(1) In prior years, including grants in 2018 for 2017 performance, the allocation of the target award value was 40% Stock Options, 40% Performance-Based Restricted Stock, and 20% Performance Share Plan.

To illustrate performance periods and grant timing, we have provided an overview:

### Target Equity Incentive Awards Granted in 2018

After review of the executive compensation program in early 2018, the Company's goals (including linking executive incentives with long-term stockholder value), peer data (where available), previous equity awards to the respective named executive officers, the total mix of compensation for each individual, individual performance and internal pay equity and competitive considerations, with respect to their long-term equity incentives, the Committee determined to increase target award values for Mr. Florance, Mr. Wheeler and Mr. Carchedi. The Committee decreased the target award values for Mr. Linnington and set Ms. Ruggles' target award values at that time. Mr. Florance's, Mr. Wheeler's and Mr. Carchedi's target award values were increased by approximately 25%, 7%, and 9%, respectively, in recognition of their responsibilities and performance and the peer data. Ms. Ruggles' target award value was determined after taking into account her total mix of compensation, internal pay equity considerations and her responsibilities and performance. Mr. Linnington's target award value was decreased to an amount that is closer to and in line with the target amounts for Mr. Carchedi and Ms. Ruggles in consideration of his total mix of compensation and internal pay equity considerations. The target award values for Messrs. Florance and Carchedi and Ms. Ruggles were set within +/- 15% of the median blended market data, while Mr. Linnington's target award value falls below the +/- 15% of the median blended market data benchmark. Mr. Wheeler's target award value falls just above the median and between the 50<sup>th</sup> and 75<sup>th</sup> percentile of the blended market data.

Based on prior discussions with representative stockholders and prior recommendations received from Willis Towers Watson, the equity program approved by the Committee and maintained for awards granted in 2018 sets target award values made up of 40% options subject to a three-year vesting term, 40% annual performance-based restricted stock granted based on achievement of annual financial performance objectives and subject to a three-year vesting term, and 20% performance-based restricted stock subject to vesting based on a three-year pre-determined performance objective and adjustment based on achievement of total stockholder return relative to TSR of companies within the Russell 1000. In early 2017, the Committee approved net income included in the Company's 2017 operating plan as the Company-wide financial goal for the annual performance-based restricted stock awards to be granted in 2018 for 2017 performance. The Committee determined that net income is a relevant measure of the Company's financial performance and of stockholder value, and use of the metric avoids potential for duplicative payouts under the Company's cash incentive program to the named executive officers for the same areas of performance.

Once the achievement level of the performance target for the annual restricted stock grant and the total amount of that 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 rounding up to the nearest 100 shares and approved by the Committee. The annual performance-based restricted stock awards vest in equal installments on or around the first three anniversaries of the date of grant. The number of shares of restricted stock granted to a named executive officer with respect to the multi-year performance grant, subject to vesting, is similarly determined using the fourth quarter average daily closing price of the Company's common stock and rounding up to the nearest 100 shares, as described further under "2018 Multi-Year Performance Shares" below. The grant date of the annual performance-based restricted stock awards and the multi-year performance restricted stock awards is the date that the Committee approves the grants. 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 restricted stock awards with an annual award of stock options. Annual option grants are also based on the target award values determined as of the date of grant 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 Willis Towers Watson's assessed value per option calculated using the Black-Scholes model, and is updated annually. 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.

The Committee approved the following target award values for the annual equity compensation awards, consisting of the performance-based restricted stock awards granted in 2018 for 2017 performance and the annual stock option and multi-year performance restricted stock awards granted in 2018.

Name	Title	Annual Option Target Award Values	Annual Performance-Based Restricted Stock Target Award Values	3-year Performance Stock Target Award Values	Aggregate Annual Target Award Values
Andrew C. Florance	CEO & President	\$2,294,000	\$2,294,000	\$1,147,000	\$5,735,000
Scott T. Wheeler	CFO	\$800,000	\$800,000	\$400,000	\$2,000,000
Francis A. Carchedi	Exec. Vice President, Corp. Development	\$480,000	\$480,000	\$240,000	\$1,200,000
Matthew F. W. Linnington	Exec. Vice President, Sales Senior Vice	\$440,000	\$440,000	\$220,000	\$1,100,000
Lisa C. Ruggles	President, Global Research	\$480,000	\$480,000	\$240,000	\$1,200,000

#### 2017 Performance-Based Restricted Stock Awards Granted in 2018

On February 28, 2018, 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 net income for 2017 (the “2017 Performance-Based Stock Awards”). Each named executive officer had the potential to earn up to two times his annual performance-based restricted stock target award value as shown in the table above for exceptional performance as measured against the pre-established metrics and goals.

#### 2017 Performance-Based Stock Awards – Financial Goal<sup>(1)</sup>

(dollar amounts in millions)

Performance Metric	Threshold	Goal Target	Goal Maximum	Goal 2017 Actual
Net Income <sup>(2)</sup>	\$79.0	\$98.7	\$103.7	\$132.6
Payout Percentage	50%	100%	200%	200%

(1) Named executive officers could receive between 0% and 200% credit for the net income goal, depending upon actual net income achieved in 2017. Credit for performance between threshold and target and between target and maximum are determined by linear interpolation. No credit is given for performance below threshold and credit is capped at 200% of target.

(2) The net income goals and actual achievement have been adjusted for litigation-related expenses and the associated income tax effect in accordance with the terms of the stock incentive plan.

The net income goal for 2017 reflects the Company’s expected investments and strategic initiatives in the Apartments.com business and to support and sustain the long-term growth of the Company. The net income target for 2017 was set at a level the Compensation Committee believed was challenging given the aggressive profitability growth target expected to be achieved while continuing to make strategic investments. As a result of the investments made in the business and the exceptional performance of our management team, the Company achieved stronger than expected net new subscription sales, which together with management’s focus on operational efficiency and cost reduction and management initiatives implemented in 2017, resulted in stronger than forecasted earnings results. For 2017 performance, each named executive officer received 200.0% of his or her target award value. The 2017 Performance-Based Stock Awards were granted on February 28, 2018, and the stock award value earned by each named executive officer is shown in the table below.





Name	Title	Award Earned Value (\$)	Actual Award of Shares (#) <sup>(1)</sup>
Andrew C. Florance	CEO & President	\$4,588,000	15,700
Scott T. Wheeler	CFO	\$1,600,000	5,500
Francis A. Carchedi	Exec. Vice President, Corp. Development	\$960,000	3,300
Matthew F. W. Linnington	Exec. Vice President, Sales	\$880,000	3,100
Lisa C. Ruggles	Senior Vice President, Global Research	\$960,000	3,300

(1) The number of shares granted is determined by dividing the earned award value by the fourth quarter 2017 average daily price (\$292.95), rounded up to the nearest 100 shares.

#### 2018 Multi-Year Performance Shares

On February 28, 2018, the Committee awarded the named executive officers shares of restricted stock subject to vesting based on achievement of a three-year cumulative revenue goal and adjustment based on the Company's achievement of total stockholder return (TSR) relative to TSR of companies within the Russell 1000 over the same three-year period. The Company believes that disclosing the specific revenue goal would cause competitive harm, but believes that achievement of the goal at the target level is attainable but will require significant effort. Each named executive officer has the potential to earn up to two times his three-year performance stock target award value for exceptional performance as measured against the pre-established revenue goal, plus up to an additional 20% based on the Company's TSR over the same three-year period.

Named executive officers can receive between 0% and 200% credit for the revenue component of their three-year performance stock award, depending on actual, cumulative revenue achieved from January 1, 2018 through December 31, 2020. Credit for performance between threshold (95% of target revenue) and target and between target and maximum (102% of target revenue) are determined by linear interpolation. No credit is given for performance below the threshold and credit is capped at 200% of target. After the number of performance shares is determined based on the cumulative revenue for the three-year period, the TSR modifier may increase or decrease the number of shares earned from +20% to -20%. Shares are reduced by 20% if performance is at or below the threshold (25<sup>th</sup> percentile). Shares are increased by 20% if performance is at or above the maximum (75<sup>th</sup> percentile). There is no adjustment to the number of shares at target (50<sup>th</sup> percentile). Adjustments are made between threshold and target and between target and maximum by linear interpolation.

The maximum number of shares of restricted stock subject to the three-year performance stock grant based on the award values described above was awarded on February 28, 2018, subject to the above-described vesting provisions. The maximum number of shares was calculated by first determining the target number of shares by dividing the target value by the fourth quarter 2017 average daily price (\$292.95) and rounding up to the nearest 100 shares, and then multiplying the target number of shares by 2 (to take into account the potential for the maximum 200% credit) and the result by 1.2 (to take into account the potential +20% TSR adjustment).

The actual number of shares that vest and become non-forfeitable are determined on the vesting date based on the Company's achievement of the revenue and TSR goals described above. The table below sets forth the maximum three-year performance stock award values and the number of shares of common stock granted to the named executive officers in February 2018.

Name	Title	Maximum 3-year Performance- Stock Award Values <sup>(1)</sup>	Maximum Shares (#) <sup>(2)</sup>
Andrew C. Florance	CEO & President	\$2,752,800	9,600
Scott T. Wheeler	CFO	\$960,000	3,360
Francis A. Carchedi	Exec. Vice President, Corporate Development	\$576,000	2,160
Matthew F. W. Linnington	Exec. Vice President, Sales	\$528,000	1,920
Lisa C. Ruggles	Senior Vice President, Global Research	\$576,000	2,160

Calculated by multiplying the target award value by 2 (to take into account the potential for the maximum 200% credit) and the result by 1.2 (to take into account the potential +20% TSR adjustment). The amounts reported in this table under “3-year Performance Stock Award Values” differ from the grant date fair values for these awards reported in the “Summary Compensation Table” and the “Grants of Plan-Based Awards” table in this Proxy Statement, which are computed in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 718 pursuant to SEC rules.

<sup>(1)</sup> The maximum number of shares was determined by dividing the target award value by the fourth quarter 2017 average daily price (\$292.95), rounding up to the nearest 100 shares, then multiplying that number by 2 (to take into account the potential for the maximum 200% credit) and the result by 1.2 (to take into account the potential +20% TSR adjustment).

## 2018 Stock Option Awards

On February 28, 2018, 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 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 February 2018.

Name	Title	Option Award Values	Shares Underlying Option Awards <sup>(1)</sup>
Andrew C. Florance	CEO & President	\$2,294,000	31,000
Scott T. Wheeler	CFO	\$800,000	10,800
Francis A. Carchedi	Exec. Vice President, Corp. Development	\$480,000	6,500
Matthew F. W. Linnington	Exec. Vice President, Sales	\$440,000	6,000
Lisa C. Ruggles	Senior Vice President, Global Research	\$480,000	6,500

(1) The number of shares granted is determined by dividing the option award value by Willis Towers Watson's assessed value per option calculated using the Black-Scholes model, 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 "Summary Compensation Table" and the "Grants of Plan-Based Awards" table in this Proxy Statement.

## Target Equity Incentive Awards Granted in 2019

The Committee elected to review the target award values in early 2019 in advance of awarding the annual performance-based restricted stock awards in 2019 for 2018 performance and the annual stock option and performance share awards in 2019. After this additional review of the Company's goals (including linking executive incentives with long-term stockholder value), previous equity awards to the respective named executive officers, the total mix of compensation for each individual, individual performance, internal pay equity and competitive considerations, and taking into account the late 2018 Willis Towers Watson study, the Committee determined to increase target award values for Mr. Florance and Mr. Linnington and left Mr. Wheeler's and Ms. Ruggles' target award values unchanged. Mr. Florance's target award value was increased in light of his responsibilities and individual performance. Mr. Linnington's target award value was increased in line with the target amount for Ms. Ruggles in consideration of his total mix of compensation and internal pay equity considerations. The peer data from the late 2018 study showed a marked decrease in long-term incentive award values for peer companies, and Willis Towers Watson noted that there is a significant difference between the proxy and survey data with survey data typically much lower. The target award value for Mr. Florance was set above the 75<sup>th</sup> percentile of blended market data but at the median of the proxy data. The target award values for Mr. Wheeler, Mr Linnington and Ms. Ruggles were set between the 50<sup>th</sup> and 75<sup>th</sup> percentile of the blended market data. Mr. Wheeler's and Ms. Ruggles' target award values are also within +/- 15% of the median of the proxy data, while Mr. Linnington's target award value fell below the median of the proxy data. The Committee previously approved the continued use of net income as the financial metric for the annual performance-based restricted stock awards to be granted in 2019 for 2018 performance to keep the compensation target aligned with GAAP-basis results.

The chart below sets forth the target award values for the annual equity compensation awards, including the annual stock option awards granted in 2019 that vest ratably over three years, the annual performance-based restricted stock awards granted in 2019 for achievement of 2018 net income that vest ratably over three years, and the performance-based grant of restricted stock, which vests based on achievement of a three-year cumulative revenue goal and is subject to adjustment based on the Company's total stockholder return over the same three-year period. The

value of the annual performance-based restricted stock ultimately awarded to our named executive officers in early 2019 for 2018 performance was determined based upon achievement of net income as described below. Each named executive officer

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had the potential to earn up to two times his annual performance-based restricted stock target award value for exceptional performance as measured against the goal.

Name	Title	Annual Option Target Award Values	Annual Performance-Based Restricted Stock Target Award Values	3-year Performance Stock Target Award Values	Aggregate Annual Target Award Values
Andrew C. Florance	CEO & President	\$1,750,000	\$2,800,000	\$2,450,000	\$7,000,000
Scott T. Wheeler	CFO	\$500,000	\$800,000	\$700,000	\$2,000,000
Francis A. Carchedi <sup>(1)</sup>	Exec. Vice President, Corp. Development	Not a participant in the executive equity incentive program in 2019			
Matthew F. W. Linnington	Exec. Vice President, Sales	\$300,000	\$480,000	\$420,000	\$1,200,000
Lisa C. Ruggles	Senior Vice President, Global Research	\$300,000	\$480,000	\$420,000	\$1,200,000

(1) Mr. Carchedi resigned as Executive Vice President, Corporate Development in 2018, and therefore was not eligible for the equity grants awarded in March 2019.

#### 2018 Performance-Based Restricted Stock Awards Granted in 2019

On February 7, 2019, 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 net income for 2018 (the “2018 Performance-Based Stock Awards”).

#### 2018 Performance-Based Stock Awards – Financial Goal<sup>(1)</sup> (dollar amounts in millions)

Performance Metric	Target Goal	Maximum Goal	2018 Actual
Net Income <sup>(2)</sup>	\$167.1	\$175.5	\$240.7
Payout Percentage	100%	200%	200%

Named executive officers could receive between 0% and 200% credit for the net income goal, depending upon (1) actual net income achieved in 2018. Credit for performance between target and maximum is determined by linear interpolation. For 2018, no credit is given for performance below target and credit is capped at 200% of target.

(2) The net income goals and actual achievement have been adjusted for litigation-related expenses in accordance with the terms of the stock incentive plan.

The net income goal for 2018 reflects the Company’s expected investments and strategic initiatives to support and sustain the long-term growth of the Company. The net income target for 2018 was set at a level the Compensation Committee believed was challenging given the aggressive profitability growth target expected to be achieved while continuing to make strategic investments. As a result of the investments made in the business and the exceptional performance of our management team, the Company achieved stronger than expected net new subscription sales, which together with management’s focus on operational efficiency and cost reduction and management initiatives

implemented in 2018, resulted in stronger than forecasted earnings results. For 2018 performance, each named executive officer received 200% of his or her target award value. The 2018 Performance-Based Stock Awards were granted on February 7, 2019, and the stock award value earned by each named executive officer is shown in the table below. As these awards

were granted in early 2019, 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 Actual Award	
		Value (\$)	of Shares (#) <sup>(1)</sup>
Andrew C. Florance	CEO & President	\$5,600,000	15,400
Scott T. Wheeler	CFO	\$1,600,000	4,400
Francis A. Carchedi <sup>(2)</sup>	Exec. Vice President, Corp. Development	—	—
Matthew F. W. Linnington	Exec. Vice President, Sales	\$960,000	2,700
Lisa C. Ruggles	Senior Vice President, Global Research	\$960,000	2,700

(1) The number of shares granted is determined by dividing the earned award value by the fourth quarter 2018 average daily price (\$365.29), rounded up to the nearest 100 shares.

(2) Mr. Carchedi resigned as Executive Vice President, Corporate Development in 2018, and therefore was not eligible for the equity grants awarded in February 2019.

### Management Stock Purchase Plan

The MSPP provides selected key employees of the Company and its subsidiaries, including the named executive officers, the opportunity to defer a portion of their cash incentive compensation and to align management and stockholder interests through awards of Deferred Stock Units (“DSUs”) under the MSPP and awards of matching restricted stock units (“Matching RSUs”) under the 2016 Plan (or a successor plan). Commencing with cash incentive compensation for calendar year 2018, participants may elect to defer up to 100% of their annual incentive bonus or commissions that may be earned during the calendar year. On the date the incentive bonus or commission would otherwise be paid in cash (typically during the following calendar year), the Company will award to the participant DSUs covering a number of shares of common stock having an aggregate fair market value on that date equal to the amount of compensation elected to be deferred under the MSPP. On the same date the DSUs are awarded, a participant will receive a grant of Matching RSUs covering a number of shares of common stock equal to 100% of the DSUs granted.

The DSUs issued under the MSPP will be fully vested at grant and will be settled upon the earliest of (i) four years after the date of grant; (ii) the participant’s death; (iii) the participant’s disability; (iv) the participant’s separation from service from the Company, or (v) a change in control (as defined in the MSPP) of the Company. Matching RSUs will vest four years after the date of grant, subject to the participant’s continued employment through that date, or upon a change in control of the Company that occurs prior to such date. If the participant’s employment terminates for any reason before the Matching RSUs vest, they will be forfeited. There were no DSUs or Matching RSUs awarded under the MSPP in 2018, but Messrs. Florance and Wheeler and Ms. Ruggles each elected to defer a portion of their 2018 annual cash incentive award and thus were granted DSUs and Matching RSUs in March of 2019. In accordance with SEC rules, the Matching RSUs 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.

### COMPENSATION DECISION PROCESS

INDEPENDENT COMPENSATION CONSULTANT ..... Willis Towers Watson

### ABOUT WILLIS TOWERS WATSON

Willis Towers Watson is engaged by and reports to the Compensation Committee, and occasionally meets with management to discuss compensation initiatives and issues. The Compensation Committee reviewed an assessment of the independence of, and any potential conflicts of interest raised by, Willis Towers Watson’s work for the Compensation Committee by considering, among other things, the factors prescribed by the SEC and Nasdaq, and concluded that Willis Towers Watson is independent and there are no such conflicts of interest.

In 2019, Willis Towers Watson:

- Reviewed the Company’s peer group;
- Provided the Compensation Committee with a compensation analysis with respect to the competitiveness of the Company’s executive compensation programs;
- Conducted a market study of executive compensation practices to ensure that the Company’s compensation programs are reasonable and competitive; and
- Conducted an assessment of potential risk factors associated with the design and administration of the Company’s executive compensation programs.

### MANAGEMENT



Supports the Compensation Committee by making recommendations and providing analyses and meets with Willis Towers Watson to discuss compensation initiatives and competitive practices;

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• The Chief Executive Officer is responsible for conducting an annual performance evaluation of each of the other NEOs; and

• Based on performance and competitive benchmarking reports, the CEO makes recommendations to the Compensation Committee for the compensation of the other NEOs.

## OTHER COMPENSATION POLICIES AND PRACTICES

### EXECUTIVE STOCK OWNERSHIP POLICY

The Company believes that its executive officers should have a significant financial stake in the Company. To better align the interests of our executive officers with those of our stockholders, the Compensation Committee adopted an Executive Stock Ownership Policy. Executive officers are expected to own shares of the Company's common stock as follows:

Name	Shares
CEO & President	Required to own shares with a value equal to 6x annual base salary
Other Executive Officers	Required to own shares with a value equal to 2x annual base salary

Shares subject to unvested or unexercised equity awards are not considered owned by the executive for purposes of the policy. The current executive officers have until December 31, 2019 to meet the ownership requirements, with the exception of our Chief Financial Officer and our Senior Vice President, Global Operations, each of whom has until the first December 31st following the fifth anniversary of the date of each of their appointments as an executive officer— December 31, 2021 and December 31, 2022, respectively.

### EQUITY GRANT PRACTICES

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.

### RECOUPMENT (OR "CLAWBACK") POLICY

The Compensation Committee has approved a recoupment ("clawback") policy. In the event of a restatement due to material non-compliance with financial reporting requirements, the Board is required to review cash incentive payments to executive officers and all performance-based equity awards issued to executive officers during the three years prior to the date the Company determines the restatement is required. If the Board determines that the payments or grants would have been lower had they been determined or calculated based on the restated results, the Board will, to the extent permitted by governing law, seek to recoup for the benefit of the Company the value of such payments made to executive officers whom the Board determines engaged in willful misconduct or gross negligence.

### ANTI-HEDGING POLICIES

Pursuant to the Company's insider trading policy, the Company does not permit directors, officers or employees to engage in hedging transactions in Company stock or pledge or margin Company stock. In addition, pursuant to the Company's insider trading policy, the Company does not permit directors, officers or 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 prior consent of the Company's compliance officer.

### TERMINATION AND CHANGE OF CONTROL PAYMENTS

Except for Messrs. Florance, Wheeler and Linnington, each of whom has termination provisions in his respective employment agreement or employment terms as described in more detail below in the section titled "Potential Payments Upon Termination or Change of Control" of this Proxy Statement, the Company is not obligated to provide significant severance or termination payments to named executive officers. 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 a severance policy as described in more detail below 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 2007 and 2016 stock incentive plans, including the Matching RSUs to be issued when DSUs are awarded under the MSPP, 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, as described in more detail below (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.

Details of the potential termination payments for Messrs. Florance, Wheeler and Linnington, of the rights triggered under the 2007 and 2016 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 titled "Potential Payments Upon Termination or Change of Control" in this Proxy Statement.

#### POLICY ON DEDUCTIBILITY OF COMPENSATION

Section 162(m) of the Internal Revenue Code limits a publicly traded company's federal income tax deduction for compensation in excess of \$1 million paid to its Chief Executive Officer, Chief Financial Officer and certain other current and former executive officers. The Company expects that it will be unable to deduct all compensation in excess of \$1 million paid to its Chief Executive Officer, Chief Financial Officer and other named executive officers, other than any awards granted prior to November 2, 2017 to the extent they qualify for certain transition rules under Section 162(m).

## 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 2016, 2017 and 2018.

## SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards <sup>(1)</sup> (\$)	Option Awards <sup>(1)</sup> (\$)	Non-Equity		Total (\$)
						Incentive Plan Compensation <sup>(2)</sup> (\$)	All Other Compensation <sup>(3)</sup> (\$)	
Andrew C. Florance Chief Executive Officer and President	2018	\$750,000	—	\$9,021,745	\$3,131,620	\$1,725,000	\$12,112 <sup>(3a)</sup>	\$14,640,477
	2017	\$742,039	—	\$6,321,088	\$2,043,476	\$1,500,000	\$14,928	\$10,621,531
	2016	\$696,126	—	\$5,349,844	\$1,988,844	\$1,390,000	\$11,712	\$9,436,526
Scott T. Wheeler Chief Financial Officer	2018	\$469,231	—	\$3,159,321	\$1,091,016	\$588,910	\$11,981 <sup>(3b)</sup>	\$5,320,459
	2017	\$464,318	—	\$2,627,039	\$832,746	\$551,606	\$14,968	\$4,490,677
	2016	\$434,194	\$200,000	\$2,300,132	—	\$585,000	\$285,850	\$3,805,176
Francis A. Carchedi Executive Vice President, Corporate Development	2018	\$310,497	—	\$1,950,347	\$656,630	—	\$11,000 <sup>(3c)</sup>	\$2,928,474
	2017	\$395,174	—	\$1,551,634	\$490,198	\$474,000	\$14,980	\$2,925,986
	2016	\$387,965	—	\$1,237,596	\$445,604	\$437,625	\$13,297	\$2,522,087
Matthew F. W. Linnington Executive Vice President, Sales	2018	\$388,462	—	\$1,790,664	\$606,120	\$353,203	\$49,867 <sup>(3d)</sup>	\$3,188,316
	2017	\$376,117	—	\$2,109,828	\$667,378	\$510,460	\$14,635	\$3,678,418
	2016	\$346,739	—	\$1,355,089	\$489,060	\$264,071	\$11,931	\$2,466,890
Lisa C. Ruggles <sup>(4)</sup> Senior Vice President, Global Research	2018	\$385,539	—	\$1,950,347	\$656,630	\$532,000	\$87,104 <sup>(3e)</sup>	\$3,611,620
	2017	\$306,586	—	\$500,185	—	\$267,750	\$189,026	\$1,263,547

(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, including the grant date fair value of the maximum number of shares that could be issued pursuant to the three-year performance-based restricted stock awards granted in 2016, 2017 and 2018, which vest based on achievement of a three-year cumulative revenue goal for the three-year period commencing January 1 of the year of grant and running through December 31 of the third year following the date of grant (i.e. January 1, 2016 – December 31, 2018 for the 2016 grants; January 1, 2017 – December 31, 2019 for the 2017 grants; and January 1, 2018 – December 31, 2020 for the 2018 grants) and are subject to adjustment based on the Company's TSR over the respective three-year performance period. 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 2018 are described in Note 16 to the audited financial statements in the Company's Annual Report on Form 10-K for the period ended December 31, 2018. For additional information on the stock awards, see the "Equity Incentive Compensation" discussion within the section titled "Compensation Discussion and Analysis" of this Proxy Statement.

This amount represents the annual cash incentive earned under the Company’s annual incentive bonus plan based on the executive’s achievement of individual and/or 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 2018 performance, see the “2018 Annual Cash Incentive Program” discussion within the section titled “Compensation Discussion and Analysis” of this Proxy Statement. In addition, this amount includes a deferral in the amount set forth in the table below for those (2) named executive officers who elected to defer a portion of their 2018 cash incentive compensation under the MSPP. Under the terms of the MSPP, a participant may elect to defer a stated portion of his or her cash incentive compensation award into DSUs. The Company then matches these DSUs with a grant of Matching RSUs under the 2016 Plan. The DSUs and Matching RSUs awarded pursuant to the named executive officers' elections with respect to their 2018 cash incentive compensation were issued in March 2019. For additional information regarding the MSPP, see the “Management Stock Purchase Plan” discussion within the section titled “Compensation Discussion and Analysis” of this Proxy Statement.

Name	MSPP Contribution (\$)	Deferred Stock Units Awarded (#)
Andrew C. Florance	\$569,055	1,213
Scott T. Wheeler	\$574,684	1,225
Lisa C. Ruggles	\$132,764	283

(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 2018 plan year, Mr. Florance contributed a portion of his annual compensation and CoStar made a matching contribution in the amount of \$11,000. In 2018, the employer contribution was capped at the executive’s contribution amount up to a maximum of four 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 2018 plan year, Mr. Wheeler contributed a portion of his annual compensation and CoStar made a matching contribution in the amount of \$11,000. In 2018, the employer contribution was capped at the executive’s contribution amount up to a maximum of four percent of the executive’s gross pay. Mr. Wheeler received a tax gross up of \$981 on certain employee incentives or gifts, which was reported as income for tax purposes.

(3c) Pursuant to the 401(k) Plan, for the 2018 plan year, Mr. Carchedi contributed a portion of his annual compensation and CoStar made a matching contribution in the amount of \$11,000. In 2018, the employer contribution was capped at the executive’s contribution amount up to a maximum of four percent of the executive’s gross pay.

(3d) Pursuant to the 401(k) Plan, for the 2018 plan year, Mr. Linnington contributed a portion of his annual compensation and CoStar made a matching contribution in the amount of \$11,000. In 2018, the employer contribution was capped at the executive’s contribution amount up to a maximum of four percent of the executive’s gross pay. The Company paid \$18,456 in connection with family accompaniment while on business travel and a tax gross up of \$18,456 on the family travel expenses, which were reported as income for tax purposes. Mr. Linnington also received a tax gross up of \$896 on certain employee incentives or gifts, which was reported as income for tax purposes.

(3e) Pursuant to the 401(k) Plan, for the 2018 plan year, Ms. Ruggles contributed a portion of her annual compensation and CoStar made a matching contribution in the amount of \$11,000. In 2018, the employer contribution was capped at the executive’s contribution amount up to a maximum of four percent of the executive’s gross pay. The Company paid \$24,246 in relocation expenses for Ms. Ruggles and a tax gross up of \$22,095 on the relocation expenses, each of which were reported as income for tax purposes. The Company paid certain meal expenses and for Ms. Ruggles’ personal use of a company car, each of which were reported as income for tax purposes. The



Company paid \$18,456 in connection with family accompaniment while on business travel and a tax gross up of \$6,095 on the family travel expenses, which were reported as income for tax purposes. Ms. Ruggles received a tax gross up of \$455 on certain employee incentives or gifts, which was reported as income for tax purposes.  
(4) Ms. Ruggles was appointed as an executive officer of the Company in September 2017.

## GRANTS OF PLAN-BASED AWARDS FOR FISCAL YEAR 2018

The following Grants of Plan-Based Awards table provides additional information about stock and option awards granted to our named executive officers during the year ended December 31, 2018, as well as non-equity incentive plan awards for the year ended December 31, 2018.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards <sup>(1)</sup>		Estimated Future Payouts Under Equity Incentive Plan Awards <sup>(2)</sup>			All Other Stock Awards: Number of Shares of Stock or Units <sup>(3)</sup>	All Other Option Awards: Number of Securities Underlying Options <sup>(4)</sup>	Exercise or Base Price of Option Awards <sup>(5)</sup>	Grant Date Fair Value of Stock and Option Awards <sup>(6)</sup>
		Threshold (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)				
		\$862,500	\$1,725,000							
Andrew C. Florance	2/28/18			1,600	4,000	9,600				\$3,650,304 <sup>(7)</sup>
	2/28/18						15,700			\$5,371,441
	2/28/18							31,000	\$342.13	\$3,131,620
		\$329,000	\$658,000							
Scott T. Wheeler	2/28/18			560	1,400	3,360				\$1,277,606 <sup>(7)</sup>
	2/28/18						5,500			\$1,881,715
	2/28/18							10,800	\$342.13	\$1,091,016
		\$263,250	\$526,500							
Francis A. Carchedi	2/28/18			360	900	2,160				\$821,318 <sup>(7)</sup>
	2/28/18						3,300			\$1,129,029
	2/28/18							6,500	\$342.13	\$656,630
		\$292,500	\$585,000							
Matthew F. W. Linnington	2/28/18			320	800	1,920				\$730,061 <sup>(7)</sup>
	2/28/18						3,100			\$1,060,603
	2/28/18							6,000	\$342.13	\$606,120
		\$280,000	\$560,000							
Lisa C. Ruggles	2/28/18			360	900	2,160				\$821,318 <sup>(7)</sup>
	2/28/18						3,300			\$1,129,029
	2/28/18							6,500	\$342.13	\$656,630

Amounts shown in these columns are possible amounts payable under the Company's annual executive cash incentive plan for 2018. The actual cash payments made in 2019 for 2018 performance under the Company's annual executive cash incentive plan are reported in the Summary Compensation table above. The Company's annual (1) executive cash incentive plan in effect for 2018 is described more fully in the section titled "Compensation Discussion and Analysis—2018 Annual Cash Incentive Program" within this Proxy Statement. When setting the goal for 2018 performance, the plan approved by the Committee provided that there would be no payout if achievement was less than target.



Amounts shown in these columns are the possible number of shares that may vest pursuant to the three-year performance-based restricted stock awards granted in February 2018 under the Company's 2016 Plan, which vest based on achievement of a three-year cumulative revenue goal for the period from January 1, 2018 through (2) December 31, 2020 and are subject to adjustment based on the Company's TSR over the three-year performance period. See the section titled "Compensation Discussion and Analysis—2018 Multi-Year Performance Shares for a description of the material terms of these awards.

Amounts shown in this column represent restricted stock awards granted to named executive officers in 2018 in (3) respect of achievement of 2017 net income goals. The closing price of the Company's common stock on February 28, 2018 was \$342.13.

Amounts shown in this column represent stock options granted to named executive officers in 2018 that vest in (4) equal, annual installments over three years after the date of grant.

The exercise price is the closing price of our common stock on the date of grant, as reported on the Nasdaq Global (5) Select Market.

The amounts shown in this column represent the grant date fair value of each equity award computed in accordance (6) 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 16 to the audited financial statements in the Company's Annual Report on Form 10-K for the period ended December 31, 2018.

Amount shown represents the grant date fair value computed in accordance with FASB ASC Topic 718 pursuant to (7) SEC rules of the maximum number of shares that could be issued pursuant to the three-year performance-based restricted stock awards, which vest based on achievement of a three-year cumulative revenue goal for the period from January 1, 2018 through December 31, 2020 and are subject to adjustment based on the Company's TSR over the three-year performance period. For a discussion of the assumptions used in calculating the fair value of each equity award see Note 16 to the audited financial statements in the Company's Annual Report on Form 10-K for the period ended December 31, 2018.

## NARRATIVES TO SUMMARY COMPENSATION TABLE AND GRANTS OF PLAN-BASED AWARDS TABLE

### EMPLOYMENT AGREEMENTS AND ARRANGEMENTS

We have an employment agreement with Mr. Florance, and we have at will employment terms with Mr. Wheeler, Mr. Linnington and Ms. Ruggles (and had at will employment terms with Mr. Carchedi prior to his resignation in 2018). 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.

### 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.

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.

### EQUITY AWARDS

All grants of equity awards to our named executive officers made in 2018 and in 2019 for 2018 performance were made under the Company's 2016 Plan.

Under the 2007 Plan and the 2016 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.

## OUTSTANDING EQUITY AWARDS AT 2018 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, 2018.

Name	Option Awards <sup>(1)</sup>				Stock Awards		Equity Incentive Plan Awards: Number of Shares, Units or Rights That Have Not Vested <sup>(3)</sup> (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Rights That Have Not Vested <sup>(2)</sup> (#)
	Grant Date <sup>(1)</sup>	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)		
Andrew C. Florance	3/11/13	55,332		\$102.16	3/10/2023			
	2/28/14	33,600		\$201.04	2/27/2024			
	3/5/15	32,200		\$193.69	3/4/2025			
	3/11/16	24,400	12,200	\$182.75	3/10/2026			
	3/2/17	11,533	23,067	\$204.91	3/1/2027			
	2/28/18		31,000	\$342.13	2/27/2028			
					34,268 <sup>(4a)</sup>	\$11,559,967	31,920	\$10,767,893
Scott T. Wheeler	3/2/17		9,400	\$204.91	3/1/2027			
	2/28/18		10,800	\$342.13	2/27/2028			
					17,020 <sup>(4b)</sup>	\$5,741,527	8,160	\$2,752,694
Francis A. Carchedi <sup>(5)</sup>								
Matthew F.W. Linnington	3/5/15	516		\$193.69	3/4/2025			
	3/11/16	500	3,000	\$182.75	3/10/2026			
	3/2/17	3,766	7,534	\$204.91	3/1/2027			
	2/28/18		6,000	\$342.13	2/27/2028			
					8,734 <sup>(4c)</sup>	\$2,946,328	8,640	\$2,914,618
Lisa C. Ruggles	2/28/18		6,500	\$342.13	2/27/2028			
					6,570 <sup>(4d)</sup>	\$2,216,324	2,160	\$728,654

- The dates of grant of each named executive officer's stock option awards outstanding as of December 31, 2018 are set forth in the table above. All awards of stock options in the table above are exercisable in installments of one
- (1) third on the first three anniversaries of the date of grant, assuming continued employment, except for the grants awarded on March 2, 2017, which are exercisable in installments of one third on the last day of the month during which the first three anniversaries of the date of grant fall, assuming continued employment.
  - (2) Market value based on the closing price of the Company's common stock as of December 31, 2018 of \$337.34 per share.  
Represents the maximum number of shares that could be issued pursuant to the three-year performance-based restricted stock awards, which vest based on achievement of a three-year cumulative revenue goal. The revenue
  - (3) goal for the grants made in 2018 are for the period from January 1, 2018 through December 31, 2020 and are subject to adjustment based on the Company's TSR over the three-year performance period. The revenue goal for the grants made in 2017 are for the period from January 1,

2017 through December 31, 2019 and are subject to adjustment based on the Company's TSR over the three-year performance period. The revenue goal for the grants made in 2016 are for the period from January 1, 2016 through December 31, 2018 and are subject to adjustment based on the Company's TSR over the three-year performance period.

(4a) As of December 31, 2018, Mr. Florance held (i) 6,034 shares of restricted stock, which vest in their entirety on March 11, 2019, (ii) 12,534 shares of restricted stock, which vest in equal installments on March 31, 2019 and 2020, and (iii) 15,700 shares of restricted stock, which vest in equal installments on February 28, 2019, 2020 and 2021.

(4b) As of December 31, 2018, Mr. Wheeler held (i) 6,386 shares of restricted stock, which vest in equal installments on January 11, 2019 and 2020, (ii) 5,134 shares of restricted stock, which vest in equal installments on March 31, 2019, 2020, and (iii) 5,500 shares of restricted stock, which vest in equal installments on February 28, 2019, 2020 and 2021.

(4c) As of December 31, 2018, Mr. Linnington held (i) 1,500 shares which vest in their entirety on March 11, 2019 (ii) 4,134 shares of restricted stock, which vest in equal installments on March 31, 2019 and 2020, and (iii) 3,100 shares of restricted stock, which vest in equal installments on February 28, 2019, 2020 and 2021.

(4d) As of December 31, 2018, Ms. Ruggles held (i) 207 shares of restricted stock, which vest in their entirety on May 28, 2019, (ii) 122 shares of restricted stock, which vest in equal installments on May 27, 2019 and 2020, (iii) 1,110 shares of restricted stock, which vest in equal installments on December 31, 2019 and 2020, (iv) 1,831 shares of restricted stock, which vest in equal installments on March 31, 2019, 2020 and 2021, and (v) 3,300 shares of restricted stock, which vest in equal installments on February 28, 2019, 2020 and 2021.

(5) Upon termination of employment, Mr. Carchedi forfeited all unvested options and shares of restricted stock and was required to exercise all vested options within 90 days of his resignation of employment.

#### OPTION EXERCISES AND STOCK VESTED FOR FISCAL YEAR 2018

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, 2018.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
Andrew C. Florance	80,055	\$23,139,636	30,119	\$10,658,143
Scott T. Wheeler	4,700	\$1,039,223	5,758	\$930,637
Francis A. Carchedi	39,932	\$9,370,175	7,654	\$2,705,024
Matthew F.W. Linnington	11,152	\$2,062,588	10,015	\$3,745,472
Lisa C. Ruggles	—	—	1,670	\$600,704

(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 2018. 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 2018.

- (2) Calculated by multiplying the number of shares acquired upon vesting by the closing price of our common stock on the trading day immediately preceding the vesting date.

POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE OF CONTROL

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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 31, 2018, the last business day of 2018.

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. 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. For the purposes of this analysis, which assumes a triggering event on December 31, 2018, he (or his estate) would be entitled to the full amount of his bonus for 2018.

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.

Mr. Wheeler

In the event that the Company terminates Mr. Wheeler's employment without "cause" or Mr. Wheeler terminates his employment for "good reason," Mr. Wheeler's offer letter provides for a termination payment equal to six months base salary and his prorated target annual cash incentive bonus, subject to his execution of a release. Pursuant to his offer letter, "cause" is defined as any of the following: (a) conduct involving intentional misrepresentation, fraud, embezzlement or dishonesty, (b) conviction of a felony or entry of a plea of guilty or no contest to a felony, (c) gross insubordination, willful misconduct or gross negligence, (d) disclosure of the Company's confidential information in breach of Mr. Wheeler's terms and conditions of employment, (e) breach of the non-competition or non-solicitation covenants in Mr. Wheeler's terms and conditions of employment, (f) material breach of the Company's policies, or (g) failure to perform his duties as Chief Financial Officer, which failure remains uncured for 30 days. Pursuant to Mr. Wheeler's offer letter, "good reason" means any of the following, provided that Mr. Wheeler provides the Company notice of his intent to terminate employment within 15 days of the event and the Company fails to cure within 30 days of receipt of his notice: (a) a material adverse change or reduction in Mr. Wheeler's duties or responsibilities that does not result from his misconduct or failure to adequately perform or another reason which would constitute grounds for his termination for cause, (b) a change in the reporting structure so that Mr. Wheeler no longer reports to the Chief Executive Officer, (c) a requirement that Mr. Wheeler relocate his principal office more than 50 miles from the current location, or (d) a resignation that is based upon a request from an authorized officer of the Company that Mr. Wheeler undertake any fraudulent or criminal activities in his role as Chief Financial Officer.

Mr. Linnington

In the event that the Company terminates Mr. Linnington's employment without cause, Mr. Linnington's offer letter provides for a termination payment equal to six months' base salary, subject to his execution of a release.

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), Ms. Ruggles is not entitled to any post-employment compensation if her employment is terminated without cause and, prior to his termination of employment, neither was Mr. Carchedi.

Change of Control Provisions under the Company's 2007 and 2016 Plans

Pursuant to the Company's 2007 Plan and 2016 Plan and related award agreements, upon a change of control, all options will immediately vest and all restrictions on stock grants, including any Matching RSUs issued when DSUs are awarded under the MSPP, will lapse (except in the event that the awards are assumed or substitute grants are awarded pursuant to the terms of the grant). 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 purposes 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) a person acquires ownership of 100% of the combined voting power of all classes of stock of the Company. Pursuant to the MSPP, although fully vested, all DSU's that have not yet settled will be settled upon a change in control of the Company that qualifies as a change in the ownership or effective control of the Company within the meaning of Section 409A of the Code.

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 31, 2018, the last business day of 2018.

Name	Termination by Company "without cause" other than change of control	Termination by Executive for "good reason" other than change of control	Termination due to death or disability	Termination upon change of control	Change of control without termination <sup>(1)</sup>
Andrew C. Florance	\$7,415,761 <sup>(2)</sup>	\$7,415,761 <sup>(2)</sup>	\$1,725,000 <sup>(3)</sup>	\$35,198,834 <sup>(4)</sup>	\$27,268,621
Scott T. Wheeler	\$823,910 <sup>(5)</sup>	\$823,910 <sup>(5)</sup>	—	\$9,739,063 <sup>(1)</sup>	\$9,739,063
Francis A. Carchedi <sup>(6)</sup>	—	—	—	—	—
Matthew F.W. Linnington	\$195,000 <sup>(7)</sup>	—	—	\$7,322,443 <sup>(1)</sup>	\$7,322,443
Lisa C. Ruggles	—	—	—	\$2,944,978 <sup>(1)</sup>	\$2,944,978

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 2007 and 2016 Plans in the event of a change of control or substantial corporate change, as defined in the plans and described above, as of December 31, 2018, 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 (\$337.34) on December 31, 2018, excluding options with an exercise price greater than the closing price on December 31, 2018. The intrinsic value of the restricted stock was calculated using the closing price of the Company's common stock on December 31, 2018 (\$337.34).

Name	Unvested (in-the-money)		Unvested Restricted Stock (# shares)		Total
	Options (# shares)	Intrinsic Value	Intrinsic Value	Total	
Andrew C. Florance	66,267	\$4,940,761	66,188	\$22,327,860	\$27,268,621
Scott T. Wheeler	20,200	\$1,244,842	25,180	\$8,494,221	\$9,739,063
Matthew F.W. Linnington	16,534	\$1,461,498	17,374	\$5,860,945	\$7,322,443
Lisa C. Ruggles	6,500	—	8,730	\$2,944,978	\$2,944,978

Includes base salary for one year (\$750,000), bonus for 2018 (\$1,725,000), and the immediate vesting of all unvested stock options (\$4,940,761). The value of stock option vesting included in this amount was calculated by (2) 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 (\$337.34) on December 31, 2018, excluding options with an exercise price greater than the closing price on December 31, 2018.  
(3) Consists of the cash incentive bonus for 2018.

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 31, 2018, Mr. Florance would be entitled to the amount set forth, which includes base salary for one year (\$750,000), his cash incentive bonus for 2018 (\$1,725,000), the immediate vesting of all unvested stock options (\$4,940,761) and all unvested restricted stock (\$22,327,860) under the respective stock incentive plans, and an estimated gross-up payment to cover taxes (4) assessed under Section 4999 of the Tax Code (\$5,455,213). 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 (\$337.34) on December 31, 2018, excluding options with an exercise price greater than the closing price on December 31, 2018. 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 31, 2018 (\$337.34).

Mr. Wheeler's offer of employment provides for a termination payment if his employment is involuntarily terminated by the Company without cause or by Mr. Wheeler for good reason, subject to his execution of a release. (5) Assuming for these purposes that those conditions are met as of December 31, 2018, Mr. Wheeler would be entitled to the amount set forth, which includes six months base salary (\$235,000) and his cash incentive bonus for 2018 (\$588,910).

Mr. Carchedi resigned prior to December 31, 2018 and did not receive any severance payments in connection with his termination. (6)

Mr. Linnington's offer of employment provides for a termination payment equal to six months base salary if his (7) employment is involuntarily terminated by the Company for any reason other than cause, subject to his execution of a release.

#### Company-Wide Severance Policy

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 as of December 31, 2018, Ms. Ruggles would be entitled to \$123,077, and Mr. Carchedi would have been entitled to \$77,885. Mr. Florance would be entitled to the payments set forth in his employment agreement, Mr. Wheeler would be entitled to the payment set forth in his offer letter, and Mr. Linnington would be entitled to the payment set forth in his offer letter, each of which are described above.

#### CEO PAY RATIO DISCLOSURE

The 2018 annual total compensation of the median compensated of all our employees who were employed as of December 31, 2018, other than our CEO Andrew Florance, was \$83,805; Andrew Florance's 2018 annual total compensation was \$14,640,477, both of which were calculated in accordance with SEC rules applicable to the Summary Compensation Table. The ratio of these amounts was 1-to-175.

For these purposes, we identified our employee population as of December 31, 2018 based on our payroll records. As permitted by SEC rules under a de minimis exemption, we excluded 166 employees located in Canada (70 employees), France (8 employees), Germany (54 employees), and Spain (34 employees), who in the aggregate represented less than 5% of our 3,709 employees as of December 31, 2018, resulting in an employee population of



3,543 including the Chief Executive Officer (after applying the de minimis exemption). We identified the median compensated employee using annual base salary determined as of December 31, 2018, cash bonuses paid in fiscal 2018 and annual equity awards granted during fiscal 2018, as well as sales incentive compensation, overtime pay and employer match of 401(k) contributions, which we annualized for any employee who did not work for the entire year. The SEC's rules for identifying the median compensated employee and calculating the pay ratio based on that employee's annual total compensation allow companies to adopt a variety of methodologies, to apply certain exclusions, and to make reasonable estimates and assumptions that reflect their employee populations and compensation practices. As a result, the pay ratio reported by other companies may not be comparable to the pay ratio reported above, as other

companies have different employee populations and compensation practices and may utilize different methodologies, exclusions, estimates and assumptions in calculating their own pay ratios.

#### CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In October 2017, the Company's wholly-owned subsidiary, CoStar Realty Information, Inc., entered into an engagement with G.H. Smart & Company, Inc. ("ghSmart"), a leadership advisory consulting firm, to perform leadership assessments and organization structure advisory services. Pursuant to the engagement, in 2017 we paid ghSMART \$550,000; in 2018 we paid ghSMART an additional \$550,000, plus expenses of approximately \$18,000. In 2018, the engagement with ghSMART was extended in connection with the acquisition and integration of ForRent. Pursuant to the 2018 engagement, we paid ghSMART \$165,000, plus expenses of approximately \$6,000. In 2019, the engagement with ghSmart was extended, pursuant to which the Company anticipates paying ghSMART approximately \$200,000 plus expenses in 2019 in connection with continued executive leadership advisory services. Randy Street, the brother-in law of our Chief Executive Officer, is an officer of ghSMART and owns approximately 11% of the equity of ghSMART. Mr. Street is not involved in the provision of services to CoStar. In accordance with the procedures described below for Interested Transactions (as defined below), the Audit Committee reviewed and approved the engagement with ghSMART prior to commencement of the engagement. The Company may enter into additional engagements with ghSMART in the future.

Since January 1, 2018, other than the ghSMART transaction discussed above, none of our executive officers or directors engaged in or had a direct or indirect interest in any transactions with us 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. The Board has 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.

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 \$120,000 in any calendar year, (b) the Company or any of its subsidiaries 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 a less than 10 percent beneficial owner of another entity). An Interested Transaction does not include a transaction in which a Related Party has an indirect interest solely as a result of being (1) a director or a less than 10% beneficial owner of an equity interest in another entity, or both, or (2) a limited partner in a partnership in which the Related Party has an interest of less than 10%. A "Related Party" is any (a) person who is or was (since the beginning of the Company's last fiscal year, 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" includes a person's spouse, parents, stepparents, children, stepchildren, siblings, mothers- and fathers-in-law, sons and daughters-in-law, brothers- and sisters-in-law and anyone residing in such person's home (other than a tenant or employee).

The Audit Committee will review all of the material facts 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 2018, 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 on Form 10-K for the year ended December 31, 2018 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, Vice President of Investor Relations, 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, or if your household is currently receiving multiple copies of the same items and you would like in the future to receive only a single copy at your address, please contact Broadridge Financial Services, Inc. either by calling 1-866-540-7095 or by writing to Broadridge Householding 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, Vice President of Investor Relations, 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 Alliance Advisors to assist in soliciting proxy voting instructions, at an estimated cost not to exceed \$15,000, 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. Alliance Advisors may 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.

Appendix A

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