COEUR D ALENE MINES CORP
Form 10-Q
August 08, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q

þ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 30, 2011

OR

o **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from ______ to ______

Commission file number 001-08641

COEUR D ALENE MINES CORPORATION
(Exact name of registrant as specified in its charter)

Idaho	**82-0109423**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
PO Box I, 505 Front Ave. Coeur d Alene, Idaho	**83816**
(Address of principal executive offices)	**(Zip Code)**

(208) 667-3511
(Registrant s telephone number, including area code)

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

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

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

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

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

The Company has 150,000,000 shares of common stock, par value of $0.01, authorized of which 89,653,222 shares were issued and outstanding as of August 5, 2011.

COEUR D ALENE MINES CORPORATION

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COEUR D ALENE MINES CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	Notes	June 30, 2011	December 31, 2010
		(In thousands, except share data)	
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		$ 106,830	$ 66,118
Short term investments	5	480	
Receivables	6	74,624	58,880
Ore on leach pad		6,528	7,959
Metal and other inventory	7	155,640	118,340
Prepaid expenses and other		13,112	14,914
		357,214	266,211
NON-CURRENT ASSETS			
Property, plant and equipment, net	8	663,510	668,101
Mining properties, net	9	2,060,740	2,122,216
Ore on leach pad, non-current portion		10,205	10,005
Restricted assets		29,711	29,028
Marketable securities	5	9,056	
Receivables, non-current portion	6	40,941	42,866
Debt issuance costs, net		3,167	4,333
Deferred tax assets	12	564	804
Other		13,863	13,963
TOTAL ASSETS		$ 3,188,971	$ 3,157,527
LIABILITIES AND SHAREHOLDERS EQUITY			
CURRENT LIABILITIES			
Accounts payable		$ 66,235	$ 67,209
Accrued liabilities and other		7,005	39,720
Accrued income taxes		31,581	28,155
Accrued payroll and related benefits		18,116	17,953
Accrued interest payable		567	834
Current portion of capital leases and other debt obligations	10	55,839	63,317
Current portion of royalty obligation		57,366	51,981
Current portion of reclamation and mine closure	11	1,423	1,306
Deferred tax liabilities	12	462	242
		238,594	270,717
NON-CURRENT LIABILITIES			
Long-term debt and capital leases	10	135,322	130,067
Non-current portion of royalty obligation		183,987	190,334
Reclamation and mine closure	11	28,334	27,779

Deferred income taxes	12	483,897	474,264
Other long-term liabilities		23,241	23,599
		854,781	846,043
COMMITMENTS AND CONTINGENCIES (Notes 10, 11, 12, 13, 14, 15, 16 and 19)			
SHAREHOLDERS EQUITY			
Common stock, par value $0.01 per share; authorized 150,000,000 shares, 89,530,624 issued at June 30, 2011 and 89,315,767 issued at December 31, 2010		895	893
Additional paid-in capital		2,583,345	2,578,206
Accumulated deficit		(487,257)	(538,332)
Accumulated other comprehensive loss		(1,387)	
		2,095,596	2,040,767
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY		$ 3,188,971	$ 3,157,527

The accompanying notes are an integral part of these consolidated financial statements.

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COEUR D ALENE MINES CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE INCOME (LOSS)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
	(In thousands, except per share data)			
Sales of metal	$ 231,090	$ 101,018	$ 430,714	$ 189,307
Production costs applicable to sales	(77,102)	(58,590)	(169,576)	(110,393)
Depreciation, depletion and amortization	(57,641)	(29,983)	(107,682)	(57,702)
Gross profit	96,347	12,445	153,456	21,212
COSTS AND EXPENSES				
Administrative and general	1,827	6,859	14,058	13,794
Exploration	4,077	3,161	6,839	5,681
Pre-development, care, maintenance and other	11,104	565	14,678	732
Total cost and expenses	17,008	10,585	35,575	20,207
OPERATING INCOME	79,339	1,860	117,881	1,005
OTHER INCOME AND EXPENSE				
Loss on debt extinguishments	(389)	(4,050)	(856)	(11,908)
Fair value adjustments, net	(12,432)	(42,516)	(17,700)	(46,774)
Interest income and other	2,763	(3,821)	4,664	(2,088)
Interest expense, net of capitalized interest	(9,268)	(5,646)	(18,573)	(11,451)
Total other income and expense	(19,326)	(56,033)	(32,465)	(72,221)
Income (loss) from continuing operations before income taxes	60,013	(54,173)	85,416	(71,216)
Income tax benefit (provision)	(21,402)	9,372	(34,341)	16,370
Income (loss) from continuing operations	38,611	(44,801)	51,075	(54,846)
Loss from discontinued operations, net of income taxes		(2,966)		(5,778)
Loss on sale of net assets of discontinued operations, net of income taxes		(2,977)		(2,977)
NET INCOME (LOSS)	38,611	(50,744)	51,075	(63,601)
Other comprehensive loss, net of income taxes	(1,387)		(1,387)	(5)
COMPREHENSIVE INCOME (LOSS)	$ 37,224	$ (50,744)	$ 49,688	$ (63,606)

BASIC AND DILUTED INCOME PER SHARE

Basic income (loss) per share:								
Income (loss) from continuing operations	$	0.43	$	(0.50)	$	0.57	$	(0.64)
Income (loss) from discontinued operations				(0.07)				(0.11)
Net income (loss)	$	0.43	$	(0.57)	$	0.57	$	(0.75)
Diluted income (loss) per share:								
Income (loss) from continuing operations	$	0.43	$	(0.50)	$	0.57	$	(0.64)
Income (loss) from discontinued operations				(0.07)				(0.11)
Net income (loss)	$	0.43	$	(0.57)	$	0.57	$	(0.75)
Weighted average number of shares of common stock								
Basic		89,310		88,501		89,299		85,145
Diluted		89,712		88,501		89,683		85,145

The accompanying notes are an integral part of these consolidated financial statements.

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COEUR D ALENE MINES CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY
Six Months Ended June 30, 2011
(Unaudited)

(In thousands)	Common Stock Shares	Common Stock Par Value	Additional Paid-In Capital	Accumulated (Deficit)	Accumulated Other Comprehensive Loss	Total
Balances at December 31, 2010	89,316	$ 893	$ 2,578,206	$ (538,332)	$	$ 2,040,767
Net income				51,075		51,075
Unrealized loss on marketable securities, net of tax					(1,387)	(1,387)
Common stock issued/cancelled under long-term incentive plans, net	215	2	5,139			5,141
Balances at June 30, 2011	89,531	$ 895	$ 2,583,345	$ (487,257)	$ (1,387)	$ 2,095,596

The accompanying notes are an integral part of these consolidated financial statements.

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COEUR D ALENE MINES CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
	(In thousands)		(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss)	$ 38,611	$ (50,744)	$ 51,075	$ (63,601)
Add (deduct) non-cash items				
Depreciation, depletion and amortization	57,641	31,010	107,682	59,784
Accretion of discount on debt and other assets, net	494		944	
Accretion of royalty obligation	5,770	4,637	11,037	9,629
Deferred income taxes	4,223	(14,892)	10,093	(21,388)
Loss on debt extinguishment	389	4,050	856	11,908
Fair value adjustments, net	13,933	43,052	20,593	46,723
(Gain) loss on foreign currency transactions	(848)	1,471	(737)	1,821
Share-based compensation	(3,351)	622	4,804	2,009
(Gain) loss on sale of assets	(1,223)	2,826	(1,224)	2,805
Other non-cash charges	200	15	831	71
Changes in operating assets and liabilities:				
Receivables and other current assets	(6,784)	3,662	(11,644)	(7,625)
Inventories	(23,575)	(2,251)	(36,068)	(4,908)
Accounts payable and accrued liabilities	25,585	8,998	(11,392)	(14,002)
CASH PROVIDED BY OPERATING ACTIVITIES	111,065	32,456	146,850	23,226
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	(11,881)		(13,110)	
Proceeds from sales and maturities of investments	2,773		3,360	
Capital expenditures	(25,764)	(45,467)	(41,681)	(92,656)
Other	325	150	273	76
CASH USED IN INVESTING ACTIVITIES	(34,547)	(45,317)	(51,158)	(92,580)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from issuance of notes and bank borrowings		22,041	27,500	134,810
Payments on long-term debt, capital leases, and associated costs	(16,704)	(11,377)	(34,099)	(18,978)
Payments on gold production royalty	(17,441)	(9,582)	(32,059)	(18,533)
Proceeds from gold lease facility				4,517
Payments on gold lease facility		(2,210)	(13,800)	(17,101)
Proceeds from sale-leaseback transactions				4,853
Additions to restricted assets associated with the Kensington Term Facility		(786)	(1,325)	(1,584)
Other	30		(1,197)	(225)

CASH PROVIDED (USED IN) BY FINANCING ACTIVITIES:	(34,115)	(1,914)	(54,980)	87,759
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	42,403	(14,775)	40,712	18,405
Cash and cash equivalents at beginning of period	64,427	55,962	66,118	22,782
Cash and cash equivalents at end of period	$ 106,830	$ 41,187	$ 106,830	$ 41,187

The accompanying notes are an integral part of these consolidated financial statements.

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Coeur d Alene Mines Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 1 BASIS OF PRESENTATION

Basis of Presentation The Company s unaudited interim consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) and applicable rules of the Securities and Exchange Commission (SEC) regarding interim financial reporting and include the accounts of Coeur d Alene Mines Corporation and its consolidated subsidiaries (Coeur or the Company). All intercompany transactions and balances have been eliminated during consolidation. Certain information and note disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. Accordingly, these unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company s Form 10-K for the year ended December 31, 2010. The condensed consolidated balance sheet as of December 31, 2010, included herein, was derived from the audited consolidated financial statements as of that date.

The unaudited interim consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and include all adjustments, consisting only of normal recurring adjustments, necessary for the fair presentation of the Company s financial position as of June 30, 2011 and December 31, 2010 and the Company s results of operations and cash flows for the three and six months ended June 30, 2011 and 2010. The results for the three and six months ended June 30, 2011 are not necessarily indicative of the results to be expected for the year ending December 31, 2011. All references to June 30, 2011 or to the three or six months ended June 30, 2011 and 2010 in the notes to the condensed consolidated financial statements are unaudited.

On August 9, 2010, the Company closed the sale of its 100% interest in the Cerro Bayo mine. Consequently, for all of the periods presented, income (loss) from Cerro Bayo has been presented within discontinued operations in the consolidated statements of operations.

Use of Estimates: The preparation of the Company s consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in their consolidated financial statements and accompanying notes. Areas requiring significant management estimates and assumptions include: recoverable ounces from proven and probable reserves that are the basis of future cash flow estimates and units-of-production depreciation and amortization calculations; useful lives utilized for depreciation, depletion and amortization; estimates of future cash flows for long-lived assets; estimates of recoverable gold and silver ounces in ore on leach pad; amount and timing of reclamation and remediation costs; valuation allowance for deferred tax assets; assessment of valuation allowance for value added tax receivables; and other employee benefit liabilities.

Reclassifications: Certain reclassifications of prior year balances have been made to conform to the current year presentation. These reclassifications had no impact on the reported financial position or results of operations. The most significant reclassifications were to reclassify the Cerro Bayo statements of operations from historical presentation to income (loss) from discontinued operations in the consolidated statements of operations for all periods presented.

Correction of an Immaterial Error: In the fourth quarter of 2010, the Company identified an error in the amount of income tax benefit recognized in 2009 and the three month period ended March 31, 2010. The Company assessed the materiality of this error in accordance with Staff Accounting Bulletin No. 108 and determined that the error was immaterial to amounts previously reported in its periodic reports, and the Company intends to correct this error through subsequent periodic filings. See Note D Correction of an Immaterial Error in the Company s Form 10-K for the year ended December 31, 2010.

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Coeur d Alene Mines Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

NOTE 2 EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income (loss) available to common shareholders by the weighted average number of common shares outstanding during each period. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. For the three and six months ended June 30, 2011, respectively, 1,056,901 and 1,419,282 shares of common stock equivalents related to convertible debt, debt that can be settled in stock, and equity-based awards have not been included in the diluted per share calculation as the shares would be antidilutive. For the three and six months ended June 30, 2010, 6,446,214 and 5,815,484, respectively, of common stock equivalents related to convertible debt and equity based awards have not been included in the diluted per share calculation, as the Company recorded a net loss for those periods. The effect of potentially dilutive stock outstanding as of June 30, 2011, and 2010 are as follows (in thousands, except per share data):

	Three months ended June 30, 2011			**Six months ended June 30, 2011**		
	Income (Numerator)	**Shares (Denominator)**	**Per-Share Amount**	**Income (Numerator)**	**Shares (Denominator)**	**Per-Share Amount**
Basic EPS						
Net Income available to common stockholders	$ 38,611	89,310	$ 0.43	$ 51,075	89,299	$ 0.57
Effect of Dilutive Securities						
Equity awards		402			384	
Diluted EPS						
Net Income available to common stockholders	$ 38,611	89,712	$ 0.43	$ 51,075	89,683	$ 0.57

	Three months ended June 30, 2010			**Six months ended June 30, 2010**		
	Income (Numerator)	**Shares (Denominator)**	**Per-Share Amount**	**Income (Numerator)**	**Shares (Denominator)**	**Per-Share Amount**
Basic EPS						
Net Income available to common stockholders	$ (50,744)	88,501	$ (0.57)	$ (63,601)	85,145	$ (0.75)
Effect of Dilutive Securities						
Equity awards						
Diluted EPS						
Net Income (loss) available to common stockholders	$ (50,744)	88,501	$ (0.57)	$ (63,601)	85,145	$ (0.75)

NOTE 3 FAIR VALUE MEASUREMENTS

Accounting standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

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Coeur d Alene Mines Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

Level 2 Quoted market prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; and

Level 3 Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

The following table sets forth the Company s financial assets and liabilities measured at fair value on a recurring basis (at least annually) by level within the fair value hierarchy. As required by accounting guidance, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement (in thousands):

	Fair Value at June 30, 2011			
	Total	**Level 1**	**Level 2**	**Level 3**
Assets:				
Cash equivalents	$ 39,509	$ 39,509	$	$
Short-term deposits	480	480		
Marketable equity securities	9,056	9,056		
Restricted certificates of deposit	1,178	1,178		
Put and call options	5,583	5,583		
Silver ounces receivable from Mandalay	2,058		2,058	
	$ 57,864	$ 55,806	$ 2,058	$
Liabilities:				
Royalty obligation embedded derivative	$ 164,891	$	$ 164,891	$
Put and call options	18,655	18,655		
Other derivative instruments, net	890		890	
	$ 184,436	$ 18,655	$ 165,781	$

	Fair Value at December 31, 2010			
	Total	**Level 1**	**Level 2**	**Level 3**
Assets:				
Cash equivalents	$ 11	$ 11	$	$
Restricted certificates of deposit	2,965	2,965		
Gold forward contract	425	425		
Put and call options	5,403	5,403		
Silver ounces receivable from Mandalay	1,594		1,594	
Other derivative instruments, net	1,685		1,685	
	$ 12,083	$ 8,804	$ 3,279	$
Liabilities:				
Gold lease facility	$ 2,213	$	$ 2,213	$
Royalty obligation embedded derivative	162,003		162,003	

Put and call options	20,151	20,151		
	$184,367	$20,151	$164,216	$

The Company s cash equivalents, which include money market funds and municipal securities, certificates of deposit and short-term deposits, are valued at readily available market prices. These investments are classified within Level 1 of the fair value hierarchy.

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Coeur d Alene Mines Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

The Company s marketable equity securities are recorded at fair market value in the financial statements based on quoted market prices, which are accessible at the measurement date for identical assets. Such instruments are classified within Level 1 of the fair value hierarchy.

The Company s derivative instruments related to gold forward contracts and put and call options are valued using quoted prices in active markets that are accessible at the measurement date for identical assets and liabilities. Such instruments are classified within Level 1 of the fair value hierarchy.

The Company s derivative instruments related to the silver ounces receivable from Mandalay described in Note 4, Discontinued Operations, gold lease facility, royalty obligation embedded derivative, and other derivative instruments, net, which relate to the concentrate sales contracts and foreign exchange contracts, are valued using pricing models which require inputs that are derived from observable market data, including contractual terms, forward market prices, yield curves and credit spreads. The model inputs can generally be verified and do not involve significant management judgment. Such instruments are classified within Level 2 of the fair value hierarchy.

The Company had no Level 3 financial assets and liabilities as of June 30, 2011 or December 31, 2010.

NOTE 4 DISCONTINUED OPERATIONS

In August 2010, the Company sold its 100% interest in its subsidiary Compañía Minera Cerro Bayo Ltd. (Minera Cerro Bayo), which controls the Cerro Bayo mine in southern Chile, to Mandalay Resources Corporation (Mandalay). Under the terms of the agreement, the Company received the following from Mandalay in exchange for all of the outstanding shares of Minera Cerro Bayo; (i) $6.0 million in cash; (ii) 17,857,143 common shares of Mandalay; (iii) 125,000 ounces of silver to be delivered in six equal quarterly installments commencing in the third quarter of 2011, which had an estimated fair value of $2.3 million; (iv) a 2.0% Net Smelter Royalty (NSR) on production from Minera Cerro Bayo in excess of a cumulative 50,000 ounces of gold and 5,000,000 ounces of silver, which had an estimated fair value of $5.4 million; and (v) existing value-added taxes to be collected from the Chilean government in excess of $3.5 million, which were valued at $3.5 million. As part of the transaction, Mandalay agreed to pay the next $6.0 million of reclamation costs associated with Minera Cerro Bayo s nearby Furioso property. Any reclamation costs above that amount will be shared equally by Mandalay and the Company. At the time of the sale, the Company realized a loss on the sale of approximately $2.1 million, net of income taxes.

The following table details selected financial information included in income from discontinued operations for the three and six months ended June 30, 2010 (in thousands):

	Three months ended June 30, 2010	Six months ended June 30, 2010
Sales of metals	$	$
Depreciation and depletion	(1,028)	(2,082)
Care and maintenance expense	(809)	(1,878)
Other income and expense	(151)	(497)
Income tax expense	(978)	(1,321)
Loss on sale of discontinued assets	(2,977)	(2,977)
Income (loss) from discontinued operations	$ (5,943)	$ (8,755)

Coeur d Alene Mines Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

NOTE 5 INVESTMENTS AND OTHER MARKETABLE SECURITIES

The Company classifies its investments in marketable securities as available-for-sale securities. Such securities are measured at fair market value in the financial statements with unrealized gains or losses recorded in other comprehensive income. At the time securities are sold or otherwise disposed of, gains or losses are included in net income. There were no investment securities as of December 31, 2010. The equity securities reflected in the table below include certain equity securities of silver exploration companies that the Company purchased during the three months ended June 30, 2011. The following table summarizes the Company s available-for-sale securities on hand as of June 30, 2011 (in thousands):

	Investments in marketable securities			
	Cost	Gross Unrealized Losses	Gross Unrealized Gains	Estimated Fair Value
Equity securities	$ 10,443	$ (1,387)	$	$ 9,056
	$ 10,443	$ (1,387)	$	$ 9,056

The investments in equity securities were made on a private purchase basis through agreements with the businesses that the Company invested in. The Company is restricted from selling some of these securities for a period of four months from the purchase date.

The Company recognized an unrealized loss of $1.4 million in other comprehensive loss. The Company assessed this unrealized loss and determined it not to be an other than temporary impairment.

Gross realized gains and losses are based on a carrying value (cost, net of discount or premium) of investments sold or adjusted for other than temporary decline in market value. There were no realized gains and/or losses in any of the periods presented.

NOTE 6 RECEIVABLES

Receivables consist of the following (in thousands):

	June 30, 2011	December 31, 2010
Receivables current portion		
Accounts receivable trade	$ 17,337	$ 14,062
Refundable income tax	6,994	5,363
Refundable value added tax	47,322	36,947
Accounts receivable other	2,971	2,508
	$ 74,624	$ 58,880
Receivables non-current portion		
Refundable value added tax	$ 40,941	$ 42,866

Trade receivables and other receivable balances recorded in other current assets are reported at outstanding principal amounts, net of an allowance for doubtful accounts. Management evaluates the collectability of receivable account balances to determine the allowance, if any. The Company determined that no allowance against its receivable balances at June 30, 2011, or at December 31, 2010 was necessary.

Coeur d Alene Mines Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

Taxes paid to foreign governments that are refundable to the Company are classified as Refundable value added tax at the face value of the amount of the tax refund due. Refunds are expected to be received in the next twelve months are classified as current and amounts that are expected to be received after twelve months are classified as non-current .

NOTE 7 METAL AND OTHER INVENTORIES

Inventories consist of the following (in thousands):

	June 30, 2011	December 31, 2010
Concentrate and doré inventory	$ 103,642	$ 81,059
Supplies	51,998	37,281
Metal and other inventory	$ 155,640	$ 118,340

NOTE 8 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following (in thousands):

	June 30, 2011	December 31, 2010
Land	$ 713	$ 713
Building improvements	532,620	516,792
Machinery and equipment	255,086	242,684
Capitalized leases for machinery, equipment and buildings	74,708	72,326
	863,127	832,515
Accumulated depreciation and amortization	(199,617)	(164,414)
	$ 663,510	$ 668,101

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NOTE 9 MINING PROPERTIES

Mining properties consist of the following (in thousands):

June 30, 2011	Palmarejo	San Bartolomé	Kensington	Rochester	Martha	Endeavor	Other	Total
Operational mining properties:	$ 131,261	$ 66,710	$ 319,306	$ 103,441	$ 10,714	$	$	$ 631,432
Accumulated depletion	(37,054)	(12,331)	(19,343)	(97,435)	(9,996)			(176,159)
	94,207	54,379	299,963	6,006	718			455,273
Mineral interests	1,657,188	26,642				44,033		1,727,863
Accumulated depletion	(109,222)	(4,946)				(8,370)		(122,538)
	1,547,966	21,696				35,663		1,605,325
Non-producing and development properties							142	142
Total mining properties	$ 1,642,173	$ 76,075	$ 299,963	$ 6,006	$ 718	$ 35,663	$ 142	$ 2,060,740

December 31, 2010	Palmarejo	San Bartolomé	Kensington	Rochester	Martha	Endeavor	Other	Total
Operational mining properties:	$ 128,734	$ 66,655	$ 317,156	$ 99,720	$ 10,096	$	$	$ 622,361
Accumulated depletion	(22,655)	(10,031)	(9,092)	(97,435)	(9,998)			(149,211)
	106,079	56,624	308,064	2,285	98			473,150
Mineral interests	1,657,188	26,642				44,033		1,727,863
Accumulated depletion	(68,026)	(4,027)				(6,886)		(78,939)
	1,589,162	22,615				37,147		1,648,924
Non-producing and development properties							142	142
	$ 1,695,241	$ 79,239	$ 308,064	$ 2,285	$ 98	$ 37,147	$ 142	$ 2,122,216

Total mining properties

Operational Mining Properties

Palmarejo: The Palmarejo silver and gold mine is an underground and surface mine located in the State of Chihuahua in northern Mexico, and its principal silver and gold properties are collectively

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referred to as the Palmarejo mine. The Palmarejo mine commenced commercial production in April 2009.

San Bartolomé Mine: The San Bartolomé mine is a silver mine located near the city of Potosi, Bolivia. The mineral rights for the San Bartolomé project are held through long-term joint venture/lease agreements with several local independent mining co-operatives and the Bolivian state owned mining organization, COMIBOL. The Company commenced commercial production at San Bartolomé in June 2008.

Kensington: The Kensington mine is an underground gold mine and consists of the Kensington and adjacent Jualin properties located on the east side of the Lynn Canal about 45 miles north-northwest of Juneau, Alaska. The Kensington mine commenced commercial production in July 2010.

Rochester Mine: The Company has conducted operations at the Rochester mine, located in Western Nevada, since September 1986. The mine utilizes the heap-leaching process to extract both silver and gold from ore mined using open pit methods. Rochester s primary product is silver with gold produced as a by-product. The Company expects a resumption of active mining at the Rochester mine in 2011.

Martha Mine: The Martha mine is an underground silver mine located in Argentina. Coeur acquired a 100% interest in the Martha mine in April 2002. In December 2007, the Company completed a 240 tonne per day flotation mill, which produces a flotation concentrate.

Mineral Interests

Endeavor Mine: In May 2005, CDE Australia Pty. Ltd., a wholly-owned subsidiary of Coeur (CDE Australia) acquired silver production and reserves, up to a maximum 17.7 million payable ounces, contained at the Endeavor mine in Australia, which is owned and operated by Cobar Operations Pty. Limited (Cobar), a wholly-owned subsidiary of CBH Resources Ltd. (CBH). In March 2006, CDE Australia entered into an amended agreement under which it owns all silver production and reserves up to a total of 20.0 million payable ounces.

CDE Australia began realizing reductions in revenues in the fourth quarter of 2008 as a result of a silver price sharing provision that was part of the purchase agreement. CDE Australia has received approximately 3.3 million payable ounces to-date and the current ore reserve contains approximately 7.9 million payable ounces based on current metallurgical recovery and current smelter contract terms. It is expected that future expansion to the ore reserve will occur as a result of the conversion of portions of the property s existing inventory of mineralized material and future exploration discoveries. CBH conducts regular exploration to discover new mineralization and to define reserves from surface and underground drilling platforms.

Non-Producing and Development Properties

The Company has no significant non-producing or development properties as of June 30, 2011, or December 31, 2010.

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Coeur d Alene Mines Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

NOTE 10 LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

The current and non-current portions of long-term debt and capital lease obligations as of June 30, 2011 and December 31, 2010 are as follows (in thousands):

	June 30, 2011		December 31, 2010	
	Current	Non-Current	Current	Non-Current
3.25% Convertible Senior Notes due March 2028	$	$ 44,357	$	$ 43,220
1.25% Convertible Senior Notes due January 2024			1,859	
Senior Term Notes due December 31, 2012	15,000	7,500	15,000	15,000
Kensington Term Facility	21,648	68,124	25,908	48,322
Capital lease obligations	18,799	15,341	15,759	23,483
Other	392		4,791	42
	$ 55,839	$ 135,322	$ 63,317	$ 130,067

3.25% Convertible Senior Notes due 2028

As of June 30, 2011, the outstanding balance of the 3.25% Convertible Senior Notes was $48.7 million, or $44.4 million net of debt discount.

The carrying value of the equity component representing the embedded conversion option at June 30, 2011, and December 31, 2010 was $10.9 million and $10.9 million, respectively.

Interest expense recognized during the three months ended June 30, 2011, and 2010, was $0.4 million and $0.4 million, respectively, and during the six months ended June 30, 2011 and 2010, was $0.9 million and $1.6 million, respectively. Accretion of the debt discount was $0.3 million and $0.6 million, for the three months ended June 30, 2011 and 2010, respectively, and $0.6 million and $1.9 million for the six months ended June 30, 2011 and 2010, respectively. The debt discount remaining at June 30, 2011 was $4.3 million, which will be amortized through March 15, 2013. The effective interest rate on the notes was 12.4%.

1.25% Convertible Senior Notes due 2024

As of June 30, 2011, the Company had no outstanding 1.25% Convertible Senior Notes.

On January 18, 2011, the Company repurchased $945,000 in aggregate principal amount of the notes pursuant to a Tender Offer Statement filed on December 10, 2010. The Company repurchased the remaining $914,000 in aggregate principal amount of the notes outstanding on January 21, 2011.

Senior Term Notes due December 31, 2012

As of June 30, 2011 the balance of the Senior Term Notes was $22.5 million.

For the three and six months ended June 30, 2011 the Company paid in cash $3.8 million and $7.5 million in principal and $0.4 million and $0.9 million in interest, respectively, in connection with the quarterly payments due under the notes. A loss of $0.4 million and $0.9 million for the three and six months ended June 30, 2011, respectively, was recognized in connection with quarterly debt payments as a result of the Company s election to make the required principal and interest payment entirely in cash.

The Company elected to pay the June 30, 2010 payment on the notes with a combination of 50% cash and 50% common stock. The March 31, 2010 payment was paid entirely with common stock. For the three and six months ended June 30, 2010, the Company paid $8.3 million and $16.6 million, respectively, in principal and $1.5 million and $2.5 million, respectively, in interest. For the three and six months ended June 30, 2010, the Company issued 384,410 shares and 1,060,413 shares, respectively, of

Coeur d Alene Mines Corporation and Subsidiaries
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the Company s stock. In addition, $0.5 million and $1.6 million were paid and recognized as a loss in connection with quarterly debt payments in the three and six months ended June 30, 2010, respectively. The loss is recorded in debt extinguishments.

Kensington Term Facility

As of June 30, 2011, the balance of the Kensington term facility was $89.8 million.

As a condition to the Kensington term facility with Credit Suisse, the Company agreed to enter into a gold hedging program which protects a minimum of 243,750 ounces of gold production over the life of the facility against the risk associated with fluctuations in the market price of gold. This program consists of a series of zero cost collars which consist of a floor price and a ceiling price of gold. Collars protecting 220,000 ounces of gold were outstanding at June 30, 2011. The weighted average put feature of each collar was $943.09 and the weighted average call feature of each collar was $1,858.41.

Capital Leases

As of June 30, 2011, Coeur Mexicana S.A. de C.V. (Coeur Mexicana), a wholly owned subsidiary of the Company, had outstanding balances on capital leases of $24.5 million.

Other capital leases for equipment and facilities totaling $9.6 million were outstanding at June 30, 2011 with monthly payments through May 31, 2016.

Other

On July 6, 2010, the Company entered into a short-term financing agreement with AFCO Credit Corporation in the principal amount of $2.4 million and bearing interest at 2.9%, to finance insurance premiums. Installments of $0.2 million were paid monthly with the final payment made on June 1, 2011. As of June 30, 2011, and December 31, 2010, the outstanding balance was nil and $1.1 million, respectively.

On July 15, 2009, to fund equipment purchases, Coeur Mexicana entered into an equipment financing agreement bearing interest at 8.26% with Atlas Copco. This agreement is secured by certain machinery and equipment. The loans call for twenty-four monthly installments with the final payment due on January 31, 2012. As of June 30, 2011, and December 31, 2010, the outstanding balance was $0.4 million and $1.2 million, respectively.

Palmarejo Gold Production Royalty Obligation

The Company recognized accretion expense on the Palmarejo gold production royalty obligation of $5.8 million and $5.0 million for the three months ended June 30, 2011 and 2010, respectively, and $11.0 million and $10.0 million for the six months ended June 30, 2011 and 2010, respectively. As of June 30, 2011 and December 31, 2010, the remaining minimum obligation under the royalty agreement was $76.5 million and $80.3 million, respectively.

Interest Expense

The Company expenses interest incurred on its various debt instruments as a cost of operating its properties. For the three months ended June 30, 2011 and 2010, the Company expensed interest of $9.3 million and $5.6 million, respectively, and for the six months ended June 30, 2011 and 2010, $18.6 million and $11.5 million, respectively.

Coeur d Alene Mines Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
	(in thousands)		(in thousands)	
3.25% Convertible Senior Notes due March 2028	$ 395	$ 444	$ 791	$ 1,604
1.25% Convertible Senior Notes due January 2024		6	1	17
Senior Term Notes due December 2012	427	1,490	914	2,501
Kensington Term Facility	1,162	458	2,267	754
Capital lease obligations	472	542	938	1,006
Other debt obligations	145	410	613	575
Gold Lease Facility		133	107	337
Accretion of Franco Nevada royalty obligation	5,770	4,973	11,037	9,965
Amortization of debt issuance costs	559	836	1,183	1,118
Accretion of debt discount	576	579	1,137	1,949
Capitalized interest	(238)	(4,225)	(415)	(8,375)
Total interest expense	$ 9,268	$ 5,646	$ 18,573	$ 11,451

Capitalized Interest

The Company capitalizes interest incurred on its various debt instruments as a cost of properties under development. For the three months ended June 30, 2011, and 2010 the Company capitalized interest of $0.2 and $4.2 million, respectively, and for the six months ended June 30, 2011 and 2010, $0.4 million and $8.4 million, respectively.

NOTE 11 RECLAMATION AND MINE CLOSURE

Reclamation and mine closure costs are based principally on legal and regulatory requirements. Management estimates costs associated with reclamation of mining properties as well as remediation costs for inactive properties. The Company uses assumptions about future costs, mineral prices, mineral processing recovery rates, production levels, capital costs and reclamation costs. Such assumptions are based on the Company s current mining plan and the best available information for making such estimates. On an ongoing basis, management evaluates its estimates and assumptions; however, actual amounts could differ from those based on such estimates and assumptions.

Changes to the Company s asset retirement obligations are as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Asset retirement obligation Beginning	$ 27,908	$ 25,689	$ 27,302	$ 25,112
Accretion	654	573	1,290	1,138
Addition and changes in estimates				18
Settlements	(5)	(7)	(35)	(13)
Asset retirement obligation June 30	$ 28,557	$ 26,255	$ 28,557	$ 26,255

Coeur d Alene Mines Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

In addition, the Company has accrued $1.2 million and $1.8 million, as of June 30, 2011 and December 31, 2010, respectively, for reclamation liabilities related to former mining activities. These amounts are also included in reclamation and mine closure liabilities.

On January 13, 2011, the Company entered into The Rochester Mine Irrevocable Trust (the Trust), to provide financial assurance of performance of post-closure monitoring and maintenance obligations for the Rochester Mine Plan of Amendment. The Company deposited $0.7 million into the Trust. The primary beneficiary of the trust is the Bureau of Land Management and the trust funds must be used solely to pay expenses related to post-closure monitoring and maintenance obligations. The Trust will terminate on the earlier of (i) 365 years from the initial date of the trust agreement, or (ii) the expiration of the longest period applicable to the assets of the Trust under the rule against perpetuities of the situs of the Trust.

NOTE 12 INCOME TAXES

For the three and six months ended June 30, 2011, the Company reported an income tax provision of approximately $21.4 million and $34.3 million, respectively, compared to an income tax benefit of $9.4 million and $16.4 million for the three and six months ended June 30, 2010, respectively. The following table summarizes the components of the Company s income tax provision from continuing operations for the three and six months ended June 30, 2011 and 2010 (in thousands):

		Three months ended June 30,		Six months ended June 30,	
		2011	**2010**	**2011**	**2010**
Current:					
United States	Alternative minimum tax	$	$	$ 1,938	$
United States	Foreign withholding	(413)	(624)	(491)	(1,115)
Argentina		(15)	(2,128)	83	(2,141)
Australia		(760)	(57)	(659)	(57)
Mexico		(90)	(33)	(140)	(83)
Bolivia		(15,926)	(3,721)	(25,005)	(2,890)
Deferred:					
United States		(1,789)	20,422	(2,405)	14,486
Australia		60	(292)	(459)	(582)
Mexico		(6,286)	(4,007)	(10,062)	10,363
Bolivia		3,817	(188)	2,859	(1,611)
Income tax benefit (provision) from continuing operations		$ (21,402)	$ 9,372	$ (34,341)	$ 16,370

The income tax benefit (provision) for the three and six months ended June 30, 2011 varies from the statutory rate primarily because of differences in tax rates for the Company s foreign operations and changes in valuation allowances for net deferred tax assets, permanent differences and foreign exchange rate differences. The Company has U.S. net operating loss carryforwards which expire in 2011 through 2026. Net operating losses in foreign countries have an indefinite carryforward period, except in Mexico where net operating loss carryforwards are limited to ten years.

NOTE 13 SHARE-BASED COMPENSATION PLANS

The Company has an annual incentive plan and a long-term incentive plan. The Company s shareholders approved the Amended and Restated 2003 Long-Term Incentive Plan of Coeur d Alene Mines Corporation at the 2010 annual shareholders meeting.

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The compensation expense (benefit) recognized in the Company s consolidated financial statements for the three months ended June 30, 2011 and 2010 for stock based compensation awards was ($3.4) million and $0.6 million, respectively. For the six months ended June 30, 2011 and 2010, the Company recognized stock based compensation of $4.8 million and $2.0 million, respectively. The stock appreciation rights (SARs), restricted stock units (RSUs) and performance units outstanding under the plan are liability-based awards and are required to be re-measured at the end of each reporting period with corresponding adjustments to previously recognized and future stock-based compensation expense. As of June 30, 2011, there was $6.1 million of total unrecognized compensation cost (net of estimated forfeitures) related to unvested stock options, SARs, restricted stock, RSUs, performance shares and performance units which is expected to be recognized over a weighted-average remaining vesting period of 1.7 years.

The following table shows the new grants issued during the six months ended June 30, 2011:

Grant date	Restricted stock	Grant date fair value of restricted stock	Stock options	Grant date fair value of stock options	Performance shares	Grant date fair value of performance shares
January 3, 2011	188,673	$ 27.45	121,017	$ 17.89	70,188	$ 42.81
March 8, 2011	1,509	$ 34.79	2,562	$ 22.82	1,509	$ 55.12
May 9, 2011	5,853	$ 26.98	10,059	$ 17.59	5,853	$ 42.08

	SARs	June 30, 2011 Performance units	Restricted stock units
Weighted average fair value	$17.40	$29.71	$24.26

The following table shows the options and SARs exercisable at June 30, 2011:

Options Exercisable	Weighted Average Exercise Price	SARs Exercisable	Weighted Average Exercise Price
256,023	$28.63	82,170	$12.53

NOTE 14 DEFINED CONTRIBUTION AND 401(k)

Defined Contribution Plan

The Company provides a noncontributory defined contribution retirement plan for all eligible U.S. employees. Total contributions, which are based on a percentage of the salary of eligible employees, were $0.4 million and $0.2 million for the three months ended June 30, 2011 and 2010, respectively, and $0.8 million and $0.4 million for the six months ended June 30, 2011 and 2010, respectively.

401(k) Plan

The Company maintains a retirement savings plan (which qualifies under Section 401(k) of the U.S. Internal Revenue Code) covering all eligible U.S. employees. Under the plan, employees may elect

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to contribute up to 100% of their cash compensation, subject to ERISA limitations. The Company adopted a Safe Harbor Tiered Match and is required to make matching contributions equal to 100% of the employee s contribution up to 3% of the employee s compensation plus matching contributions equal to 50% of the employee s contribution up to an additional 2% of the employee s compensation. Total plan expenses recognized in the Company s consolidated financial statements for the three months ended June 30, 2011 and 2010 were $0.3 million and $0.2 million, respectively, and for the six months ended June 30, 2011 and 2010, were $0.6 million and $0.4 million, respectively.

NOTE 15 DERIVATIVE FINANCIAL INSTRUMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

Palmarejo Gold Production Royalty

On January 21, 2009, the Company entered into the gold production royalty transaction with Franco-Nevada Corporation described in Note 10, Long-Term Debt and Capital Lease Obligations, Palmarejo Gold Production Royalty Obligation. The minimum royalty obligation ends when payments have been made on a total of 400,000 ounces of gold. As of June 30, 2011, a total of 288,836 ounces of gold remain outstanding under the minimum royalty obligation. The price volatility associated with the minimum royalty obligation is considered an embedded derivative financial instrument under U.S. GAAP. The fair value of the embedded derivative at June 30, 2011 and December 31, 2010 was a liability of $164.9 million and $162.0 million, respectively. The Franco-Nevada warrants were contingent options to acquire 316,436 common shares of Franco-Nevada for no additional consideration, once the mine satisfied certain completion tests stipulated in the agreement. During the three and six months ended June 30, 2011, mark-to-market adjustments for this embedded derivative amounted to a loss of $4.0 million and $2.9 million, respectively. On September 19, 2010, the Company exercised these warrants and received the related shares, which were sold for net proceeds to the Company of $10.0 million. The Franco-Nevada warrants were considered a derivative instruments. During the three and six months ended June 30, 2010, mark-to-market adjustments for this embedded derivative and warrants amounted to a loss of $30.0 million and a gain of $1.0 million, respectively. For the three months ended June 30, 2011 and 2010, realized losses on settlement of the liabilities were $9.7 million and $3.7 million, respectively, and for the six months ended June 30, 2011 and 2010, realized losses on settlement of the liabilities were $17.2 million and $6.8 million, respectively. The mark-to-market adjustments and realized losses are included in fair value adjustments, net in the consolidated statement of operations.

Forward Foreign Exchange Contracts

The Company periodically enters into forward foreign currency contracts to reduce the foreign exchange risk associated with forecasted Mexican peso (MXP) operating costs at its Palmarejo mine. At June 30, 2011, the Company had MXP foreign exchange contracts of $32.4 million in U.S. dollars. These contracts require the Company to exchange U.S. dollars for MXP at a weighted average exchange rate of 12.08 MXP to each U.S. dollar and had a fair value of $0.3 million at June 30, 2011. The Company recorded mark-to-market gains (losses) of ($0.7) million and $0.3 million for the three and six months ended June 30, 2011, respectively, and $(1.6) million and $(1.2) million for the three and six months ended June 30, 2010, respectively, which is reflected in fair value adjustments, net. The Company recorded realized gains of $0.9 million and $1.1 million in Production costs applicable to sales during the three and six months ended June 30, 2011, respectively, and $0.5 million and $0.5 million during the three and six months ended June 30, 2010, respectively.

Gold Lease Facility

As of June 30, 2011, the Company had no gold leased from Mitsubishi International Corporation (MIC). At December 31, 2010, the Company had 10,000 ounces of gold leased from MIC, which it

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delivered to MIC on March 22, 2011. The Company accounted for the gold lease facility as a derivative instrument, which was recorded in accrued liabilities and other on the balance sheet.

On December 12, 2008, the Company entered into the gold lease facility with MIC. Pursuant to this facility, the Company may lease amounts of gold from MIC and is obligated to deliver the same amounts back to MIC and to pay specified lease fees to MIC that are equivalent to interest at current market rates on the value of the gold leased. Pursuant to a Second Amended and Restated Collateral Agreement, the Company s obligations under the facility are secured by certain collateral. The collateral agreement specifies the maximum amount of gold the Company may lease from MIC, as well as the amount and type of collateral.

Concentrate Sales Contracts

The Company enters into concentrate sales contracts with third-party smelters. The contracts, in general, provide for a provisional payment based upon provisional assays and quoted metal prices. The provisionally priced sales contain an embedded derivative that is required to be separated from the host contract for accounting purposes. The host contract is the receivable from the sale of concentrates at the forward price at the time of sale. The embedded derivative, which is the final settlement price based on a future price, does not qualify for hedge accounting. These embedded derivatives are recorded as derivative assets (in Prepaid expenses and other) or derivative liabilities (in Accrued liabilities and other) on the balance sheet and are adjusted to fair value through earnings each period until the date of final settlement. At June 30, 2011, the Company had outstanding provisionally priced sales of $24.8 million, consisting of 341,058 ounces of silver and 7,471 ounces of gold, which had a fair value of $23.6 million including the embedded derivative. At December 31, 2010, the Company had outstanding provisionally priced sales of $35.7 million consisting of 647,711 ounces of silver and 12,758 ounces of gold, which had a fair value of approximately $37.4 million including the embedded derivative.

Commodity Derivatives

At December 31, 2010, the Company had one outstanding forward gold contract of 10,000 ounces at a fixed price of $1,380 per ounce, which was settled on March 22, 2011 for a gain of $0.5 million.

As of June 30, 2011, in connection with the Kensington term facility described in Note 10, Long-Term Debt and Capital Lease Obligations, Kensington term facility, the Company had outstanding call options requiring it to deliver 220,000 ounces of gold at a weighted average strike price of $1,858.41 per ounce if the market price of gold exceeds the strike price. At June 30, 2011, the Company had outstanding put options allowing it to sell 220,000 ounces of gold at a weighted average strike price of $943.09 per ounce if the market price of gold were to fall below the strike price. The contracts will expire over the next five years. As of June 30, 2011, the fair market value of these contracts was a net liability of $13.1 million. During the six months ended June 30, 2011, 23,750 ounces of gold call options at a weighted average strike price of $1,737.68 per ounce expired. The Company recorded unrealized gains of $2.4 million and $1.7 million for the three and six months ended June 30, 2011, respectively, included in fair value adjustments, net. During the three and six months ended June 30, 2010, the Company recorded unrealized losses of $6.1 million and $6.6 million, respectively, included in fair value adjustments, net.

In connection with the sale of the Cerro Bayo mine to Mandalay Resources Corporation, the Company received 125,000 ounces of silver to be delivered in six equal quarterly installments commencing in the third quarter of 2011. The Company recognized a mark to market loss of $0.4 million associated with this silver in the three months ended June 30, 2011. The Company recognized a mark to market gain of $0.5 million associated with this silver in the six months ended June 30, 2011. The silver had a fair value of $4.3 million at June 30, 2011, and a fair value of $3.9 million at December 31, 2010.

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As of June 30, 2011, the Company had the following derivative instruments that settle in each of the years indicated in the table (in thousands except average rates, ounces and per share data):

	2011	2012	2013	Thereafter
Palmarejo gold production royalty	$ 14,712	$ 24,865	$ 25,097	$ 78,140
Average gold price in excess of minimum contractual deduction	$ 483	$ 497	$ 502	$ 493
Notional ounces	30,435	50,004	50,004	158,393
Mexican peso forward purchase contracts	$ 15,600	$ 16,800	$	$
Average rate (MXP/$)	$ 12.49	$ 11.70	$	$
Mexican peso notional amount	194,771	196,568		
Silver ounces receivable from Mandalay	$ 764	$ 1,535	$	$
Average silver forward price	$ 18.33	$ 18.42	$	$
Notional ounces	41,667	83,333		
Silver concentrate sales agreements	$ 13,398	$	$	$
Average silver price	$ 39.28	$	$	$
Notional ounces	341,058			
Gold concentrates sales agreements	$ 11,384	$	$	$
Average gold price	$ 1,524	$	$	$
Notional ounces	7,471			
Gold put options purchased	$ 1,800	$ 2,880	$ 1,800	$ 720
Average gold strike price	$ 887	$ 923	$ 928	$ 991
Notional ounces	30,000	68,000	45,000	77,000
Gold call options sold	$ 1,800	$ 2,880	$ 1,800	$ 720
Average gold strike price	$ 1,740	$ 1,817	$ 1,827	$ 1,960
Notional ounces	30,000	68,000	45,000	77,000

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The following summarizes the classification of the fair value of the derivative instruments as of June 30, 2011 and December 31, 2010 (in thousands):

	June 30, 2011					
	Prepaid expenses and other	**Other non-current assets**	**Accrued liabilities and other**	**Other long-term liabilities**	**Current portion of royalty obligation**	**Non-current portion of royalty obligation**
Silver ounces receivable from Mandalay	$ 1,378	$ 680	$	$	$	$
Forward foreign exchange contracts	830		527			
Palmarejo gold production royalty					33,425	131,466
Put and call options, net			1,449	11,623		
Concentrate sales contracts	30		1,223			
	$ 2,238	$ 680	$ 3,199	$ 11,623	$ 33,425	$ 131,466

	December 31, 2010					
	Prepaid expenses and other	**Other non-current Assets**	**Accrued liabilities and other**	**Other long-term Liabilities**	**Current portion of royalty obligation**	**Non-current portion of royalty obligation**
Gold lease facility	$	$	$ 2,213	$	$	$
Gold forward contract	425					
Silver ounces receivable from Mandalay	531	1,063				
Forward foreign exchange contracts	328		323			
Palmarejo gold production royalty					28,745	133,258
Put and call options, net			1,471	13,277		
Concentrate sales contracts	1,703		23			
	$ 2,987	$ 1,063	$ 4,030	$ 13,277	$ 28,745	$ 133,258

The following represent mark-to-market gains (losses) on derivative instruments for the three and six months ended June 30, 2011 and 2010 (in thousands):

		Three months ended June 30,		Six months ended June 30,	
Financial statement line	**Derivative**	**2011**	**2010**	**2011**	**2010**
Sales of metal	Concentrate sales contracts	$ (1,515)	$ (536)	$ (2,873)	$ 51
Production costs applicable to sales	Forward foreign exchange contracts	859	489	1,111	40
Fair value adjustments, net	Gold lease facility		(2,137)	(132)	(2,729)
Fair value adjustments, net	Forward foreign exchange contracts	(707)	(1,649)	298	(1,192)
Fair value adjustments, net	Forward gold contract			35	
Fair value adjustments, net	Silver ounces receivable	(368)		464	
Fair value adjustments, net	Palmarejo gold royalty	(13,731)	(33,663)	(20,041)	(38,512)
Fair value adjustments, net	Franco-Nevada warrant		1,030		2,333
Fair value adjustments, net	Put and call options	2,374	(6,097)	1,676	(6,674)
		$ (13,088)	$ (42,563)	$ (19,462)	$ (46,683)

Coeur d Alene Mines Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

Credit Risk

The credit risk exposure related to any potential derivative instruments is limited to the unrealized gains, if any, on outstanding contracts based on current market prices. To reduce counter-party credit exposure, the Company deals with financial institutions management deems credit worthy and limits credit exposure to each. The Company does not anticipate non-performance by any of its counterparties. In addition, to allow for situations where positions may need to be revised, the Company deals only in markets that management considers highly liquid.

NOTE 16 COMMITMENTS AND CONTINGENCIES

Labor Union Contracts

The Company maintains two labor agreements in South America, consisting of a labor agreement with Associacion Obrera Minera Argentina at the Martha mine in Argentina and with Sindicato de la Empresa Minera Manquiri at the San Bartolomé mine in Bolivia. The agreement at the Martha mine is effective from June 12, 2006 to June 30, 2012. The labor agreement at the San Bartolomé mine, which became effective October 11, 2007, does not have a fixed term. As of June 30, 2011, approximately 16% of the Company s worldwide labor force was covered by collective bargaining agreements.

Kensington Production Royalty

On July 7, 1995, Coeur, through its wholly-owned subsidiary, Coeur Alaska, Inc., acquired a 50% ownership interest of Echo Bay Exploration Inc. or Echo Bay, which provides the Company with indirect 100% ownership of the Kensington property. The property is located on the east side of Lynn Canal between Juneau and Haines, Alaska. Coeur Alaska is obligated to pay Echo Bay a scaled net smelter return royalty on 1.0 million ounces of future gold production after Coeur Alaska recoups the $32.5 million purchase price and its construction and development expenditures incurred after July 7, 1995 in connection with placing the property into commercial production. The royalty ranges from 1% at gold prices of $400 per ounce to a maximum of 2 1/2% at gold prices above $475 per ounce, with the royalty to be capped at 1.0 million ounces of production.

Rochester Production Royalty

The Company acquired the Rochester property from ASARCO in 1983. The Company is obligated to pay a net smelter royalty interest when the market price of silver equals or exceeds $22.87 per ounce up to a maximum rate of 5% to ASARCO, the prior owner. Royalty expense was $0.6 million and nil for the three months ended June 30, 2011, and 2010, respectively. Royalty expense was $0.9 million and nil for the six months ended June 30, 2011, and 2010, respectively.

NOTE 17 SIGNIFICANT CUSTOMERS

The Company markets its refined metal and doré to bullion trading houses, market makers and members of the London Bullion Market Association, industrial companies and financial institutions. The refined metals are sold to end users for use in electronic circuitry, jewelry, silverware, and the pharmaceutical and technology industries. The Company has six trading counterparties (Mitsui, Mitsubishi, Standard Bank, Auramet, Valcambi and INTL Commodities). Sales of metals to these counterparties for the six months ended June 30, 2011 and 2010, amounted to 80% and 84% of total metal sales, respectively. Generally, the loss of a single bullion trading counterparty would not adversely affect the Company due to the liquidity of the markets and the availability of alternative trading counterparties.

The Company refines and markets its precious metals, doré and concentrates using a geographically diverse group of third party smelters and refiners, including clients located in Mexico, Switzerland, Australia, China, Germany, and the United States (Peñoles, Valcambi, Nyrstar, Aurubis,

Coeur d Alene Mines Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

China National Gold and Johnson Matthey). Sales of silver concentrates to third-party smelters amounted to approximately 20% and 16% of total metal sales for the six months ended June 30, 2011, and 2010, respectively. The loss of any one smelting and refining client may have a material adverse effect on the Company s financial condition and results of operations if alternative smelters and refineries are not available. The Company believes there is sufficient global capacity available to make up for the loss of any one smelter.

NOTE 18 SEGMENT REPORTING

Operating segments are defined as components of an enterprise about which separate financial information is available that are evaluated regularly by the chief operating decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. The Company s chief operating decision-making group is comprised of the Chief Executive Officer and Chief Financial Officer, the Senior Vice President of Operations and the President of South American Operations.

The operating segments are managed separately because each segment represents a distinct use of Company resources and a separate contribution to the Company s cash flows. The Company s reportable operating segments include the Palmarejo, San Bartolomé, Martha, Rochester, Kensington, and Endeavor mining properties. All operating segments are engaged in the discovery or mining of gold and silver and generate the majority of their revenues from the sale of these precious metal concentrates or refined precious metals. The Martha mine sells precious metal concentrates, typically under long-term contracts, to smelters located in Mexico. The Kensington mine sells precious metal concentrates, typically under long-term contracts, to smelters in China and Germany. Refined gold and silver produced by the Rochester, Palmarejo and San Bartolomé mines are principally sold on a spot basis to precious metals trading banks, such as Standard Bank, Mitsubishi, Auramet, Valcambi, International Commodities, and Mitsui. Concentrates produced at the Endeavor mine are sold to Nyrstar (formerly Zinifex), an Australia smelter. The Company s exploration programs are reported in its other segment. The other segment also includes the corporate headquarters, elimination of intersegment transactions and other items necessary to reconcile to consolidated amounts. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies above. The Company evaluates performance and allocates resources based on profit or loss before interest, income taxes, depreciation and amortization, unusual and infrequent items, and extraordinary items.

Revenues from silver sales were $158.8 million and $73.3 million in the three months ended June 30, 2011 and 2010, respectively. Revenues from silver sales were $271.3 million and $133.3 million in the six months ended June 30, 2011, and 2010, respectively. Revenues from gold sales were $72.3 million and $27.7 million in the three months ended June 30, 2011 and 2010, respectively. Revenues from gold sales were $159.4 million and $56.0 million in the six months ended June 30, 2011 and 2010, respectively.

Coeur d Alene Mines Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

Financial information relating to the Company s segments is as follows (in thousands):

Three months ended June 30, 2011	Palmarejo Mine	San Bartolomé Mine	Kensington Mine	Rochester Mine	Martha Mine	Endeavor Mine	Other	Total
Sales of metals	$ 123,727	$ 55,598	$ 26,012	$ 14,434	$ 4,769	$ 6,550	$	$ 231,090
Productions costs applicable to sales	(37,770)	(14,126)	(12,844)	(5,341)	(3,749)	(3,272)		(77,102)
Depreciation and depletion	(41,753)	(5,182)	(9,890)	(584)	747	(865)	(114)	(57,641)
Gross profit (loss)	44,204	36,290	3,278	8,509	1,767	2,413	(114)	96,347
Exploration expense	1,276	31	320	340	1,527		583	4,077
Other operating expenses		70	116	11,025			1,720	12,931
OPERATING INCOME (LOSS)	42,928	36,189	2,842	(2,856)	240	2,413	(2,417)	79,339
Interest and other income	539	180	2	5	(179)		2,216	2,763
Interest expense	(6,112)	(2)	(1,360)		(68)		(1,726)	(9,268)
Loss on debt extinguishment							(389)	(389)
Fair value adjustments, net	(13,731)		2,374				(1,075)	(12,432)
Income tax benefit (expense)	(6,286)	(12,109)			(410)	(3)	(2,594)	(21,402)
Net income (loss)	$ 17,338	$ 24,258	$ 3,858	$ (2,851)	$ (417)	$ 2,410	$ (5,985)	$ 38,611
Segment assets (A)	$ 2,095,411	$ 269,439	$ 507,531	$ 35,606	$ 19,341	$ 40,760	$ 16,201	$ 2,984,289
Capital expenditures (B)	$ 10,278	$ 3,276	$ 7,365	$ 4,201	$ 573	$	$ 71	$ 25,764

Three months ended June 30, 2010	Palmarejo Mine	San Bartolomé Mine	Kensington Mine	Rochester Mine	Martha Mine	Endeavor Mine	Other	Total
Sales of metals	$ 44,834	$ 31,275	$	$ 12,416	$ 9,187	$ 3,306	$	$ 101,018
Productions costs applicable to sales	(32,100)	(15,340)		(5,595)	(4,132)	(1,423)		(58,590)
Depreciation and depletion	(20,291)	(6,032)		(458)	(2,619)	(450)	(133)	(29,983)
Gross profit (loss)	(7,557)	9,903		6,363	2,436	1,433	(133)	12,445
Exploration expense	1,307		229	20	1,205		400	3,161
Other operating expenses	38			601			6,785	7,424
OPERATING INCOME (LOSS)	(8,902)	9,903	(229)	5,742	1,231	1,433	(7,318)	1,860
Interest and other income	(1,903)	(105)		1	(2,180)		366	(3,821)
Interest expense	(5,401)	(92)			(17)		(136)	(5,646)
Loss on debt extinguishment							(4,050)	(4,050)

Fair value adjustments, net	(32,633)		(6,089)				(3,794)	(42,516)
Income tax benefit (expense)	(4,006)	(3,909)			(2,160)		19,447	9,372
Net loss from discontinued operations							(5,943)	(5,943)
Net income (loss)	$ (52,845)	$ 5,797	$ (6,318)	$ 5,743	$ (3,126)	$ 1,433	$ (1,428)	$ (50,744)
Segment assets (A)	$ 2,140,633	$ 274,156	$ 477,800	$ 28,625	$ 26,269	$ 39,210	$ 10,683	$ 2,997,376
Capital expenditures (B)	$ 10,811	$ 1,325	$ 33,195	$ 86	$ 11	$	$ 39	$ 45,467

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Coeur d Alene Mines Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

Six months ended June 30, 2011	Palmarejo Mine	San Bartolomé Mine	Kensington Mine	Rochester Mine	Martha Mine	Endeavor Mine	Other	Total
Sales of metals	$ 211,892	$ 101,919	$ 74,122	$ 28,696	$ 4,455	$ 9,630	$	$ 430,714
Productions costs applicable to sales	(75,139)	(28,244)	(45,764)	(12,698)	(3,359)	(4,372)		(169,576)
Depreciation and depletion	(75,428)	(10,325)	(19,255)	(1,098)	155	(1,484)	(247)	(107,682)
Gross profit (loss)	61,325	63,350	9,103	14,900	1,251	3,774	(247)	153,456
Exploration expense	1,912	35	366	362	2,823		1,341	6,839
Other operating expenses		108	136	14,561			13,931	28,736
OPERATING INCOME (LOSS)	59,413	63,207	8,601	(23)	(1,572)	3,774	(15,519)	117,881
Interest and other income	1,828	787	3	51	(489)		2,484	4,664
Interest expense	(11,815)	(36)	(2,607)		(413)		(3,702)	(18,573)
Loss on debt extinguishment							(856)	(856)
Fair value adjustments, net	(20,041)		1,676				665	(17,700)
Income tax benefit (expense)	(10,062)	(22,146)	(20)		(369)	(3)	(1,741)	(34,341)
Net income (loss)	$ 19,323	$ 41,812	$ 7,653	$ 28	$ (2,843)	$ 3,771	$ (18,669)	$ 51,075
Segment assets (A)	$ 2,095,411	$ 269,439	$ 507,531	$ 35,606	$ 19,341	$ 40,760	$ 16,201	$ 2,984,289
Capital expenditures (B)	$ 15,359	$ 6,812	$ 12,734	$ 5,869	$ 824	$	$ 83	$ 41,681

Six months ended June 30, 2010	Palmarejo Mine	San Bartolomé Mine	Kensington Mine	Rochester Mine	Martha Mine	Endeavor Mine	Other	Total
Sales of metals	$ 90,448	$ 45,867	$	$ 23,167	$ 24,207	$ 5,618	$	$ 189,307
Productions costs applicable to sales	(60,767)	(24,743)		(11,384)	(11,458)	(2,041)		(110,393)
Depreciation and depletion	(41,084)	(9,209)		(923)	(5,104)	(1,110)	(272)	(57,702)
Gross profit (loss)	(11,403)	11,915		10,860	7,645	2,467	(272)	21,212
Exploration expense	1,787		242	41	2,415		1,196	5,681
Other operating expenses	351			773			13,402	14,526
OPERATING INCOME (LOSS)	(13,541)	11,915	(242)	10,046	5,230	2,467	(14,870)	1,005
Interest and other income	261	(144)		1	(2,950)		744	(2,088)
Interest expense	(10,868)	(163)			(55)		(365)	(11,451)

Loss on debt extinguishment							(11,908)	(11,908)
Fair value adjustments, net	(36,179)		(6,552)				(4,043)	(46,774)
Income tax benefit (expense)	2,857	(4,501)			(2,173)		20,187	16,370
Net loss from discontinued operations							(8,755)	(8,755)
Net income (loss)	$ (57,470)	$ 7,107	$ (6,794)	$ 10,047	$ 52	$ 2,467	$ (19,010)	$ (63,601)
Segment assets (A)	$ 2,140,633	$ 274,156	$ 477,800	$ 28,625	$ 26,269	$ 39,210	$ 10,683	$ 2,997,376
Capital expenditures (B)	$ 27,319	$ 1,871	$ 63,097	$ 87	$ 3	$	$ 279	$ 92,656

(A) Segment assets consist of receivables, prepaids, inventories, property, plant and equipment, and mining properties

(B) Balance represents cash flow amounts

Coeur d Alene Mines Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

	June 30, 2011	December 31, 2010
Assets		
Total assets for reportable segments	$ 2,984,289	$ 3,000,389
Cash and cash equivalents	106,830	66,118
Receivables, non-current portion	40,941	42,866
Restricted assets	29,711	29,028
Debt issuance costs, net	3,167	4,333
Other assets	24,033	14,793
Total consolidated assets	$ 3,188,971	$ 3,157,527

Geographic Information

	June 30, 2011	December 31, 2010
Long Lived Assets:		
United States	$ 487,434	$ 487,961
Mexico	1,967,852	2,028,864
Bolivia	230,301	234,306
Australia	35,663	37,147
Argentina	2,838	1,882
Chile	19	14
Other countries	143	143
Total	$ 2,724,250	$ 2,790,317

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Revenues:				
United States	$ 40,446	$ 12,416	$ 102,818	$ 23,167
Mexico	123,727	44,834	211,892	90,448
Bolivia	55,598	31,275	101,919	45,867
Australia	6,550	3,306	9,630	5,618
Argentina	4,769	9,187	4,455	24,207
Total	$ 231,090	$ 101,018	$ 430,714	$ 189,307

NOTE 19 LITIGATION AND OTHER EVENTS

Idaho, Colorado, Maine and Washington Sites Related to Callahan Mining Corporation

During 1991, the Company acquired all of the outstanding common stock of Callahan Mining Corporation.

During 2001, the U.S. Forest Service made a formal request for information regarding the Deadwood Mine site located in central Idaho. Callahan Mining Corporation had operated at this site during the 1940s. The Forest Service

believes that some cleanup action is required at the location.

Coeur d Alene Mines Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

However, the Company did not acquire Callahan until 1991, more than 40 years after Callahan disposed of its interest in the Deadwood property. The Company did not make any decisions with respect to generation, transport or disposal of hazardous waste at the site. Therefore, the Company believes that it is not liable for any cleanup, and if Callahan might be liable, it has no substantial assets with which to satisfy any such liability. To date, no claim has been made by the United States for any cleanup costs against either the Company or Callahan.

During 2002, the U.S. Environmental Protection Agency, or EPA, made a formal request for information regarding a Callahan mine site in the State of Maine. Callahan operated there in the late 1960s, shut the operations down in the early 1970s and disposed of the property. The EPA contends that some cleanup action is warranted at the site, and listed it on the National Priorities List in late 2002. In 2009, the EPA and the State of Maine made additional formal requests for information relating to the Maine Callahan mine site. The Company believes that because it made no decisions with respect to generation, transport or disposal of hazardous waste at this location, it is not liable for any cleanup costs. If Callahan might have liability, it has no substantial assets with which to satisfy such liability. To date, no claim has been made for any cleanup costs against either the Company or Callahan.

In January 2003, the Forest Service made a formal request for information regarding a Callahan mine site in the State of Colorado known as the Akron Mine site. Callahan operated there in approximately the late 1930s through the 1940s, and, to the Company s knowledge, disposed of the property. The Company is not aware of what, if any, cleanup action the Forest Service is contemplating. However, the Company did not make decisions with respect to generation, transport or disposal of hazardous waste at this location, and therefore believes it is not liable for any cleanup costs. If Callahan might have liability, it has no substantial assets with which to satisfy such liability. To date, no claim has been made for any cleanup costs against either the Company or Callahan.

By letter dated February 25, 2010, the State of Washington Department of Ecology notified Callahan Mining Corporation that it found credible evidence supporting a conclusion that Callahan is a potentially liable person for a release of a hazardous substance at the Van Stone mine located approximately 21 miles northeast of Colville, Washington. The rights and liabilities of a potentially liable person are described under Washington law. The Department of Ecology alleges that Callahan sold the property in 1990. This is prior to Coeur s acquisition of Callahan, and therefore Coeur has no knowledge of the facts and circumstances surrounding Washington s allegations. The Company did not make decisions with respect to generation, transport or disposal of hazardous waste at this location. If Callahan might have liability, it has no substantial assets with which to satisfy it. To date no claim has been made for any cleanup costs against Callahan.

Temporary Restriction on Mining above 4,400 Meters at San Bartolomé

On October 14, 2009, the Bolivian state-owned mining organization, COMIBOL, announced by resolution that it was temporarily suspending mining activities above the elevation of 4,400 meters above sea level while stability studies of Cerro Rico mountain are undertaken. The Company holds rights to mine above this elevation under valid contracts backed by Supreme Decree with COMIBOL as well as contracts with local mining cooperatives that hold their rights through COMIBOL. The Company temporarily adjusted its San Bartolomé mine plan to confine mining activities to the ore deposits below 4,400 meters above sea level and timely notified COMIBOL of the need to lift the restriction.

In March 2010, the San Bartolomé mine began mining operations in high grade material located in the Huacajchi deposit above the 4,400 meter level under an agreement with the cooperatives. The Huacajchi deposit was confirmed to be excluded from the October 2009 resolution. Other mining areas above the 4,400 meter level continue to be suspended. The mine plan adjustment may reduce production until the Company is able to resume mining above 4,400 meters. It is uncertain at this

time how long the temporary suspension will remain in place. If the restriction is not lifted, the Company may need to write down the carrying value of the asset.

NOTE 20 SUBSEQUENT EVENTS

Dennis E. Wheeler, President, Chief Executive Officer, Chairman of the Board, and director, notified the Board of Directors of his decision to resign from all positions with the Company on July 11, 2011. Mr. Wheeler will serve as a consultant to the Company for twelve months following his resignation. In return for these services, Mr. Wheeler will be paid a lump sum of $1.0 million, plus reimbursement of office expenses up to an aggregate of $75,000 and will have continued use of a company car. In addition, Mr. Wheeler will receive a separation package comprising (i) a lump sum payment of $2.8 million, (ii) all other rights and benefits in which Mr. Wheeler is or becomes vested pursuant to compensation plans and programs of the Company, including stock option, stock appreciation right, restricted stock, restricted stock unit, performance share and performance unit awards, (iii) continued coverage under the Company s group health insurance plan of Mr. Wheeler and his eligible dependents for three years and (iv) one Company-paid physical for each of Mr. Wheeler and his spouse at an aggregate expense not to exceed $25,000. Pursuant to the transition agreement, Mr. Wheeler has agreed that he will not directly or indirectly compete with the Company or solicit employees or customers of the Company for twelve months following his resignation.

On July 14, 2011, the Company paid $2.0 million to purchase 1.9 million shares of Huldra Silver Inc., a near term silver producer in British Columbia at its Treasure Mountain Project. The purchase represents a 14.05% interest in Huldra Silver Inc.

On July 19, 2011, the Company paid $4.5 million to purchase 4.5 million shares of Soltoro LTD., which is advancing the El Rayo Silver Project in Jalisco, Mexico. The purchase represents an 8.25% interest in Soltoro LTD.

The Company s Bolivian subsidiary, Empresa Minera Manquiri (Manquiri), was notified by the Bolivian revenue service, Servicio de Impuestos Nacionales (SIN) in February 2011 that it would be audited. On July 18, 2011, Manquiri discovered through informal communications with SIN that some observations emerged with regard to a tax position taken on its fiscal 2008 and 2009 tax returns. Manquiri obtained legal advice from local counsel and on July 26, 2011, filed amended returns for the two years. In addition, Manquiri paid an additional $3.3 million in tax for the fiscal 2009 period and related interest of $0.4 million. In addition, the Company anticipates SIN to assess penalties of at least 20% of the tax payable, however such penalty has not yet been assessed.

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Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is designed to provide the reader of our financial statements with a narrative from management s perspective on our financial condition, results of operations, liquidity and other factors that may affect our future results. We believe it is important to read our MD&A in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2010, as well as other publicly available information.

This report contains numerous forward-looking statements relating to the Company s gold and silver mining business, including estimated production data, expected operating schedules, expected capital costs and other operating data and permit and other regulatory approvals. Such forward-looking statements are identified by the use of words such as believes, intends, expects, hopes, may, should, will, plan, projected, contemplates, words. Actual production, operating schedules, results of operations, ore reserves and resources could differ materially from those projected in the forward-looking statements. The important factors that could cause actual results to differ materially from those in the forward-looking statements include: (i) the risk factors set forth below under Part II, Item 1A including the risk factors set forth under Item 1A (Risk Factors) of the Company s Annual Report on Form 10-K for the year ended December 31, 2010 and the risk factors set forth under Item 1A (Risk Factors) of the Company s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2011; (ii) risks and hazards inherent in the mining business (including environmental hazards, industrial accidents, weather and geologically related conditions); (iii) changes in the market prices of gold and silver; (iv) uncertainties inherent in the Company s production, exploratory and developmental activities, including risks relating to permitting and regulatory delays; (v) any future labor disputes or work stoppages; (vi) uncertainties inherent in the estimation of gold and silver ore reserves; (vii) changes resulting from the Company s future acquisition of new mining properties or businesses; (viii) reliance on third parties to operate certain mines where the Company owns silver production and reserves; (ix) the loss of any third-party smelter to which the Company markets silver and gold; (x) effects of environmental and other governmental regulations; (xi) risks inherent in the ownership or operation of or investment in mining properties or businesses in foreign countries; (xii) the worldwide economic downturn and difficult conditions in the global capital and credit markets; and (xiii) the Company s possible inability to raise additional financing necessary to conduct its business, make payments or refinance its debt. Readers are cautioned not to put undue reliance on forward-looking statements. The Company disclaims any intent or obligation to update publicly these forward-looking statements, whether as a result of new information, future events or otherwise.

MD&A includes references to total cash operating costs and cash costs per ounce of silver and gold produced, both on an individual mine basis and on a consolidated basis. Total cash operating costs per ounce and cash costs per ounce are measurements that management uses to monitor and evaluate the performance of its mining operations and are not measurements calculated under U.S. GAAP. A reconciliation of total cash operating costs and cash costs per ounce to production expenses, which is calculated under U.S. GAAP, is also provided in the section titled Operating Statistics herein and should be referred to when reading the total cash costs per ounce measurement.

Introduction to the Company

The Company is a large primary silver producer with growing gold production and has assets located in the United States, Mexico, Bolivia, Argentina and Australia. The Palmarejo mine, San Bartolomé mine, Kensington mine, Rochester mine and Martha mine, each of which is operated by the Company, and the Endeavor mine, which is operated by a non-affiliated party, constituted the Company s principal sources of mining revenues during the first six months of 2011. Coeur is an Idaho corporation incorporated in 1928.

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The Company s business strategy is to discover, acquire, develop and operate low-cost silver and gold operations that will produce long-term cash flow, provide opportunities for growth through continued exploration, and generate superior and sustainable returns for shareholders. The Company s management focuses on maximizing cash flow from its existing operations, the main elements of which are silver and gold prices, cash costs of production and capital expenditures. The Company also focuses on reducing its non-operating costs in order to maximize cash flow.

The results of the Company s operations are significantly affected by fluctuation in prices of silver and gold, which may fluctuate widely and are affected by numerous factors beyond its control, including interest rates, expectations regarding inflation, currency values, governmental decisions regarding the disposal of precious metals stockpiles, global and regional political and economic conditions and other factors. In addition, the Company faces challenges including raising capital, increasing production and managing social, political and environmental issues. Operating costs at its mines are subject to variation due to a number of factors such as changing commodity prices, ore grades, metallurgy, revisions to mine plans and changes in accounting principles. At foreign locations, operating costs are also influenced by currency fluctuations that may affect the Company s U.S. dollar costs.

Overview of Performance

Production

In the second quarter of 2011, the Company s total silver production increased 0.6 million ounces to 4.8 million ounces as compared to 4.2 million ounces in the comparable period in 2010. The increase is primarily due to higher production from Palmarejo compared to the same time period in 2010. The Company s total gold production in the second quarter of 2011 increased 37,532 ounces, or 162.3%, to 60,656 ounces, as compared to 23,124 ounces in the comparable period in 2010. The increase was primarily driven by the Kensington mine, which operated at full capacity during the second quarter of 2011.

Metal Prices

Sales of metal increased $130.1 million, or 128.8%, to $231.1 million in the second quarter of 2011, compared to $101.0 million in the second quarter of 2010, primarily due to production from the Kensington and Palmarejo mines and from substantially higher average realized silver and gold prices. The Company s average realized silver and gold prices during the second quarter were $39.11 per ounce and $1,504 per ounce, respectively, representing increases of 110.7% and 27.9% respectively, over last year s second quarter. Silver production contributed 68.7% of the Company s total metal sales during the second quarter of 2011, compared to 72.6% during the second quarter of 2010.

Earnings

The Company reported net income of $38.6 million, or $0.43 per share, and a net loss of $50.7 million, or $0.57 per share, for the three months ended June 30, 2011 and 2010, respectively. The Company reported net income of $51.1 million, or $0.57 per share, and a net loss of $63.6 million, or $0.75 per share, for the six months ended June 30, 2011 and 2010, respectively. The earnings reflect non-cash fair value adjustments that decreased net income by $12.4 million and $42.5 million in the three months ended June 30, 2011 and 2010, respectively, and $17.7 million and $46.8 million in the six months ended June 30, 2011 and 2010, respectively. These non-cash fair value adjustments are driven primarily by higher gold prices which increased the estimated future liabilities related to the Franco-Nevada royalty obligation, gold lease facility and put and call options.

Interest expense increased $3.6 million during the three months ended June 30, 2011 as compared to the same period in 2010, primarily due to a decrease in capitalized interest related to commencement of production at the Kensington mine on July 3, 2010, thereby decreasing capitalized interest in 2011 coupled with new borrowings related to the Kensington term facility.

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Other Highlights

In addition to the matters discussed above regarding the key elements of the Company s business strategy, the matters management considers most important in evaluating the Company s financial condition and results of operations include:

The average price of silver (Handy & Harman) and gold (London Gold PM) for the three months ended June 30, 2011 was $38.40 and $1,506 per ounce, respectively, compared to $18.38 and $1,197 per ounce, respectively, for the three months ended June 30, 2010. The market price of silver and gold on August 5, 2011 was $37.92 per ounce and $1,659 per ounce, respectively.

The Company produced a total of 4.8 million ounces of silver during the second quarter of 2011, which was a 14.6% increase over the second quarter of 2010. The Company produced a total of 60,656 ounces of gold during the second quarter of 2011, which was a 162.3% increase over the second quarter of 2010. The Company produced a total of 8.9 million ounces of silver during the six months ended June 30, 2011 which was a 16.8% increase over the six months ended June 30, 2010. The Company produced a total of 113,786 ounces of gold during the six months ended June 30, 2011, which was a 132.7% increase over the six months ended June 30, 2010.

Net cash provided by operating activities for the second quarter of 2011 was $111.1 million, compared to $32.5 million during the second quarter of 2010. Net cash provided by operating activities for the first six months of 2011 was $146.9 million, compared to $23.2 million during the first six months of 2010.

The Company spent $25.8 million on capital expenditures in the second quarter of 2011, which represents a 43.3% decrease from the same time period last year. The Company spent $41.7 million on capital expenditures during the first six months of 2011, compared to $92.7 million spent in the first six months of 2010. The majority of the capital expenditures for the first half of 2010 were at Kensington, which began commercial production in July of 2010.

During the second quarter of 2011, the Company used cash of approximately $10 million to purchase equity securities in development stage mining companies.

The Company s ratio of current assets to current liabilities was 1.50 to 1 at June 30, 2011, which is a significant increase from .98 to 1.0 at December 31, 2010.

There was a significant decrease in accrued liabilities and other as a result of the Company s decision to sell metal on a spot basis as opposed to pre-selling, which it had done during the first quarter of last year and the repayment of the Mitsubishi gold lease position.

Operating Highlights and Statistics

Palmarejo Mine:

Production during the second quarter of 2011 was 2.4 million ounces of silver and 33,389 ounces of gold representing increases of 121.4% and 67.4%, respectively, compared to the second quarter of 2010. Production for the six months ending June 30, 2011 was 4.1 million ounces of silver and 61,148 ounces of gold, representing increases of 72.9% and 43.8%, respectively, compared to the same time period of 2010. Cash operating costs and total cash costs during the second quarter decreased by 134.1% to ($3.68) per ounce compared to the second quarter of 2010. Cash operating costs and total cash costs during the six months ended June 30, 2011 decreased by 101.3% to ($0.10) per ounce compared to the same time period during 2010. Production costs applicable to sales for the three months ended June 30, 2011 increased by 17.7% compared to the same time period in 2010 due to an increase in production. Production costs applicable to sales increased 23.7% for the six months ended June 30, 2011 compared to

the same time period in 2010. The increase in production levels are due to a significant increase in silver ore grades, combined with an increase in recovery rates on silver.

San Bartolomé Mine:

Silver production for the second quarter of 2011 decreased 6.5% to 1.7 million ounces of silver, compared to 1.9 million ounces of silver in the second quarter of 2010. Silver production for the six months ended June 30, 2011 increased 18.9% to 3.5 million ounces of silver, compared to 2.9 million ounces of silver during the same time period in 2010. Production costs applicable to sales decreased by 7.9% during the second quarter of 2011 as compared to the second quarter of 2010. Production costs applicable to sales increased 14.1% during the six months ended June 30, 2011 as compared to the same period in 2010. Total cash operating costs per ounce during the second quarter of 2011 were $8.73 and total cash costs per ounce, including royalties and taxes, were $10.32, compared to $7.78 and $8.32, respectively, in the second quarter of 2010. Total cash operating costs per ounce during the six months ended June 30, 2011 were $8.93 and total cash costs per ounce, including royalties and taxes, were $10.40, compared to $8.57 and $9.22 for the same time period in 2010. Tons milled decreased to 378,640 from 446,909 in the second quarter of 2010. Tons milled increased to 766,308 in the six months ended June 30, 2011, from 740,014 for the same time period in 2010. The decrease in the production of silver at San Bartolomé in the second quarter resulted from reduced tons of ore milled during that time period due to maintenance issues at the mine. Silver ore grades increased 4.8% in the second quarter of 2011 as compared to the second quarter of 2010. Silver ore grades increased 13.6% in the six months ended June 30, 2011 as compared to the six months ended June 30, 2010.

On October 14, 2009, the Bolivian state-owned mining organization, COMIBOL, announced by resolution that it was temporarily suspending mining activities above the elevation of 4,400 meters above sea level while stability studies of Cerro Rico mountain are undertaken. The Company holds rights to mine above this elevation under valid contracts backed by Supreme Decree with COMIBOL as well as contracts with local mining cooperatives who hold their rights through COMIBOL. The Company temporarily adjusted its mine plan to confine mining activities to the ore deposits below 4,400 meters above sea level and timely notified COMIBOL of the need to lift the restriction. The mine plan has been temporarily adjusted and mining continues on the remainder of the property. In March 2010, San Bartolomé began mining operations in high grade material located in the Huacajchi deposit above the 4,400 meter level under an agreement with the cooperatives, although restrictions on mining above the 4,400 meter level continue. The Huacajchi deposit was confirmed to be excluded from the October 2009 resolution. Access to the Huacajchi deposit and its higher grade material is having a beneficial effect on production and cost at the mine. Other mining areas above the 4,400 meter level continue to be suspended. The Company does not use explosives in its surface-only mining activities and is sensitive to the preservation of the mountain under its contracts with the state-owned mining entity and the local cooperatives.

Martha Mine:

Silver production at the Martha mine decreased 81.6% to 0.1 million ounces in the second quarter of 2011 compared to 0.5 million ounces in the second quarter of 2010. Silver production decreased 69.3% to 0.3 million ounces during the six months ended June 30, 2011 as compared to 0.9 million ounces for the same time period in 2010. Production costs applicable to sales decreased by 9.3% during the quarter and 70.7% during the six months ended June 30, 2011, due to a decrease in silver production and a decrease in ore grade. Total cash operating costs per ounce in the second quarter of 2011 were $38.79 and total cash costs per ounce, including royalties and taxes, were $40.47, as compared to $8.97 and $9.57, respectively, during the second quarter of 2010. Total cash operating costs per ounce in the six months ended June 30, 2011 were $29.60 and total cash costs per ounce, including royalties and taxes, were $30.86, as compared to $11.57 and $12.12, respectively, for the same time period during 2010. The decrease in silver production for the quarter was primarily due to an 89.2% decrease in ore grade.

Rochester Mine:

Production was 0.3 million ounces of silver and 1,397 ounces of gold during the second quarter of 2011 compared to 0.5 million ounces of silver and 2,616 ounces of gold in the second quarter of 2010. Production was 0.7 million ounces of silver and 2,848 ounces of gold during the six months ended June 30, 2011 compared to 1.1 million ounces of silver and 5,306 ounces of gold during the same time period of 2010. Production was lower due to continued leach down of the ore on the existing leach pad. Production costs applicable to sales decreased by 4.5% during the second

quarter of 2011 and increased 11.5% during the six months ended June 30, 2011, due to the costs and recoveries associated with the residual heap leaching process. Total cash operating costs per ounce in the second quarter of 2011 were $4.34 and total cash costs per ounce, including production taxes, were $6.88 in the second quarter of 2011 as compared to total cash operating costs per ounce of $2.44 and total cash costs per ounce of $2.93 in the second quarter of 2010. Total cash operating costs per ounce in the first six months of 2011 were $7.31 and total cash costs per ounce, including production taxes, were $9.37 in the first six months of 2011 as compared to total cash operation costs per ounce of $2.06 and total cash costs per ounce of $2.64 for the same time period in 2010. The increase in total cash cost per ounce was primarily due to a decrease in production as described above.

In 2008, the Company commenced studies to investigate the potential to recommence mining and leaching of new material and in 2009 and 2010 completed feasibility studies demonstrating the viability of an expansion of mining and leaching operations at its Rochester mine through 2017. The Company prepared an Amended Plan of Operations for resumption of mining within the existing and permitted Rochester pit and construction of an additional heap leach pad, all within the currently permitted mine boundary. The Bureau of Land Management (BLM) deemed this plan complete in August 2009 under federal regulations and initiated the National Environmental Policy Act process. The BLM issued a positive Decision Record (DR) for the mine to extend silver and gold mining operations by several years with new production ounces expected to begin being recovered in the fourth quarter of 2011.

Endeavor Mine:

Silver production at the Endeavor mine in the second quarter of 2011 was 0.2 million ounces compared to 0.1 million ounces in the second quarter of 2010. Silver production at the Endeavor mine in the six months ended June 30, 2011 was 0.4 million ounces compared to 0.3 million ounces during the same time period in 2010. Production costs applicable to sales increased 129.9% during the quarter due to an increased operating cost contribution as a result of higher silver prices. Production costs applicable to sales increased 114.2% during the six months ended June 30, 2011. Total cash costs per ounce of silver produced were $20.04 in the second quarter of 2011 compared to $8.98 in the second quarter of 2010. Total cash costs per ounce of silver produced were $18.85 during the six months ended June 30, 2011, compared to $8.04 during the same time period in 2010. The increase in total cash cost per ounce was primarily due to the price participation component terms of the silver purchase agreement with CBH Resources Ltd. Under the terms of the price participation component, CDE Australia Pty. Ltd, a subsidiary of the Company, pays an additional operating cost contribution of 50% of the amount by which the silver price exceeds $7.00 per ounce.

As of June 30, 2011, CDE Australia Pty Ltd had recovered approximately 61.7% of the transaction consideration consisting of 3.3 million payable ounces, or 16.5% of the 20.0 million maximum payable silver ounces to which CDE Australia Pty Ltd is entitled under the terms of the silver sale and purchase agreement.

Kensington Mine:

The Kensington mine is an underground gold mine that commenced commercial production on July 3, 2010. Production for the second quarter of 2011 was 25,758 ounces of gold. Production for the six months ended June 30, 2011 was 49,434 ounces of gold. Total cash operating costs per ounce in the second quarter of 2011 were $923.56. Total cash operating costs per ounce in the six months ended June 30, 2011 were $954.78.

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Operating Statistics from Continuing Operations

The following table presents information by mine and consolidated sales information for the three and six month periods ended June 30, 2011 and 2010:

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Silver Operations:				
Palmarejo				
Tons milled	414,719	457,268	813,459	915,275
Ore grade/Ag oz	7.30	3.23	6.65	3.57
Ore grade/Au oz	0.08	0.05	0.08	0.05
Recovery/Ag oz	78.3%	72.5%	75.8%	72.6%
Recovery/Au oz	95.2%	87.3%	91.5%	89.4%
Silver production ounces	2,370,536	1,070,638	4,100,303	2,371,231
Gold production ounces	33,389	19,950	61,148	42,527
Cash operating costs/oz	$ (3.68)	$ 10.78	$ (0.10)	$ 7.83
Cash cost/oz	$ (3.68)	$ 10.78	$ (0.10)	$ 7.83
Total production cost/oz	$ 14.16	$ 29.73	$ 18.48	$ 25.16
San Bartolomé				
Tons milled	378,640	446,909	766,308	740,014
Ore grade/Ag oz	5.24	5.00	5.11	4.50
Recovery/Ag oz	87.7%	83.4%	88.2%	87.2%
Silver production ounces	1,741,578	1,863,141	3,452,525	2,903,068
Cash operating costs/oz	$ 8.73	$ 7.78	$ 8.93	$ 8.57
Cash cost/oz	$ 10.32	$ 8.32	$ 10.40	$ 9.22
Total production cost/oz	$ 13.51	$ 11.56	$ 13.44	$ 12.39
Martha				
Tons milled	22,122	12,421	39,940	29,996
Ore grade/Ag oz	5.44	50.24	8.39	35.21
Ore grade/Au oz	0.01	0.06	0.01	0.04
Recovery/Ag oz	84.0%	88.1%	83.8%	86.6%
Recovery/Au oz	72.4%	81.7%	74.3%	89.5%
Silver production ounces	101,122	549,885	281,107	915,111
Gold production ounces	112	558	356	1,074
Cash operating costs/oz	$ 38.79	$ 8.97	$ 29.60	$ 11.57
Cash cost/oz	$ 40.47	$ 9.57	$ 30.86	$ 12.12
Total production cost/oz	$ 33.83	$ 14.10	$ 30.92	$ 17.38
Rochester (A)				
Silver production ounces	333,432	533,093	667,127	1,055,253
Gold production ounces	1,397	2,616	2,848	5,306
Cash operating costs/oz	$ 4.34	$ 2.44	$ 7.31	$ 2.06
Cash cost/oz	$ 6.88	$ 2.93	$ 9.37	$ 2.64
Total production cost/oz	$ 8.92	$ 3.97	$ 11.22	$ 3.67
Endeavor				
Tons milled	207,388	143,371	374,674	273,244
Ore grade/Ag oz	2.41	2.01	2.23	2.61
Recovery/Ag oz	42.9%	48.4%	43.5%	48.2%
Silver production ounces	214,613	139,447	363,795	343,700
Cash operating costs/oz	$ 20.04	$ 8.98	$ 18.85	$ 8.04

Cash cost/oz	$	20.04	$	8.98	$	18.85	$	8.04
Total production cost/oz	$	24.07	$	12.21	$	22.93	$	11.27

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	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Gold Operation:				
Kensington[B]				
Tons milled	121,565		227,385	
Ore grade/Au oz	0.23		0.23	
Recovery/Au oz	93.0%		92.7%	
Gold production ounces	25,758		49,434	
Cash operating costs/oz	$ 923.56	$	$ 954.78	$
Cash cost/oz	$ 923.56	$	$ 954.78	$
Total production cost/oz	$ 1,308.24	$	$ 1,344.67	$
CONSOLIDATED PRODUCTION TOTALS[C]				
Total silver ounces	4,761,281	4,156,204	8,864,857	7,588,363
Total gold ounces	60,656	23,124	113,786	48,907
Silver Operations:[D]				
Cash operating costs per oz silver	$ 3.39	$ 8.06	$ 5.69	$ 7.77
Cash cost per oz silver	$ 4.19	$ 8.44	$ 6.46	$ 8.17
Total production cost per oz silver	$ 14.42	$ 15.62	$ 16.55	$ 15.72
Gold Operation:[E]				
Cash operating costs per oz gold	$ 923.56	$	$ 954.78	$
Cash cost per oz gold	$ 923.56	$	$ 954.78	$
Total production cost per oz gold	$ 1,308.24	$	$ 1,344.67	$
CONSOLIDATED SALES TOTALS [F]				
Silver ounces sold	4,133,283	4,051,838	7,792,436	7,685,594
Gold ounces sold	49,930	23,645	115,852	49,379
Realized price per silver ounce	$ 39.11	$ 18.56	$ 35.42	$ 17.74
Realized price per gold ounce	$ 1,504	$ 1,176	$ 1,430	$ 1,139

(A) The leach cycle at Rochester requires 5 to 10 years to recover gold and silver contained in the ore. The Company estimates the ultimate recovery to be approximately 61% for silver and 92% for gold. However, ultimate recoveries will not be known until leaching operations cease, which is currently estimated for 2014 for the current leach pad. Current recovery may vary significantly from ultimate recovery. See Critical Accounting Policies and Estimates Ore on Leach Pad in the Company s Form 10-K for the year ended December 31, 2010.

(B) Kensington achieved commercial production on July 3, 2010.

(C) Current production ounces and recoveries reflect final metal settlements of previously reported production ounces.

(D) Amount includes by-product gold credits deducted in computing cash costs per ounce.

(E) Amounts reflect Kensington per ounce statistics only.

(F) Units sold at realized metal prices will not match reported metal sales due primarily to the effects on revenues of mark-to-market adjustments on embedded derivatives in the Company s provisionally priced sales contracts.

Operating Costs per Ounce and Cash Costs per Ounce are calculated by dividing the operating cash costs and cash costs computed for each of the Company s mining properties for a specified period by the amount of gold ounces or silver ounces produced by that property during that same period. Management uses cash operating costs per ounce and cash costs per ounce as key indicators of the profitability of each of its mining properties. Gold and silver are sold and priced in the world financial markets on a U.S. dollar per ounce basis.

Cash Operating Costs and Cash Costs are costs directly related to the physical activities of producing silver and gold, and include mining, processing and other plant costs, third-party refining and smelting costs, marketing expenses, on-site general and administrative costs, royalties, in-mine drilling expenditures related to production and other direct costs. Sales of by-product metals are deducted from the above in computing cash costs. Cash costs exclude depreciation, depletion and amortization, accretion, corporate general and administrative expenses, exploration, interest, and pre-feasibility costs. Cash operating costs include all cash costs except production taxes and royalties, if applicable. Cash costs are calculated and presented using the Gold Institute Production Cost Standard applied consistently for all periods presented.

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Total operating costs and cash costs per ounce are non-U.S. GAAP measures and investors are cautioned not to place undue reliance on them and are urged to read all U.S. GAAP accounting disclosures presented in the consolidated financial statements and accompanying footnotes. In addition, see the reconciliation of cash costs to production costs under Reconciliation of Non-U.S. GAAP Cash Costs to U.S. GAAP Production Costs set forth below.

The following tables present a reconciliation between non-U.S. GAAP cash operating costs per ounce and cash costs per ounce to production costs applicable to sales including depreciation, depletion and amortization, which are calculated in accordance with U.S. GAAP:

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Reconciliation of Non-U.S. GAAP Cash Costs to U.S. GAAP Production Costs
Three months ended
June 30, 2011

n thousands except ounces and per ounce costs)	Palmarejo	San Bartolomé	Kensington	Rochester	Martha	Endeavor	Total
oduction of silver (ounces)	2,370,537	1,741,577		333,431	101,122	214,613	4,761,28
oduction of gold (ounces)			25,758				25,75
sh operating cost per Ag ounce	$ (3.68)	$ 8.73		$ 4.34	$ 38.79	$ 20.04	$ 3.3
sh costs per Ag ounce	$ (3.68)	$ 10.32		$ 6.88	$ 40.47	$ 20.04	$ 4.1
sh operating cost per Au ounce			$ 923.56				$ 923.5
sh cost per Au ounce			$ 923.56				$ 923.5
tal Cash Operating Cost (Non-U.S. GAAP)	$ (8,719)	$ 15,211	$ 23,789	$ 1,446	$ 3,922	$ 4,301	$ 39,95
yalties		2,760		578	170		3,50
oduction taxes				268			26
tal Cash Costs (Non-U.S. GAAP)	(8,719)	17,971	23,789	2,292	4,092	4,301	43,72
ld/Subtract:							
ird party smelting costs			(3,375)		(426)	(1,018)	(4,81
-product credit	50,188			2,106	169		52,46
her adjustments	552	376	19	97	76		1,12
ange in inventory	(4,252)	(4,221)	(7,588)	846	(162)	(10)	(15,38
epreciation, depletion and amortization	41,745	5,182	9,889	584	(748)	865	57,51
oduction costs applicable to sales, including preciation, depletion and amortization (U.S. AAP)	$ 79,514	$ 19,308	$ 22,734	$ 5,925	$ 3,001	$ 4,138	$ 134,62

Reconciliation of Non-U.S. GAAP Cash Costs to U.S. GAAP Production Costs
Six months ended
June 30, 2011

n thousands except ounces and per ounce costs)	Palmarejo	San Bartolomé	Kensington	Rochester	Martha	Endeavor	Total
oduction of silver (ounces)	4,100,303	3,452,525		667,127	281,107	363,795	8,864,85
oduction of gold (ounces)			49,434				49,43
sh operating cost per Ag ounce	$ (0.10)	$ 8.93		$ 7.31	$ 29.60	$ 18.85	$ 5.6
sh costs per Ag ounce	$ (0.10)	$ 10.40		$ 9.37	$ 30.86	$ 18.85	$ 6.4
sh operating cost per Au ounce			$ 954.78				$ 954.7
sh cost per Au ounce			$ 954.78				$ 954.7
tal Cash Operating Cost (Non-U.S. GAAP)	$ (407)	$ 30,825	$ 47,199	$ 4,875	$ 8,322	$ 6,859	$ 97,67
yalties		5,064		908	353		6,32
oduction taxes				468			46

tal Cash Costs (Non-U.S. GAAP)	(407)	35,889	47,199	6,251	8,675	6,859	104,46
ld/Subtract:							
ird party smelting costs			(6,025)		(1,799)	(1,581)	(9,40
-product credit	88,656			4,121	508		93,28
her adjustments	773	188	19	138	172		1,29
ange in inventory	(13,884)	(7,833)	4,572	2,188	(4,196)	(905)	(20,05
preciation, depletion and amortization	75,411	10,325	19,254	1,098	(157)	1,483	107,41
oduction costs applicable to sales, including preciation, depletion and amortization (U.S. AAP)	$ 150,549	$ 38,569	$ 65,019	$ 13,796	$ 3,203	$ 5,856	$ 276,99

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Three months ended
June 30, 2010

(In thousands except ounces and per ounce costs)	Palmarejo	San Bartolomé	Rochester	Martha	Endeavor	Total
Production of silver (ounces)	1,070,638	1,863,142	533,094	549,885	139,447	4,156,206
Cash operating cost per Ag ounce	$ 10.78	$ 7.78	$ 2.44	$ 8.97	$ 8.98	$ 8.06
Cash costs per Ag ounce	$ 10.78	$ 8.32	$ 2.93	$ 9.57	$ 8.98	$ 8.44
Total Operating Cost (Non-U.S. GAAP)	$ 11,542	$ 14,490	$ 1,298	$ 4,937	$ 1,252	$ 33,519
Royalties		999		329		1,328
Production taxes			260			260
Total Cash Costs (Non-U.S. GAAP)	11,542	15,489	1,558	5,266	1,252	35,107
Add/Subtract:						
Third party smelting costs				(1,133)	(346)	(1,479)
By-product credit	23,846		3,131	666		27,643
Other adjustments			95	253		348
Change in inventory	(3,289)	(148)	811	(920)	517	(3,029)
Depreciation, depletion and amortization	20,289	6,032	458	2,236	450	29,465
Production costs applicable to sales, including depreciation, depletion and amortization (U.S. GAAP)	$ 52,388	$ 21,373	$ 6,053	$ 6,368	$ 1,873	$ 88,055

Six months ended
June 30, 2010

thousands except ounces and per ounce costs)	Palmarejo	San Bartolomé	Rochester	Martha	Endeavor	Total
duction of silver (ounces)	2,371,231	2,903,068	1,055,253	915,111	343,700	7,588,3
sh operating cost per Ag ounce	$ 7.83	$ 8.57	$ 2.06	$ 11.57	$ 8.04	$ 7.
sh costs per Ag ounce	$ 7.83	$ 9.22	$ 2.64	$ 12.12	$ 8.04	$ 8.

 2,415

quired database technology	25,684	25,790	4
cumulated amortization	(21,561)	(21,144)	
quired database technology, net	4,123	4,646	
quired customer base	55,038	55,770	10
cumulated amortization	(42,038)	(41,208)	
quired customer base, net	13,000	14,562	
quired trade names and other	9,539	9,755	7
cumulated amortization	(8,051)	(7,988)	

quired trade names and other, net	1,488	1,767
angibles and other assets, net	$20,516	$23,390

8. INCOME TAXES

The income tax provision for the six months ended June 30, 2010 and 2009 reflects an effective tax rate of approximately 39% and 46%, respectively. The Company recognized a one-time discrete tax benefit related to its foreign operations for the three months ended June, 30, 2010, which reduced its effective tax rate.

9. COMMITMENTS AND CONTINGENCIES

The Company and its wholly owned subsidiary CoStar U.K. Limited were defendants in legal proceedings filed in England by Nokia U.K. Limited (“Nokia”) related to a dispute concerning the Company’s termination of an agreement to lease certain office space from Nokia. Nokia served its complaint upon the Company in September 2009. In June 2010, the Company accrued approximately $2.0 million in anticipation of paying this amount as part of a settlement of this lawsuit. On July 20, 2010, the parties signed a settlement agreement formally resolving this litigation and the Company subsequently paid approximately $2.0 million to Nokia.

On December 23, 2008, the Company initiated a Financial Industry Regulatory Authority (“FINRA”) arbitration against Credit Suisse First Boston (“CSFB”) related to CSFB’s purchase of ARS for the Company’s account. The Company’s complaint includes breach of contract, fraud, breach of fiduciary duty and other causes of action in relation to representations made by CSFB about the ARS purchased for CoStar’s account. Initial arbitration hearings were conducted during the first and second quarter of 2010, and the Company expects additional hearings will occur in the third quarter of 2010. The Company expects to receive a ruling on its claim during 2010. Since the outcome of this legal proceeding is uncertain at this time, the Company cannot estimate the amount of gain or loss, if any, that could result from the resolution of this matter.

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

9. COMMITMENTS AND CONTINGENCIES — (CONTINUED)

On December 8, 2009, a former employee filed a lawsuit against the Company in the United States District Court for the Southern District of California alleging violations of the Fair Labor Standards Act and California state wage-and-hour laws and is seeking unspecified damages under those laws. The complaint also seeks to declare a class of all similarly situated employees to pursue similar claims. In May 2010, the parties reached a preliminary agreement to settle this lawsuit, and in June 2010, the Company accrued approximately $800,000 in anticipation of making a settlement payment that will formally resolve this litigation.

Currently, and from time to time, the Company is involved in litigation incidental to the conduct of its business. In accordance with GAAP, the Company records a provision for a liability when it is both probable that a liability has been incurred and the amount can be reasonably estimated. At June 30, 2010, while it is reasonably possible that an unfavorable outcome may occur as a result of one or more of the Company's current litigation matters, management has concluded that it is not probable that a loss has been incurred in connection with the Company's current litigation other than as described above. In addition, the Company is unable to estimate the possible loss or range of loss that could result from an unfavorable outcome in the Company's current litigation and accordingly, the Company has not recognized any liability in the condensed consolidated financial statements for unfavorable results, if any, other than described above. Legal defense costs are expensed as incurred.

10. SEGMENT REPORTING

The Company manages its business geographically in two operating segments, with the primary areas of measurement and decision-making being the U.S. and International, which includes the U.K. and France. The Company's subscription-based information services, consisting primarily of CoStar Property Professional®, CoStar Tenant®, CoStar COMPS Professional®, and FOCUSTM services, currently generate approximately 94% of the Company's total revenues. CoStar Property Professional, CoStar Tenant, and CoStar COMPS Professional are generally sold as a suite of similar services and comprise the Company's primary service offering in the U.S. operating segment. FOCUS is the Company's primary service offering in the International operating segment. Management relies on an internal management reporting process that provides revenue and operating segment EBITDA, which is the Company's net income before interest, income taxes, depreciation and amortization. Management believes that operating segment EBITDA is an appropriate measure for evaluating the operational performance of our operating segments. EBITDA is used by management to internally measure operating and management performance and to evaluate the performance of the business. However, this measure should be considered in addition to, not as a substitute for or superior to, income from operations or other measures of financial performance prepared in accordance with GAAP.

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

10. SEGMENT REPORTING — (CONTINUED)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(unaudited)			
Revenues				
United States	$51,538	$45,651	$102,155	$92,783
International				
External customers	4,300	4,413	8,776	8,651
Intersegment revenue	359	¾	691	¾
Total international revenue	4,659	4,413	9,467	8,651
Intersegment eliminations	(359)	¾	(691)	¾
Total revenues	$55,838	$50,064	$110,931	$101,434
EBITDA				
United States	$10,173	$11,970	$19,585	$26,556
International	(2,376)	(321)	(3,038)	(490)
Total EBITDA	$7,797	$11,649	$16,547	$26,066
Reconciliation of EBITDA to net income				
EBITDA	$7,797	$11,649	$16,547	$26,066
Purchase amortization in cost of revenues	(315)	(503)	(815)	(982)
Purchase amortization in operating expenses	(532)	(742)	(1,222)	(1,688)
Depreciation and other amortization	(2,459)	(2,213)	(4,917)	(4,464)
Interest income, net	196	322	434	764
Income tax expense, net	(1,436)	(3,897)	(3,887)	(8,974)
Net income	$3,251	$4,616	$6,140	$10,722

Intersegment revenue is attributable to services performed by Property and Portfolio Research Ltd., a wholly owned subsidiary of PPR, for PPR. Intersegment revenue is recorded at an amount the Company believes approximates fair value. U.S. EBITDA includes a corresponding cost for the services performed by Property and Portfolio Research Ltd. for PPR. PPR was acquired in July 2009.

International EBITDA includes a corporate allocation of approximately $100,000 for each of the three months ended June 30, 2010 and 2009, and $300,000 and $200,000 for the six months ended June 30, 2010 and 2009, respectively. The corporate allocation represents costs incurred for U.S. employees involved in management and expansion activities of the Company’s International operating segment.

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

10. SEGMENT REPORTING — (CONTINUED)

Summarized information by operating segment consists of the following (in thousands):

	June 30, 2010 (unaudited)	December 31, 2009
Fixed assets, net		
United States	$57,641	$14,851
International	3,442	4,311
Total fixed assets, net	$61,083	$19,162
Goodwill		
United States	$55,260	$55,260
International	23,713	25,061
Total goodwill	$78,973	$80,321
Assets		
United States	$441,146	$424,479
International	40,058	44,558
Total operating segment assets	$481,204	$469,037
Reconciliation of operating segment assets to total assets		
Total operating segment assets	$481,204	$469,037
Investment in subsidiaries	(18,344)	(18,344)
Intercompany receivables	(47,385)	(46,114)
Total assets	$415,475	$404,579
Liabilities		
United States	$39,011	$37,838
International	46,966	46,678
Total operating segment liabilities	$85,977	$84,516
Reconciliation of operating segment liabilities to total liabilities		
Total operating segment liabilities	$85,977	$84,516
Intercompany payables	(38,206)	(38,943)
Total liabilities	$47,771	$45,573

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

11. PURCHASE OF BUILDING

In February 2010, the Company purchased a 169,429 square-foot LEED Gold certified office building located at 1331 L Street, NW in downtown Washington, D.C. together with the tenancy in the underlying ground lease for the property for a purchase price of $41.25 million in cash. This facility will be used primarily by the Company's U.S. segment. The Company began relocating its Bethesda-based employees and infrastructure to the new building starting in July of 2010. The Company currently expects to complete its relocation by October 15, 2010 and allow the lease of its Bethesda property to expire.

In connection with the purchase of the building, the Company assumed the ground lease for the parcel of land under the building purchased in Washington, D.C. The lease, which expires February 29, 2088, requires the payment of minimum annual rent of $778,000 through February 29, 2012, then approximately $918,000 annually to February 29, 2024. Thereafter, the minimum rate is adjusted to fair market value, as defined in the lease, once every 7 years.

The purchase of the building was accounted for as an asset acquisition. The total purchase price of $41.25 million, plus $1.7 million of direct transaction costs was allocated to the building. No other significant assets or liabilities were acquired in this transaction.

12. RELATED PARTY TRANSACTIONS

The Company has entered into two separate agreements with ghSMART & Company, Inc. ("ghSMART"), a management consulting firm. Each agreement relates to the engagement of ghSMART to provide services in connection with a different phase of evaluation of the Company's sales force senior management and to provide guidance with respect to hiring and recruiting best practices for the Company's sales force. Randy Street, a Partner of ghSMART, is the brother-in-law of the Company's Chief Executive Officer. Mr. Street has acted and will continue to act as the senior client manager for each phase of the project. He has a less than 0.5 percent equity stake in ghSMART. Mr. Street is paid 25 percent of the amounts paid by the Company pursuant to the engagements. The Company entered into the phase I and phase II engagements in April 2009 and October 2009, respectively, and has paid ghSMART approximately $202,000 plus expenses for phase I and approximately $255,000 plus expenses for phase II. The Audit Committee has reviewed and approved each of the engagements with ghSMART prior to commencement of the respective engagement. The Company may enter into additional engagements with ghSMART in the future, subject to the review and approval of the Audit Committee.

13. SUBSEQUENT EVENTS

The Company and its wholly owned subsidiary CoStar U.K. Limited were defendants in legal proceedings filed in England by Nokia U.K. Limited ("Nokia") related to a dispute concerning the Company's termination of an agreement to lease certain office space from Nokia. On July 20, 2010, the parties signed a settlement agreement formally resolving this litigation and the Company subsequently paid approximately $2.0 million to Nokia.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains "forward-looking statements," including statements about our beliefs and expectations. See "Cautionary Statement Concerning Forward-Looking Statements" at the end of this Item 2. for additional factors relating to such statements, and see "Risk Factors" in Item 1A. of Part II of this Quarterly Report on Form 10-Q for a discussion of certain risk factors applicable to our business, financial condition and results of operations.

All forward-looking statements are based on information available to us on the date of this filing and we assume no obligation to update such statements. The following discussion should be read in conjunction with our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other filings with the Securities and Exchange Commission and the condensed consolidated financial statements and related notes included in this Quarterly Report on Form 10-Q.

Overview

CoStar Group, Inc. ("CoStar") is the number one provider of information, marketing and analytic services to the commercial real estate industry in the U.S. and the U.K. based on the fact that we offer the most comprehensive commercial real estate database available, have the largest research department in the industry, provide more information, marketing and analytic services than any of our competitors and believe we generate more revenues than any of our competitors. We have created a standardized information, marketing and analytic platform where members of the commercial real estate and related business community can continuously interact and facilitate transactions by efficiently exchanging accurate and standardized commercial real estate information. Our integrated suite of online service offerings includes information about space available for lease, comparable sales information, tenant information, information about properties for sale, internet marketing services, analytical capabilities, information for clients' websites, information about industry professionals and their business relationships, data integration, and industry news. We also provide market research and analysis for commercial real estate investors and lenders via our Property and Portfolio Research, Inc. ("PPR") service offerings and portfolio and debt management and reporting capabilities through our Resolve Technology, Inc. ("Resolve Technology") service offerings. Our service offerings span all commercial property types, including office, industrial, retail, land, mixed-use, hospitality and multifamily.

Since 1994, we have expanded the geographical coverage of our existing information and marketing services and developed new information, marketing and analytic services. This expansion included the acquisitions of Chicago ReSource, Inc. in Chicago in 1996 and New Market Systems, Inc. in San Francisco in 1997. In August 1998, we expanded into the Houston region through the acquisition of Houston-based real estate information provider C Data Services, Inc. In January 1999, we expanded further into the Midwest and Florida by acquiring LeaseTrend, Inc. and into Atlanta and Dallas/Fort Worth by acquiring Jamison Research, Inc. In February 2000, we acquired COMPS.COM, Inc., a San Diego-based provider of commercial real estate information. In November 2000, we acquired First Image Technologies, Inc., a California-based provider of commercial real estate software. In September 2002, we expanded further into Portland, Oregon through the acquisition of certain assets of Napier Realty Advisors (doing business as REAL-NET). In January 2003, we established a base in the U.K. with our acquisition of London-based FOCUS Information Limited. In May 2004, we expanded into Tennessee through the acquisition of Peer Market Research, Inc., and in September 2004, we extended our coverage of the U.K. through the acquisition of Scottish Property Network. In September 2004, we strengthened our position in Colorado through the acquisition of substantially all of the assets of Denver-based RealComp, Inc., a local comparable sales information provider.

In January 2005, we acquired National Research Bureau, a Connecticut-based provider of U.S. shopping center information. In December 2006, our U.K. subsidiary, CoStar Limited, acquired Grecam S.A.S. ("Grecam"), a provider

of commercial property information and market-level surveys, studies and consulting services located in Paris, France. In February 2007, CoStar Limited also acquired Property Investment Exchange Limited (“Propex”), a provider of commercial property information and operator of an electronic platform that facilitates the exchange of investment property located in London, England. In April 2008, we acquired the assets of First CLS, Inc. (doing business as the Dorey Companies and DoreyPRO), an Atlanta-based provider of local commercial real estate information. Most recently, in July 2009, we acquired Massachusetts-based PPR, a provider of real estate analysis, market forecasts and

credit risk analytics to the commercial real estate industry, and its wholly owned U.K. subsidiary Property and Portfolio Research Ltd., and in October 2009, we acquired Massachusetts-based Resolve Technology, a provider of business intelligence and portfolio management software serving the institutional real estate investment industry. The PPR and Resolve Technology acquisitions are discussed later in this section under the heading "Recent Acquisitions."

We have consistently worked to expand our service offerings, both in terms of geographical coverage and the scope of services offered in order to position the company for future revenue growth. In 2004, we began our expansion into 21 new metropolitan markets throughout the U.S. and began expanding the geographical coverage of many of our existing U.S. and U.K. markets. We completed our expansion into the 21 new markets in the first quarter of 2006. During the second half of 2006, in order to further expand the geographical coverage of our service offerings, we began actively researching commercial properties in 81 new Core Based Statistical Areas ("CBSAs") in the U.S., we increased our U.S. field research fleet by adding 89 vehicles and we hired researchers to staff these vehicles. We released our CoStar Property Professional service in the 81 new CBSAs across the U.S. in the fourth quarter of 2007.

In early 2005, in conjunction with the acquisition of National Research Bureau, we launched a major effort to expand our coverage of retail real estate information. The retail component of our flagship product, CoStar Property Professional, was unveiled in May 2006 at the International Council of Shopping Centers' convention in Las Vegas. In May 2008, we released CoStar Showcase®, an Internet marketing service that provides commercial real estate professionals the ability to make their listings accessible to all visitors to www.CoStar.com and www.Showcase.com. During the second half of 2009, as a part of our strategy to provide subscribers with tools for conducting primary research and analysis on commercial real estate, we expanded subscribers' capabilities to use CoStar's database of research-verified commercial property information to conduct in-depth analysis and generate reports on trends in sales and leasing activity online.

In conjunction with our acquisitions of PPR and Resolve Technology, we are currently focusing on integration and further development of their service offerings. We have launched an initiative to develop a discounted cash flow (DCF) forecasting and valuation solution that effectively integrates the combined capabilities of CoStar's market and property information and PPR's analytics and forecasting with Resolve Technology's real estate investment software expertise. We expect that the development of the DCF solution will establish a foundation for introduction of an automated valuation model for commercial real estate. Our goal is to provide additional tools that make our research and analytics even more valuable to subsribers. Our efforts have included, and may continue to include, hiring of additional personnel to support this initiative. While our investments in PPR and Resolve Technology have resulted and may continue to result in an increase in expenses, we have also seen an increase in revenues as a result of the acquisitions and increased cross-selling opportunities among CoStar and the acquired companies.

We have also focused on expanding our geographical coverage and service offerings through our international operations. In connection with our acquisitions of Propex, Grecam and PPR's wholly owned subsidiary Property and Portfolio Research Ltd., we intend to integrate our international operations more fully with those in the U.S. We intend to eventually introduce a consistent international platform of service offerings. In 2007, we introduced the "CoStar Group" as the brand encompassing our international operations, and in early 2010 we launched Showcase, our Internet marketing service, in the U.K. We believe that our recent U.S. and international expansion and integration efforts have created a platform for long-term growth.

We intend to continue to expand the breadth and depth of our platform and market coverage through acquisitions. Specifically, we plan to continue to target acquisition candidates that we believe will enable us to leverage our existing assets, including our database, service offerings and sales force, in ways that enhance the value of our services to subscribers, create additional growth opportunities and generate future revenues.

In addition, we expect to continue to develop and distribute new services, expand existing services within our current platform, and expand and develop our sales and marketing organization. Any future expansion, including expansion through acquisitions and expansion internationally, could reduce our profitability and increase our capital expenditures. Therefore, while we expect current service offerings to remain profitable, driving overall earnings throughout 2010 and providing substantial cash flow for our business, it is possible that any new investments could cause us to generate losses and negative cash flow from operations in the future.

We recently decided to take advantage of favorable market conditions to lower our long-term occupancy costs as a tenant. In 2010, we expect to consolidate three facilities located in the Boston, Massachusetts area, including facilities used by CoStar, PPR and Resolve Technology, into one facility. We expect to incur approximately $1.0 million to $1.3 million in restructuring and other related costs related to the consolidation of our three facilities in Boston, MA in 2010. We also recently purchased an office building in downtown Washington, D.C. for $41.25 million for use as our new headquarters, and began transitioning employees to this new location in the third quarter of 2010. The lease for our current headquarters in Bethesda, MD expires on October 15, 2010, and we expect to incur overlapping occupancy costs through the end of the current lease term as we transition to our new headquarters. After the transition period, we expect to realize long-term savings in occupancy costs. Most recently, as part of our overall strategy to consolidate our London office locations and reduce occupancy costs, we entered into a settlement pursuant to which we terminated our lease for our former London offices. We expect capital expenditures to increase in 2010 primarily for facilities related capital expenditures.

Although current general economic conditions in the U.S. and the world continue to negatively affect business operations for our clients and result in business consolidations and, in certain circumstances, failures, we have recently seen improving conditions in commercial real estate, including heightened leasing activity, potentially as a result of office-related job growth. During the second quarter of 2010, customer cancellations, reductions of services and failures to pay amounts due to us declined from the same time period in 2009. If cancellations, reductions of services and failures to pay revert to rates seen in 2008 or 2009 or increase in a meaningful way, and we are unable to offset the resulting decrease in revenue by increasing sales to new or existing customers, our revenues may decline or grow at reduced rates. We compete against many providers of similar services. If customers choose to cancel our services for cost-cutting or other reasons, our revenue could decline. The extent and duration of any future weakening of the economy is unknown. The extent and duration of any benefits resulting from any of the governmental or private sector initiatives designed to strengthen the economy are currently unknown and there can be no assurance that those initiatives will be successful in the future. Because of these uncertainties, we may not be able to accurately forecast our revenue or earnings. However, we continue to believe that the Company is positioned to generate continued, sustained earnings from current operations in 2010.

Fluctuations in commercial real estate leasing activity and vacancy rates, as well as office-related employment and other factors that affect the commercial real estate industry may positively or negatively affect our number of subscribers and our average contract value, which in turn may affect our financial condition and results of operations. Management deems our contract renewal rate to be most indicative of short-term and long-term performance. For the twelve months ended June 30, 2010 and 2009, our contract renewal rate was approximately 88% and 86%, respectively. Our trailing twelve-month contract renewal rate may decline if negative economic conditions lead to greater business failures and/or consolidations, further reductions in customer spending or decreases in the customer base. However, we have currently experienced movement of the trailing twelve-month renewal rate back towards our historical average of 90%.

We believe that our increasing diversification beyond the U.S. economy through our international businesses benefits our stockholders over the long term. Our financial reporting currency is the U.S. dollar. Changes in exchange rates can significantly affect our reported results and consolidated trends. Currency volatility may continue, which may impact (either positively or negatively) our reported financial results and consolidated trends and comparisons.

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

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Our subscription-based information services, consisting primarily of CoStar Property Professional, CoStar Tenant, CoStar COMPS Professional, and FOCUS services currently generate approximately 94% of our total revenues. CoStar Property Professional, CoStar Tenant, and CoStar COMPS Professional are generally sold as a suite of similar services and comprise our primary service offering in our U.S. operating segment. FOCUS is our primary service offering in our International operating segment. The majority of our contracts for our subscription-based information services typically have a minimum term of one year and renew automatically. Upon renewal, many of the subscription contract rates may change in accordance with contract provisions or as a result of contract renegotiations. To encourage clients to use our services regularly, we generally charge a fixed monthly amount for our subscription-based information services rather than fees based on actual system usage. Contract rates are generally based on the number of sites, number of users, organization size, the client's business focus, geography and the number of services to which a client subscribes. Our subscription clients generally pay contract fees on a monthly basis, but in some cases may pay us on a quarterly or annual basis. We recognize this revenue on a straight-line basis over the life of the contract. Annual and quarterly advance payments result in deferred revenue, substantially reducing the working capital requirements generated by accounts receivable.

Application of Critical Accounting Policies and Estimates

The preparation of financial statements and related disclosures in conformity with generally accepted accounting principles ("GAAP") in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the period reported. The following accounting policies involve a "critical accounting estimate" because they are particularly dependent on estimates and assumptions made by management about matters that are highly uncertain at the time the accounting estimates are made. In addition, while we have used our best estimates based on facts and circumstances available to us at the time, different estimates reasonably could have been used in the current period. Changes in the accounting estimates we use are reasonably likely to occur from period to period, which may have a material impact on the presentation of our financial condition and results of operations. We review these estimates and assumptions periodically and reflect the effects of revisions in the period that they are determined to be necessary.

Fair Value of Auction Rate Securities

Our Level 3 assets consist of auction rate securities ("ARS"), whose underlying assets are primarily student loan securities supported by guarantees from the Federal Family Education Loan Program ("FFELP") of the U.S. Department of Education.

Our ARS investments are not currently trading and therefore do not currently have a readily determinable market value. Accordingly, the estimated fair value of the ARS no longer approximates par value. We have used a discounted cash flow model to determine the estimated fair value of our investment in ARS as of June 30, 2010. The assumptions used in preparing the discounted cash flow model include estimates for interest rates, credit spreads, timing and amount of cash flows, liquidity risk premiums, expected holding periods and default risk of the ARS. Based on this assessment of fair value, as of June 30, 2010, we determined there was a decline in the fair value of our ARS investments of approximately $3.0 million. The decline was deemed to be a temporary impairment and recorded as an unrealized loss in accumulated other comprehensive loss in stockholders' equity. If the issuers of these ARS are unable to successfully close future auctions and their credit ratings deteriorate, we may be required to record additional unrealized losses in accumulated other comprehensive loss or an other-than-temporary impairment charge to earnings on these investments, which would reduce our profitability and adversely affect our financial position.

We have not made any material changes in the accounting methodology used to determine the fair value of the ARS. We do not expect any material changes in the near term to the underlying assumptions used to determine the

unobservable inputs used to calculate the fair value of the ARS as of June 30, 2010. However, if changes in these assumptions do occur, and, should those changes be significant, we may be exposed to additional unrealized losses in accumulated other comprehensive loss or an other-than-temporary impairment charge to earnings on these investments.

Fair Value of Deferred Consideration

Our Level 3 liabilities consist of a $3.2 million liability as of June 30, 2010 for deferred consideration related to the October 19, 2009 acquisition of Resolve Technology. The deferred consideration is for (i) a potential deferred cash payout two years after closing based on the incremental growth of Resolve Technology's revenue, and (ii) other potential deferred cash payouts for successful completion of operational and sales milestones during the period from closing through no later than October 31, 2013, which period may be subject to extension by the parties to a date no later than December 31, 2014.

We have used a discounted cash flow model to determine the estimated fair value of our Level 3 liabilities as of June 30, 2010. The significant assumptions used in preparing the discounted cash flow model include the discount rate, estimates for future incremental revenue growth and probabilities for completion of operational and sales milestones.

We have not made any material changes in the accounting methodology used to determine the fair value of the deferred consideration. We do not expect any material changes in the near term to the underlying assumptions used to determine the unobservable inputs used to calculate the fair value of the deferred consideration as of June 30, 2010. However, if changes in these assumptions do occur, and, should those changes be significant, we may be exposed to additional liabilities related to this deferred consideration.

Stock-Based Compensation

Equity instruments issued in exchange for employee services are accounted for using a fair-value based method and the fair value of such equity instruments is recognized as an expense in the consolidated statements of operations. We estimated the fair value of each option granted on the date of grant using the Black-Scholes option-pricing model, which requires us to estimate the dividend yield, expected volatility, risk-free interest rate and expected life of the stock option. These assumptions and the estimation of expected forfeitures are based on multiple factors, including historical employee behavior patterns of exercising options and post-employment termination behavior, expected future employee option exercise patterns, and the historical volatility of the Company’s stock price.

We do not expect any material changes in the near term to the underlying assumptions used to calculate stock-based compensation expense for the six months ended June 30, 2010. However, if changes in these assumptions do occur, and, should those changes be significant, they could have a material impact on our stock-based compensation expense.

Valuation of Long-Lived and Intangible Assets and Goodwill

We assess the impairment of long-lived assets, identifiable intangibles and goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Judgments made by management relate to the expected useful lives of long-lived assets and our ability to realize any undiscounted cash flows of the carrying amounts of such assets. The accuracy of these judgments may be adversely affected by several factors, including the factors listed below:

- Significant underperformance relative to historical or projected future operating results;
- Significant changes in the manner of our use of the acquired assets or the strategy for our overall business;
- Significant negative industry or economic trends; or
- Significant decline in our market capitalization relative to net book value for a sustained period.

When we determine that the carrying value of long-lived and identifiable intangible assets may not be recovered based upon the existence of one or more of the above indicators, we test for impairment.

Goodwill and identifiable intangible assets that are not subject to amortization are tested annually for impairment by each reporting unit on October 1 of each year and are also tested for impairment more frequently based upon the existence of one or more of the above indicators. We consider our operating segments, U.S. and International, as our reporting units under Financial Accounting Standards Board (“FASB”) authoritative guidance for consideration of potential impairment of goodwill.

The goodwill impairment test is a two-step process. The first step is to determine the fair value of each reporting unit. We estimate the fair value of each reporting unit based on a projected discounted cash flow model that includes significant assumptions and estimates including our future financial performance and a weighted average cost of

capital. The fair value of each reporting unit is compared to the carrying amount of the reporting unit. If the carrying value of the reporting unit exceeds the fair value, then the second step of the process is performed to measure the impairment loss. We measure impairment loss based on a projected discounted cash flow method using a

discount rate determined by our management to be commensurate with the risk in our current business model. As of October 1, 2009, the most recent date of our impairment analysis, the estimated fair value of each of our reporting units substantially exceeded the carrying value of our reporting units. There have been no events or changes in circumstances since the date of our impairment analysis on October 1, 2009 that would indicate that the carrying value of each reporting unit may not be recoverable.

Accounting for Income Taxes

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process requires us to estimate our actual current tax exposure and assess the temporary differences resulting from differing treatment of items, such as deferred revenue or deductibility of certain intangible assets, for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheets. We must then also assess the likelihood that our deferred tax assets will be recovered from future taxable income, and, to the extent we believe that it is more-likely-than-not that some portion or all of our deferred tax assets will not be realized, we must establish a valuation allowance. To the extent we establish a valuation allowance or change the allowance in a period, we must reflect the corresponding increase or decrease within the tax provision in the statements of operations.

Non-GAAP Financial Measures

We prepare and publicly release quarterly unaudited financial statements prepared in accordance with GAAP. We also disclose and discuss certain non-GAAP financial measures in our public releases. The non-GAAP financial measures that we may disclose include EBITDA, adjusted EBITDA, non-GAAP net income and non-GAAP net income per diluted share. EBITDA is our net income (loss) before interest, income taxes, depreciation and amortization. We typically disclose EBITDA on a consolidated and an operating segment basis in our earnings releases, investor conference calls and filings with the Securities and Exchange Commission. Adjusted EBITDA is different from EBITDA because we further adjust EBITDA for stock-based compensation expense, acquisition related costs, restructuring costs, headquarters acquisition and transition related costs and settlements and impairments incurred outside our ordinary course of business. Non-GAAP net income and non-GAAP net income per diluted share are similarly adjusted for stock-based compensation expense, acquisition related costs, restructuring costs, headquarters acquisition and transition related costs and settlement and impairment costs incurred outside our ordinary course of business, as well as purchase amortization and other related costs. We may disclose adjusted EBITDA, non-GAAP net income and non-GAAP net income per diluted share on a consolidated basis in our earnings releases, investor conference calls and filings with the Securities and Exchange Commission. The non-GAAP financial measures that we use may not be comparable to similarly titled measures reported by other companies. Also, in the future, we may disclose different non-GAAP financial measures in order to help our investors more meaningfully evaluate and compare our results of operations to our previously reported results of operations or to those of other companies in our industry.

We view EBITDA, adjusted EBITDA, non-GAAP net income and non-GAAP net income per diluted share as operating performance measures and as such we believe that the most directly comparable GAAP financial measure is net income (loss). In calculating EBITDA, adjusted EBITDA, non-GAAP net income and non-GAAP net income per diluted share, we exclude from net income (loss) the financial items that we believe should be separately identified to provide additional analysis of the financial components of the day-to-day operation of our business. We have outlined below the type and scope of these exclusions and the material limitations on the use of these non-GAAP financial measures as a result of these exclusions. EBITDA, adjusted EBITDA, non-GAAP net income and non-GAAP net income per diluted share are not measurements of financial performance under GAAP and should not be considered as a measure of liquidity, as an alternative to net income (loss) or as an indicator of any other measure of performance derived in accordance with GAAP. Investors and potential investors in our securities should not rely on EBITDA,

adjusted EBITDA, non-GAAP net income and non-GAAP net income per diluted share as a substitute for any GAAP financial measure, including net income (loss). In addition, we urge investors and potential investors in our securities to carefully review the GAAP financial information included as part of our Quarterly Reports on Form 10-Q and our Annual Reports on Form 10-K that are filed with the Securities and Exchange Commission, as well as our quarterly earnings releases, and compare the GAAP financial information with our EBITDA, adjusted EBITDA, non-GAAP net income and non-GAAP net income per diluted share.

EBITDA, adjusted EBITDA, non-GAAP net income and non-GAAP net income per diluted share may be used by management to internally measure our operating and management performance and may be used by investors as supplemental financial measures to evaluate the performance of our business. We believe that these non-GAAP measures, when viewed with our GAAP results and the accompanying reconciliation, provide additional information that is useful to understand the factors and trends affecting our business. We have spent more than 22 years building our database of commercial real estate information and expanding our markets and services partially through acquisitions of complementary businesses. Due to the expansion of our information, marketing and analytic services, which included acquisitions, our net income (loss) has included significant charges for purchase amortization, depreciation and other amortization, acquisition costs and restructuring costs. EBITDA, adjusted EBITDA, non-GAAP net income and non-GAAP net income per diluted share exclude these charges and provide meaningful information about the operating performance of our business, apart from charges for purchase amortization, depreciation and other amortization, acquisition costs, restructuring costs and settlement and impairment costs incurred outside our ordinary course of business. We believe the disclosure of these non-GAAP measures can help investors meaningfully evaluate and compare our performance from quarter to quarter and from year to year. We also believe these non-GAAP measures are measures of our ongoing operating performance because the isolation of non-cash charges, such as amortization and depreciation, and non-operating items, such as interest, income taxes, stock-based compensation expenses, acquisition costs, headquarters acquisition and transition related costs, restructuring costs and settlement and impairment costs incurred outside our ordinary course of business, provides additional information about our cost structure, and, over time, helps track our operating progress. In addition, investors, securities analysts and others have regularly relied on EBITDA and may rely on adjusted EBITDA, non-GAAP net income or non-GAAP net income per diluted share to provide a financial measure by which to compare our operating performance against that of other companies in our industry.

Set forth below are descriptions of the financial items that have been excluded from our net income (loss) to calculate EBITDA and the material limitations associated with using this non-GAAP financial measure as compared to net income (loss):

- Purchase amortization in cost of revenues may be useful for investors to consider because it represents the use of our acquired database technology, which is one of the sources of information for our database of commercial real estate information. We do not believe these charges necessarily reflect the current and ongoing cash charges related to our operating cost structure.

- Purchase amortization in operating expenses may be useful for investors to consider because it represents the estimated attrition of our acquired customer base and the diminishing value of any acquired trade names. We do not believe these charges necessarily reflect the current and ongoing cash charges related to our operating cost structure.

- Depreciation and other amortization may be useful for investors to consider because they generally represent the wear and tear on our property and equipment used in our operations. We do not believe these charges necessarily reflect the current and ongoing cash charges related to our operating cost structure.

- The amount of net interest income we generate may be useful for investors to consider and may result in current cash inflows or outflows. However, we do not consider the amount of net interest income to be a representative component of the day-to-day operating performance of our business.

- Income tax expense (benefit) may be useful for investors to consider because it generally represents the taxes which may be payable for the period and the change in deferred income taxes during the period and may reduce the amount of funds otherwise available for use in our business. However, we do not consider the amount of income tax expense (benefit) to be a representative component of the day-to-day operating performance of our business.

Set forth below are descriptions of the financial items that have been excluded from our net income (loss) to calculate adjusted EBITDA and the material limitations associated with using this non-GAAP financial measure as compared to net income (loss):

- Purchase amortization in cost of revenues, purchase amortization in operating expenses, depreciation and other amortization, interest income, net, and income tax expense (benefit) as previously described above with respect to the calculation of EBITDA.

- Stock-based compensation expense may be useful for investors to consider because it represents a portion of the compensation of our employees and executives. Determining the fair value of the stock-based instruments involves a high degree of judgment and estimation and the expenses recorded may bear little resemblance to the actual value realized upon the future exercise or termination of the related stock-based awards. Therefore, we believe it is useful to exclude stock-based compensation in order to better understand the long-term performance of our core business.

- The amount of acquisition related costs incurred may be useful for investors to consider because they generally represent professional service fees and direct expenses related to the acquired company. Because we do not acquire businesses on a predictable cycle we do not consider the amount of acquisition related costs to be a representative component of the day-to-day operating performance of our business.

- The amount of restructuring costs incurred may be useful for investors to consider because they generally represent costs incurred in connection with a change in the makeup of our properties or personnel. We do not consider the amount of restructuring related costs to be a representative component of the day-to-day operating performance of our business.

- The amount of headquarters acquisition and transition related costs incurred may be useful for investors to consider because they generally represent the overlapping rent and building carrying costs, legal costs and other related costs incurred to relocate our headquarters. We do not believe these charges necessarily reflect the current and ongoing charges related to our operating cost structure.

- The amount of material settlement and impairment costs incurred outside of our ordinary course of business may be useful for investors to consider because they generally represent gains or losses from the settlement of litigation matters. We do not believe these charges necessarily reflect the current and ongoing cash charges related to our operating cost structure.

The financial items that have been excluded from our net income (loss) to calculate non-GAAP net income and non-GAAP net income per diluted share are stock-based compensation, acquisition related costs, restructuring costs, headquarter acquisition and transition related costs and settlement and impairment costs incurred outside our ordinary course of business which are discussed above with respect to the calculation of adjusted EBITDA along with the material limitations associated with using this non-GAAP financial measure as compared to net income (loss). We subtract an assumed provision for income taxes to calculate non-GAAP net income. We assume a 40% tax rate in order to approximate our long-term effective corporate tax rate.

Non-GAAP net income per diluted share is a non-GAAP financial measure that represents non-GAAP net income divided by the number of diluted shares outstanding for the period used in the calculation of GAAP net income per diluted share.

Management compensates for the above-described limitations of using non-GAAP measures by using a non-GAAP measure only to supplement our GAAP results and to provide additional information that is useful to understand the factors and trends affecting our business.

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The following table shows our EBITDA reconciled to our net income and our cash flows from operating, investing and financing activities for the indicated periods (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net income	$3,251	$4,616	$6,140	$10,722
Purchase amortization in cost of revenues	315	503	815	982
Purchase amortization in operating expenses	532	742	1,222	1,688
Depreciation and other amortization	2,459	2,213	4,917	4,464
Interest income, net	(196)	(322)	(434)	(764)
Income tax expense, net	1,436	3,897	3,887	8,974
EBITDA	$7,797	$11,649	$16,547	$26,066
Cash flows provided by (used in)				
Operating activities	$14,059	$9,556	$20,699	$18,877
Investing activities	3,845	2,061	(38,425)	3,653
Financing activities	249	65	522	(69)

Comparison of Three Months Ended June 30, 2010 and Three Months Ended June 30, 2009

Revenues. Revenues increased to $55.8 million in the second quarter of 2010 from $50.1 million in the second quarter of 2009. The $5.7 million increase was primarily due to additional revenues as a result of our July 2009 acquisition of PPR. Our subscription-based information services, consisting primarily of CoStar Property Professional, CoStar Tenant, CoStar COMPS Professional and FOCUS, currently generate approximately 94% of our total revenues.

Gross Margin. Gross margin increased to $35.5 million in the second quarter of 2010 from $33.3 million in the second quarter of 2009. The increase in the gross margin amount is due to an increase in revenue partially offset by an increase in cost of revenues. The gross margin percentage decreased to 63.5% in the second quarter of 2010 from 66.6% in the second quarter of 2009. The decrease in the percentage of gross margin was principally due to an increase in the cost of revenues. Cost of revenues increased to $20.4 million for the second quarter of 2010 from $16.7 million for the second quarter of 2009. The increase in the cost of revenues was principally due to additional cost of revenues of approximately $2.5 million, included as a result of our July 2009 acquisition of PPR as well as an increase in research personnel costs of approximately $1.6 million due primarily to increased headcount.

Selling and Marketing Expenses. Selling and marketing expenses increased to $12.9 million in the second quarter of 2010 from $9.8 million in the second quarter of 2009, and increased as a percentage of revenues to 23.1% in the second quarter of 2010 from 19.5% in the second quarter of 2009. The increase in the amount and percentage of selling and marketing expenses was primarily due to an increase in personnel costs of approximately $1.9 million due to increased sales headcount as well as additional selling and marketing expenses included as a result of our July 2009 acquisition of PPR.

Software Development Expenses. Software development expenses increased to $4.1 million in the second quarter of 2010 from $3.1 million in the second quarter of 2009, and increased as a percentage of revenues to 7.4% in the second quarter of 2010 compared to 6.1% in the second quarter of 2009. The increase in the amount and percentage of software development expense was primarily due to additional software development expenses included as a result of our July 2009 acquisition of PPR and our October 2009 acquisition of Resolve Technology.

General and Administrative Expenses. General and administrative expenses increased to $13.5 million in the second quarter of 2010 from $11.6 million in the second quarter of 2009, and increased as a percentage of revenues to 24.1% in the second quarter of 2010 compared to 23.1% in the second quarter of 2009. The increase in the amount and percentage of general and administrative expenses was primarily due to $2.8 million accrued in anticipation of the settlement of two litigation matters.

Purchase Amortization. Purchase amortization decreased to approximately $500,000 in the second quarter of 2010 compared to $700,000 in the second quarter of 2009, and was lower as a percentage of revenues at 1.0% in the second quarter of 2010 compared to 1.5% in the second quarter of 2009. The decrease in purchase amortization expense is due to the completion of amortization of certain identifiable intangible assets in 2010.

Interest and Other Income, net. Interest and other income, remained relatively consistent at approximately $200,000 in the second quarter of 2010 and $300,000 in the second quarter of 2009.

Income Tax Expense, net. Income tax expense, net decreased to $1.4 million in the second quarter of 2010 from $3.9 million in the second quarter of 2009. This decrease was due to lower income before income taxes as a result of our decreased profitability as well as the recognition in the second quarter of 2010 of a discrete tax benefit related to our foreign operations.

Comparison of Business Segment Results for Three Months Ended June 30, 2010 and Three Months Ended June 30, 2009

We manage our business geographically in two operating segments, with our primary areas of measurement and decision-making being the U.S. and International, which includes the U.K. and France. Management relies on an internal management reporting process that provides revenue and operating segment EBITDA, which is our net income before interest, income taxes, depreciation and amortization. Management believes that operating segment EBITDA is an appropriate measure for evaluating the operational performance of our operating segments. EBITDA is used by management to internally measure our operating and management performance and to evaluate the performance of our business. However, this measure should be considered in addition to, not as a substitute for or superior to, income from operations or other measures of financial performance prepared in accordance with GAAP.

Segment Revenues. CoStar Property Professional, CoStar Tenant, and CoStar COMPS Professional are generally sold as a suite of similar services and comprise our primary service offering in our U.S. operating segment. U.S. revenues increased to $51.5 million in the second quarter of 2010 from $45.7 million in the second quarter of 2009. This increase in U.S. revenue was primarily due to additional revenues included as a result of our July 2009 acquisition of PPR. FOCUS is our primary service offering in our International operating segment. International revenues increased to $4.7 million from $4.4 million for the three months ended June 30, 2010 and 2009, respectively. This increase in international revenue is principally due to intersegment revenues of approximately $400,000 attributable to services performed by Property and Portfolio Research Ltd. for its U.S. parent PPR. Intersegment revenues are eliminated from total revenues.

Segment EBITDA. U.S. EBITDA decreased to $10.2 million in the second quarter of 2010 from $12.0 million in the second quarter of 2009. The decrease in U.S. EBITDA was due to additional costs incurred by PPR, which we acquired in July of 2009 and additional personnel costs. International EBITDA increased to a loss of approximately $2.4 million in the second quarter of 2010 from a loss of approximately $300,000 in the second quarter of 2009. This increased loss was primarily due to $2.0 million accrued in anticipation of the settlement of our litigation with Nokia U.K. Limited. International EBITDA includes a corporate allocation of approximately $100,000 for each of the three months ended June 30, 2010 and 2009. The corporate allocation represents costs incurred for U.S. employees involved in international management and expansion activities.

Comparison of Six Months Ended June 30, 2010 and Six Months Ended June 30, 2009

Revenues. Revenues increased to $110.9 million for the six months ended June 30, 2010, from $101.4 million for the six months ended June 30, 2009. The $9.5 million increase was primarily due to additional revenues as a result of our July 2009 acquisition of PPR. Our subscription-based information services, consisting primarily of CoStar Property

Professional, CoStar Tenant, CoStar COMPS Professional and FOCUS, currently generate approximately 94% of our total revenues.

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Gross Margin. Gross margin increased to $69.4 million for the six months ended June 30, 2010, from $67.8 million for the six months ended June 30, 2009. The increase in the gross margin amount is due to an increase in revenue partially offset by an increase in cost of revenues. Gross margin percentage decreased to 62.5% for the six months ended June 30, 2010, from 66.8% for the six months ended June 30, 2009. The decrease in the percentage of gross margin was principally due to an increase in the cost of revenues. Cost of revenues increased to $41.6 million for the six months ended June 30, 2010 from $33.6 million for the six months ended June 30, 2009. The increase in the cost of revenues was principally due to additional cost of revenues of approximately $5.0 million, included as a result of our July 2009 acquisition of PPR as well as an increase in research personnel costs of approximately $3.6 million due primarily to increased headcount, partially offset by a decrease in purchase amortization of approximately $0.4 million.

Selling and Marketing Expenses. Selling and marketing expenses increased to $25.5 million for the six months ended June 30, 2010, from $18.9 million for the six months ended June 30, 2009, and increased as a percentage of revenues to 23.0% for the six months ended June 30, 2010, from 18.6% for the six months ended June 30, 2009. The increase is primarily due to increased costs of approximately $4.7 million due to increased sales headcount as well as additional selling and marketing expenses of approximately $1.3 million included as a result of our July 2009 acquisition of PPR.

Software Development Expenses. Software development expenses increased to $8.3 million for the six months ended June 30, 2010, compared to $6.2 million for the six months ended June 30, 2009, and increased as a percentage of revenues to 7.5% for the six months ended June 30, 2010 compared to 6.2% for the six months ended June 30, 2009. The increase in the amount and percentage of software development expense was primarily due to additional software development expenses included as a result of our July 2009 acquisition of PPR and our October 2009 acquisition of Resolve Technology.

General and Administrative Expenses. General and administrative expenses increased to $24.7 million for the six months ended June 30, 2010, from $22.0 million for the six months ended June 30, 2009, and increased as a percentage of revenues to 22.3% for the six months ended June 30, 2010, compared to 21.7% for the six months ended June 30, 2009. The increase in the amount and percentage of general and administrative expenses was primarily due to approximately $2.8 million accrued in anticipation of the settlement of two litigation matters, as well as additional general and administrative expenses included as a result of our July 2009 acquisition of PPR and our October 2009 acquisition of Resolve Technology of approximately $1.8 million, partially offset by a decrease in bad debt expense of approximately $1.8 million.

Purchase Amortization. Purchase amortization decreased to $1.2 million for the six months ended June 30, 2010, compared to $1.7 million for the six months ended June 30, 2009, and decreased as a percentage of revenues to 1.1% for the six months ended June 30, 2010, from 1.7% for the six months ended June 30, 2009. The decrease in purchase amortization expense is due to the completion of amortization for certain identifiable intangible assets in 2010.

Interest and Other Income, net. Interest and other income, net decreased to approximately $400,000 for the six months ended June 30, 2010, from $800,000 for the six months ended June 30, 2009 primarily due to lower short-term investments.

Income Tax Expense, net. Income tax expense, net decreased to $3.9 million for the six months ended June 30, 2010, from $9.0 million for the six months ended June 30, 2009. This decrease was due to lower income before income taxes as a result of our decreased profitability as well as the recognition in the second quarter of 2010 of a discrete tax benefit related to our foreign operations.

Comparison of Business Segment Results for Six Months Ended June 30, 2010 and Six Months Ended June 30, 2009

Segment Revenues. U.S. revenues increased to $102.2 million from $92.8 million for the six months ended June 30, 2010 and 2009, respectively. This increase in U.S. revenue was primarily due to additional revenues included as a result of our July 2009 acquisition of PPR. International revenues increased to $9.5 million from $8.7 million for the six months ended June 30, 2010 and 2009, respectively. This increase in international revenue is principally due to intersegment revenues of approximately $0.7 million attributable to services performed by Property and Portfolio Research Ltd. for PPR. Intersegment revenues are eliminated from total revenues.

Segment EBITDA. U.S. EBITDA decreased to $19.6 million from $26.6 million for the six months ended June 30, 2010 and 2009, respectively. The decrease in U.S. EBITDA was due to additional costs incurred by PPR, which we acquired in July of 2009 and additional personnel costs. International EBITDA increased to a loss of $3.0 million from a loss of $500,000 for the six months ended June 30, 2010 and 2009, respectively. This increased loss was primarily due to approximately $2.0 million accrued in anticipation of the settlement of our litigation with Nokia U.K. Limited. International EBITDA includes a corporate allocation of approximately $300,000 and $200,000 for the six months ended June 30, 2010 and 2009, respectively. The corporate allocation represents costs incurred for U.S. employees involved in international management and expansion activities.

Recent Acquisitions

On July 17, 2009, we acquired all of the issued and outstanding equity securities of PPR, and its wholly owned subsidiary, Property and Portfolio Research Ltd., providers of real estate analysis, market forecasts and credit risk analytics to the commercial real estate industry. We acquired PPR from DMG Information, Inc. ("DMGI") in exchange for 572,999 shares of CoStar common stock, which had an aggregate value of approximately $20.9 million as of the closing date. On July 17, 2009, we issued 433,667 shares of our common stock to DMGI, and we issued the remaining 139,332 shares to DMGI on September 28, 2009 after taking into account post-closing purchase price adjustments.

On October 19, 2009, we acquired all of the outstanding capital stock of Resolve Technology, a Delaware corporation, for approximately $4.5 million, consisting of approximately $3.4 million in cash and 25,886 shares of CoStar common stock, which had an aggregate value of approximately $1.1 million as of the closing date, which shares are subject to a three-year lockup. The purchase price is subject to certain post-closing adjustments. Additionally, the seller may be entitled to receive (i) a potential deferred cash payment due approximately two years after closing based on the incremental growth of Resolve Technology's revenue as of September 2011 over its revenue as of September 2009, and (ii) other potential deferred cash payments for successful completion of operational and sales milestones during the period from closing through no later than October 31, 2013, which period may be extended by the parties to a date no later than December 31, 2014.

These acquisitions were accounted for using purchase accounting. For each of the PPR and Resolve Technology acquisitions, the purchase price was allocated to various working capital accounts, developed technology, customer base, trademarks, non-competition agreements and goodwill. The acquired customer base for the acquisitions, which consists of one distinct intangible asset for each acquisition and is composed of acquired customer contracts and the related customer relationships, is being amortized on a 125% declining balance method over ten years. The identified intangibles will be amortized over their estimated useful lives. Goodwill for these acquisitions will not be amortized, but is subject to annual impairment tests. The results of operations of PPR and Resolve Technology have been consolidated with those of the Company since the respective dates of the acquisitions and are not considered material to our consolidated financial statements. Accordingly, pro forma financial information has not been presented for any of the acquisitions.

Liquidity and Capital Resources

Our principal sources of liquidity are cash, cash equivalents and short-term investments. Total cash, cash equivalents and short-term investments decreased to $200.6 million at June 30, 2010, from $226.0 million at December 31, 2009. The decrease in cash, cash equivalents and short-term investments for the six months ended June 30, 2010 was primarily due to the purchase of a 169,429 square-foot LEED Gold certified office building which will be our new headquarters, located at 1331 L Street, NW in downtown Washington, D.C. for a purchase price of $41.25 million in cash, and approximately $1.7 million in acquisition costs, partially offset by cash flows from operations.

Changes in cash, cash equivalents and short-term investments are dependent upon changes in, among other things, working capital items such as accounts receivable, accounts payable, various accrued expenses and deferred revenues, as well as changes in our capital structure due to stock option exercises, purchases and sales of short-term investments and similar events.

Net cash provided by operating activities for the six months ended June 30, 2010 was $20.7 million compared to $18.9 million for the six months ended June 30, 2009. This $1.8 million increase was due to a $10.3 million net increase in changes in operating assets and liabilities due to differences in timing of collection of receipts and payments of disbursements partially offset by a decrease of $8.5 million from net income plus non-cash items. The $10.3 million net increase in changes in operating assets and liabilities is primarily related to approximately $3.5 million in increased collections on receivables related to improved collections from our customers in the midst of a recovering economy, and $4.4 million in increased accruals primarily related to $2.8 million accrued in June 2010 in anticipation of the settlement of two litigation matters, and increased accruals associated with the operations of our recent acquisitions and new headquarters.

Net cash used in investing activities was $38.4 million for the six months ended June 30, 2010, compared to $3.7 million net cash provided by investing activities for the six months ended June 30, 2009. This $42.1 million increase in net cash used in investing activities was primarily due to the February 2010 purchase of our new headquarters in downtown Washington, D.C.

Net cash provided by financing activities was approximately $522,000 for the six months ended June 30, 2010, compared to approximately $69,000 of net cash used in financing activities for the six months ended June 30, 2009. The change is due to increased proceeds from exercise of stock options partially offset by increased share repurchases from employees to satisfy employee tax liabilities arising from vesting of restricted stock.

During the six months ended June 30, 2010, we purchased our new headquarters in Washington, D.C., and incurred capital expenditures of approximately $3.8 million. In addition to the purchase of our new headquarters, we expect to make total capital expenditures in 2010 of approximately $20.0 million to $25.0 million, primarily related to facilities.

In connection with the purchase of our new headquarters in Washington, D.C., we assumed the ground lease for the parcel of land under the building. The lease, which expires February 29, 2088, requires the payment of minimum annual rent of $778,000 through February 29, 2012, then approximately $918,000 annually to February 29, 2024. Thereafter, the minimum rate is adjusted to fair market value, as defined in the lease, once every 7 years.

Our future capital requirements will depend on many factors, including our operating results, expansion efforts, and our level of acquisition activity or other strategic transactions.

To date, we have grown in part by acquiring other companies and we may continue to make acquisitions. Our acquisitions may vary in size and could be material to our current operations. We may use cash, stock, debt or other means of funding to make these acquisitions. In the third quarter of 2009, we issued 572,999 shares of common stock to DMGI, Inc. for all of the issued and outstanding capital stock of PPR and its wholly owned subsidiary. In October 2009, we acquired Resolve Technology for approximately $3.4 million ($2.9 million was paid upon acquisition and $450,000 was deferred until February 2010) in cash and 25,886 shares of CoStar common stock, which had an aggregate value of approximately $1.1 million as of the closing date and are subject to a three-year lockup. Additionally, the seller may be entitled to receive (i) a potential deferred cash payment due approximately two years after closing based on the incremental growth of Resolve Technology’s revenue as of September 2011 over its revenue as of September 2009, and (ii) other potential deferred cash payments for successful completion of additional operational and sales milestones during the period from closing through no later than October 31, 2013, which period may be extended by the parties to a date no later than December 31, 2014.

As of June 30, 2010, we had $32.5 million par value of long-term investments in student loan ARS, which failed to settle at auctions. The majority of these investments are of high credit quality with AAA credit ratings and are primarily securities supported by guarantees from the Federal Family Education Loan Program (“FFELP”) of the U.S. Department of Education. While we continue to earn interest on these investments, the investments are not liquid in

the short-term. In the event we need to immediately access these funds, we may have to sell these securities at an amount below par value. Based on our ability to access our cash, cash equivalents and other short-term investments and our expected operating cash flows, we do not anticipate having to sell these investments below par value in order to operate our business in the foreseeable future.

As described in Footnote 9 of the Notes to Condensed Consolidated Financial Statements included in Part I of this Quarterly Report on Form 10-Q, on December 23, 2008, we initiated a Financial Industry Regulatory Authority ("FINRA") arbitration against Credit Suisse First Boston ("CSFB") related to CSFB's purchase of ARS for our account. Our complaint asserts breach of contract, fraud, breach of fiduciary duty and other causes of action. Initial

arbitration hearings were conducted during the first and second quarter of 2010, and we expect additional hearings will occur in the third quarter of 2010. We expect to receive a ruling on our claim during 2010. Since the outcome of this legal proceeding is uncertain at this time, we cannot estimate the amount of gain or loss, if any, that could result from the resolution of this matter.

As described in Footnote 9 of the Notes to Condensed Consolidated Financial Statements included in Part I of this Quarterly Report on Form 10-Q, we and our wholly owned subsidiary CoStar U.K. Limited were defendants in legal proceedings filed in England by Nokia U.K. Limited ("Nokia") related to a dispute concerning our termination of an agreement to lease certain office space from Nokia. Nokia served its complaint upon us in September 2009. In June 2010, we accrued approximately $2.0 million in anticipation of paying this amount as part of a settlement of this lawsuit. On July 20, 2010, the parties signed a settlement agreement formally resolving this litigation and we subsequently paid approximately $2.0 million to Nokia.

As described in Footnote 9 of the Notes to Condensed Consolidated Financial Statements included in Part I of this Quarterly Report on Form 10-Q, on December 8, 2009, a former employee filed a lawsuit against us in the United States District Court for the Southern District of California alleging violations of the Fair Labor Standards Act and California state wage-and-hour laws and is seeking unspecified damages under those laws. The complaint also seeks to declare a class of all similarly situated employees to pursue similar claims. In May 2010, the parties reached a preliminary agreement to settle this lawsuit, and in June 2010, we accrued approximately $800,000 in anticipation of making a settlement payment that will formally resolve this litigation. We do not anticipate making any settlement payments until 2011.

Recent Accounting Pronouncements

There have been no developments to the Recent Accounting Pronouncements discussion included in our Annual Report on Form 10-K for the year ended December 31, 2009, including the expected dates of adoption and estimated effects on our consolidated financial statements, except for the following:

In February 2010, the FASB issued authoritative guidance that amends the disclosure requirements related to subsequent events. This guidance includes the definition of a Securities and Exchange Commission filer, removes the definition of a public entity, redefines the reissuance disclosure requirements and allows public companies to omit the disclosure of the date through which subsequent events have been evaluated. This guidance is effective for financial statements issued for interim and annual periods ending after February 2010. This guidance did not materially impact our results of operations or financial position, but did require changes to our disclosures in our financial statements.

In April 2010, the FASB issued authoritative guidance related to the criteria that should be met for determining whether the milestone method of revenue recognition is appropriate. A vendor can recognize consideration that is contingent upon achievement of a milestone in its entirety as revenue in the period in which the milestone is achieved if the milestone is: (a) commensurate with either the vendor's performance to achieve the milestone or the enhancement of the value of the item delivered; (b) relates solely to past performance; and (c) is reasonable relative to all deliverables and payment terms in the arrangement. This guidance is effective on a prospective basis for financial statements issued for interim and annual periods ending after June 15, 2010 with early adoption permitted. The adoption of this guidance did not have a material impact on our results of operations or financial position.

Cautionary Statement Concerning Forward-Looking Statements

We have made forward-looking statements in this Report and make forward-looking statements in our press releases and conference calls and other public statements that are subject to risks and uncertainties. Forward-looking statements include information that is not purely historic fact and include, without limitation, statements concerning

our financial outlook for 2010 and beyond, our possible or assumed future results of operations generally, and other statements and information regarding assumptions about our revenues, EBITDA, adjusted EBITDA, non-GAAP net income, non-GAAP net income per share, fully diluted net income, taxable income, income tax expense, cash flow from operating activities, available cash, operating costs, amortization expense, stock-based compensation expense, intangible asset recovery, net income per share, diluted net income per share, weighted-average outstanding shares, capital and other expenditures, effective tax rate, equity compensation charges, future taxable income, purchase amortization, financing plans, geographic expansion, acquisitions and related costs, restructuring and related costs,

headquarters acquisition and related costs, settlements, impairments, contract renewal rate, capital structure, contractual obligations, legal proceedings and claims, our database, database growth, services and facilities, employee relations, future economic performance, our ability to liquidate or realize our long-term investments, management's plans, goals and objectives for future operations, and growth and markets for our stock. Sections of this Report which contain forward-looking statements include the Financial Statements and related Notes, "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Quantitative and Qualitative Disclosures About Market Risk," "Legal Proceedings" and Risk Factors."

Our forward-looking statements are also identified by words such as "believes," "expects," "thinks," "anticipates," "intend "estimates" or similar expressions. You should understand that these forward-looking statements are estimates reflecting our judgment, beliefs and expectations, not guarantees of future performance. They are subject to a number of assumptions, risks and uncertainties that could cause actual results to differ materially from those expressed or implied in the forward-looking statements. The following important factors, in addition to those discussed or referred to under the heading "Risk Factors" in Item 1A. of Part II of this report, and other unforeseen events or circumstances, could affect our future results and could cause those results or other outcomes to differ materially from those expressed or implied in our forward-looking statements: general economic conditions; commercial real estate market conditions; changes or consolidations within the commercial real estate industry; customer retention; our ability to attract new clients; our ability to sell additional services to existing clients; competition; foreign currency fluctuations; our ability to identify, acquire and integrate acquisition candidates; our ability to obtain any required financing on favorable terms; global credit market conditions affecting investments; our ability to integrate our U.S. and international product offerings; our ability to continue to expand successfully; our ability to effectively penetrate the market for retail real estate information and gain acceptance in that market; our ability to control costs; litigation; changes in accounting policies or practices; release of new and upgraded services by us or our competitors; data quality; development of our sales force; employee retention; technical problems with our services; managerial execution; changes in relationships with real estate brokers and other strategic partners; legal and regulatory issues; and successful adoption of and training on our services.

Accordingly, you should not place undue reliance on forward-looking statements, which speak only as of, and are based on information available to us on, the date of this Report. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We do not undertake any obligation to update any such statements or release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date of this Report or to reflect the occurrence of unanticipated events.

Item 3.Quantitative and Qualitative Disclosures About Market Risk

We provide information, marketing and analytic services to the commercial real estate and related business community in the U.S., U.K. and France. Our functional currency for our operations in the U.K. and France is the local currency. As such, fluctuations in the British Pound and Euro may have an impact on our business, results of operations and financial position. We currently do not use financial instruments to hedge our exposure to exchange rate fluctuations with respect to our foreign subsidiaries. We may seek to enter hedging transactions in the future to reduce our exposure to exchange rate fluctuations, but we may be unable to enter into hedging transactions successfully, on acceptable terms or at all. As of June 30, 2010, accumulated other comprehensive loss included a loss from foreign currency translation adjustments of approximately $6.7 million.

We do not have material exposure to market risks associated with changes in interest rates related to cash equivalent securities held as of June 30, 2010. As of June 30, 2010, we had $200.6 million of cash, cash equivalents and short-term investments. If there is an increase or decrease in interest rates, there will be a corresponding increase or decrease in the amount of interest earned on our cash, cash equivalents and short-term investments. Based on our

ability to access our cash, cash equivalents and short-term investments, and our expected operating cash flows, we do not believe that increases or decreases in interest rates will impact our ability to operate our business in the foreseeable future.

Included within our long-term investments are investments in mostly AAA rated student loan ARS. These securities are primarily securities supported by guarantees from the FFELP of the U.S. Department of Education. As of June 30, 2010, auctions for $32.5 million of our investments in auction rate securities failed. As a result, we may not be able to sell these investments at par value until a future auction on these investments is successful. In the event we need to immediately liquidate these investments, we may have to locate a buyer outside the auction process, who may be unwilling to purchase the investments at par, resulting in a loss. Based on an assessment of fair value of

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these investments in ARS as of June 30, 2010, we determined that there was a decline in the fair value of our ARS investments of approximately $3.0 million, which was deemed to be a temporary impairment and recorded as an unrealized loss in accumulated other comprehensive loss in stockholders' equity. If the issuers are unable to successfully close future auctions and their credit ratings deteriorate, we may be required to adjust the carrying value of these investments as a temporary impairment and recognize a greater unrealized loss in accumulated other comprehensive loss or as an other-than-temporary impairment charge to earnings. Based on our ability to access our cash, cash equivalents and short-term investments, and our expected operating cash flows, we do not anticipate having to sell these securities below par value in order to operate our business in the foreseeable future. See Footnotes 4, 5, and 9 of the Notes to Condensed Consolidated Financial Statements included in Part I of this Quarterly Report on Form 10-Q for further discussion.

We have approximately $99.5 million in intangible assets as of June 30, 2010. As of June 30, 2010, we believe our intangible assets will be recoverable, however, changes in the economy, the business in which we operate and our own relative performance could change the assumptions used to evaluate intangible asset recoverability. In the event that we determine that an asset has been impaired, we would recognize an impairment charge equal to the amount by which the carrying amount of the assets exceeds the fair value of the asset. We continue to monitor these assumptions and their effect on the estimated recoverability of our intangible assets.

Item 4.Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of June 30, 2010, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective and were operating at the reasonable assurance level.

There have been no changes in our internal control over financial reporting during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1.Legal Proceedings

Currently, and from time to time, we are involved in litigation incidental to the conduct of our business. Certain pending legal proceedings are discussed in Footnote 9 of the Notes to Condensed Consolidated Financial Statements included in Part I of this Quarterly Report on Form 10-Q. We are not currently a party to any material pending legal proceedings.

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2009, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or results of operations. Other than discussed below, there have been no material changes to the Risk Factors as previously disclosed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2009.

Recent investments in our business may not result in the long-term cost savings we anticipate, and we may incur additional costs in connection with those investments.

We have taken, and may continue to take, actions that may increase our cost structure in the short-term but are intended to reduce certain portions of our long-term cost structure. For example, we recently purchased a new headquarters building in downtown Washington, D.C., and have begun to relocate our headquarters to that building and to consolidate redundant office space.

If our long-term cost reduction efforts are ineffective or our estimates of cost savings are inaccurate, our profitability could be negatively impacted. Expected savings from relocating facilities can be highly variable and uncertain. Further, we may not be successful in achieving the operating efficiencies or operating cost reductions expected from these efforts in the amounts or at the times we anticipate. Our efforts may not produce the full cost reduction benefits that we currently expect and such benefits, if any, may not be realized when anticipated. For instance, we may not meet the requirements necessary to receive the full property tax abatement provided by the District of Columbia as incentive for us to relocate our headquarters to Washington, D.C. and may incur greater property taxes than anticipated in connection with ownership of our new headquarters.

We may experience business disruptions and loss of key personnel associated with the office moves and restructuring, which in turn may negatively affect our productivity and profitability. Further, the costs of implementing these investments may be greater than currently anticipated, and we may experience additional costs in connection with ownership of our headquarters building, relocating offices and consolidation of redundant office space due to delays or other unforeseen circumstances.

Item 2.Unregistered Sales of Equity Securities and Use of Proceeds

The following table is a summary of our repurchases of common stock during each of the three months in the quarter ended June 30, 2010:

ISSUER PURCHASES OF EQUITY SECURITIES

Month	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
April 1 through April 30, 2010	2,847	$ 44.89	¾	¾
May 1 through May 31, 2010	833	41.05	¾	¾
June 1 through June 30, 2010	¾	¾	¾	¾
Total	3,680(1)	$ 44.02	¾	¾

(1) The number of shares purchased consists of shares of common stock tendered by employees to the Company to satisfy the employees' minimum tax withholding obligations arising as a result of vesting of restricted stock grants under the Company's 1998 Stock Incentive Plan, as amended, and the Company's 2007 Stock Incentive Plan, as amended, which shares were purchased by the Company based on their fair market value on the vesting date. None of these share purchases were part of a publicly announced program to purchase common stock of the Company.

Item 3.Defaults upon Senior Securities

None

Item 4.[Removed and Reserved]

Item 5.Other Information

None

Item 6.Exhibits

See exhibits listed under the Exhibit Index below.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	COSTAR GROUP, INC.	
Date: July 22, 2010	By:	/s/ Brian J. Radecki
		Brian J. Radecki
		Chief Financial Officer
		(Principal Financial and Accounting Officer and Duly Authorized Officer)

EXHIBIT INDEX

Exhibit No.	Description
3.1	Restated Certificate of Incorporation (Incorporated by reference to Exhibit 3.1 to the Registrant's Registration Statement on Form S-1 of the Registrant (File No. 333-47953) filed with the Commission on March 13, 1998).
3.2	Certificate of Amendment of Restated Certificate of Incorporation (Incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999).
3.3	Amended and Restated By-Laws (Incorporated by Reference to Exhibit 3.3 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2008).
10.1	CoStar Group, Inc. 2007 Stock Incentive Plan, as amended (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Commission on June 8, 2010).
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).