

COMSCORE, INC.  
Form 10-Q  
November 09, 2010

**Table of Contents**

**SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended September 30, 2010**

**or**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number: 000-1158172**

**comScore, Inc.**

**(Exact name of registrant as specified in its charter)**

**Delaware  
(State or other jurisdiction of  
incorporation or organization)**

**54-1955550  
(I.R.S. Employer  
Identification Number)**

**11950 Democracy Drive, Suite 600  
Reston, VA  
(Address of principal executive offices)**

**20190  
(Zip Code)**

**(703) 483-2000**

**(Registrant's telephone number, including area code)**

**(Former name, former address and former fiscal year, if changed since last report)**

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

Indicate by check mark whether the registrant has submitted electronically 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  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller  
reporting company)

Smaller reporting  
company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: As of November 5, 2010, there were 31,423,815 shares of the registrant's common stock outstanding.



**COMSCORE, INC.**  
**QUARTERLY REPORT ON FORM 10-Q**  
**FOR THE QUARTER ENDED SEPTEMBER 30, 2010**  
**TABLE OF CONTENTS**

**PART I. FINANCIAL INFORMATION**

|   |    |
|---|----|
| <b><u>Item 1. Financial Statements</u></b>  | 4  |
| <b><u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b> | 21 |
| <b><u>Item 3. Quantitative and Qualitative Disclosure About Market Risk</u></b>                             | 35 |
| <b><u>Item 4. Controls and Procedures</u></b>   | 35 |

**PART II. OTHER INFORMATION**

|   |    |
|---|----|
| <b><u>Item 1. Legal Proceedings</u></b>   | 36 |
| <b><u>Item 1A. Risk Factors</u></b>   | 36 |
| <b><u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u></b> | 51 |
| <b><u>Item 3. Defaults Upon Senior Securities</u></b>                             | 52 |
| <b><u>Item 4. (Removed and Reserved)</u></b>                                      | 52 |
| <b><u>Item 5. Other Information</u></b>   | 52 |
| <b><u>Item 6. Exhibits</u></b>  | 52 |
| <b><u>SIGNATURES</u></b>  | 53 |
| <b><u>EXHIBIT INDEX</u></b>   | 54 |

|                       |
|-----------------------|
| <b><u>EX-2.1</u></b>  |
| <b><u>EX-2.2</u></b>  |
| <b><u>EX-31.1</u></b> |
| <b><u>EX-31.2</u></b> |
| <b><u>EX-32.1</u></b> |
| <b><u>EX-32.2</u></b> |

**Table of Contents**

**CAUTIONARY NOTE CONCERNING FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q, including the sections entitled Management's Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosure About Market Risk under Items 2 and 3, respectively, of Part I of this report, and the sections entitled Legal Proceedings, Risk Factors, and

Unregistered Sales of Equity Securities and Use of Proceeds under Items 1, 1A and 2, respectively, of Part II of this report, may contain forward-looking statements. These statements may relate to, but are not limited to, expectations of future operating results or financial performance, capital expenditures, introduction of new products, regulatory compliance, expected effects of acquisitions, plans for growth and future operations, as well as assumptions relating to the foregoing. Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. These risks and other factors include, but are not limited to, those listed under the section entitled Risk Factors in Item 1A of Part II of this Quarterly Report on Form 10-Q. In some cases, you can identify forward-looking statements by terminology such as may, will, should, could, expect, plan, anticipate, believe, estimate, predict, intend, potential, continue, seek or the negative of these terms or other comparable terminology. These statements are only predictions. Actual events and/or results may differ materially.

We believe that it is important to communicate our future expectations to our investors. However, there may be events in the future that we are not able to accurately predict or control and that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements. Except as required by applicable law, including the securities laws of the United States and the rules and regulations of the Securities and Exchange Commission, or SEC, we do not plan to publicly update or revise any forward-looking statements, whether as a result of any new information, future events or otherwise, other than through the filing of periodic reports in accordance with the Securities Exchange Act of 1934, as amended. Investors and potential investors should not place undue reliance on our forward-looking statements. Before you invest in our common stock, you should be aware that the occurrence of any of the events described in the Risk Factors section and elsewhere in this Quarterly Report on Form 10-Q could harm our business, prospects, operating results and financial condition. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements.

**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**

**COMSCORE, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(In thousands, except share and per share data)

|   | <b>September<br/>30,<br/>2010<br/>(Unaudited)</b> | <b>December<br/>31,<br/>2009</b> |
|---|---|----------------------------------|
| Current assets:   |   |                                  |
| Cash and cash equivalents   | \$ 36,233   | \$ 58,284                        |
| Short-term investments  | 12  | 29,833                           |
| Accounts receivable, net of allowances of \$388 and \$510, respectively | 37,180  | 34,922                           |
| Prepaid expenses and other current assets                               | 3,130   | 2,324                            |
| Deferred tax assets   | 10,313  | 11,044                           |
| <br>  |   |                                  |
| Total current assets  | 86,868  | 136,407                          |
| Long-term investments   | 2,621   | 2,809                            |
| Property and equipment, net   | 23,175  | 17,302                           |
| Other non-current assets  | 1,207   | 193                              |
| Long-term deferred tax assets   | 9,159   | 9,938                            |
| Intangible assets, net  | 52,744  | 8,745                            |
| Goodwill  | 81,939  | 42,014                           |
| <br>  |   |                                  |
| Total assets  | \$ 257,713  | \$ 217,408                       |
| <br>  |   |                                  |
| Current liabilities:  |   |                                  |
| Accounts payable  | \$ 4,541  | \$ 2,009                         |
| Accrued expenses  | 14,087  | 8,370                            |
| Deferred revenues   | 58,267  | 48,140                           |
| Deferred rent   | 1,205   | 1,231                            |
| Capital lease obligations   | 2,505   | 360                              |
| <br>  |   |                                  |
| Total current liabilities   | 80,605  | 60,110                           |
| Deferred revenue, long-term   | 933   |                                  |
| Deferred rent, long-term  | 7,997   | 8,210                            |
| Capital lease obligations, long-term                                    | 4,760   | 674                              |
| Other long-term liabilities   | 661   | 475                              |
| <br>  |   |                                  |
| Total liabilities   | 94,956  | 69,469                           |
| Commitments and contingencies   |   |                                  |
| Stockholders' equity:   |   |                                  |

Edgar Filing: COMSCORE, INC. - Form 10-Q

Preferred stock, \$0.001 par value; 5,000,000 shares authorized at September 30, 2010 and December 31, 2009; no shares issued or outstanding at September 30, 2010 and December 31, 2009

Common stock, \$0.001 par value per share; 100,000,000 shares authorized at September 30, 2010 and December 31, 2009; 31,421,190 and 30,385,590 shares issued and outstanding at September 30, 2010 and December 31, 2009, respectively

|  |          |          |
|--|----------|----------|
|  | 31       | 30       |
| Additional paid-in capital             | 212,665  | 199,270  |
| Accumulated other comprehensive income | 2,827    | 324      |
| Accumulated deficit                    | (52,766) | (51,685) |

|                            |         |         |
|----------------------------|---------|---------|
| Total stockholders' equity | 162,757 | 147,939 |
|----------------------------|---------|---------|

|  |            |            |
|--|------------|------------|
| Total liabilities and stockholders' equity | \$ 257,713 | \$ 217,408 |
|--|------------|------------|

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

Table of Contents

**COMSCORE, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**  
**(Unaudited)**

**(In thousands, except share and per share data)**

|   | <b>Three Months Ended</b> |               | <b>Nine Months Ended</b> |                 |
|---|---------------------------|---------------|--------------------------|-----------------|
|   | <b>September 30,</b>      |               | <b>September 30,</b>     |                 |
|   | <b>2010</b>               | <b>2009</b>   | <b>2010</b>              | <b>2009</b>     |
| <b>Revenues</b>   | \$ 45,703                 | \$ 31,916     | \$ 123,802               | \$ 93,915       |
| Cost of revenues (excludes amortization of intangible assets resulting from acquisitions shown below) (1) | 13,743                    | 9,455         | 36,480                   | 29,186          |
| Selling and marketing (1)   | 16,319                    | 10,241        | 41,929                   | 31,057          |
| Research and development (1)  | 7,254                     | 4,677         | 18,389                   | 13,210          |
| General and administrative (1)  | 10,204                    | 4,353         | 24,577                   | 12,874          |
| Amortization of intangible assets resulting from acquisitions   | 1,380                     | 385           | 2,545                    | 1,032           |
| <b>Total expenses from operations</b>   | <b>48,900</b>             | <b>29,111</b> | <b>123,920</b>           | <b>87,359</b>   |
| <b>Net (loss) income from operations</b>  | <b>(3,197)</b>            | <b>2,805</b>  | <b>(118)</b>             | <b>6,556</b>    |
| Interest and other (expense) income, net  | (37)                      | 39            | 116                      | 348             |
| Loss from foreign currency  | (83)                      | (71)          | (207)                    | (53)            |
| <b>(Loss) income before income taxes</b>  | <b>(3,317)</b>            | <b>2,773</b>  | <b>(209)</b>             | <b>6,851</b>    |
| Income tax benefit (provision)  | 1,182                     | (1,828)       | (874)                    | (4,445)         |
| <b>Net (loss) income</b>  | <b>\$ (2,135)</b>         | <b>\$ 945</b> | <b>\$ (1,083)</b>        | <b>\$ 2,406</b> |
| <b>Net (loss) income available to common stockholders per common share:</b>                               |                           |               |                          |                 |
| Basic   | \$ (0.07)                 | \$ 0.03       | \$ (0.04)                | \$ 0.08         |
| Diluted   | \$ (0.07)                 | \$ 0.03       | \$ (0.04)                | \$ 0.08         |
| <b>Weighted-average number of shares used in per share calculation common stock:</b>                      |                           |               |                          |                 |
| Basic   | 31,223,077                | 30,204,147    | 30,942,078               | 29,914,460      |
| Diluted   | 31,223,077                | 31,157,222    | 30,942,078               | 30,879,072      |

(1) Amortization of stock-based compensation is included in the line items above as follows

|                  |        |        |          |        |
|------------------|--------|--------|----------|--------|
| Cost of revenues | \$ 569 | \$ 277 | \$ 1,045 | \$ 925 |
|------------------|--------|--------|----------|--------|



Edgar Filing: COMSCORE, INC. - Form 10-Q

|   |               |               |                 |                 |
|---|---------------|---------------|-----------------|-----------------|
| Selling and marketing   | 2,079         | 1,234         | 4,335           | 3,573           |
| Research and development  | 699           | 285           | 1,278           | 829             |
| General and administrative  | 2,407         | 755           | 5,257           | 2,056           |
| <b>Comprehensive income:</b>  |               |               |                 |                 |
| Net (loss) income   | \$ (2,135)    | \$ 945        | \$ (1,083)      | \$ 2,406        |
| Other comprehensive income:   |               |               |                 |                 |
| Foreign currency cumulative translation adjustment  | 3,119         | (131)         | 2,705           | 689             |
| Unrealized loss on marketable securities, net of tax effect<br>of (\$4) and \$9 for the three and nine months ended<br>September 30, 2010, respectively, and \$14 and \$49 for the<br>three and nine months ended September 30, 2009,<br>respectively | (183)         | (23)          | (202)           | (78)            |
| <b>Total comprehensive income</b>   | <b>\$ 801</b> | <b>\$ 791</b> | <b>\$ 1,420</b> | <b>\$ 3,017</b> |

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

**Table of Contents**

**COMSCORE, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**  
**(In thousands)**

|  | <b>Nine Months Ended</b> |             |
|--|--------------------------|-------------|
|  | <b>September 30,</b>     |             |
|  | <b>2010</b>              | <b>2009</b> |
| <b>Operating activities</b>  |                          |             |
| Net (loss) income  | \$ (1,083)               | \$ 2,406    |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: |                          |             |
| Depreciation   | 5,775                    | 4,924       |
| Amortization of intangible assets resulting from acquisitions                            | 2,545                    | 1,032       |
| Provisions for bad debts   | 31                       | 271         |
| Stock-based compensation   | 11,915                   | 7,377       |
| Amortization of deferred rent  | (650)                    | (432)       |
| Amortization of bond premium   | 188                      | 422         |
| Deferred tax provision   | 19                       | 4,188       |
| Loss on asset disposal   | 13                       | 108         |
| Changes in operating assets and liabilities:   |                          |             |
| Accounts receivable  | 3,154                    | 3,177       |
| Prepaid expenses and other current assets  | (360)                    | (34)        |
| Accounts payable, accrued expenses, and other liabilities                                | 1,224                    | (3,482)     |
| Deferred rent  | 407                      | 331         |
| Deferred revenues  | (1,694)                  | (1,868)     |
| <br>   |                          |             |
| Net cash provided by operating activities  | 24,872                   | 18,420      |
| <b>Investing activities</b>  |                          |             |
| Acquisition, net of cash acquired  | (68,880)                 |             |
| Purchase of investments  |                          | (41,925)    |
| Sales and maturities of investments  | 29,964                   | 40,197      |
| Purchase of property and equipment   | (3,354)                  | (4,826)     |
| <br>   |                          |             |
| Net cash used in investing activities  | (42,270)                 | (6,554)     |
| <b>Financing activities</b>  |                          |             |
| Proceeds from the exercise of common stock options                                       | 897                      | 412         |
| Repurchase of common stock   | (4,725)                  | (1,470)     |
| Principal payments on capital lease obligations  | (944)                    | (725)       |
| <br>   |                          |             |
| Net cash used in financing activities  | (4,772)                  | (1,783)     |
| Effect of exchange rate changes on cash  | 119                      | 596         |

|  |           |           |
|--|-----------|-----------|
| Net (decrease) increase in cash and cash equivalents | (22,051)  | 10,679    |
| Cash and cash equivalents at beginning of period     | 58,284    | 34,297    |
| Cash and cash equivalents at end of period           | \$ 36,233 | \$ 44,976 |

**Supplemental disclosures for non-cash financing activities**

|                                    |          |          |
|------------------------------------|----------|----------|
| Capital lease obligations incurred | \$ 7,078 | \$ 1,121 |
|------------------------------------|----------|----------|

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

**Table of Contents****COMSCORE, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****1. Organization**

comScore, Inc. (the Company), a Delaware corporation incorporated in August 1999, provides a digital marketing intelligence platform that helps customers make better-informed business decisions and implement more effective digital business strategies. The Company's products and solutions offer customers insights into consumer behavior, including objective, detailed information regarding usage of their online properties and those of their competitors, coupled with information on consumer demographic characteristics, attitudes, lifestyles and offline behavior.

The Company's digital marketing intelligence platform is comprised of proprietary databases and a computational infrastructure that measures, analyzes and reports on digital activity. The foundation of the platform is data collected from a panel of more than two million Internet users worldwide who have granted to the Company explicit permission to confidentially measure their Internet usage patterns, online and certain offline buying behavior and other activities. For measuring and reporting online audiences, comScore also supplements panel information with Web site server metrics in order to account for 100 percent of a Web site's audience. This panel information is complemented by a Unified Digital Measurement solution to digital audience measurement. Unified Digital Measurement blends panel and server methodologies into a solution that provides a direct linkage and reconciliation between server and panel measurement. By applying advanced statistical methodologies to the panel data, the Company projects consumers online behavior for the total online population and a wide variety of user categories. Also, with key acquisitions, the Company has expanded its abilities to provide its customers a more robust solution for the mobile medium as well as expanded its abilities to provide its customers with actionable information to improve their creative and strategic messaging. Acquisitions have also enabled the Company to expand its geographic sales coverage.

**2. Summary of Significant Accounting Policies*****Basis of Presentation and Consolidation***

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions and accounts have been eliminated upon consolidation. The Company consolidates investments where it has a controlling financial interest. The usual condition for controlling financial interest is ownership of a majority of the voting interest and, therefore, as a general rule, ownership, directly or indirectly, of more than 50% of the outstanding voting shares is a condition indicating consolidation. For investments in variable interest entities, the Company would consolidate when it is determined to be the primary beneficiary of a variable interest entity. The Company does not have any variable interest entities.

***Unaudited Interim Financial Information***

The consolidated financial statements included in this quarterly report on Form 10-Q have been prepared by the Company without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been condensed or omitted pursuant to such rules and regulations. However, the Company believes that the disclosures contained in this quarterly report comply with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended, for a quarterly report on Form 10-Q and are adequate to make the information presented not misleading. The consolidated financial statements included herein, reflect all adjustments (consisting of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2009, filed March 12, 2010 with the SEC. The results of operations for the three and nine months ended September 30, 2010 are not necessarily indicative of the results to be anticipated for the entire year ending December 31, 2010 or thereafter. All references to September 30, 2010 and 2009 or to the three or nine months ended September 30, 2010 and 2009 in the notes to the consolidated financial statements are unaudited.

***Use of Estimates***

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and

expense during the reporting periods. Significant estimates and assumptions are inherent in the analysis and the measurement of deferred tax assets, the identification and quantification of income tax liabilities due to uncertain tax positions, valuation of marketable securities, recoverability of intangible assets, other long-lived assets and goodwill, and the determination of the allowance for doubtful accounts. The Company bases its estimates on historical experience and assumptions that it believes are reasonable. Actual results could differ from those estimates.

***Fair Value Measurements***

The Company evaluates the fair value of certain assets and liabilities using the fair value hierarchy. Fair value is an exit price representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the Company applies the three-tier value hierarchy which prioritizes the inputs used in measuring fair value as follows:

**Table of Contents**

- Level 1 observable inputs such as quoted prices in active markets;  
 Level 2 inputs other than the quoted prices in active markets that are observable either directly or indirectly;  
 Level 3 unobservable inputs of which there is little or no market data, which require the Company to develop its own assumptions.

This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. On a recurring basis, the Company measures its marketable securities at fair value and determines the appropriate classification level for each reporting period. The Company is required to use significant judgments to make this determination.

The Company's investment instruments are classified within Level 1 or Level 3 of the fair value hierarchy. Level 1 investment instruments are valued using quoted market prices. Level 3 instruments are valued using valuation models, primarily discounted cash flow analyses. The types of instruments valued based on quoted market prices in active markets include all U.S. government and agency securities. Such instruments are generally classified within Level 1 of the fair value hierarchy. The types of instruments valued based on significant unobservable inputs include certain illiquid auction rate securities. Such instruments are classified within Level 3 of the fair value hierarchy (see Note 4).

Cash equivalents, investments, accounts receivable, prepaid expenses and other assets, accounts payable, accrued expenses, deferred revenue, deferred rent and capital lease obligations reported in the consolidated balance sheets equal or approximate their respective fair values.

Assets and liabilities that are measured at fair value on a non-recurring basis include intangible assets and goodwill. The Company recognizes these items at fair value when they are considered to be impaired. During the three and nine months ended September 30, 2010 and 2009, there were no fair value adjustments for assets and liabilities measured on a non-recurring basis.

***Cash and Cash Equivalents and Investments***

Cash and cash equivalents consist of highly liquid investments with an original maturity of three months or less at the time of purchase. Cash and cash equivalents consist primarily of bank deposit accounts.

Investments, which consist principally of U.S. treasury bills, U.S. treasury notes and auction rate securities, are stated at fair value. These securities are accounted for as available-for-sale securities. Unrealized holding gains and losses for available-for-sale securities are excluded from earnings and reported as a net amount in a separate component of stockholders' equity until realized. Realized gains and losses on available-for-sale securities are included in interest income. Interest and dividends on securities classified as available-for-sale are included in interest income. The Company uses the specific identification method to compute realized gains and losses on its investments. Realized gains and losses for the three and nine months ended September 30, 2010 and 2009 were not material.

Interest income on investments was \$68,000 and \$140,000 for the three months ended September 30, 2010 and 2009, respectively, and \$251,000 and \$484,000 for the nine months ended September 30, 2010 and 2009, respectively.

***Accounts Receivable***

Accounts receivable are recorded at the invoiced amount and are non-interest bearing. The Company generally grants uncollateralized credit terms to its customers and maintains an allowance for doubtful accounts to reserve for potentially uncollectible receivables. Allowances are based on management's judgment, which considers historical experience and specific knowledge of accounts where collectability may not be probable. The Company makes provisions based on historical bad debt experience, a specific review of all significant outstanding invoices and an assessment of general economic conditions. If the financial condition of a customer deteriorates, resulting in an impairment of its ability to make payments, additional allowances may be required.

***Property and Equipment***

Property and equipment is stated at cost, net of accumulated depreciation. Property and equipment is depreciated on a straight-line basis over the estimated useful lives of the assets, ranging from three to five years. Assets under capital leases are recorded at their net present value at the inception of the lease and are included in the appropriate asset category. Assets under capital leases and leasehold improvements are amortized over the shorter of the related lease terms or their useful lives. Replacements and major improvements are capitalized; maintenance and repairs are charged to expense as incurred. Amortization of assets under capital leases is included within the expense category on the Consolidated Statement of Operations and Comprehensive Income in which the asset is deployed.

***Business Combinations***

The Company recognizes all of the assets acquired, liabilities assumed, contractual contingencies, and contingent consideration at their fair value on the acquisition date. Acquisition-related costs are recognized separately from the acquisition and expensed as incurred. Generally, restructuring costs incurred in periods subsequent to the acquisition date are expensed when incurred. All subsequent changes to a valuation allowance or uncertain tax position that relate to the acquired company and existed at the acquisition date that occur both within the measurement period and as a result of facts and circumstances that existed at the acquisition date are recognized as an adjustment to goodwill. All other changes in the valuation allowance are recognized as a reduction or increase to income tax expense or as a direct adjustment to additional paid-in capital as required. Acquired in-process research and development is capitalized as an intangible asset and amortized over its estimated useful life.

**Table of Contents*****Goodwill and Intangible Assets***

Goodwill represents the excess of the purchase price over the fair value of identifiable assets acquired and liabilities assumed when other businesses are acquired. The allocation of the purchase price to intangible assets and goodwill involves the extensive use of management's estimates and assumptions, and the result of the allocation process can have a significant impact on future operating results. The Company estimates the fair value of identifiable intangible assets acquired using several different valuation approaches, including the relief from royalty method and, income and market approaches. The relief from royalty method assumes that if the Company did not own the intangible asset or intellectual property, it would be willing to pay a royalty for its use. The Company generally uses the relief from royalty method for estimating the value of acquired technology/methodology assets. The income approach converts the anticipated economic benefits that the Company assumes will be realized from a given asset into value. Under this approach, value is measured as the present value of anticipated future net cash flows generated by an asset. The Company generally uses the income approach to value customer relationship assets and non-compete agreements. The market approach compares the acquired asset to similar assets that have been sold. The Company generally uses the market approach to value trade names and brand assets.

Intangible assets with finite lives are amortized over their useful lives while goodwill is not amortized but is evaluated for potential impairment at least annually by comparing the fair value of a reporting unit to its carrying value including goodwill recorded by the reporting unit. If the carrying value exceeds the fair value, impairment is measured by comparing the implied fair value of the goodwill to its carrying value, and any impairment determined is recorded in the current period. All of the Company's goodwill is associated with one reporting unit. However, with the recent acquisitions of Nexius, Inc., or Nexius, and Nedstat B.V., or Nedstat, the Company is in the process of evaluating if additional operating and reporting segments are required. Accordingly, on an annual basis the Company performs the impairment assessment for goodwill at the enterprise level. The Company completed its annual impairment analysis as of October 1st for 2009 and determined that there was no impairment of goodwill. There have been no indicators of impairment suggesting that an interim assessment was necessary for goodwill since the October 1, 2009 test.

Intangible assets with finite lives are amortized using the straight-line method over the following useful lives:

|                                   | <b>Useful Lives<br/>(Years)</b> |
|-----------------------------------|---------------------------------|
| Acquired methodologies/technology | 3 to 10                         |
| Customer relationships            | 7 to 12                         |
| Panel                             | 7                               |
| Intellectual property             | 10                              |
| Trade names                       | 2 to 10                         |

***Impairment of Long-Lived Assets***

The Company's long-lived assets primarily consist of property and equipment and intangible assets. The Company evaluates the recoverability of its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying value of such assets may not be recoverable. If an indication of impairment is present, the Company compares the estimated undiscounted future cash flows to be generated by the asset to its carrying amount. Recoverability measurement and estimation of undiscounted cash flows are grouped at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. If the undiscounted future cash flows are less than the carrying amount of the asset, the Company records an impairment loss equal to the excess of the asset's carrying amount over its fair value. The fair value is determined based on valuation techniques such as a comparison to fair values of similar assets or using a discounted cash flow analysis. Although the Company believes that the carrying values of its long-lived assets are appropriately stated, changes in strategy or market conditions or significant technological developments could significantly impact these judgments and require adjustments to recorded asset balances. There were no impairment charges recognized during the three and nine months ended September 30, 2010 or 2009.

***Lease Accounting***



The Company leases its facilities and accounts for those leases as operating leases. For facility leases that contain rent escalations or rent concession provisions, the Company records the total rent payable during the lease term on a straight-line basis over the term of the lease. The Company records the difference between the rent paid and the straight-line rent as a deferred rent liability in the accompanying Consolidated Balance Sheets. Leasehold improvements funded by landlord incentives or allowances are recorded as leasehold improvement assets and a deferred rent liability which is amortized as a reduction of rent expense over the term of the lease.

The Company records capital leases as an asset and an obligation at an amount equal to the present value of the minimum lease payments as determined at the beginning of the lease term. Amortization of capitalized leased assets is computed on a straight-line basis over the term of the lease and is included in depreciation and amortization expense in the Consolidated Statements of Operations and Comprehensive Income. Repairs and maintenance are charged to expense as incurred.

***Foreign Currency Translation***

The functional currency of the Company's foreign subsidiaries is the local currency. All assets and liabilities are translated at the current exchange rate as of the end of the period, and revenues and expenses are translated at average exchange rates in effect during the period. The gain or loss resulting from the process of translating foreign currency financial statements into U.S. dollars is reflected as foreign currency cumulative translation adjustment and reported as a component of Accumulated other comprehensive income (loss).

The Company incurred foreign currency transaction losses of \$83,000 and \$207,000 for the three and nine months ended September 30, 2010, respectively and incurred foreign currency transaction losses of \$71,000 and \$53,000 for the three and nine months ended September 30, 2009,

**Table of Contents**

respectively. These losses and gains are the result of transactions denominated in currencies other than the functional currency of the Company's foreign subsidiaries.

***Revenue Recognition***

The Company recognizes revenues when the following fundamental criteria are met: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or the services have been rendered, (iii) the fee is fixed or determinable and (iv) collection of the resulting receivable is reasonably assured.

The Company generates revenues by providing access to the Company's online database or delivering information obtained from the database, usually in the form of periodic reports. Revenues are typically recognized on a straight-line basis over the period in which access to data or reports are provided, which generally ranges from three to 24 months.

Revenues are also generated through survey services under contracts ranging in term from two months to one year. Survey services consist of survey and questionnaire design with subsequent data collection, analysis and reporting. Revenues are recognized on a straight-line basis over the estimated data collection period once the survey or questionnaire has been delivered. Any change in the estimated data collection period results in an adjustment to revenues recognized in future periods.

Certain of the Company's arrangements contain multiple elements, consisting of the various services the Company offers. Multiple element arrangements typically consist of a subscription to the Company's online database combined with customized services. The Company has determined that there is not objective and reliable evidence of fair value for any of its services and, therefore, accounts for all elements in multiple elements arrangements as a single unit of accounting. Access to data under the subscription element is generally provided shortly after the execution of the contract. However, the initial delivery of customized services generally occurs subsequent to contract execution. The Company recognizes the entire arrangement fee over the performance period of the last deliverable. As a result, the total arrangement fee is recognized on a straight-line basis over the period beginning with the commencement of the last customized deliverable.

Generally, contracts are non-refundable and non-cancelable. In the event a portion of a contract is refundable, revenue recognition is delayed until the refund provisions lapse. A limited number of customers have the right to cancel their contracts by providing a written notice of cancellation. In the event that a customer cancels its contract, the customer is not entitled to a refund for prior services, and will be charged for costs incurred plus services performed up to the cancellation date.

Advance payments are recorded as deferred revenues until services are delivered or obligations are met and revenue can be recognized. Deferred revenues represent the excess of amounts invoiced over amounts recognized as revenues.

On July 1, 2010, the Company completed its acquisition of Nexius, resulting in additional revenue sources, including software licenses, professional services (including implementation, training and customized consulting services), and maintenance and technical support contracts. The Company's arrangements generally contain multiple elements, consisting of the various service offerings. The Company recognizes software license arrangements that include significant modification and customization of the software in accordance with Financial Accounting Standards Board Accounting Standards Codification (ASC) 985-605, *Software Recognition* and ASC 605-35, *Revenue Recognition-Construction-Type and Certain Production-Type Contracts*, typically using the completed contract method. The Company currently does not have vendor specific objective evidence (VSOE) for the multiple deliverables and accounts for all elements in these arrangements as a single unit of accounting, recognizing the entire arrangement fee as revenue over the service period of the last delivered element. During the period of performance, billings and costs (to the extent they are recoverable) are accumulated on the balance sheet, but no profit or income is recorded before user acceptance of the software license. To the extent estimated costs are expected to exceed revenue the Company accrues for costs immediately.

On August 31, 2010, the Company completed its acquisition of Nedstat, resulting in additional revenue sources, including software subscriptions, server calls, and professional services (including training and consulting). The Company's arrangements generally contain multiple elements, consisting of the various service offerings, with revenue recognition occurring ratably over the remaining subscription term after all elements have commenced delivery.

***Stock-Based Compensation***

The Company estimates the fair value of share-based awards on the date of grant. The fair value of stock options is determined using the Black-Scholes option-pricing model. The fair value of market-based stock options is determined using a Monte Carlo simulation embedded in a lattice model. The fair value of restricted stock awards is based on the closing price of the Company's common stock on the date of grant. The determination of the fair value of the Company's stock option awards and restricted stock awards is based on a variety of factors including, but not limited to, the Company's common stock price, expected stock price volatility over the expected life of awards, and actual and projected exercise behavior. Additionally, the Company has estimated forfeitures for share-based awards at the dates of grant based on historical experience, adjusted for future expectation. The forfeiture estimate is revised as necessary if actual forfeitures differ from these estimates.

The Company issues restricted stock awards where restrictions lapse upon either the passage of time (service vesting), achieving performance targets, or some combination of these restrictions. For those restricted stock awards with only service conditions, the Company recognizes compensation cost on a straight-line basis over the explicit service period. For awards with both performance and service conditions, the Company starts recognizing compensation cost over the remaining service period, when it is probable the performance condition will be met. For stock awards that contain performance or market vesting conditions, the Company excludes these awards from diluted earnings per share computations until the contingency is met as of the end of that reporting period.

The Company recorded stock-based compensation expense of \$5.8 million and \$11.9 million for the three months and nine months ended September 30, 2010, respectively, and \$2.6 million and \$7.4 million for the three and nine months ended September 30, 2009, respectively. As of December 31, 2009, there was an accrual for \$1.7 million for compensation earned during 2009 that was settled with shares of restricted stock granted in February 2010. There was no accrual as of September 30, 2010 as the 2010 bonus plan is cash based.

**Table of Contents****Income Taxes**

Income taxes are accounted for using the asset and liability method. Deferred income taxes are provided for temporary differences in recognizing certain income, expense and credit items for financial reporting purposes and tax reporting purposes. Such deferred income taxes primarily relate to the difference between the tax bases of assets and liabilities and their financial reporting amounts. Deferred tax assets and liabilities are measured by applying enacted statutory tax rates applicable to the future years in which deferred tax assets or liabilities are expected to be settled or realized.

The Company records a valuation allowance when it determines, based on available positive and negative evidence, that it is more likely than not that some portion or all of its deferred tax assets will not be realized. The Company determines the realizability of its deferred tax assets primarily based on projections of future taxable income (exclusive of reversing temporary differences and carryforwards). In evaluating such projections, the Company considers its history of profitability, the competitive environment, the overall outlook for the online marketing industry and general economic conditions. In addition, the Company considers the timeframe over which it would take to utilize the deferred tax assets prior to their expiration.

For certain tax positions, the Company uses a more-likely-than not recognition threshold based on the technical merits of the tax position taken. Tax positions that meet the more-likely-than-not recognition threshold are measured at the largest amount of tax benefits determined on a cumulative probability basis, which are more likely than not to be realized upon ultimate settlement in the financial statements. The Company's policy is to recognize interest and penalties related to income tax matters in income tax expense.

**Earnings Per Share**

Basic earnings per share is calculated by dividing the net (loss) income attributed to controlling interests for the period by the weighted average number of common shares outstanding during the period. All outstanding unvested restricted stock awards contain rights to non-forfeitable dividends and participate in undistributed earnings with common stockholders and, accordingly are considered participating securities that are included in the two-class method of computing basic earnings per share.

Diluted earnings per share for common stock reflects the potential dilution that could result if securities or other contracts to issue common stock were exercised or converted into common stock. Diluted earnings per share assumes the exercise of stock options and warrants using the treasury stock method.

The following table sets forth the computation of basic and diluted earnings per share:

|   | <b>Three Months Ended</b>                       |                   | <b>Nine Months Ended</b> |                   |
|---|---|-------------------|--------------------------|-------------------|
|   | <b>September 30,</b>                            |                   | <b>September 30,</b>     |                   |
|   | <b>2010</b>                                     | <b>2009</b>       | <b>2010</b>              | <b>2009</b>       |
|   | (Unaudited)                                     |                   |                          |                   |
|   | (In thousands, except share and per share data) |                   |                          |                   |
| <b>Net (loss) income</b>                  | <b>\$ (2,135)</b>                               | <b>\$ 945</b>     | <b>\$ (1,083)</b>        | <b>\$ 2,406</b>   |
| <b>Weighted-average shares</b>            |   |                   |                          |                   |
| <b>outstanding-common stock, basic</b>    | 31,223,077                                      | 30,204,147        | 30,942,078               | 29,914,460        |
| Dilutive effect of                        |   |                   |                          |                   |
| Options to purchase common stock          |   | 909,355           |                          | 928,637           |
| Unvested shares of restricted stock units |   | 32,787            |                          | 28,313            |
| Warrants to purchase common stock         |   | 10,933            |                          | 7,662             |
| <b>Weighted-average shares</b>            |   |                   |                          |                   |
| <b>outstanding-common stock, diluted</b>  | <b>31,223,077</b>                               | <b>31,157,222</b> | <b>30,942,078</b>        | <b>30,879,072</b> |

**Net (loss) income per share-common stock:**

|         |    |        |    |      |    |        |    |      |
|---------|----|--------|----|------|----|--------|----|------|
| Basic   | \$ | (0.07) | \$ | 0.03 | \$ | (0.04) | \$ | 0.08 |
| Diluted | \$ | (0.07) | \$ | 0.03 | \$ | (0.04) | \$ | 0.08 |

The following is a summary of common stock equivalents for the securities outstanding during the respective periods that have been excluded from the earnings per share calculations as their impact was anti-dilutive.

|  | <b>Three Months Ended</b> |             | <b>Nine Months Ended</b> |             |
|--|---------------------------|-------------|--------------------------|-------------|
|  | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|  | <b>2010</b>               | <b>2009</b> | <b>2010</b>              | <b>2009</b> |
|  |                           |             | (Unaudited)              |             |
| Stock options and restricted stock units | 1,818,068                 | 50,518      | 1,379,314                | 97,235      |
| Common stock warrants                    | 9,210                     | 2,000       | 9,492                    | 2,000       |

**Table of Contents*****Recent Pronouncements***

In September 2009, the Financial Accounting Standards Board ( FASB ) issued a new revenue accounting standards update, *Multiple-Deliverable Revenue Arrangements*, which amends the revenue guidance under the ASC Subtopic 605-25, *Multiple Element Arrangements*. This update addresses how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting and how arrangement consideration shall be measured and allocated to the separate units of accounting in the arrangement. This new guidance will become effective for comScore on January 1, 2011. The Company is currently evaluating the impact that the adoption of the new guidance will have on its consolidated financial statements.

In January 2010, the FASB issued a new fair value accounting standard update, *Fair Value Measurements and Disclosures: Improving Disclosures about Fair Value Measurements*. This update requires additional disclosures about (i) the different classes of assets and liabilities measured at fair value, (ii) the valuation techniques and inputs used, (iii) the activity in Level 3 fair value measurements, and (iv) the transfers between Levels 1, 2, and 3. This update is effective for interim and annual reporting periods beginning after December 15, 2009. The Company adopted this guidance during the first quarter of 2010 and the adoption of this guidance had no impact on its consolidated results of operations and financial condition.

**3. Business Combinations**

The Company uses its best estimates and assumptions as a part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the business combination date, its estimates and assumptions are inherently uncertain and subject to refinement. As a result, during the preliminary purchase price allocation period, which may be up to one year from the business combination date, the Company records adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. The Company records adjustments to assets acquired or liabilities assumed subsequent to the purchase price allocation period in its operating results in the period in which the adjustments were determined.

For the three and nine months ended September 30, 2010, approximately \$1.1 million and \$2.4 million, respectively, of transaction related costs are included in the Company's consolidated statements of operations as a component of the Company's general and administrative expenses.

**Certifica**

On November 11, 2009, the Company completed its acquisition of Certifica, a leading analyst of Internet traffic measurement in Latin America, pursuant to the Agreement and Plan of Acquisition dated November 11, 2009, (the Acquisition ). Pursuant to the Agreement and Plan of Acquisition, the Company acquired all of the outstanding common stock of Certifica in a cash transaction.

The Acquisition resulted in goodwill of approximately \$1.9 million. This amount represents the residual amount of the total purchase price after allocation to net assets and identifiable intangible assets acquired. Included in the total net assets acquired was approximately \$679,000 in liabilities related to uncertain tax positions. The amount recorded for goodwill is consistent with the Company's intentions for the acquisition of Certifica. The Company acquired Certifica to strengthen its presence in the Latin America region and enable the Company to offer hybrid measurement as part of its Media Metrix 360 initiative using the same state-of-the-art measurement technologies the Company uses elsewhere in the world.

Definite-lived intangible assets of \$1.2 million consist of the value assigned to Certifica's customer relationships, trade name and its core technology of \$946,000, \$157,000 and \$51,000 respectively. The useful lives range from two to seven years (see Note 2).

The Company is in the process of evaluating the opening balance sheet liabilities and other tax related items. The Company has included the financial results of Certifica in its consolidated financial statements beginning November 11, 2009.

**ARSGroup**

On February 19, 2010, the Company completed its acquisition of ARSGroup ( ARS ), a leading technology-driven market research firm that measures the persuasion of advertising on TV and multi-media platforms, pursuant to the Agreement and Plan of Acquisition dated February 10, 2010, (the ARS Acquisition ). Pursuant to the Agreement and Plan of Acquisition, the Company acquired all of the outstanding common stock of ARS in a cash transaction.

The ARS Acquisition resulted in goodwill of approximately \$8.2 million. This amount represents the residual amount of the total purchase price of \$17.7 million after allocation to net assets and identifiable intangible assets acquired. The amount recorded for goodwill is consistent with the Company's intentions for the acquisition of ARS. The Company acquired ARS to provide it with technology-driven market research capabilities for measuring the effectiveness of advertising creative content. The additional resources will allow the Company to create new products and tools for designing and measuring more effective advertising on TV, online, and cross media campaigns.

Definite-lived intangible assets of \$9.5 million consist of the value assigned to ARS's methodology and database, customer relationships and trade name of \$4.1 million, \$4.1 million and \$1.3 million, respectively. The useful lives range from two to ten years (see Note 2).

ARS made an Internal Revenue Code section 338(h)(10) election with respect to the acquisition transaction. With such an election, the Company has fair market value basis in the ARS assets and liabilities for both tax and book purposes and no opening deferred tax balances. The Company is in the process of evaluating other tax related items. The Company has included the financial results of ARS in its consolidated financial statements beginning February 19, 2010.

**Nexius, Inc.**

On July 1, 2010, the Company completed its acquisition of Nexius, a leading a provider of carrier-grade mobile network analysis and intelligence solution, of which the Company acquired the Nexius's product portfolio, pursuant to a Stock Purchase Agreement dated July 1, 2010 (the "Nexius Acquisition").

**Table of Contents**

The aggregate amount of the consideration paid by the Company upon the closing of the transaction was \$20.9 million, of which approximately \$3.0 million was paid in cash to satisfy certain of Nexius' s existing debt obligations. Following payment of transaction expenses, the remaining estimated merger consideration of \$15.3 million in cash and an aggregate of 158,070 shares of the Company' s common stock valued at \$2.6 million was paid to the Nexius shareholders and holders of certain Nexius equity rights.

The Nexius Acquisition resulted in goodwill of approximately \$13.7 million. This amount represents the residual amount of the total purchase price after allocation to net assets and identifiable intangible assets acquired. The amount recorded for goodwill is consistent with the Company' s intentions for the acquisition of Nexius. The Company acquired Nexius to solidify it as a leader in the mobile category.

Definite-lived intangible assets of \$17.1 million consist of the value assigned to Nexius' s customer relationships, core technology and trade name of \$14.5 million, \$1.6 million and \$1.0 million respectively. The useful lives range from two to twelve years (see Note 2).

The Company is in the process of evaluating the opening balance sheet liabilities and other tax related items and may continue to adjust the preliminary purchase price allocation after obtaining more information about asset valuations and liabilities assumed. The Company has included the financial results of Nexius in its consolidated financial statements beginning July 1, 2010.

The preliminary purchase price is allocated as follows (in thousands) (unaudited):

|   |           |
|---|-----------|
| Cash and cash equivalents                 | \$ 4      |
| Accounts receivable                       | 484       |
| Prepaid expenses and other current assets | 57        |
| Deferred tax asset                        | 1,621     |
| Property and equipment                    | 290       |
| Accounts payable                          | (1,390)   |
| Other accrued liabilities                 | (456)     |
| Deferred revenue                          | (3,395)   |
| Deferred tax liability                    | (6,685)   |
| Note Payable                              | (393)     |
| <br>                                      |           |
| Net tangible liabilities acquired         | (9,863)   |
| Definite-lived intangible assets acquired | 17,050    |
| Goodwill                                  | 13,701    |
| <br>                                      |           |
| Total estimated purchase price            | \$ 20,888 |

In connection with the preliminary purchase price allocation, the estimated fair value of the deferred revenue assumed from Nexius in connection with the Nexius Acquisition was determined utilizing a cost build-up approach. The cost build-up approach determines fair value by estimating the costs relating to fulfilling the assumed contractual obligations plus a market profit margin. The present value of the sum of the costs and operating profit approximates the amount that the Company would be required to pay a third party to assume the obligations. The estimated costs to fulfill the obligation were based on the historical direct costs related to providing the services.

**Nedstat B.V.**

On August 31, 2010, the Company completed its acquisition of Nedstat, a leading provider of technology that helps web sites, particularly publishers and video companies, analyze the behavior of their users with powerful analytic tools, pursuant to the Stock Purchase Agreement dated August 31, 2010 (the "Nedstat Acquisition").

The aggregate amount of the consideration paid by the Company upon the closing of the transaction was approximately \$34.4 million in cash and an aggregate of 58,045 shares of the Company' s common stock valued at



\$1.1 million was issued to two key shareholders of Nedstat.

The Nedstat Acquisition resulted in goodwill of approximately \$16.8 million. This amount represents the residual amount of the total purchase price after allocation to net assets and identifiable intangible assets acquired. The amount recorded for goodwill is consistent with the Company's intentions for the acquisition of Nedstat. The Company acquired Nedstat to help transform the Company into a broad based Digital Business Analytics company and solidify its Unified Digital Measurement ( UDM ) platform.

Definite-lived intangible assets of \$18.7 million consist of the value assigned to Nedstat's customer relationships, core technology and trade name of \$15.2 million, \$1.9 million and \$1.6 million, respectively. The useful lives range from two to seven years (see Note 2).

The Company is in the process of evaluating the opening balance sheet liabilities and other tax related items and may continue to adjust the preliminary purchase price allocation after obtaining more information about asset valuations and liabilities assumed. The Company has included the financial results of Nedstat in its consolidated financial statements beginning September 1, 2010.

**Table of Contents**

The preliminary purchase price is allocated as follows (in thousands) (unaudited):

|   |           |
|---|-----------|
| Cash and cash equivalents                 | \$ 622    |
| Accounts receivable                       | 2,939     |
| Prepaid expenses and other current assets | 177       |
| Property and equipment                    | 1,520     |
| Deferred tax asset                        | 3,317     |
| Other long term assets                    | 224       |
| Accounts payable                          | (878)     |
| Other accrued liabilities                 | (2,283)   |
| Deferred revenue                          | (5,583)   |
| <br>                                      |           |
| Net tangible assets acquired              | 55        |
| Definite-lived intangible assets acquired | 18,673    |
| Goodwill                                  | 16,764    |
| <br>                                      |           |
| Total estimated purchase price            | \$ 35,492 |

In connection with the preliminary purchase price allocation, the estimated fair value of the deferred revenue assumed from Nedstat in connection with the Nedstat Acquisition was determined utilizing a cost build-up approach. The cost build-up approach determines fair value by estimating the costs relating to fulfilling the assumed contractual obligations plus a market profit margin. The present value of the sum of the costs and operating profit approximates the amount that the Company would be required to pay a third party to assume the obligations. The estimated costs to fulfill the obligation were based on the historical direct costs related to providing the services.

**Pro Forma Adjusted Summary**

The results of Nexius and Nedstat's operations have been included in the Consolidated Financial Statements subsequent to the acquisition dates.

The unaudited financial information provided below summarizes the combined results of operations of the Company and Nexius and Nedstat on a pro forma basis, as though the companies had been combined as of the beginning of the periods presented. The unaudited pro forma adjusted summary combines the historical results for the Company for the periods presented with the historical results for Nexius and Nedstat for those same periods. The pro forma financial information is presented for informational purposes only and does not purport to be indicative of the Company's financial position or results of operations, which would actually have been obtained had such transaction been completed as of the date or for the periods presented, or of the financial position or results of operations that may be obtained in the future.

|   | Three Months Ended<br>September 30,   |           | Nine Months Ended September<br>30, |            |
|---|---------------------------------------|-----------|------------------------------------|------------|
|   | 2010                                  | 2009      | 2010                               | 2009       |
|   | (Unaudited)                           |           |                                    |            |
|   | (In thousands, except per share data) |           |                                    |            |
| Revenues                                      | \$ 47,531                             | \$ 37,749 | \$ 134,582                         | \$ 111,804 |
| Net loss                                      | \$ (3,726)                            | \$ (906)  | \$ (9,664)                         | \$ (4,281) |
| Basic loss per share to common stockholders   | \$ (0.12)                             | \$ (0.03) | \$ (0.32)                          | \$ (0.15)  |
| Diluted loss per share to common stockholders | \$ (0.12)                             | \$ (0.03) | \$ (0.32)                          | \$ (0.15)  |

For pro forma adjusted summary purposes, the financial impacts of Certifica and ARS were not included as they were not significant individually or in the aggregate.

**4. Investments and Fair Value Measurements**

As of September 30, 2010 and December 31, 2009, the Company had \$2.6 million and \$2.8 million, respectively, in long-term investments consisting of four separate auction rate securities with a par value of \$4.3 million.

Auction rate securities are generally long-term debt instruments that were intended to provide liquidity through a Dutch auction process that resets the applicable interest rate at pre-determined calendar intervals, generally every 28 days. This mechanism typically allows existing investors to rollover their holdings and to continue to own their respective securities or liquidate their holdings by selling their securities at par

**Table of Contents**

value. These securities often are insured against loss of principal and interest by bond insurers. In prior years, the Company invested in these securities for short periods of time as part of its investment policy. However, since 2007, the uncertainties in the credit markets have limited the ability of the Company to liquidate its holdings of certain auction rate securities because the amount of securities submitted for sale has exceeded the amount of purchase orders. Accordingly, the Company continues to hold these long-term securities and is due interest at a higher rate than similar securities for which auctions have cleared. The four remaining securities were valued using a discounted cash flow model that takes into consideration the financial condition of the issuers, the workout period, the discount rate and other factors.

As of September 30, 2010, based on the Company's current fair value estimate, the Company recorded an \$188,000 unrealized loss on these investments. The Company is unsure as to when the liquidity issues relating to these investments will improve. Accordingly, the Company classified these securities as non-current as of September 30, 2010 and December 31, 2009. If the credit ratings of the issuers, the bond insurers or the collateral deteriorate further, the Company may further adjust the carrying value of these investments.

Marketable securities, which are classified as available-for-sale, are summarized below (in thousands).

|                                     | Amortized<br>Cost | Gross<br>Unrealized<br>Gain<br>(Loss) | Aggregate<br>Fair<br>Value<br>(Unaudited) | Classification on Balance<br>Sheet |                          |
|-------------------------------------|-------------------|---------------------------------------|---|------------------------------------|--------------------------|
|                                     |                   |                                       |   | Short-Term<br>Investments          | Long-Term<br>Investments |
| As of September 30, 2010:           |                   |                                       |   |                                    |                          |
| Investments in public company stock | \$ 12             | \$                                    | \$ 12                                     | \$ 12                              | \$                       |
| Auction rate securities             | 2,380             | 241                                   | 2,621                                     |                                    | 2,621                    |
|                                     | \$ 2,392          | \$ 241                                | \$ 2,633                                  | \$ 12                              | \$ 2,621                 |

|                          | Amortized<br>Cost | Gross<br>Unrealized<br>Gain | Aggregate<br>Fair<br>Value | Classification on Balance<br>Sheet |                          |
|--------------------------|-------------------|-----------------------------|----------------------------|------------------------------------|--------------------------|
|                          |                   |                             |                            | Short-Term<br>Investments          | Long-Term<br>Investments |
| As of December 31, 2009: |                   |                             |                            |                                    |                          |
| U.S. treasury notes      | \$ 29,810         | \$ 23                       | \$ 29,833                  | \$ 29,833                          | \$                       |
| Auction rate securities  | 2,380             | 429                         | 2,809                      |                                    | 2,809                    |
|                          | \$ 32,190         | \$ 452                      | \$ 32,642                  | \$ 29,833                          | \$ 2,809                 |

There were no gross unrealized losses related to available-for-sale securities as of September 30, 2010 and December 31, 2009.

Cash equivalents have original maturity dates of three months or less. All investments, excluding auction rate securities, have original maturity dates between three months and two years. Auction rate securities have original maturity dates in excess of fifteen years.

The fair value hierarchy of the Company's marketable securities at fair value as of September 30, 2010 and December 31, 2009 is as follows (in thousands):

**Fair Value Measurements at**

|                                     | <b>September<br/>30,<br/>2010</b> | <b>Reporting Date Using<br/>Quoted<br/>Prices<br/>in<br/>Active<br/>Markets<br/>for<br/>Identical<br/>Assets<br/>(Level<br/>1)<br/>(Unaudited)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> |
|-------------------------------------|-----------------------------------|--|--|
| Assets:                             |                                   |  |  |
| Investments in public company stock | \$ 12                             | \$ 12  | \$   |
| Auction rate securities             | 2,621                             |  | 2,621  |
| <b>Total</b>                        | <b>\$ 2,633</b>                   | <b>\$ 12</b>   | <b>\$ 2,621</b>  |

**Table of Contents**

|                         |                          | <b>Fair Value Measurements at Reporting Date Using</b>                |  |
|-------------------------|--------------------------|---|--|
|                         |                          | <b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b> | <b>Significant Unobservable Inputs (Level 3)</b> |
|                         | <b>December 31, 2009</b> |   |  |
| Assets:                 |                          |   |  |
| U.S. treasury notes     | \$ 29,833                | \$ 29,833   | \$   |
| Auction rate securities | 2,809                    |   | 2,809  |
| <b>Total</b>            | <b>\$ 32,642</b>         | <b>\$ 29,833</b>  | <b>\$ 2,809</b>                                  |

The following table provides a reconciliation of the beginning and ending balances for the major classes of assets measured at fair value using significant unobservable inputs (Level 3) (in thousands):

|  |                              |
|--|------------------------------|
|  | <b>Long-term Investments</b> |
| Balance on December 31, 2009   | \$ 2,809                     |
| Reduction in unrealized gains included in other comprehensive income | (188)                        |
| Balance on September 30, 2010 (unaudited)                            | \$ 2,621                     |

**5. Goodwill and Intangible Assets**

Approximately \$17.0 million and \$1.9 million of the Company's goodwill are recorded in Euros and the local currencies of its South American subsidiaries, respectively, and therefore, are subject to foreign currency translation adjustments. The change in the carrying value of goodwill for the nine months ended September 30, 2010 is as follows (in thousands):

|   |           |
|---|-----------|
| Balance as of December 31, 2009                   | \$ 42,014 |
| Purchase price allocation for ARS (unaudited)     | 8,217     |
| Purchase price allocation for Nexius (unaudited)  | 13,701    |
| Purchase price allocation for Nedstat (unaudited) | 16,764    |
| Foreign currency translation (unaudited)          | 1,243     |
| Balance as of September 30, 2010 (unaudited)      | \$ 81,939 |

Certain of the Company's intangible assets are recorded in British Pounds, Euros and the local currencies of its South American subsidiaries, and therefore, the gross carrying amount and accumulated amortization are subject to foreign currency translation adjustments. The carrying values of the Company's amortized acquired intangible assets are as follows (in thousands):

|                                     | September 30, 2010    |                                      |                     | December 31, 2009     |                          |                     |
|-------------------------------------|-----------------------|--------------------------------------|---------------------|-----------------------|--------------------------|---------------------|
|                                     | Gross Carrying Amount | Accumulated Amortization (Unaudited) | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Trade names                         | \$ 4,104              | \$ (276)                             | \$ 3,828            | \$ 165                | \$ (14)                  | \$ 151              |
| Customer relationships              | 38,911                | (2,008)                              | 36,903              | 4,000                 | (709)                    | 3,291               |
| Acquired methodologies/technologies | 10,219                | (1,258)                              | 8,961               | 2,479                 | (599)                    | 1,880               |
| Intellectual property               | 2,566                 | (599)                                | 1,967               | 2,568                 | (407)                    | 2,161               |
| Panel                               | 1,627                 | (542)                                | 1,085               | 1,763                 | (501)                    | 1,262               |
|                                     | \$ 57,427             | \$ (4,683)                           | \$ 52,744           | \$ 10,975             | \$ (2,230)               | \$ 8,745            |

Amortization expense related to intangible assets was approximately \$1.4 million and \$2.5 million for the three and nine months ended September 30, 2010, respectively, and \$385,000 and \$1.0 million for the three and nine months ended September 30, 2009, respectively.

The weighted average remaining amortization period by major asset class as of September 30, 2010, is as follows (unaudited):

|                                     | (In years) |
|-------------------------------------|------------|
| Trade names                         | 5.0        |
| Acquired methodologies/technologies | 6.7        |
| Customer relationships              | 8.6        |
| Panel                               | 4.7        |
| Intellectual property               | 7.7        |

**Table of Contents**

The estimated future amortization of acquired intangible assets as of September 30, 2010 is as follows (unaudited):

|            | <b>(In<br/>thousands)</b> |
|------------|---------------------------|
| 2010       | \$ 1,988                  |
| 2011       | 7,938                     |
| 2012       | 7,592                     |
| 2013       | 6,971                     |
| 2014       | 6,927                     |
| Thereafter | 21,328                    |
|            | <b>\$ 52,744</b>          |

**6. Commitments and Contingencies****Leases**

In March 2010, the Company increased its equipment line of credit with Banc of America Leasing & Capital, LLC to \$11.2 million. The equipment line of credit is available to lease new software, hardware and other computer equipment as the Company expands its technology infrastructure in support of its business growth.

In addition to equipment financed through capital leases, the Company is obligated under various noncancelable operating leases for office facilities and equipment. These leases generally provide for renewal options and escalation increases. Future minimum payments under noncancelable lease agreements with initial terms of one year or more are as follows (unaudited):

|   | <b>September 30, 2010</b> |                             |
|---|---------------------------|-----------------------------|
|   | <b>Capital<br/>Leases</b> | <b>Operating<br/>Leases</b> |
|   | <b>(In thousands)</b>     |                             |
| 2010  | \$ 701                    | \$ 1,707                    |
| 2011  | 2,803                     | 6,337                       |
| 2012  | 2,680                     | 5,578                       |
| 2013  | 1,606                     | 4,771                       |
| 2014  |                           | 4,867                       |
| Thereafter                                  |                           | 17,893                      |
| <br>  |                           |                             |
| Total minimum lease payments                | 7,790                     | \$ 41,153                   |
| <br>  |                           |                             |
| Less amount representing interest           | (525)                     |                             |
| <br>  |                           |                             |
| Present value of net minimum lease payments | 7,265                     |                             |
| Less current portion                        | (2,505)                   |                             |
| <br>  |                           |                             |
| Capital lease obligations, long-term        | \$ 4,760                  |                             |



Total rent expense was \$1.4 million and \$4.1 million for the three and nine months ended September 30, 2010, respectively, and \$1.2 million and \$3.7 million for the three and nine months ended September 30, 2009, respectively. During the nine months ended September 30, 2010, the Company recorded \$405,000 of deferred rent and capitalized assets as a result of landlord allowances in connection with its Toronto office lease. The deferred rent will be applied to rent expense recognized by the Company over the lease term.

***Contingencies***

On September 28, 2010, the Company extended its \$5.0 million revolving line of credit with Bank of America, with an interest rate equal to BBA LIBOR rate plus an applicable margin based upon certain financial ratios, through November 30, 2010. This line of credit includes no restrictive financial covenants. The Company maintains letters of credit in lieu of security deposits with respect to certain office leases. During the nine months ended September 30, 2010, five letters of credit were reduced by approximately \$646,000 and no amounts were borrowed against the line of credit. As of September 30, 2010, \$3.3 million of letters of credit were outstanding, leaving \$1.7 million available for additional letters of credit or other borrowings. These letters of credit may be reduced periodically provided the Company meets the conditional criteria of each related lease agreement.

**Table of Contents**

The Company has no asserted claims as of September 30, 2010, but is from time to time exposed to unasserted potential claims encountered in the normal course of business. Although the outcome of any legal proceedings cannot be predicted with certainty, management believes that the final resolution of these matters will not materially affect the Company's consolidated financial position or results of operations.

**7. Income Taxes**

The Company's income tax provision for interim periods is calculated by applying its estimated annual effective tax rate on ordinary income before taxes to year-to-date ordinary book income before taxes. The income tax effects of any extraordinary, significant unusual or infrequent items not included in ordinary book income are determined separately and recognized in the period in which the items arise.

During the three and nine months ended September 30, 2010, the Company recorded income tax benefit of \$1.2 million and income tax expense of \$874,000, respectively, resulting in effective tax rates of 35.6% and 418.2%, respectively, for such periods. During the three and nine months ended September 30, 2009, the Company recorded income tax expense of \$1.8 million and \$4.4 million, respectively, resulting in effective tax rates of 65.9% and 64.9%, respectively, for such periods. These effective tax rates differ from the Federal statutory rate of 35% primarily due to the effects of state income taxes, foreign income taxes, nondeductible expenses such as certain stock compensation and meals and entertainment, and changes in statutory tax rates which were enacted in the current year. During the three and nine months ended September 30, 2010 and 2009, certain shares related to restricted stock awards vested at times when the Company's stock price was substantially lower than the fair value of those shares at the time of grant. As a result, the income tax deduction related to such shares is less than the expense previously recognized for book purposes. Such shortfalls reduce additional paid-in capital to the extent windfall tax benefits have been previously recognized. However, as described below, the Company has not yet recognized windfall tax benefits because these tax benefits have not resulted in a reduction of current taxes payable. Therefore, the impact of these shortfalls totaling \$41,000 and \$342,000 have been included in income tax expense for the three and nine months ended September 30, 2010, respectively, and \$96,000 and \$776,000 for the three and nine months ended September 30, 2009, respectively. The exercise of certain stock options and the vesting of certain restricted stock awards during the three and nine months ended September 30, 2010 and 2009, generated income tax deductions equal to the excess of the fair market value over the exercise price or grant date fair value as applicable. The Company will not recognize a deferred tax asset with respect to the excess of tax over book stock compensation deductions until the tax deductions actually reduce its current taxes payable. As such, the Company has not recorded a deferred tax asset in the accompanying consolidated financial statements related to the additional net operating losses generated from the windfall tax deductions associated with the exercise of these stock options and the vesting of the restricted stock awards. If and when the Company utilizes these net operating losses to reduce income taxes payable, the tax benefit will be recorded as an increase in additional paid-in capital.

As of September 30, 2010 and December 31, 2009, the Company had a valuation allowance of \$4.9 million and \$3.6 million, respectively, related to the acquired deferred tax assets (primarily net operating loss carryforwards) of the M:Metrics UK subsidiary, the deferred tax assets related to the value of the auction rate securities, and the deferred tax assets of the foreign subsidiaries that are in their start-up phases. The increase in valuation allowance of approximately \$1.3 million during the nine months ended September 30, 2010 was attributable to the current year net operating losses generated and expected to expire unutilized by certain foreign subsidiaries.

As of September 30, 2010, the Company concluded that no events occurred during the nine months ended September 30, 2010 that would significantly impact its valuation allowance against deferred tax assets. Management will continue to evaluate its valuation allowance position on a regular basis. To the extent the Company determines that, based on the weight of available evidence, all or a portion of its valuation allowance is no longer necessary, the Company will recognize an income tax benefit in the period such determination is made for the reversal of the valuation allowance. If management determines that, based on the weight of available evidence, it is more-likely-than-not that all or a portion of the net deferred tax assets will not be realized, the Company may recognize income tax expense in the period such determination is made to increase the valuation allowance. It is possible that any such reduction of or addition to the Company's valuation allowance may have a material impact on the Company's results from operations.

As of September 30, 2010 and December 31, 2009, the Company had unrecognized tax benefits of approximately \$1.4 million and \$1.2 million, respectively. The increase in unrecognized tax benefits of approximately \$162,000 is attributable to additional uncertain tax positions identified during the nine months of 2010, a portion of which was acquired as part of the ARS and Nedstat acquisitions. The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. As of September 30, 2010 and December 31, 2009, the amount of accrued interest and penalties on unrecognized tax benefits was approximately \$699,000 and \$489,000, respectively.

The Company or one of its subsidiaries files income tax returns in the U.S. Federal jurisdiction and various state and foreign jurisdictions. For income tax returns filed by the Company, the Company is no longer subject to U.S. Federal examinations by tax authorities for years before 2007 or state and local examinations by tax authorities for years before 2006 although tax attribute carryforwards generated prior to these years may still be adjusted upon examination by tax authorities.

## **8. Stockholders Equity**

### ***1999 Stock Option Plan and 2007 Equity Incentive Plan***

Prior to the effective date of the registration statement for the Company's initial public offering ( IPO ) on June 26, 2007, eligible employees and non-employees were awarded options to purchase shares of the Company's common stock, restricted stock or restricted stock units pursuant to the Company's 1999 Stock Plan (the 1999 Plan ). Upon the effective date of the registration statement of the Company's IPO, the Company ceased using the 1999 Plan for the issuance of new equity awards. Upon the closing of the Company's IPO on July 2, 2007, the Company established its 2007 Equity Incentive Plan (the 2007 Plan and together with the 1999 Plan, the Plans ). The 1999 Plan will continue to govern the terms and conditions of outstanding awards granted thereunder, but no further shares are authorized for new awards under the 1999 Plan. As of September 30, 2010 and December 31, 2009, the Plans provided for the issuance of a maximum of approximately 7.8 million shares and

**Table of Contents**

6.6 million shares, respectively, of common stock. In addition, the 2007 Plan provides for annual increases in the number of shares available for issuance thereunder on the first day of each fiscal year beginning with the 2008 fiscal year, equal to the lesser of: (i) 4% of the outstanding shares of the Company's common stock on the last day of the immediately preceding fiscal year; (ii) 1,800,000 shares; or (iii) such other amount as the Company's board of directors may determine. The vesting period of options granted under the Plans is determined by the Board of Directors, although, for service-based options the vesting has historically been generally ratably over a four-year period. Options generally expire 10 years from the date of the grant. Effective January 1, 2010, the shares available for grant increased 1,215,423 pursuant to the automatic share reserve increase provision under the Plans. Accordingly, as of September 30, 2010, a total of 1,633,214 shares were available for future grant under the 2007 Plan.

The Company estimates the fair value of stock option awards using the Black-Scholes option-pricing formula and a single option award approach. The Company then amortizes the fair value of awards expected to vest on a ratable straight-line basis over the requisite service periods of the awards, which is generally the period from the grant date to the end of the vesting period.

On May 6, 2010, the Compensation Committee of the Company's Board of Directors awarded on May 4, 2010, a total of 1,043,045 stock options to the Company's then employed named executive officers. These options are subject to market-based vesting, whereby 100% of the shares subject to option will vest in the event that the Company's common stock closing price as reported by the NASDAQ Global Market exceeds an average of \$30 per share for a consecutive thirty-day period prior to May 4, 2012 (the Trigger). 50% of the shares subject to the options will vest upon achievement of the Trigger and the remaining 50% of the shares subject to the options will vest on the one year anniversary of the achievement of the Trigger, subject to the named executive officer's continued status as a service provider of the Company through such dates. Stock-based compensation expense for the three and nine months ended September 30, 2010 included \$1.4 million and \$2.3 million related to the market-based stock options.

In July 2010, the Compensation Committee of the Company's Board of Directors authorized the accelerated vesting of certain shares of restricted stock and restricted stock units. The acceleration of 63,678 shares occurred on July 30, 2010 with a second tranche to be accelerated on November 15, 2010 for approximately 63,000 shares. Stock-based compensation expense for the three and nine months ended September 30, 2010 included approximately \$1.1 million due to the accelerated vesting.

The following are the weighted-average assumptions used in valuing the stock options granted during the nine months ended September 30, 2010 and a discussion of the Company's assumptions. No stock options were issued during the three months ended September 30, 2010.

|                                     | <b>Three and Nine<br/>Months<br/>Ended September<br/>30,<br/>2010</b> |
|-------------------------------------|---|
| Dividend yield                      | 0.00%   |
| Expected volatility                 | 67.79%  |
| Risk-free interest rate             | 2.90%   |
| Expected life of options (in years) | 2.00  |

*Dividend yield* The Company has never declared or paid dividends on its common stock and has no plans to pay dividends in the foreseeable future.

*Expected volatility* Volatility is a measure of the amount by which a financial variable such as a share price has fluctuated (historical volatility) or is expected to fluctuate (expected volatility) during a period. The expected volatility is calculated based on the weekly closing price volatility of the Company's common stock for the period from its initial public offering until the grant date.

*Risk-free interest rate* The Company used rates on the grant date of zero-coupon government bonds with maturities over periods covering the term of the awards, converted to continuously compounded forward rates.

*Expected life of the options* This is the period of time that the options granted are expected to remain outstanding.

A summary of the Plans is presented below:

|  | <b>Number of<br/>Shares</b> | <b>Weighted-<br/>Average<br/>Exercise<br/>Price</b> | <b>Weighted<br/>Average<br/>Remaining<br/>Contractual<br/>Term<br/>(in years)</b> | <b>Aggregate<br/>Intrinsic<br/>Value (in<br/>thousands)</b> |
|--|-----------------------------|---|---|---|
| Options outstanding at December 31, 2009                 | 993,279                     | \$ 2.11   |   |   |
| Options granted (unaudited)                              | 1,043,045                   | \$ 18.21  |   |   |
| Options exercised (unaudited)                            | 215,098                     | \$ 4.19   |   | \$ 2,730  |
| Options forfeited (unaudited)                            | 5,628                       | \$ 9.65   |   |   |
| Options expired (unaudited)                              | 8,857                       | \$ 4.60   |   |   |
| Options outstanding at September 30, 2010<br>(unaudited) | 1,806,741                   | \$ 11.13  | 4.25  | \$ 22,180   |
| Options exercisable at September 30, 2010<br>(unaudited) | 757,544                     | \$ 1.40   | 3.75  | \$ 16,553   |

**Table of Contents**

The intrinsic value of exercised stock options is calculated based on the difference between the exercise price and the quoted market price of the Company's common stock as of the close of the exercise date. The aggregate intrinsic value for options outstanding and exercisable is calculated as the difference between the exercise price of the underlying stock option awards and the quoted market price of the Company's common stock at September 30, 2010. The aggregate intrinsic value of exercised stock options is calculated based on the difference between the exercise price and the quoted market price of the Company's common stock as of the close of the exercise date. As of September 30, 2010, total unrecognized compensation expense related to non-vested stock options granted prior to that date is estimated at \$4.2 million, which the Company expects to recognize over a weighted average period of approximately 1.04 years. Total unrecognized compensation expense is estimated and may be increased or decreased in future periods for subsequent grants or forfeitures.

The Company's nonvested stock awards are comprised of restricted stock and restricted stock units. The Company has a right of repurchase on such shares that lapse at a rate of twenty-five percent (25%) of the total shares awarded at each successive anniversary of the initial award date, provided that the employee continues to provide services to the Company. In the event that an employee terminates their employment with the Company, any shares that remain unvested and consequently subject to the right of repurchase shall be automatically reacquired by the Company at the original purchase price paid by the employee. During the nine months ended September 30, 2010, a total of 126,690 forfeited shares of restricted stock have been repurchased by the Company at no cost. A summary of the status for nonvested stock awards as of September 30, 2010 is presented as follows (unaudited):

|   | <b>Restricted<br/>Stock</b> | <b>Restricted<br/>Stock<br/>Units</b> | <b>Total<br/>Number<br/>of Shares<br/>Underlying<br/>Awards</b> | <b>Weighted<br/>Average<br/>Grant-Date<br/>Fair<br/>Value</b> |
|---|-----------------------------|---------------------------------------|---|---|
| <b>Nonvested Stock Awards</b>               |                             |                                       |   |   |
| Nonvested at December 31, 2009              | 1,599,283                   | 186,819                               | 1,786,102   | \$ 13.11  |
| Granted (unaudited)                         | 958,194                     | 189,900                               | 1,148,094   | 16.49   |
| Vested (unaudited)                          | 780,638                     | 62,605                                | 843,243   | 13.69   |
| Forfeited (unaudited)                       | 126,690                     | 21,478                                | 148,168   | 13.28   |
| <br>  |                             |                                       |   |   |
| Nonvested at September 30, 2010 (unaudited) | 1,650,149                   | 292,636                               | 1,942,785   | \$ 14.84  |

The aggregate intrinsic value for all non-vested shares of restricted common stock and restricted stock units outstanding as of September 30, 2010 was \$45.7 million. The weighted average remaining contractual life for all non-vested shares of restricted common stock and restricted stock units as of September 30, 2010 was 2.32 years.

The Company granted nonvested stock awards at no cost to recipients during the nine months ended September 30, 2010. As of September 30, 2010, total unrecognized compensation expense related to non-vested restricted stock and restricted stock units was \$23.5 million, which the Company expects to recognize over a weighted average period of approximately 1.73 years. Total unrecognized compensation expense may be increased or decreased in future periods for subsequent grants or forfeitures.

Of the 843,243 shares of the Company's restricted stock and restricted stock units vesting during the nine months ended September 30, 2010, the Company repurchased 291,256 shares at an aggregate purchase price of approximately \$4.7 million pursuant to the stockholder's right under the Plans to elect to use common stock to satisfy tax withholding obligations.

**Shares Reserved for Issuance**

At September 30, 2010, the Company had reserved for future issuance the following shares of common stock upon the exercise of options and warrants (unaudited):

|   |           |
|---|-----------|
| Common stock available for future issuances under the Plans               | 1,633,214 |
| Common stock available for outstanding options and restricted stock units | 2,099,377 |
| Common stock warrants   | 24,375    |
|   | 3,756,966 |

***Unregistered Sales of Equity Securities***

On July 1, 2010, in connection with its purchase all of the outstanding capital stock of Nexius, the Company issued a total of 158,070 unregistered shares of comScore common stock as partial consideration for such acquisition.

On August 31, 2010, in connection with its purchase of all of the outstanding capital stock of Nedstat, the Company issued a total of 58,045 shares of common stock to

**Table of Contents**

two key employee shareholders of Nedstat. These shares were issued pursuant to the terms of Stock Purchase Agreements based on the purchase of such number of shares equal to 30% of such shareholders' respective consideration received in the acquisition of Nedstat by the Company.

**9. Geographic Information**

The Company attributes revenues to customers based on the location of the customer. The composition of the Company's sales to unaffiliated customers between those in the United States and those in other locations for the three and nine months ended September 30, 2010 and 2009 is set forth below:

|                | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|----------------|---|-------------|--|-------------|
|                | <b>2010</b>                                 | <b>2009</b> | <b>2010</b>                                | <b>2009</b> |
|                | <b>(Unaudited)</b>                          |             |  |             |
|                | <b>(In thousands)</b>                       |             |  |             |
| United States  | \$ 36,797                                   | \$ 26,983   | \$ 102,072                                 | \$ 79,861   |
| Canada         | 2,038                                       | 1,588       | 5,828                                      | 4,416       |
| Europe (EMEA)  | 4,932                                       | 2,830       | 10,458                                     | 8,538       |
| Latin America  | 1,419                                       | 226         | 4,057                                      | 476         |
| Asia           | 517   | 289         | 1,387                                      | 624         |
| <br>           |   |             |  |             |
| Total Revenues | \$ 45,703                                   | \$ 31,916   | \$ 123,802                                 | \$ 93,915   |

The composition of the Company's property and equipment between those in the United States and those in other countries as of the end of each period is set forth below (in thousands):

|                    | <b>September<br/>30,<br/>2010</b> | <b>December<br/>31,<br/>2009</b> |
|--------------------|-----------------------------------|----------------------------------|
|                    | <b>(Unaudited)</b>                |                                  |
| United States      | \$ 21,035                         | \$ 17,023                        |
| Canada             | 411                               | 23                               |
| Europe             | 1,708                             | 256                              |
| Latin America/Asia | 21                                |                                  |
| <br>               |                                   |                                  |
| Total              | \$ 23,175                         | \$ 17,302                        |

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

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes to those statements included elsewhere in this Quarterly Report on Form 10-Q. In addition to historical financial information, the following discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results and timing of selected events may differ materially from those anticipated in these forward-looking statements as a result of many factors, including those discussed under Risk Factors and elsewhere in this document. See also Cautionary Notes Concerning Forward-Looking Statements at the beginning of this Quarterly Report on Form 10-Q.*

**Overview**

We provide a leading digital marketing intelligence platform that helps our customers make better-informed business decisions and implement more effective digital business strategies. Our products and solutions offer our



customers deep insights into consumer behavior, including objective, detailed information regarding usage of their online properties and those of their competitors, coupled with information on consumer demographic characteristics, attitudes, lifestyles and offline behavior.

**Table of Contents**

Our digital marketing intelligence platform is comprised of proprietary databases and a computational infrastructure that measures, analyzes and reports on digital activity. The foundation of our platform is data collected from our comScore panel of approximately two million Internet users worldwide who have granted us explicit permission to confidentially measure their Internet usage patterns, online and certain offline buying behavior and other activities. By applying advanced statistical methodologies to our panel data, we project consumers' online behavior for the total online population and a wide variety of user categories. This panel information is complemented by a Unified Digital Measurement solution to digital audience measurement. Unified Digital Measurement blends panel and server methodologies into a solution that provides a direct linkage and reconciliation between server and panel measurement.

We deliver our digital marketing intelligence through our comScore Media Metrix product family, through our comScore Marketing Solutions products and, since May 2008, through our M:Metrics products suite. Media Metrix delivers digital media intelligence by providing an independent, third-party measurement of the size, behavior and characteristics of Web site and online advertising network audiences among home, work and university Internet users as well as insight into the effectiveness of online advertising. Our Marketing Solutions products combine the proprietary information gathered from the comScore panel with the vertical industry expertise of comScore analysts to deliver digital marketing intelligence, including the measurement of online advertising effectiveness, customized for specific industries. We typically deliver our Media Metrix products electronically in the form of weekly, monthly or quarterly reports. Customers can access current and historical Media Metrix data and analyze these data anytime online. Our M:Metrics products suite connects mobile consumer behavior, content merchandising, and device capabilities to provide comprehensive mobile market intelligence. Customers can access our M:Metrics data sets and reports anytime online. Our Marketing Solutions products are typically delivered on a monthly, quarterly or ad hoc basis through electronic reports and analyses.

Our company was founded in August 1999. By 2000, we had established a panel of Internet users and began delivering digital marketing intelligence products that measured online browsing and buying behavior to our first customers. We also introduced netScore, our initial syndicated Internet audience measurement product. We accelerated our introduction of new products in 2003 with the launch of Plan Metrix (formerly AiM 2.0), qSearch, and the Campaign R/F (Reach and Frequency) analysis system and product offerings that measure online activity at the local market level. By 2004, we had built a global panel of approximately two million Internet users. In that year, in cooperation with Arbitron, we launched a service that provides ratings of online radio audiences. In 2005, we expanded our presence in Europe by opening an office in London. In 2006, we continued to expand our measurement capabilities with the launch of World Metrix, a product that provides worldwide data on digital media usage, and Video Metrix, our product that measures the audience for streaming online video. In 2007, we completed our initial public offering and we also launched ten new products during that year, including Campaign Metrix, qSearch 2.0, Ad Metrix, Brand Metrix, Segment Metrix and comScore Marketer. During 2008, we launched Ad Metrix-Advertiser View, a tool for agencies and publishers designed to support their media buying and selling activities and supply their competitive intelligence needs, Plan Metrix, the second generation of our media planning product, and Extended Web Measurement, which allows the tracking of distributed web content across third party sites, such as video, music, gaming applications, widgets and social media. Beginning in Summer 2009, the panel information has been complemented by comScore Media Metrix 360, a Unified Digital Measurement solution to digital audience measurement that blends panel and server methodologies into an approach that provides a direct linkage and reconciliation between server and panel measurement.

We have complemented our internal development initiatives with select acquisitions. On June 6, 2002, we acquired certain Media Metrix assets from Jupiter Media Metrix, Inc. Through this acquisition, we acquired certain Internet audience measurement services that report details of Web site usage and visitor demographics. On July 28, 2004, we acquired the outstanding stock of Denaro and Associates, Inc, otherwise known as Q2 Brand Intelligence, Inc. or Q2, to improve our ability to provide our customers more robust survey research integrated with our underlying digital marketing intelligence platform. On January 4, 2005, we acquired the assets and assumed certain liabilities of SurveySite Inc., or SurveySite. Through this acquisition, we acquired proprietary Internet-based data-collection technologies and increased our customer penetration and revenues in the survey business. On May 28, 2008, we

acquired the outstanding stock of M:Metrics, Inc. to expand our abilities to provide our customers a more robust solution for the mobile medium. In the middle of November 2009, we acquired Certifica, Inc., a leader in web measurement in Latin America, as part of our global expansion. Certifica maintains offices and sales resources in six Latin American countries, which we hope will provide a platform to enhance our business in that region. On February 10, 2010, we acquired the outstanding stock of ARSgroup, Inc. to expand our ability to provide our clients with actionable information to improve their creative and strategic messaging targeted against specific audiences. On July 1, 2010, we acquired the outstanding stock of Nexius, Inc., or Nexius. Nexius is a provider of mobile carrier-grade products that deliver network analysis focused on the experience of wireless subscribers, as well as network intelligence with respect to performance, capacity and configuration analytics. On August 31, 2010, we acquired the outstanding stock of Nedstat B.V., or Nedstat. Nedstat is a provider of web analytics and innovative video measurement solutions.

Our total revenues have grown to \$127.7 million during the fiscal year ended December 31, 2009 and \$123.8 million for the first three quarters of 2010 from \$66.3 million during the fiscal year ended December 31, 2006. By comparison, our total expenses from operations have grown to \$118.2 million during the fiscal year ended December 31, 2009 and \$123.9 million during the first three quarters of 2010 from \$60.7 million during the fiscal year ended December 31, 2006. The growth in our revenues has been primarily the result of:

- increased sales to existing customers, as a result of our efforts to deepen our relationships with these clients by increasing their awareness of, and confidence in, the value of our digital marketing intelligence platform;

- growth in our customer base through the addition of new customers;

- the sales of new products to existing and new customers;

- growth in sales outside of the U.S. as a result of entering into new international markets in, and

- growth due to acquisitions.

**Table of Contents**

As of September 30, 2010, we had 1,682 customers, 229 of which came from acquired businesses, compared to 706 as of December 31, 2006. We sell most of our products through our direct sales force.

As a result of the recent global financial crisis in the credit markets, softness in the housing markets, difficulties in the financial services sector and continuing economic uncertainties, the direction and relative strength of the U.S. and global economies have become increasingly uncertain. During 2009, we experienced a limited number of our current and potential customers ceasing, delaying or reducing renewals of existing subscriptions and purchases of new or additional services and products presumably due to the economic downturn. Further, certain of our existing customers exited the market due to industry consolidation and bankruptcy in connection with these challenging economic conditions. During the first half of 2010 the U.S. and other economics showed signs of recovery and we continued to add net new customers at a rate higher than quarterly average net increases during 2009. In addition, our existing customers renewed their subscriptions at a rate of over 91% based on dollars renewed during the first three quarters of 2010. However, if economic recovery slows or adverse economic conditions continue or further deteriorate, our operating results could be adversely affected.

**Our Revenues**

We derive our revenues primarily from the fees that we charge for subscription-based products and customized projects. We define subscription-based revenues as revenues that we generate from products that we deliver to a customer on a recurring basis. We define project revenues as revenues that we generate from customized projects that are performed for a specific customer on a non-recurring basis. We market our subscription-based products, customized projects and survey services within the comScore Media Metrix product family, comScore Marketing Solutions, our mobile solutions including Nexius products, and Nedstat's web analytics solutions.

A significant characteristic of our business model is our large percentage of subscription-based contracts. Subscription-based revenues accounted for 86% of total revenues during the nine months ended September 30, 2010, 86% of total revenues in 2009, 83% of total revenues in 2008 and 79% of total revenues in 2007.

Many of our customers who initially purchased a customized project have subsequently purchased one of our subscription-based products. Similarly, many of our subscription-based customers have subsequently purchased additional customized projects.

Historically, we have generated most of our revenues from the sale and delivery of our products to companies and organizations located within the United States. We intend to expand our international revenues by selling our products and deploying our direct sales force model in additional international markets in the future. For the year ended December 31, 2009, our international revenues were \$19.7 million, an increase of \$3.2 million, or 19%, compared to 2008. For the nine months ended September 30, 2010, our international revenues were \$21.7 million, an increase of \$7.7 million, or 54% over international revenues of \$14.0 million for the nine months ended September 30, 2009. International revenues comprised approximately 18% of our total revenues for the nine months ending September 30, 2010 and 15% and 14% of our total revenues for the fiscal years ended December 31, 2009 and 2008, respectively.

We anticipate that revenues from our U.S. customers will continue to constitute the substantial majority of our revenues, but we expect that revenues from customers outside of the U.S. will increase as a percentage of total revenues as we build greater international recognition of our brand and expand our sales operations globally.

**Subscription Revenues**

We generate a significant proportion of our subscription-based revenues from our Media Metrix product family. Products within the Media Metrix family include Media Metrix 360, Media Metrix 2.0, Plan Metrix, World Metrix, Video Metrix and Ad Metrix. These product offerings provide subscribers with intelligence on digital media usage, audience characteristics, audience demographics and online and offline purchasing behavior. Customers who subscribe to our Media Metrix products are provided with login IDs to our web site, have access to our database and can generate reports at anytime.

We also generate subscription-based revenues from certain reports and analyses provided through comScore Marketing Solutions, if that work is procured by customers for at least a nine month period and the customer enters into an agreement to continue or extend the work. Through our Marketing Solutions products, we deliver digital marketing intelligence relating to specific industries, such as automotive, consumer packaged goods, entertainment, financial services, media, pharmaceutical, retail, technology, telecommunications and travel. This marketing intelligence leverages our global consumer panel and extensive database to deliver information unique to a particular

customer's needs on a recurring schedule, as well as on a continual-access basis. Our Marketing Solutions customer agreements typically include a fixed fee with an initial term of at least one year. We also provide these products on a non-subscription basis as described under "Project Revenues" below.

In addition, we generate subscription-based revenues from survey products that we sell to our customers. In conducting our surveys, we generally use our global Internet user panel. After questionnaires are distributed to the panel members and completed, we compile their responses and then deliver our findings to the customer, who also has ongoing access to the survey response data as they are compiled and updated over time. These data include responses and information collected from the actual survey questionnaire and can also include behavioral information that we passively collect from our panelists. If a customer contractually commits to having a survey conducted on a recurring basis, we classify the revenues generated from such survey products as subscription-based revenues. Our contracts for survey services typically include a fixed fee with terms that range from two months to one year.

On July 1, 2010, we completed our acquisition of Nexius, Inc., resulting in additional revenue sources, including software licenses, professional services (including implementation, training and customized consulting services), and maintenance and technical support contracts. Our arrangements generally contain multiple elements, consisting of the various service offerings. We recognize software license arrangements that include significant modification and customization of the software in accordance with Financial Accounting Standards Board Accounting Standards Codification, or ASC 985-605, *Software Recognition* and ASC 605-35, *Revenue Recognition-Construction-Type and Certain Production-Type Contracts*, typically using the completed contract period method. We currently do not have vendor specific objective evidence, or VSOE, for the multiple deliverables and account for all elements in these arrangements as a single unit of accounting, recognizing the entire arrangement fee as revenue over the service period of the last delivered element. During the period of performance, billings and costs (to the extent they are recoverable) are accumulated on the balance sheet, but no profit or income is recorded before user acceptance of the software license. To the extent estimated costs are expected to exceed revenue we accrue for costs immediately.

On August 31, 2010, we completed our acquisition of Nedstat, resulting in additional revenue sources, including software subscriptions, server calls, and professional services (including training and consulting). Our arrangements generally contain multiple elements, consisting of the various service offerings, with revenue recognition occurring ratably over the remaining subscription term after all elements have commenced delivery.

**Table of Contents*****Project Revenues***

We generate project revenues by providing customized information reports to our customers on a nonrecurring basis through comScore Marketing Solutions. For example, a customer in the media industry might request a custom report that profiles the behavior of the customer's active online users and contrasts their market share and loyalty with similar metrics for a competitor's online user base. If this customer continues to request the report beyond an initial project term of at least nine months and enters into an agreement to purchase the report on a recurring basis, we begin to classify these future revenues as subscription-based.

***Critical Accounting Policies and Estimates***

Our discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of these financial statements requires us to make estimates, assumptions and judgments that affect the amounts reported in our consolidated financial statements and the accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates. While our significant accounting policies are described in more detail in the notes to our consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q and in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2009, we believe the following accounting policies to be the most critical to the judgments and estimates used in the preparation of our consolidated financial statements.

***Revenue Recognition***

We recognize revenues when the following fundamental criteria are met: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or the services have been rendered, (iii) the fee is fixed or determinable, and (iv) collection of the resulting receivable is reasonably assured.

We generate revenues by providing access to our online database or delivering information obtained from our database, usually in the form of periodic reports. Revenues are typically recognized on a straight-line basis over the period in which access to data or reports are provided, which generally ranges from three to 24 months.

We also generate revenues through survey services under contracts ranging in term from two months to one year. Our survey services consist of survey and questionnaire design with subsequent data collection, analysis and reporting. We recognize revenues on a straight-line basis over the estimated data collection period once the survey or questionnaire design has been delivered. Any change in the estimated data collection period results in an adjustment to revenues recognized in future periods.

Certain of our arrangements contain multiple elements, consisting of the various services we offer. Multiple element arrangements typically consist of a subscription to our online database combined with customized services. We have determined that there is not objective and reliable evidence of fair value for any of our services and, therefore, account for all elements in multiple element arrangements as a single unit of accounting. Access to data under the subscription element is generally provided shortly after the execution of the contract. However, the initial delivery of customized services generally occurs subsequent to contract execution. We recognize the entire arrangement fee over the performance period of the last deliverable. As a result, the total arrangement fee is recognized on a straight-line basis over the period beginning with the commencement of the last customized deliverable.

Generally, our contracts are non-refundable and non-cancelable. In the event a portion of a contract is refundable, revenue recognition is delayed until the refund provisions lapse. A limited number of customers have the right to cancel their contracts by providing us with written notice of cancellation. In the event that a customer cancels its contract, it is not entitled to a refund for prior services, and it will be charged for costs incurred plus services performed up to the cancellation date.

In connection with our acquisition of Nexius, Inc., we acquired additional revenue sources, including software licenses, professional services (including implementation, training and customized consulting services), and maintenance and technical support contracts. Our arrangements generally contain multiple elements, consisting of the various service offerings. We recognize software license arrangements that include significant modification and customization of the software in accordance with ASC 985-605, *Software Recognition* and ASC 605-35, *Revenue*

*Recognition-Construction-Type and Certain Production-Type Contracts*, typically using the completed contract method. We currently do not have VSOE for the multiple deliverables and account for all elements in these arrangements as a single unit of accounting, recognizing the entire arrangement fee as revenue over the service period of the last delivered element. During the period of performance, billings and costs (to the extent they are recoverable) are accumulated on the balance sheet, but no profit or income is recorded before user acceptance of the software license. To the extent estimated costs are expected to exceed revenue we accrue for costs immediately.

In connection with our acquisition of Nedstat, we acquired additional revenue sources, including software subscriptions, server calls, and professional services (including training and consulting). Our arrangements generally contain multiple elements, consisting of the various service offerings, with revenue recognition occurring ratably over the remaining subscription term after all elements have commenced delivery.

**Table of Contents*****Fair Value Measurements***

We evaluate the fair value of certain assets and liabilities using the fair value hierarchy. Fair value is an exit price representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. We prioritize the inputs used in measuring fair value using the following hierarchy:

*Level 1* observable inputs such as quoted prices in active markets;

*Level 2* inputs other than the quoted prices in active markets that are observable either directly or indirectly;

*Level 3* unobservable inputs of which there is little or no market data, which require us to develop our own assumptions.

This hierarchy requires the use of observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. On a recurring basis, we measure our marketable securities at fair value and determine the appropriate classification level for each reporting period. This determination requires significant judgments to be made by us.

Our investment instruments are classified within Level 1 or Level 3 of the fair value hierarchy. Level 1 investment instruments are valued using quoted market prices. Level 3 instruments are valued using valuation models, primarily discounted cash flow analyses. The types of instruments valued based on quoted market prices in active markets include all U.S. government and agency securities. Such instruments are generally classified within Level 1 of the fair value hierarchy. The types of instruments valued based on significant unobservable inputs include our illiquid auction rate securities. Our illiquid auction rate securities are valued using a model that takes into consideration the securities coupon rate, the financial condition of the issuers and the bond insurers, the expected date liquidity will be restored, as well as an applied illiquidity discount. Such instruments are classified within Level 3 of the fair value hierarchy.

Cash equivalents, investments, accounts receivable, prepaid expenses and other assets, accounts payable, accrued expenses, deferred revenue, deferred rent and capital lease obligations reported in the consolidated balance sheets equal or approximate their respective fair values.

Assets and liabilities that are measured at fair value on a non-recurring basis include intangible assets and goodwill. We recognize these items at fair value when they are considered to be impaired. During the three and nine months ended September 30, 2010 and 2009, there were no fair value adjustments for assets and liabilities measured on a non-recurring basis.

***Business Combinations***

We recognize all of the assets acquired, liabilities assumed, contractual contingencies, and contingent consideration at their fair value on the acquisition date. Acquisition-related costs are recognized separately from the acquisition and expensed as incurred. Generally, restructuring costs incurred in periods subsequent to the acquisition date are expensed when incurred. All subsequent changes to a valuation allowance or uncertain tax position that relate to the acquired company and existed at the acquisition date that occur both within the measurement period and as a result of facts and circumstances that existed at the acquisition date are recognized as an adjustment to goodwill. All other changes in valuation allowance are recognized as a reduction or increase to income tax expense or as a direct adjustment to additional paid-in capital as required. Acquired in-process research and development is capitalized as an intangible asset and amortized over its estimated useful life.

***Goodwill and Intangible Assets***

We record goodwill and intangible assets when we acquire other businesses. The allocation of the purchase price to intangible assets and goodwill involves the extensive use of management's estimates and assumptions, and the result of the allocation process can have a significant impact on our future operating results. We estimate the fair value of identifiable intangible assets acquired using several different valuation approaches, including relief from royalty method, and income and market approaches. The relief from royalty method assumes that if we did not own the intangible asset or intellectual property, we would be willing to pay a royalty for its use. We generally use the relief from royalty method for estimating the value of acquired technology/methodology assets. The income approach converts the anticipated economic benefits that we assume will be realized from a given asset into value. Under this approach, value is measured as the present worth of anticipated future net cash flows generated by an asset. We



generally use the income approach to value customer relationship assets and non-compete agreements. The market approach compares the acquired asset to similar assets that have been sold. We generally use the market approach to value trademarks and brand assets.

Intangible assets with finite lives are amortized over their useful lives while goodwill and indefinite lived assets are not amortized, but rather are periodically tested for impairment. An impairment review generally requires developing assumptions and projections regarding our operating performance. We have determined that all of our goodwill is associated with one reporting unit as we do not operate separate lines of business with respect to our services. Accordingly, on an annual basis we perform the impairment assessment for goodwill at the enterprise level by comparing the fair value of our reporting unit to its carrying value including goodwill recorded by the reporting unit. If the carrying value exceeds the fair value, impairment is measured by comparing the implied fair value of the goodwill to its carrying value and any impairment determined is recorded in the current period. If our estimates or the related assumptions change in the future, we may be required to record impairment charges to reduce the carrying value of these assets, which could be material. There were no impairment charges recognized during the three and nine months ended September 30, 2010 and 2009.

**Table of Contents*****Long-lived assets***

Our long-lived assets primarily consist of property and equipment and intangible assets. We evaluate the recoverability of our long-lived assets for impairment whenever events or changes in circumstances indicate the carrying value of such assets may not be recoverable. If an indication of impairment is present, we compare the estimated undiscounted future cash flows to be generated by the asset to its carrying amount.

Recoverability measurement and estimation of undiscounted cash flows are grouped at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. If the undiscounted future cash flows are less than the carrying amount of the asset, we record an impairment loss equal to the excess of the asset's carrying amount over its fair value. The fair value is determined based on valuation techniques such as a comparison to fair values of similar assets or using a discounted cash flow analysis. Although we believe that the carrying values of our long-lived assets are appropriately stated, changes in strategy or market conditions or significant technological developments could significantly impact these judgments and require adjustments to recorded asset balances. There were no impairment charges recognized during the three and nine months ended September 30, 2010 and 2009.

***Allowance for Doubtful Accounts***

We manage credit risk on accounts receivable by performing credit evaluations of our customers for existing customers coming up for renewal as well as all prospective new customers, by reviewing our accounts and contracts and by providing appropriate allowances for uncollectible amounts. Allowances are based on management's judgment, which considers historical experience and specific knowledge of accounts that may not be collectible. We make provisions based on our historical bad debt experience, a specific review of all significant outstanding invoices and an assessment of general economic conditions. If the financial condition of a customer deteriorates, resulting in an impairment of its ability to make payments, additional allowances may be required.

***Income Taxes***

We account for income taxes using the asset and liability method. We estimate our tax liability through calculations we perform for the determination of our current tax liability, together with assessing temporary differences resulting from the different treatment of items for income tax and financial reporting purposes. These differences result in deferred tax assets and liabilities, which are recorded on our balance sheets. We then assess the likelihood that deferred tax assets will be recovered in future periods. In assessing the need for a valuation allowance against the deferred tax assets, we consider factors such as future reversals of existing taxable temporary differences, taxable income in prior carryback years, if carryback is permitted under the tax law, tax planning strategies and future taxable income exclusive of reversing temporary differences and carryforwards. In evaluating projections of future taxable income, we consider our history of profitability, the competitive environment, the overall outlook for the online marketing industry and general economic conditions. In addition, we consider the timeframe over which it would take to utilize the deferred tax assets prior to their expiration. To the extent we cannot conclude that it is more likely than not that the benefit of such assets will be realized, we establish a valuation allowance to adjust the carrying value of such assets.

As of September 30, 2010, we estimate our federal and state net operating loss carryforwards for tax purposes are approximately \$51.2 million and \$35.5 million, respectively. These net operating loss carryforwards will begin to expire in 2023 for federal and in 2014 for state income tax reporting purposes. As of September 30, 2010, we estimate our aggregate net operating loss carryforward for tax purposes related to our foreign subsidiaries is \$31.0 million, which begins to expire in 2014. In addition, as of September 30, 2010, we had alternative minimum tax credit carryforwards of \$1.2 million which can be carried forward indefinitely and research and development credit carryforwards of approximately \$701,000 which begin to expire in 2025.

As of September 30, 2010 and December 31, 2009, we recorded valuation allowances against certain deferred tax assets of \$4.9 million and \$3.6 million, respectively. At September 30, 2010 and December 31, 2009, the valuation allowance was primarily related to the acquired deferred tax assets of our M:Metrics UK subsidiary, the deferred tax asset related to the value of our auction rate securities, and the deferred tax assets of the foreign subsidiaries that are in their start-up phases, including China, Germany, Hong Kong and certain Certifica and Nedstat entities.

As of December 31, 2009, we concluded that it was not more likely than not that a substantial portion of our deferred tax assets in certain foreign jurisdictions would be realized and that an increase in the valuation allowance was necessary. In making that determination, we considered the losses incurred in these foreign jurisdictions during 2009, the current overall economic environment, and the uncertainty regarding the profitability of acquired businesses. As a result, we recorded an increase in the deferred tax asset valuation allowance of approximately \$719,000. As of September 30, 2010, we concluded that no events occurred during the nine months ended September 30, 2010 that would impact our valuation allowance against deferred tax assets.

The exercise of certain stock options and the vesting of certain restricted stock awards during the nine months ended September 30, 2010 and 2009 generated income tax deductions equal to the excess of the fair market value over the exercise price or grant date fair value, as applicable. We will not recognize a deferred tax asset with respect to the excess of tax over book stock compensation deductions until the tax deductions actually reduce our current taxes payable. As such, we have not recorded a deferred tax asset in the accompanying consolidated financial statements related to the additional net operating losses generated from the windfall tax deductions associated with the exercise of these stock options and the vesting of the restricted stock awards. If and when we utilize these net operating losses to reduce income taxes payable, the tax benefit will be recorded as an increase in additional paid-in capital.

During the three and nine months ended September 30, 2010 and 2009, certain shares related to restricted stock awards vested at times when our stock price was substantially lower than the fair value of those shares at the time of grant. As a result, the income tax deduction related to such shares is less than the expense previously recognized for book purposes. Such shortfalls reduce additional paid-in capital to the extent windfall tax benefits have been previously recognized. However, as described above, we have not yet recognized windfall tax benefits because these tax benefits have not resulted in a reduction of current taxes payable. Therefore, the impact of these shortfalls totaling \$41,000 and \$342,000 has been included in income tax expense for the three and nine months ended September 30, 2010, respectively, and \$96,000 and \$776,000 for the three

**Table of Contents**

and nine months ended September 30, 2009, respectively. Looking forward, we expect our income tax provisions for future reporting periods will be impacted by this stock compensation tax deduction shortfall. We cannot predict the stock compensation shortfall impact because of dependency upon future market price performance of our stock.

For uncertain tax positions, we use a more-likely-than-not recognition threshold based on the technical merits of the tax position taken. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefits determined on a cumulative probability basis, which are more likely than not to be realized upon ultimate settlement in the financial statements. As of September 30, 2010 and December 31, 2009, we had unrecognized tax benefits of \$1.4 million and \$1.2 million, respectively, on a tax-effected basis. It is our policy to recognize interest and penalties related to income tax matters in income tax expense. As of September 30, 2010 and December 31, 2009, the amount of accrued interest and penalties on unrecognized tax benefits was \$699,000 and \$489,000, respectively. We or one of our subsidiaries files income tax returns in the U.S. Federal jurisdiction and various states and foreign jurisdictions. For income tax returns filed by us, we are no longer subject to U.S. Federal examinations by tax authorities for years before 2007 or state and local tax examinations by tax authorities for years before 2006, although tax attribute carryforwards generated prior to these years may still be adjusted upon examination by tax authorities.

***Stock-Based Compensation***

We estimate the fair value of share-based awards on the date of grant. The fair value of stock options is determined using the Black-Scholes option-pricing model. The fair value of market-based stock options is determined using a Monte Carlo simulation embedded in a lattice model. The fair value of restricted stock awards is based on the closing price of our common stock on the date of grant. The determination of the fair value of stock option awards and restricted stock awards is based on a variety of factors including, but not limited to, the our common stock price, expected stock price volatility over the expected life of awards, and actual and projected exercise behavior. Additionally we estimate forfeitures for share-based awards at the dates of grant based on historical experience, adjusted for future expectation. The forfeiture estimate is revised as necessary if actual forfeitures differ from these estimates.

We issue restricted stock awards whose restrictions lapse upon either the passage of time (service vesting), achieving performance targets, or some combination of these restrictions. For those restricted stock awards with only service conditions, we recognize compensation cost on a straight-line basis over the explicit service period. For awards with both performance and service conditions, we start recognizing compensation cost over the remaining service period when it is probable the performance condition will be met. Stock awards that contain performance or market vesting conditions, are excluded from diluted earning per share computations until the contingency is met as of the end of that reporting period.

If factors change and we employ different assumptions in future periods, the compensation expense we record may differ significantly from what we have previously recorded. Beginning in 2007, we made use of restricted stock awards and reduced our use of stock options as a form of stock-based compensation.

At September 30, 2010, total estimated unrecognized compensation expense related to unvested stock-based awards granted prior to that date was \$27.7 million, which is expected to be recognized over a weighted-average period of 1.63 years.

The actual amount of stock-based compensation expense we record in any fiscal period will depend on a number of factors, including the number of shares subject to restricted stock and/or stock options issued, the fair value of our common stock at the time of issuance and the expected volatility of our stock price over time. In addition, changes to our incentive compensation plan that heavily favor stock-based compensation are expected to cause stock-based compensation expense to increase in absolute dollars.

***Seasonality***

Historically, a slightly higher percentage of our customers have renewed their subscription products with us during the fourth quarter.

***Results of Operations***

The following table sets forth selected consolidated statements of operations data as a percentage of total revenues for each of the periods indicated.

Edgar Filing: COMSCORE, INC. - Form 10-Q

|                                | Three Months Ended<br>September 30, |        | Nine Months Ended<br>September 30, |        |
|--------------------------------|-------------------------------------|--------|------------------------------------|--------|
|                                | 2010                                | 2009   | 2010                               | 2009   |
|                                | (Unaudited)                         |        |                                    |        |
| Revenues                       | 100.0%                              | 100.0% | 100.0%                             | 100.0% |
| Cost of revenues               | 30.1                                | 29.6   | 29.5                               | 31.1   |
| Selling and marketing          | 35.7                                | 32.1   | 33.9                               | 33.1   |
| Research and development       | 15.9                                | 14.7   | 14.9                               | 14.1   |
| General and administrative     | 22.3                                | 13.6   | 19.9                               | 13.7   |
| Amortization                   | 3.0                                 | 1.2    | 2.1                                | 1.1    |
| Total expenses from operations | 107.0                               | 91.2   | 100.3                              | 93.1   |

**Table of Contents**

|  | Three Months Ended<br>September 30, |             | Nine Months Ended<br>September 30, |       |
|--|-------------------------------------|-------------|------------------------------------|-------|
|  | 2010                                | 2009        | 2010                               | 2009  |
|  |                                     |             |                                    |       |
|  |                                     | (Unaudited) |                                    |       |
| (Loss) income from operations            | (7.0)                               | 8.8         | (0.3)                              | 6.9   |
| Interest and other (expense) income, net | (0.1)                               | 0.1         | 0.1                                | 0.4   |
| Loss from foreign currency               | (0.2)                               | (0.2)       | (0.2)                              | (0.1) |
|  |                                     |             |                                    |       |
| Income before income taxes               | (7.3)                               | 8.7         | (0.4)                              | 7.2   |
| Provision for income taxes               | 2.6                                 | (5.7)       | (0.6)                              | (4.7) |
|  |                                     |             |                                    |       |
| Net (loss) income                        | (4.7)                               | 3.0         | (1.1)                              | 2.5   |

**Three and Nine Month Periods ended September 30, 2010 compared to the Three and Nine Month Periods ended September 30, 2009****Revenues**

|          | Three Months Ended<br>September 30, |           | Change    |       | Nine Months Ended<br>September 30, |           | Change    |       |
|----------|-------------------------------------|-----------|-----------|-------|------------------------------------|-----------|-----------|-------|
|          | 2010                                | 2009      | \$        | %     | 2010                               | 2009      | \$        | %     |
|          |                                     |           |           |       |                                    |           |           |       |
|          |                                     |           |           |       | (Unaudited)                        |           |           |       |
|          |                                     |           |           |       | (Dollars in thousands)             |           |           |       |
| Revenues | \$ 45,703                           | \$ 31,916 | \$ 13,787 | 43.2% | \$ 123,802                         | \$ 93,915 | \$ 29,887 | 31.8% |

Total revenues increased by approximately \$13.8 million during the three months ended September 30, 2010 as compared to the three months ended September 30, 2009. The revenue growth was substantially due to increased sales to our existing customer base as a result of both organic growth and acquisitions. In addition, our customer base continued to grow as compared to the prior year period. Included in total revenues for the three months ended September 30, 2010 was approximately \$8.0 million related to our acquired businesses that were acquired subsequent to September 30, 2009. Our total customer base grew by a net increase of 466 customers to 1,682 customers, including 229 from the acquired businesses, as of September 30, 2010 from 1,216 as of September 30, 2009. Sales to existing customers totaled \$40.1 million during the three months ended September 30, 2010, which was an increase of \$11.5 million over the corresponding period in 2009. During the same period, revenues from new customers were \$5.6 million, an increase of approximately \$2.3 million from the prior year period.

Revenues from customers outside of the U.S. totaled approximately \$8.9 million, or approximately 19.5% of total revenues, during the three months ended September 30, 2010, which was an increase of \$4.0 million compared to the prior year period. The increase was due to ongoing international expansion as well as the acquisition of international based businesses such as Nedstat and Certifica. During the three months ended September 30, 2010, revenues increased \$2.1 million for Europe, \$1.2 million for Latin America, \$450,000 for Canada and \$228,000 for Asia as compared to the prior year period.

We experienced continued revenue growth in subscription revenues, which increased by approximately \$11.2 million during the three months ended September 30, 2010, from \$27.2 million in the corresponding year period. In addition, our project-based revenues increased by approximately \$2.6 million during the three months ended September 30, 2010, from \$4.7 million in the corresponding year period.

Total revenues increased by approximately \$29.9 million during the nine months ended September 30, 2010 as compared to the nine months ended September 30, 2009. The revenue growth was substantially due to increased sales

to our existing customer base as a result of both organic growth and acquisitions. In addition, our customer base continued to grow as compared to the prior year period. Included in total revenues for the nine months ended September 30, 2010 was approximately \$16.8 million related to our acquired businesses that were acquired subsequent to September 30, 2009.

Sales to existing customers totaled \$110.5 million during the nine months ended September 30, 2010, which was an increase of \$27.2 million over the corresponding period in 2009. During the same period, revenues from new customers were \$13.3 million, an increase of approximately \$2.7 million from the prior year period.

Revenues from customers outside of the U.S. totaled approximately \$21.7 million, or approximately 17.6% of total revenues, during the nine months ended September 30, 2010, which was an increase of \$7.7 million compared to the prior year period. The increase was due to ongoing international expansion efforts as well as the acquisition of international based businesses such as Nedstat and Certifica. During the nine months ended September 30, 2010, revenues increased \$3.6 million for Latin America, \$1.9 million for Europe, \$1.4 million for Canada and \$763,000 for Asia as compared to the prior year period.

We experienced continued revenue growth in subscription revenues, which increased by approximately \$25.4 million during the nine months ended September 30, 2010, from \$80.6 million in the corresponding year period. In addition, our project-based revenues increased by approximately \$4.5 million during the nine months ended September 30, 2010, from \$13.3 million in the corresponding year period.

#### ***Operating Expenses***

Our operating expenses consist of cost of revenues, selling and marketing expenses, research and development expenses, general and administrative expenses and amortization expenses.

Included in our operating expenses are costs such as rent and other facilities related costs, and depreciation expense. During the three and nine months ended September 30, 2010, rent and other facilities related costs increased by approximately \$246,000 and \$584,000, respectively, compared to the three and nine months ended September 30, 2009 due to acquired businesses. During the three and nine months ended September

**Table of Contents**

30, 2010, depreciation expense increased by approximately \$562,000 and \$851,000, respectively, compared to the three and nine months ended September 30, 2009. The increases were attributable to new office facilities and capital expenditures to support our infrastructure and position us for future growth and acquired businesses. The related increases were allocated to cost of revenues, sales and marketing, research and development, and general and administrative costs.

Also included in our operating expenses for the three and nine months ended September 30, 2010 was approximately \$9.5 million and \$15.9 million related to the acquired businesses that were acquired subsequent to September 30, 2009. These amounts are included in our operating results as a component of cost of revenues, sales and marketing expenses, research and development expenses and general and administrative expenses. In addition, in conjunction with acquisition related activities, we incurred approximately \$1.1 million and \$2.4 million of transaction related costs for the three and nine months ended September 30, 2010, respectively. These amounts are included in our operating results as a component of our general and administrative expenses.

During the three and nine months ended September 30, 2010, we incurred \$1.4 million and \$2.3 million, respectively, of stock-based compensation due to stock options granted in May 2010 to certain key employees that vest based on the market price of our common stock. These amounts are included in our operating results as a component of our general and administrative expenses. In July 2010 our Board of Directors authorized the acceleration of vesting of certain restricted stock grants that we awarded to many of our employees in 2009 in connection with salary reductions as part of our cash conservation efforts at that time. Such awards were initially subject to vesting over a four year period, but our management and Board of Directors authorized the accelerated vesting on such awards to reflect the efforts of our employees and our continued revenue growth over the past year. A portion of the acceleration of such awards occurred during the third quarter of 2010 with the remaining portion to be accelerated in the fourth quarter of 2010. This vesting modification resulted in \$1.1 million of stock-based compensation that was included in our operating results as a component of cost of revenues, sales and marketing expenses, research and development expenses and general and administrative expenses for the three and nine months ended September 30, 2010. In addition, in conjunction with our acquisition of Nexius and Nedstat, shares of restricted stock and restricted stock units were issued to certain employees of the acquired businesses, some of these stock award grants included 25% immediate vesting. As a result of the immediate vesting of shares, we incurred \$620,000 of stock-based compensation expense during the three and nine months ended September 30, 2010. This amount was included in our operating results as a component of sales and marketing expenses and research and development expenses.

*Cost of Revenues*

|                             | Three Months Ended                    |          | Change   |       | Nine Months Ended     |           | Change   |       |
|-----------------------------|---------------------------------------|----------|----------|-------|-----------------------|-----------|----------|-------|
|                             | September 30,<br>2010                 | 2009     | \$       | %     | September 30,<br>2010 | 2009      | \$       | %     |
|                             | (Unaudited)<br>(Dollars in thousands) |          |          |       |                       |           |          |       |
| Cost of revenues            | \$ 13,743                             | \$ 9,455 | \$ 4,288 | 45.4% | \$ 36,480             | \$ 29,186 | \$ 7,294 | 25.0% |
| As a percentage of revenues | 30.1%                                 | 29.6%    |          |       | 29.5%                 | 31.1%     |          |       |

Cost of revenues consists primarily of expenses related to operating our network infrastructure, producing our products, and the recruitment, maintenance and support of our consumer panels. Expenses associated with these areas include the salaries, stock-based compensation, and related personnel expenses of network operations, survey operations, custom analytics and technical support. Cost of revenues also includes data collection costs for our products, operational costs associated with our data centers, including depreciation expense associated with computer equipment that supports our panel and systems, and allocated overhead, which is comprised of rent and other facilities related costs, and depreciation expense generated by general purpose equipment and software.



Cost of revenues increased by approximately \$4.3 million during the three months ended September 30, 2010 compared to the three months ended September 30, 2009. This increase was attributable to an increase of \$2.2 million in third party services related to data collection, analysis and validation activities due to the increase in our revenues. In addition, data center and bandwidth costs increased \$705,000 due to the use of our new beaconing technology. The increase was also due to a \$713,000 increase in employee salaries, benefits and related costs, including bonus expense, associated with the increase in headcount. In addition, stock-based compensation expense increased \$292,000 during the three months ended September 30, 2010 as compared to the prior year period, due to our continued use of equity compensation as part of our compensation program. Due to the overall increase in rent and depreciation costs, we experienced a \$541,000 increase in the amount of these costs allocated to cost of revenues for the three months ended September 30, 2010. These increases were offset by a \$291,000 decrease in panel development. Included within total cost of revenues for the three months ended September 30, 2010 was approximately \$2.3 million related to the acquired businesses that were acquired subsequent to September 30, 2009. Cost of revenues increased as a percentage of revenues during the three months ended September 30, 2010 as compared to the same period in 2009 due to the increase in headcount and related costs.

Cost of revenues increased by approximately \$7.3 million during the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009. This increase was attributable to an increase of \$5.2 million in third party services related to data collection, analysis and validation activities due to the increase in our revenues. In addition, data center and bandwidth costs increased \$1.5 million due to the use of our new beaconing technology. Due to the overall increase in rent and depreciation costs, we experienced a \$616,000 increase in the amount of these costs allocated to cost of revenues for the nine months ended September 30, 2010. The increase was also due to a \$120,000 increase in stock-based compensation during the three months ended September 30, 2010 as compared to the prior year period, due to our continued use of equity compensation as part of our compensation program. These increases were offset by a \$195,000 decrease in panel development. Included within total cost of revenues for the nine months ended September 30, 2010 was approximately \$4.7 million related to the acquired businesses that were acquired subsequent to September 30, 2009. Cost of revenues decreased as a percentage of revenues during the nine months ended September 30, 2010 as compared to the same period in 2009 due to the decrease in headcount and related costs.

**Table of Contents***Selling and Marketing Expenses*

|                             | Three Months Ended    |           | Change   |       | Nine Months Ended         |           | Change    |       |
|-----------------------------|-----------------------|-----------|----------|-------|---------------------------|-----------|-----------|-------|
|                             | September 30,<br>2010 | 2009      | \$       | %     | September 30,<br>2010     | 2009      | \$        | %     |
|                             |                       |           |          |       | (Unaudited)               |           |           |       |
|                             |                       |           |          |       | (Dollars in<br>thousands) |           |           |       |
| Selling and marketing       | \$ 16,319             | \$ 10,241 | \$ 6,078 | 59.3% | \$ 41,929                 | \$ 31,057 | \$ 10,872 | 35.0% |
| As a percentage of revenues | 35.7%                 | 32.1%     |          |       | 33.9%                     | 33.1%     |           |       |

Selling and marketing expenses consist primarily of salaries, benefits, commissions, bonuses, and stock-based compensation paid to our direct sales force and industry analysts, as well as costs related to online and offline advertising, product management, industry conferences, promotional materials, public relations, other sales and marketing programs, and allocated overhead, which is comprised of rent and other facilities related costs, and depreciation expense generated by general purpose equipment and software. All selling and marketing costs are expensed as they are incurred. Commission plans are developed for our account managers with criteria and size of sales quotas that vary depending upon the individual's role. Commissions are paid to a salesperson and are expensed as selling and marketing costs when a sales contract is executed by both the customer and us. In the case of multi-year agreements, one year of commissions is paid initially, with the remaining amounts paid at the beginning of the succeeding years.

Selling and marketing expenses increased by \$6.1 million during the three months ended September 30, 2010 compared to the three months ended September 30, 2009. The increase was due to a \$2.8 million increase in employee salaries, benefits and related costs associated with the increase in headcount. We also experienced a \$436,000 increase in bonus expense due to our 2010 bonus program, which includes a cash component; our 2009 plan was entirely equity based. In addition, we incurred \$171,000 in severance payments during the three months ended September 30, 2010. The increase was also due to a \$845,000 increase in stock-based compensation during the three months ended September 30, 2010 as compared to the prior year period, due to our continued use of equity compensation as part of our compensation program. In addition, we experienced a \$634,000 increase in travel expenses due to the increase in our customer base, our internal headcount and the frequency of international travel. Also, due to increased sales as compared to the prior year period, commission expense increased \$651,000. Due to the overall increase in rent and depreciation costs, we experienced a \$141,000 increase in the amount of these costs allocated to selling and marketing expenses for the three months ended September 30, 2010. Included within total selling and marketing expenses for the three months ended September 30, 2010 was approximately \$3.8 million related to the acquired businesses that were acquired subsequent to September 30, 2009. Selling and marketing expenses increased as a percentage of revenues during 2010 as compared to 2009 due to increases in selling and marketing expenses in support of the revenue growth experienced.

Selling and marketing expenses increased by \$10.9 million during the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009. The increase was due to a \$5.0 million increase in employee salaries, benefits and related costs associated with the increase in headcount. We also experienced a \$1.1 million increase in bonus expense due to our 2010 bonus program, which includes a cash component; our 2009 plan was entirely equity based. In addition, we incurred \$394,000 in severance payments during the nine months ended September 30, 2010. The increase was also due to a \$762,000 increase in stock-based compensation during the three months ended September 30, 2010 as compared to the prior year period, due to our continued use of equity compensation as part of our compensation program. In addition, we experienced a \$1.3 million increase in travel expenses due to our 2010 sales meeting and the increase in our customer base, our internal headcount and the frequency of international travel. There was no sales meeting in 2009. Also, due to increased sales as compared to the prior year period, commission expense increased \$1.1 million. Due to the overall increase in rent and depreciation

costs, we experienced a \$403,000 increase in the amount of these costs allocated to selling and marketing expenses for the three months ended September 30, 2010. Included within total selling and marketing expenses for the nine months ended September 30, 2010 was approximately \$6.1 million related to the acquired businesses that were acquired subsequent to September 30, 2009. Selling and marketing expenses as a percent of revenue remained consistent with the prior year period.

*Research and Development Expenses*

|                             | Three Months Ended                    |                    | Change   |       | Nine Months Ended  |                    | Change   |       |
|-----------------------------|---------------------------------------|--------------------|----------|-------|--------------------|--------------------|----------|-------|
|                             | September 30, 2010                    | September 30, 2009 | \$       | %     | September 30, 2010 | September 30, 2009 | \$       | %     |
|                             | (Unaudited)<br>(Dollars in thousands) |                    |          |       |                    |                    |          |       |
| Research and development    | \$ 7,254                              | \$ 4,677           | \$ 2,577 | 55.1% | \$ 18,389          | \$ 13,210          | \$ 5,179 | 39.2% |
| As a percentage of revenues | 15.9%                                 | 14.7%              |          |       | 14.9%              | 14.1%              |          |       |

Research and development expenses include new product development costs, consisting primarily of salaries, benefits, stock-based compensation and related costs for personnel associated with research and development activities, fees paid to third parties to develop new products and allocated overhead, which is comprised of rent and other facilities related costs, and depreciation expense generated by general purpose equipment and software.

Research and development expenses increased by \$2.6 million during the three months ended September 30, 2010 as compared to the three months ended September 30, 2009. This increase was due to a \$1.6 million increase in employee salaries, benefits and related costs associated with the increase in headcount and our continued focus on developing new products. The increase was also due to a \$414,000 increase in

**Table of Contents**

stock-based compensation during the three months ended September 30, 2010 as compared to the prior year period, due to our continued use of equity compensation as part of our compensation program. In addition, to support our development of new products and the integration of acquired businesses, we experienced increases of \$158,000 and \$201,000 in our systems and maintenance costs related to computer hardware and software and costs paid to outsourced service providers, respectively. In addition, we also experienced an \$82,000 increased allocation of overhead costs such as rent due to the increased headcount and size of our research and development functions. Travel expenses also increased \$112,000 due to the integration of the acquired businesses and increased international travel. Included within total research and development expenses for the three months ended September 30, 2010 was approximately \$1.5 million related to the acquired businesses that were acquired subsequent to September 30, 2009. Research and development costs increased as a percentage of revenues for the three months ended September 30, 2010 as compared to the same period in 2009 primarily due to our investments in research and development new product initiatives relative to our growth in revenues.

Research and development expenses increased by \$5.2 million during the nine months ended September 30, 2010 as compared to the nine months ended September 30, 2009. This increase was primarily due to a \$3.4 million increase in employee salaries, benefits and related costs associated with the increase in headcount and our continued focus on developing new products. The increase was also due to a \$449,000 increase in stock-based compensation during the three months ended September 30, 2010 as compared to the prior year period, due to our continued use of equity compensation as part of our compensation program. In addition, to support our development of new products and the integration of acquired businesses, we experienced increases of \$419,000 and \$346,000 in our systems and maintenance costs related to computer hardware and software and costs paid to outsourced service providers, respectively. In addition, we also experienced a \$295,000 increased allocation of overhead costs such as rent due to the increased headcount and size of our research and development functions. Travel expenses also increased \$198,000 due to the integration of the acquired businesses and increased international travel. Included within total research and development expenses for the nine months ended September 30, 2010 was approximately \$2.4 million related to the acquired businesses that were acquired subsequent to September 30, 2009. Research and development costs increased as a percentage of revenues for the nine months ended September 30, 2010 as compared to the same period in 2009 primarily due to our investments in research and development new product initiatives relative to our growth in revenues.

*General and Administrative Expenses*

|                             | Three Months Ended |          | Change   |        | Nine Months Ended      |           | Change    |       |
|-----------------------------|--------------------|----------|----------|--------|------------------------|-----------|-----------|-------|
|                             | September 30, 2010 | 2009     | \$       | %      | September 30, 2010     | 2009      | \$        | %     |
|                             |                    |          |          |        |                        |           |           |       |
|                             |                    |          |          |        | (Unaudited)            |           |           |       |
|                             |                    |          |          |        | (Dollars in thousands) |           |           |       |
| General and administrative  | \$ 10,204          | \$ 4,353 | \$ 5,851 | 134.4% | \$ 24,577              | \$ 12,874 | \$ 11,703 | 90.9% |
| As a percentage of revenues | 22.3%              | 13.6%    |          |        | 19.9%                  | 13.7%     |           |       |

General and administrative expenses consist primarily of salaries, benefits, stock-based compensation, and related expenses for executive management, finance, accounting, human capital, legal and other administrative functions, as well as professional fees, overhead, including allocated overhead, which is comprised of rent and other facilities related costs, and depreciation expense generated by general purpose equipment and software, and expenses incurred for other general corporate purposes.

General and administrative expenses increased by \$5.9 million during the three months ended September 30, 2010 as compared to the three months ended September 30, 2009. The increase was due to a \$1.8 million increase in professional fees and outside services, which includes \$790,000 for professional services such as legal and tax services associated with our acquisition related activities, \$512,000 for other required accounting, legal and general

consulting services to meet the needs of our expanding business, \$381,000 for non-capitalizable consulting services and internal software implementation projects and \$80,000 due to recruiting related fees associated with expanding our general and administrative departments to support the company growth. The increase was also due to a \$1.7 million increase in stock-based compensation during the three months ended September 30, 2010 as compared to the prior year period, \$1.4 million of this increase was due to the market-based stock options granted to key executives during the second quarter of 2010, and \$356,000 was due to our continued use of equity compensation as part of our compensation program. In addition, employee salaries, benefits and related costs associated with an increase in headcount increased \$780,000. We also experienced an increase in bonus expense of \$325,000 due to our 2010 bonus program which includes a cash component; the 2009 plan was entirely equity based. In addition, we incurred \$814,000 in severance payments during the three months ended September 30, 2010. General facility and overhead related expenses increased \$460,000 due to increased headcount and business acquisitions. Included within general and administrative expenses for the three month ended September 30, 2010 was approximately \$1.9 million related to the acquired businesses that were acquired subsequent to September 30, 2009.

General and administrative expenses increased by \$11.7 million during the nine months ended September 30, 2010 as compared to the nine months ended September 30, 2009. The increase was due to a \$4.3 million increase in professional fees and outside services, which includes \$2.1 million for professional services such as legal and tax services associated with our acquisition related activities and \$1.2 million for other required accounting, legal and general consulting services to meet the needs of our expanding business, \$737,000 for non-capitalizable consulting services and internal software implementation projects and \$268,000 due to recruiting related fees associated with expanding our general and administrative departments to support the company growth. The increase was also due to a \$3.2 million increase in stock-based compensation during the nine months ended September 30, 2010 as compared to the prior year period, \$2.3 million of this increase was due to the market-based stock options granted to key executives during the second quarter of 2010, and \$900,000 was due to our continued use of equity compensation as part of our compensation program. In addition, employee salaries, benefits and related costs associated with an increase in headcount increased \$1.7 million.

**Table of Contents**

We also experienced an increase in bonus expense of \$644,000 due to our 2010 bonus program which includes a cash component; the 2009 plan was entirely equity based. In addition, we incurred \$899,000 in severance payments during the nine months ended September 30, 2010. General facility and overhead related expenses increased \$856,000 due to increased headcount and business acquisitions. Included within general and administrative expenses for the nine months ended September 30, 2010 was approximately \$2.8 million related to the acquired businesses that were acquired subsequent to September 30, 2009.

*Amortization Expense*

|                                   | Three Months Ended                    |        | Change |        | Nine Months Ended     |          | Change   |        |
|-----------------------------------|---------------------------------------|--------|--------|--------|-----------------------|----------|----------|--------|
|                                   | September 30,<br>2010                 | 2009   | \$     | %      | September 30,<br>2010 | 2009     | \$       | %      |
|                                   | (Unaudited)<br>(Dollars in thousands) |        |        |        |                       |          |          |        |
| Amortization of intangible assets | \$ 1,380                              | \$ 385 | \$ 995 | 258.4% | \$ 2,545              | \$ 1,032 | \$ 1,513 | 146.6% |
| As a percentage of revenues       | 3.0%                                  | 1.2%   |        |        | 2.1%                  | 1.1%     |          |        |

Amortization expense consists of charges related to the amortization of intangible assets associated with acquisitions.

Amortization expense increased \$995,000 and \$1.5 million during the three and nine months ended September 30, 2010 as compared to the three and nine months ended September 30, 2009 due to amortization of intangible assets that were acquired during the nine months ended September 30, 2010 in connection with our acquisition of ARSgroup, Nexius and Nedstat and, to a lesser degree, amortization from intangible assets acquired during the fourth quarter of 2009 in connection with our acquisition of Certifica that were not otherwise included in our consolidated financial results during the first nine months of 2009.

*Interest and Other Income, Net*

Interest income consists of interest earned from investments, such as short and long-term fixed income securities and auction rate securities, and our cash and cash equivalent balances. Interest expense is incurred due to capital leases pursuant to several equipment loan and security agreements and a line of credit that we have entered into in order to finance the lease of various hardware and other equipment purchases. Our capital lease obligations are secured by a senior security interest in eligible equipment.

Interest (expense) income, net for the three and nine months ended September 30, 2010 was \$36,000 net interest expense and \$74,000 net interest income, respectively, as compared to \$131,000 and \$438,000 net interest income for the three and nine months ended September 30, 2009, respectively. The decreases of \$167,000 and \$364,000 during the three and nine months ended September 30, 2010 were due to lower returns from our investments and increases in interest expense associated with capital lease payments.

Included in Interest and other income, net, was \$42,000 in income related to other non-operating related activities for the nine months ended September 30, 2010.

*(Loss) Gain from Foreign Currency*

The functional currency of our foreign subsidiaries is the local currency. All assets and liabilities are translated at the current exchange rates as of the end of the period, and revenues and expenses are translated at average rates in effect during the period. The gain or loss resulting from the process of translating the foreign currency financial statements into U.S. dollars is included as a component of other comprehensive (loss) income.

We recorded losses of \$83,000 and \$207,000 for the three and nine months ended September 30, 2010, respectively, as compared to losses of \$71,000 and \$53,000 during the three and nine months ended September 30, 2009, respectively. Our foreign currency transactions are recorded as a result of fluctuations in the exchange rate between the U.S. dollar and the Canadian dollar, Euro, British Pound, and the functional currencies of our Latin America entities.

*Provision for Income Taxes*

During the three and nine months ended September 30, 2010, we recorded an income tax benefit of \$1.2 million and an income tax provisions of \$874,000, respectively, compared to income tax provisions of \$1.8 million and \$4.4 million in the same periods of 2009, respectively. The tax provisions for the three and nine months ended September 30, 2010 were attributable to current taxes of (\$129,000) and \$855,000, respectively, and the utilization of our deferred tax assets of (\$1.1) million and \$19,000, respectively. These amounts include (\$951,000) and (\$381,000), respectively, of current and deferred tax expense for discrete items such as stock shortfalls, statutory rate changes, and changes in uncertain tax positions recorded during the three and nine months ended September 30, 2010. The tax provision for the three and nine months ended September 30, 2009 was attributable to current taxes of \$100,000 and \$257,000, respectively, and the utilization of our U.S. deferred tax assets of \$1.8 million and \$4.2 million, respectively. These amounts include \$71,000 and \$728,000, respectively, of deferred tax expense for discrete items such as stock shortfalls recorded during the three and nine months ended September 30, 2009.

During the three and nine months ended September 30, 2010 and 2009, certain restricted stock awards vested that generated a tax deduction at a market price that was less than the price of the restricted stock on the dates the shares were granted. This shortfall of tax deductions would reduce additional paid-in capital to the extent windfall tax benefits had been realized in prior years. However, as we have not yet realized our

**Table of Contents**

windfall tax benefits because the tax benefits have not resulted in a reduction to current taxes payable, the three and nine months ended September 30, 2010 and 2009 were impacted. The tax provision impact of the shortfall totaling \$41,000 and \$342,000 has been included in income tax expense for the three and nine months ended September 30, 2010, respectively, and \$96,000 and \$776,000 for the three and nine months ended September 30, 2009, respectively.

**Recent Pronouncements**

Recent accounting pronouncements are detailed in Note 2 to our Consolidated Financial Statements included in Item 1 of this Quarterly Report on Form 10-Q.

**Liquidity and Capital Resources**

The following table summarizes our cash flows:

|  | <b>Nine Months Ended<br/>September 30,</b> |             |
|--|--|-------------|
|  | <b>2010</b>                                | <b>2009</b> |
|  | (Unaudited)                                |             |
|  | (In thousands)                             |             |
| Net cash provided by operating activities            | \$ 24,872                                  | \$ 18,420   |
| Net cash used in investing activities                | (42,270)                                   | (6,554)     |
| Net cash used in financing activities                | (4,772)                                    | (1,783)     |
| Effect of exchange rate changes on cash              | 119  | 596         |
|  |  |             |
| Net (decrease) increase in cash and cash equivalents | \$ (22,051)                                | \$ 10,679   |

Our principal uses of cash historically have consisted of payroll and other operating expenses and payments related to the investment in equipment primarily to support our consumer panel and technical infrastructure required to support our customer base, and cash paid for acquisitions. As of September 30, 2010, our principal sources of liquidity consisted of cash, cash equivalents and short-term investments of \$36.2 million, which represent cash generated from operating activities. As of September 30, 2010, we held \$2.6 million in long-term investments consisting of four separate auction rate securities. In prior years, we invested in these auction rate securities for short periods of time as part of our investment policy. However, uncertainties in the credit markets have limited our ability to liquidate our holdings of auction rate securities, as there have been no auctions for these securities in 2010 or 2009.

The four securities were valued using a discounted cash flow model that takes into consideration the financial condition of the issuers, the workout period, the discount rate and other factors. During the year ended December 31, 2009 we recorded a \$429,000 unrealized gain related to these securities. Based on our current fair value estimate as of September 30, 2010, we recorded a \$188,000 unrealized loss. The net unrealized gain of \$241,000 is included in Accumulated other comprehensive income within our Consolidated Balance Sheets included in Part I, Item 1 of this Quarterly Report on form 10-Q. We are uncertain as to when the liquidity issues relating to these investments will improve. Accordingly, we classified these securities as long-term on our Consolidated Balance Sheets included in Part I, Item 1 of this Quarterly Report on form 10-Q. If the credit ratings of the issuer, the bond insurers or the collateral deteriorate further, we may further adjust the carrying value of these investments

**Operating Activities**

Our cash flows from operating activities are significantly influenced by our investments in personnel and infrastructure to support the anticipated growth in our business, increases in the number of customers using our products and the amount and timing of payments made by these customers.

We generated approximately \$24.9 million of net cash from operating activities during nine months ended September 30, 2010. Our cash flows from operations was driven by our net loss of \$1.1 million, as adjusted for \$20.5 million in non-cash charges such as depreciation, amortization, provision for bad debts, stock-based compensation and bond premium amortization, and a non-cash deferred tax expense. In addition, we experienced a \$3.2 million decrease in accounts receivable due to improved collections activities during the nine months ended



September 30, 2010. We also experienced a \$1.7 million increase in amounts collected from customers in advance of when we recognize revenues as a result of our growing customer base. In addition, our operating cash flows were positively impacted due to a \$1.2 million increase in accounts payable and accrued expenses due to the timing of payments issued to our vendors. Cash flows from operations were also positively impacted by a \$407,000 increase in deferred rent due to tenant allowances related to our leases.

We generated approximately \$18.4 million of net cash from operating activities during the nine months ended September 30, 2009. The significant components of cash flows from operations were net income of \$2.4 million, adjusted for \$13.3 million in non-cash depreciation, amortization and stock-based compensation expenses and \$271,000 in bad debt expense, a \$3.2 million decrease in accounts receivable due to increased collections activity and a \$4.2 million decrease in deferred income taxes, offset by a \$1.9 million decrease in amounts collected from customers in advance of when we recognize revenues due to some of our customers changing billing frequency and a \$3.5 million decrease in accounts payable and accrued expenses.

**Table of Contents*****Investing Activities***

Our primary regularly recurring investing activities have consisted of purchases of computer network equipment to support our Internet user panel and maintenance of our database, furniture and equipment to support our operations, purchases and sales of marketable securities, and payments related to the acquisition of several companies. As our customer base continues to expand, we expect purchases of technical infrastructure equipment to grow in absolute dollars. The extent of these investments will be affected by our ability to expand relationships with existing customers, grow our customer base, introduce new digital formats and increase our international presence.

We used \$42.3 million of net cash in investing activities during the nine months ended September 30, 2010. \$68.9 million, net of cash acquired was used for the acquisition of ARSgroup, Nexius, and Nedstat. In addition, \$3.4 million was used to purchase property and equipment to maintain and expand our technology and infrastructure. Of this amount, \$405,000 was funded through landlord allowances received in connection with our Canadian office lease. These amounts were offset by \$30.0 million generated from maturities of our investments.

We used \$6.6 million of net cash in investing activities during the nine months ended September 30, 2009, a net \$1.7 million of which was used to purchase investments. In addition, \$4.8 million was used to purchase property and equipment to maintain and expand our technology and infrastructure. Of this amount, \$333,000 was funded through landlord allowances received in connection with our Seattle office lease.

We expect to achieve greater economies of scale and operating leverage as we expand our customer base and utilize our Internet user panel and technical infrastructure more efficiently. While we anticipate that it will be necessary for us to continue to invest in our Internet user panel, technical infrastructure and technical personnel to support the combination of an increased customer base, new products, international expansion and new digital market intelligence formats, we believe that these investment requirements will be less than the revenue growth generated by these actions. This should result in a lower rate of growth in our capital expenditures to support our technical infrastructure. In any given period, the timing of our incremental capital expenditure requirements could impact our cost of revenues, both in absolute dollars and as a percentage of revenues.

***Financing Activities***

We used \$4.8 million of cash during the nine months ended September 30, 2010 for financing activities. This included \$4.7 million for shares repurchased by us pursuant to the exercise by stock incentive plan participants of their right to elect to use common stock to satisfy their tax withholding obligations. In addition, we used \$944,000 to make payments on our capital lease obligations offset by \$897,000 in proceeds from the exercise of our common stock options.

We used \$1.8 million of cash during the nine months ended September 30, 2009 for financing activities. This included \$1.5 million for shares repurchased by us pursuant to the exercise by stock incentive plan participants of their right to elect to use common stock to satisfy their tax withholding obligations. In addition, we used \$725,000 to make payments on our capital lease obligations offset by \$412,000 in proceeds from the exercise of our common stock options.

We do not have any special purpose entities, and other than operating leases for office space, described below, we do not engage in off-balance sheet financing arrangements.

**Contractual Obligations and Known Future Cash Requirements**

Our principal lease commitments consist of obligations under leases for office space and computer and telecommunications equipment. In prior and current years, we financed the purchase of some of our computer equipment under a capital lease arrangement over a period of either 36 or 42 months. Our purchase obligations relate to outstanding orders to purchase computer equipment and are typically small; they do not materially impact our overall liquidity.

In March 2010, we increased our equipment line of credit with Banc of America Leasing & Capital, LLC to \$11.2 million. The equipment line of credit is available to finance the purchase of new software, hardware and other computer equipment as we expand our technology infrastructure in support of our business growth. The initial utilization of this credit facility was an equipment lease for approximately \$1.1 million bearing an interest rate of approximately 5% per annum. The base term for this lease is thirty-six months and includes a nominal charge in the event of prepayment. The lease payment is approximately \$403,000 per annum. In March 2010 we entered into an

equipment lease for approximately \$3.6 million bearing an interest rate of approximately 5% per annum. The base term for this lease is forty-two months and includes a nominal charge in the event of prepayment. The lease payment is approximately \$1.1 million per annum. In June 2010 we entered into an equipment lease for approximately \$1.9 million bearing an interest rate of approximately 5% per annum. The base term for this lease is thirty-six months and includes a nominal charge in the event of prepayment. The lease payment is approximately \$686,000 million per annum. In September 2010 we entered into an equipment lease for approximately \$1.6 million bearing an interest rate of approximately 4% per annum. The base term for this lease is thirty-six months and includes a nominal charge in the event of prepayment. The lease payment is approximately \$564,000 million per annum. Assets acquired under equipment leases secure the obligations.

On September 28, 2010, we extended our \$5.0 million revolving line of credit with Bank of America, with an interest rate equal to BBA LIBOR rate plus an applicable margin based upon funded debt to unrestricted EBITDA ratio, through November 30, 2010. This line of credit includes no restrictive financial covenants. We maintain letters of credit in lieu of security deposits with respect to certain office leases. During the nine months ended September 30, 2010, five letters of credit were reduced by approximately \$646,000 and no amounts were borrowed against the line of credit. As of September 30, 2010, \$3.3 million of letters of credit were outstanding, leaving \$1.7 million available for additional letters of credit or other borrowings. These letters of credit may be reduced periodically provided we meet the conditional criteria of each related lease agreement.

**Table of Contents*****Off Balance Sheet Arrangements***

We have no off-balance sheet arrangements (as defined in Item 303 of Regulation S-K).

**Item 3. *Quantitative and Qualitative Disclosure about Market Risk***

Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. We do not hold or issue financial instruments for trading purposes or have any derivative financial instruments. To date, most payments made under our contracts are denominated in U.S. dollars and we have not experienced material gains or losses as a result of transactions denominated in foreign currencies. As of September 30, 2010, our cash reserves were maintained in bank deposit accounts and auction rate securities totaling \$38.9 million. These securities, like all fixed income instruments, are subject to interest rate risk and will decline in value if market interest rates increase. We have the ability to hold our fixed income investments until maturity and, therefore, we would not expect to experience any material adverse impact in income or cash flow.

**Foreign Currency Risk**

A portion of our revenues and expenses from business operations in foreign countries are derived from transactions denominated in currencies other than the functional currency of our operations in those countries. As such, we have exposure to adverse changes in exchange rates associated with revenues and operating expenses of our foreign operations, but we believe this exposure to not be significant at this time. As such, we do not currently engage in any transactions that hedge foreign currency exchange rate risk. As we grow our international operations, our exposure to foreign currency risk could become more significant.

Due to our increased presence in Europe and the fluctuations between the U.S. Dollar and the Euro, our revenues and operating results may be adversely impacted.

**Interest Rate Sensitivity**

As of September 30, 2010, our principal sources of liquidity consisted of cash, cash equivalents and short-term investments of \$36.2 million. These amounts were invested primarily in bank deposit accounts. The cash and cash equivalents are held for working capital purposes. We do not enter into investments for trading or speculative purposes. We believe that we do not have any material exposure to changes in the fair value as a result of changes in interest rates. Declines in interest rates, however, will reduce future investment income. If overall interest rates changed by 1% during the nine months ended September 30, 2010, our interest exposure would have been approximately \$7,000, assuming consistent investment levels.

**Auction Rate Securities**

As of September 30, 2010, our principal sources of liquidity consisted of cash, cash equivalents and short-term investments of \$36.2 million which represent cash generated from operating activities. As of September 30, 2010, we held \$2.6 million in long-term investments consisting of four separate auction rate securities. In prior years, we invested in these auction rate securities for short periods of time as part of our investment policy. However, uncertainties in the credit markets have limited our ability to liquidate our holdings of auction rate securities, as there have been no auctions for these securities in 2009 or during the nine months ended September 30, 2010.

The four remaining securities were valued using a discounted cash flow model that takes into consideration the financial condition of the issuers, the workout period, the discount rate and other factors. We are uncertain as to when the liquidity issues relating to these investments will improve. Accordingly, we classified these securities as long-term on our Consolidated Balance Sheets. If the credit ratings of the issuer, the bond insurers or the collateral deteriorate further, we may further adjust the carrying value of these investments.

**Item 4. *Controls and Procedures*****Evaluation of Disclosure Controls and Procedures**

Our Chief Executive Officer and our Chief Financial Officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Securities Exchange Act of 1934 (the Exchange Act) Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report (the Evaluation Date), have concluded that as of the Evaluation Date, our disclosure controls and procedures are effective, in all material respects, to ensure that information required to be disclosed in the reports that we file and submit under the Exchange Act (i) is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rule and forms and (ii) is accumulated and communicated to our management, including our Chief Executive Officer

and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

**Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Table of Contents****Item 1. Legal Proceedings**

From time to time, we are involved in various legal proceedings arising from the normal course of business activities. We are not presently a party to any pending legal proceedings the outcome of which we believe, if determined adversely to us, would individually or in the aggregate have a material adverse impact on our consolidated results of operations, cash flows or financial position.

**Item 1A. Risk Factors**

*An investment in our common stock involves a substantial risk of loss. You should carefully consider these risk factors, together with all of the other information included herewith, before you decide to purchase shares of our common stock. The occurrence of any of the following risks could materially adversely affect our business, financial condition or operating results. In that case, the trading price of our common stock could decline, and you may lose part or all of your investment.*

**Risks Related to Our Business and Our Technologies**

***We derive a significant portion of our revenues from sales of our subscription-based digital marketing intelligence products. If our customers terminate or fail to renew their subscriptions, our business could suffer.***

We currently derive a significant portion of our revenues from our subscription-based digital marketing intelligence products. Subscription-based products accounted for 86% of our net revenues during the full year 2009 and the nine months ended September 30, 2010, respectively. Uncertain economic conditions or other factors, such as the failure or consolidation of large financial institutions, may cause certain customers to terminate or reduce their subscriptions. If our customers terminate their subscriptions for our products, do not renew their subscriptions, delay renewals of their subscriptions or renew on terms less favorable to us, our revenues could decline and our business could suffer.

Our customers have no obligation to renew after the expiration of their initial subscription period, which is typically one year, and we cannot assure that current subscriptions will be renewed at the same or higher dollar amounts, if at all. Some of our customers have elected not to renew their subscription agreements with us in the past. If we experience a change of control, as defined in such agreements, some of our customers also have the right to terminate their subscriptions. Moreover, some of our major customers have the right to cancel their subscription agreements without cause at any time. Given the current unpredictable economic conditions as well as our limited historical data with respect to rates of customer subscription renewals, we may have difficulty accurately predicting future customer renewal rates. Our customer renewal rates may decline or fluctuate as a result of a number of factors, including customer satisfaction or dissatisfaction with our products, the costs or functionality of our products, the prices or functionality of products offered by our competitors, mergers and acquisitions affecting our customer base, general economic conditions or reductions in our customers' spending levels. In this regard, we have seen a number of customers with weaker balance sheets choosing not to renew subscriptions with us during economic downturns.

***Our quarterly results of operations may fluctuate in the future. As a result, we may fail to meet or exceed the expectations of securities analysts or investors, which could cause our stock price to decline.***

Our quarterly results of operations may fluctuate as a result of a variety of factors, many of which are outside of our control. If our quarterly revenues or results of operations do not meet or exceed the expectations of securities analysts or investors, the price of our common stock could decline substantially. In addition to the other risk factors set forth in this Risk Factors section, factors that may cause fluctuations in our quarterly revenues or results of operations include:

our ability to increase sales to existing customers and attract new customers;

our failure to accurately estimate or control costs including those incurred as a result of acquisitions, investments and other business development initiatives;

our revenue recognition policies related to the timing of contract renewals, delivery of products and duration of contracts and the corresponding timing of revenue recognition;

the uncertainties associated with the integration of acquired new lines of business, and operations in countries in which we may have little or no previous experience;

the mix of subscription-based versus project-based revenues;

changes in our customers' subscription renewal behaviors and spending on projects;

our ability to estimate revenues and cash flows associated with business operations acquired by us;

the impact on our contract renewal rates, for both our subscription and project-based products, caused by our customers' budgetary constraints, competition, customer dissatisfaction, customer corporate restructuring or change in control, or our customers' actual or perceived lack of need for our products;

the potential loss of significant customers;

the effect of revenues generated from significant one-time projects or the loss of such projects;

**Table of Contents**

the impact of our decision to discontinue certain products;

the amount and timing of capital expenditures and operating costs related to the maintenance and expansion of our operations and infrastructure;

the timing and success of new product introductions by us or our competitors;

variations in the demand for our products and the implementation cycles of our products by our customers;

changes in our pricing and discounting policies or those of our competitors;

service outages, other technical difficulties or security breaches;

limitations relating to the capacity of our networks, systems and processes;

maintaining appropriate staffing levels and capabilities relative to projected growth, or retaining key personnel as a result of the integration of recent acquisitions;

adverse judgments or settlements in legal disputes;

the cost and timing of organizational restructuring, in particular in international jurisdictions;

the extent to which certain expenses are more or less deductible for tax purposes, such as share-based compensation that fluctuates based on the timing of vesting and our stock price;

the timing of any additional reversal of our deferred tax valuation allowance;

adoption of new accounting pronouncements; and

general economic, industry and market conditions and those conditions specific to Internet usage and online businesses.

We believe that our quarterly revenues and results of operations on a year-over-year and sequential quarter-over-quarter basis may vary significantly in the future and that period-to-period comparisons of our operating results may not be meaningful. Investors are cautioned not to rely on the results of prior quarters as an indication of future performance.

***Material defects or errors in our data collection and analysis systems could damage our reputation, result in significant costs to us and impair our ability to sell our products.***

Our data collection and analysis systems are complex and may contain material defects or errors. In addition, the large amount of data that we collect may make our data collection and analysis systems more susceptible to defects or errors. The companies that we recently acquired also rely on data collection and analysis software and systems to service enterprise clients. Any defect in our panelist data collection software, our census collection systems, our enterprise focused software and systems, network systems, statistical projections or other methodologies could lead to consequences that impact operating results, including:

loss of customers;

damage to our brand;

lost or delayed market acceptance and sales of our products;



interruptions in the availability of our products;

the incurrence of substantial costs to correct any material defect or error;

sales credits, refunds or liability to our customers;

diversion of development resources; and

increased warranty and insurance costs.

**Table of Contents*****We may lose customers or be liable to certain customers if we provide poor service or if our products do not comply with our customer agreements.***

Errors in our systems resulting from the large amount of data that we collect, store and manage could cause the information that we collect to be incomplete or to contain inaccuracies that our customers regard as significant. The failure or inability of our systems, networks and processes to adequately handle the data in a high quality and consistent manner could result in the loss of customers. In addition, we may be liable to certain of our customers for damages they may incur resulting from these events, such as loss of business, loss of future revenues, breach of contract or loss of goodwill to their business.

Our insurance policies may not cover any claim against us for loss of data, inaccuracies in data or other indirect or consequential damages and defending a lawsuit, regardless of its merit, could be costly and divert management's attention. Adequate insurance coverage may not be available in the future on acceptable terms, or at all. Any such developments could adversely affect our business and results of operations.

***Our business may be harmed if we change our methodologies or the scope of information we collect.***

We have in the past and may in the future change our methodologies, the methodologies of acquired companies, or the scope of information we collect. Such changes may result from identified deficiencies in current methodologies, development of more advanced methodologies, changes in our business plans or expressed or perceived needs of our customers or potential customers. Any such changes or perceived changes, or our inability to accurately or adequately communicate to our customers and the media such changes and the potential implications of such changes on the data we have published or will publish in the future, may result in customer dissatisfaction, particularly if certain information is no longer collected or information collected in future periods is not comparable with information collected in prior periods. For example, in 2009, we adopted new methodology that would integrate server-based web beacon information with our existing panel-based data. In 2009, we also acquired and entered into a strategic alliance with web analytics companies in order to enhance the scope of our server-based web beacon information. As a result, some of our existing customers or customers of acquired entities may refuse to participate, or participate only in a limited fashion, and other may become dissatisfied as a result of changes in our methodology and decide not to continue purchasing their subscriptions or may decide to discontinue providing us with their web beacon or other server-side information. Such customers may elect to publicly air their dissatisfaction with the methodological changes made by us, thereby damaging our brand and harming our reputation. Additionally, we expect that we will need to further integrate new capabilities with our existing methodologies if we develop or acquire additional products or lines of business in the future. The resulting future changes to our methodologies, the information we collect, or the strategy we implement to collect and analyze information, such as the movement away from pure panel-centric measurement to a hybrid of panel- and site-centric measurement, may cause additional customer dissatisfaction and result in loss of customers.

***Our business may be harmed if we deliver, or are perceived to deliver, inaccurate information to our customers, to the media or to the public generally.***

If the information that we provide to our customers, to the media, or to the public is inaccurate, or perceived to be inaccurate, our brand may be harmed. The information that we collect or that is included in our databases and the statistical projections that we provide to our customers, to the media or to the public may contain or be perceived to contain inaccuracies. These projections may be viewed as an important measure for the success of certain businesses, especially those businesses with a large online presence. Any inaccuracy or perceived inaccuracy in the data reported by us about such businesses may potentially affect the market perception of such businesses and result in claims or litigation around the accuracy of our data, or the appropriateness of our methodology, may encourage aggressive action on the part of our competitors, and could harm our brand. Any dissatisfaction by our customers or the media with our digital marketing intelligence, measurement or data collection and statistical projection methodologies, whether as a result of inaccuracies, perceived inaccuracies, or otherwise, could have an adverse effect on our ability to retain existing customers and attract new customers and could harm our brand. Additionally, we could be contractually required to pay damages, which could be substantial, to certain of our customers if the information we provide to them is found to be inaccurate. Any liability that we incur or any harm to our brand that we suffer because of actual or perceived irregularities or inaccuracies in the data we deliver to our customers could harm our business.

***If we are not able to maintain panels of sufficient size and scope, or if the costs of maintaining our panels materially increase, our business would be harmed.***

We believe that the quality, size and scope of our Internet, mobile and cross-media user panels are critical to our business. There can be no assurance, however, that we will be able to maintain panels of sufficient size and scope to provide the quality of marketing intelligence that our customers demand from our products. If we fail to maintain a panel of sufficient size and scope including coverage of international markets, customers might decline to purchase our products or renew their subscriptions, our reputation could be damaged and our business could be materially and adversely affected. We expect that our panel costs may increase and may comprise a greater portion of our cost of revenues in the future. The costs associated with maintaining and improving the quality, size and scope of our panel are dependent on many factors, many of which are beyond our control, including the participation rate of potential panel members, the turnover among existing panel members and requirements for active participation of panel members, such as completing survey questionnaires. Concerns over the potential unauthorized disclosure of personal information or the classification of our software as spyware or adware may cause existing panel members to uninstall our software or may discourage potential panel members from installing our software. To the extent we experience greater turnover, or churn, in our panel than we have historically experienced, these costs would increase more rapidly. We also have terminated and may in the future terminate relationships with service providers whose practices we believe may not comply with our privacy policies, and have removed and may

**Table of Contents**

in the future remove panel members obtained through such service providers. Such actions may result in increased costs for recruiting additional panel members. In addition, publishing content on the Internet and purchasing advertising space on Web sites may become more expensive or restrictive in the future, which could decrease the availability and increase the cost of advertising the incentives we offer to panel members. To the extent that such additional expenses are not accompanied by increased revenues, our operating margins would be reduced and our financial results would be adversely affected.

***Difficulties entering into arrangements with website owners, wireless communications operators and other entities supporting server- and census-based methodologies may negatively affect our methodologies and harm our business.***

We believe that our methodologies are enhanced by the ability to collect information using server-based web beacon information and other census-level approaches. There can be no assurance, however, that we will be able to maintain relationships with a sufficient number and scope of websites in order to provide the quality of marketing intelligence that our customers demand from our products. If we fail to continue to expand the scope of our server-based data collection approaches, customers might decline to purchase our products or renew their subscriptions, our reputation could be damaged and our business could be adversely affected.

***We may expand through investments in, acquisitions of, or the development of new products with assistance from other companies, any of which may not be successful and may divert our management's attention.***

In mid-2008, we closed our acquisition of M:Metrics and have integrated this business into our own. In November 2009, we acquired the Certifica group of companies located in Latin America. Additionally, in 2010, we acquired the ARSgroup, Nexius, Inc. and Nedstat B.V. We also expect to continue to evaluate and enter into discussions regarding a wide array of potential strategic transactions, including acquiring complementary products, technologies or businesses. We also may enter into relationships with other businesses in order to expand our product offerings, which could involve preferred or exclusive licenses, discount pricing or investments in other company, or to expand our sales capabilities. These transactions could be material to our financial condition and results of operations. Although these transactions may provide additional benefits, they may not be profitable immediately or in the long term. Negotiating any such transactions could be time-consuming, difficult and expensive, and our ability to close these transactions may be subject to regulatory or other approvals and other conditions which are beyond our control. Consequently, we can make no assurances that any such transactions, if undertaken and announced, would be completed.

An acquisition, investment or business relationship may result in unforeseen operating difficulties and expenditures. In particular, we may encounter difficulties assimilating or integrating the businesses, technologies, products, personnel or operations of the acquired companies, particularly if the key personnel of the acquired company choose not to be employed by us, and we may have difficulty retaining the customers of any acquired business due to changes in management and ownership. Acquisitions may also disrupt our ongoing business, divert our resources and require significant management attention that would otherwise be available for ongoing development of our business. Moreover, we cannot assure you that the anticipated benefits of any acquisition, investment or business relationship would be realized or that we would not be exposed to unknown liabilities. In connection with any such transaction, we may:

- encounter difficulties retaining key employees of the acquired company or integrating diverse business cultures;

- issue additional equity securities that would dilute the common stock held by existing stockholders;

- incur large charges or substantial liabilities;

- become subject to adverse tax consequences, substantial depreciation or deferred compensation charges;

- use cash that we may need in the future to operate our business;

enter new geographic markets that subject us to different laws and regulations that may have an adverse impact on our business;

experience difficulties effectively utilizing acquired assets; and

incur debt on terms unfavorable to us or that we are unable to repay.

The impact of any one or more of these factors could adversely affect our business or results of operations or cause the price of our common stock to decline substantially.

Future acquisitions or dispositions could also result in dilutive issuances of our equity securities, the incurrence of debt, contingent liabilities, amortization expenses, or write-offs of goodwill, any of which could harm our financial condition. Also, the anticipated benefit of many of our acquisitions may not materialize.

***Concern over spyware and privacy, including any violations of privacy laws, perceived misuse of personal information, or failure to adhere to the privacy commitments that we make, could cause public relations problems and could impair our ability to recruit panelists or maintain panels of sufficient size and scope, which in turn could adversely affect our ability to provide our products.***

Any perception of our practices as an invasion of privacy, whether legal or illegal, may subject us to public criticism. Existing and future privacy laws and increasing sensitivity of consumers to unauthorized disclosures and the collection or use of personal information and online usage information may create negative public reaction related to our business practices. The U.S. Congress and various media sources have expressed

**Table of Contents**

concern over the collection of online usage information from cable providers and telecommunications operators to facilitate targeted Internet advertising, and the collection of online behavioral data generally. A similar concern has been raised by regulatory agencies in the United Kingdom. In addition, U.S. and European lawmakers and regulators have expressed concern over the use of third party cookies or web beacons to understand Internet usage, and the European Commission has issued directives requiring the regulation of cookies throughout the European Union. Such actions may have a chilling effect on businesses that collect or use online usage information generally or substantially increase the cost of maintaining a business that collects or uses online usage information. Additionally, public concern has grown regarding certain kinds of downloadable software known as spyware and adware. These concerns might cause users to refrain from downloading software from the Internet, including our proprietary technology, which could make it difficult to recruit additional panelists or maintain a panel of sufficient size and scope to provide meaningful marketing intelligence. In response to spyware and adware concerns, numerous programs are available, many of which are available for free, that claim to identify and remove spyware and adware from users' computers. Some of these anti-spyware programs have in the past identified, and may in the future identify, our software as spyware or as a potential spyware application. We actively seek to prevent the inclusion of our software on lists of spyware applications or potential spyware applications, to apply best industry practices for obtaining appropriate consent from panelists and protecting the privacy and confidentiality of our panelist data and to comply with existing privacy laws. However, to the extent that we are not successful, and anti-spyware programs classify our software as spyware or as a potential spyware application, or third party service providers fail to comply with our privacy or data security requirements, our brand may be harmed and users may refrain from downloading these programs or may uninstall our software. Any resulting reputational harm, potential claims asserted against us or decrease in the size or scope of our panel could reduce the demand for our products, increase the cost of recruiting panelists and adversely affect our ability to provide our products to our customers. Any of these effects could harm our business.

***Any unauthorized disclosure or theft of private information we gather could harm our business.***

Unauthorized disclosure of personally identifiable information regarding Web site visitors, whether through breach of our secure network by an unauthorized party, employee theft or misuse, or otherwise, could harm our business. If there were an inadvertent disclosure of personally identifiable information, or client confidential information, or if a third party were to gain unauthorized access to the personally identifiable or client confidential information we possess, our operations could be seriously disrupted and we could be subject to claims or litigation arising from damages suffered by panel members or pursuant to the agreements with our customers. In addition, we could incur significant costs in complying with the multitude of state, federal and foreign laws regarding the unauthorized disclosure of personal information. Finally, any perceived or actual unauthorized disclosure of the information we collect could harm our reputation, substantially impair our ability to attract and retain panelists and have an adverse impact on our business.

***The market for digital marketing intelligence is at an early stage of development, and if it does not develop, or develops more slowly than expected, our business will be harmed.***

The market for digital marketing intelligence products is at a relatively early stage of development, and it is uncertain whether these products will achieve high levels of demand and increased market acceptance. Our success will depend to a substantial extent on the willingness of companies to increase their use of such products and to continue use of such products on a long-term basis. Factors that may affect market acceptance include:

the reliability of digital marketing intelligence products;

public concern regarding privacy and data security;

decisions of our customers and potential customers to develop digital marketing intelligence capabilities internally rather than purchasing such products from third-party suppliers like us;

decisions by industry associations in the United States or in other countries that result in association-directed awards, on behalf of their members, of digital measurement contracts to one or a limited number of competitive vendors;

the ability to maintain high levels of customer satisfaction; and

the rate of growth in eCommerce, online advertising and digital media.

The market for our products may not develop further, or may develop more slowly than we expect or may even contract, all of which could adversely affect our business and operating results.

***Because our long-term success depends, in part, on our ability to expand the sales of our products to customers located outside of the United States, our business will become increasingly susceptible to risks associated with international operations.***

During 2009, we acquired a company with a substantial presence in multiple Latin American countries, and in 2010, we acquired a company with a substantial presence in multiple European countries. Despite this acquisition, we otherwise have had limited experience operating in markets outside of the United States. Our inexperience in operating our business outside of the United States may increase the risk that the international expansion efforts we have begun to undertake will not be successful. In addition, conducting international operations subjects us to new risks that we have not generally faced in the United States. These risks include:

**Table of Contents**

recruitment and maintenance of a sufficiently large and representative panel both globally and in certain countries;

expanding the adoption of our server- or census-based web beacon data collection in international countries;

different customer needs and buying behavior than we are accustomed to in the United States;

difficulties and expenses associated with tailoring our products to local markets, including their translation into foreign languages;

difficulties in staffing and managing international operations including complex and costly hiring, disciplinary, and termination requirements;

longer accounts receivable payment cycles and difficulties in collecting accounts receivable;

potentially adverse tax consequences, including the complexities of foreign value-added taxes and restrictions on the repatriation of earnings;

reduced or varied protection for intellectual property rights in some countries;

the burdens of complying with a wide variety of foreign laws and regulations;

fluctuations in currency exchange rates;

increased accounting and reporting burdens and complexities; and

political, social and economic instability abroad, terrorist attacks and security concerns.

Additionally, operating in international markets requires significant management attention and financial resources. We cannot be certain that the investments and additional resources required to establish and maintain operations in other countries will hold their value or produce desired levels of revenues or profitability. We cannot be certain that we will be able to maintain and increase the size of the Internet user panel that we currently have in various countries, that we will be able to recruit a representative sample for our audience measurement products, or that we will be able to enter into arrangements with a sufficient number of website owners to allow us to collect server-based information for inclusion in our digital marketing intelligence products. In addition, there can be no assurance that Internet usage and eCommerce will continue to grow in international markets. In addition, governmental authorities in various countries have different views regarding regulatory oversight of the Internet. For example, the Chinese government has taken steps in the past to restrict the content available to Internet users in China.

The impact of any one or more of these risks could negatively affect or delay our plans to expand our international business and, consequently, our future operating results.

***If the Internet advertising and eCommerce markets develop more slowly than we expect, our business will suffer.***

Our future success will depend on continued growth in the use of the Internet as an advertising medium, a continued increase in eCommerce spending and the proliferation of the Internet as a platform for a wide variety of consumer activities. These markets are evolving rapidly, and it is not certain that their current growth trends will continue.

The adoption of Internet advertising, particularly by advertisers that have historically relied on traditional offline media, requires the acceptance of new approaches to conducting business and a willingness to invest in such new approaches in light of a difficult economic environment. Advertisers may perceive Internet advertising to be less effective than traditional advertising for marketing their products. They may also be unwilling to pay premium rates for online advertising that is targeted at specific segments of users based on their demographic profile or Internet behavior. The online advertising and eCommerce markets may also be adversely affected by privacy issues relating to



such targeted advertising, including that which makes use of personalized information, or online behavioral information. Furthermore, online merchants may not be able to establish online commerce models that are cost effective and may not learn how to effectively compete with other Web sites or offline merchants. In addition, consumers may not continue to shift their spending on goods and services from offline outlets to the Internet. As a result, growth in the use of the Internet for eCommerce may not continue at a rapid rate, or the Internet may not be adopted as a medium of commerce by a broad base of customers or companies worldwide. Moreover, the adoption of advertising through mobile media may slow as a result of uncertain economic conditions or other factors. Because of the foregoing factors, among others, the market for Internet advertising and eCommerce, including commerce through mobile media, may not continue to grow at significant rates. If these markets do not continue to develop, or if they develop more slowly than expected, our business will suffer.

***Our growth depends upon our ability to retain existing large customers and add new large customers; however, to the extent we are not successful in doing so, our ability to maintain profitability and positive cash flow may be impaired.***

Our success depends in part on our ability to sell our products to large customers and on the renewal of the subscriptions of those customers in subsequent years. For the year ended December 31, 2009 and the nine months ended September 30, 2010 we derived approximately 29% of our total revenues from our top 10 customers. Uncertain economic conditions or other factors, such as the failure or consolidation of large client companies, or internal reorganization or changes in focus, may cause certain large customers to terminate or reduce their subscriptions. Moreover, ARS and Nexius, both recently acquired companies, have revenues

**Table of Contents**

highly concentrated in a few large customers. The loss of any one or more of those customers could decrease our revenues and harm our current and future operating results. The addition of new large customers or increases in sales to existing large customers may require particularly long implementation periods and other costs, which may adversely affect our profitability. To compete effectively, we have in the past been, and may in the future be, forced to offer significant discounts to maintain existing customers or acquire other large customers. In addition, we may be forced to reduce or withdraw from our relationships with certain existing customers or refrain from acquiring certain new customers in order to acquire or maintain relationships with important large customers. As a result, new large customers or increased usage of our products by large customers may cause our profits to decline and our ability to sell our products to other customers could be adversely affected.

We derive a significant portion of our revenues from a single customer, Microsoft Corporation. For the year ended December 31, 2009 we derived approximately 12% of our total revenues from Microsoft. For the nine months ended September 30, 2010 we derived approximately 11% of our total revenues from Microsoft. If Microsoft were to cease or substantially reduce its use of our products, our revenues and earnings might decline.

***As our international operations grow, changes in foreign currencies could have an increased effect on our operating results.***

A portion of our revenues and expenses from business operations in foreign countries are derived from transactions denominated in currencies other than the functional currency of our operations in those countries. As such, we have exposure to adverse changes in exchange rates associated with revenues and operating expenses of our foreign operations, but we believe this exposure to be immaterial at this time and do not currently engage in any transactions that hedge foreign currency exchange rate risk. As we grow our international operations, and acquire companies with established business in international regions, our exposure to foreign currency risk could become more significant. During 2009, the value of the U.S. Dollar fluctuated but generally depreciated against the British Pound, the Euro, the Canadian Dollar and other local currencies of international customers. As the U.S. Dollar appreciates relative to the local currencies of our international customers, the cost to the customer for our products and projects correspondingly increase and could result in reductions in sales or renewals, longer sales cycles, difficulties in collection of accounts receivable and increased price competition, any of which could adversely affect our operating results. Likewise, as the U.S. Dollar appreciates, our contracts denominated in foreign currencies also result in reduced revenues. The recent volatility in European financial markets has caused the U.S. Dollar to strengthen against the Euro. If this continues, our revenues and operating results may be adversely impacted.

***Conditions and changes in the national and global economic environment may adversely affect our business and financial results.***

Adverse economic conditions in markets in which we operate can harm our business. If the economies of the United States and other countries continue to experience prolonged uncertainty, customers may delay or reduce their purchases of digital marketing intelligence products and services. Recently, economic conditions in the countries in which we operate and sell products have been negative, and global financial markets have experienced significant volatility stemming from a multitude of factors, including adverse credit conditions impacted by the subprime-mortgage crisis, slower economic activity, concerns about inflation and deflation, decreased consumer confidence, increased unemployment, reduced corporate profits and capital spending, adverse business conditions, liquidity concerns and other factors. Economic growth in the U.S. and in many other countries slowed in the fourth quarter of 2007 and remained slow throughout 2008 and 2009. Notwithstanding certain signs of recovery during early 2010, economic growth may continue to stagnate during 2010 in the U.S. and internationally, particularly in view of recent economic turmoil in Europe. During challenging economic times, and in tight credit markets, many customers have and may continue to delay or reduce spending. Additionally, some of our customers may be unable to fully pay for purchases or may discontinue their businesses, resulting in the incurrence of uncollectible receivables for us. This could result in reductions in our sales, longer sales cycles, difficulties in collection of accounts receivable, slower adoption of new technologies and increased price competition. This downturn may also impact our available resources for financing new and existing operations. If global economic and market conditions, or economic conditions in the United States or other key markets deteriorate, we may experience a material and adverse impact on our business, results of operations and financial condition.

For the first nine months of 2010, our renewal rates for our subscription-based products remained reasonably consistent during this period on a dollar-basis with 2008 and 2009. In addition, we experienced increases in project revenues and renewal rates of smaller customers during the nine month period ended September 30, 2010.

***If we fail to respond to technological developments, our products may become obsolete or less competitive.***

Our future success will depend in part on our ability to modify or enhance our products to meet customer needs, to add functionality and to address technological advancements. For example, if certain handheld devices become the primary mode of receiving content and conducting transactions on the Internet, and we are unable to adapt to collect information from such devices, then we would not be able to report on online activity. To remain competitive, we will need to develop new products that address these evolving technologies and standards across the universe of digital media including television, Internet and mobile usage. However, we may be unsuccessful in identifying new product opportunities or in developing or marketing new products in a timely or cost-effective manner. In addition, our product innovations may not achieve the market penetration or price levels necessary for profitability. If we are unable to develop enhancements to, and new features for, our existing methodologies or products or if we are unable to develop new products that keep pace with rapid technological developments or changing industry standards, our products may become obsolete, less marketable and less competitive, and our business will be harmed.

***The market for digital marketing intelligence is highly competitive, and if we cannot compete effectively, our revenues will decline and our business will be harmed.***

The market for digital marketing intelligence is highly competitive and is evolving rapidly. We compete primarily with providers of digital media intelligence and related analytical products and services. We also compete with providers of marketing services and solutions, with full-service survey providers and with internal solutions developed by customers and potential customers. Our principal competitors include:

**Table of Contents**

large and small companies that provide data and analysis of consumers' digital media behavior, including Compete Inc., Google, Inc., Hitwise Pty. Ltd, Quantcast Corporation, Visible Measures Corporation and The Nielsen Company;

online advertising companies that provide measurement of online ad effectiveness, including Microsoft/Google, ValueClick, Inc. and WPP Group plc;

companies that provide audience ratings for TV, radio and other media that have extended or may extend their current services, particularly in certain international markets, to the measurement of digital media, including Google, Inc., Arbitron Inc., The Nielsen Company and Taylor Nelson Sofres (owned by WPP Group plc);

analytical services companies that provide customers with detailed information of behavior on their own Web sites, including Adobe Systems Incorporated, Coremetrics (an IBM company)Google Inc., and WebTrends Inc.;

full-service market research firms and survey providers that may measure online behavior and attitudes or conduct communications evaluation and testing, including Crowd Science, Inc., Harris Interactive Inc., Ipsos Group, Synnovate, GfK Group, Kantar (owned by WPP Group plc) and The Nielsen Company;

companies that provide behavioral, attitudinal and qualitative advertising effectiveness, including Dynamic Logic, Inc. (a Millward Brown Company), Insight Express, LLC and Marketing Evolution Inc.; and

specialty information providers and enterprise software and analytical service providers for certain industries that we serve, including IMS Health Incorporated (healthcare) and Nielsen Mobile, Inc. (telecommunications); Arantech, Aircom International, International Business Machines, Corp.

Some of our current competitors have longer operating histories, access to larger customer bases and substantially greater resources than we do. As a result, these competitors may be able to devote greater resources to marketing and promotional campaigns, panel retention, panel development or development of systems and technologies than we can. In addition, some of our competitors may adopt more aggressive pricing policies or have started to provide some services at no cost. Furthermore, large software companies, Internet portals and database management companies may enter our market or enhance their current offerings, either by developing competing services or by acquiring our competitors, and could leverage their significant resources and pre-existing relationships with our current and potential customers.

If we are unable to compete successfully against our current and future competitors, we may not be able to retain and acquire customers, and we may consequently experience a decline in revenues, reduced operating margins, loss of market share and diminished value from our products.

***We may encounter difficulties managing our growth and costs, which could adversely affect our results of operations.***

We have experienced significant growth over the past several years in the U.S. and internationally. We have substantially expanded our overall business, customer base, headcount, data collection and processing infrastructure and operating procedures as our business has grown through both organic growth and acquisitions. We increased our total number of full time employees to 926 employees as of September 30, 2010 from 176 employees as of December 31, 2003. As a result of downward adjustments to compensation and reductions in our workforce made during 2009, however, we may encounter decreased employee morale and increased employee turnover. Moreover, as a result of acquisition integration initiatives, we may reduce the workforce of an acquired company or reassign personnel. Such actions may expose us to disruption by dissatisfied employees or employee-related claims, including without limitation, claims by terminated employees that believe they are owed more compensation than we believe these employees are due under our compensation and benefit plans, or claims maintained internationally in jurisdictions whose laws and procedures differ from those in the United States. In addition, during this same period,

we made substantial investments in our network infrastructure operations as a result of our growth and the growth of our panel, and we have also undertaken certain strategic acquisitions. We believe that we will need to continue to effectively manage and expand our organization, operations and facilities in order to accommodate potential future growth or acquisitions and to successfully integrate acquired businesses. If we continue to grow, either organically or through acquired businesses, our current systems and facilities may not be adequate. Our need to effectively manage our operations and cost structure requires that we continue to assess and improve our operational, financial and management controls, reporting systems and procedures. If we are not able to efficiently and effectively manage our cost structure, our business may be impaired.

***Failure to effectively expand our sales and marketing capabilities could harm our ability to increase our customer base and achieve broader market acceptance of our products.***

Increasing our customer base and achieving broader market acceptance of our products will depend to a significant extent on our ability to expand our sales and marketing operations. We expect to continue to rely on our direct sales force to obtain new customers. We may expand or enhance our direct sales force both domestically and internationally. We believe that there is significant competition for direct sales personnel with the sales skills and technical knowledge that we require. Our ability to achieve significant growth in revenues in the future will depend, in large part, on our success in recruiting, training and retaining sufficient numbers of direct sales personnel, and our ability to cross train our existing sales force with the sales forces of acquired businesses so that the sales personnel have the necessary information and ability to sell or develop sales prospects for both our products and the products of recently-acquired companies. In general, new hires require significant training and substantial experience before becoming productive. Our recent hires and planned hires may not become as productive as we require, and we may be unable to hire or retain sufficient numbers of qualified individuals in the future in the markets where we currently operate or where we seek to conduct

**Table of Contents**

business. Our business will be seriously harmed if the efforts to expand our sales and marketing capabilities are not successful or if they do not generate a sufficient increase in revenues.

***If we fail to develop our brand, our business may suffer.***

We believe that building and maintaining awareness of comScore and our portfolio of products in a cost-effective manner is critical to achieving widespread acceptance of our current and future products and is an important element in attracting new customers. We will also need to carefully manage the brands used by recently-acquired businesses as we integrate such businesses into our own. We rely on our relationships with the media and the exposure we receive from numerous citations of our data by media outlets to build brand awareness and credibility among our customers and the marketplace. Furthermore, we believe that brand recognition will become more important for us as competition in our market increases. Our brand's success will depend on the effectiveness of our marketing efforts and on our ability to provide reliable and valuable products to our customers at competitive prices. Our brand marketing activities may not yield increased revenues, and even if they do, any increased revenues may not offset the expenses we incur in attempting to build our brand. If we fail to successfully market our brand, we may fail to attract new customers, retain existing customers or attract media coverage to the extent necessary to realize a sufficient return on our brand-building efforts, and our business and results of operations could suffer.

***We have a limited operating history and may not be able to achieve financial or operational success.***

We were incorporated in 1999 and introduced our first syndicated Internet audience measurement product in 2000. Many of our other products were first introduced during the past few years. Accordingly, we are still in the early stages of development and have only a limited operating history upon which our business can be evaluated. You should evaluate our likelihood of financial and operational success in light of the risks, uncertainties, expenses, delays and difficulties associated with an early-stage business in an evolving market, some of which may be beyond our control, including:

our ability to successfully manage any growth we may achieve in the future;

the risks associated with operating a business in international markets, including Asia, Europe and Latin America; and

our ability to successfully integrate acquired businesses, technologies or services.

***We have a history of significant net losses, may incur significant net losses in the future and may not maintain profitability.***

Although we achieved net income in the 2009 fiscal year of \$4.0 million, we incurred a net loss of \$1.1 million for the nine months ended September 30, 2010. As such we cannot assure you that we will be able to sustain or increase profitability in the future, particularly if we engage in additional acquisition activity. As of September 30, 2010, we had an accumulated deficit of \$52.8 million. Because a large portion of our costs are fixed, we may not be able to reduce or maintain our expenses in response to any decrease in our revenues, which would adversely affect our operating results. In addition, we expect operating expenses to increase as we implement certain growth initiatives, which include, among other things, the development of new products, expansion of our infrastructure, plans for international expansion and general and administrative expenses associated with being a public company. If our revenues do not increase to offset these expected increases in costs and operating expenses, our operating results would be materially and adversely affected. You should not consider our revenue growth in recent periods as indicative of our future performance, as our operating results for future periods are subject to numerous uncertainties.

***We have limited experience with respect to our pricing model, and if the fees we charge for our products are unacceptable to our customers, our revenues and operating results will be harmed.***

We have limited experience in determining the fees that our existing and potential customers will find acceptable for our products, the products of companies that we recently acquired, and any potential products that are developed as a result of the integration of our company with acquired companies. The majority of our customers purchase specifically-tailored subscription packages that are priced in the aggregate. Due to the level of customization of such subscription packages, the pricing of contracts or individual product components of such packages may not be readily comparable across customers or periods. Existing and potential customers may have difficulty assessing the value of

our products and services when comparing it to competing products and services. As the market for our products matures, or as new competitors introduce new products or services that compete with ours, we may be unable to renew our agreements with existing customers or attract new customers with the fees we have historically charged. As a result, it is possible that future competitive dynamics in our market as well as global economic pressures may require us to reduce our fees, which could have an adverse effect on our revenues, profitability and operating results.

***If we are unable to sell additional products to our existing customers or attract new customers, our revenue growth will be adversely affected.***

To increase our revenues, we believe we must sell additional products to existing customers, including existing customers of acquired businesses, and regularly add new customers. If our existing and prospective customers do not perceive our products to be of sufficient value and quality, we may not be able to increase sales to existing customers and attract new customers, or we may have difficulty retaining existing customers, and our operating results will be adversely affected.

***We depend on third parties for data that is critical to our business, and our business could suffer if we cannot continue to obtain data from these suppliers.***

We rely on third-party data sources for information regarding certain digital activities such as television viewing and mobile usage, as well as for information about offline activities of and demographic information regarding our panelists. The availability and accuracy of these data is important to the continuation and development of our cross-media products, -products that use server- or census-based information as part of the

**Table of Contents**

research methodology, and products that link online and offline activity. If this information is not available to us at commercially reasonable terms, or is found to be inaccurate, it could harm our reputation, business and financial performance.

***System failures or delays in the operation of our computer and communications systems may harm our business.***

Our success depends on the efficient and uninterrupted operation of our computer and communications systems and the third-party data centers we use. Our ability to collect and report accurate data may be interrupted by a number of factors, including our inability to access the Internet, the failure of our network or software systems, computer viruses, security breaches or variability in user traffic on customer Web sites. A failure of our network or data gathering procedures could impede the processing of data, cause the corruption or loss of data or prevent the timely delivery of our products.

In the future, we may need to expand our network and systems at a more rapid pace than we have in the past. Our network or systems may not be capable of meeting the demand for increased capacity, or we may incur additional unanticipated expenses to accommodate these capacity demands. In addition, we may lose valuable data, be unable to obtain or provide data on a timely basis or our network may temporarily shut down if we fail to adequately expand or maintain our network capabilities to meet future requirements. Any lapse in our ability to collect or transmit data may decrease the value of our products and prevent us from providing the data requested by our customers. Any disruption in our network processing or loss of Internet user data may damage our reputation and result in the loss of customers, and our business and results of operations could be adversely affected.

***We rely on a small number of third-party service providers to host and deliver our products, and any interruptions or delays in services from these third parties could impair the delivery of our products and harm our business.***

We host our products and serve all of our customers from two third-party data center facilities located in Virginia and Illinois. While we operate our equipment inside these facilities, we do not control the operation of either of these facilities, and, depending on service level requirements, we may not continue to operate or maintain redundant data center facilities for all of our products or for all of our data, which could increase our vulnerability. These facilities are vulnerable to damage or interruption from earthquakes, hurricanes, floods, fires, power loss, telecommunications failures and similar events. They are also subject to break-ins, computer viruses, sabotage, intentional acts of vandalism and other misconduct. A natural disaster or an act of terrorism, a decision to close the facilities without adequate notice or other unanticipated problems could result in lengthy interruptions in availability of our products.

We may also encounter capacity limitations at our third-party data centers. Additionally, our data center facility agreements are of limited durations, and our data center facilities have no obligation to renew their agreements with us on commercially reasonable terms, if at all. Our agreement for our data center facility located in Virginia expires in April 2013, if not renewed, and our agreement for our data center facility located in Illinois expires in July 2011, if not renewed. Although we are not substantially dependent on either data center facility because of planned redundancies, and although we currently are able to migrate to alternative data centers, such a migration may result in an interruption or delay in service. If we are unable to renew our agreements with the owners of the facilities on commercially reasonable terms, or if we migrate to a new data center, we may experience delays in delivering our products until an agreement with another data center facility can be arranged or the migration to a new facility is completed.

We currently leverage a large content delivery network, or CDN, to provide services that allow us to offer a more efficient tagging solution for our Media Metrix 360 product offerings. If that service faced unplanned outage or the service became immediately unavailable, an alternate CDN provider or additional capacity in our data centers would need to be established to support the large volume of tag requests that we currently manage which would either require additional investments in equipment and facilities or a transition plan. This could unexpectedly raise the costs and could contribute the delays or losses in tag data that could affect the quality and reputation of our Media Metrix 360 data products.

Further, we depend on access to the Internet through third-party bandwidth providers to operate our business. If we lose the services of one or more of our bandwidth providers for any reason, we could experience disruption in the delivery of our products or be required to retain the services of a replacement bandwidth provider. It may be difficult for us to replace any lost bandwidth on commercially reasonable terms, or at all, due to the large amount of bandwidth our operations require.



Our operations also rely heavily on the availability of electrical power and cooling capacity, which are also supplied by third-party providers. If we or the third-party data center operators that we use to deliver our products were to experience a major power outage or if the cost of electrical power increases significantly, our operations and profitability would be harmed. If we or the third-party data centers that we use were to experience a major power outage, we would have to rely on back-up generators, which may not function properly, and their supply may be inadequate. Such a power outage could result in the disruption of our business. Additionally, if our current facilities fail to have sufficient cooling capacity or availability of electrical power, we would need to find alternative facilities. Any errors, defects, disruptions or other performance problems with our products caused by third parties could harm our reputation and may damage our business. Interruptions in the availability of our products may reduce our revenues due to increased turnaround time to complete projects, cause us to issue credits to customers, cause customers to terminate their subscription and project agreements or adversely affect our renewal rates. Our business would be harmed if our customers or potential customers believe our products are unreliable.

***The success of our business depends in large part on our ability to protect and enforce our intellectual property rights.***

We rely on a combination of patent, copyright, service mark, trademark and trade secret laws, as well as confidentiality procedures and contractual restrictions, to establish and protect our proprietary rights, all of which provide only limited protection. While we have filed a number of patent applications and own three issued patents, we cannot assure you that any additional patents will be issued with respect to any of our pending or future patent applications, nor can we assure you that any patent issued to us will provide adequate protection, or that any patents issued to us will not be challenged, invalidated, circumvented, or held to be unenforceable in actions against alleged infringers. Also, we cannot assure you that any future trademark or service mark registrations will be issued with respect to pending or future applications or that any of our

**Table of Contents**

registered trademarks and service marks will be enforceable or provide adequate protection of our proprietary rights. Furthermore, adequate (or any) patent, trademark, service mark, copyright and trade secret protection may not be available in every country in which our services are available.

We endeavor to enter into agreements with our employees and contractors and with parties with whom we do business in order to limit access to and disclosure of our proprietary information. We cannot be certain that the steps we have taken will prevent unauthorized use of our technology or the reverse engineering of our technology. Moreover, third parties might independently develop technologies that are competitive to ours or that infringe upon our intellectual property. In addition, the legal standards relating to the validity, enforceability and scope of protection of intellectual property rights in Internet-related industries are uncertain and still evolving, both in the United States and in other countries. The protection of our intellectual property rights may depend on our legal actions against any infringers being successful. We cannot be sure any such actions will be successful.

***An assertion from a third party that we are infringing its intellectual property, whether such assertions are valid or not, could subject us to costly and time-consuming litigation or expensive licenses.***

The Internet, mobile media, software and technology industries are characterized by the existence of a large number of patents, copyrights, trademarks and trade secrets and by frequent litigation based on allegations of infringement or other violations of intellectual property rights, domestically or internationally. As we grow and face increasing competition, the probability that one or more third parties will make intellectual property rights claims against us increases. In such cases, our technologies may be found to infringe on the intellectual property rights of others. Additionally, many of our subscription agreements may require us to indemnify our customers for third-party intellectual property infringement claims, which would increase our costs if we have to defend such claims and may require that we pay damages and provide alternative services if there were an adverse ruling in any such claims. Intellectual property claims could harm our relationships with our customers, deter future customers from subscribing to our products or expose us to litigation. Even if we are not a party to any litigation between a customer and a third party, an adverse outcome in any such litigation could make it more difficult for us to defend against intellectual property claims by the third party in any subsequent litigation in which we are a named party. Any of these results could adversely affect our brand, business and results of operations.

One of our competitors has filed patent infringement lawsuits against others, demonstrating this party's propensity for patent litigation. It is possible that this third party, or some other third party, may bring an action against us, and thus cause us to incur the substantial costs and risks of litigation. Any intellectual property rights claim against us or our customers, with or without merit, could be time-consuming and expensive to litigate or settle and could divert management resources and attention. An adverse determination also could prevent us from offering our products to our customers and may require that we procure or develop substitute products that do not infringe on other parties' rights.

With respect to any intellectual property rights claim against us or our customers, we may have to pay damages or stop using technology found to be in violation of a third party's rights. We may have to seek a license for the technology, which may not be available on reasonable terms or at all, may significantly increase our operating expenses or may significantly restrict our business activities in one or more respects. We may also be required to develop alternative non-infringing technology, which could require significant effort and expense. Any of these outcomes could adversely affect our business and results of operations.

***Domestic or foreign laws, regulations or enforcement actions may limit our ability to collect and use information about Internet users or restrict or prohibit our product offerings, causing a decrease in the value of our products and an adverse impact on the sales of our products.***

Our business could be adversely impacted by existing or future laws or regulations of, or actions by, domestic or foreign regulatory agencies. For example, privacy concerns could lead to legislative, judicial and regulatory limitations on our ability to collect, maintain and use information about Internet users in the United States and abroad. Various state legislatures have enacted legislation designed to protect Internet users' privacy, for example by prohibiting spyware. In recent years, similar legislation has been proposed in other states and at the federal level and has been enacted in foreign countries, most notably by the European Union, which adopted a privacy directive regulating the collection of personally identifiable information online and more recently, restricting the use of cookies

without opt-in consent by the user. Recently, the U.S. Congress and regulators have expressed concern over the collection of Internet usage information as part of a larger initiative to regulate online behavioral advertising. A similar concern has been raised by regulatory agencies in the United Kingdom. In addition, U.S. and European lawmakers and regulators have expressed concern over the use of third party cookies or web beacons to understand Internet usage. These laws and regulations, if drafted or interpreted broadly, could be deemed to apply to the technology we use, and could restrict our information collection methods, and the collection methods of third parties from whom we may obtain data, or decrease the amount and utility of the information that we would be permitted to collect. Even if such laws and regulations are not enacted, lawmakers and regulators may publicly call into question the collection and use of Internet or mobile usage data and may affect vendors and customers' willingness to do business with us. In addition, our ability to conduct business in certain foreign jurisdictions, including China, is restricted by the laws, regulations and agency actions of those jurisdictions. The costs of compliance with, and the other burdens imposed by, these and other laws or regulatory actions may prevent us from selling our products or increase the costs associated with selling our products, and may affect our ability to invest in or jointly develop products in the United States and in foreign jurisdictions.

In addition, failure to comply with these and other laws and regulations may result in, among other things, administrative enforcement actions and fines, class action lawsuits and civil and criminal liability. State attorneys general, governmental and non-governmental entities and private persons may bring legal actions asserting that our methods of collecting, using and distributing Web site visitor information are illegal or improper, which could require us to spend significant time and resources defending these claims. For example, some companies that collect, use and distribute Web site visitor information have been the subject of governmental investigations and class-action lawsuits. Any such regulatory or

**Table of Contents**

civil action that is brought against us, even if unsuccessful, may distract our management's attention, divert our resources, negatively affect our public image or reputation among our panelists and customers and harm our business. The impact of any of these current or future laws or regulations could make it more difficult or expensive to attract or maintain panelists, particularly in affected jurisdictions, and could adversely affect our business and results of operations.

***Laws related to the regulation of the Internet could adversely affect our business.***

Laws and regulations that apply to communications and commerce over the Internet are becoming more prevalent. In particular, the growth and development of the market for eCommerce has prompted calls for more stringent tax, consumer protection and privacy laws in the United States and abroad that may impose additional burdens on companies conducting business online. The adoption, modification or interpretation of laws or regulations relating to the Internet or our customers' digital operations could negatively affect the businesses of our customers and reduce their demand for our products. Even if such laws and regulations are not enacted, lawmakers and regulators may publicly call into question the collection and use of Internet or mobile usage data and may affect vendors and customers' willingness to do business with us.

***If we fail to respond to evolving industry standards, our products may become obsolete or less competitive.***

The market for our products is characterized by rapid technological advances, changes in customer requirements, changes in protocols and evolving industry standards. For example, industry associations such as the Advertising Research Foundation, the Council of American Survey Research Organizations, the Internet Advertising Bureau, or IAB, and the Media Ratings Council have independently initiated efforts to either review online market research methodologies or to develop minimum standards for online market research. In September 2007, we began a full audit to obtain accreditation by the Media Ratings Council. Any standards adopted by U.S or internationally based industry associations may lead to costly changes to our procedures and methodologies. As a result, the cost of developing our digital marketing intelligence products could increase. If we do not adhere to standards prescribed by the IAB or other industry associations, our customers could choose to purchase products from competing companies that meet such standards. Furthermore, industry associations based in countries outside of the United States often endorse certain vendors or methodologies. If our methodologies fail to receive an endorsement from an important industry association located in a foreign country, advertising agencies, media companies and advertisers in that country may not purchase our products. As a result, our efforts to further expand internationally could be adversely affected.

***The success of our business depends on the continued growth of the Internet as a medium for commerce, content, advertising and communications.***

Expansion in the sales of our products depends on the continued acceptance of the Internet as a platform for commerce, content, advertising and communications. The use of the Internet as a medium for commerce, content, advertising and communications could be adversely impacted by delays in the development or adoption of new standards and protocols to handle increased demands of Internet activity, security, reliability, cost, ease-of-use, accessibility and quality-of-service. The performance of the Internet and its acceptance as a medium for commerce, content commerce, content, advertising and communications has been harmed by viruses, worms, and similar malicious programs, and the Internet has experienced a variety of outages and other delays as a result of damage to portions of its infrastructure. If for any reason the Internet does not remain a medium for widespread commerce, content, advertising and communications, the demand for our products would be significantly reduced, which would harm our business.

***We rely on our management team and may need additional personnel to grow our business; the loss of one or more key employees or the inability to attract and retain qualified personnel could harm our business.***

Our success and future growth depends to a significant degree on the skills and continued services of our management team, including our founders, Magid M. Abraham, Ph.D. and Gian M. Fulgoni. Our future success also depends on our ability to retain, attract and motivate highly skilled technical, managerial, marketing and customer service personnel, including members of our management team. All of our employees work for us on an at-will basis. We plan to hire additional personnel in all areas of our business, particularly for our sales, marketing and technology development areas, both domestically and internationally, which will likely increase our recruiting and hiring costs. Competition for these types of personnel is intense, particularly in the Internet and software industries. As a result, we

may be unable to successfully attract or retain qualified personnel. Our inability to retain and attract the necessary personnel could adversely affect our business.

***Changes and instability in the national and global political environments may adversely affect our business and financial results.***

Recent turmoil in the political environment in many parts of the world, including terrorist activities, military actions, and increases in energy costs due to instability in oil-producing regions may continue to put pressure on global economic conditions. If global economic and market conditions, or economic conditions in the United States or other key markets deteriorate, we may experience material impacts on our business, operating results, and financial condition.

***Changes in, or interpretations of, accounting rules and regulations, could result in unfavorable accounting charges or cause us to change our compensation policies.***

Accounting methods and policies, including policies governing revenue recognition, expenses and accounting for stock options are continually subject to review, interpretation, and guidance from relevant accounting authorities, including the Financial Accounting Standards Board, or FASB, and the SEC. Changes to, or interpretations of, accounting methods or policies in the future may require us to reclassify, restate or otherwise change or revise our financial statements, including those contained in Part II, Item 8 of our Annual Report on Form 10-K.

**Table of Contents**

***Investors could lose confidence in our financial reports, and our business and stock price may be adversely affected, if our internal control over financial reporting is found by management or by our independent registered public accounting firm to not be adequate or if we disclose significant existing or potential deficiencies or material weaknesses in those controls.***

Section 404 of the Sarbanes-Oxley Act of 2002 requires us to include a report on our internal control over financial reporting in our Annual Report on Form 10-K. That report includes management's assessment of the effectiveness of our internal control over financial reporting as of the end of the fiscal year. Additionally, our independent registered public accounting firm is required to issue a report on their evaluation of the operating effectiveness of our internal control over financial reporting.

We continue to evaluate our existing internal controls against the standards adopted by the Public Company Accounting Oversight Board, or PCAOB. During the course of our ongoing evaluation of our internal controls, we have in the past identified, and may in the future identify, areas requiring improvement, and may have to design enhanced processes and controls to address issues identified through this review. Remedying any significant deficiencies or material weaknesses that we or our independent registered public accounting firm may identify could require us to incur significant costs and expend significant time and management resources. We cannot assure you that any of the measures we may implement to remedy any such deficiencies will effectively mitigate or remedy such deficiencies. Further, if we are not able to complete the assessment under Section 404 in a timely manner or to remedy any identified material weaknesses, we and our independent registered public accounting firm would be unable to conclude that our internal control over financial reporting is effective at the required reporting deadlines. If our internal control over financial reporting is found by management or by our independent registered public accountant to not be adequate or if we disclose significant existing or potential deficiencies or material weaknesses in those controls, investors could lose confidence in our financial reports, we could be subject to sanctions or investigations by The NASDAQ Global Market, the Securities and Exchange Commission or other regulatory authorities and our stock price could be adversely affected.

A determination that there is a significant deficiency or material weakness in the effectiveness of our internal control over financial reporting could also reduce our ability to obtain financing or could increase the cost of any financing we obtain and require additional expenditures to comply with applicable requirements.

***Our net operating loss carryforwards may expire unutilized or underutilized, which could prevent us from offsetting future taxable income.***

We have previously experienced changes in control that have triggered the limitations of Section 382 of the Internal Revenue Code on a portion of our net operating loss carryforwards. As a result, we may be limited in the amount of net operating loss carryforwards that we can use in the future to offset taxable income for U.S. Federal income tax purposes.

As of September 30, 2010, we estimate our federal and state net operating loss carryforwards for tax purposes are approximately \$51.2 million and \$35.5 million, respectively. These net operating loss carryforwards will begin to expire in 2023 for federal income tax reporting purposes and in 2014 for state income tax reporting purposes.

In addition, at September 30, 2010 we estimate our aggregate net operating loss carryforwards for tax purposes related to our foreign subsidiaries are \$31.0 million, which will begin to expire in 2014.

We periodically assess the likelihood that we will be able to recover our deferred tax assets, principally net operating loss carryforwards. We consider all available evidence, both positive and negative, including historical levels of income, expectations and risks associated with estimates of future taxable income and ongoing prudent and feasible tax planning strategies. As a result of this analysis of all available evidence, both positive and negative, the total valuation allowance against our deferred tax assets increased by \$1.3 million during the nine months ended September 30, 2010, primarily due to estimated tax losses for 2010.

As of September 30, 2010, we had a valuation allowance of \$4.9 million against certain deferred tax assets. The valuation allowance relates to the acquired deferred tax assets of the M:Metrics UK subsidiary, the deferred tax asset related to the value of our auction rate securities, and the deferred tax assets of the foreign subsidiaries that are in their start-up phases, including China, Germany, Hong Kong and certain Certifica and Nedstat entities. Depending on our actual results in the future, there may be sufficient positive evidence to support the conclusion that all or a portion of

our remaining valuation allowance should be further reduced. To the extent we determine that all or a portion of our valuation allowance is no longer necessary, we expect to recognize an income tax benefit in the period such determination is made for the reversal of the valuation allowance. If we determine that, based on the weight of available evidence, it is more-likely-than-not that some portion, or all, of the deferred tax assets will not be realized, we expect to recognize income tax expense in the period such determination is made for the increase in the valuation allowance. These events could have a material impact on our reported results of operations.

***We may require additional capital to support business growth, and this capital may not be available on acceptable terms or at all.***

We intend to continue to make investments to support our business growth and may require additional funds to respond to business challenges, including the need to develop new products or enhance our existing products, enhance our operating infrastructure and acquire complementary businesses and technologies.

Accordingly, we may need to engage in equity or debt financings to secure additional funds. If we raise additional funds through further issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock. Any debt financing secured by us in the future could include restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. In addition, we may not be able to obtain additional financing on terms favorable to us or at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to continue to support our business growth and to respond to business challenges could be significantly limited. In addition, the terms of any additional equity or debt issuances may adversely affect the value and price of our common stock.

**Table of Contents**

Due to the prevailing global economic conditions that largely began in 2008 and continued throughout 2009, many businesses do not have access to the capital markets on acceptable terms. In addition, as a result of this global credit market crisis, conditions for acquisition activities have become very difficult as tight global credit conditions have adversely affected the ability of potential buyers to finance acquisitions. Although these conditions have not immediately affected our current plans, these adverse conditions are not likely to improve significantly in the near future and could have a negative impact on our ability to execute on future strategic activities.

***We face the risk of a decrease in our cash balances and losses in our investment portfolio.***

We hold a large balance of cash, cash equivalents and short-term investments. The ability to achieve our investment objectives is affected by many factors, some of which are beyond our control. We rely on third-party money managers to manage the majority of our investment portfolio in a risk-controlled framework. Our cash is invested in high-quality fixed-income securities and is affected by changes in interest rates. Interest rates are highly sensitive to many factors, including governmental monetary policies and domestic and international economic and political conditions.

The outlook for our investment income is dependent on the future direction of interest rates and the amount of cash flows from operations that are available for investment. Any significant decline in our investment income or the value of our investments as a result of falling interest rates, deterioration in the credit of the securities in which we have invested, decreased liquidity in the market for these investments, or general market conditions, could have an adverse effect on our net income and cash position.

Our investment strategy attempts to manage interest rate risk and limit credit risk. By policy, we only invest in what we view as very high quality debt securities, and our largest holdings are short-term U.S. Government securities. We do not hold any sub-prime mortgages or structured investment vehicles. We do not invest in below investment-grade securities.

***We have invested some of our assets in auction rate securities, which are subject to risks that may cause losses and affect the liquidity of those investments.***

As of September 30, 2010, our principal sources of liquidity consisted of cash, cash equivalents and short-term investments of \$36.2 million. As of September 30, 2010, we held \$2.6 million in long-term investments consisting of four separate auction rate securities with a par value of \$4.3 million. In prior years, we invested in these auction rate securities for short periods of time as part of our investment policy. However, uncertainties in the credit markets have prevented us and other investors in recent periods from liquidating some holdings of auction rate securities. As there were no auctions for these securities during the nine months ended September 30, 2010, we may incur additional losses.

**Risks Related to the Securities Market and Ownership of our Common Stock*****We cannot assure you that a market will continue to develop or exist for our common stock or what the market price of our common stock will be.***

Prior to our initial public offering, which was completed on July 2, 2007, there was no public trading market for our common stock, and we cannot assure you that one will continue to develop or be sustained. If a market does not continue to develop or is not sustained, it may be difficult for you to sell your shares of common stock at an attractive price or at all. We cannot predict the prices at which our common stock will trade.

***The trading price of our common stock may be subject to significant fluctuations and volatility, and our new stockholders may be unable to resell their shares at a profit.***

The stock markets, in general, and the markets for technology stocks in particular, have experienced high levels of volatility. The market for technology stocks has been extremely volatile and frequently reaches levels that bear no relationship to the past or present operating performance of those companies. These broad market fluctuations may adversely affect the trading price of our common stock. In addition, the trading price of our common stock has been subject to significant fluctuations and may continue to fluctuate or decline.

The price of our common stock in the market may be higher or lower than the price you pay, depending on many factors, some of which are beyond our control and may not be related to our operating performance. It is possible that, in future quarters, our operating results may be below the expectations of analysts or investors. As a result of these and other factors, the price of our common stock may decline, possibly materially. These fluctuations could cause you



to lose all or part of your investment in our common stock. Factors that could cause fluctuations in the trading price of our common stock include the following:

price and volume fluctuations in the overall stock market from time to time;

volatility in the market price and trading volume of technology companies and of companies in our industry;

actual or anticipated changes or fluctuations in our operating results;

actual or anticipated changes in expectations regarding our performance by investors or securities analysts;

the failure of securities analysts to cover our common stock after this offering or changes in financial estimates by analysts;

actual or anticipated developments in our competitors' businesses or the competitive landscape;

**Table of Contents**

actual or perceived inaccuracies in, or dissatisfaction with, information we provide to our customers or the media;

litigation involving us, our industry or both;

regulatory developments;

privacy and security concerns, including public perception of our practices as an invasion of privacy;

general economic conditions and trends;

major catastrophic events;

sales of large blocks of our stock;

the timing and success of new product introductions or upgrades by us or our competitors;

changes in our pricing policies or payment terms or those of our competitors;

concerns relating to the security of our network and systems;

our ability to expand our operations, domestically and internationally, and the amount and timing of expenditures related to this expansion; or

departures of key personnel.

In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been brought against that company. If our stock price is volatile, we may become the target of securities litigation, which could result in substantial costs and divert our management's attention and resources from our business. In addition, volatility, lack of positive performance in our stock price or changes to our overall compensation program, including our equity incentive program, may adversely affect our ability to retain key employees.

***If securities or industry analysts do not publish research or reports about our business or if they issue an adverse or misleading opinion regarding our stock, our stock price and trading volume could decline.***

The trading market for our common stock will be influenced by the research and reports that industry or securities analysts publish about us or our business. If any of the analysts who cover us issue an adverse or misleading opinion regarding our stock, our stock price would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

***Future sales of shares by existing stockholders or new issuances of securities by us could cause our stock price to decline.***

If we or our existing stockholders sell, or indicate an intention to sell, substantial amounts of our common stock or other securities in the public market, the trading price of our common stock could decline. Sales of substantial amounts of shares of our common stock or other securities by us or our existing stockholders could lower the market price of our common stock and impair our ability to raise capital through the sale of new securities in the future at a time and price that we deem appropriate.

***We have incurred and will continue to incur increased costs and demands upon management as a result of complying with the laws and regulations affecting a public company, which could adversely affect our operating results.***

As a public company, we have incurred and will continue to incur significant legal, accounting and other expenses that we did not incur as a private company. In addition, the Sarbanes-Oxley Act of 2002, as well as rules implemented

by the Securities and Exchange Commission and The NASDAQ Stock Market, requires certain corporate governance practices for public companies. Our management and other personnel devote a substantial amount of time to public reporting requirements and corporate governance. These rules and regulations have significantly increased our legal and financial compliance costs and made some activities more time-consuming and costly. We also have incurred additional costs associated with our public company reporting requirements. If these costs do not continue to be offset by increased revenues and improved

**Table of Contents**

financial performance, our operating results would be adversely affected. These rules and regulations also make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage if these costs continue to rise. As a result, it may be more difficult for us to attract and retain qualified people to serve on our board of directors or as executive officers.

***Provisions in our certificate of incorporation and bylaws and under Delaware law might discourage, delay or prevent a change of control of our company or changes in our management and, therefore, depress the trading price of our common stock.***

Our certificate of incorporation and bylaws contain provisions that could depress the trading price of our common stock by acting to discourage, delay or prevent a change of control of our company or changes in our management that the stockholders of our company may deem advantageous. These provisions:

provide for a classified board of directors so that not all members of our board of directors are elected at one time;

authorize blank check preferred stock that our board of directors could issue to increase the number of outstanding shares to discourage a takeover attempt;

prohibit stockholder action by written consent, which means that all stockholder actions must be taken at a meeting of our stockholders;

prohibit stockholders from calling a special meeting of our stockholders;

provide that the board of directors is expressly authorized to make, alter or repeal our bylaws; and

provide for advance notice requirements for nominations for elections to our board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings.

Additionally, we are subject to Section 203 of the Delaware General Corporation Law, which prohibits a Delaware corporation from engaging in any of a broad range of business combinations with any interested stockholder for a period of three years following the date on which the stockholder became an interested stockholder and which may discourage, delay or prevent a change of control of our company.

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

**(a) *Unregistered Sales of Equity Securities during the Three Months Ended September 30, 2010***

As previously reported in our Current Report on Form 8-K (file no. 000-1158172), filed July 1, 2010, on July 1, 2010, in connection with our purchase all of the outstanding capital stock of Nexius, Inc. ( Nexius ), we issued a total of 158,070 unregistered shares of comScore common stock as partial consideration for such acquisition. These shares were issued in reliance upon exemptions from the registration requirements of the Securities Act of 1933, as amended (the Securities Act ), provided by (i) Section 4(2) of the Securities Act and (ii) Regulation D promulgated under the rules and regulations of the Securities Act.

As previously reported in our Current Report on Form 8-K (file no. 000-1158172), filed September 1, 2010, on August 31, 2010, in connection with our purchase of all of the outstanding capital stock of Nedstat B.V. ( Nedstat ), we issued a total of 58,045 shares of common stock to two key employee shareholders of Nedstat. These shares were issued pursuant to the terms of Stock Purchase Agreements based on the purchase of such number of shares equal to 30% of such shareholders' respective consideration received in the acquisition of Nedstat by the Company. These shares were issued in reliance upon exemptions from the registration requirements of the Securities Act provided by (i) Section 4(2) of the Securities Act and (ii) Regulation S promulgated under the rules and regulations of the Securities Act.

**(b) *Use of Proceeds from Sale of Registered Equity Securities***

None.

**(c) *Purchases of Equity Securities by the Issuer and Affiliated Purchasers***

During the three months ended September 30, 2010, we repurchased the following shares of common stock in connection with certain restricted stock and restricted stock unit awards issued under our Equity Incentive Plans:

51

---

**Table of Contents**

|                                | <i>Total<br/>Number<br/>of<br/>Shares (or<br/>Units)<br/>Purchased(1)</i> | <i>Average<br/>Price<br/>Per<br/>Share<br/>(or Unit)</i> | <i>Total<br/>Number<br/>of<br/>Shares<br/>(or<br/>Units)<br/>Purchased<br/>as Part<br/>of<br/>Publicly<br/>Announced<br/>Plans of<br/>Programs</i> | <i>Maximum<br/>Number<br/>(or<br/>Approximate<br/>Dollar<br/>Value)<br/>of<br/>Shares<br/>(or Units)<br/>that May<br/>Yet Be<br/>Purchased<br/>Under the<br/>Plans or<br/>Programs</i> |
|--------------------------------|---|--|--|--|
| July 1 July 31, 2010           | 81,902  | \$ 8.62  |  |  |
| August 1 August 31, 2010       | 26,465  | \$ 15.56   |  |  |
| September 1 September 30, 2010 | 239   | \$   |  |  |
| Total                          | 108,606   |  |  |  |

(1) The shares included in the table above were repurchased either in connection with (i) our exercise of the repurchase right afforded to us in connection with certain employee restricted stock awards or (ii) the forfeiture of shares by an employee as payment of the minimum statutory withholding taxes due upon the vesting of certain employee restricted stock and restricted stock unit awards. A detailed breakout of each category follows below.

For the three months ended September 30, 2010, the shares repurchased in connection with our exercise of the repurchase right afforded to us upon the cessation of employment consisted of the following:

|                                | <i>Total<br/>Number of<br/>Shares<br/>Purchased</i> | <i>Average<br/>Price<br/>Per Share</i> |
|--------------------------------|---|--|
| July 1 July 31, 2010           | 44,848  | \$ 0.00                                |
| August 1 August 31, 2010       | 3,612   | \$ 0.00                                |
| September 1 September 30, 2010 | 239   | \$ 0.00                                |
| Total                          | 48,699  |  |

The shares we repurchased in connection with the payment of minimum statutory withholding taxes due upon the vesting of certain restricted stock and restricted stock unit awards were repurchased at the then current fair market

value of the shares. For the three months ended September 30, 2010, these shares consisted of the following:

|                                  | <i><b>Total<br/>Number of<br/>Shares<br/>Purchased</b></i> | <i><b>Average<br/>Price<br/>Per Share</b></i> |
|----------------------------------|--|---|
| July 1 – July 31, 2010           | 37,054   | \$ 19.04                                      |
| August 1 – August 31, 2010       | 22,853   | \$ 18.02                                      |
| September 1 – September 30, 2010 |  | \$  |
| <br>Total                        | <br>59,907   |   |

**Item 3. Defaults Upon Senior Securities**

None

**Item 4. Removed and Reserved**

N/A

**Item 5. Other Information**

None

**Item 6. Exhibits**

The exhibits listed on the Exhibit Index attached hereto are filed or incorporated by reference (as stated therein) as part of this Quarterly Report on Form 10-Q.

**Table of Contents**

**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.

**comScore, Inc.**

/s/ Kenneth J. Tarpey  
Kenneth J. Tarpey  
Chief Financial Officer  
*(Principal Financial Officer and Duly  
Authorized Officer)*

Date: November 9, 2010

53

---



**Table of Contents**

**EXHIBIT INDEX**

| <b>Exhibit<br/>Number</b> | <b>Description</b>   |
|---------------------------|--|
| 2.1                       | Stock Purchase Agreement by and among the Registrant, Nexius, Inc., the Shareholders of Nexius, Inc. and Nabil Taleb, as representative of the Sellers, dated July 1, 2010   |
| 2.2                       | Stock Purchase Agreement by and among the Registrant, CS Worldnet Holdings B.V., Nedstat B.V., the equity holders of Nedstat B.V. and Stichting Sellers Nedstat, as the representative of the Sellers, dated August 31, 2010                     |
| 3.1(1)                    | Amended and Restated Certificate of Incorporation of the Registrant (Exhibit 3.3)  |
| 3.2(1)                    | Amended and Restated Bylaws of the Registrant (Exhibit 3.4)  |
| 31.1                      | Certification of the Chief Executive Officer pursuant to Rule 13a 14(a) and Rule 15d 14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  |
| 31.2                      | Certification of the Chief Financial Officer pursuant to Rule 13a 14(a) and Rule 15d 14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  |
| 32.1                      | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  |
| 32.2                      | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  |
| (1)                       | Incorporated by reference to the exhibits to the Registrant's Registration Statement on Form S-1, as amended, dated June 26, 2007 (No. 333-141740). The number given in parenthesis indicates the corresponding exhibit number in such Form S-1. |