

COMSCORE, INC.
Form 10-Q
November 13, 2008

**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, 2008

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 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. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
o

(Do not check if a 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 12, 2008, there were 29,094,919 shares of the registrant's common stock outstanding.

comScore, Inc.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2008
TABLE OF CONTENTS

| | |
|---|----|
| PART I. FINANCIAL INFORMATION | 4 |
| Item 1. Financial Statements | 4 |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 27 |
| Item 3. Quantitative and Qualitative Disclosure about Market Risk | 41 |
| Item 4. Controls and Procedures | 42 |
| PART II. OTHER INFORMATION | 43 |
| Item 1. Legal Proceedings | 43 |
| Item 1A. Risk Factors | 43 |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds | 68 |
| Item 3. Defaults Upon Senior Securities | 70 |
| Item 4. Submission of Matters to a Vote of Security Holders | 70 |
| Item 5. Other Information | 70 |
| Item 6. Exhibits | 70 |
| SIGNATURES | 71 |
| EXHIBIT INDEX | 72 |

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 within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. 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, plans for growth and future operations, acquisitions of new 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 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 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.

PART I. FINANCIAL INFORMATION**Item 1. Financial Statements****COMSCORE, INC.
CONSOLIDATED BALANCE SHEETS**

| | September 30, 2008 (Unaudited) | December 31, 2007 |
|---|--|----------------------------------|
| | (In thousands, except share and per share data) | |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 39,891 | \$ 68,368 |
| Short-term investments | 27,713 | 28,449 |
| Accounts receivable, net of allowances of \$516 and \$234, respectively | 25,006 | 23,446 |
| Prepaid expenses and other current assets | 2,456 | 1,620 |
| Restricted cash | | 1,385 |
| Deferred tax asset | 773 | 176 |
| | | |
| Total current assets | 95,839 | 123,444 |
| Long-term investments | 6,411 | 7,924 |
| Property and equipment, net | 17,298 | 6,867 |
| Other non-current assets | 144 | 168 |
| Long-term deferred tax asset | 3,446 | 7,888 |
| Intangible assets, net | 9,702 | 17 |
| Goodwill | 42,686 | 1,364 |
| | | |
| Total assets | \$ 175,526 | \$ 147,672 |
| | | |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 1,021 | \$ 1,140 |
| Accrued expenses | 9,482 | 6,838 |
| Deferred revenues | 40,485 | 33,045 |
| Deferred rent | 957 | 154 |
| Capital lease obligations | 1,062 | 900 |
| | | |
| Total current liabilities | 53,007 | 42,077 |
| | | |
| Capital lease obligations, long-term | 252 | 977 |
| Deferred rent, long-term | 8,709 | 181 |
| Deferred revenues, long-term | 47 | |

| | | |
|---|------------|------------|
| Total liabilities | 62,015 | 43,235 |
| Commitments and contingencies | | |
| Common stock subject to put; no shares and 135,635 shares issued and outstanding at September 30, 2008 and December 31, 2007, respectively | | 1,815 |
| Stockholders' equity: | | |
| Preferred stock, \$0.001 par value per share; 5,000,000 shares authorized at September 30, 2008 and December 31, 2007; no shares issued or outstanding at September 30, 2008 and December 31, 2007 | | |
| Common stock, \$0.001 par value per share; 100,000,000 shares authorized at September 30, 2008 and December 31, 2007; 28,907,591 and 27,960,573 shares issued and outstanding at September 30, 2008 and December 31, 2007, respectively | 29 | 28 |
| Treasury stock, 159,549 and 24,677 shares at cost at September 30, 2008 and December 31, 2007, respectively | (1,238) | |
| Additional paid-in capital | 190,729 | 183,433 |
| Accumulated other comprehensive income | 14 | 1 |
| Accumulated deficit | (76,023) | (80,840) |
| Total stockholders' equity | 113,511 | 102,622 |
| Total liabilities and stockholders' equity | \$ 175,526 | \$ 147,672 |

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

COMSCORE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

| | Three Months Ended | | Nine Months Ended | |
|---|---|------------------|--------------------------|------------------|
| | September 30, | | September 30, | |
| | 2008 | 2007 | 2008 | 2007 |
| | (Unaudited) | | | |
| | (In thousands, except share and per share data) | | | |
| Revenues | \$ 30,661 | \$ 22,389 | \$ 85,781 | \$ 61,879 |
| Cost of revenues (excludes amortization of intangible assets resulting from acquisitions shown below) (1) | 9,412 | 5,942 | 24,286 | 17,330 |
| Selling and marketing (1) | 10,659 | 7,390 | 29,120 | 20,524 |
| Research and development (1) | 4,131 | 3,018 | 10,838 | 8,387 |
| General and administrative (1) | 4,266 | 3,059 | 12,596 | 7,994 |
| Amortization of intangible assets resulting from acquisitions | 346 | 211 | 475 | 797 |
| Total expenses from operations | 28,814 | 19,620 | 77,315 | 55,032 |
| Income from operations | 1,847 | 2,769 | 8,466 | 6,847 |
| Interest income, net | 267 | 1,180 | 1,578 | 1,421 |
| Gain (loss) from foreign currency | 123 | (111) | (18) | (321) |
| Impairment of marketable securities | (455) | | (841) | |
| Revaluation of preferred stock warrant liabilities | | 82 | | (1,195) |
| Income before income taxes | 1,782 | 3,920 | 9,185 | 6,752 |
| Provision for income taxes | (1,207) | (129) | (4,368) | (181) |
| Net income | 575 | 3,791 | 4,817 | 6,571 |
| Accretion of redeemable preferred stock | | (21) | | (1,829) |
| Net income available to common stockholders | \$ 575 | \$ 3,770 | \$ 4,817 | \$ 4,742 |
| Net income available to common stockholders per common share: | | | | |
| Basic | \$ 0.02 | \$ 0.13 | \$ 0.17 | \$ 0.29 |

| | | | | | | | | |
|---|----|------------|----|------------|----|------------|----|------------|
| Diluted | \$ | 0.02 | \$ | 0.12 | \$ | 0.16 | \$ | 0.25 |
| Weighted-average number of shares used in per share calculation common stock: | | | | | | | | |
| Basic | | 28,878,494 | | 27,248,379 | | 28,576,651 | | 12,211,143 |
| Diluted | | 30,389,519 | | 29,545,321 | | 30,215,920 | | 14,326,891 |
| Net income available to common stockholders per common share subject to put: | | | | | | | | |
| Basic | \$ | | \$ | 0.19 | \$ | 0.17 | \$ | 0.55 |
| Diluted | \$ | | \$ | 0.18 | \$ | 0.16 | \$ | 0.51 |
| Weighted-average number of shares used in per share calculation common share subject to put: | | | | | | | | |
| Basic | | | | 347,635 | | 46,037 | | 347,635 |
| Diluted | | | | 347,635 | | 46,037 | | 347,635 |

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

| | | | | | | | | |
|--|-----------|------------|-----------|--------------|-----------|--------------|-----------|--------------|
| Cost of revenues | \$ | 265 | \$ | 76 | \$ | 610 | \$ | 145 |
| Selling and marketing | | 797 | | 298 | | 1,823 | | 509 |
| Research and development | | 225 | | 67 | | 507 | | 128 |
| General and administrative | | 617 | | 264 | | 1,697 | | 501 |
| Comprehensive income: | | | | | | | | |
| Net income | \$ | 575 | \$ | 3,791 | \$ | 4,817 | \$ | 6,571 |
| Other comprehensive income: | | | | | | | | |
| Foreign currency cumulative translation adjustment | | (207) | | 168 | | (256) | | 271 |
| Unrealized gain (loss) on marketable securities | | 371 | | 8 | | 270 | | 8 |
| Total comprehensive income | \$ | 739 | \$ | 3,967 | \$ | 4,831 | \$ | 6,850 |

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

COMSCORE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Nine Months Ended | |
|---|--------------------------|--------------|
| | September 30, | |
| | 2008 | 2007 |
| | (Unaudited) | |
| | (In thousands) | |
| Operating activities: | | |
| Net Income | \$ 4,817 | \$ 6,571 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 3,596 | 2,770 |
| Amortization of intangible assets resulting from acquisitions | 472 | 797 |
| Provision for bad debts and sales allowances | 379 | 81 |
| Stock based compensation | 4,642 | 1,283 |
| Deferred rent | (70) | |
| Revaluation of preferred stock warrant liability | | 1,195 |
| Amortization of deferred finance costs | | 7 |
| Deferred tax provision (benefit) | 3,845 | (58) |
| Impairment of marketable securities | 841 | |
| Changes in operating assets and liabilities, net of effect of acquisition: | | |
| Accounts receivable | (518) | (5,096) |
| Prepaid expenses and other current assets | (298) | (381) |
| Other non-current assets | 105 | 218 |
| Accounts Payable, accrued expenses and other liabilities | (1,558) | 1,431 |
| Deferred revenues | 2,618 | 5,830 |
| Deferred rent | 9,366 | |
| Net cash provided by operating activities | 28,237 | 14,648 |
| Investing activities: | | |
| Acquisition, net of cash acquired | (44,543) | |
| Recovery (payment) of restricted cash | 1,385 | (268) |
| Purchase of investments | (71,844) | (37,976) |
| Sales and maturities of investments | 73,522 | 21,400 |
| Purchases of property and equipment | (13,587) | (2,702) |
| Net cash used in investing activities | (55,067) | (19,546) |
| Financing activities: | | |
| Proceeds from exercise of common stock options and warrants | 879 | 780 |
| Proceeds from the issuance of common stock, net of offering costs | | 73,116 |
| Repurchase of common stock | (1,238) | |
| Principal payments on capital lease obligations | (669) | (1,896) |

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

| | | |
|--|-----------|-----------|
| Net cash (used in) provided by financing activities | (1,028) | 72,000 |
| Effect of the exchange rate changes on cash | (619) | 484 |
| Net (decrease) increase in cash and cash equivalents | (28,477) | 67,586 |
| Cash and cash equivalents at beginning of period | 68,368 | 5,032 |
| Cash and cash equivalents at end of period | \$ 39,891 | \$ 72,618 |

Supplemental cash flow disclosures:

| | | |
|------------------------------|----|----------|
| Accretion of preferred stock | \$ | \$ 1,829 |
|------------------------------|----|----------|

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

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. 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.

On July 2, 2007, the Company completed its initial public offering (the IPO) of common stock in which the Company issued and sold 5,000,000 shares of its common stock at an issuance price of \$16.50 per share. In addition, selling stockholders, including officers and directors of the Company or entities affiliated therewith, sold an aggregate of 1,095,000 shares of common stock, which amount included the exercise of the underwriters' over-allotment option in the IPO. The Company raised a total of \$82,500,000 in gross proceeds from the IPO, or approximately \$73,116,000 in net proceeds after deducting underwriting discounts and commissions of \$5,775,000 and offering costs of \$3,609,000. The Company did not receive any proceeds from the sale of shares in the IPO by the selling stockholders. Upon the closing of the IPO, all shares of convertible preferred stock then outstanding automatically converted into 17,257,362 shares of common stock, and all preferred stock warrants converted into common stock warrants.

In connection with the IPO, the Company's Board of Directors and stockholders approved a 1-for-5 reverse stock split of the then outstanding common stock and convertible preferred stock effective June 21, 2007. All share and per share amounts contained in these consolidated financial statements have been retroactively adjusted to reflect the reverse stock split.

On May 28, 2008, the Company acquired the outstanding stock of M:Metrics, Inc., a provider of marketing and media intelligence for the mobile medium in the United States and internationally, to expand its abilities to provide its customers a more robust solution for the mobile medium.

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 as defined by Accounting Research Bulletin (ARB) No. 51, *Consolidated Financial Statements*, as amended by Statement of Financial Accounting Standards (SFAS) No. 94, *Consolidation of all Majority-Owned Subsidiaries*. 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, as defined by Financial Accounting Standards Board (FASB) Interpretation No. 46, *Consolidation of 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.

COMSCORE, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Unaudited Interim Financial Information

The condensed 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 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 condensed 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 condensed 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, 2007 filed March 11, 2008 with the Securities and Exchange Commission. The results of operations for the three and nine months ended September 30, 2008 are not necessarily indicative of the results to be anticipated for the entire year ending December 31, 2008 or thereafter. All references to September 30, 2008 and 2007 or to the three and nine months ended September 30, 2008 and 2007 in the notes to the consolidated financial statements are unaudited.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates.

COMSCORE, INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)*****Fair Value Measurements***

As of January 1, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 clarifies that 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, SFAS No. 157 establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value as follows: 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 or broker or dealer quotations. Level 3 instruments are valued using a discounted cash flow 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. The types of instruments valued based on quoted market prices in active markets include most 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 generally classified within Level 3 of the fair value hierarchy (see Note 4).

Cash and Cash Equivalents, Investments, and Restricted Cash

Cash and cash equivalents consist of highly liquid investments with an original maturity of three months or less as of the balance sheet date. Cash and cash equivalents consist primarily of bank deposit accounts, certificates of deposit and U.S. treasury bills.

Investments, which consist principally of U.S. treasury notes and auction rate securities, are stated at fair market value. These securities are accounted for as available-for-sale securities in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. Realized gains and losses on available-for-sale securities are included in interest income. Declines in value judged to be other-than-temporary, if any, on available-for-sale securities are included in impairment of marketable securities. 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.

The Company periodically evaluates whether any declines in the fair value of investments are other-than-temporary. This evaluation consists of a review of several factors, including but not limited to: the length of time and extent that a security has been in an unrealized loss position; the near-term prospects for recovery of the market value of a security; and the intent and ability of the Company to hold the security until the market value recovers. Declines in value below cost for investments where it is considered probable that all contractual terms of the investment will be satisfied, due primarily to changes in market demand, and not because of increased credit risk, and where the Company intends and has the ability to hold the investment for a period of time sufficient to allow a market recovery, are not assumed to be other-than-temporary.

Interest income on investments was \$295,000 and \$1.3 million for the three months ended September 30, 2008 and 2007, respectively, and \$1.7 million for the nine months ended September 30, 2008 and 2007.

COMSCORE, INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)*****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 collectibility 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, while maintenance and repairs are charged to expense as incurred. Amortization of assets under capital leases is included within the expense category on the Statement of Operations in which the asset is deployed.

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 replacement cost, income and market approaches. The replacement cost approach is based on determining the discrete cost of replacing or reproducing a specific asset. 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 market approach compares the acquired asset to similar assets that have been sold.

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

| | Useful Lives (Years) |
|-----------------------------------|---------------------------------|
| Acquired methodologies/technology | 5 to 7 |
| Customer relationships | 7 |
| Patent | 7 |
| Intellectual property | 10 |

COMSCORE, INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)*****Impairment of Long-Lived Assets***

Long-lived assets, including property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount should be evaluated pursuant to SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144). Pursuant to SFAS 144, impairment is determined by comparing the carrying value of these long-lived assets to an estimate of the future undiscounted cash flows expected to result from the use of the assets and eventual disposition. In the event an impairment exists, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the asset, which is generally determined by using quoted market prices or valuation techniques such as the discounted present value of expected future cash flows, appraisals, or other pricing models as appropriate. There were no impairment charges recognized during the three and nine months ended September 30, 2008 and 2007. In the event that there are changes in the planned use of the Company's long-term assets or its expected future undiscounted cash flows are reduced significantly, the Company's assessment of its ability to recover the carrying value of these assets could change.

Foreign Currency Translation

The Company applies SFAS No. 52, *Foreign Currency Translation*, with respect to its international operations. 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 included as a component of other comprehensive income. The Company incurred a foreign currency transaction gain of \$123,000 for the three months ended September 30, 2008 and a loss of \$111,000 for the three months ended September 30, 2007. For the nine months ended September 30, 2008 and 2007, the Company incurred foreign currency transaction losses of \$18,000 and \$321,000, respectively. These losses primarily related to U.S. Dollar and Euro denominated transactions within the Company's foreign subsidiaries.

Revenue Recognition

The Company recognizes revenues in accordance with Securities and Exchange Commission Staff Accounting Bulletin (SAB) No. 104, *Revenue Recognition* (SAB 104). SAB 104 requires that four basic criteria must be met prior to revenue recognition: (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. These arrangements are accounted for in accordance with Emerging Issues Task Force (EITF) Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables*. 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 service delivered.

COMSCORE, INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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.

Stock-Based Compensation

The Company accounts for share-based compensation expense in accordance with SFAS No. 123 (revised 2005), *Share-Based Payment* (SFAS 123R). SFAS 123R requires the measurement and recognition of compensation expense for share-based awards based on the estimated fair value on the date of the grant. The Company estimates the fair value of each option award on the date of the grant using the Black-Scholes option-pricing model. This model is affected by the Company's stock price as well as estimates regarding a number of variables including expected stock price volatility over the term of the award and projected employee stock option exercise behaviors. The fair value of the restricted stock awards is determined based on the quoted market price of the Company's common stock on the grant date. For stock-based awards subject to graded vesting, the Company has utilized the straight-line ratable method for allocating compensation cost by period. In accordance with SFAS 123R, the Company recorded stock-based compensation expense of \$1.9 million and \$705,000 for the three months ended September 30, 2008 and 2007, respectively, and \$4.6 million and \$1.3 million for the nine months ended September 30, 2008 and 2007, respectively.

Income Taxes

Income taxes are accounted for using the liability method in accordance with SFAS No. 109, *Accounting for Income Taxes*. 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.

FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, an interpretation of SFAS No. 109, clarifies the accounting for income taxes by prescribing that a company should use a more-likely-than-not recognition threshold based on the technical merits of the tax position taken. Tax provisions that meet the more-likely-than-not recognition threshold should be measured as the largest amount of tax benefits, determined on a cumulative probability basis, which is more likely than not to be realized upon ultimate settlement in the financial statements. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting for interim periods, disclosure and transition, and explicitly excludes income taxes from the scope of SFAS No. 5, *Accounting for Contingencies*. As of September 30, 2008 and December 31, 2007, the Company had unrecognized tax benefits of \$71,000 on a tax effected basis, all of which would affect the Company's tax rate if recognized.

COMSCORE, INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)*****Earnings Per Share***

The Company computes earnings per share in accordance with the provisions of SFAS No. 128, *Earnings Per Share* (SFAS 128). The Company has issued shares of common stock in connection with business acquisitions that give the holders the right to require the Company to repurchase the shares at a fixed price at a specified future date (Common Stock Subject to Put). The difference between the fair value of the shares of Common Stock Subject to Put on the issuance date and the price at which the Company may be required to repurchase those shares is being accreted over the period from issuance to the first date at which the Company could be required to repurchase the shares as a dividend to the holders. EITF Topic D-98, *Classification and Measurement of Redeemable Securities* (EITF D-98) states that when a common shareholder has a contractual right to receive, at share redemption, an amount that is other than fair value, such shareholder has received, in substance, a preferential distribution. Under SFAS 128, entities with capital structures that include classes of common stock with different dividend rates are required to apply the two-class method of calculating earnings per share. Accordingly, the Company calculates earnings per share for its common stock and its Common Stock Subject to Put using a method akin to the two-class method under SFAS 128.

In addition, the Company's series of convertible redeemable preferred stock that were outstanding until their automatic conversion upon the completion of the IPO on July 2, 2007 were considered participating securities as they were entitled to an 8% noncumulative preferential dividend before any dividends could be paid to common stockholders. The Company includes its participating preferred stock in the computation of earnings per share using the two-class method in accordance with EITF 03-06, *Participating Securities and the Two Class Method under FASB Statement No. 128* (EITF 03-06).

The two-class computation method for each period allocates the undistributed earnings or losses to each participating security based on their respective rights to receive dividends. In addition to undistributed earnings or losses, the accretion to their redemption or put prices is also allocated to the Common Stock Subject to Put and the convertible redeemable preferred stock. Prior to conversion of the redeemable preferred stock, in periods of undistributed losses, all losses were allocated to common stock in accordance with EITF 03-06 as the holders of Common Stock Subject to Put and participating preferred stock were not required to fund losses nor were their redemption or put prices reduced as a result of losses incurred. In periods of undistributed income, income was first allocated to the participating preferred stock for their preferential dividend, \$7.1 million per annum as of July 2, 2007, the date of the conversion of the Company's participating preferred stock upon the closing of its IPO. Any undistributed earnings remaining were then allocated to holders of common stock, Common Stock Subject to Put and preferred stock (assuming conversion) on a pro rata basis. The total earnings or losses allocated to each class of common stock were then divided by the weighted-average number of shares outstanding for each class of common stock to determine basic earnings per share. EITF 03-06 does not require the presentation of basic and diluted earnings per share for securities other than common stock; therefore, earnings per share is only computed for the Company's common stock.

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. For the period prior to conversion, diluted earnings per share does not assume the conversion of the Company's convertible preferred stock using the if-converted method as the result is anti-dilutive. No potentially dilutive securities are convertible or exercisable into shares of Common Stock Subject to Put.

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.

| Three Months Ended | | Nine Months Ended | |
|---------------------------|-------------|--------------------------|-------------|
| September 30, | | September 30, | |
| 2008 | 2007 | 2008 | 2007 |

(Unaudited)

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

| | | | | |
|--|--------|-------|--------|------------|
| Stock options and restricted stock units | 93,141 | | 52,432 | 2,739 |
| Convertible preferred stock warrants | | | | |
| Common stock warrants | 2,000 | 2,000 | 2,000 | 2,000 |
| Convertible preferred stock | | | | 11,504,908 |
| | 13 | | | |

COMSCORE, INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

The following table sets forth the computation of basic and diluted EPS:

| | Three Months Ended | | Nine Months Ended | |
|---|--|-------------|--------------------------|-------------|
| | September 30, | | September 30, | |
| | 2008 | 2007 | 2008 | 2007 |
| | (Unaudited) | | | |
| | (In thousands, except share and per share data) | | | |
| Calculation of basic and diluted net income per share two class method: | | | | |
| Net Income | \$ 575 | \$ 3,791 | \$ 4,817 | \$ 6,571 |
| Accretion of redeemable preferred stock | | (21) | | (1,829) |
| Accretion of common stock subject to put | | (22) | | (90) |
| Undistributed earnings | 575 | 3,748 | 4,817 | 4,652 |
| Allocation of undistributed earnings: | | | | |
| Common stock | 575 | 3,626 | 4,817 | 3,626 |
| Preferred stock | | 122 | | 1,026 |
| Total allocated earnings | \$ 575 | \$ 3,748 | \$ 4,817 | \$ 4,652 |
| Net income attributable to common stockholders per common share: | | | | |
| Basic | \$ 0.02 | \$ 0.13 | \$ 0.17 | \$ 0.29 |
| Diluted | \$ 0.02 | \$ 0.12 | \$ 0.16 | \$ 0.25 |
| Weighted average shares outstanding common stock: | | | | |
| Basic | 28,878,494 | 27,248,379 | 28,576,651 | 12,211,143 |
| Diluted | 30,389,519 | 29,545,321 | 30,215,920 | 14,326,891 |
| Net income attributable to common stockholders per common share subject to put: | | | | |
| Basic | \$ | \$ 0.19 | \$ 0.17 | \$ 0.55 |
| Diluted | \$ | \$ 0.18 | \$ 0.16 | \$ 0.51 |
| Weighted average shares outstanding common stock subject to put | | | | |
| Basic | | 347,635 | 46,037 | 347,635 |
| Diluted | | 347,635 | 46,037 | 347,635 |

Recent Pronouncements

In October 2008, the FASB issued FSP No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active* (FSP No. 157-3). FSP No. 157-3 clarifies the application of SFAS No. 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. The provisions of FSP No. 157-3 were effective upon issuance and for financial statements not yet reported. The adoption of FSP No. 157-3 did not have a material impact on our consolidated financial statements.

In December 2007, the SEC staff issued Staff Accounting Bulletin No. 110 (SAB 110), which expresses the views of the SEC staff regarding the use of a simplified method in developing an estimate of expected term of plain vanilla share options in accordance with SFAS 123R. The use of the simplified method, which was first described in Staff Accounting Bulletin No. 107, was scheduled to expire on December 31, 2007. SAB 110 extends the use of the simplified method for plain vanilla awards in certain situations. The SEC staff does not expect the simplified method to be used when sufficient information regarding exercise behavior, such as historical exercise data or exercise information from external sources, becomes available. SAB 110 is effective January 1, 2008. The adoption of SAB 110 did not have a material impact on our consolidated results of operations or financial position.

In December 2007, the FASB issued SFAS No. 141 (revised), *Business Combinations* (SFAS 141(R)), which is intended to improve reporting by creating greater consistency in the accounting and financial reporting of business combinations. SFAS 141(R) requires that the acquiring entity in a business combination recognize all (and only) the assets and liabilities assumed in the transaction, establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed, and requires the acquirer to disclose to investors and other users all of the information that they need to evaluate and understand the nature and financial effect of the business combination. In addition, SFAS 141(R) modifies the accounting for transaction and restructuring costs. SFAS 141(R) is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008.

COMSCORE, INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements - an amendment of Accounting Research Bulletin No. 51* (SFAS No. 160). SFAS No. 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of the consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest, and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS No. 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating the potential impact of adopting the provisions of SFAS No. 160 on its consolidated results of operations and financial position.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159), to permit all entities to choose to elect, at specified election dates, to measure eligible financial instruments and certain other items at fair value. An entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date, and recognize upfront costs and fees related to those items in earnings as incurred and not deferred. If elected, SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company adopted SFAS No. 159 on January 1, 2008; however, the Company has not expanded its eligible items subject to the fair value option under SFAS No.159.

3. Acquisition

On May 28, 2008, comScore completed its merger with M:Metrics, Inc. (M:Metrics), a provider of marketing and media intelligence for the mobile medium in the United States and internationally, pursuant to the Agreement and Plan of Merger dated May 28, 2008, (the Merger). The total preliminary purchase price of \$46.0 million is comprised of \$44.3 million in cash consideration, \$1.2 million in expenses paid on M:Metrics' behalf and the estimated acquisition related transaction costs of approximately \$459,000. Acquisition-related transaction costs include legal and accounting fees, and other external costs directly related to the Merger. In connection with the Merger, the Company exchanged the unvested options for M:Metrics common stock for options for the purchase of 51,908 shares of comScore common stock. In addition, \$5.0 million of comScore restricted common stock was reserved for issuance pursuant to the Merger and \$4.72 million was issued to certain former M:Metrics employees that continued as employees of comScore as of June 30, 2008. The estimated fair value of these options and restricted stock will be recognized as compensation expense for post merger services. The Company has included the financial results of M:Metrics in its consolidated financial statements since the date of acquisition.

COMSCORE, INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

The Company believes the Merger with M:Metrics supports the Company's long-term strategic direction and that the demands in the digital marketing intelligence industry continue to accelerate at a rapid pace as advertising moves to new digital mediums. In evaluating the acquisition of M:Metrics, the Company focused primarily on the business's revenues and customer base, the strategic fit of the business's product line with the Company's existing product offerings, and opportunities for cost reductions and other synergies, rather than on the business's tangible or intangible assets, such as its property and equipment. As a result, the fair value of the acquired assets corresponds to a relatively smaller portion of the acquisition price, with the Company recording a substantial amount of goodwill associated with the acquisition.

The Merger was accounted for under the purchase method of accounting in accordance with SFAS No. 141, *Business Combinations* (SFAS 141). Assets acquired and liabilities assumed were recorded at their estimated fair values as of May 28, 2008. Under the purchase method of accounting, the total estimated purchase price is allocated to M:Metrics net tangible and intangible assets based on their estimated fair values as of May 28, 2008, the effective date of the Merger. The preliminary estimated purchase price as shown in the table below was based on management's preliminary valuation, which was based on estimates and assumptions that are subject to change. We may continue to adjust the preliminary purchase price allocation after obtaining more information about assets and liabilities assumed. The preliminary purchase price is allocated as follows (in thousands):

| | |
|---|-----------|
| Cash and cash equivalents | \$ 1,554 |
| Accounts receivable | 2,080 |
| Prepaid expenses and other current assets | 245 |
| Property and equipment | 464 |
| Other long term assets | 85 |
| Accounts payable | (865) |
| Other accrued liabilities | (3,428) |
| Deferred revenue | (5,473) |
| Other long-term liabilities | (145) |
| | |
| Net tangible liabilities to be acquired | (5,483) |
| Definite-lived intangible assets acquired | 10,160 |
| Goodwill | 41,322 |
| | |
| Total estimated purchase price | \$ 45,999 |

Included in the preliminary purchase price allocation are \$6.3 million of deferred tax assets and \$3.7 million in deferred tax liabilities, offset by a full valuation allowance of \$2.6 million.

Of the total estimated purchase price, a preliminary estimate of \$5.5 million has been allocated to net tangible liabilities to be acquired, and \$10.2 million has been allocated to definite-lived intangible assets acquired. Definite-lived intangible assets of \$10.2 million consist of the value assigned to M:Metrics customer relationships of \$3.2 million, intellectual property \$2.6 million, developed and core technology of \$2.5 million and panel \$1.9 million. The useful lives range from five to ten years (see Note 2). Goodwill represents the excess of the purchase price of an acquired business over the fair value of the net tangible and intangible assets acquired. Goodwill is not deductible for tax purposes.

COMSCORE, INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

In connection with the preliminary purchase price allocation, the estimated fair value of the deferred revenue assumed from M:Metrics in connection with the Merger 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.

The unaudited financial information provided below summarizes the combined results of operations of comScore and M:Metrics on a pro forma basis, as though the companies had been combined as of the beginning of the periods presented. 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. The pro forma financial information for all periods includes adjustments to include amortization expense from acquired intangibles, adjustments to interest income, the elimination of depreciation from acquired internally developed software and related tax effects.

The unaudited historical financial information of comScore for the periods beginning after May 28, 2008 includes the results of the consolidated companies. The unaudited pro forma financial information for the nine months ended September 30, 2008 combines the historical results for comScore for the nine months ended September 30, 2008 and the historical results for M:Metrics for the five months ended May 28, 2008. The unaudited pro forma financial information for the three and nine months ended September 30, 2007 combines the historical results for comScore for the three and nine months ended September 30, 2007 and the historical results for M:Metrics for the same period.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---------------------------------------|-----------|------------------------------------|------------|
| | 2008 | 2007 | 2008 | 2007 |
| | (Unaudited) | | | |
| | (In thousands, except per share data) | | | |
| Revenues | \$ 30,661 | \$ 24,816 | \$ 90,568 | \$ 68,472 |
| Net income (loss) | \$ 575 | \$ 397 | \$ 1,547 | \$ (4,100) |
| Basic income (loss) per share to common stockholders | \$ 0.02 | \$ 0.01 | \$ 0.05 | \$ (0.34) |
| Diluted income (loss) per share to common stockholders | \$ 0.02 | \$ 0.01 | \$ 0.05 | \$ (0.29) |

4. Investments and Fair Value Measurements

As of September 30, 2008, the Company had \$4.3 million invested in auction rate securities, all of which are classified as long-term investments on its consolidated balance sheet. As of December 31, 2007, the Company had \$30.3 million invested in auction rate securities, of which \$25.4 million were classified as current, short-term investments and \$4.9 million were classified as long-term investments on its consolidated balance sheet.

Auction rate securities are generally long-term debt instruments that 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 value. The Company generally invests in these securities for short periods of time as part of its investment policy. However, the recent uncertainties in the credit markets have prevented the Company and other investors from liquidating holdings of certain auction rate securities in recent auctions 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. As of December 31, 2007, these investments were fully backed by AAA rated bonds and insured against loss of principal and interest by bond insurers. However, certain bond insurers are

experiencing financial difficulties and have either had their credit ratings downgraded or have been placed on watch. As of September 30, 2008, all auction rate investments continue to have at least a minimum A rating with Standard & Poor's and Moody's ratings agencies. As of September 30, 2008 and December 31, 2007, five auction rate securities with a par value of \$5.1 million had failed their most recent auction and are considered illiquid. These securities were valued using a discounted cash flow 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.

COMSCORE, INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

The Company is uncertain 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, 2008 and December 31, 2007.

For the three and nine months ended September 30, 2008, the Company determined that unrealized losses of \$455,000 and \$841,000, respectively, represented other-than temporary impairments based on its analysis and has recorded those unrealized losses in earnings. As of September 30, 2008, the Company has determined that the unrealized losses on all its auction rate securities represent other-than temporary impairments. As of December 31, 2007, based on the Company's ability and intent to hold these investments until an anticipated recovery of the fair value, the Company did not consider these investments to be other-than temporarily impaired and included the unrealized losses in equity. The unrealized losses at December 31, 2007 on the investments were due primarily to changes in market conditions and overall lack of demand for auction rate securities. Subsequently, if the credit ratings of the issuer, the bond insurers or the collateral continue to deteriorate, the Company may further adjust the carrying value of these investments.

Marketable securities, which are classified as available-for-sale, are summarized below as of September 30, 2008 and December 31, 2007.

| | Purchased Amortized Cost | Gross Unrealized Gain | Gross Unrealized Loss | Aggregate Fair Value (Unaudited) (In thousands) | Classification on Balance Sheet | |
|------------------------------|---|--------------------------------------|--------------------------------------|--|--|----------------------------------|
| | | | | | Short-Term Investments | Long-Term Investments |
| As of September 30, 2008: | | | | | | |
| U.S. treasury bills | \$ 4,466 | \$ 12 | \$ | \$ 4,478 | \$ 4,478 | \$ |
| U.S. treasury notes | 25,311 | 76 | | 25,387 | 23,235 | 2,152 |
| Auction rate securities | 4,259 | | | 4,259 | | 4,259 |
| | \$ 34,036 | \$ 88 | \$ | \$ 34,124 | \$ 27,713 | \$ 6,411 |

COMSCORE, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

| | Purchased Amortized Cost | Gross Unrealized Gain | Gross Unrealized Loss | Aggregate Fair Value (In thousands) | Classification on Balance Sheet | |
|------------------------------------|---|--------------------------------------|--------------------------------------|--|--|----------------------------------|
| | | | | | Short-Term Investments | Long-Term Investments |
| As of December 31, 2007: | | | | | | |
| U.S. government debt securities | \$ 6,005 | \$ 38 | \$ | \$ 6,043 | \$ 2,999 | \$ 3,044 |
| Auction rate securities | 30,550 | | (220) | 30,330 | 25,450 | 4,880 |
| | \$ 36,555 | \$ 38 | \$ (220) | \$ 36,373 | \$ 28,449 | \$ 7,924 |

There were no gross unrealized losses related to available-for-sale securities as of September 30, 2008. The following table summarizes the fair value and gross unrealized losses related to available-for-sale securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2007:

| | Less Than 12 months | | More Than 12 months | | Total | |
|--------------------------|----------------------------|--------------------------------------|--------------------------------|--------------------------------------|-----------------------|--------------------------------------|
| | Fair Value | Gross Unrealized Loss | Fair Value | Gross Unrealized Loss | Fair Value | Gross Unrealized Loss |
| | (In thousands) | | | | | |
| As of December 31, 2007: | | | | | | |
| Auction rate securities | \$ 30,330 | \$ (220) | \$ | \$ | \$ 30,330 | \$ (220) |
| | \$ 30,330 | \$ (220) | \$ | \$ | \$ 30,330 | \$ (220) |

COMSCORE, INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

The fair value hierarchy of the Company's marketable securities at fair value as of September 30, 2008 is as follows:

| | September 30, 2008 | Fair Value Measurements at Reporting Date Using | | |
|-------------------------|--------------------------|---|--|--|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) (Unaudited) (In thousands) | Significant Unobservable Inputs (Level 3) |
| Assets: | | | | |
| U.S. treasury bills | \$ 4,478 | \$ 4,478 | \$ | \$ |
| U.S. treasury notes | 25,387 | 25,387 | | |
| Auction rate securities | 4,259 | | | 4,259 |
| Total | \$ 34,124 | \$ 29,865 | \$ | \$ 4,259 |

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):

| | Short-term Investments (Unaudited) (In thousands) | Long-term Investments (Unaudited) (In thousands) |
|--|--|---|
| Balance on January 1, 2008 | \$ | \$ 4,880 |
| Transfers in and/or (out) of Level 3 | | 2,350 |
| Total losses unrealized included in earnings | | (841) |
| Total losses included in other comprehensive income at December 31, 2007 | | 220 |
| Settlements | | (2,350) |
| Balance on September 30, 2008 | \$ | \$ 4,259 |

For the three and nine months ended September 30, 2008, an unrealized loss of \$455,000 and \$841,000 related to Level 3 assets held at September 30, 2008 was included in earnings.

COMSCORE, INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)****5. Goodwill and Intangible Assets**

The carrying amounts of goodwill and intangible assets are as follows:

| | September 30, 2008 | December 31, 2007 |
|--|-----------------------------------|----------------------------------|
| | (Unaudited) | |
| | (In thousands) | |
| Goodwill | \$ 42,686 | \$ 1,364 |
| Intangible assets consists of the following: | | |
| Trademarks and brands | \$ | \$ 662 |
| Non-compete agreements | | 326 |
| Customer relationships | 3,200 | 3,467 |
| Acquired methodologies/technology | 2,500 | 688 |
| Intellectual property | 2,600 | |
| Panel | 1,860 | |
| | | |
| Total intangible assets | 10,160 | 5,143 |
| Accumulated amortization | (458) | (5,126) |
| | | |
| Intangible assets, net | \$ 9,702 | \$ 17 |

Amortization expense related to intangibles was approximately \$346,000 and \$211,000 for the three months ended September 30, 2008 and 2007, respectively, and \$475,000 and \$797,000 for the nine months ended September 30, 2008 and 2007, respectively.

During the three and nine months ended September 30, 2008, \$5.1 million of fully-amortized intangible assets were written off.

6. Property and Equipment

Property and equipment, including equipment under capital lease obligations, consists of the following:

| | September 30, 2008 | December 31, 2007 |
|---|-----------------------------------|------------------------------|
| | (Unaudited) | |
| | (In thousands) | |
| Computer equipment | \$ 14,136 | \$ 16,050 |
| Computer software | 3,122 | 2,529 |
| Office equipment and furniture | 3,298 | 1,408 |
| Leasehold improvements | 8,861 | 1,070 |
| | | |
| | 29,417 | 21,057 |
| Less: accumulated depreciation and amortization | (12,119) | (14,190) |

\$ 17,298 \$ 6,867

During the three and nine months ended September 30, 2008, the Company capitalized \$1.5 and \$9.4 million, respectively, of leasehold improvements, furniture and fixtures and office equipment associated with landlord allowances received in connection with its Reston, Chicago and San Francisco office leases (see Note 7).

During the three and nine months ended September 30, 2008, \$402,000 and \$5.6 million, respectively, of fully-depreciated assets were written off.

For the three months ended September 30, 2008 and 2007, total depreciation expense was \$1.4 million and \$928,000, respectively, and \$3.6 million and \$2.8 million for the nine months ended September 30, 2008 and 2007, respectively.

COMSCORE, INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)****7. Commitments and Contingencies*****Leases***

In September 2008, the Company agreed with a landlord for the early termination of the acquired M:Metrics San Francisco office lease. In connection with this termination the Company paid \$165,000. This amount is included in operating expenses for the three and nine months ended September 30, 2008.

In June 2008, the Company entered into a 10 year lease with a new landlord for approximately 16,674 square feet of new office space for its San Francisco office. The base rent in the first year is approximately \$676,000 and escalates 3% per annum over the lease term. The Company consolidated the comScore and M:Metrics San Francisco offices and moved into this new integrated office in September 2008. In connection with this lease, the Company recorded \$1.5 million of deferred rent and capitalized assets as a result of landlord allowances. The deferred rent will be applied to rent expense recognized by the Company over the lease term.

In December 2007, the Company entered into a 10 year lease with a new landlord for approximately 62,000 square feet of new office space for their corporate headquarters. The Company moved its corporate headquarters in June 2008. In connection with this lease, the Company recorded \$5.3 million of deferred rent and capitalized assets as a result of landlord allowances and abatements. The deferred rent will be applied to rent expense recognized by the Company over the lease term.

In August 2007, the Company entered into a 10 year lease with a new landlord for approximately 28,000 square feet of new office space for its Chicago office. The Company moved its Chicago office in March 2008. In connection with this lease, the landlord provided \$2.5 million in tenant allowances which the Company recorded as deferred rent and capitalized assets. The deferred rent will be applied to rent expense recognized by the Company over the lease term.

For the three months ended September 30, 2008 and 2007, total rent expense was \$1.1 million and \$526,000, respectively, and \$2.8 million and \$1.8 million for the nine months ended September 30, 2008 and 2007, respectively.

Contingencies

On March 6, 2008, the Company opened a \$5.0 million revolving line of credit with an interest rate equal to the BBA LIBOR rate plus an applicable margin based upon the funded debt to unrestricted EBITDA ratio. This line of credit is available through March 6, 2009. As of September 30, 2008, no amounts were borrowed against the line of credit. The agreement contains no restrictive covenants.

As of September 30, 2008, the Company is required to maintain letters of credit in the amount of approximately \$4.4 million as additional security deposit pertaining to operating leases. These letters of credit may be reduced periodically provided the Company meets the conditional criteria of each related lease agreement. During the three and nine months ended September 30, 2008, one letter of credit was reduced by approximately \$90,000. As of December 31, 2007, certain letters of credit were collateralized by \$1.4 million in certificates of deposit which were included in Restricted Cash in the Consolidated Balance Sheets. During the nine months ended September 30, 2008, the security deposits were collateralized by the line of credit, reducing availability under the facility, and the restrictions were removed from the \$1.4 million of certificates of deposit, which were reclassified to cash and cash equivalents.

The Company has no material claims as of September 30, 2008, 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.

8. Income Taxes

As of September 30, 2008 and December 31, 2007, the Company had a valuation allowance of \$26.4 million and \$21.3 million, respectively, against certain deferred tax assets, which consisted principally of net operating loss carryforwards. Prior to December 31, 2007, management believed that, based on a number of factors, the available objective evidence created sufficient uncertainty regarding the realizability of the deferred tax assets such that a full valuation allowance was required. As of December 31, 2007, the Company concluded that it was more likely than not

that a portion of its deferred tax assets would be utilized in subsequent years and that a reduction in the deferred tax asset valuation allowance was necessary. In determining the amount of deferred tax assets to recognize, the Company considered its history of profitability, the history of its industry, the overall amount of the deferred tax assets and the timeframe over which it would take to utilize the deferred tax assets prior to their expiration. Given the relatively limited history of profitability and the fact that the online marketing industry is a young and developing industry, the Company concluded that it was appropriate to consider future taxable income (exclusive of reversing temporary differences and carryforwards) for a limited period of one year into the future. As a result, the Company reversed a portion of its valuation allowance and recognized a net deferred tax asset of \$8.1 million as of December 31, 2007.

As of September 30, 2008, the Company has concluded that there were no events during the three months ended September 30, 2008 that would result in a revaluation of its valuation allowance against deferred tax assets but management will continue to evaluate its valuation allowance position on a regular basis. To the extent that the Company determines that 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. It is expected that any such reduction of the Company's valuation allowance would have a material impact on the Company's results from operations.

COMSCORE, INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

The Company's tax provision for interim periods is determined using an estimate of its annual effective tax rate for each of its legal entities in accordance with the interim reporting requirements of SFAS No. 109, *Accounting for Income Taxes*, APB Opinion No. 28, *Interim Financial Reporting*, and FASB Interpretation No. 18 *Accounting for Income Taxes in Interim Periods* an interpretation of APB Opinion No. 28. Accordingly, the Company has estimated its annual effective tax rate for the full year and applied that rate to its income before taxes in determining its tax expense for the nine months ended September 30, 2008. During the three and nine months ended September 30, 2008 the Company recorded an income tax provision of \$1.2 million and \$4.4, respectively. The tax provision for the three and nine months ended September 30, 2008 was due primarily to current taxes of \$318,000 and \$522,000, respectively, and the utilization of the Company's U.S. deferred tax assets of \$889,000 and \$4.0 million, offset by a discrete release of the valuation allowance of \$111,000 associated with a foreign entity in the first quarter of 2008. The current taxes for the three months ended September 30, 2008, increased due to a change in California tax law suspending the deduction for net operating losses carried forward from prior taxable years. The deferred tax expense is negatively impacted by current year net losses incurred by certain M:Metrics international subsidiaries for which the full benefit is not realized by other comScore subsidiaries. During the three months and nine months ended September 30, 2007, the Company recorded an income tax provision of \$129,000 and \$181,000, respectively. The tax provision for the three and nine months ended September 30, 2007 is comprised of an income tax expense of \$148,000 and \$239,000, respectively, reflecting our alternative minimum tax and is partly offset by a decrease of \$19,000 and \$58,000, respectively, in the deferred tax liability associated with a temporary difference related to certain acquired intangible assets.

As of September 30, 2008 and December 31, 2007, the Company had \$71,000 of unrecognized tax benefit liabilities. The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction and various states and foreign jurisdictions. For income tax returns filed by the Company, the Company is no longer subject to U.S. federal, state and local tax examinations by tax authorities for years before 2003, although carryforward tax attributes that were generated prior to 2003 may still be adjusted upon examination by tax authorities if they either have been or will be utilized.

The Company recognizes accrued interest related to unrecognized tax benefits in the tax expense account. Penalties, if incurred, would also be recognized as a component of income tax expense. As of September 30, 2008 and December 31, 2007, the amount of accrued interest expense on unrecognized tax benefits was not material.

The exercise of stock options during the first nine months of 2008 and 2007 generated an income tax deduction equal to the excess of the fair market value over the exercise price. In accordance with SFAS 123R, the Company will not recognize a deferred tax asset with respect to the excess stock compensation deductions until those deductions actually reduce its income tax liability. As such, the Company has not recorded a deferred tax asset related to the net operating losses resulting from the exercise of these stock options in the accompanying financial statements. At such time as the Company utilizes these net operating losses to reduce income tax payable, the tax benefit will be recorded as an increase in additional paid-in capital.

9. Stockholders' Equity***1999 Stock Option Plan and 2007 Equity Incentive Plan***

Prior to the effective date of the registration statement for the Company's IPO on June 26, 2007, eligible employees and non-employees were granted 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. The Plans provide for the issuance of a maximum of 5.4 million shares 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 our 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 exercise price is determined by the Board of Directors, which is generally equal to fair value for incentive stock options and is determined on a per-grant basis for nonqualified options. The vesting period of options granted under the Plans is determined by the Board of Directors, generally ratably over a four-year period. The options expire 10 years from the date of the grant. Effective January 1, 2008, the shares available for grant increased 1,118,422 pursuant to the automatic share reserve increase provision under the Plans. As of September 30, 2008, 2,321,810 shares were available for grant under the 2007 Plan.

COMSCORE, INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

During the three and nine months ended September 30, 2008, 51,908 stock options were granted. The following are the weighted-average assumptions used in valuing the stock options granted during the three and nine months ended September 30, 2008 and a discussion of the Company's assumptions.

| | Three and Nine Months Ended September 30, 2008 |
|-------------------------------------|---|
| Dividend yield | 0.00% |
| Expected volatility | 60.00% |
| Risk-free interest rate | 2.93% |
| Expected life of options (in years) | 4.00 |

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 Company uses a weighted-average volatility based on 75% of the average historical stock volatilities of similar entities and 25% of the Company's actual historical volatility since the IPO.

Risk-free interest rate This is the average U.S. Treasury rate with a term that most closely resembles the expected life of the option on the date the option was granted.

Expected life of the options This is the period of time that the options granted are expected to remain outstanding. This estimate is derived based on an analysis of the Company's historical exercise data combined with expected future exercise patterns based on several factors including the strike price in relation to the current and expected stock price, the minimum vest period and the remaining contractual period.

A summary of the Plans is presented below:

| | Number of Shares | Weighted- Average Exercise Price | Weighted Average Remaining Contractual Term (in years) | Aggregate Intrinsic Value (in thousands) |
|---|-----------------------------|---|---|---|
| Options outstanding at December 31, 2007 | 2,039,434 | \$2.01 | | |
| Options granted | 51,908 | \$6.24 | | |
| Options exercised | 401,543 | \$2.06 | | \$ 7,927 |
| Options forfeited | 23,685 | \$5.54 | | |
| Options expired | 457 | \$7.23 | | |
| Options outstanding at September 30, 2008 | 1,665,657 | \$2.07 | 5.94 | \$25,910 |
| Options exercisable at September 30, 2008 | 1,408,422 | \$1.34 | 5.62 | \$22,937 |

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 closing market price of the Company's common stock at September 30, 2008. The aggregate intrinsic value of stock option awards exercised was determined at the date of the option exercise. As of September 30, 2008, total unrecognized compensation expense related to non-vested stock options granted prior to that date is estimated at \$1.1 million, which the Company expects to recognize over a weighted average period of approximately 1.00 years. Total unrecognized compensation expense is estimated and may be increased or decreased in future periods for subsequent grants or forfeitures.

COMSCORE, INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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 cash purchase price paid by the employee, if any. For the nine months ended September 30, 2008, 97,309 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, 2008 is presented as follows:

| | Restricted | Stock | Underlying | Total | Weighted |
|---------------------------------|-------------------|--------------|-------------------|------------------|-------------------|
| Nonvested Stock Awards | Stock | Units | Awards | Number | Average |
| | | | | of Shares | Grant-Date |
| | | | | | Fair |
| | | | | | Value |
| Nonvested at December 31, 2007 | 771,783 | 63,727 | 835,510 | | \$ 14.08 |
| Granted | 523,667 | 63,794 | 587,461 | | 23.79 |
| Vested | 188,070 | 17,041 | 205,111 | | 13.57 |
| Forfeited | 72,632 | 13,607 | 86,239 | | 20.52 |
| Nonvested at September 30, 2008 | 1,034,748 | 96,873 | 1,131,621 | | \$ 18.72 |

The aggregate intrinsic value for all non-vested shares of restricted common stock and restricted stock units outstanding as of September 30, 2008 was \$20.0 million. The weighted average remaining contractual life for all non-vested shares of restricted common stock and restricted stock units as of September 30, 2008 was 2.96 years.

We granted nonvested stock awards at no cost to recipients during the nine months ended September 30, 2008. As of September 30, 2008, total unrecognized compensation expense related to non-vested restricted stock and restricted stock units was \$18.2 million, which the Company expects to recognize over a weighted average period of approximately 2.03 years. Total unrecognized compensation expense may be increased or decreased in future periods for subsequent grants or forfeitures.

Of the 205,111 shares of the Company's restricted stock and restricted stock units vesting during the nine months ended September 30, 2008, the Company repurchased 62,240 shares at an aggregate purchase price of approximately \$1.2 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, 2008, the Company had reserved for future issuance the following shares of common stock upon the exercise of options and warrants:

| | |
|---|-----------|
| Common stock available for future issuances under the Plans | 2,321,810 |
| Common stock available for outstanding options and restricted stock units | 1,762,530 |
| Common stock warrants | 26,375 |
| | 4,110,715 |

COMSCORE, INC.**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)****10. 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, 2008 and 2007 is set forth below:

| | Three Months Ended | | Nine Months Ended | |
|----------------------|---------------------------|-------------|--------------------------|-------------|
| | September 30, | | September 30, | |
| | 2008 | 2007 | 2008 | 2007 |
| | (Unaudited) | | | |
| | (In thousands) | | | |
| United States | \$ 26,052 | \$ 19,912 | \$ 73,829 | \$ 55,271 |
| Canada | 1,628 | 1,189 | 4,522 | 3,152 |
| United Kingdom/Other | 2,981 | 1,288 | 7,430 | 3,456 |
| | | | | |
| Total Revenues | \$ 30,661 | \$ 22,389 | \$ 85,781 | \$ 61,879 |

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:

| | September | December |
|----------------------|-----------------------|-----------------|
| | 30, | 31, |
| | 2008 | 2007 |
| | (Unaudited) | |
| | (In thousands) | |
| United States | \$ 17,041 | \$ 6,527 |
| Canada | 99 | 183 |
| United Kingdom/Other | 158 | 157 |
| | | |
| Total | \$ 17,298 | \$ 6,867 |

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 Note Regarding 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.

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 more than 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.

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, 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 over 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, resulting in the sale and issuance by us of 5,000,000 shares of our common stock, and we also launched ten new products during that year, including Campaign Metrix, qSearch 2.0, Ad Metrix, Segment Metrix and comScore Marketer. During the first quarter of 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. In April 2008, we launched the second generation of our media planning product, Plan Metrix, and increased the frequency of reporting from semi-annual to a monthly cycle. In October 2008, we launched 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. It enables publishers to report audience reach and characteristics of their various advertising sales packages providing them with the ability to market those packages more effectively.

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. The total cost of the acquisition of M:Metrics was approximately \$46.0 million, consisting of cash and transaction fees.

Our total revenues have grown to \$87.2 million during the fiscal year ending December 31, 2007 and \$85.8 million for the first three quarters of 2008 from \$15.4 million during the fiscal year ended January 31, 2003. By comparison, our total expenses from operations have grown to \$76.5 million for the year ended 2007 and \$77.3 million for the first three quarters of 2008 from \$35.2 million during the fiscal year ended January 31, 2003. 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;

increases in the prices of our products and services;

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; and

growth from the acquisition of M:Metrics

As of September 30, 2008, we had 1,136 customers, compared to 334 as of January 31, 2003. We sell most of our products through our direct sales force. We established an inside sales force dedicated to selling comScore Marketer, which was launched in the fourth quarter of 2007.

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. We have noted indications in the nine months ended September 30, 2008, that a limited number of our current and potential customers have delayed or reduced renewals of existing subscriptions and purchases of new or additional services and products. Further, certain of our existing customers have exited the market due to industry consolidation and bankruptcy in connection with these challenging economic conditions. Despite this economic downturn, we continued to add net new customers during the third quarter of 2008, and our existing customers renewed their subscriptions at a rate of over 90% based on dollars renewed in the three months ended September 30, 2008. However, if these 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 and through comScore Marketing Solutions.

A significant characteristic of our business model is our large percentage of subscription-based contracts. Subscription-based revenues accounted for 78% of our total revenues in 2004 and decreased to 70% of total revenues in 2005 primarily due to the acquisition of SurveySite. Subscription-based revenue increased to 75% of total revenues in 2006, to 79% of total revenues in 2007 and to 83% during the nine months ended September 30, 2008.

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, 2007, our international revenues were \$10.1 million, an increase of \$4.4 million, or 76% over international revenues of \$5.7 million for the fiscal year ended December 31, 2006. For the nine months ended

September 30, 2008, our international revenues were \$12.0 million, an increase of \$5.3 million or 81% over international revenues of \$6.6 million for the nine months ended September 30, 2007. International revenues comprised approximately 9%, 12% and 14% of our total revenues for the fiscal years ended December 31, 2006 and 2007 and the nine months ended September 30, 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.

Recently, the value of the U.S. Dollar has appreciated significantly 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 price of 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.

Subscription Revenues

We generate a significant proportion of our subscription-based revenues from our Media Metrix product family and since May 2008 our M:Metrics products suite. Products within the Media Metrix family include Media Metrix 2.0, Plan Metrix, World Metrix and Video Metrix. Additionally, we recently launched Ad Metrix and comScore Marketer in the second half of 2007. 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 and M:Metrics products are provided with login IDs to our Web site, have access to our database and can generate reports at any time.

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.

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 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 our Annual Report on Form 10-K for the year ended December 31, 2007, 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 in accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 104, *Revenue Recognition* (SAB 104). SAB 104 requires that four basic criteria must be met prior to revenue recognition: (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. These arrangements are accounted for in accordance with Emerging Issues Task Force (EITF) Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables*. 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 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. 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 service delivered.

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.

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.

Allowance for Doubtful Accounts

We manage credit risk on accounts receivable by performing credit evaluations of our customers on a selective basis, 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.

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. We estimate the fair value of identifiable intangible assets acquired using several different valuation approaches, including the replacement cost, income and market approaches. The replacement cost approach is based on determining the discrete cost of replacing or reproducing a specific asset. 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 value of anticipated future net cash flows generated by an asset. The market approach compares the acquired asset to similar assets that have been sold.

Under SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142), 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 derived fair value of the goodwill to its carrying value, and any impairment determined is recorded in the current period. In accordance with SFAS 142, all of our goodwill is associated with one reporting unit. Accordingly, on an annual basis we perform the impairment assessment for goodwill required under SFAS 142 at the enterprise level. We completed our annual impairment analysis as of October 1st for 2007 and determined that there was no impairment of goodwill. There have been no indicators of impairment since the October 1, 2007 test through September 30, 2008.

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

**Useful Lives
(Years)**

| | |
|-----------------------------------|--------|
| Acquired methodologies/technology | 5 to 7 |
| Customer relationships | 7 |
| Panel | 7 |
| Intellectual property | 10 |

Income Taxes

Our tax provision for interim periods is determined using an estimate of our annual effective tax rate for each of our legal entities in accordance with the interim reporting requirements of SFAS No. 109, *Accounting for Income Taxes*, APB Opinion No. 28, *Interim Financial Reporting*, and FASB Interpretation No. 18, *Accounting for Income Taxes in Interim Periods* – an interpretation of APB Opinion No. 28. Accordingly, we have estimated our annual effective tax rate for the full year and applied that rate to our income before taxes in determining our tax expense for the nine months ended September 30, 2008. During the three and nine months ended September 30, 2008, we recognized income tax provisions of \$1.2 million and \$4.4 million, respectively, compared to an income tax provision of \$129,000 and \$181,000 in the same periods of 2007. The tax provisions for the three and nine months ended September 30, 2008 were due primarily to current taxes of \$318,000 and \$522,000, respectively, and the utilization of U.S. deferred tax assets of \$889,000 and \$4.0 million, respectively, offset by a discrete release of the valuation allowance of \$111,000 associated with a foreign entity in the nine months ended September 30, 2008. The tax provisions for the three and nine months ended September 30, 2007 were comprised of income tax expense of \$148,000 and \$239,000, respectively, reflecting our U.S. alternative minimum tax and was partly offset by a decrease of \$19,000 and \$58,000, respectively, in the deferred tax liability associated with a temporary difference related to certain acquired intangible assets. The utilization of our U.S. deferred tax assets for the three and nine months ended September 30, 2007 were entirely offset by corresponding release of valuation allowance.

As of September 30, 2008 and December 31, 2007 we had \$71,000 of unrecognized tax benefit liabilities. We file income tax returns in the U.S. federal jurisdiction and various states and foreign jurisdictions. We are not subject to U.S. federal, state and local tax examinations by tax authorities for years before 2003, although carryforward tax attributes that were generated prior to 2003 may still be adjusted upon examination by tax authorities if they either have been or will be utilized.

We recognize accrued interest related to unrecognized tax benefits in the tax expense account. Penalties, if incurred, would also be recognized as a component of income tax expense. As of September 30, 2008 and December 31, 2007, the amount of accrued interest expense on unrecognized tax benefits was not material.

As of September 30, 2008 and December 31, 2007, we had a valuation allowance of \$26.4 million and \$21.3 million, respectively, against certain deferred tax assets, which consisted principally of net operating loss carryforwards. Prior to December 31, 2007, management believed that, based on a number of factors, the available objective evidence created sufficient uncertainty regarding the realizability of the deferred tax assets such that a full valuation allowance was required. As of December 31, 2007, we concluded that it is more likely than not that a portion of its deferred tax assets would be utilized in subsequent years and that a reduction in the deferred tax asset valuation allowance was necessary. In determining the amount of deferred tax assets to recognize, we considered its history of profitability, the history of its industry, the overall amount of the deferred tax assets and the timeframe over which it would take to utilize the deferred tax assets prior to their expiration. Given the relatively limited history of profitability and the fact that the online marketing industry is a young and developing industry, we concluded that it was appropriate to consider future taxable income (exclusive of reversing temporary differences and carryforwards) for a limited period of one year into the future. As a result, we reversed a portion of our valuation allowance and recognized a net deferred tax asset of \$8.1 million as of December 31, 2007. In 2008, we have recognized a deferred tax provision as we utilized the deferred tax asset recognized at December 31, 2007.

As of September 30, 2008, we concluded that there were no events during the quarter that would result in a revaluation of our valuation allowance against deferred tax assets, and we will continue to evaluate our valuation allowance position on a regular basis. To the extent that we determine that all or a portion of our valuation allowance is no longer necessary, we will recognize an income tax benefit in the period such determination is made for the reversal of the valuation allowance. It is expected that any such reduction of our valuation allowance would have a material impact on our results from operations.

The exercise of stock options during 2008 and 2007 generated an income tax deduction equal to the excess of the fair market value over the exercise price. In accordance with SFAS No. 123R, *Share Based Compensation* (SFAS No. 123R), we will not recognize a deferred tax asset with respect to the excess stock compensation deductions until those deductions actually reduce our income tax liability. As such, we have not recorded a deferred tax asset related to the net operating losses resulting from the exercise of these stock options in the accompanying financial statements. At such time as we utilize these net operating losses to reduce income tax payable, the tax benefit will be recorded as an increase in additional paid in capital.

FASB Interpretation No. 48 *Accounting for Uncertainty in Income Taxes, an interpretation of SFAS No. 109* (FIN 48), clarifies the accounting for income taxes by prescribing that a company should use a more-likely-than-not recognition threshold based on the technical merits of the tax position taken. Tax provisions that meet the more-likely-than-not recognition threshold should be measured as the largest amount of tax benefits, determined on a cumulative probability basis, which is more likely than not to be realized upon ultimate settlement in the financial statements. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting for interim periods, disclosure and transition, and explicitly excludes income taxes from the scope of SFAS No. 5, *Accounting for Contingencies*. As of September 30, 2008 and December 31, 2007, we had unrecognized tax benefits of \$71,000 on a tax- effected basis.

Stock-Based Compensation

We account for share-based compensation expense in accordance with SFAS No. 123 (revised 2005), *Share-Based Payment* (SFAS 123R). SFAS 123R requires the measurement and recognition of compensation expense for share-based awards based on estimated fair values on the date of grant. We estimate the fair value of each option award on the date of grant using the Black-Scholes option-pricing model. This model is affected by our stock price as well as estimates regarding a number of variables including expected stock price volatility over the term of the award and projected employee stock option exercise behaviors. For stock-based awards subject to graded vesting, we utilize the straight-line ratable method for allocating compensation cost by period.

Other key variables in the Black-Scholes option-pricing model include the expected volatility of our common stock price, the expected term of the award and the risk-free interest rate. In addition, under SFAS 123R, we are required to estimate forfeitures of unvested awards when recognizing compensation expense. If factors change and we employ different assumptions in the application of SFAS 123R in future periods, the compensation expense we record may differ significantly from what we have previously recorded.

At September 30, 2008, total estimated unrecognized compensation expense related to unvested stock-based awards granted prior to that date was \$19.3 million, which is expected to be recognized over a weighted-average period of 1.97 years.

We expect stock-based compensation expense to increase in absolute dollars as a result of the adoption of SFAS 123R as options that were granted at the beginning of 2006 and beyond vest. Beginning in 2007, we made use of restricted stock awards and restricted stock units and reduced our use of stock options as a form of stock-based compensation. 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 the 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.

Fair Value Measurements

As of January 1, 2008, we adopted SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 clarifies that 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, SFAS No. 157 establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value as follows: 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 us to use 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. We are required to use significant judgments to make this determination.

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 or broker or dealer quotations. Level 3 instruments are valued using a discounted cash flow 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. The types of instruments valued based on quoted market prices in active markets include most 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 generally classified within Level 3 of the fair value hierarchy.

Seasonality

Historically, a slightly higher percentage of our customers have renewed their subscription products with us toward the end of the fourth quarter. While we execute projects for our customers throughout the year, we have historically experienced a slight upturn in our project-based business in the fourth quarter. We have historically had seasonally high costs in the first half of our fiscal year associated with higher payroll taxes, vacation accruals and a ramp up of hiring in our sales force and technology groups to support our anticipated revenue growth.

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.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--------------------------------|-------------------------------------|----------------|------------------------------------|--------|
| | 2008 | 2007 | 2008 | 2007 |
| | | | | |
| | | (Unaudited) | | |
| | | (In thousands) | | |
| Revenues | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of revenues | 30.7 | 26.5 | 28.3 | 28.0 |
| Selling and marketing | 34.8 | 33.0 | 34.0 | 33.2 |
| Research and development | 13.5 | 13.5 | 12.6 | 13.6 |
| General and administrative | 13.9 | 13.7 | 14.7 | 12.9 |
| Amortization | 1.1 | 0.9 | 0.6 | 1.3 |
| Total expenses from operations | 94.0 | 87.6 | 90.2 | 89.0 |
| Income from operations | 6.0 | 12.4 | 9.8 | 11.0 |

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

| | | | | |
|--|-------|-------|-------|-------|
| Interest income, net | 0.9 | 5.3 | 1.9 | 2.3 |
| Loss from foreign currency | 0.4 | (0.5) | | (0.5) |
| Impairment of marketable securities | (1.5) | | (1.0) | |
| Revaluation of preferred stock warrant liabilities | | 0.4 | | (1.9) |
| Income before income taxes | 5.8 | 17.6 | 10.7 | 10.9 |
| Provision for income taxes | (3.9) | (0.6) | (5.0) | (0.3) |
| Net income | 1.9 | 17.0 | 5.7 | 10.6 |
| Accretion of redeemable preferred stock | | | | (3.0) |
| Net income attributable to common stockholders | 1.9% | 17.0% | 5.7% | 7.6% |

Revenues

| | Three Months Ended | | Change | | Nine Months Ended | | Change | |
|----------|--------------------|--------------------|----------|-----|--------------------|--------------------|-----------|-----|
| | September 30, 2008 | September 30, 2007 | \$ | % | September 30, 2008 | September 30, 2007 | \$ | % |
| | | | | | | | | |
| | | | | | (Unaudited) | | | |
| | | | | | (In thousands) | | | |
| Revenues | \$ 30,661 | \$ 22,389 | \$ 8,272 | 37% | \$ 85,781 | \$ 61,879 | \$ 23,902 | 39% |

Total revenues increased by approximately \$8.3 million and \$23.9 million during the three and nine months ended September 30, 2008, respectively, as compared to the same periods in 2007. The revenue growth was primarily due to increased sales to our existing customer base and growth of our customer base and, to a lesser extent, the contribution of revenue from M:Metrics. Our total customer base grew by a net increase of 299 customers to 1,136 customers at September 30, 2008 from 837 at September 30, 2007. Sales to existing customers based in the U.S. totaled \$22.4 million and \$62.4 million during the three and nine months ended September 30, 2008, respectively, which was \$5.1 million and \$14.5 million higher than in the corresponding periods in 2007. In addition, revenues during the three and nine months ended September 30, 2008 from new U.S. customers were \$3.7 million and \$11.4 million, respectively, an increase of approximately \$1.1 million and \$4.0 million as compared to the three and nine months ended September 30, 2007, respectively. Revenues from customers outside of the U.S. totaled approximately \$4.6 million and \$12.0 million, or approximately 15 percent and 14 percent of total revenues, in the three and nine months ended September 30, 2008, respectively, an increase of \$2.1 million and \$5.3 million, respectively, compared to the corresponding periods in 2007. This increase was due primarily to our ongoing expansion efforts in Europe and to a lesser extent continued growth in Canada.

We experienced continued revenue growth in both our subscription and project revenues. Subscription revenues increased by approximately \$7.8 million and \$22.2 million in the three and nine month periods ended September 30, 2008, respectively, from \$17.9 million and \$48.6 million in the corresponding prior year periods, respectively. To a lesser extent, our project-based revenues increased by \$440,000 and \$1.7 million in the three and nine month periods ended September 30, 2008, respectively, from \$4.5 million and \$13.3 million in the corresponding prior year periods.

Cost of Revenues

| | Three Months Ended | | Change | | Nine Months Ended | | Change | |
|-----------------------------|--------------------|----------|---------|-----|--------------------|-----------|---------|-----|
| | September 30, 2008 | 2007 | \$ | % | September 30, 2008 | 2007 | \$ | % |
| | | | | | (Unaudited) | | | |
| | | | | | (In thousands) | | | |
| Cost of revenues | \$ 9,412 | \$ 5,942 | \$3,470 | 58% | \$ 24,286 | \$ 17,330 | \$6,956 | 40% |
| As a percentage of revenues | 31% | 27% | | | 28% | 28% | | |

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, all of which are expensed as they are incurred. 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, and allocated overhead.

Cost of revenues increased by approximately \$3.5 million and \$7.0 million during the three and nine months ended September 30, 2008, respectively, as compared to the three and nine months ended September 30, 2007. This increase was primarily due to approximately \$1.5 million and \$3.2 million increases in employee salaries, benefits, and stock-based compensation costs associated with an expanded workforce supporting a larger product and customer base and the additional employee costs from our acquisition of M:Metrics, as compared to the three and nine months ended September 30, 2007, respectively. We experienced increases of approximately \$612,000 and \$1.9 million in costs paid to outside service vendors and incentives to our panel members related to the development of our products during the three and nine months ended September 30, 2008, respectively, as compared to the same periods in 2007. We also experienced increases in panel, data and bandwidth costs of \$881,000 and \$1.3 million to support our consumer panel during the three and nine months ended September 30, 2008, respectively, as compared to the same periods in 2007. The remaining increase of approximately \$500,000 and \$600,000 during the three and nine months ended September 30, 2008, respectively, are related to additional allocated overhead costs such as rent, travel and related costs and other expenses. The inclusion of M:Metrics beginning in May 2008 also contributed to the increase in

external costs to develop our products and support our consumer panels during the three and nine months ended September 30, 2008, however, a portion of these costs are attributed to one-time integration costs associated with employees that are not expected to continue service or that have already been terminated and data related costs. Cost of revenues increased as a percentage of revenues by 4.2 percentage points and 0.3 percentage points during the three and nine months ended September 30, 2008, respectively, compared to the corresponding periods in 2007 principally due to the increased costs following our acquisition of M:Metrics.

We expect cost of revenues to increase in absolute dollar amounts as we seek to grow our business but vary as a percentage of revenues depending on whether we benefit from investments in our panel and network infrastructure.

Selling and Marketing Expenses

| | Three Months Ended | | Change | | Nine Months Ended | | Change | |
|-----------------------------|-------------------------------|----------|---------|-----|-----------------------|-----------|---------|-----|
| | September 30, 2008 | 2007 | \$ | % | September 30, 2008 | 2007 | \$ | % |
| | (Unaudited) (In thousands) | | | | | | | |
| Selling and marketing | \$ 10,659 | \$ 7,390 | \$3,269 | 44% | \$ 29,120 | \$ 20,524 | \$8,596 | 42% |
| As a percentage of revenues | 35% | 33% | | | 34% | 33% | | |

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, including rent and depreciation. 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 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 \$3.3 million and \$8.6 million during the three and nine months ended September 30, 2008, respectively, as compared to the three and nine months ended September 30, 2007. These increases were primarily due to increases of \$2.4 million and \$6.2 million during the three and nine months ended September 30, 2008, respectively, in employee salaries, benefits and related costs associated with an increase in account management personnel for our sales force, the formation of our product management team, our expansion in foreign markets, our acquisition of M:Metrics and an increase in commission and bonus costs associated with increased revenues. We also experienced increases of \$499,000 and \$1.3 million stock-based compensation as compared to the same periods in 2007. Our selling and marketing headcount totaled 261 employees as of September 30, 2008, an increase of 66 employees as compared to September 30, 2007. In addition, the remaining increases are the result of increases in allocated overhead costs such as rent, additional advertising and marketing costs and travel and related costs to support our growing customer base. The inclusion of the operations of M:Metrics beginning in May 2008 contributed to the increase in selling and marketing expenses during the three and nine months ended September 30, 2008, however, a portion of these costs are attributed to one-time integration costs associated with employees that are not expected to continue service or that have already been terminated. Selling and marketing expenses as a percentage of revenues increased during the three and nine months ended September 30, 2008 as compared to the same period in 2007 principally due to the increased costs associated with our acquisition of M:Metrics.

We expect selling and marketing expenses to increase in absolute dollar amounts as we continue to grow our selling and marketing efforts but to vary in future periods as a percentage of revenues depending on whether we benefit from increased productivity in our sales force and from increased revenues resulting in part from our ongoing marketing initiatives.

Research and Development Expenses

| | Three Months Ended | | Change | | Nine Months Ended | | Change | |
|-----------------------------|-----------------------|----------|----------|-----|-----------------------|----------|----------|-----|
| | September 30, 2008 | 2007 | \$ | % | September 30, 2008 | 2007 | \$ | % |
| | | | | | | | | |
| | | | | | (Unaudited) | | | |
| | | | | | (In thousands) | | | |
| Research and development | \$ 4,131 | \$ 3,018 | \$ 1,113 | 37% | \$ 10,838 | \$ 8,387 | \$ 2,451 | 29% |
| As a percentage of revenues | 13% | 13% | | | 13% | 14% | | |

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, including rent and depreciation.

Research and development expenses increased by \$1.1 million and \$2.5 million during the three and nine months ended September 30, 2008, respectively, as compared to the three and nine months ended September 30, 2007. The increases were primarily due to \$1.1 million and \$2.6 million increases in employee salaries, benefits, stock-based compensation and related costs associated with the increase in headcount, our continued focus on developing new products and our acquisition of M:Metrics during the three and nine months ended September 30, 2008, respectively, as compared to the three and nine months ended September 30, 2007. We also experienced small decreases in our systems and maintenance costs related to computer software. Research and development costs decreased as a percentage of revenues during the nine months ended September 30, 2008 as compared to the same period in 2007 primarily due to our growth in revenues outpacing our investments in research and development.

We expect research and development expenses to increase in absolute dollar amounts as we continue to enhance and expand our product offerings. As a result of the size and diversity of our panel and our historical investment in our technology infrastructure, we expect that we will be able to develop new products with moderate increases in research and development spending as compared to our growth in revenues.

General and Administrative Expenses

| | Three Months Ended | | Change | | Nine Months Ended | | Change | |
|-----------------------------|--------------------|--------------------|---------|-----|--------------------|--------------------|---------|-----|
| | September 30, 2008 | September 30, 2007 | | | September 30, 2008 | September 30, 2007 | | |
| | | | \$ | % | | | \$ | % |
| | | | | | (Unaudited) | | | |
| | | | | | (In thousands) | | | |
| General and administrative | \$4,266 | \$3,059 | \$1,207 | 39% | \$12,596 | \$7,994 | \$4,602 | 58% |
| As a percentage of revenues | 14% | 14% | | | 15% | 13% | | |

General and administrative expenses consist primarily of salaries, benefits, stock-based compensation, and related expenses for executive management, finance, accounting, human capital, legal, information technology and other administrative functions, as well as professional fees, overhead, including allocated rent and depreciation, and expenses incurred for other general corporate purposes.

General and administrative expenses increased by \$1.2 million and \$4.6 million during the three and nine months ended September 30, 2008, respectively, as compared to the three and nine months ended September 30, 2007. These increases were primarily due to increased costs associated with our obligations as a public company that did not apply to the same periods of 2007. Our professional fees associated with Sarbanes-Oxley compliance requirements, other professional fees, insurance costs, franchise taxes and board compensation increased by approximately \$65,000 and \$1.2 million during the three and nine months ended September 30, 2008, respectively, as compared to the same periods in 2007. We also experienced increases in employee salaries, benefits and related costs of almost \$281,000 and \$1.2 million associated with our expanding finance, legal and human capital departments and due to the acquisition of M:Metrics during the three and nine months ended September 30, 2008, respectively, as compared to the same periods in 2007. In addition, stock-based compensation increased \$353,000 and \$1.2 million during the three and nine months ended September 30, 2008, respectively, as compared to the corresponding prior year periods. General and administrative expenses also increased by approximately \$500,000 and \$1.0 million during the three and nine months ended September 30, 2008, respectively, as compared to the same period in 2007 due to our investment to support further revenue growth, increases in allocated overhead costs, such as rent, increased bad debt expense, additional charitable contributions and other charges. General and administrative expenses as a percentage of revenue increased during the nine months ended September 30, 2008 as compared to the same period in 2007, primarily due to the increased costs associated with being a public company that were not otherwise incurred prior to our initial public offering completed on July 2, 2007.

We expect general and administrative expenses to increase on an absolute basis as we continue to incur increased costs associated with supporting our growing business

Amortization Expense

| | Three Months Ended | | Change | | Nine Months Ended | | Change | |
|-----------------------------------|-----------------------|-----------------------|--------|-----|--------------------------------------|--------------------------------------|---------|------|
| | September 30, 2008 | September 30, 2007 | \$ | % | September 30, 2008 (Unaudited) | September 30, 2007 (Unaudited) | \$ | % |
| Amortization of intangible assets | \$346 | \$211 | \$135 | 64% | \$ 475 | \$ 797 | \$(322) | -40% |
| As a percentage of revenues | 1% | 1% | | | 1% | 1% | | |

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

Amortization expense increased \$135,000 during the three months ended September 30, 2008 as compared to the same prior year period due to the amortization of intangibles acquired during the second quarter of 2008. Amortization expense decreased \$322,000 during the nine months ended September 30, 2008, as compared to the nine months ended September 30, 2007 because certain intangible assets related to previous acquisitions were fully amortized during 2007.

We expect amortization expense to increase in future periods as we amortize the intangible assets associated with our acquisition of M:Metrics.

Interest Income, Net

Interest income consists primarily of interest earned from investments, such as 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 income, net for the three and nine months ended September 30, 2008, was \$267,000 and \$1.6 million, respectively, as compared to \$1.2 million and \$1.4 million for the three and nine months ended September 30, 2007, respectively. The decrease of \$913,000 during the three months ended September 30, 2008 was due to lower interest rates earned on our investments than those available in the prior year period and a smaller average cash balance than in prior periods due to the cash utilized in the acquisition of M:Metrics. The increase of \$157,000 during the nine months ended September 30, 2008 reflects the net effects of interest income that we earned on our cash and investment balances partially offset by the interest expense associated with the capital leases that we had in place in each period.

We anticipate that interest income, net may decrease in future periods due to lower interest rates earned on our investments than those available in prior years and a smaller average cash balance than in prior periods due to the cash utilized in the acquisition of M:Metrics.

Gain (Loss) 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 income.

Primarily due to the strength of the U.S. Dollar compared to the British Pound, during the three months ended September 30, 2008 we recorded a gain of \$123,000 as compared to a loss of \$111,000 during the three months ended September 30, 2007. During the nine months ended September 30, 2008, we recorded a loss of \$18,000 compared to a loss of \$321,000 during the nine months ended September 30, 2007. Our foreign currency transaction gains and losses fluctuate as a result of changes in the foreign currency exchange rates, particularly changes in the British Pound, Euro and Canadian Dollar. If the U.S. Dollar continues to appreciate against the British Pound and Euro, it may have an adverse affect on our revenue and net income. In the future, we may choose to utilize foreign currency forward

contracts to limit foreign currency exposures associated with our revenues and operating expenses denominated in currencies other than the U.S. Dollar.

Impairment of marketable securities

Impairment of marketable securities is comprised of unrealized losses related to changes in the fair value of our investments that have a decline that is considered other-than-temporary. During the three and nine months ended September 30, 2008 we recorded impairment charges of \$455,000 and \$841,000, respectively, for our marketable securities, which was due to the write down of our investments in auction rate securities that we determined to have an other-than-temporary decline in value. There was no comparable charge in the year prior periods. For more information on our investments in auction rate securities, see Management's Discussion and Analysis of Financial Condition and results of Operations - Liquidity and Capital Resources.

Provision for Income Taxes

During the three and nine months ended September 30, 2008, we recorded income tax provisions of \$1.2 million and \$4.4 million, respectively, compared to \$129,000 and \$181,000 in the same periods of 2007. The tax provisions for the three and nine months ended September 30, 2008 were due primarily to current taxes of \$318,000 and \$522,000, respectively, and the utilization of our U.S. deferred tax assets of \$889,000 and \$4.0 million, respectively, offset by a discrete release of the valuation allowance in the nine months ended September 30, 2008 of \$111,000 associated with a foreign entity. The current taxes for the three months ended September 30, 2008, increased due to a change in California tax law suspending the deduction for net operating losses carried forward from prior taxable years. The deferred tax expense is negatively impacted by current year net losses incurred by certain M:Metrics international subsidiaries for which the full benefit is not realized by other comScore subsidiaries. For the three and nine months ended September 30, 2007, the tax provisions were comprised of an income tax expense of \$148,000 and \$239,000, respectively, reflecting our alternative minimum tax and were partly offset by decreases of \$19,000 and \$58,000, respectively, in the deferred tax liability associated with temporary differences related to certain acquired intangible assets. The utilization of our U.S. deferred tax assets for the three and nine months ended September 30, 2007 were entirely offset by the corresponding release of valuation allowance.

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:

| | Nine Months Ended September 30, | |
|--|--|-------------|
| | 2008 | 2007 |
| | (Unaudited) | |
| | (In thousands) | |
| Net cash provided by operating activities | \$ 28,237 | \$ 14,648 |
| Net cash used in investing activities | (55,067) | (19,546) |
| Net cash(used in) provided by financing activities | (1,028) | 72,000 |
| Effect of exchange rate changes on cash | (619) | 484 |
| | | |
| Net (decrease) increase in cash and cash equivalents | \$ (28,477) | \$ 67,586 |

Prior to our initial public offering, which closed on July 2, 2007, we funded our operations and met our capital expenditure requirements primarily with venture capital and private equity funding. In five separate issuances of preferred stock, from Series A on September 27, 1999 to Series E on August 1, 2003, we have raised over \$88 million from a number of institutional investors. The proceeds from all of these issuances have been used for general business purposes, with the exception of the Series E Preferred Stock offering, which was partially used to extinguish a \$1.5 million bank note. The conversion of our preferred stock occurred upon the closing of our initial public offering.

On July 2, 2007, we completed our initial public offering and issued 5,000,000 shares of our common stock and received gross proceeds of \$82.5 million. Net proceeds were \$73.1 million after deducting underwriting discounts and commissions and offering costs.

Our principal uses of cash historically have consisted of payroll and other operating expenses and payments related to the purchase of equipment primarily to support our consumer panel and technical infrastructure required to support our customer base. Since the beginning of 2005, we have purchased over \$11.2 million in property and equipment, exclusive of \$9.4 million of property and equipment funded through landlord allowances received in connection with our new Chicago, Reston and San Francisco office leases, made \$5.6 million in principal payments on capital lease obligations, and spent \$45.0 million as the cash component of consideration paid for acquisitions.

As of September 30, 2008, our principal sources of liquidity consisted of cash, cash equivalents and short-term investments of \$67.6 million. As of September 30, 2008, we held \$6.4 million in long-term investments consisting of \$4.3 million in auction rate securities and \$2.1 million in other long-term fixed income securities. We generally invest in these auction rate securities for short periods of time as part of our investment policy. However, the recent uncertainties in the credit markets have prevented us and other investors from liquidating holdings of auction rate securities in recent auctions for these securities because the amount of securities submitted for sale has exceeded the amount of purchase orders. Accordingly, we still hold these long-term securities and are due interest at a higher rate than similar securities for which auctions have cleared. None of these investments are mortgage backed securities or collateralized debt obligations. As of September 30, 2008, certain of these investments were fully backed by investment grade bonds and are insured against loss of principal and interest by bond insurers whose ratings are under review and have been downgraded in some cases. These securities were valued using a discounted cash flow model that takes into consideration the financial condition of the issuers and the bond insurers as well as the expected date liquidity will be restored. As of September 30, 2008, based on the valuation models and an analysis of other-than-temporary impairment factors, we have concluded that all of our investments in auction rate securities have experienced an other-than-temporary decline in fair value. Accordingly, we have recorded a pre-tax impairment charge of \$841,000 related to these securities. If the credit ratings of the issuer, the bond insurers or the collateral continue to deteriorate, we may further adjust the carrying value of these investments. We are uncertain as to when the liquidity issues relating to these investments will improve. Accordingly, we classified these securities as long-term.

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 \$28.2 million of net cash from operating activities during the nine months ended September 30, 2008. The significant components of cash flows from operations were net income of \$4.8 million, adjusted for \$8.7 million in non-cash depreciation, amortization and stock-based compensation expenses, and a \$2.6 million increase in amounts collected from customers in advance of when we recognize revenues as a result of our growing customer base, \$3.8 million in deferred income taxes, an unrealized loss of \$841,000 related to the write down of illiquid auction rate securities, \$379,000 provision for bad debts and sales allowances and a \$9.4 million increase in deferred rent associated with landlord leasehold improvement allowances received in connection with our new Chicago, Reston and San Francisco office leases, offset by a \$1.6 million decrease in accounts payable and accrued expenses, a \$518,000 increase in our accounts receivable and a net \$193,000 increase in prepaid expenses and other current and non-current assets.

We generated approximately \$14.6 million of net cash from operating activities during the nine months ended September 30, 2007. The significant components of cash flows from operations were net income of \$6.6 million, \$4.9 million in non-cash depreciation, amortization and stock based compensation expenses, \$1.2 million in non-cash revaluation of our preferred stock warrant liability, \$5.8 million increase in amounts collected from customers in advance of when we recognize revenues as a result of our growing customer base and \$1.4 million increase in accounts payable and accrued expenses, offset by a \$5.1 million increase in accounts receivable.

Investing Activities

Our primary 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, 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 \$55.1 million of net cash in investing activities during the nine months ended September 30, 2008. We used \$44.5 million, net of cash acquired, to purchase M:Metrics. In addition, \$13.6 million was used to purchase property and equipment to maintain and expand our technology and infrastructure. Of this amount, \$9.4 million was funded through landlord allowances received in connection with our Chicago, Reston and San Francisco office leases. We removed the restrictions associated with certain certificates of deposit that served as collateral for letters of credit associated with office leases, and the related \$1.4 million was reclassified to cash and cash equivalents. Finally, a net \$1.7 million was generated by the sale / maturity of investments.

We used \$19.5 million of net cash in investing activities during the nine months ended September 30, 2007, a net \$16.6 million of which was used to purchase short-term investments, and \$2.7 million of which was used to purchase property and equipment.

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

Our primary financing activities from 2004 until mid-2007 consisted of financings to fund the acquisition of capital assets. We entered into an equipment lease agreement with GE Capital in 2003 and a line of credit agreement with GE Capital in 2005, both of which were paid in full in 2007, to finance the purchase of hardware and other computer equipment to support our business growth. These borrowings were secured by a senior security interest in the equipment acquired under the facility. In March 2006, we entered into an equipment lease agreement with Banc of America Leasing & Capital, LLC to finance the purchase of new hardware and other computer equipment as we continue to expand our technology infrastructure in support of our business growth. This agreement included a \$5 million line of credit which expired December 31, 2007.

On July 2, 2007, we completed our initial public offering, in which we issued and sold 5,000,000 shares of our common stock for approximately \$73.1 million, which amount reflects the net proceeds received by us in that offering.

We used \$1.0 million of cash during the nine months ended September 30, 2008 from financing activities. This included \$1.2 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 \$669,000 to make payments on our capital lease obligations offset by \$879,000 in proceeds from the exercise of our common stock options and warrants.

We generated \$72 million of net cash from financing activities during the nine months ended September 30, 2007, while raising \$73 million from our initial public offering. We used \$1.9 million to make payments on our capital lease obligations partially offset by \$780,000 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. We finance the purchase of some of our computer equipment under a capital lease arrangement over a period of 36 months. Our purchase obligations relate to outstanding orders to purchase computer equipment and are typically small; they do not materially impact our overall liquidity. On March 6, 2008, the Company opened a \$5.0 million revolving line of credit with an interest rate equal to the BBA LIBOR rate plus an applicable margin. This line of credit is available through March 6, 2009 and includes no restrictive covenants. As of September 30, 2008, no amounts were borrowed against the line of credit and \$4.4 million of letters of credit were outstanding, leaving \$600,000 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. During the three and nine months ended September 30, 2008, one letter of credit was reduced by approximately \$90,000.

Future Capital Requirements

We believe that our existing cash, cash equivalents, and short-term investments and operating cash flow, will be sufficient to meet our projected operating and capital expenditure requirements for at least the next twelve months. In addition, we expect that the net proceeds from our IPO will provide us with the financial flexibility to execute our strategic objectives, including the ability to make acquisitions and strategic investments. Our ability to generate cash, however, is subject to our performance, general economic conditions, industry trends and other factors. To the extent that funds from our IPO, combined with existing cash, cash equivalents, short-term investments and operating cash flow are insufficient to fund our future activities and requirements, we may need to raise additional funds through public or private equity or debt financing.

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, 2008, our cash reserves were maintained in bank deposit accounts, certificates of deposit, treasury bills, treasury notes, and auction rate securities totaling \$74.0 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 be immaterial 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.

Interest Rate Sensitivity

As of September 30, 2008, our principal sources of liquidity consisted of cash, cash equivalents and short-term investments of \$67.6 million. These amounts were invested primarily in certificates of deposit, U.S. treasury bills and U.S. treasury notes. 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 fell by 10% during the nine months ended September 30, 2008, our interest income would have declined approximately \$168,000, assuming consistent investment levels.

Auction Rate Securities

As of September 30, 2008, we held \$6.4 million in long-term investments consisting of \$4.3 million in auction rate securities and \$2.1 million in U.S. treasury notes. We generally invest in these securities for short periods of time as part of our investment policy. However, the recent uncertainties in the credit markets have prevented us and other investors from liquidating holdings of auction rate securities in recent auctions for these securities because the amount of securities submitted for sale has exceeded the amount of purchase orders. Accordingly, we still hold these long-term securities and are due interest at a higher rate than similar securities for which auctions have cleared. None of these investments are mortgage backed securities or collateralized debt obligations. As of September 30, 2008, all investments maintained at least a minimum A ratings. These securities were valued using a discounted cash flow 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. As of September 30, 2008, based on the valuation models and an analysis of the other-than-temporary impairment factors we recorded a pre-tax impairment charge of \$841,000 related to our auction rate securities. If the credit ratings of the issuer, the bond insurers or the collateral continue to deteriorate, we may further adjust the carrying value of these investments. We are uncertain as to when the liquidity issues relating to these investments will improve. Accordingly, we classified these securities as long-term as of September 30, 2008.

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 as and when required 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

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

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 and Mobile 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 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.

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;

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 mix of subscription-based versus project-based revenues;

changes in our customers' subscription renewal behaviors;

our ability to estimate revenues and cash flows associated with business operations acquired by us; the impact on our contract renewal rates, in particular for our subscription-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;

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 timing of costs related to the development or acquisition of technologies, services or businesses to support our existing customer base and potential growth opportunities;

the timing of any additional reversal of our deferred tax valuation allowance; 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. You should not 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 cause errors in our data collection and analysis systems. Any defect in our panelist data collection software, network systems, statistical projections or other methodologies could result in:

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.

Any material defect or error in our data collection systems could adversely affect our reputation and operating results.

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.

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 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 2002, we integrated our existing methodologies with those of Jupiter Media Metrix, which we had recently acquired. As part of this process, we discontinued reporting certain metrics. Some customers were dissatisfied and either terminated their subscriptions or failed to renew their subscriptions because of these changes. More recently, in 2008, as we integrate our existing methodologies into the product and services offered by M:Metrics, some customers may become dissatisfied and decide not to continue purchasing their subscriptions. Future changes to our methodologies or the information we collect may cause similar customer dissatisfaction and result in loss of customers.

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.

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 79%, 75% and 70% of our revenues in 2007, 2006 and 2005, 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 you that current subscriptions will be renewed at the same or higher price levels, 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 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. We have limited historical data with respect to rates of customer subscription renewals, so we cannot accurately predict 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 prices or functionality of our products, the prices or functionality of products offered by our competitors, mergers and acquisitions affecting our customer base or reductions in our customers' spending levels.

Conditions and changes in the national and global economic and political environments 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 slow, recede or 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 become increasingly negative, and global financial markets have experienced a severe downturn stemming from a multitude of factors, including adverse credit conditions impacted by the subprime-mortgage crisis, slower economic activity, concerns about inflation and deflation, increased energy costs, decreased consumer confidence, reduced corporate profits and capital spending, adverse business conditions and liquidity concerns and other factors. Economic growth in the U.S. and in many other countries slowed in the fourth quarter of 2007, remained slow for the first three quarters of 2008, and is expected to slow further or recede in the fourth quarter of 2008 in the U.S. and internationally. During challenging economic times, and in tight credit markets, many customers may delay or reduce spending. 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. 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.

Recent turmoil in the political environment in many parts of the world, including terrorist activities and military actions, the continuing tension in and surrounding Iraq, 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.

Concern over spyware and privacy, including any violations of privacy laws or perceived misuse of personal information, 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 sources media have recently expressed concern over the collection of online usage information from cable providers and telecommunications operators to facilitate targeted Internet advertising. A similar concern has been raised by regulatory agencies in the United Kingdom. While our data collection is not used to target advertisements to users, such criticisms may have a chilling effect on businesses that collect or use online usage information generally. Additionally, public concern has increased recently 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 if a third party were to gain unauthorized access to the personally identifiable 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. For example, California law requires companies that maintain data on California residents to inform individuals of any security breaches that result in their personal information being stolen. 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. 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, either of which could adversely affect our business and operating results.

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:

large and small companies that provide data and analysis of consumers' online behavior, including Compete Inc., Google, Inc., Hitwise Pty. Ltd., Quantcast and Nielsen/NetRatings;

online advertising companies that provide measurement of online ad effectiveness, including aQuantive, Inc., DoubleClick Inc., 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 Arbitron Inc., Nielsen Media Research, Inc. and Taylor Nelson Sofres plc;

analytical services companies that provide customers with detailed information of behavior on their own Web sites, including Omniture, Inc., Visual Sciences and WebTrends Corporation;

full-service market research firms and survey providers that may measure online behavior and attitudes, including Harris Interactive Inc., Ipsos Group, Taylor Nelson Sofres plc and The Nielsen Company; and

specialty information providers for certain industries that we serve, including IMS Health Incorporated (healthcare) and Nielsen Mobile, Inc. (telecommunications).

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 even 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, which could adversely affect our results of operations.

We have experienced significant growth in recent periods. We have substantially expanded our overall business, customer base, headcount, data collection and processing infrastructure and operating procedures as our business has grown. We increased our total number of full time employees to 452 employees as of December 31, 2007 from 176 employees as of December 31, 2003, and we expect to continue to expand our workforce to meet our strategic objectives. In addition, during this same period, we made substantial investments in our network infrastructure operations as a result of our growth, 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 our expected future growth. If we continue to grow, our current systems and facilities may not be adequate. Our need to effectively manage our operations and growth 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 growth, our business may be impaired.

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. 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 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 years ended December 31, 2007, 2006 and 2005, we derived over 37%, 39% and 41%, respectively, of our total revenues from our top 10 customers. Uncertain economic conditions or other factors, such as the failure or consolidation of large financial institutions, may cause certain large customers to terminate or reduce their subscriptions. 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 years ended December 31, 2007, 2006 and 2005, we derived approximately 13%, 12% and 14%, respectively, 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.

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 plan to continue to expand 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. 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 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 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 and Europe; 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 2007 and 2006 of \$19.3 million and \$5.7 million, respectively, we have incurred significant losses in prior periods, including net losses of \$4.4 million and \$3.2 million in 2005 and 2004, respectively. We cannot assure you that we will continue to sustain or increase profitability in the future. As of September 30, 2008, we had an accumulated deficit of \$76.0 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 prices 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 prices for our products that our existing and potential customers will find acceptable. 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 at the prices we have historically charged. As a result, it is possible that future competitive dynamics in our market may require us to reduce our prices, 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 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, 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 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 products that link online activity to offline purchases. 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 October 2010, if not renewed, and our agreement for our data center facility located in Illinois expires in July 2009, 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.

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.

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.

We have very 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:

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

- 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 or that we will be able to recruit a representative sample for our audience measurement 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 recently taken steps 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.

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, our exposure to foreign currency risk could become more significant.

Recently, the value of the U.S. Dollar has appreciated significantly 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 price of 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.

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, online publishers and advertisers have recently started to use Asynchronous JavaScript and XML, or AJAX, a development technique that allows Web applications to quickly make incremental updates without having to refresh the entire Web page. AJAX may make page views a less useful metric for measuring the usage and effectiveness of online media. If our products are not effective at addressing evolving customer needs that result from increased AJAX usage, our business may be harmed. Similarly, technological advances in the handheld device industry may lead to changes in our customers' requirements. 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. 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 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 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 two 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 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. 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 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. On April 19, 2007, we received a letter from the IAB, citing discrepancies between our audience measurement data, those of our competitors and those provided by the server logs of IAB's member organizations. In its letter, the IAB asked us to submit to an independent audit and accreditation process of our audience measurement systems and processes. In September 2007, we began a full audit to obtain accreditation by the Media Ratings Council. Any standards adopted by the IAB or similar organizations 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 need additional personnel to grow our business, and 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.

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.

We recently closed a large acquisition of M:Metrics and are in the process of integrating this business into our own. 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. 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; 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. For example, we have yet to realize net income and positive cash flow benefits from our acquisition of M:Metrics.

Changes in, or interpretations of, accounting rules and regulations, including recent rules and regulations regarding expensing of stock options, 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 this Annual Report on Form 10-K.

On December 16, 2004, the FASB issued SFAS No. 123R (revised 2004), *Share-Based Payment*, which is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123R). SFAS No. 123R supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and amends SFAS No. 95, *Statement of Cash Flows*. Generally, the approach in SFAS No. 123R is similar to the approach described in SFAS No. 123. However, SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. We were required to adopt SFAS No. 123R on January 1, 2006, and have adopted it as of that date.

As permitted by SFAS No. 123, we accounted for share-based payments to employees through December 31, 2005 using APB Opinion No. 25's intrinsic value method and, as such, generally recognized no compensation cost for employee stock options. Accordingly, the adoption of SFAS No. 123R's fair value method has had a significant impact on the presentation of our results of operations, although it has not impacted our overall financial position. The long-term impact of adoption of SFAS No. 123R cannot be predicted at this time because it will depend on levels of share-based payments granted in the future and the assumptions for the variables which impact the computation of the fair value of any such grants.

Historically, we have used stock options as part of our compensation programs to motivate and retain existing employees and to attract new employees. Because we are now required to expense stock options, we may choose to reduce our reliance on stock options as part of our compensation packages. If we reduce our use of stock options, it may be more difficult for us to retain and attract qualified employees. If we do not reduce our use of stock options, our expenses in future periods may increase. Beginning in 2007, we issued restricted stock awards and restricted stock units, and we expect to reduce our use of stock options as a form of stock-based compensation, but we cannot be certain whether or how our stock-based compensation policy will change in the future.

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 for each year beginning with the year ending December 31, 2008. That report must include management's assessment of the effectiveness of our internal control over financial reporting as of the end of that and each subsequent fiscal year. Additionally, our independent registered public accounting firm will be required to issue a report on management's assessment of our internal control over financial reporting and 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. In addition, we cannot assure you that we will be able to complete the work necessary for our management to issue its management report in a timely manner, or that we will be able to complete any work required for our management to be able to conclude that our internal control over financial reporting is operating effectively. 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 as of December 31, 2008. 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 experienced changes in control that have triggered the limitations of Section 382 of the Internal Revenue Code on our net operating loss carryforwards. As a result, we may be limited in the portion 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, 2008, we had federal and state net operating loss carryforwards for tax purposes of approximately \$67.2 million and \$31.2 million, respectively. These net operating loss carryforwards begin to expire in 2020 for federal income tax reporting purposes and begin to expire in 2014 for state income tax reporting purposes.

In addition, at September 30, 2008 we had aggregate net operating loss carryforwards for tax purposes related to our foreign subsidiaries of \$9.6 million, which begin to expire in 2010.

As of September 30, 2008, we had a valuation allowance of \$26.4 million against certain deferred tax assets, which consisted principally of net operating loss carryforwards. We have continued to evaluate our valuation allowance position on a regular basis. After weighing both the positive and negative evidence, management believed that it was more likely than not that a portion of its deferred tax assets will be realized. Therefore, during 2007, we recognized a deferred tax asset of approximately \$8.1 million based on our projected pre-tax income for 2008. If we determine that future reversals of our valuation allowance are appropriate, it may have a material impact on our results of operations.

During 2008, it is expected that the deferred tax asset recognized in 2007 will decrease each quarter as the net deferred tax asset is utilized. Therefore, we expect that we will have a normalized effective tax rate in the interim periods in 2008 for GAAP reporting purposes, with no tax impact on operating and free cash flow. On a quarterly basis throughout 2008, we will re-evaluate the realizability of our deferred tax assets for any material events. We will also consider the impact of full-year 2008 operating results, additional evidence concerning the predictability of our revenue streams and forecasts of future income.

We periodically assess the likelihood that we will be able to recover our deferred tax assets. 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 profits. As a result of this analysis of all available evidence, both positive and negative, we concluded that a partial valuation allowance against deferred tax assets should be applied as of December 31, 2007. 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 will recognize an income tax benefit in the period such determination is made for the reversal of the valuation allowance. Once the valuation allowance is eliminated or reduced, its reversal will no longer be available to offset our current tax provision. 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. ***We face the risk of a decrease in our cash balances and losses in our investment portfolio.***

Investment income has become a more substantial component of our net income. 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 and high-quality, well-collateralized asset-backed securities. We do not hold any sub-prime mortgages or structured investment vehicles. We do not invest in below investment-grade securities.

Our investments in adjustable rate securities are subject to risks which may cause losses and affect the liquidity of these investments.

As of September 30, 2008, our principal sources of liquidity consisted of cash, cash equivalents and short-term investments of \$67.6 million. As of September 30, 2008 we held \$6.4 million in long-term investments consisting of \$4.3 million in auction rate securities, with a par value of \$5.1 million, and \$2.1 million in other long-term fixed income securities. We generally invest in these securities for short periods of time as part of our investment policy. Auctions for some of these adjustable rate securities have failed, and there is no assurance that auctions on the remaining adjustable rate securities in our investment portfolio will succeed in the future. An auction failure means that the parties wishing to sell their securities could not do so. As a result, our ability to liquidate and fully recover the carrying value of our adjustable rate securities in the near term may be limited or not exist. These developments have resulted in the classification of some or all of these securities as long-term investments in our consolidated financial statements.

The recent uncertainties in the credit markets have prevented us and other investors from liquidating holdings of auction rate securities in recent auctions for these securities because the amount of securities submitted for sale has exceeded the amount of purchase orders. Accordingly, we still hold these long-term securities and are due interest at a higher rate than similar securities for which auctions have cleared. None of these investments are mortgage backed securities or collateralized debt obligations. As of December 31, 2007, certain of these investments were fully backed by AAA rated bonds and were insured against loss of principal and interest by bond insurers whose AAA ratings are under review. However, certain bond insurers are experiencing financial difficulty and have either had their credit ratings downgraded or have been placed on watch. As of September 30, 2008, all investments maintained A ratings. However, as of September 30, 2008 and December 31, 2007, five auction rate securities with a par value of \$5.1 million had failed their most recent auction and are considered illiquid. These securities were valued using a discounted cash flow 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. Based on the valuation models and an analysis of other-than-temporary impairment factors, we concluded during the nine months ended September 30, 2008 that some of our investments in auction rate securities have experienced an other-than-temporary decline in fair value. If the credit ratings of the issuer, the bond insurers or the collateral continue to deteriorate, we may further adjust the carrying value of these investments. We are uncertain as to when the liquidity issues relating to these investments will improve. Accordingly, we classified these securities as long-term as of September 30, 2008. If the issuers of these adjustable rate securities are unable to successfully close future auctions and their credit ratings deteriorate, we may in the future be required to record an impairment charge on these investments. We may be required to wait until market stability is restored for these instruments or until the final maturity of the underlying notes (up to 30 years) to recover our investment.

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;

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 could cause our stock price to decline.

If our existing stockholders sell, or indicate an intention to sell, substantial amounts of our common stock in the public market, the trading price of our common stock could decline. These sales could also make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate.

Insiders have substantial control over the outstanding shares of our common stock, which could limit your ability to influence the outcome of key transactions, including a change of control.

Our directors, executive officers and each of our stockholders who own greater than 5% of our outstanding common stock and their affiliates, in the aggregate, together beneficially own a majority of the outstanding shares of our common stock. As a result, these stockholders, if acting together, would be able to influence or control matters requiring approval by our stockholders, including the election of directors and the approval of mergers, acquisitions or other extraordinary transactions. They may have interests that differ from yours and may vote in a way with which you disagree and which may be adverse to your interests. This concentration of ownership may have the effect of delaying, preventing or deterring a change of control of our company, could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our company and might affect the market price of our common stock.

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 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.

67

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**(a) Unregistered Sales of Equity Securities during the Three Months Ended September 30, 2008**

None.

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

On June 26, 2007, our Registration Statements on Form S-1, as amended (Reg. Nos. 333-131740 and 333-144071) were declared effective in connection with the initial public offering of our common stock, pursuant to which we registered an aggregate of 6,095,000 shares of our common stock, of which we sold 5,000,000 shares and certain selling stockholders sold 1,095,000 shares, including the underwriters' over-allotment, at a price to the public of \$16.50 per share. We received net proceeds of approximately \$73.1 million after deducting discounts, commissions and related costs as well as the net proceeds received by selling stockholders from the gross proceeds.

The principal purposes of the offering were to create a public market for our common stock and to facilitate our future access to the public equity markets, as well as to obtain additional capital. Except as discussed below, we currently have no specific plans for the use of a significant portion of the net proceeds of the offering. However, we anticipate that we will use the net proceeds from the offering for general corporate purposes, which may include working capital, capital expenditures, other corporate expenses and acquisitions of complementary products, technologies or businesses. We expect to use approximately \$4 million of the net proceeds for capital expenditures related to computer hardware and equipment as well as office improvements. We used \$44.5 million for the acquisition of M:Metrics, Inc. We currently have no other agreements or commitments with respect to acquisitions of complementary products, technologies or businesses. The timing and amount of our actual expenditures will be based on many factors, including cash flows from operations and the anticipated growth of our business.

Pending the uses described above, we intend to continue to invest the net proceeds in a variety of short-term, interest-bearing, investment grade securities. There has been no material change in the planned use of proceeds from our initial public offering from that described in the final prospectus filed by us with the SEC pursuant to Rule 424(b) on June 28, 2007.

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

During the three months ended September 30, 2008, 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:

| | | | <i>Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased</i> |
|---|--|--|--|
| <i>Total Number of Shares (or Units) Purchased(1)</i> | <i>Average Price Per Share (or Unit)</i> | <i>Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans of Programs</i> | <i>Under the Plans or Programs</i> |
| | | | |

| | | | |
|-------------|--------------------|--------|----------|
| July 1 | July 31, 2008 | 12,527 | \$ 16.31 |
| August 1 | August 31, 2008 | 16,932 | \$ 0.00 |
| September 1 | September 30, 2008 | 3,535 | \$ 0.00 |
| Total | | 32,994 | |

(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.

For the three months ended September 30, 2008, 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 Number of Shares Purchased</i> | <i>Average Price Per Share</i> |
|--------------------------------|--|---|
| July 1 July 31, 2008 | 2,788 | \$ 0.00 |
| August 1 August 31, 2008 | 16,932 | \$ 0.00 |
| September 1 September 30, 2008 | 3,535 | \$ 0.00 |
| Total | 23,255 | |

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, 2008, these shares consisted of the following:

| | <i>Total Number of Shares Purchased</i> | <i>Average Price Per Share</i> |
|--------------------------------|--|---|
| July 1 July 31, 2008 | 9,739 | \$ 20.98 |
| August 1 August 31, 2008 | | |
| September 1 September 30, 2008 | | |
| Total | 9,739 | |

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Quarterly Report on Form 10-Q to be signed on its behalf by the undersigned thereunto duly authorized.

comScore, Inc.

/s/ John M. Green

John M. Green

Chief Financial Officer

(Principal Financial Officer and Duly Authorized Officer)

Date: November 13, 2008

71

EXHIBIT INDEX

| Exhibit Number | Description |
|-----------------------|--|
| 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 parentheses indicates the corresponding exhibit number in such Form S-1. |