

COMSCORE, INC.
Form 10-Q
May 15, 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 March 31, 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)

11465 Sunset Hills Road, Suite 200
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
(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 May 14, 2008, there were 28,623,218 shares of the registrant's common stock outstanding.

comScore, Inc.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2008
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CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, including the sections entitled Management's Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosure About Market Risk under Items 2 and 3, respectively, of Part I of this report, and the sections entitled Legal Proceedings, Risk Factors, and Unregistered Sales of Equity Securities and Use of Proceeds under Items 1, 1A and 2, respectively, of Part II of this report, may contain forward-looking statements. These statements may relate to, but are not limited to, expectations of future operating results or financial performance, capital expenditures, introduction of new products, regulatory compliance, plans for growth and future operations, as well as assumptions relating to the foregoing. Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. These risks and other factors include, but are not limited to, those listed under the section entitled Risk Factors in Item 1A of Part II of this Quarterly Report on Form 10-Q. In some cases, you can identify forward-looking statements by terminology such as may, will, should, could, expect, plan, anticipate, believe, estimate, predict, continue, seek or the negative of these terms or other comparable terminology. These statements are only predictions. Actual events and/or results may differ materially.

We believe that it is important to communicate our future expectations to our investors. However, there may be events in the future that we are not able to accurately predict or control and that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements. Except as required by applicable law, including the securities laws of the United States and the rules and regulations of the 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**

	March 31, 2008	December 31, 2007
	(Unaudited)	
	(In thousands, except share and per share data)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 54,139	\$ 68,368
Short-term investments	49,227	28,449
Accounts receivable, net of allowances of \$277 and \$234, respectively	24,796	23,446
Prepaid expenses and other current assets	1,947	1,620
Restricted cash		1,385
Deferred tax asset	129	176
Total current assets	130,238	123,444
Long-term investments	8,271	7,924
Property and equipment, net	9,506	6,867
Other non-current assets	163	168
Long-term deferred tax asset	6,323	7,888
Intangible assets, net	10	17
Goodwill	1,364	1,364
Total assets	\$ 155,875	\$ 147,672
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 964	\$ 1,140
Accrued expenses	6,404	6,838
Deferred revenues	36,838	33,045
Deferred rent	366	154
Capital lease obligations	919	900
Total current liabilities	45,491	42,077
Capital lease obligations, long-term	740	977
Deferred rent, long-term	2,482	181
Total liabilities	48,713	43,235
Commitments and contingencies		
Common Stock subject to put; 135,635 shares issued and outstanding at March 31, 2008 and December 31, 2007	1,815	1,815
Stockholders' equity		
Preferred stock, \$0.001 par value per share; 5,000,000 shares authorized at March 31, 2008 and December 31, 2007; no shares issued or outstanding at March 31, 2008 and December 31, 2007		

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Common stock, \$0.001 par value per share; 100,000,000 shares authorized at March 31, 2008 and December 31, 2007; 28,426,890 and 27,960,573 shares issued and outstanding at March 31, 2008 and December 31, 2007, respectively	28		28
Treasury stock, 97,002 and 24,677 shares at cost, at March 31, 2008 and December 31, 2007, respectively	(965)		
Additional paid-in capital	184,888		183,433
Accumulated other comprehensive (loss) income	(295)		1
Accumulated deficit	(78,309)		(80,840)
Total stockholders' equity	105,347		102,622
Total liabilities and stockholders' equity	\$ 155,875	\$	147,672

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

COMSCORE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended March 31,	
	2008	2007
	(Unaudited)	
	(In thousands except share and per share data)	
Revenues	\$ 26,370	\$ 18,681
Cost of revenues (excludes amortization of intangible assets resulting from acquisitions shown below)(1)	7,017	5,388
Selling and marketing(1)	8,945	6,451
Research and development(1)	3,070	2,556
General and administrative(1)	3,886	2,507
Amortization of intangible assets resulting from acquisitions	7	293
Total expenses from operations	22,925	17,195
Income from operations	3,445	1,486
Interest income, net	819	97
Loss from foreign currency	(55)	(8)
Revaluation of preferred stock warrant liabilities		11
Income before income taxes	4,209	1,586
Provision for income taxes	(1,678)	(46)
Net income	2,531	1,540
Accretion of redeemable preferred stock		(885)
Net income attributable to common stockholders	\$ 2,531	\$ 655
Net income attributable to common stockholders per common share:		
Basic	\$ 0.09	\$ 0.00
Diluted	\$ 0.08	\$ 0.00
Weighted-average number of shares used in per share calculation common stock:		
Basic	28,200,934	4,196,736
Diluted	29,998,490	4,196,736
Net income attributable to common stockholders per common share subject to put:		
Basic	\$ 0.09	\$ 0.09
Diluted	\$ 0.08	\$ 0.09
Weighted-average number of shares used in per share calculation common share subject to put:		
Basic and diluted	135,635	347,635

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

Cost of revenues	\$	141	\$	9
Selling and marketing		421		39
Research and development		114		8
General and administrative		467		51
Comprehensive income:				
Net income	\$	2,531	\$	1,540
Other comprehensive income:				
Foreign currency cumulative translation adjustment		(77)		5
Unrealized loss on marketable securities		(219)		
Total comprehensive income	\$	2,235	\$	1,545

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

COMSCORE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31, 2008 2007	
	(Unaudited)	
	(In thousands)	
Operating activities		
Net income	\$ 2,531	\$ 1,540
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,035	861
Amortization of intangible assets resulting from acquisitions	7	293
Provisions for bad debts	65	51
Stock-based compensation	1,143	107
Revaluation of preferred stock warrant liabilities		(11)
Amortization of deferred finance costs		1
Deferred rent	(25)	(37)
Deferred tax provision (benefit)	1,613	(19)
Changes in operating assets and liabilities:		
Accounts receivable, net	(1,467)	(843)
Prepaid expenses and other current assets	(326)	(3)
Other non-current assets	2	(6)
Accounts payable, accrued expenses, and other liabilities	(648)	(1,184)
Deferred rent	2,541	
Deferred revenues	3,864	2,406
Net cash provided by operating activities	10,335	3,156
Investing activities		
Recovery (payment of) restricted cash	1,385	(2)
Purchase of investments	(51,793)	(1,575)
Sales and maturities of investments	30,450	1,100
Purchase of property and equipment	(3,682)	(494)
Net cash used in investing activities	(23,640)	(971)
Financing activities		
Proceeds from the exercise of common stock options and warrants	369	140
Repurchase of common stock	(965)	
Principal payments on capital lease obligations	(218)	(665)
Net cash used in financing activities	(814)	(525)
Effect of exchange rate changes on cash	(110)	14
Net (decrease) increase in cash and cash equivalents	(14,229)	1,674

Cash and cash equivalents at beginning of period	68,368	5,032
Cash and cash equivalents at end of period	\$ 54,139	\$ 6,706
Supplemental cash flow disclosures		
Accretion of preferred stock	\$	\$ 885

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

COMSCORE, INC.
NOTES TO 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 (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.

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.

Certain amounts in the prior period financial statements have been reclassified to conform to the current period presentation.

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 months ended March 31, 2008 are not necessarily indicative of the results to be anticipated for the entire year ending December 31, 2008 or thereafter. All references to March 31, 2008 and 2007 or to the three months ended March 31, 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 CONSOLIDATED FINANCIAL STATEMENTS (continued)

Cash and Cash Equivalents, Investments, and Restricted Cash

Cash and cash equivalents consist of highly liquid investments. Cash and cash equivalents consists 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 and declines in value judged to be other-than-temporary, if any, on available-for-sale securities are included in interest income. Interest and dividends on securities classified as available-for-sale are included in interest income. The Company uses the specific identification method to compute realized gains and losses on its investments.

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 \$857,000 and \$190,000 for the three months ended March 31, 2008 and 2007, respectively.

Accounts Receivable

Accounts receivable are recorded at the invoiced amount and are non-interest bearing. The Company generally grants uncollateralized credit terms to its customers and maintains an allowance for doubtful accounts to reserve for potentially uncollectible receivables. Allowances are based on management's judgment, which considers historical experience and specific knowledge of accounts where 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; 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 Company generally uses the replacement cost approach for estimating the value of acquired technology/methodology assets. The income approach converts the anticipated economic benefits that the Company assumes will be realized from a given asset into value. Under this approach, value is measured as the present worth of anticipated future net cash flows generated by an asset. The Company generally uses the income approach to value customer relationship assets and non-compete agreements. The market approach compares the

acquired asset to similar assets that have been sold. The Company generally uses the market approach to value trademarks and brand assets.

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 the Company's goodwill is associated with one reporting unit. Accordingly, on an annual basis the Company performs the impairment assessment for goodwill required under SFAS 142 at the enterprise level. The Company completed its 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 March 31, 2008.

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

	Useful Lives (Years)
Non-compete agreements	3 to 4
Customer relationships	1 to 3
Acquired methodologies/technology	1 to 3
Trademarks and brands	2

COMSCORE, INC.**NOTES TO 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 addressed 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 months ended March 31, 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 foreign currency transaction losses of \$55,000 and \$8,000 for the three months ended March 31, 2008 and 2007. 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.

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

Prior to January 1, 2006, the Company accounted for its stock-based compensation plans under the recognition and measurement provisions of Accounting Principles Board Opinion No. 25 (APB 25), *Accounting for Stock Issued to Employees*, and related interpretations, as permitted by SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS 123). Effective January 1, 2006, the Company adopted SFAS No. 123 (R), *Share-Based Payment* (SFAS 123R), including the fair value recognition provisions, using the prospective method. Under SFAS 123R, a non-public company that previously used the minimum value method for pro forma disclosure purposes is required to adopt the standard using the prospective method. Under the prospective method, all awards granted, modified or settled after the date of adoption are accounted for using the measurement, recognition and attribution provisions of SFAS 123R. As a result, stock-based awards granted prior to the date of adoption of SFAS 123R will continue to be accounted for under APB 25 with no recognition of stock-based compensation in future periods, unless such awards are modified or settled. Subsequent to the adoption of SFAS 123R, the Company estimates the value of stock-based awards on the date of grant using the Black-Scholes option-pricing model. 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 \$1.1million and \$107,000 for the three months ended March 31, 2008 and 2007, respectively.

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

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 March 31, 2008 and December 31, 2007, the Company had unrecognized tax benefits of \$71,000 on a tax effected basis, all of which would effect the Company's tax rate if recognized.

Earnings Per Share

The Company computes earnings per share in accordance with the provisions of FASB 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. In periods of undistributed losses, all losses are allocated to common stock in accordance with EITF 03-06 as the holders of Common Stock Subject to Put and participating preferred stock are not required to fund losses nor are their redemption or put prices reduced as a result of losses incurred. In periods of undistributed income, income is first allocated to the participating preferred stock for their preferential dividend, currently \$7.1 million per annum. Any undistributed earnings remaining are 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 are 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. 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 for the period prior to conversion. 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	
	March 31,	
	2008	2007
	(Unaudited)	
Stock options and restricted stock units	9,171	2,557,884
Convertible preferred stock warrants		113,129
Common stock warrants	2,000	62,057
Convertible preferred stock		17,257,362

COMSCORE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

	Three Months Ended	
	March 31,	
	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	\$ 2,531	\$ 1,540
Accretion of redeemable preferred stock		(885)
Accretion of common stock subject to put		(33)
Undistributed earnings	2,531	622
Allocation of undistributed earnings:		
Common stock	2,531	
Preferred stock		622
Total allocated earnings	\$ 2,531	\$ 622
Net income attributable to common stockholders per common share:		
Basic	\$ 0.09	\$ 0.00
Diluted	\$ 0.08	\$ 0.00
Weighted-average shares outstanding-common stock:		
Basic	28,200,934	4,196,736
Diluted	29,998,490	4,196,736
Net income attributable to common stockholders per common share subject to put:		
Basic	\$ 0.09	\$ 0.09
Diluted	\$ 0.08	\$ 0.09
Weighted-average shares outstanding-common stock subject to put:		
Basic	135,635	347,635
Diluted	135,635	347,635

Recent Pronouncements

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 2007), *Business Combinations* (SFAS No. 141(R)). SFAS No. 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS No. 141(R) also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS No. 141(R) 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. 141(R) on its consolidated results of operations and financial position.

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.

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

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (*SFAS No. 157*). The purpose of this statement is to define fair value, establish a framework for measuring fair value and enhance disclosures about fair value measurements. The measurement and disclosure requirements are effective for the Company as of January 1, 2008 and are applied prospectively. In February 2008, the FASB agreed to delay the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis, to fiscal years beginning after November 15, 2008. The Company adopted SFAS No. 157 on January 1, 2008 except as it applies to those non-financial assets and non-financial liabilities. The adoption of SFAS No. 157 for financial assets and liabilities did not have a material impact on our consolidated results of operations or financial position. See Note 3. Investments and Fair Value Measurements.

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 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. Investments and Fair Value Measurements

As of March 31, 2008, the Company had \$4.5 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 are classified as current, short-term investments and \$4.9 million are 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 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 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 difficulty and have either had their credit ratings downgraded or have been placed on watch. As of March 31, 2008, all investments maintained investment grade ratings. As of March 31, 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 financial condition of the issuers and the bond insurers, as well as the expected date liquidity will be restored. If the credit ratings of the issuer, the bond insurers or the collateral continues to deteriorate, we may further adjust the carrying value of these investments.

The Company is uncertain as to when the liquidity issues relating to these investments will improve. Accordingly, we classified these securities as non-current as of March 31, 2008 and December 31, 2007.

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

Purchased Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Aggregate Fair Value	Classification on Balance Sheet	
				Short-Term Investments	Long-Term Investments

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(In thousands)

As of March 31, 2008:

U.S. treasury notes	\$ 52,798	\$ 157	\$	\$ 52,955	\$ 49,227	\$ 3,728
Auction rate securities	5,100		(557)	4,543		4,543
	\$ 57,898	\$ 157	\$ (557)	\$ 57,498	\$ 49,227	\$ 8,271

COMSCORE, INC.
NOTES TO 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:						
US 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

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 March 31, 2008 and 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
As of March 31, 2008						
Auction rate securities	\$ 4,543	\$ (557)	\$	\$	\$ 4,543	\$ (557)
	\$ 4,543	\$ (557)	\$	\$	\$ 4,543	\$ (557)

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

The unrealized losses on the investments were due primarily to changes in market conditions and overall lack of demand for auction rate securities. For all investments, it is expected that the investments will not be settled at a price less than the amortized cost of the investment. Because the Company has the ability and intent to hold these investments until an anticipated recovery of the fair value, the Company does not consider these investments to be

other-than temporarily impaired as of March 31, 2008 and December 31, 2007.

Fair Value Measurements

The Company adopted SFAS No. 157, on January 1, 2008. 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; and (Level 3) unobservable inputs in 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.

COMSCORE, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****4. Property and Equipment**

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

	March 31, 2008	December 31, 2007
	(Unaudited)	
	(In thousands)	
Computer equipment	\$ 12,146	\$ 16,050
Computer software	2,684	2,529
Office equipment and furniture	1,936	1,408
Leasehold improvements	3,209	1,070
	19,975	21,057
Less: accumulated depreciation and amortization	(10,469)	(14,190)
	\$ 9,506	\$ 6,867

During the three months ended March 31, 2008, the Company capitalized \$2.5 million of leasehold improvements, furniture and fixtures and office equipment associated with landlord allowances received in connection with our Chicago office lease (see Note 5).

During the three months ended March 31, 2008, \$4.7 million of fully depreciated assets were written off.

For the three months ended March 31, 2008 and 2007, total depreciation expense was \$1.0 million and \$861,000, respectively.

5. Commitments and Contingencies***Leases***

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 expects to move its corporate headquarters in June 2008 when its current lease expires. In connection with this lease, the Company expects to record approximately \$5.2 million of deferred rent and capitalized assets as 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.

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 March 31, 2008, no amounts were borrowed against the line of credit. The agreement contains no restrictive covenants.

As of March 31, 2008, the Company is required to maintain letters of credit in the amount of approximately \$3.8 million as additional security deposit pertaining to operating leases. 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. As of March 31, 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 asserted claims as of March 31, 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

6. Income Taxes

As of March 31, 2008 and December 31, 2007, the Company had a valuation allowance of \$21.4 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 March 31, 2008, the Company has concluded that there were no events during the quarter that would result in a revaluation of its valuation allowance against deferred tax assets but 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

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 three months ended March 31, 2008. During the three months ended March 31, 2008 and 2007 the Company recorded an income tax provision of \$1.7 million and \$46,000, respectively. The tax provision for the three months ended March 31, 2008 was due primarily to current taxes of \$65,000 and the utilization of the Company's U.S. deferred tax assets of \$1.7 million, offset by a discrete release of the valuation allowance of \$111,000 associated with a foreign entity. The tax provision for the three months ended March 31, 2007 was comprised of an income tax expense of \$65,000, reflecting the Company's U.S. alternative minimum tax and was partly offset by a decrease of \$19,000 in the deferred tax liability associated with a temporary difference related to certain acquired intangible assets. The utilization of the Company's U.S. deferred tax assets for the three months ended March 31, 2007 was entirely offset by a corresponding release of the valuation allowance.

COMSCORE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

As of March 31, 2008 and December 31, 2007, the Company has \$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 March 31, 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 quarter 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 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.

7. 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. 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. As of March 31, 2008, 1,425,094 shares were available for grant under the 2007 Plan.

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

During the three months ended March 31, 2008, no stock options were granted. 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				
Options exercised	202,768	\$ 1.57		\$ 4,077
Options forfeited	12,448	\$ 5.55		
Options expired	83	\$ 7.03		
Options outstanding at March 31, 2008	1,824,135	\$ 2.03	6.31	\$32,886
Options exercisable at March 31, 2008	1,488,760	\$ 1.27	6.00	\$27,972

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 March 31, 2008. The aggregate intrinsic value of stock option awards exercised was determined at the date of the option exercise. As of March 31, 2008, total unrecognized compensation expense related to non-vested stock options granted prior to that date is estimated at \$677,000, which the Company expects to recognize over a weighted average period of approximately 1.27 years. Total unrecognized compensation expense is estimated and may be increased or decreased in future periods for subsequent grants or forfeitures.

The Company's nonvested stock awards are comprised of restricted stock and restricted stock units. The Company has a right of repurchase on such shares that lapse at a rate of twenty-five percent (25%) of the total shares awarded at each successive anniversary of the initial award date, provided that the employee continues to provide services to the Company. In the event that an employee terminates their employment with the Company, any shares that remain unvested and consequently subject to the right of repurchase shall be automatically reacquired by the Company at the original purchase price paid by the employee. As of March 31, 2008, 47,450 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 March 31, 2008 is presented as follows:

Nonvested Stock Awards	Restricted Stock	Restricted Stock Units	Total Number of Shares Underlying Awards	Weighted Average Grant-Date Fair Value
Nonvested at December 31, 2007	771,783	63,727	835,510	\$ 14.08
Granted	325,356	27,932	353,288	22.62
Vested	143,381	12,575	155,956	11.25

Forfeited	22,773	10,702	33,475	17.07
Nonvested at March 31, 2008	930,985	68,382	999,367	\$ 17.44

The aggregate intrinsic value for all non-vested shares of restricted common stock and restricted stock units outstanding as of March 31, 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 March 31, 2008 was 3.4 years.

We granted nonvested stock awards at no cost to recipients during the three months ended March 31, 2008. As of March 31, 2008, total unrecognized compensation expense related to non-vested restricted stock and restricted stock units was \$16.2 million, which the Company expects to recognize over a weighted average period of approximately 2.22 years. Total unrecognized compensation expense may be increased or decreased in future periods for subsequent grants or forfeitures.

Of the 155,956 shares of the Company's restricted stock and restricted stock units vesting on March 25, 2008, the Company repurchased 49,552 shares on March 25, 2008 at an aggregate purchase price of approximately \$965,000 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 March 31, 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	1,425,094
Common stock available for outstanding options and restricted stock units	1,892,517
Common stock warrants	26,375
	3,343,986

COMSCORE, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****8. Related Party Transactions**

During December 2007, the Company entered into a services agreement with an aggregated value of approximately \$150,000 with a third party for which the Chairman of the Board of the Company is also a member of the third party's board of directors. During the three months ended March 31, 2008, the related project was completed and the Company issued payments for services performed to the third party in the amount of \$124,000. The Company entered into another services arrangement with the same third party for an aggregated value of \$78,000 during the three months ended March 31, 2008. As of March 31, 2008, \$78,000 was payable to the third party.

On August 1, 2003, the Company entered into a Licensing and Services Agreement with a counterparty that until November 27, 2006 was a stockholder of the Company. Pursuant to the terms of the Licensing and Services Agreement, the Company granted the counterparty a license to certain digital marketing intelligence data and products. During each of the three month periods ended March 31, 2008 and 2007 the Company recognized revenues of \$925,000. In relation to this counterparty, there were no outstanding amounts included in our accounts receivable balance as of March 31, 2008 and December 31, 2007.

9. Geographic Information

The Company attributes revenues to customers based on the location of the customer. The composition of the Company's sales to unaffiliated customers between those in the United States and those in other locations for the three months ended March 31, 2008 and 2007 is set forth below:

	Three Months Ended March 31, 2008 2007 (Unaudited) (In thousands)	
United States	\$ 23,017	\$ 16,884
Canada	1,413	845
United Kingdom/Other	1,940	952
Total Revenues	\$ 26,370	\$ 18,681

The composition of the Company's property, plant and equipment between those in the United States and those in other countries as of the end of each year is set forth below:

	March 31, 2008 (Unaudited) (In thousands)	December 31, 2007
United States	\$ 9,212	\$ 6,527
Canada	148	183
United Kingdom/Other	146	157
Total	\$ 9,506	\$ 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 Cautions 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 and through our comScore Marketing Solutions products. 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 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. We also launched 10 new products including Campaign Metrix, qSearch 2.0, Ad Metrix, Segment Metrix and comScore Marketer. 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. The total cost of the acquisition was approximately \$3.3 million, consisting of cash and shares of our common stock. 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. The total cost of the acquisition was approximately \$3.6 million, consisting of cash and shares of our common stock.

Our total revenues have grown to \$87.2 million during the fiscal year ending December 31, 2007 and \$26.4 million for the first quarter 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 \$22.9 million for the first quarter 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; and

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

As of March 31, 2008, we had 948 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.

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 81% during the three months ending March 31, 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 three months ended March 31, 2008, our international revenues were \$3.4 million, an increase of \$1.6 million or 88% over international revenues of \$1.8 million for the three months ended March 31, 2007. International revenues comprised approximately 9%, 12% and 13% of our total revenues for the fiscal years ended December 31, 2006 and 2007 and the three months ended March 31, 2008, respectively.

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

Subscription Revenues

We generate a significant proportion of our subscription-based revenues from our Media Metrix product family. Products within the Media Metrix family include Media Metrix 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 products are provided with login IDs to our Web site, have access to our database and can generate reports at anytime.

We also generate subscription-based revenues from certain reports and analyses provided through comScore Marketing Solutions, if that work is procured by customers for at least a nine month period and the customer enters into an agreement to continue or extend the work. Through our Marketing Solutions products, we deliver digital marketing intelligence relating to specific industries, such as automotive, consumer packaged goods, entertainment, financial services, media, pharmaceutical, retail, technology, telecommunications and travel. This marketing intelligence leverages our global consumer panel and extensive database to deliver information unique to a particular customer's needs on a recurring schedule, as well as on a continual-access basis. Our Marketing Solutions customer agreements typically include a fixed fee with an initial term of at least one year. We also provide these products on a non-subscription basis as described under *Project Revenues* below.

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

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.

In the second quarter of 2007, we launched Campaign Metrix, a suite of products that enables our customers to measure their return on investment from their investment in digital marketing campaigns and that we believe will help their revenue growth. Project revenues from Campaign Metrix will be generated when a customer accesses or downloads a report through our Web site. Pricing for our Campaign Metrix product is presently based on the scope of the information provided in the report generated by the customer.

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.

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 three months ended March 31, 2008. During the three months ended March 31, 2008 and 2007, we recognized an income tax provision of \$1.7 million and \$46,000, respectively. The tax provision for the three months ended March 31, 2008 was due primarily to current taxes of \$65,000 and the utilization of our U.S. deferred tax assets of \$1.7 million, offset by a discrete release of the valuation allowance of \$111,000 associated with a foreign entity. The tax provision for the three months ended March 31, 2007 was comprised of an income tax expense of \$65,000, reflecting our U.S. alternative minimum tax and was partly offset by a decrease of \$19,000 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 months ended March 31, 2007 was entirely offset by a corresponding release of valuation allowance.

As of March 31, 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 March 31, 2008 and December 31, 2007, the amount of accrued interest expense on unrecognized tax benefits was not material.

As of March 31, 2008 and December 31, 2007, we had a valuation allowance of \$21.4 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.

As of March 31, 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 but 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 (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 March 31, 2008 and December 31, 2007, we had unrecognized tax benefits of \$71,000 on a tax effected basis.

Stock-Based Compensation

Through December 31, 2005, as permitted by SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS 123), we applied the intrinsic value method for accounting for stock-based compensation as set forth in Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25). For purposes of the pro forma disclosures required under SFAS 123, we used the minimum-value method to estimate the fair value of our stock-based awards. On January 1, 2006, we adopted SFAS No. 123R, *Share-Based Compensation* (SFAS 123R). Under SFAS 123R, a non-public company that previously used the minimum value method for pro forma disclosure purposes is required to adopt the standard using the prospective method. Under the prospective method, all awards granted, modified or settled after the date of adoption are accounted for using the measurement, recognition and attribution provisions of SFAS 123R. As a result, stock-based awards granted prior to the date of adoption of SFAS 123R will continue to be accounted for under APB 25 with no recognition of stock-based compensation in future periods, unless such awards are modified or settled.

Subsequent to the adoption of SFAS 123R, we estimate the fair value of our stock-based awards on the date of grant using the Black-Scholes option-pricing model. The determination of fair value using the Black-Scholes model requires a number of complex and subjective variables. One key input into the model is the estimated fair value of our common stock on the date of grant. Prior to our IPO, our board of directors estimated the fair value of our common stock for the purpose of determining stock-based compensation expense. Our board utilized valuation methodologies commonly used in the valuation of private company equity securities for purposes of estimating the fair value of our common stock.

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 March 31, 2008, total estimated unrecognized compensation expense related to unvested stock-based awards granted prior to that date was \$16.8 million, which is expected to be recognized over a weighted-average period of 2.18 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 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.

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 March 31,	
	2008	2007
	(Unaudited)	
Revenues	100.0%	100.0%
Cost of revenues	26.6	28.8
Selling and marketing	33.9	34.5
Research and development	11.6	13.7
General and administrative	14.7	13.4
Amortization		1.6
Total expenses from operations	86.8	92.0
Income from operations	13.2	8.0
Interest income, net	3.1	0.5
Loss from foreign currency	(0.2)	
Revaluation of preferred stock warrant liabilities		
Income before income taxes	16.1	8.5
Provision for income taxes	(6.4)	(0.3)
Net income	9.7	8.2
Accretion of redeemable preferred stock		(4.7)
Net income attributable to common stockholders	9.7%	3.5%

Revenues

	Three Months Ended March 31,		Change	
	2008	2007	\$	%
	(Unaudited)			
	(In thousands)			
Total revenues	\$ 26,370	\$ 18,681	\$ 7,689	41.2%

Total revenues increased by approximately \$7.7 million in the three months ended March 31, 2008 as compared to the same period in 2007. The revenue growth was primarily due to increased sales to our existing customer base and growth of our customer base. Our total customer base grew by a net increase of 205 customers to 948 customers at March 31, 2008 from 743 at March 31, 2007. Sales to existing customers based in the U.S. totaling \$19.7 million in the three months ended March 31, 2008, which was \$5.1 million higher than in the same period in 2007. In addition, revenues in the three months ended March 31, 2008 from new U.S. customers were \$3.3 million, an increase of approximately \$1.0 million as compared to the three months ended March 31, 2007. Revenues from customers outside of the U.S. totaled approximately \$3.4 million, or approximately 13% of total revenues, in the three months ended March 31, 2008, which was an increase of \$1.6 million as compared to the same periods in 2007. This increase was due primarily to our ongoing expansion efforts in Europe, plus continued growth in Canada.

We experienced continued revenue growth in both our subscription revenues, which increased by approximately \$7.0 million from \$14.5 million in the three month ended March 31, 2007 to \$21.5 million in the three months ended March 31, 2008, and, to a lesser extent, our project-based revenues, which increased by \$700,000 from \$4.2 million in the three months ended March 31, 2007 to over \$4.9 million in the three months ended March 31, 2008.

Cost of Revenues

	Three Months Ended		Change	
	2008	2007	\$	%
		(Unaudited)		
		(In thousands)		
Total cost of revenues	\$7,017	\$5,388	\$1,629	30.2%
As a percentage of revenues	26.6%	28.8%		

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 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 \$1.6 million during the three months ended March 31, 2008 as compared to the three months ended March 31, 2007. This increase was primarily due to an approximately \$878,000 increase in employee salaries, benefits, and stock compensation costs associated with an expanded workforce supporting a larger product and customer base. We experienced an increase of approximately \$461,000 in increased costs paid to outside service vendors and incentives to our panel members related to the development of our products. We also experienced increases in panel, data and bandwidth costs of \$290,000 to support our consumer panel. Cost of revenues declined as a percentage of revenues by 2.2 percentage points during the three months ended March 31, 2008 over the same period in 2007. This decrease was primarily due to the increase in revenues as described above and a moderation of the increase in costs to build and maintain our panel. In addition, the headcount and costs associated with our technology staff grew at a lower rate than our growth in revenues.

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	
	2008	2007	\$	%
		(Unaudited)		
		(In thousands)		

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Total selling and marketing expense	\$8,945	\$6,451	\$2,494	38.7%
As a percentage of revenues	33.9%	34.5%		
	25			

Selling and marketing expenses consist primarily of salaries, benefits, commissions, bonuses, and stock 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 paid to a salesperson and are expensed as selling and marketing costs when a sales contract is executed by both the customer and us. In the case of multi-year agreements, one year of commissions is paid initially, with the remaining amounts paid at the beginning of the succeeding years.

Selling and marketing expenses increased by \$2.5 million during the three months ended March 31, 2008 as compared to the three months ended March 31, 2007. This increase was primarily due to a \$1.7 million increase 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 and an increase in commission and bonus costs associated with increased revenues. We also experienced a \$343,000 increase in non-cash stock-based compensation as compared to the same period in 2007. Our selling and marketing headcount totaled 212 employees as of March 31, 2008, an increase of 47 employees as compared to March 31, 2007. In addition, we experienced increases in consulting costs related to the development and launch of new products and advertising costs. Selling and marketing expenses as a percentage of revenues decreased in the three months ended March 31, 2008 as compared to the same period in 2007 due to increased sales generated by the additional sales personnel hired during the course of 2007.

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	
	2008	March 31, 2007	\$	%
		(Unaudited)		
		(In thousands)		
Total research and development expense	\$3,070	\$2,556	\$514	20.1%
As a percentage of revenues	11.6%	13.7%		

Research and development expenses include new product development costs, consisting primarily of salaries, benefits, stock 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 \$514,000 during the three months ended March 31, 2008 as compared to the three months ended March 31, 2007. This increase was primarily due to a \$538,000 increase in employee salaries, benefits, stock compensation and related costs associated with the increase in headcount and our continued focus on developing new products. We also experienced a small decrease in costs paid to outsourced service providers to support our development of new products. Research and development costs decreased as a percentage of revenues for the three months ended March 31, 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	
	2008	March 31, 2007	\$	%
		(Unaudited)		
		(In thousands)		
Total general and administrative expense	\$3,886	\$2,507	\$1,379	55.0%
As a percentage of revenues	14.7%	13.4%		

General and administrative expenses consist primarily of salaries, benefits, stock 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 \$1.4 million during the three months ended March 31, 2008 as compared to the three months ended March 31, 2007. This increase was primarily due to increased costs associated with our obligations as a public company that did not apply in the first quarter of 2007. Our professional fees, insurance costs, franchise taxes and board compensation increased by approximately \$423,000 during the three months ended March 31, 2008 as compared to the same period in 2007. We also experienced increases in employee salaries, benefits and related costs of almost \$255,000 associated with our expanding finance, legal and human capital departments. In addition, non-cash stock-based compensation increased \$416,000 as compared to the prior year. General and administrative expenses also increased to a lesser extent due to our investment to support further revenue growth. General and administrative expenses as a percentage of revenue increased in 2008 primarily due to the increased costs associated with being a public company.

We expect general and administrative expenses to increase on an absolute basis in future annual periods as we continue to incur increased costs associated with being a public company. Operating as a public company will present additional management and reporting requirements that will significantly increase our directors and officers liability insurance premiums and professional fees associated with our quarterly and annual reporting obligations, including accounting and auditing fees, legal fees and costs related to Sarbanes-Oxley Act compliance.

Amortization Expense

	Three Months Ended		Change	
	March 31,	2007		
	2008			
			(Unaudited)	
			(In thousands)	
Total amortization expense	\$7	\$293	\$(286)	(97.6)%
As a percentage of revenues	%	1.6%		

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

Amortization expense decreased \$286,000 during the three months ended March 31, 2008 as compared to the three months ended March 31, 2007 because certain intangible assets related to previous acquisitions were fully amortized during 2007.

Absent additional acquisitions, we expect amortization expense to continue to decline as the remaining amount of intangible assets related to previous acquisitions is amortized.

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 months ended March 31, 2008 was \$819,000 as compared to \$97,000 for the three months ended March 31, 2007. The increase of \$722,000 during the three months ended March 31, 2008 reflects the net effect 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. The increase in interest income, net is primarily due to the increase in our cash, cash equivalents and short-term investments balance as compared to the prior year period due to increased operating cashflows and the IPO proceeds. We also continued to reduce the outstanding balance on our outstanding capital lease obligations.

We anticipate that interest income, net may decrease in future periods due to lower interest rates earned on our investments.

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 Canadian dollar and Euro, during the three months ended March 31, 2008, we recorded a loss of \$55,000 as compared to a loss of \$8,000 during the three months ended March 31, 2007. Our foreign currency transactions are recorded as a result of fluctuations in the exchange rate between the U.S. dollar and the Canadian dollar, Euro and British Pound.

Provision for Income Taxes

During the three months ended March 31, 2008 and 2007, we recorded an income tax provision of \$1.7 million and \$46,000, respectively. The tax provision for the three months ended March 31, 2008 was due primarily to current taxes of \$65,000 and the utilization of our U.S. deferred tax assets of \$1.7 million, offset by a discrete release of the

valuation allowance of \$111,000 associated with a foreign entity. The tax provision for the three months ended March 31, 2007 was comprised of an income tax expense of \$65,000, reflecting our U.S. alternative minimum tax and was partly offset by a decrease of \$19,000 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 months ended March 31, 2007 was 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:

	Three Months Ended	
	March 31,	
	2008	2007
	(Unaudited)	
	(In thousands)	
Net cash provided by operating activities	\$ 10,335	\$ 3,156
Net cash used in investing activities	(23,640)	(971)
Net cash used in financing activities	(814)	(525)
Effect of exchange rate changes on cash	(110)	14
Net (decrease) increase in cash and cash equivalents	\$ (14,229)	\$ 1,674

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 \$8.2 million in property and equipment, exclusive of \$2.5 million of property and equipment funded through landlord allowances received in connection with our Chicago office lease, made \$5.2 million in principal payments on capital lease obligations, and spent \$600,000 as the cash component of consideration paid for acquisitions.

As of March 31, 2008, our principal sources of liquidity consisted of cash, cash equivalents and short-term investments of \$103.4 million. As of March 31, 2008, we held \$8.3 million in long-term investments consisting of \$4.6 million in auction rate securities and \$3.7 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 March 31, 2008, 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. 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 \$10.3 million of net cash from operating activities during the three months ended March 31, 2008. The significant components of cash flows from operations were net income of \$2.5 million, adjusted for \$2.2 million in non-cash depreciation, amortization and stock-based compensation expenses, and a \$3.9 million increase in amounts collected from customers in advance of when we recognize revenues as a result of our growing customer base, \$1.6 million in deferred income taxes and a \$2.5 million increase in deferred rent associated with landlord leasehold improvement allowances received in connection with our new Chicago office lease, offset by a \$1.5 million increase in accounts receivable, a \$648,000 decrease in accounts payable and accrued expenses and a \$324,000 increase in prepaid expenses and other current assets.

We generated approximately \$3.2 million of net cash from operating activities during the three months ended March 31, 2007. The significant components of cash flows from operations were net income of \$1.5 million, adjusted for \$1.3 million in non-cash depreciation and amortization and stock-based compensation expenses, a \$2.4 million increase in amounts collected from customers in advance of when we recognize revenues as a result of our growing customer base, offset by a \$843,000 increase in accounts receivable and a \$1.2 million decrease in accounts payable and accrued expenses.

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 \$23.6 million of net cash in investing activities during the three months ended March 31, 2008, a net \$21.3 million of which was used to purchase investments. In addition, \$3.7 million was used to purchase property and equipment to maintain and expand our technology and infrastructure. Of this amount, \$2.5 million was funded through landlord allowances received in connection with our Chicago office lease. We also 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.

We used \$971,000 of net cash in investing activities during the three months ended March 31, 2007, a net \$475,000 of which was used to purchase investments and \$494,000 of which was used to purchase property and equipment to maintain and expand our technology and infrastructure.

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 \$814,000 of cash during the three months ended March 31, 2008 from financing activities. This included \$965,000 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 \$218,000 to make payments on our capital lease obligations offset by \$369,000 in proceeds from the exercise of our common stock options and warrants.

We used \$525,000 of net cash in financing activities during the three months ended March 31, 2007. We used \$665,000 to make payments on our capital lease obligations partially offset by \$140,000 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. As of March 31, 2008, no amounts were borrowed against the line of credit and \$3.8 million of letters of credit were outstanding, leaving \$1.2 million available for additional letters of credit. The agreement includes no restrictive covenants.

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.

For the ninety-day period beginning January 4, 2008, the former shareholders of SurveySite had the right to sell 135,635 shares of common stock back to us for an aggregate price of approximately \$1.8 million, or \$13.35 per share. Subsequent to March 31, 2008, the put right associated with all of the 135,635 shares expired unexercised and the carrying value of the shares of \$1.8 million was reclassified to common stock and additional paid in capital.

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 March 31, 2008, our cash reserves were maintained in bank deposit accounts, certificates of deposit, treasury bills, treasury notes, and auction rate securities totaling \$111.6 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 each country's functional currency. 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 March 31, 2008, our principal sources of liquidity consisted of cash, cash equivalents and short-term investments of \$103.4 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 three months ended March 31, 2008, our interest income would have declined approximately \$86,000, assuming consistent investment levels.

Adjustable Rate Securities

As of March 31, 2008, we held \$8.3 million in long-term investments consisting of \$4.6 million in auction rate securities and \$3.7million 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 March 31, 2008, all investments maintained investment grade ratings. 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. If the credit ratings of the issuer, the bond insurers or the collateral continues 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 March 31, 2008.

We believe we will be able to liquidate our auction rate securities without significant loss, and we currently believe these securities are not permanently impaired, based on the underlying credit value of the companies backing the bonds and the bond insurers; however, it could take until the final maturity of the underlying notes to recover our investment. We currently have the ability and intent to hold the remaining adjustable rate securities, until market stability is restored with respect to these securities. We believe that, even allowing for the reclassification of these securities to long-term and the possible requirement to hold all such securities for an indefinite period of time, our remaining cash and cash equivalents and short-term investments will be sufficient to meet our anticipated cash needs and to execute our current business plan.

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 a panel of sufficient size and scope, or if the costs of maintaining our panel materially increase, our business would be harmed.

We believe that the quality, size and scope of our Internet user panel are critical to our business. There can be no assurance, however, that we will be able to maintain a panel 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, 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;

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;

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;

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, 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. 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.

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 a panel 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 use of personal information may create negative public reaction related to our business practices. 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.

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 March 31, 2008, we had an accumulated deficit of \$78.3 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.

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., 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 Telephia, 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. 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. 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. Because of the foregoing factors, among others, the market for Internet advertising and eCommerce 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. 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.

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 suffi