

COMSCORE, INC.  
Form 10-K  
March 16, 2009

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

**Form 10-K**

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)**  
**OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the fiscal year ended December 31, 2008**
- OR**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)**  
**OF THE SECURITIES EXCHANGE ACT OF 1934**

**Commission File Number 000-1158172**

**COMSCORE, INC.**

*(Exact name of Registrant as Specified in its Charter)*

**Delaware**

*(State or Other Jurisdiction of  
Incorporation or Organization)*

**54-1955550**

*(I.R.S. Employer  
Identification Number)*

**11950 Democracy Drive, Suite 600**

**Reston, Virginia 20190**

*(Address of Principal Executive Offices)*

**(703) 438-2000**

*(Registrant's Telephone Number, Including Area Code)*

**Securities registered pursuant to Section 12(b) of the Act:**

| <b>Title of Each Class</b>                | <b>Name of Each Exchange on Which Registered</b> |
|---|--|
| Common Stock, par value \$0.001 per share | The NASDAQ Stock Market LLC                      |

**Securities registered pursuant to Section 12(g) of the Act:**

**None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 <input type="radio"/> | Accelerated<br>filer <input checked="" type="radio"/> | Non-accelerated filer <input type="radio"/><br>(Do not check if a smaller reporting<br>company) | Smaller reporting<br>company <input type="radio"/> |
|---|---|---|--|

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

The aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates of the registrant on June 30, 2008, the last business day of the registrant's most recently completed second fiscal quarter, was \$416,850,698 (based on the closing sales price of the registrant's common stock as reported by the NASDAQ Global Market on that date). Shares of the registrant's common stock held by each officer and director and each person who owns more than 10% or more of the outstanding common stock of the registrant have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: As of March 12, 2009, there were 29,187,411 shares of the registrant's common stock outstanding.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Specified portions of the registrant's Proxy Statement with respect to its 2009 annual meeting of stockholders, anticipated to be filed with the SEC no later than 120 days following the registrant's fiscal year ended December 31, 2008, are incorporated by reference in Part III of this annual report on Form 10-K.

COMSCORE, INC.

ANNUAL REPORT ON FORM 10-K  
FOR THE PERIOD ENDED DECEMBER 31, 2008

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## CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

*This Annual Report on Form 10-K, including the Management's Discussion and Analysis of Financial Condition and Results of Operations section in Item 7 of this report, and other materials accompanying this Annual Report on Form 10-K contain forward-looking statements within the meaning of and safe harbor provided by Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. We attempt, whenever possible, to identify these forward-looking statements by words such as intends, will, plans, anticipates, expects, may, estimates, believes, should, projects, or continue, or the negative of those words and other words. Similarly, statements that describe our business strategy, goals, prospects, opportunities, outlook, objectives, plans or intentions are also 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, expected economic conditions, and future operations, as well as assumptions relating to the foregoing.*

*These statements are based on current expectations and assumptions regarding future events and business performance and involve known and unknown risks, uncertainties and other factors that may cause actual events or results to be materially different from any future events or results expressed or implied by these statements. These factors include those set forth in the following discussion and within Item 1A Risk Factors of this Annual Report on Form 10-K and elsewhere within this report.*

*You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Annual Report on Form 10-K. You should carefully review the risk factors described in other documents that we file from time to time with the U.S. Securities and Exchange Commission, or SEC. Except as required by applicable law, including 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.*

## PART I

### ITEM 1. *BUSINESS*

#### 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, which is comprised of persons and households with at least one computer being actively measured by us within the previous thirty-day period that 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, mobile 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.

#### Industry Background

##### *Growth of Digital Commerce, Content, Advertising and Communications*

The Internet is a global digital medium for commerce, content, advertising and communications. According to Gartner, the number of global Internet devices is projected to grow from approximately 1.1 billion in 2007 to over 1.9 billion in 2012. As the online population continues to grow, the Internet is increasingly becoming a tool for research and commerce and for distributing and consuming media. According to eMarketer, the global business-to-consumer eCommerce market is projected to grow from approximately \$600 billion in 2007 to \$1.1 trillion in 2011. According to Jupiter Research, 86% of online users in the United States research offline purchases using the Internet, making the Internet an important channel for both online and offline merchants. Consumers are also using the Internet to access an increasing amount of digital content across media formats including video, music, text and games. According to IDC, the domestic markets for online video and music consumption are projected to reach over \$1.7 billion and over \$3.3 billion, respectively, in 2010.

As consumers increasingly use the Internet to research and make purchases and to consume digital media, advertisers are shifting more of their marketing budgets to digital channels. Despite the size and growth of the digital marketing sector, the shift of traditional advertising spending to the Internet has yet to match the rate of consumption of online media. According to an October 2007 Forrester Research report titled U.S. Interactive Marketing Forecast, 2007-2010, interactive marketing represented only 8% of the total United States advertising spending in 2007 despite consumers spending 29% of their available media time online. As advertisers spend more of their marketing budgets to reach Internet users, we believe that digital marketing will continue to grow.

In addition to the growth in online commerce, content and marketing, a number of new digital technologies and devices are emerging that enable users to access content and communicate in new ways. Internet-enabled mobile

phones allow users to access digital content such as games, music, video and news on their mobile devices through a wireless connection to the Internet. According to IDC, the worldwide number of shipments of converged mobile devices is projected to grow to 312.3 million in 2011, representing compounded annual growth of 31% over that period. Other digital communications technologies such as voice over Internet protocol (VoIP) utilize the Internet network infrastructure to enable efficient and cost-effective personal communications such as chat and VoIP-based telephony. According to Infonetics, the worldwide number of VoIP subscribers is projected to grow to 171.6 million in 2010. Delivery of digital television services over a network infrastructure using Internet Protocol, or IPTV, has a number of advantages over conventional television, including two-way communications, digital content and features, and interactivity. According to Infonetics, the worldwide number of IPTV subscribers is projected to grow to 65.1 million in 2010. We believe these and other new digital media and communications devices and services offer a similar opportunity as the Internet for us to measure and analyze user behavior.

### ***Importance of Digital Marketing Intelligence***

The interactive nature of digital media such as the Internet on computers and mobile devices enables businesses to access a wealth of user information that was virtually unavailable through offline audience measurement and marketing intelligence techniques. Digital media provide businesses with the opportunity to measure detailed user activity, such as how users interact with Web page content; to assess how users respond to online marketing, such as which online ads users click on to pursue a transaction; and to analyze how audiences and user behavior compare across various Web sites. This type of detailed user data can be combined with demographic, attitudinal and transactional information to develop a deeper understanding of user behavior, attributes and preferences. Unlike offline media such as television and radio, which generally only allow for the passive measurement of relative audience size, digital media enable businesses to actively understand the link between digital content, advertising and user behavior.

We believe that the growth in the online and digital media markets for digital commerce, content, advertising and communications creates an unprecedented opportunity for businesses to acquire a deeper understanding of both their customers and their competitive market position. Businesses can use accurate, relevant and objective digital marketing intelligence to develop and validate key strategies and improve performance. For example, with a deep understanding of the size, demographic composition and other characteristics of its audience, an online content provider can better communicate the value of its audience to potential advertisers. With detailed metrics on the effectiveness of an online advertising campaign and how that campaign influences online and offline purchasing behavior, a business can refine its marketing initiatives. With insight into market share and customer behavior and preferences, a business can understand not only how its digital business is performing relative to its competitors but also the drivers behind such performance. Moreover, by using the appropriate digital marketing intelligence, businesses can refine their digital content, commerce, advertising and communications initiatives to enhance the effectiveness and return on investment of their marketing spending, enabling them to build more successful businesses.

### ***Challenges in Providing Digital Marketing Intelligence***

While the interactive and dynamic nature of digital markets creates the opportunity for businesses to gain deep insights into user behavior and competitive standing, there are a number of issues unique to the Internet that make it challenging for companies to provide digital marketing intelligence. Compared to offline media such as television or radio, the markets for digital media are significantly more fragmented, complex and dynamic. As of December 31, 2008, we believe that there were approximately 17,000 global Web sites that each receive at least 500,000 unique visitors per month, as compared to only a few hundred channels typically available with standard digital cable or satellite television and broadcast or satellite radio. The complexities of online user activity and the breadth of digital content and advertising make providing digital marketing intelligence a technically challenging and highly data-intensive process.

Digital media continues to develop at a rapid pace and includes numerous formats such as textual content, streaming and downloadable video and music, instant messaging, VoIP telephony, online gaming and email. Digital advertising also includes multiple formats such as display, search, rich media and video. Detailed user activity such as viewing, clicking or downloading various components of a Web page across digital media or interacting with



various advertising formats creates a substantial amount of data that must be captured on a continuous basis. The data must also be cleansed for quality, relevancy and privacy protection and be organized to enable companies to obtain relevant digital marketing intelligence. This capture of audience data can prove extremely challenging when it involves millions of Internet users with varying demographic characteristics accessing tens of thousands of Web sites across diverse geographies. In addition, the ongoing development of digital media programming languages and technologies contributes to the challenge of accurately measuring user activity. For example, online publishers and advertisers have started to use Asynchronous JavaScript and XML, or AJAX, a development technique that allows Web applications to quickly make incremental updates without having to refresh the entire Web page. Prior to AJAX, marketers relied heavily on page view statistics to plan and evaluate their online media spending programs. With AJAX, we believe marketers are beginning to question the definition of, and need for, page views, and are seeking alternative metrics for measuring the usage and effectiveness of online media. To maintain their relevance, audience and media measurement technologies must keep pace with the continued evolution and increasing complexity of digital media.

*Need for Accuracy and Reliability.* Relevant digital marketing intelligence requires access to accurate and reliable global data that measure online user activity. Existing data collection methodologies, including those that rely on third party sources, surveys or panels, face significant challenges and limitations. Survey or panel methodologies must measure a sufficiently large and representative sample size of Internet users to accurately capture data that is statistically projectable to the broader Internet population. In addition, the international composition of Internet audiences requires a geographically dispersed sample to accurately capture global digital activity. Digital marketing intelligence that depends on third-party sources to obtain Internet audience usage data has the potential to be biased, may be constrained by the data that the third party is capable of capturing, and may be limited in its application. For example, a solution that relies on data supplied by an Internet service provider, or ISP, may show a bias toward the demographic composition or other characteristics of that ISP's users. We believe that a meaningful digital media sourcing methodology must be based on data sourced from a large, representative global sample of online users that can be parsed, enhanced, mined and analyzed; must evolve rapidly and be flexible to adapt to changing technologies; and must be able to provide actionable digital marketing intelligence that can be used to improve business decision-making.

*Need for Third-Party Objectivity.* We believe that the availability of objective third-party data that measure digital audience size, behavior, demographic and attitudinal characteristics represents a key factor in the continued growth of digital content, advertising and commerce. This is similar to offline media markets, such as television and radio, whose development was significantly enhanced by the introduction of third-party audience measurement ratings that provided a basis for the pricing of advertising in those media. As the buying and selling of online advertising continues to grow, we believe that companies on both sides of the advertising transaction will increasingly seek third-party marketing intelligence to assess the value and effectiveness of digital media. In addition, as advertisers work with Web site publishers to target online advertising campaigns to reach a specific demographic or behavioral user profile, the need for objective audience and user information, unbiased by either party to the transaction, will become increasingly important.

*Need for Competitive Information.* In addition to the scope, complexity and rapid evolution of online digital media, the lack of data on competitors makes it difficult for companies to gain a comprehensive view of user behavior beyond their own digital businesses. While products and tools exist that enable companies to understand user activity on their own Web sites, these products are unable to provide a view of digital audience activity on other Web sites or offline. In order for publishers, marketers, merchants and service providers to benefit from accurate and comprehensive digital marketing intelligence they need to understand user activity on Web sites across the Internet and how online consumer behavior translates into offline actions.

## **The comScore Digital Marketing Intelligence Platform**

We provide a leading digital marketing intelligence platform that enables our customers to devise and implement more effective digital business strategies. Our platform is comprised of proprietary databases and a computational infrastructure that measures, analyzes and reports digital activity from our global panel of more than two million Internet users. We offer our customers deep insights into consumer behavior on their own online properties and those of their competitors, including objective, detailed information on users' demographic

characteristics, attitudes, lifestyles and multi-channel buying activity. We also provide industry-specific metrics to our customers.

We deliver our digital marketing intelligence through our comScore Media Metrix product family, comScore Marketing Solutions products and mobile media measurement products. Media Metrix provides intelligence on digital media usage, including a measurement of the size, behavior and characteristics of the audiences for individual Web sites and advertising networks within the global home, work and university Internet user populations as well as insight into the effectiveness of online advertising. Our Marketing Solutions products combine the proprietary information gathered from our user panel with the vertical industry expertise of comScore analysts to deliver digital marketing intelligence customized for specific industries. Media Metrix and Marketing Solutions products are typically delivered electronically in the form of periodic reports, through customized analyses or are generally available online via a user interface on the comScore Web site.

Key attributes of our platform include:

*Panel of global Internet users.* Our ability to provide digital marketing intelligence is based on information continuously gathered from a broad cross-section 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. Through our proprietary technology, we measure detailed Internet audience activity across the spectrum of digital content and marketing channels. Many comScore panelists also participate in online survey research that captures and integrates demographic, attitudinal, lifestyle and product preference information with Internet behavior data. The global nature of our Internet panel enables us to provide digital marketing intelligence for over 30 individual countries. Our global capability is valuable to companies based in international markets as well as to multi-national companies that want to better understand their global Internet audiences and the effectiveness of their global digital business initiatives.

*Scalable technology infrastructure.* We developed our databases and computational infrastructure to support the growth in online activity among our global Internet panel and the increasing complexity of digital content formats, advertising channels and communication applications. The design of our technology infrastructure is based on distributed processing and data capture environments that allow for the collection and organization of vast amounts of data on online activity, including usage of proprietary networks such as AOL, instant messaging and audio and video streaming. Our database infrastructure currently captures approximately 9.3 billion URL records each week from our global Internet panel, resulting in over 36 billion URLs and 24 terabytes of data collected by our platform each month. We believe that our efficient and scalable technology infrastructure allows us to operate and expand our data collection infrastructure on a cost-effective basis. In recognition of the scale of our data collection and warehousing technology, we have received multiple awards, including the 2001, 2003 and 2005 Winter Corporation Grand Prize for Database Size on a Windows NT Platform.

Benefits of our platform include:

*Advanced digital marketing intelligence.* We use our proprietary technology to compile vast amounts of data on Internet user activity and to organize the data into discrete, measurable elements that can be used to provide actionable insights to our customers. We believe that our digital marketing intelligence platform enables companies to gain a deeper understanding of their digital audiences, which allows them to better assess and improve their company and product-specific competitive position. Because our marketing intelligence is based on a large sample of global Internet users and can incorporate multi-channel transactional data, we are able to provide companies with an enhanced understanding of digital audience activity beyond their own Web sites and the ability to better assess the link between digital marketing and offline user activity. Digital content

providers, marketers, advertising agencies, merchants and service providers can use the insights our platform provides to craft improved marketing campaigns and strategies and to measure the effectiveness and return on investment of their digital initiatives.

*Objective third-party resource for digital marketing intelligence.* We are an independent company that is not affiliated with the digital businesses we measure and analyze, allowing us to serve as an objective third-

party provider of digital marketing intelligence. Because businesses use our data to plan and evaluate the purchase and sale of online advertising and to measure the effectiveness of digital marketing, it is important that we provide unbiased data, marketing intelligence, reports and analyses. We deploy advanced statistical methodologies in building and maintaining the comScore global Internet user panel and utilize proven data capture, and computational practices in collecting, statistically projecting, aggregating and analyzing information regarding online user activity. We believe that our approach ensures that the insights we provide are as objective as possible and allows us to deliver products and services that are of value to our customers in their key business decision-making. We believe that the media industry views us as a highly recognized and credible resource for digital marketing intelligence. For example, between January 1, 2008 and December 31, 2008, our information on digital activity was cited more than 87,000 times by third-party media outlets, an average of approximately 239 citations per day. Our data are regularly cited by well-known media outlets such as the Associated Press, Reuters, Bloomberg, CNBC, The New York Times and The Wall Street Journal. Moreover, many of the leading Wall Street investment banks also purchase and cite our data in their published research reports prepared by financial analysts that cover Internet businesses.

*Vertical industry expertise.* We have developed expertise across a variety of industries to provide digital marketing intelligence specifically tailored to the needs of our customers operating in specific industry sectors. We have dedicated personnel to address the automotive, consumer packaged goods, entertainment, financial services, media, pharmaceutical, retail, technology, telecommunications and travel sectors. We believe that companies across different industries have distinct information and marketing intelligence needs related to understanding their digital audiences and buyers, evaluating marketing initiatives and understanding company or product-specific competitive position. For example, a pharmaceutical company may want to understand how online research by consumers influences new prescriptions for a particular drug, while a financial services company may want to assess the effectiveness of its online advertising campaigns in signing up new consumers and how this compares to the efforts of its competitors. By working with companies in various industries over the course of multiple years, we have developed industry-specific applications of our data and our client service representatives have developed industry-specific knowledge and expertise that allow us to deliver relevant and meaningful marketing insight to our customers.

*Ease of use and functionality.* The comScore digital marketing intelligence platform is designed to be easy to use by our customers. Our Media Metrix products are available through the Internet using a standard browser. Media Metrix customers can also run customized reports and refine their analyses using an intuitive interface available on our Web site. Our Marketing Solutions products are available either through the Internet or by using standard software applications such as Microsoft Excel, Microsoft PowerPoint or SPSS analytical software. Our customers do not need to install additional hardware or complex software to access and use our products.

## **Strategy**

Our objective is to be the leading provider of global digital marketing intelligence products. We plan to pursue our objective through internal initiatives and, potentially, through acquisitions and other investments. The principal elements of our strategy are to:

*Deepen relationships with current customers.* We intend to work closely with our customers to enable them to continuously enhance the value they obtain from our digital marketing intelligence platform. Many of our customers are Fortune 2000 companies that deploy multiple marketing initiatives, and we believe many of our customers would benefit from more extensive use of our product offerings to gain additional insights into their key digital initiatives. We will work to develop and expand our customer relationships to increase our customers' use of our digital marketing intelligence platform.

*Grow our customer base.* As the digital media, commerce, marketing and communications sectors continue to grow, we believe the demand for digital marketing intelligence products will increase. To meet this increase in market demand, we intend to invest in sales, marketing and account management initiatives in an effort to expand our customer base. We intend to offer both general and industry-specific digital marketing products that deliver value to a wide range of potential customers in current and new industry verticals.

*Expand our digital marketing intelligence platform.* We expect to continue to increase our product offerings through our digital marketing intelligence platform. As digital markets become more complex, we believe that companies will require new information and insights to measure, understand and evaluate their digital business initiatives. We intend to develop new applications that leverage our digital marketing intelligence platform to be able to provide the most timely and relevant information to our customers.

*Address emerging digital media.* The extension of digital media and communications to include new formats such as content for mobile phones, VoIP, IP television, and next generation gaming consoles creates new opportunities to measure and analyze emerging digital media. We intend to extend our digital marketing platform to capture, measure and analyze user activity in these emerging digital media and communications formats. To this end, we acquired M:Metrics in May 2008.

*Extend technology leadership.* We believe that the scalability and functionality of our database and computational infrastructure provide us with a competitive advantage in the digital media intelligence market. Accordingly, we intend to continue to invest in research and development to extend our technology leadership. We intend to continue to enhance our technology platform to improve scalability, performance and cost effectiveness and to expand our product offerings.

*Build brand awareness through media exposure.* Our digital media, commerce and marketing information are frequently cited by media outlets. In addition, we proactively provide them with data and insights that we believe may be relevant to their news reports and articles. We believe that media coverage increases awareness and credibility of the comScore and Media Metrix brands and supplements our marketing efforts. We intend to continue to work with media outlets, including news distributors, newspapers, magazines, television networks, radio stations and online publishers, to increase their use of comScore data in content that discusses digital sector activity.

*Grow internationally.* While we are currently in the early stages of providing customers with international services, we believe that a significant opportunity exists to provide our product offerings to multi-national and international companies. Approximately half of the existing comScore Internet user panel resides outside of the United States. In July 2006, we launched World Metrix, a product that measures global digital media usage. World Metrix is based on a sample of online users from countries that comprise approximately 95% of the global Internet population. We plan to expand our sales and marketing and account management presence outside the U.S. as we provide a broader array of digital marketing intelligence products that are tailored to local country markets as well as the global marketplace.

## **Our Product Offerings**

We deliver our digital marketing intelligence through our comScore Media Metrix product family and through our comScore Marketing Solutions and mobile audience measurement products.

### ***comScore Media Metrix***

Media Metrix provides its subscribers, consisting primarily of publishers, marketers, advertising agencies and advertising networks, with intelligence on digital media usage and a measurement of the size, behavior and characteristics of the audiences for Web sites and advertising networks among home, work and university Internet populations. Media Metrix also provides insights into the effectiveness of online advertising. Media Metrix data can be used to accurately identify and target key online audiences, evaluate the effectiveness of digital marketing and commerce initiatives, support the selling of online advertising by publishers, and to identify and exploit relative

competitive standing. The vast majority of our Media Metrix subscribers access selected reports and analyses through the MyMetrix user interface on our Web site.

Our flagship product, Media Metrix 2.0, details the online activity and site visitation behavior of Internet users, including use of proprietary networks such as AOL, instant messaging, audio and video streaming, and other digital applications. Our customers subscribe to ongoing access to our digital marketing intelligence reports and analyses, including:

comprehensive reports detailing online behavior for home, work and university audiences;



demographic characteristics of visitors to Web sites and properties;

buying power metrics that profile Web site audiences based on their online buying behavior;

detailed measurement and reporting of online behavior for 37 countries and over 100 U.S. local markets;

measurement of key ethnic segments, including the online Hispanic population; and

reach and frequency metrics for online advertising campaigns that show the percent of a target audience reached and the frequency of exposure to advertising messages.

In addition to our core offering, customers can subscribe to the following additional products in the Media Metrix product family:

*Plan Metrix.* Plan Metrix is a product that combines the continuously and passively observed Internet behavior provided by Media Metrix with comprehensive attitude, lifestyle and product usage data collected through online surveys of our U.S. Internet user panel. Plan Metrix provides advertising agencies, advertisers and publishers with multiple views of Web site audiences including their online behavior, demographics, lifestyles, attitudes, technology product ownership, product purchases and offline media usage. These data are used in the design and evaluation of online marketing campaigns. For example, an online auto retailer could use Plan Metrix to help understand which Web sites a prospective automobile purchaser is most likely to visit prior to making a purchase decision.

*World Metrix.* We provide insights into worldwide Internet activity through our World Metrix product, which delivers aggregate information about the behavior of online users on a global basis, for approximately 30 individual countries and for regional aggregations such as Latin America, Europe and Asia Pacific. For example, a content publisher can understand its market share of the global Internet audience using our World Metrix product.

*Video Metrix.* Video Metrix provides insights into the viewing of streaming video by U.S. Internet users. The product measures a wide range of video players and formats, including Windows Media, Flash, RealMedia and QuickTime. Video Metrix offers site-level measurement and audience ratings by demographics and time-of-day to assist agencies, advertisers and publishers in designing and implementing media plans that include streaming video. For example, an advertiser that is seeking to maximize the exposure of its streaming video ads to its target audience could use Video Metrix to help understand on which sites and at what times of the day its target audience is viewing the most streaming video.

*Ad Metrix.* Available through the Media Metrix client interface, Ad Metrix provides advertisers, agencies and publishers with a variety of online advertising metrics relating to impressions, or advertisements on a Web site that reach a target audience. Ad Metrix helps customers determine the impressions delivered by advertising campaigns across Web sites and online properties, including how many visitors are reached with advertisements and how often. In addition, Ad Metrix allows customers to determine the demographic profile of the advertising audience at a particular site, as well as how the volume of impressions changes over time on that site. The Ad Metrix data are consistent with offline media planning metrics such as GRPs, or gross rating points, which measure the percent of a target audience that is reached with an advertisement weighted by the number of exposures. For example, an advertiser might use Ad Metrix to plan the online portion of an advertising campaign for a sports product on sites that have previously successfully delivered advertising impressions to a target demographic audience. A publisher might use Ad Metrix data to measure its share of advertising impressions relative to competitive publishers. Ad Metrix was launched in the third quarter of 2007.

*Extended Web Measurement.* Extended Web Measurement is an extension of our flagship Media Metrix audience measurement service. Extended Web measurement allows the tracking of distributed Web content across third party sites, enables more precise measurement of publisher ad packages and introduces a granular Gross Ratings Point measure for online ads in order to facilitate the comparison of online media with traditional media. This capability is available to our clients on a global basis.

*MobiLens.* MobiLens provides our customers unique perspective on: 1) supply through a comprehensive catalog of mobile content and pricing offered by U.S. and European mobile operators on leading devices including portfolios of hundreds of publishers; 2) demand through market-wide metrics on mobile media

consumption, including detailed demographic profiles of mobile media consumers in the U.S. and Europe; and 3) mobile platforms through detailed technology profiles of every handset in active use in the U.S. and supported European markets.

*M:Metrics Mobile Metrix.* Mobile Metrix measures the actual behavior of the most active segment of mobile media consumers so customers can evaluate audience demographics, brand reach, frequency and duration of usage. Mobile Metrix continuously captures detailed information on mobile user behavior and delivers it monthly via an intuitive Web query interface.

Some examples of Media Metrix digital marketing intelligence measurements and their customer uses are described in the following table.

**Digital Marketing Intelligence Measurement**

**Examples of Customer Uses**

Site Traffic & Usage Intensity

rank Web sites based on online usage metrics such as unique visitors, page views or minutes of use  
 drill-down to standard or customer-defined site subsets such as channels or sub-channels (such as Yahoo! Finance and Yahoo! Sports)  
 analyze statistics over time such as trends in site visitors within demographic segments  
 assess which Web site audiences are growing or declining, which sites are most attractive to particular demographic segments or which sites or digital applications have the highest level of usage  
 identify the source of traffic to a particular Web site or channel within a site

Quantitative Consumer Information

profile site users based on life-stage or offline behavior such as panelist-reported TV usage, car ownership, health conditions or offline purchases  
 efficiently identify and target a particular user segment (e.g., people who say they are likely to buy a car in the next six months)  
 quantify the audience overlap between different consumer segments or Web sites to identify the number of unique visitors reached

Online Buying Power

quantify the propensity of a particular Web site audience to purchase certain categories of products (e.g., consumer electronics) online

Competitive Intelligence

compare the standings of Web sites within particular content categories, such as finance or health information  
 quantify audience size relative to competitors, including share of usage within a category and usage trends across competitors  
 track major competitors, quantify their growth, and identify initiatives to promote growth and market share



## Digital Marketing Intelligence Measurement

## Examples of Customer Uses

### Reach and Frequency

identify and quantify the size of audiences reached by individual Web sites and determine how often they reach those audiences

assist with the planning of online advertising campaigns that need to achieve specific reach or frequency objectives against a targeted audience across multiple Web sites

design the most cost-effective media plans that can achieve campaign objectives for reach and frequency

### *comScore Marketing Solutions*

comScore Marketing Solutions products use our global database, computational infrastructure and our staff of experienced analytical personnel to help customers design more effective marketing strategies that increase sales, reduce costs, deepen customer relationships and ultimately enhance a customer's competitive position. We offer solutions tailored for specific industry verticals, including the automotive, consumer packaged goods, entertainment, financial services, media, pharmaceutical, retail, technology, telecommunications and travel sectors. Many of our Marketing Solutions products are delivered to subscribers on a recurring schedule such as monthly or quarterly. In some cases, we provide customized reports and analyses that combine our expertise with other proprietary information to address a specific customer need.

The core information products offered by comScore Marketing Solutions include:

*Market Share Reports.* These reports track a company's share of market as measured by industry-specific performance metrics. The metrics of choice vary by industry vertical, including as examples: share of online credit card spending for credit card issuers; share of online travel spending for travel companies; or share of subscribers for ISPs. In each case, market share reports provide an ongoing measurement of competitive performance and insight into the factors driving changes in market share.

*Competitive Benchmark Reports.* These reports allow customers to compare themselves to competitors using various industry-specific metrics. For example, retailers may look at metrics such as the rate of conversion of site visitors to buyers, average order size or rate of repeat purchases among existing customers. Banks may focus on the percentage of bank customers using online bill payment services, or compare the effectiveness of customer acquisition programs as reflected by the percentage of leads they acquire that ultimately sign up for an online account. In each case, a customer may define and obtain best-of-category metrics and use them as a benchmark to monitor its business performance over time.

*Loyalty and Retention Analysis.* These analyses provide an understanding of the extent to which consumers are also engaged with competitors, and identify loyalty drivers to assist customers in capturing a higher share of the consumer's wallet. For example, a travel company might quantify the potential business lost when consumers visit its site, do not complete a purchase but then visit a competing site to book a travel reservation. Retention or churn analyses quantify consumer losses to competitors and the key drivers of such losses. For example, a narrowband Internet service provider may track the rate of attrition among its customer base, identify which competitors are capturing those lost customers, and analyze the characteristics of the lost customers in order to gain insight into ways to improve retention.

*Customer Satisfaction Reports.* These reports are based on panelist responses to survey questionnaires that ascertain the degree of satisfaction with various products or services offered to consumers. This information is often integrated with the online usage information that we collect from our panelists in order to identify which digital media usage activities affect customer satisfaction. For instance, a sports portal may use these reports to determine which features, such as participating in fantasy sports leagues or viewing streaming video clips, affect customer satisfaction and loyalty the most.

*qSearch.* This product is a monthly scorecard of the search market that provides a comparison of search activity across portals and major search engines. It helps identify the reach of a search engine, the loyalty of its user base, the frequency of search queries, and the effectiveness of sponsored links displayed on search result pages in driving referrals to advertiser sites. qSearch is used by major search engines and advertising agencies in planning search campaigns. In August 2007 we released qSearch 2.0 with new features designed to improve its accuracy, consistency and comprehensiveness.

*Campaign Metrix.* This product provides detailed information about specific online advertising campaigns. These reports, available through a Web-based interface, describe for each advertising image, or creative within an advertising campaign, the size and demographic composition of the audience exposed to that particular advertisement, the average number of impressions delivered and other details regarding ad formats and ad sizes used in the campaign. An advertiser, agency or publisher could use Campaign Metrix to gain insight into the effectiveness of an online advertising campaign by examining the number of unique users exposed to the campaign, the number of times on average that a unique user was exposed to the campaign and whether the campaign reached the targeted audience demographic. This product was launched in the second quarter of 2007.

*Brand Metrix.* Brand Metrix provides reports showing the test compared to control effectiveness of a campaign using survey-based metrics that we collect from our Ad Recruit technology. For example, a Brand Metrix report would illustrate the changes in brand awareness, intent and attitudes that were driven by an advertising campaign. These analyses are packaged with a Post Buy Delivery Report and two behavioral lift measures - the lift in the advertiser's site visitation and the lift in searching for the brand's trademark. Each survey can be customized to the advertiser's needs and typically delivered in PowerPoint, Excel and SPSS data files, often with a return on investment analysis.

*Internet Advertising Effectiveness Studies.* These studies provide an understanding of the effectiveness of particular advertising campaigns by measuring the online and offline behavior of a target group of comScore panelists, following their exposure to a particular advertisement, and comparing their behavior to that of a control group of comScore panelists who were not exposed to such advertisements. This type of a study allows a marketer to understand the impact of their advertising campaign and to estimate the return on their investment in online marketing.

*Survey-Based Products.* These products leverage our ability to administer surveys to our panel members to obtain valuable information that can be seamlessly integrated with online behavioral data to provide our clients with additional insights into the drivers of consumer behavior.

*Segment Metrix.* Segment Metrix is a product that enables media owners, agencies and advertisers to track, analyze and report Internet activity on their most important consumer groups. Segment Metrix provides the flexibility to integrate behavioral, geographic, demographic and proprietary, client-defined segments with our comScore panel. Agencies and advertisers can use Segment Metrix to gain better insights into how to reach important target customers and advertisers and can use the product to better integrate offline marketing segmentation schemes with our online panel to allow them to track, analyze and report online behavior on a segmented basis. Segment Metrix was launched in the third quarter of 2007.

*comScore Marketer.* comScore Marketer is an interactive search intelligence service that enables search marketers and Web site operators to benchmark their performance versus that of their competitors and optimize their search marketing efforts. comScore Marketer helps enhance search strategy by delivering insight into paid and organic search results, including an analysis of searcher demographics and online behavior. For example, customers can use comScore Marketer to create more efficient and cost-effective search campaigns, identify better-performing search terms and analyze their competitors' search marketing strategies.





## Customers

As of December 31, 2008, we had 1,166 customers, including approximately 80 Fortune 500 customers. Our customers include:

sixteen of the top twenty online properties, based on total unique visitors, as ranked by our Media Metrix database for the month of December 2008, including Microsoft, Yahoo!, AOL and Google;

eleven of the top twenty U.S. Internet service providers, based on the number of subscribers as of the third quarter of 2008, as ranked by ISP Planet;

eight of the top eleven investment banks, based on 2008 revenues, as ranked by Dealogic;

210 advertising and media buying agencies;

five of the top seven consumer banks, based on consolidated assets as of December 31, 2008, as ranked by the Federal Reserve System, National Information Center;

all of the top five cable companies, based on total subscribers in the third quarter of 2008, as reported by Leichtman Research Group;

seven of the top ten pharmaceutical companies, based on 2007 worldwide sales, as ranked by the ContractPharma Top 20 Pharma Report; and

five of the top eight credit card issuers, based on total credit cards outstanding in 2007, as ranked by the mid-year 2007 Nilson Report.

One of our customers, Microsoft Corporation, accounted for 12%, 13% and 12% of our revenues in the years ended December 31, 2008, 2007 and 2006, respectively.

## Selling and Marketing

We sell the majority of our products through a direct sales force. Sales of the comScore Media Metrix product suite to new clients are managed by sales representatives assigned specifically to new business development. A separate group of account managers within our sales organization is assigned to manage, renew and increase sales to existing Media Metrix customers. The comScore Marketing Solutions sales organization is organized vertically by industry with account executives dedicated to selling into the automotive, consumer packaged goods, entertainment, financial services, media, pharmaceutical, retail, technology, telecommunications and travel sectors and other industries. Marketing Solutions account executives are tasked with both identifying and generating new business in specific verticals as well as servicing existing customers. Our sales and account representatives receive a base salary and are eligible for bonuses or commissions based on performance. We have established a sales force dedicated to selling comScore Marketer, which was launched in the fourth quarter of 2007.

Our marketing communications staff is primarily focused on leveraging the use of comScore data and insights by the media and maximizing the number of times that comScore is cited as a source of information. We believe that the use of our data by general and industry-specific media outlets increases recognition of the comScore brand name and serves to help validate the value of the analyses and products we provide. In order to accomplish this goal, we seek to maintain relationships with key news distributors, publications, TV networks, reporters and other media outlets. We believe that the media views us as a highly recognized and credible resource for digital marketing intelligence. For

example, between January 1, 2008 and December 31, 2008, comScore data were cited more than 87,000 times by third-party media outlets, an average of over 239 citations per day. Moreover, we are regularly cited by well-known news distributors, publications and TV networks such as the Associated Press, Reuters, Bloomberg, CNBC, The New York Times and The Wall Street Journal. We also target various industry conferences and tradeshows as part of our marketing efforts. These events are typically focused on a particular industry, allowing us to demonstrate to industry participants the value of our products to businesses in that industry.

## **Panel and Methodology**

The foundation of our digital marketing intelligence platform is data collected from our comScore panel, which includes more than two million persons worldwide, whose online behavior we have explicit permission to measure on a continuous, passive basis. We believe that our panel is one of the largest global panels of its kind, delivering a multi-faceted view of digital media usage and transactional activity as well as selected offline activity. By applying advanced statistical methodologies to our panel data, we project the behavior of the total online population.

We recruit our panel through a variety of online recruitment programs that have been tested and refined since our inception to ensure a diverse sample that sufficiently represents the broader global Internet population. In addition, in the United States we enlist a sub-sample of panelists through various offline recruiting methods. Participants in the comScore research panel receive a package of benefits that is designed to appeal to a broad variety of user categories. Examples of such benefits include, as of December 2008, free security applications such as encrypted file protection, encrypted network disk storage locations for user backups; free general purpose applications such as screensavers and games; sweepstakes; cash payments; points that may be redeemed for prizes; and planting a tree in the name of all new panelists through our Trees for Knowledge program. Participants' data and privacy are protected by defined privacy policies that safeguard personally-identifiable information. This combination of recruiting methods allows us to maintain a panel large enough to provide statistically representative samples in most demographic segments.

We continuously determine the size, demographics and other characteristics of the online population using enumeration surveys of tens of thousands of persons annually, whereby respondents are asked a variety of questions about their Internet use, as well as demographic and other descriptive questions about themselves and their households. The sample of participants in each enumeration survey is selected using a random recruiting methodology. The result is an up-to-date picture of the population to which the comScore sample is then projected. We use the results from the enumeration surveys to weight and statistically project the panel data to ensure that the projected data reflect the characteristics of the Internet population.

## **Privacy**

We believe that a key factor differentiating our digital marketing intelligence is our ability to track and analyze online usage behavior using the data collected from our panel. Since the founding of our company, we have endeavored to undertake such data collection and analysis responsibly and only with consumer permission. Participation in our research panel is voluntary. Our policies require that participants consent to our privacy and data security practices before our software collects information on the user's online activity. In addition, we provide panelists with multiple opportunities and methods to remove themselves from our panel. We limit the type of information that we collect by identifying and filtering certain personal information from the data collected. The collected data is secured using multiple layers of physical and digital security mechanisms. Moreover, we maintain a strict policy of not sharing comScore panelists' personally identifiable information with our customers. We believe that these actions and policies are consistent with the AICPA/CICA WebTrust criteria for online privacy.

## **Technology and Infrastructure**

We have developed a proprietary system for the measurement of the activity of our global online panel. This system is continuously refined and developed to address the changing digital media landscape and to meet new customer business needs. The system is comprised of hundreds of servers that operate using software built on Microsoft and other technologies. Our technology infrastructure is operated in two third-party Tier-1 co-location facilities (one in Virginia and the other in Illinois). Our systems have multiple redundancies and are structured to ensure the continuation of business operations in the event of network failure or if one of our data centers has been rendered inoperable. As of December 31, 2008, our technology team (excluding employees devoted to research and

development) was comprised of over 223 full-time employees (or full-time equivalents) working in four different geographic locations, who design, develop, maintain and operate our entire technology infrastructure. In addition, we have established a relationship with a third party firm for software development in an economically beneficial locale as a means to augment our technology efforts for discrete projects.

Our development efforts have spanned all aspects of our business. We have developed a data capture system that operates across our panelists' computers in almost 200 countries and is used for the real-time capture of consumer Internet behavior. We have built a large scale, efficient and proprietary system for processing massive amounts of data. Typically our systems handle and process data in excess of 10 billion input records per month. Despite the scale of processing required, these data are generally available on a daily basis for our business use. We have also developed a highly efficient and scalable system for the extraction and tabulation of all online activities of our panelists. Likewise, we have created a highly scalable data warehousing environment that allows ready access and analysis of the data we collect. This system, based on Sybase IQ, was awarded the 2001, 2003 and 2005 Grand Prize for the largest Microsoft-based decision support warehouse by the Winter Corporation. In December 2006, we were recognized as a 2007 Technology Pioneer by the World Economic Forum. We believe our scalable and highly cost-effective systems and processing methods provide us with a significant competitive advantage.

Our customers access our digital marketing intelligence product offerings through a variety of methods including MyMetrix, our proprietary, Web-based analysis and reporting system, which for the full year ended December 31, 2008, was used by over 19,000 active, unique users to produce more than 5.0 million reports as compared to 14,000 active, unique users in 2007.

## **Research and Development**

Our research and development efforts focus on the enhancement of our existing products and the development of new products to meet our customers' digital marketing intelligence needs across a broad range of industries and applications. Because of the rapidly growing and evolving use of the Internet and other digital media for commerce, content, advertising and communications, these efforts are critical to satisfying our customers' demand for relevant digital marketing intelligence. As of December 31, 2008, we had approximately 127 full-time employees (or full-time equivalents) working on research and development activities (excluding employees on our technology team cited under Technology and Infrastructure above). In addition, we involve management and operations personnel in our research and development efforts. In 2008, 2007 and 2006 we spent \$14.8 million, \$11.4 million and \$9.0 million, respectively, on research and development.

## **Intellectual Property**

We rely on a combination of patent, trademark, copyright and trade secret laws in the United States and other jurisdictions together with confidentiality procedures and contractual provisions to protect our proprietary technology and our brand. We seek patent protection on inventions that we consider important to the development of our business. We control access to our proprietary technology and enter into confidentiality and invention assignment agreements with our employees and consultants and confidentiality agreements with other third parties.

Our success depends in part on our ability to develop patentable products and obtain, maintain and enforce patent and trade secret protection for our products, including successfully defending these patents against any third-party challenges, both in the United States and in other countries. We may be able to protect our technologies from unauthorized use by third parties to the extent that we own or have licensed valid and enforceable patents or trade secrets that cover them. However, the degree of future protection of our proprietary rights is uncertain because legal means afford only limited protection and may not adequately protect our rights or permit us to gain or keep our competitive advantage.

Currently, we own three U.S. patents. U.S. patent 7,181,412 was filed March 22, 2000 and covers, among other things, techniques for collecting consumer data. U.S. patent 7,260,837 was filed February 5, 2003 and covers various techniques, such as techniques for collecting data relating to a user's usage of a computing device, techniques for identifying a user of a computing device, and techniques for monitoring the performance of a network server, and

U.S. patent 7,493,655 was filed February 5, 2003 and covers, among other things, techniques for placing user identification in header of data packets usable in user demographic reporting and collecting usage data. Under current U.S. law, the statutory term for a patent is 20 years from its earliest effective filing date. Accordingly, U.S. patent 7,181,412; 7,260,837; and 7,493,655 are expected to expire on March 22, 2020. However, various circumstances, such as the provisions under U.S. patent law for patent term adjustment and patent term extension, may extend the duration of any of these patents. Similarly, various circumstances may shorten the

duration of any of these patents, such as a change in U.S. law or a need or decision on our part to terminally disclaim a portion of the statutory term of any of these patents.

We also currently have twenty-two U.S. and foreign patent applications pending, and we intend to file, or request that our licensors file, additional patent applications for patents covering our products. However, patents may not be issued for any pending or future pending patent applications owned by or licensed to us, and claims allowed under any issued patent or future issued patent owned or licensed by us may not be valid or sufficiently broad to protect our technologies. Any issued patents owned by or licensed to us now or in the future may be challenged, invalidated, held unenforceable or circumvented, and the rights under such patents may not provide us with the expected benefits. In addition, competitors may design around our technology or develop competing technologies. Intellectual property rights may also be unavailable or limited in some foreign countries, which could make it easier for competitors to capture or increase their market share with respect to related technologies. Although we are not currently involved in any legal proceedings related to intellectual property, we could incur substantial costs to defend ourselves in suits brought against us or in suits in which we may assert our patent rights against others. An unfavorable outcome in any such litigation could have a material adverse effect on our business and results of operations.

In addition to patent and trade secret protection, we also rely on several trademarks and service marks to protect our intellectual property assets. We are the owner of numerous trademarks and service marks and have applied for registration of our trademarks and service marks in the United States and in certain other countries to establish and protect our brand names as part of our intellectual property strategy. Some of our registered marks include comScore, Media Metrix and MyMetrix.

Our intellectual property policy is to protect our products, technology and processes by asserting our intellectual property rights where we believe it is appropriate and prudent. Any pending or future pending patent applications owned by or licensed to us (in the United States or abroad) may not be allowed or may in the future be challenged, invalidated, held unenforceable or circumvented, and the rights under such patents may not provide us with competitive advantages. Any significant impairment of our intellectual property rights could harm our business or our ability to compete. Protecting our intellectual property rights is costly and time consuming. Any increase in the unauthorized use of our intellectual property could make it more expensive to do business and harm our operating results.

There is always the risk that third parties may claim that we are infringing upon their intellectual property rights and, if successful in proving such claims, we could be prevented from selling our products.

For additional, important information related to our intellectual property, please review the information set forth in Part I, Item 1A of this Annual Report on Form 10-K, Risk Factors Risks Related to Our Business and Our Technologies.

## **Competition**

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

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

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 (owned by WPP Group 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 (owned by WPP Group plc) and The Nielsen Company;

companies that provide behavioral, attitudinal and qualitative advertising effectiveness, including Dynamic Logic, Inc., Insight Express, LLC and Marketing Evolution Inc.; and

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

Some of our current competitors have longer operating histories, relationships with more customers and substantially greater resources than we do. As a result, these competitors may be able to devote more resources to marketing and promotional campaigns, panel retention and development techniques or technology and systems development than we can. In addition, some of our competitors may be able to adopt more aggressive pricing policies. Furthermore, large software companies, Internet portals and database management companies may enter the 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.

We believe the principal competitive factors in our markets include the following:

the ability to provide actual and perceived high-quality, accurate and reliable data regarding Internet and other digital media audience behavior and activity in a timely manner, including the ability to maintain a large and statistically representative sample panel;

the ability to adapt product offerings to emerging digital media technologies and standards;

the breadth and depth of products and their flexibility and ease of use;

the availability of data across various industry verticals and geographic areas and expertise across these verticals and in these geographic areas;

the ability to offer survey-based information combined with digital media usage, eCommerce data and other online information collected from panelists;

the ability to offer high-quality analytical services based on Internet and other digital media audience measurement information;

the ability to offer products that meet the changing needs of customers and provide high-quality service; and

the prices that are charged for products based on the perceived value delivered.

We believe that we compete favorably with our competitors on the basis of these factors. However, if we are unable to compete successfully against our current and future competitors, we may not be able to acquire and retain customers, and we may consequently experience a decline in revenues, reduced operating margins, loss of market share and diminished value from our products.

## **Government Regulation**

Although we do not believe that significant existing laws or government regulations adversely impact us, our business could be affected by different interpretations or applications of existing laws or regulations, future laws or regulations, or actions by domestic or foreign regulatory agencies. For example, privacy concerns could lead to legislative, judicial and regulatory limitations on our ability to collect maintain and use information about Internet users in the United States and abroad. Various state legislatures have enacted legislation designed to protect Internet users' privacy, for example by prohibiting spyware. In recent years, similar legislation has been proposed in other states and at the federal level and has been enacted in foreign countries, most notably by the European Union, which adopted a privacy directive regulating the collection of personally identifiable information online. These laws and regulations, if drafted or interpreted broadly, could be deemed to apply to the technology we use, and could restrict our information collection methods or decrease the amount and utility of the information that we would be permitted to collect. In addition, our ability to conduct business in certain foreign jurisdictions, including China, is

restricted by the laws, regulations and agency actions of those jurisdictions. The costs of compliance with, and the other burdens imposed by, these and other laws or regulatory actions may prevent us from selling our products or increase the costs associated with selling our products, and may affect our ability to invest in or jointly develop products in the United States and in foreign jurisdictions. In addition, failure to comply with these and other laws and regulations may result in, among other things, administrative enforcement actions and fines, class action lawsuits and civil and criminal liability. State attorneys general, governmental and nongovernmental entities and private persons may bring legal actions asserting that our methods of collecting, using and distributing Web site visitor information are illegal or improper, which could require us to spend significant time and resources defending these claims. For example, some companies that collect, use and distribute Web site visitor information have been the subject of governmental investigations and class-action lawsuits. Any such regulatory or civil action that is brought against us, even if unsuccessful, may distract our management's attention, divert our resources, negatively affect our public image or reputation among our panelists and customers and harm our business. The impact of any of these current or future laws or regulations could make it more difficult or expensive to attract or maintain panelists, particularly in affected jurisdictions, and could adversely affect our business and results of operations.

Additionally, laws and regulations that apply to communications and commerce over the Internet are becoming more prevalent. In particular, the growth and development of the market for eCommerce has prompted calls for more stringent tax, consumer protection and privacy laws in the United States and abroad that may impose additional burdens on companies conducting business online. The adoption, modification or interpretation of laws or regulations relating to the Internet or our customers' digital operations could negatively affect the businesses of our customers and reduce their demand for our products. For additional, important information related to government regulation of our business, please review the information set forth in Part I, Item 1A of this Annual Report on Form 10K, Risk Factors Risks Related to Our Business and Our Technologies.

### Executive Officers of the Registrant

The following table sets forth the names and ages of our current executive officers:

| Name                    | Age | Position  |
|-------------------------|-----|---|
| Magid M. Abraham, Ph.D. | 50  | President, Chief Executive Officer and Director |
| Gian M. Fulgoni         | 61  | Executive Chairman of the Board of Directors    |
| John M. Green           | 57  | Chief Financial Officer*                        |
| Gregory T. Dale         | 39  | Chief Technology Officer                        |
| Christiana L. Lin       | 39  | General Counsel and Chief Privacy Officer       |

\* We announced on February 11, 2009 that Mr. Green will transition positions with us to serve as our Executive Vice President of Human Capital. As part of the transition, Mr. Green will continue to serve as our Chief Financial Officer until a new Chief Financial Officer has assumed such position.

*Magid M. Abraham, Ph.D.* one of our co-founders, has served as President, Chief Executive Officer and Director since September 1999. In 1995, Dr. Abraham founded Paragren Technologies, Inc., which specialized in delivering large scale Customer Relationship Marketing systems for strategic and target marketing, and served as its Chief Executive Officer from 1995 to 1999. Prior to founding Paragren, Dr. Abraham was employed by Information Resources, Inc. from 1985 until 1995, where he was President and Chief Operating Officer from 1993 to 1994 and later Vice Chairman of the Board of Directors from 1994 until 1995. Since January 2008, Dr. Abraham has also been a member of the board of directors of Milo.com, a startup company. In 2008, Mr. Abraham was inducted into the

Entrepreneur Hall of Fame and was named an Ernst & Young Entrepreneur of the Year in the Washington DC area. Dr. Abraham received the Paul Green Award in 1996 and the William F. O Dell Award in 2000 from the American Marketing Association for a 1995 article that he co-authored in the Journal of Marketing Research. He received a Ph.D. in Operations Research and an M.B.A. from MIT. He also holds an Engineering degree from the École Polytechnique in France.

*Gian M. Fulgoni*, one of our co-founders, has served as Executive Chairman of the Board of Directors since September 1999. Prior to co-founding comScore, Mr. Fulgoni was employed by Information Resources, Inc., where he served as President from 1981 to 1989, Chief Executive Officer from 1986 to 1998 and Chairman of the Board of

Directors from 1991 until 1995. Mr. Fulgoni has served on the board of directors of PetMed Express, Inc. since 2002 and previously served from August 1999 through November 2000. Mr. Fulgoni has also served on the board of directors of INXPO, LLC, an Illinois-based provider of virtual events, since July 2005 and the Advertising Research Foundation, an industry research organization, since 2008. He also served on the board of directors of Platinum Technology, Inc. from 1990 to 1999, U.S. Robotics, Inc. from 1991 to 1994, and Yesmail.com, Inc. from 1999 to 2000. In 1991 and again in 2004, Mr. Fulgoni was named an Illinois Entrepreneur of the Year, the only person to have twice received the honor. In 1992, he received the Wall Street Transcript Award for outstanding contributions as Chief Executive Officer of Information Resources, Inc. in enhancing the overall value of that company to the benefit of its shareholders. In 2008, Mr. Fulgoni was inducted into the Chicago Entrepreneur Hall of Fame and was named an Ernst & Young Entrepreneur of the Year. Educated in the United Kingdom, Mr. Fulgoni holds an M.A. in Marketing from the University of Lancaster and a B.Sc. in Physics from the University of Manchester.

*John M. Green* has served as Chief Financial Officer since May 2006. We announced on February 11, 2009 that Mr. Green will transition positions with us to serve as our Executive Vice President of Human Capital. As part of the transition, Mr. Green will continue to serve as our Chief Financial Officer until a new Chief Financial Officer has assumed such position. Prior to joining comScore, Mr. Green served as the Chief Financial Officer and U.S. Services Business Leader for BioReliance, a subsidiary of Invitrogen Corporation, from 2004 to March 2006. Prior to joining BioReliance, Mr. Green served as the General Manager, Business Integrations at Invitrogen from September 2003 to April 2004. From March 2001 through August 2003, Mr. Green served as the Chief Financial Officer for InforMax, and as its Chief Operating Officer from October 2001 until the sale of InforMax and integration into Invitrogen in August 2003. Prior to 2001, Mr. Green held several financial and operating management roles, including serving as Executive Vice President of Operations at HMSHost Corporation, Senior Vice President of Finance and Corporate Controller at Marriott International Incorporated and Director of Business Planning and Director of Finance, Central Europe, at PepsiCo, Inc. Mr. Green received an M.Sc. in Economics from The London School of Economics and a B.A. in Political Science/International Relations from Tufts University.

*Gregory T. Dale* has served as Chief Technology Officer since October 2000. Prior to that, he served as Vice President, Product Management starting in September 1999. Prior to joining us, he served as Vice President of Client Service at Paragren Technologies, Inc., a company that specialized in enterprise relationship marketing. He holds a B.S. in Industrial Management from Purdue University.

*Christiana L. Lin* has served as General Counsel and Chief Privacy Officer since January 2006. Prior to that, she served as our Corporate Counsel and Chief Privacy Officer starting in March 2003. Prior to that, she served as our Deputy General Counsel starting in February 2001. Ms. Lin holds a J.D. from the Georgetown University Law Center and a B.A. in Political Science from Yale University.

## **Employees**

As of December 31, 2008, we had 581 employees. None of our employees are represented by a labor union. We have experienced no work stoppages and believe that our employee relations are good.

## **Geographic Areas**

Our primary geographic markets are the United States, Canada, the United Kingdom and Japan. For information with respect to our geographic markets, see Note 16 to our Consolidated Financial Statements in Part II, Item 8 of this Annual Report on Form 10-K.

## **Available Information**

We make our periodic and current reports available, free of charge, on our website as soon as reasonably practicable after such material is electronically filed with the Securities and Exchange Commission. Our website address is [www.comscore.com](http://www.comscore.com) and such reports are filed under SEC Filings on the Investor Relations portion of our website. Further, a copy of this annual report as well as our other periodic and current reports may be obtained from the SEC, located at the SEC's public reference room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at

1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding our filings at [www.sec.gov](http://www.sec.gov).

## **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 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 all or part of your investment.*

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

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

Adverse economic conditions in markets in which we operate can harm our business. If the economies of the United States and other countries continue to slow, recede or experience prolonged uncertainty, customers may delay or reduce their purchases of digital marketing intelligence products and services. Recently, economic conditions in the countries in which we operate and sell products have become increasingly negative, and global financial markets have experienced a severe downturn stemming from a multitude of factors, including adverse credit conditions impacted by the subprime-mortgage crisis, slower economic activity, concerns about inflation and deflation, decreased consumer confidence, reduced corporate profits and capital spending, adverse business conditions, liquidity concerns and other factors. Economic growth in the U.S. and in many other countries slowed in the fourth quarter of 2007, remained slow throughout 2008, and is expected to slow further or recede in 2009 in the U.S. and internationally. During challenging economic times, and in tight credit markets, many customers may delay or reduce spending. This could result in reductions in our sales, longer sales cycles, difficulties in collection of accounts receivable, slower adoption of new technologies and increased price competition. This downturn may also impact our available resources for financing new and existing operations. If global economic and market conditions, or economic conditions in the United States or other key markets deteriorate, we may experience a material and adverse impact on our business, results of operations and financial condition.

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

We currently derive a significant portion of our revenues from our subscription-based digital marketing intelligence products. Subscription-based products accounted for 83%, 79%, and 75% of our revenues in 2008, 2007 and 2006, respectively. Uncertain economic conditions or other factors, such as the failure or consolidation of large financial institutions, may cause certain customers to terminate or reduce their subscriptions. If our customers terminate their subscriptions for our products, do not renew their subscriptions, delay renewals of their subscriptions or renew on terms less favorable to us, our revenues could decline and our business could suffer.

Our customers have no obligation to renew after the expiration of their initial subscription period, which is typically one year, and we cannot assure that current subscriptions will be renewed at the same or higher price levels, if at all. Some of our customers have elected not to renew their subscription agreements with us in the past. If we experience a change of control, as defined in such agreements, some of our customers also have the right to terminate their subscriptions. Moreover, some of our major customers have the right to cancel their subscription agreements without cause at any time. Given the current unpredictable economic conditions as well as our limited historical data with respect to rates of customer subscription renewals, we may have difficulty accurately predicting





future customer renewal rates. Our customer renewal rates may decline or fluctuate as a result of a number of factors, including customer satisfaction or dissatisfaction with our products, the prices or functionality of our products, the prices or functionality of products offered by our competitors, mergers and acquisitions affecting our customer base, general economic conditions or reductions in our customers' spending levels. In this regard, we have seen a number of customers with weaker balance sheets choosing not to renew subscriptions with us during the current economic downturn.

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

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

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

our failure to accurately estimate or control costs including those incurred as a result of acquisitions;

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

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

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

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

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

the potential loss of significant customers;

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

the impact of our decision to discontinue certain products;

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

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

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

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

service outages, other technical difficulties or security breaches;

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

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

adverse judgments or settlements in legal disputes;

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

the 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. Investors are cautioned not to rely on the results of prior quarters as an indication of future performance.

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

We believe that the quality, size and scope of our Internet and Mobile media user panels are critical to our business. There can be no assurance, however, that we will be able to maintain panels of sufficient size and scope to provide the quality of marketing intelligence that our customers demand from our products. If we fail to maintain a panel of sufficient size and scope including coverage of international markets, customers might decline to purchase our products or renew their subscriptions, our reputation could be damaged and our business could be materially and adversely affected. We expect that our panel costs may increase and may comprise a greater portion of our cost of revenues in the future. The costs associated with maintaining and improving the quality, size and scope of our panel are dependent on many factors, many of which are beyond our control, including the participation rate of potential panel members, the turnover among existing panel members and requirements for active participation of panel members, such as completing survey questionnaires. Concerns over the potential unauthorized disclosure of personal information or the classification of our software as spyware or adware may cause existing panel members to uninstall our software or may discourage potential panel members from installing our software. To the extent we experience greater turnover, or churn, in our panel than we have historically experienced, these costs would increase more rapidly. We also have terminated and may in the future terminate relationships with service providers whose practices we believe may not comply with our privacy policies, and have removed and may in the future remove panel members obtained through such service providers. Such actions may result in increased costs for recruiting additional panel members. In addition, publishing content on the Internet and purchasing advertising space on Web sites may become more expensive or restrictive in the future, which could decrease the availability and increase the cost of advertising the incentives we offer to panel members. To the extent that such additional expenses are not accompanied by increased revenues, our operating margins would be reduced and our financial results would be adversely affected.

***Our 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. In 2008, as we integrated our existing methodologies into the product and services offered by M:Metrics, which we acquired in mid-2008, some customers may have become dissatisfied and may decide not to continue purchasing their subscriptions. Future changes to our methodologies or the information we collect, such as the movement away from pure panel-centric measurement to a hybrid of panel- and site-centric measurement, may cause similar customer dissatisfaction and result in loss of customers.

***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.

***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 panels of sufficient size and scope, which in turn could adversely affect our ability to provide our products.***

Any perception of our practices as an invasion of privacy, whether legal or illegal, may subject us to public criticism. Existing and future privacy laws and increasing sensitivity of consumers to unauthorized disclosures and the collection or use of personal information and online usage information may create negative public reaction related to our business practices. The U.S. Congress and various sources media have recently expressed concern over the collection of online usage information from cable providers and telecommunications operators to facilitate targeted Internet advertising. A similar concern has been raised by regulatory agencies in the United Kingdom. While our data collection is not used to target advertisements to users, such criticisms may have a chilling effect on businesses that collect or use online usage information generally. Additionally, public concern has increased recently regarding certain kinds of downloadable software known as spyware and adware. These concerns might cause users to refrain from downloading software from the Internet, including our proprietary technology, which could make it difficult to

recruit additional panelists or maintain a panel of sufficient size and scope to provide meaningful marketing intelligence. In response to spyware and adware concerns, numerous programs are available, many of which are available for free, that claim to identify and remove spyware and adware from users' computers. Some of these anti-spyware programs have in the past identified, and may in the future identify, our software as spyware or as a potential spyware application. We actively seek to prevent the inclusion of our software on lists of spyware applications or potential spyware applications, to apply best industry practices for obtaining appropriate consent from panelists and protecting the privacy and confidentiality of our panelist data and to comply

with existing privacy laws. However, to the extent that we are not successful, and anti-spyware programs classify our software as spyware or as a potential spyware application, or third party service providers fail to comply with our privacy or data security requirements, our brand may be harmed and users may refrain from downloading these programs or may uninstall our software. Any resulting reputational harm, potential claims asserted against us or decrease in the size or scope of our panel could reduce the demand for our products, increase the cost of recruiting panelists and adversely affect our ability to provide our products to our customers. Any of these effects could harm our business.

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

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

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

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

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

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

the reliability of digital marketing intelligence products;

public concern regarding privacy and data security;

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



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

the ability to maintain high levels of customer satisfaction; and

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

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

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

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

The adoption of Internet advertising, particularly by advertisers that have historically relied on traditional offline media, requires the acceptance of new approaches to conducting business. Advertisers may perceive Internet advertising to be less effective than traditional advertising for marketing their products. They may also be unwilling to pay premium rates for online advertising that is targeted at specific segments of users based on their demographic profile or Internet behavior. The online advertising and eCommerce markets may also be adversely affected by privacy issues relating to such targeted advertising, including that which makes use of personalized information, or online behavioral information. Furthermore, online merchants may not be able to establish online commerce models that are cost effective and may not learn how to effectively compete with other Web sites or offline merchants. In addition, consumers may not continue to shift their spending on goods and services from offline outlets to the Internet. As a result, growth in the use of the Internet for eCommerce may not continue at a rapid rate, or the Internet may not be adopted as a medium of commerce by a broad base of customers or companies worldwide. Moreover, the adoption of advertising through mobile media may slow as a result of uncertain economic conditions or other factors. Because of the foregoing factors, among others, the market for Internet advertising and eCommerce, including commerce through mobile media, may not continue to grow at significant rates. If these markets do not continue to develop, or if they develop more slowly than expected, our business will suffer.

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

Our success depends in part on our ability to sell our products to large customers and on the renewal of the subscriptions of those customers in subsequent years. For the years ended December 31, 2008, 2007 and 2006, we derived over 30%, 37% and 39%, respectively, of our total revenues from our top 10 customers. Uncertain economic conditions or other factors, such as the failure or consolidation of large financial institutions, may cause certain large customers to terminate or reduce their subscriptions. The loss of any one or more of those customers could decrease our revenues and harm our current and future operating results. The addition of new large customers or increases in sales to existing large customers may require particularly long implementation periods and other costs, which may adversely affect our profitability. To compete effectively, we have in the past been, and may in the future be, forced to offer significant discounts to maintain existing customers or acquire other large customers. In addition, we may be forced to reduce or withdraw from our relationships with certain existing customers or refrain from acquiring certain new customers in order to acquire or maintain relationships with important large customers. As a result, new large

customers or increased usage of our products by large customers may cause our profits to decline and our ability to sell our products to other customers could be adversely affected.

We derive a significant portion of our revenues from a single customer, Microsoft Corporation. For the years ended December 31, 2008, 2007 and 2006, we derived approximately 12%, 13% and 12%, 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.

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

We have very limited experience operating in markets outside of the United States. Our inexperience in operating our business outside of the United States may increase the risk that the international expansion efforts we have begun to undertake will not be successful. In addition, conducting international operations subjects us to new risks that we have not generally faced in the United States. These risks include:

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

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

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

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

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

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

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

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

fluctuations in currency exchange rates;

increased accounting and reporting burdens and complexities; and

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

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

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

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

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

Recently, the value of the U.S. Dollar has appreciated significantly against the British Pound, the Euro, the Canadian Dollar and other local currencies of international customers. As the U.S. Dollar appreciates relative to the local currencies of our international customers, the price of our products and projects correspondingly increase and could result in reductions in sales or renewals, longer sales cycles, difficulties in collection of accounts receivable and increased price competition, any of which could adversely affect our operating results. Likewise, as the U.S. Dollar has appreciated, our contracts denominated in foreign currencies have resulted in reduced revenues.

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

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

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

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

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

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 (owned by WPP Group 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 (owned by WPP Group plc) and The Nielsen Company;

companies that provide behavioral, attitudinal and qualitative advertising effectiveness, including Dynamic Logic, Inc., Insight Express, LLC and Marketing Evolution Inc.; and

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

Some of our current competitors have longer operating histories, access to larger customer bases and substantially greater resources than we do. As a result, these competitors may be able to devote greater resources to marketing and promotional campaigns, panel retention, panel development or development of systems and technologies than we can. In addition, some of our competitors may adopt more aggressive pricing policies or even provide some services at no cost. Furthermore, large software companies, Internet portals and database

management companies may enter our market or enhance their current offerings, either by developing competing services or by acquiring our competitors, and could leverage their significant resources and pre-existing relationships with our current and potential customers.

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

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

We have experienced significant growth in recent periods. We have substantially expanded our overall business, customer base, headcount, data collection and processing infrastructure and operating procedures as our business has grown. We increased our total number of full time employees to 581 employees as of December 31, 2008 from 176 employees as of December 31, 2003, and we expect that we may need to turnover or reduce certain portions of our workforce to meet our strategic objectives. In addition, during this same period, we made substantial investments in our network infrastructure operations as a result of our growth and the growth of our panel, and we have also undertaken certain strategic acquisitions. We believe that we will need to continue to effectively manage and expand our organization, operations and facilities in order to accommodate potential future growth or acquisitions. 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.

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

Increasing our customer base and achieving broader market acceptance of our products will depend to a significant extent on our ability to expand our sales and marketing operations. We expect to continue to rely on our direct sales force to obtain new customers. We may expand or enhance our direct sales force both domestically and internationally. We believe that there is significant competition for direct sales personnel with the sales skills and technical knowledge that we require. Our ability to achieve significant growth in revenues in the future will depend, in large part, on our success in recruiting, training and retaining sufficient numbers of direct sales personnel. In general, new hires require significant training and substantial experience before becoming productive. Our recent hires and planned hires may not become as productive as we require, and we may be unable to hire or retain sufficient numbers of qualified individuals in the future in the markets where we currently operate or where we seek to conduct business. Our business will be seriously harmed if the efforts to expand our sales and marketing capabilities are not successful or if they do not generate a sufficient increase in revenues.

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

We believe that building and maintaining awareness of comScore and our portfolio of products in a cost-effective manner is critical to achieving widespread acceptance of our current and future products and is an important element in attracting new customers. We rely on our relationships with the media and the exposure we receive from numerous citations of our data by media outlets to build brand awareness and credibility among our customers and the marketplace. Furthermore, we believe that brand recognition will become more important for us as competition in our market increases. Our brand's success will depend on the effectiveness of our marketing efforts and on our ability to provide reliable and valuable products to our customers at competitive prices. Our brand marketing activities may not yield increased revenues, and even if they do, any increased revenues may not offset the expenses we incur in attempting to build our brand. If we fail to successfully market our brand, we may fail to attract new customers, retain

existing customers or attract media coverage to the extent necessary to realize a sufficient return on our brand-building efforts, and our business and results of operations could suffer.



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

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

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

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

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

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

Although we achieved net income in the 2008, 2007 and 2006 fiscal years of \$25.2 million, \$19.3 million and \$5.7 million, respectively, we have incurred significant losses in prior periods, including as recently as 2005. We cannot assure you that we will continue to sustain or increase profitability in the future. As of December 31, 2008, we had an accumulated deficit of \$55.6 million. Because a large portion of our costs are fixed, we may not be able to reduce or maintain our expenses in response to any decrease in our revenues, which would adversely affect our operating results. In addition, we expect operating expenses to increase as we implement certain growth initiatives, which include, among other things, the development of new products, expansion of our infrastructure, plans for international expansion and general and administrative expenses associated with being a public company. If our revenues do not increase to offset these expected increases in costs and operating expenses, our operating results would be materially and adversely affected. You should not consider our revenue growth in recent periods as indicative of our future performance, as our operating results for future periods are subject to numerous uncertainties.

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

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

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

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

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

We rely on third-party data sources for information regarding certain offline activities of and demographic information regarding our panelists. The availability and accuracy of these data is important to the continuation and development of our products that link online activity to offline purchases. If this information is not available to us at commercially reasonable terms, or is found to be inaccurate, it could harm our reputation, business and financial performance.

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

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

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

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

We host our products and serve all of our customers from two third-party data center facilities located in Virginia and Illinois. While we operate our equipment inside these facilities, we do not control the operation of either of these facilities, and, depending on service level requirements, we may not continue to operate or maintain redundant data center facilities for all of our products or for all of our data, which could increase our vulnerability. These facilities are vulnerable to damage or interruption from earthquakes, hurricanes, floods, fires, power loss, telecommunications failures and similar events. They are also subject to break-ins, computer viruses, sabotage, intentional acts of vandalism and other misconduct. A natural disaster or an act of terrorism, a decision to close the facilities without adequate notice or other unanticipated problems could result in lengthy interruptions in availability of our products. We may also encounter capacity limitations at our third-party data centers. Additionally, our data center facility agreements are of limited durations, and our data center facilities have no obligation to renew their agreements with us on commercially reasonable terms, if at all. Our agreement for our data center facility located in Virginia expires in October 2010, if not renewed, and our agreement for our data center facility located in Illinois expires in July 2010, if not renewed. Although we are not substantially dependent on either data center facility because of planned redundancies, and although we currently are able to migrate to alternative data centers, such a migration may result in an interruption or delay in service. If we are unable to renew our agreements with the owners of the facilities on commercially reasonable terms, or if we migrate to a new data center, we may experience delays in delivering our products until an agreement with another data center facility can be arranged or the migration to a new facility is completed.

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

Our operations also rely heavily on the availability of electrical power and cooling capacity, which are also supplied by third-party providers. If we or the third-party data center operators that we use to deliver our products were to experience a major power outage or if the cost of electrical power increases significantly, our operations and

profitability would be harmed. If we or the third-party data centers that we use were to experience a major power outage, we would have to rely on back-up generators, which may not function properly, and their supply may be inadequate. Such a power outage could result in the disruption of our business. Additionally, if our current facilities

fail to have sufficient cooling capacity or availability of electrical power, we would need to find alternative facilities.

Any errors, defects, disruptions or other performance problems with our products caused by third parties could harm our reputation and may damage our business. Interruptions in the availability of our products may reduce our revenues due to increased turnaround time to complete projects, cause us to issue credits to customers, cause customers to terminate their subscription and project agreements or adversely affect our renewal rates. Our business would be harmed if our customers or potential customers believe our products are unreliable.

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

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

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

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

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

One of our competitors has filed patent infringement lawsuits against others, demonstrating this party's propensity for patent litigation. It is possible that this third party, or some other third party, may bring an action against us, and thus cause us to incur the substantial costs and risks of litigation. Any intellectual property rights claim against us or our customers, with or without merit, could be time-consuming and expensive to litigate or settle and could divert management resources and attention. An adverse determination also could prevent us from offering

our products to our customers and may require that we procure or develop substitute products that do not infringe on other parties' rights.

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

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

Our business could be adversely impacted by existing or future laws or regulations of, or actions by, domestic or foreign regulatory agencies. For example, privacy concerns could lead to legislative, judicial and regulatory limitations on our ability to collect, maintain and use information about Internet users in the United States and abroad. Various state legislatures have enacted legislation designed to protect Internet users' privacy, for example by prohibiting spyware. In recent years, similar legislation has been proposed in other states and at the federal level and has been enacted in foreign countries, most notably by the European Union, which adopted a privacy directive regulating the collection of personally identifiable information online. These laws and regulations, if drafted or interpreted broadly, could be deemed to apply to the technology we use, and could restrict our information collection methods, and the collection methods of third parties from whom we may obtain data, or decrease the amount and utility of the information that we would be permitted to collect. Even if such laws and regulations are not enacted, lawmakers and regulators may publicly call into question the collection and use of Internet or mobile usage data and may affect vendors and customers' willingness to do business with us. In addition, our ability to conduct business in certain foreign jurisdictions, including China, is restricted by the laws, regulations and agency actions of those jurisdictions. The costs of compliance with, and the other burdens imposed by, these and other laws or regulatory actions may prevent us from selling our products or increase the costs associated with selling our products, and may affect our ability to invest in or jointly develop products in the United States and in foreign jurisdictions.

In addition, failure to comply with these and other laws and regulations may result in, among other things, administrative enforcement actions and fines, class action lawsuits and civil and criminal liability. State attorneys general, governmental and non-governmental entities and private persons may bring legal actions asserting that our methods of collecting, using and distributing Web site visitor information are illegal or improper, which could require us to spend significant time and resources defending these claims. For example, some companies that collect, use and distribute Web site visitor information have been the subject of governmental investigations and class-action lawsuits. Any such regulatory or civil action that is brought against us, even if unsuccessful, may distract our management's attention, divert our resources, negatively affect our public image or reputation among our panelists and customers and harm our business.

The impact of any of these current or future laws or regulations could make it more difficult or expensive to attract or maintain panelists, particularly in affected jurisdictions, and could adversely affect our business and results of operations.

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

Laws and regulations that apply to communications and commerce over the Internet are becoming more prevalent. In particular, the growth and development of the market for eCommerce has prompted calls for more stringent tax,

consumer protection and privacy laws in the United States and abroad that may impose additional burdens on companies conducting business online. The adoption, modification or interpretation of laws or regulations relating to the Internet or our customers' digital operations could negatively affect the businesses of our customers and reduce their demand for our products. Even if such laws and regulations are not enacted, lawmakers and regulators may publicly call into question the collection and use of Internet or mobile usage data and may affect vendors and customers' willingness to do business with us.



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

The market for our products is characterized by rapid technological advances, changes in customer requirements, changes in protocols and evolving industry standards. For example, industry associations such as the Advertising Research Foundation, the Council of American Survey Research Organizations, the Internet Advertising Bureau, or IAB, and the Media Ratings Council have independently initiated efforts to either review online market research methodologies or to develop minimum standards for online market research. On April 19, 2007, we received a letter from the IAB, citing discrepancies between our audience measurement data, those of our competitors and those provided by the server logs of IAB's member organizations. In its letter, the IAB asked us to submit to an independent audit and accreditation process of our audience measurement systems and processes. In September 2007, we began a full audit to obtain accreditation by the Media Ratings Council. Any standards adopted by the IAB or similar organizations may lead to costly changes to our procedures and methodologies. As a result, the cost of developing our digital marketing intelligence products could increase. If we do not adhere to standards prescribed by the IAB or other industry associations, our customers could choose to purchase products from competing companies that meet such standards. Furthermore, industry associations based in countries outside of the United States often endorse certain vendors or methodologies. If our methodologies fail to receive an endorsement from an important industry association located in a foreign country, advertising agencies, media companies and advertisers in that country may not purchase our products. As a result, our efforts to further expand internationally could be adversely affected.

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

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

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

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

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

In mid-2008, we closed our acquisition of M:Metrics and have integrated this business into our own. We also expect to continue to evaluate and enter into discussions regarding a wide array of potential strategic transactions, including acquiring complementary products, technologies or businesses. We also may enter into relationships with other businesses in order to expand our product offerings, which could involve preferred or exclusive licenses,

discount pricing or investments in other company. These transactions could be material to our financial condition and results of operations. Although these transactions may provide additional benefits, they may not be profitable immediately or in the long term. Negotiating any such transactions could be time-consuming, difficult and expensive, and our ability to close these transactions may be subject to regulatory or other approvals and other conditions which are beyond our control. Consequently, we can make no assurances that any such transactions, if undertaken and announced, would be completed.

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

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

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

incur large charges or substantial liabilities;

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

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

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

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

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

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

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

***Changes in, or interpretations of, accounting rules and regulations, including recent rules and regulations regarding expensing of stock options, could result in unfavorable accounting charges or cause us to change our compensation policies.***

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

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

Section 404 of the Sarbanes-Oxley Act of 2002 requires us to include a report on our internal control over financial reporting in our Annual Report on Form 10-K for each year beginning with the year ending December 31, 2008. That report must include management's assessment of the effectiveness of our internal control over financial reporting as of the end of that and each subsequent fiscal year. Additionally, our independent registered public accounting firm will be required to issue a report on management's assessment of our internal control over financial reporting and on their evaluation of the operating effectiveness of our internal control over financial reporting.

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

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

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

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

As of December 31, 2008, we had federal and state net operating loss carryforwards for tax purposes of approximately \$64.6 million and \$34.7 million, respectively. These net operating loss carryforwards begin to expire in 2021 for federal income tax reporting purposes and begin to expire in 2014 for state income tax reporting purposes.

In addition, at December 31, 2008 we had aggregate net operating loss carryforwards for tax purposes related to our foreign subsidiaries of \$9.7 million, which begin to expire in 2014.

We periodically assess the likelihood that we will be able to recover our deferred tax assets, principally net operating loss carryforwards. We consider all available evidence, both positive and negative, including historical levels of income, expectations and risks associated with estimates of future taxable income and ongoing prudent and feasible

tax planning strategies. As a result of this analysis of all available evidence, both positive and negative, we reduced the valuation allowance against a substantial portion of our U.S. deferred tax assets and certain foreign deferred tax assets and recognized an income tax benefit during the year ended December 31, 2008 of \$20.4 million.

As of December 31, 2008, we had a valuation allowance of \$2.8 million against certain deferred tax assets. The valuation allowance relates to the acquired deferred tax assets of the M:Metrics UK subsidiary and the deferred tax asset related to the unrealized impairment on the marketable securities in the U.S. Depending on our actual results in the future, there may be sufficient positive evidence to support the conclusion that all or a portion of our

remaining valuation allowance should be further reduced. To the extent we determine that all or a portion of our valuation allowance is no longer necessary, we expect to recognize an income tax benefit in the period such determination is made for the reversal of the valuation allowance. These events could have a material impact on our reported results of operations.

During 2009, we expect to reduce our net deferred tax asset each quarter and recognize deferred income tax expense that, when combined with our current income tax expense for cash taxes due, will result in a normalized effective tax rate. However, to the extent we realize losses in jurisdictions in which we cannot record an income tax benefit due to concern regarding the realization of the associated deferred tax asset, our effective tax rate will be negatively impacted.

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

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

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

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

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

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

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

effect on our net income and cash position.

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



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

As of December 31, 2008, our principal sources of liquidity consisted of cash, cash equivalents and short-term investments of \$71.5 million. As of December 31, 2008 we held \$3.5 million in long-term investments consisting of \$2.9 million in auction rate securities, with a par value of \$5.1 million, and \$636,000 in other long-term fixed income securities. In prior years we invested in auction rate securities. Auctions for some of these adjustable rate securities have failed, and there is no assurance that auctions on the remaining adjustable rate securities in our investment portfolio will succeed in the future. An auction failure means that the parties wishing to sell their securities could not do so. As a result, our ability to liquidate and fully recover the carrying value of our auction rate securities in the near term may be limited or not exist. These developments have resulted in the classification of all of these securities as long-term investments in our consolidated financial statements.

The uncertainties in the credit markets have prevented us and other investors from liquidating holdings of auction rate securities in recent auctions for these securities because the amount of securities submitted for sale has exceeded the amount of purchase orders. Accordingly, we still hold these long-term securities and are due interest at a higher rate than similar securities for which auctions have cleared. None of these investments are mortgage backed securities or collateralized debt obligations. As of December 31, 2008, certain of these investments were fully backed by bonds with ratings ranging from A- to B and were insured against loss of principal and interest by bond insurers whose ratings range from BBB to C. However, as of December 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. As of December 31, 2008, we have recognized an impairment charge of approximately \$2.2 million assuming that the decline in value of these five securities is other than temporary. These securities were valued using a discounted cash flow model that takes into consideration, the securities coupon rate, the financial condition of the issuers and the bond insurers, the expected date liquidity will be restored, as well as an applied illiquidity discount. Based on the valuation models and an analysis of other-than-temporary impairment factors, we concluded during the year ended December 31, 2008 that our investments in auction rate securities have experienced an other-than-temporary decline in fair value. If the credit ratings of the issuer, the bond insurers or the collateral continue to deteriorate, we may further adjust the carrying value of these investments. We are uncertain as to when the liquidity issues relating to these investments will improve. Accordingly, we classified these securities as long-term as of December 31, 2008 and 2007. If the issuers of these auction rate securities are unable to successfully close future auctions and their credit ratings continue to deteriorate, we may in the future be required to record further impairment charges on these investments. We may be required to wait until market stability is restored for these instruments or until the final maturity of the underlying notes (up to 30 years) to recover our investment.

### **Risks Related to the Securities Market and Ownership of our Common Stock**

***We cannot assure you that a market will continue to develop or exist for our common stock or what the market price of our common stock will be.***

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

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

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

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

- price and volume fluctuations in the overall stock market from time to time;
- volatility in the market price and trading volume of technology companies and of companies in our industry;
- actual or anticipated changes or fluctuations in our operating results;
- actual or anticipated changes in expectations regarding our performance by investors or securities analysts;
- the failure of securities analysts to cover our common stock after this offering or changes in financial estimates by analysts;
- actual or anticipated developments in our competitors' businesses or the competitive landscape;
- actual or perceived inaccuracies in, or dissatisfaction with, information we provide to our customers or the media;
- litigation involving us, our industry or both;
- regulatory developments;
- privacy and security concerns, including public perception of our practices as an invasion of privacy;
- general economic conditions and trends;
- major catastrophic events;
- sales of large blocks of our stock;
- the timing and success of new product introductions or upgrades by us or our competitors;
- changes in our pricing policies or payment terms or those of our competitors;
- concerns relating to the security of our network and systems;
- our ability to expand our operations, domestically and internationally, and the amount and timing of expenditures related to this expansion; or
- departures of key personnel.

In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been brought against that company. If our stock price is volatile, we may become the target of securities litigation, which could result in substantial costs and divert our management's attention and resources from

our business. In addition, volatility, lack of positive performance in our stock price or changes to our overall compensation program, including our equity incentive program, may adversely affect our ability to retain key employees.

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

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

***Future sales of shares by existing stockholders could cause our stock price to decline.***

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

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

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

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

As a public company, we have incurred and will continue to incur significant legal, accounting and other expenses that we did not incur as a private company. In addition, the Sarbanes-Oxley Act of 2002, as well as rules implemented by the Securities and Exchange Commission and The NASDAQ Stock Market, requires certain corporate governance practices for public companies. Our management and other personnel devote a substantial amount of time to public reporting requirements and corporate governance. These rules and regulations have significantly increased our legal and financial compliance costs and made some activities more time-consuming and costly. We also have incurred additional costs associated with our public company reporting requirements. If these costs do not continue to be offset by increased revenues and improved financial performance, our operating results would be adversely affected. These rules and regulations also make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage if these costs continue to rise. As a result, it may be more difficult for us to attract and retain qualified people to serve on our board of directors or as executive officers.

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

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

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

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

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

prohibit stockholders from calling a special meeting of our stockholders;

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

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

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

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

Our corporate headquarters and executive offices are located in Reston, Virginia, where we occupy approximately 62,000 square feet of office space under a lease that initially expires in 2018, although we have an option to extend until up to 2028, subject to certain conditions. We also lease space in various locations throughout the United States and in Toronto, London and Japan for sales and other personnel. If we require additional space, we believe that we would be able to obtain such space on commercially reasonable terms.

**ITEM 3. 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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

No matters were submitted to a vote of security holders during the quarter ended December 31, 2008.

**PART II**

**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

**PRICE RANGE OF COMMON STOCK**

Our common stock has been traded on the NASDAQ Global Market under the symbol SCOR since our initial public offering on June 27, 2007. The following table sets forth the high and low sales prices of our common stock for each period indicated and are as reported by NASDAQ.

| Fiscal Period  | 2008     |          | 2007     |          |
|----------------|----------|----------|----------|----------|
|                | High     | Low      | High     | Low      |
| First Quarter  | \$ 33.23 | \$ 17.31 | NA       | NA       |
| Second Quarter | \$ 29.10 | \$ 17.77 | \$ 26.27 | \$ 19.70 |

|                |          |          |          |          |
|----------------|----------|----------|----------|----------|
| Third Quarter  | \$ 24.00 | \$ 16.85 | \$ 31.65 | \$ 20.62 |
| Fourth Quarter | \$ 18.06 | \$ 6.63  | \$ 42.00 | \$ 26.39 |

**HOLDERS**

As of March 12, 2009, there were 475 stockholders of record of our common stock, although we believe that there may be a significantly larger number of beneficial owners of our common stock. We derived the number of stockholders by reviewing the listing of outstanding common stock recorded by our transfer agent as of March 12, 2009.



### **STOCK PERFORMANCE GRAPH**

The graph set forth below compares the cumulative total stockholder return on our common stock between June 27, 2007 (the date our common stock first commenced trading on the NASDAQ Global Market) and December 31, 2008, versus the cumulative total return of the NASDAQ Composite Index and NASDAQ Computer Index over the same period. This graph assumes the investment of \$100 at the closing price of the markets on June 27, 2007 in our common stock, the NASDAQ Composite Index and the NASDAQ Computer Index, and assumes the reinvestment of dividends, if any. We have never paid dividends on our common stock and have no present plans to do so.

The comparisons shown in the graph below are based upon historical data. We caution that the stock price performance shown in the graph below is not necessarily indicative of, nor is it intended to forecast, the potential future performance of our common stock.

#### **COMPARISON OF CUMULATIVE TOTAL RETURN\* Among comScore, Inc., The NASDAQ Composite Index and The NASDAQ Computer Index**

\* \$100 invested upon market close of the NASDAQ Global Market on June 27, 2007, our initial public offering date, including reinvestment of dividends.

The preceding Stock Performance Graph is not deemed filed with the Securities and Exchange Commission and shall not be incorporated by reference in any of our filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

### **DIVIDEND POLICY**

Since our inception, we have not declared or paid any cash dividends. We currently expect to retain earnings for use in the operation and expansion of our business and therefore do not anticipate paying any cash dividends in the foreseeable future.

## **EQUITY COMPENSATION PLANS**

The information required by this item regarding equity compensation plans is set forth in Part III, Item 12 Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters of this Annual Report on Form 10-K.

## **UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

### *Unregistered Sales of Equity Securities during the Three Months Ended December 31, 2008*

None.

### *Use of Proceeds from Sale of Registered Equity Securities*

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

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

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

## **PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

During the three months ended December 31, 2008, we repurchased the following shares of common stock in connection with certain restricted stock and restricted stock unit awards issued under our Equity Incentive Plans:

| <b>Total<br/>Number of<br/>Shares (or</b> | <b>Maximum<br/>Number (or<br/>Approximate<br/>Dollar<br/>Value) of<br/>Shares</b> |
|---|---|
|---|---|

|                                |   |  |   | <b>(or Units)<br/>that<br/>May<br/>Yet Be<br/>Purchased<br/>Under the<br/>Plans or<br/>Programs</b> |
|--------------------------------|---|--|---|---|
|                                | <b>Total Number<br/>of<br/>Shares (or<br/>Units)<br/>Purchased(1)</b> | <b>Average<br/>Price<br/>Per<br/>Share (or<br/>Unit)</b> | <b>Units)<br/>Purchased<br/>as<br/>Part<br/>of Publicly<br/>Announced<br/>Plans of<br/>Programs</b> |   |
| October 1 – October 31, 2008   | 4,696   | \$ 5.78  |   |   |
| November 1 – November 30, 2008 |   | \$   |   |   |
| December 1 – December 31, 2008 | 150   | \$ 0.00  |   |   |
| <b>Total</b>                   | <b>4,846</b>  |  |   |   |

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

For the three months ended December 31, 2008, the shares repurchased in connection with our exercise of the repurchase right afforded to us upon the cessation of employment consisted of the following:

|                                | <b>Total Number of<br/>Shares<br/>Purchased</b> | <b>Average Price<br/>Per Share</b> |
|--------------------------------|---|------------------------------------|
| October 1 - October 31, 2008   | 2,610   | \$ 0.00                            |
| November 1 - November 30, 2008 |   | \$                                 |
| December 1 - December 31, 2008 | 150   | \$ 0.00                            |
| <b>Total</b>                   | <b>2,760</b>                                    |                                    |

The shares we repurchased in connection with the payment of minimum statutory withholding taxes due upon the vesting of certain restricted stock and restricted stock unit awards were repurchased at the then current fair market value of the shares. For the three months ended December 31, 2008, these shares consisted of the following:

|                                | <b>Total Number of<br/>Shares<br/>Purchased</b> | <b>Average Price<br/>Per Share</b> |
|--------------------------------|---|------------------------------------|
| October 1 - October 31, 2008   | 2,086   | \$ 13.02                           |
| November 1 - November 30, 2008 |   |                                    |
| December 1 - December 31, 2008 |   |                                    |
| <b>Total</b>                   | <b>2,086</b>                                    |                                    |

**ITEM 6. SELECTED FINANCIAL DATA**

The following selected consolidated financial data should be read in conjunction with our consolidated financial statements and the accompanying notes and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this report. The selected data in this section is not intended to replace the consolidated financial statements.

The consolidated statements of operations data and the consolidated statements of cash flows data for each of the three years ended December 31, 2008, 2007 and 2006 as well as the consolidated balance sheet data as of December 31, 2008 and 2007 are derived from and should be read together with our audited consolidated financial statements and related notes appearing in this report. The consolidated statements of operations data and the consolidated statements of cash flows data for the years ended December 31, 2005 and 2004 as well as the consolidated balance sheet data as of December 31, 2006, 2005 and 2004 are derived from our audited consolidated financial statements not included in this report. Our historical results are not necessarily indicative of results to be expected for future periods.

|   | <b>Year Ended December 31,</b>                         |             |             |             |             |
|---|--|-------------|-------------|-------------|-------------|
|   | <b>2008</b>  | <b>2007</b> | <b>2006</b> | <b>2005</b> | <b>2004</b> |
|   | <b>(In thousands, except share and per share data)</b> |             |             |             |             |
| <b>Consolidated Statement of Operations Data:</b>   |  |             |             |             |             |
| Revenues  | \$ 117,371   | \$ 87,153   | \$ 66,293   | \$ 50,267   | \$ 34,894   |
| Cost of revenues(1)   | 34,562   | 23,858      | 20,560      | 18,218      | 13,153      |
| Selling and marketing(1)  | 39,400   | 28,659      | 21,473      | 18,953      | 13,890      |
| Research and development(1)   | 14,832   | 11,413      | 9,009       | 7,416       | 5,493       |
| General and administrative(1)   | 16,785   | 11,599      | 8,293       | 7,089       | 4,982       |
| Amortization  | 804  | 966         | 1,371       | 2,437       | 356         |
| Total expenses from operations  | 106,383  | 76,495      | 60,706      | 54,113      | 37,874      |
| Income (loss) from operations   | 10,988   | 10,658      | 5,587       | (3,846)     | (2,980)     |
| Interest income (expense), net  | 1,900  | 2,627       | 231         | (208)       | (246)       |
| (Loss) gain from foreign currency   | (321)  | (296)       | 125         | (96)        |             |
| Impairment of marketable securities   | (2,239)  |             |             |             |             |
| Other   | (37)   |             |             |             |             |
| Revaluation of preferred stock warrant liabilities  |  | (1,195)     | (224)       | (14)        |             |
| Income (loss) before income taxes and cumulative effect of change in accounting principle | 10,291   | 11,794      | 5,719       | (4,164)     | (3,226)     |
| Benefit (provision) for income taxes  | 14,895   | 7,522       | (50)        | 182         |             |
| Net income (loss) before cumulative effect of change in                                   | 25,186   | 19,316      | 5,669       | (3,982)     | (3,226)     |

|   |            |            |           |            |            |  |
|---|------------|------------|-----------|------------|------------|--|
| accounting principle  |            |            |           |            |            |  |
| Cumulative effect of change in accounting principle                     |            |            |           |            | (440)      |  |
| Net income (loss)   | 25,186     | 19,316     | 5,669     | (4,422)    | (3,226)    |  |
| Accretion of redeemable preferred stock                                 |            | (1,829)    | (3,179)   | (2,638)    | (2,141)    |  |
| Net income (loss) attributable to common stockholders                   | \$ 25,186  | \$ 17,487  | \$ 2,490  | \$ (7,060) | \$ (5,367) |  |
| Net income (loss) attributable to common stockholders per common share: |            |            |           |            |            |  |
| Basic   | \$ 0.88    | \$ 0.99    | \$        | \$ (2.30)  | \$ (1.88)  |  |
| Diluted   | \$ 0.83    | \$ 0.88    | \$        | \$ (2.30)  | \$ (1.88)  |  |
| Weighted-average number of shares used in per share calculations:       |            |            |           |            |            |  |
| Basic   | 28,691,216 | 16,139,365 | 3,847,213 | 3,130,194  | 2,871,713  |  |
| Diluted   | 30,232,714 | 18,377,563 | 3,847,213 | 3,130,194  | 2,871,713  |  |

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

|                            | 2008           | 2007   | 2006  | 2005 | 2004 |
|----------------------------|----------------|--------|-------|------|------|
|                            | (In thousands) |        |       |      |      |
| Cost of revenues           | \$ 861         | \$ 279 | \$ 12 | \$   | \$   |
| Selling and marketing      | 2,611          | 1,009  | 82    |      |      |
| Research and development   | 706            | 245    | 13    |      |      |
| General and administrative | 2,296          | 941    | 91    | 3    | 14   |

|   | 2008           | 2007      | December 31,<br>2006 | 2005      | 2004     |
|---|----------------|-----------|----------------------|-----------|----------|
|   | (In thousands) |           |                      |           |          |
| <b>Consolidated Balance Sheet Data:</b>                             |                |           |                      |           |          |
| Cash, cash equivalents and short-term investments                   | \$ 71,461      | \$ 96,817 | \$ 16,032            | \$ 9,174  | \$ 8,404 |
| Total current assets  | 116,583        | 123,444   | 31,493               | 20,792    | 15,678   |
| Total assets  | 199,563        | 147,672   | 42,087               | 29,477    | 23,618   |
| Total current liabilities   | 55,992         | 42,077    | 32,880               | 27,220    | 18,591   |
| Equipment loan and capital lease obligations, long-term             |                | 977       | 2,261                | 1,283     | 1,438    |
| Preferred stock warrant liabilities and common stock subject to put |                | 1,815     | 5,362                | 4,997     | (2,141)  |
| Redeemable preferred stock  |                |           | 101,695              | 98,516    | 95,878   |
| Stockholders' equity (deficit)                                      | 134,880        | 102,622   | (99,557)             | (102,294) | (95,230) |

|   | 2008           | 2007      | Year Ended December 31,<br>2006 | 2005     | 2004     |
|---|----------------|-----------|---------------------------------|----------|----------|
|   | (In thousands) |           |                                 |          |          |
| <b>Consolidated Statement of Cash Flows Data:</b> |                |           |                                 |          |          |
| Net cash provided by operating activities         | \$ 32,259      | \$ 21,211 | \$ 10,905                       | \$ 4,253 | \$ 1,907 |
| Depreciation and amortization                     | 5,775          | 4,730     | 4,259                           | 5,123    | 2,745    |
| Capital expenditures                              | 14,252         | 3,635     | 2,314                           | 1,071    | 1,208    |

Please see "Critical Accounting Policies and Estimates" under Part II, Item 7 of this Annual Report on Form 10-K for further discussion of key accounting changes which occurred during the years covered in the above table. Additional information regarding business combinations and dispositions for the relevant periods above may be found in the notes accompanying our consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K.

**ITEM 7. 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 Part II Item 8 of this Annual Report on Form 10-K. 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 Item 1A, Risk Factors and elsewhere in this Annual Report on Form 10-K. See also Cautionary Statement Regarding Forward-Looking Statements at the beginning of this Form 10-K.*

**Overview**

We provide a leading digital marketing intelligence platform that helps our customers make better-informed business decisions and implement more effective digital business strategies. Our products and solutions offer our customers deep insights into consumer behavior, including objective, detailed information regarding usage of their online properties and those of their competitors, coupled with information on consumer demographic characteristics, attitudes, lifestyles and offline behavior.

Our digital marketing intelligence platform is comprised of proprietary databases and a computational infrastructure that measures, analyzes and reports on digital activity. The foundation of our platform is data collected from our comScore panel of more than two million Internet users worldwide who have granted us explicit permission to confidentially measure their Internet usage patterns, online and certain offline buying behavior and other activities. By applying advanced statistical methodologies to our panel data, we project consumers' online behavior for the total online population and a wide variety of user categories.

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

Our company was founded in August 1999. By 2000, we had established a panel of Internet users and began delivering digital marketing intelligence products that measured online browsing and buying behavior to our first customers. We also introduced netScore, our initial syndicated Internet audience measurement product. We accelerated our introduction of new products in 2003 with the launch of Plan Metrix (formerly AiM 2.0), qSearch, and the Campaign R/F (Reach and Frequency) analysis system and product offerings that measure online activity at the local market level. By 2004, we had built a global panel of over two million Internet users. In that year, in cooperation with Arbitron, we launched a service that provides ratings of online radio audiences. In 2005, we expanded our presence in Europe by opening an office in London. In 2006, we continued to expand our measurement capabilities



with the launch of World Metrix, a product that provides worldwide data on digital media usage, and Video Metrix, our product that measures the audience for streaming online video. In 2007, we completed our initial public offering, resulting in the sale and issuance by us of 5,000,000 shares of our common stock, and we also launched ten new products during that year, including Campaign Metrix, qSearch 2.0, Ad Metrix, Brand Metrix, Segment Metrix and comScore Marketer. During the first quarter of 2008, we launched Ad Metrix-Advertiser View, a tool for agencies and publishers designed to support their media buying and selling activities and

supply their competitive intelligence needs. In April 2008, we launched the second generation of our media planning product, Plan Metrix, and increased the frequency of reporting from semi-annual to a monthly cycle. In October 2008, we launched Extended Web Measurement which allows the tracking of distributed web content across third party sites, such as video, music, gaming applications, widgets and social media. It enables publishers to report audience reach and characteristics of their various advertising sales packages providing them with the ability to market those packages more effectively.

We have complemented our internal development initiatives with select acquisitions. On June 6, 2002, we acquired certain Media Metrix assets from Jupiter Media Metrix, Inc. Through this acquisition, we acquired certain Internet audience measurement services that report details of Web site usage and visitor demographics. On July 28, 2004, we acquired the outstanding stock of Denaro and Associates, Inc, otherwise known as Q2 Brand Intelligence, Inc. or Q2, to improve our ability to provide our customers more robust survey research integrated with our underlying digital marketing intelligence platform. On January 4, 2005, we acquired the assets and assumed certain liabilities of SurveySite Inc., or SurveySite. Through this acquisition, we acquired proprietary Internet-based data-collection technologies and increased our customer penetration and revenues in the survey business. On May 28, 2008, we acquired the outstanding stock of M:Metrics, Inc. to expand our abilities to provide our customers a more robust solution for the mobile medium. The total cost of the acquisition of M:Metrics was approximately \$46.0 million, consisting of cash and transaction fees.

Our total revenues have grown to \$117.4 million during the fiscal year ending December 31, 2008 from \$50.2 million during the fiscal year ended December 31, 2005. By comparison, our total expenses from operations have grown to \$106.4 million from \$54.1 million over the same period. The growth in our revenues was primarily the result of:

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

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

- increases in the prices of our products and services;

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

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

- growth from the acquisition of M:Metrics.

As of December 31, 2008, we had 1,166 customers, compared to 565 as of December 31, 2005. We sell most of our products through our direct sales force. We established an inside sales force dedicated to selling comScore Marketer, which was launched in the fourth quarter of 2007.

As a result of the recent global financial crisis in the credit markets, softness in the housing markets, difficulties in the financial services sector and continuing economic uncertainties, the direction and relative strength of the U.S. and global economies have become increasingly uncertain. During the year ended December 31, 2008, we experienced a limited number of our current and potential customers ceasing, delaying or reducing renewals of existing subscriptions and purchases of new or additional services and products presumably due to the current economic downturn. Further, certain of our existing customers have exited the market due to industry consolidation and bankruptcy in connection with these challenging economic conditions. Despite this economic downturn, we continued to add net new customers during each quarter of 2008, and our existing customers renewed their subscriptions at a rate of over 90% based on dollars renewed in the year ended December 31, 2008. However, if these adverse economic conditions continue or

further deteriorate, our operating results could be adversely affected.

### **Our Revenues**

We derive our revenues primarily from the fees that we charge for subscription-based products and customized projects. We define subscription-based revenues as revenues that we generate from products that we deliver to a customer on a recurring basis. We define project revenues as revenues that we generate from customized projects that are performed for a specific customer on a non-recurring basis. We market our subscription-based products,

customized projects and survey services within the comScore Media Metrix and M:Metrics product families 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 revenues increased to 75% of total revenues in 2006, to 79% in 2007 and to 83% of total revenues during the year ended December 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, 2008, our international revenues were \$16.5 million, an increase of \$6.4 million, or 63%, compared to 2007. International revenues comprised approximately 14%, 12% and 9% of our total revenues for the fiscal years ended December 31, 2008 and 2007 and, 2006, 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, Video Metrix and Ad Metrix. These product offerings provide subscribers with intelligence on digital media usage, audience characteristics, audience demographics and online and offline purchasing behavior. Customers who subscribe to our Media Metrix products are provided with login IDs to our Web site, have access to our database and can generate reports at anytime.

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

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

***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. In 2008, we also launched Brand Metrix, which shows customers the test compared to control effectiveness of a campaign using survey-based metrics that we collect for our Ad Recruit technology. Project revenues from Campaign Metrix and Brand Metrix will be generated when a customer accesses or downloads a report through our Web site. Pricing for our Campaign Metrix and Brand Metrix products are 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 Part II, Item 8 of this Annual Report on Form 10-K, 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.

### ***Fair Value Measurements***

As of January 1, 2008, we adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* ( SFAS No. 157 ). SFAS No. 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, SFAS No. 157 establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

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

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

Level 3 unobservable inputs of which there is little or no market data, which require the Company to develop its own assumptions.

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

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

### ***Goodwill and Intangible Assets***

We record goodwill and intangible assets when we acquire other businesses. The allocation of acquisition costs to intangible assets and goodwill involves the extensive use of management's estimates and assumptions, and the result of the allocation process can have a significant impact on our future operating results. We estimate the fair value of identifiable intangible assets acquired using several different valuation approaches, including 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. We generally use the replacement cost approach for estimating the value of acquired technology/methodology assets. The income approach converts the anticipated economic benefits that we assume will be realized from a given asset into value. Under this approach, value is measured as the present worth of anticipated future net cash flows generated by an asset. We generally use the income approach to value customer relationship assets and non-compete agreements. The market approach compares the acquired asset to similar assets that have been sold. We generally use the market approach to value trademarks and brand assets.



Under SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142), intangible assets with finite lives are amortized over their useful lives while goodwill and indefinite lived assets are not amortized, but rather are periodically tested for impairment. An impairment review generally requires developing assumptions and

projections regarding our operating performance. In accordance with SFAS 142, we have determined that all of our goodwill is associated with one reporting unit as we do not operate separate lines of business with respect to our services. Accordingly, on an annual basis we perform the impairment assessment for goodwill required under SFAS 142 at the enterprise level by comparing the fair value of our reporting unit to its carrying value including goodwill recorded by the reporting unit. If the carrying value exceeds the fair value, impairment is measured by comparing the implied fair value of the goodwill to its carrying value and any impairment determined is recorded in the current period. If our estimates or the related assumptions change in the future, we may be required to record impairment charges to reduce the carrying value of these assets, which could be material.

### ***Long-lived assets***

Our long-lived assets primarily consist of property and equipment and intangible assets. In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, we evaluate the recoverability of our long-lived assets for impairment whenever events or changes in circumstances indicate the carrying value of such assets may not be recoverable. If an indication of impairment is present, we compare the estimated undiscounted future cash flows to be generated by the asset to its carrying amount. Recoverability measurement and estimation of undiscounted cash flows are grouped at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. If the undiscounted future cash flows are less than the carrying amount of the asset, we record an impairment loss equal to the excess of the asset's carrying amount over its fair value. The fair value is determined based on valuation techniques such as a comparison to fair values of similar assets or using a discounted cash flow analysis. Although we believe that the carrying values of our long-lived assets are appropriately stated, changes in strategy or market conditions or significant technological developments could significantly impact these judgments and require adjustments to recorded asset balances. There were no impairment charges recognized during the years ended December 31, 2008, 2007, or 2006.

### ***Allowance for Doubtful Accounts***

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

### ***Income Taxes***

We account for income taxes using the liability method in accordance with SFAS No. 109, *Accounting for Income Taxes*. We estimate our tax liability through calculations we perform for the determination of our current tax liability, together with assessing temporary differences resulting from the different treatment of items for income tax and financial reporting purposes. These differences result in deferred tax assets and liabilities, which are recorded on our balance sheet. We then assess the likelihood that deferred tax assets will be recovered in future periods. In assessing the need for a valuation allowance against the net deferred tax asset, we consider factors such as future reversals of existing taxable temporary differences, taxable income in prior carryback years, if carryback is permitted under the tax law, tax planning strategies and future taxable income exclusive of reversing temporary differences and carryforwards. To the extent that we cannot conclude that it is more likely than not that the benefit of such assets will be realized, we establish a valuation allowance to adjust the net carrying value of such assets.

As of December 31, 2008, we had both federal and state net operating loss carryforwards for tax purposes of approximately \$64.6 million and \$34.7 million, respectively. These net operating loss carryforwards begin to expire in 2021 for federal and begin to expire in 2014 for state income tax reporting purposes. In addition, at December 31, 2008, we had an aggregate net operating loss carryforward for tax purposes related to our foreign subsidiaries of \$9.7 million which begin to expire in 2014.

As of December 31, 2008 and 2007, we had valuation allowances of \$2.8 million and \$21.3 million, respectively. At December 31, 2007, the valuation allowance related principally to net operating loss carryforwards.

At December 31, 2008, the remaining valuation allowance relates to the acquired deferred tax assets of our M:Metrics UK subsidiary and the deferred tax asset related to the impairment recorded on our marketable securities in the U.S.

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

As of December 31, 2007, we concluded that it was more likely than not that a portion of our U.S. deferred tax assets would be realized in subsequent years and that a reduction of our valuation allowance was necessary. Considering our 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 for a limited period of one year into the future. As a result, we recorded a reduction in the deferred tax asset valuation allowance of approximately \$8.1 million.

As of December 31, 2008, we concluded that it was more likely than not that a substantial portion of our U.S. deferred tax assets and deferred tax assets in certain foreign jurisdictions would be realized and that a further reduction of our valuation allowance was necessary. In making that determination, we considered the profitability achieved during 2008, the successful integration of M:Metrics into the base business, and the continued maturity of the online marketing industry, balanced against the current overall economic environment. As a result, we recorded a reduction in the deferred tax asset valuation allowance of approximately \$20.4 million.

The exercise of stock options during 2007 and 2008 generated income tax deductions 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.

In June 2006, the FASB issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, an interpretation of SFAS No. 109. This interpretation 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*. FIN 48 is effective for fiscal years beginning after December 15, 2006, and was adopted by us on January 1, 2007. As of the adoption date of FIN 48 on January 1, 2007, we did not have any material gross unrecognized tax benefits. As of December 31, 2008, we had unrecognized tax benefits of \$240,000 on a tax affected basis. We or one of our subsidiaries files income tax returns in the U.S. federal jurisdiction and various states and foreign jurisdictions. For income tax returns filed by us, we are no longer subject to U.S. federal, state and local tax examinations by tax authorities for years before 2004, although carryforward tax attributes that were generated prior to 2004 may still be adjusted upon examination by tax authorities if they either have been or will be utilized. It is our policy to recognize interest and penalties related to income tax matters in income tax expense.

***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; 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 fair value of our common stock on the date of grant. Prior to our initial public offering, 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 December 31, 2008, total estimated unrecognized compensation expense related to unvested stock-based awards granted prior to that date was \$17.7 million, which is expected to be recognized over a weighted-average period of 1.87 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 awards issued, the fair value of our common stock at the time of issuance, the expected forfeiture rate and the expected volatility of our stock price over time.

#### ***Estimation of Fair Value of Warrants***

On July 1, 2005, we adopted FASB Staff Position 150-5 (FSP 150-5). Certain of our outstanding warrants to purchase shares of our stock were subject to the requirements in FSP 150-5, which required us to classify these warrants as current liabilities and to adjust the value of these warrants to their fair value at the end of each reporting period. We estimated the fair value of these warrants at the respective dates using the Black-Scholes option valuation model, based on the estimated market value of the underlying stock at the valuation measurement date, the contractual term of the warrant, risk-free interest rates and expected dividends on and expected volatility of the price of the underlying stock. These estimates, especially the market value of the underlying redeemable convertible preferred stock and the expected volatility, are highly judgmental. Upon the closing of our initial public offering on July 2, 2007, these liabilities were reclassified to stockholder's equity (deficit).

#### **Seasonality**

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



**Results of Operations**

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

|  | <b>Year Ended December 31,</b> |             |             |
|--|--------------------------------|-------------|-------------|
|  | <b>2008</b>                    | <b>2007</b> | <b>2006</b> |
| Revenues   | 100.0%                         | 100.0%      | 100.0%      |
| Cost of revenues                                   | 29.4                           | 27.4        | 31.0        |
| Selling and marketing expenses                     | 33.6                           | 32.9        | 32.4        |
| Research and development                           | 12.6                           | 13.1        | 13.6        |
| General and administrative                         | 14.3                           | 13.3        | 12.5        |
| Amortization                                       | 0.7                            | 1.1         | 2.1         |
| Total expenses from operations                     | 90.6                           | 87.8        | 91.6        |
| Income from operations                             | 9.4                            | 12.2        | 8.4         |
| Interest income net                                | 1.6                            | 3.0         | 0.3         |
| (Loss) gain from foreign currency                  | (0.3)                          | (0.3)       | 0.2         |
| Impairment of marketable securities                | (1.9)                          |             |             |
| Other  |                                |             |             |
| Revaluation of preferred stock warrant liabilities |                                | (1.4)       | (0.3)       |
| Income before income taxes                         | 8.8                            | 13.5        | 8.6         |
| Benefit (provision) for income taxes               | 12.7                           | 8.7         |             |
| Net income   | 21.5                           | 22.2        | 8.6         |
| Accretion of redeemable preferred stock            |                                | (2.1)       | (4.8)       |
| Net income attributable to common stockholders     | 21.5%                          | 20.1%       | 3.8%        |

***Year Ended December 31, 2008 Compared to Year Ended December 31, 2007 and Year Ended December 31, 2007 Compared to Year Ended December 31, 2006***

**Revenues**

|          | <b>Year Ended December 31,</b> |             |             | <b>Change</b> |             | <b>Percent Change</b> |             |
|----------|--------------------------------|-------------|-------------|---------------|-------------|-----------------------|-------------|
|          | <b>2008</b>                    | <b>2007</b> | <b>2006</b> | <b>2008</b>   | <b>2007</b> | <b>2008</b>           | <b>2007</b> |
|          |                                |             |             | <b>vs.</b>    | <b>vs.</b>  | <b>vs.</b>            | <b>vs.</b>  |
|          | <b>2008</b>                    | <b>2007</b> | <b>2006</b> | <b>2007</b>   | <b>2006</b> | <b>2007</b>           | <b>2006</b> |
|          | <b>(Dollars in thousands)</b>  |             |             |               |             |                       |             |
| Revenues | \$ 117,371                     | \$ 87,153   | \$ 66,293   | \$ 30,218     | \$ 20,860   | 34.7%                 | 31.5%       |



Total revenues increased by approximately \$30.2 million during the year ended December 31, 2008 as compared to the year ended December 31, 2007. This increase was primarily due to sales to existing customers based in the U.S. totaling \$85.3 million during 2008, which was a \$18.3 million increase over 2007. In addition, revenues during the year ended December 31, 2008 from new U.S. customers were \$15.6 million, an increase of approximately \$5.6 million as compared to 2007. Revenues from customers outside of the U.S. totaled approximately \$16.5 million, or approximately 14% of total revenues, during the year ended December 31, 2008, which was an increase of \$6.4 million as compared to 2007. This increase was due primarily to our ongoing expansion efforts in Europe and continued growth in Canada. Revenues in 2008 also include the impact of the M:Metrics acquisition, which was completed at the end of May 2008.

During the year ended December 31, 2008, our total customer base grew by a net increase of 271 customers from 895 at December 31, 2007 to 1,166 customers at December 31, 2008. There was continued revenue growth in both our subscription revenues, which increased by approximately \$28.6 million from \$68.8 million during

2007 to \$97.4 million during 2008, and, to a lesser extent, our project-based revenues, which increased by \$1.6 million from \$18.4 million during 2007 to \$20.0 million during 2008.

Total revenues increased by approximately \$20.9 million during the year ended December 31, 2007 as compared to the year ended December 31, 2006. This increase was primarily due to increased sales to existing customers based in the U.S. totaling \$67.1 million during 2007, which was \$14.2 million higher than in 2006. In addition, revenues during the year ended December 31, 2007 from new U.S. customers were \$10.0 million, an increase of approximately \$2.3 million as compared to 2006. Revenues from customers outside of the U.S. totaled approximately \$10.1 million, or approximately 12% of total revenues, during 2007, which was an increase of \$4.4 million as compared to 2006. This increase was due primarily to our ongoing expansion efforts in Europe and continued growth in Canada.

During the year ended December 31, 2007, our total customer base grew by a net increase of 189 customers from 706 at December 31, 2006 to 895 customers at December 31, 2007. There was continued revenue growth in both our subscription revenues, which increased by approximately \$18.9 million from \$49.9 million during 2006 to \$68.8 million during 2007, and, to a lesser extent, our project-based revenues, which increased by \$2.0 million from \$16.4 million during 2006 to \$18.4 million during 2007.

We generally invoice customers on an annual, quarterly or monthly basis, or at the completion of certain milestones, in advance of revenues being recognized. Amounts that have been invoiced are recorded in accounts receivable and any unearned revenues are recorded in deferred revenues until the invoice has been collected and the revenue recognized.

### *Cost of Revenues*

|                             | Year Ended December 31, |           |           | Change              |                     | Percent Change      |                     |
|-----------------------------|-------------------------|-----------|-----------|---------------------|---------------------|---------------------|---------------------|
|                             | 2008                    | 2007      | 2006      | 2008<br>vs.<br>2007 | 2007<br>vs.<br>2006 | 2008<br>vs.<br>2007 | 2007<br>vs.<br>2006 |
|                             | (Dollars in thousands)  |           |           |                     |                     |                     |                     |
| Cost of revenues            | \$ 34,562               | \$ 23,858 | \$ 20,560 | \$ 10,704           | \$ 3,298            | 44.9%               | 16.0%               |
| As a percentage of revenues | 29.4%                   | 27.4%     | 31.0%     |                     |                     |                     |                     |

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, benefits, bonuses, stock-based compensation, and related personnel expenses of network operations, survey operations, custom analytics and technical support, all of which are expensed as they are incurred. Cost of revenues also includes data collection costs for our products, operational costs associated with our data centers, including depreciation expense associated with computer equipment, and allocated overhead.

Cost of revenues increased by approximately \$10.7 million during the year ended December 31, 2008 as compared to the year ended December 31, 2007. This increase was primarily due to a \$4.4 million increase in employee salaries, benefits, and stock-based compensation costs associated with an expanded workforce supporting a larger product and customer base and the additional employee costs from our acquisition of M:Metrics as compared to 2007. We experienced increases of approximately \$3.1 million in costs paid to outside service vendors and incentives to our panel members related to the development of our products during 2008 as compared to 2007. We also experienced increases in panel, data and bandwidth costs of \$3.4 million to support our consumer panel during 2008 as compared

to 2007. Cost of revenues increased as a percentage of revenues by two percentage points during the year ended December 31, 2008 over 2007. We attribute this increase primarily to the increased costs associated with our acquisition of M:Metrics.

Cost of revenues increased by approximately \$3.3 million during the year ended December 31, 2007 as compared to the year ended December 31, 2006. This increase was primarily due to a \$1.9 million increase in employee salaries, benefits, and stock-based compensation costs associated with an expanded workforce supporting

a larger product and customer base. We experienced an increase of \$700,000 in depreciation expense related to prior purchases of network infrastructure equipment and an increase of \$200,000 in data center costs to support our consumer panel and the relocation of our data centers. Cost of revenues declined as a percentage of revenues by 3.6 percentage points during 2007 over 2006. 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 and benefit from the synergies resulting from the integration of M:Metrics for our panel recruiting activities.

### *Selling and Marketing Expenses*

|                                | Year Ended December 31, |           |           | Change              |                     | Percent Change      |                     |
|--------------------------------|-------------------------|-----------|-----------|---------------------|---------------------|---------------------|---------------------|
|                                | 2008                    | 2007      | 2006      | 2008<br>vs.<br>2007 | 2007<br>vs.<br>2006 | 2008<br>vs.<br>2007 | 2007<br>vs.<br>2006 |
|                                | (Dollars in thousands)  |           |           |                     |                     |                     |                     |
| Selling and marketing expenses | \$ 39,400               | \$ 28,659 | \$ 21,473 | \$ 10,741           | \$ 7,186            | 37.5%               | 33.5%               |
| As a percentage of revenues    | 33.6%                   | 32.9%     | 32.4%     |                     |                     |                     |                     |

Selling and marketing expenses consist primarily of salaries, benefits, commissions, bonuses, and stock-based compensation paid to our direct sales force and industry analysts, as well as costs related to online and offline advertising, product management, industry conferences, promotional materials, public relations, other sales and marketing programs, and allocated overhead, including rent and depreciation. All selling and marketing costs are expensed as they are incurred. Commission plans are developed for our account managers with criteria and size of sales quotas that vary depending upon the individual's role. Commissions are 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 \$10.7 million during the year ended December 31, 2008 as compared to the year ended December 31, 2007. This increase was primarily due to a \$6.1 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, our acquisition of M:Metrics and an increase in commission and bonus costs associated with increased revenues. We also experienced a \$1.6 million increase in stock-based compensation as compared to 2007. Our selling and marketing headcount totaled 261 employees as of December 31, 2008, an increase of 57 employees as compared to December 31, 2007. In addition, we attribute the remaining increase to increases in allocated overhead costs such as rent, additional advertising and marketing costs and travel and related costs to support our growing customer base. The inclusion of the operations of M:Metrics beginning in May 2008 contributed to the increase in selling and marketing expenses during the year ended December 31, 2008, however, a portion of these costs are attributed to one-time integration costs associated with employees that are not expected to continue service or that have already been terminated. Selling and marketing expenses as a percentage of revenues increased during 2008 as compared to 2007 principally due to the increased costs associated with our acquisition of M:Metrics relative to the revenue generated from M:Metrics for the

period.

Selling and marketing expenses increased by \$7.2 million during the year ended December 31, 2007 as compared to the year ended December 31, 2006. This increase was primarily due to a \$4.4 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 costs associated with increased revenues. We also experienced a \$900,000 increase in stock-based compensation as compared to 2006. Our selling and marketing headcount totaled 204 employees as of December 31, 2007, an increase of 40 employees as compared to December 31, 2006. In addition, we experienced increases in consulting costs related to the development and launch of new products, recruiting and relocation fees associated

with the hiring of additional personnel and advertising costs. Selling and marketing expenses as a percentage of revenues increased in 2007 also due primarily to the opening of a new sales office in Tokyo, Japan, our first commercial presence in Asia. Additionally, the recruitment of additional sales force lags behind revenue productivity as the incremental sales force is integrated into our business and gains a better understanding of our products and territories.

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***

|                             | Year Ended December 31, |           |          | Change              |                     | Percent Change      |                     |
|-----------------------------|-------------------------|-----------|----------|---------------------|---------------------|---------------------|---------------------|
|                             | 2008                    | 2007      | 2006     | 2008<br>vs.<br>2007 | 2007<br>vs.<br>2006 | 2008<br>vs.<br>2007 | 2007<br>vs.<br>2006 |
|                             | (Dollars in thousands)  |           |          |                     |                     |                     |                     |
| Research and development    | \$ 14,832               | \$ 11,413 | \$ 9,009 | \$ 3,419            | \$ 2,404            | 30.0%               | 26.7%               |
| As a percentage of revenues | 12.6%                   | 13.1%     | 13.6%    |                     |                     |                     |                     |

Research and development expenses include new product development costs, consisting primarily of salaries, benefits, stock-based compensation and related costs for personnel associated with research and development activities, fees paid to third parties to develop new products and allocated overhead, including rent and depreciation.

Research and development expenses increased by \$3.4 million during the year ended December 31, 2008 as compared to the year ended December 31, 2007. This increase was primarily due to a \$3.4 million increase in employee salaries, benefits, stock-based compensation and related costs associated with the increase in headcount, our continued focus on developing new products, as well as costs from our acquisition of M:Metrics in May 2008. Research and development costs decreased slightly as a percentage of revenues for the year ended December 31, 2008 as compared to the prior year period primarily due to our growth in revenues outpacing our investments in research and development.

Research and development expenses increased by \$2.4 million during the year ended December 31, 2007 as compared to the year ended December 31, 2006. This increase was primarily due to a \$1.9 million increase in employee salaries, benefits, stock-based compensation and related costs associated with the increase in headcount and our continued focus on developing new products, such as Campaign Metrix, Ad Metrix and Segment Metrix, comScore Marketer and the launch of qSearch 2.0, which is a second generation monthly scorecard of the search market. We also experienced an increase in costs paid to outsourced service providers to support our development of new products. Research and development costs decreased slightly as a percentage of revenues for the year ended December 31, 2007 as compared to the prior year period 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*

|                             | Year Ended December 31, |           |          | Change      |             | Percent Change |             |
|-----------------------------|-------------------------|-----------|----------|-------------|-------------|----------------|-------------|
|                             | 2008                    | 2007      | 2006     | 2008        | 2007        | 2008           | 2007        |
|                             |                         |           |          | vs.<br>2007 | vs.<br>2006 | vs.<br>2007    | vs.<br>2006 |
|                             | (Dollars in thousands)  |           |          |             |             |                |             |
| General and administrative  | \$ 16,785               | \$ 11,599 | \$ 8,293 | \$ 5,186    | \$ 3,306    | 44.7%          | 39.9%       |
| As a percentage of revenues | 14.3%                   | 13.3%     | 12.5%    |             |             |                |             |

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

General and administrative expenses increased by \$5.2 million during the year ended December 31, 2008 as compared to the year ended December 31, 2007. The increase was primarily due to increased costs associated with our additional obligations as a public company that did not apply for all of 2007. Our professional fees associated with Sarbanes-Oxley compliance requirements, other professional fees, insurance costs, franchise taxes and board compensation increased by approximately \$1.3 million during the year ended December 31, 2008, as compared to 2007. We also experienced increases in employee salaries, benefits and related costs of almost \$1.4 million associated with our expanding finance, legal and human capital departments as well as in connection with our acquisition of M:Metrics during the year ended December 31, 2008, as compared to 2007. In addition, stock-based compensation increased \$1.4 million during the year ended December 31, 2008 as compared to the prior year. General and administrative expenses also increased by approximately \$1.1 million during the year ended December 31, 2008 as compared to 2007 due to our investment to support further revenue growth, increases in allocated overhead costs, such as rent, increased bad debt expense, additional charitable contributions and other charges. General and administrative expenses as a percentage of revenue increased during 2008 as compared to 2007, primarily due to the increased costs associated with being a public company.

General and administrative expenses increased by \$3.3 million during the year ended December 31, 2007 as compared to the year ended December 31, 2006. This increase was primarily due to increased costs associated with being a public company beginning in mid 2007. Our professional fees, insurance costs and board compensation increased by approximately \$920,000 during 2007 as compared to 2006. We also experienced increases in employee salaries, benefits and related costs of almost \$500,000 associated with our expanding finance, legal and human capital departments. In addition, stock-based compensation increased \$850,000 as compared to the prior year. During the fourth quarter of 2007, we also recorded \$390,000 in professional fees associated with our withdrawn follow-on offering. 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 2007 primarily due to the increased costs associated with being a public company and the professional fees associated with our withdrawn follow-on offering.

We expect general and administrative expenses to increase on an absolute basis in future annual periods as we incur increased costs related to normal compensation increases and costs related to being a public company such as directors and officers liability insurance premiums and professional fees such as audit and outside legal counsel support both in absolute dollars and as a percentage of revenues.





***Amortization Expense***

|                               | Year Ended December 31, |        |          | Change   |          | Percent Change |         |
|-------------------------------|-------------------------|--------|----------|----------|----------|----------------|---------|
|                               | 2008                    | 2007   | 2006     | 2008     | 2007     | 2008           | 2007    |
|                               |                         |        |          | vs.      | vs.      | vs.            | vs.     |
|                               |                         |        |          | 2007     | 2006     | 2007           | 2006    |
| <b>(Dollars in thousands)</b> |                         |        |          |          |          |                |         |
| Amortization expense          | \$ 804                  | \$ 966 | \$ 1,371 | \$ (162) | \$ (405) | (16.8)%        | (29.5)% |
| As a percentage of revenues   | 0.7%                    | 1.1%   | 2.1%     |          |          |                |         |

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

Amortization expense decreased \$162,000 during the year ended December 31, 2008 as compared to the year ended December 31, 2007 because certain intangible assets related to previous acquisitions were fully amortized during 2008 and 2007 and were partially offset by additional amortization expense related to our acquisition of M:Metrics in May 2008.

Amortization expense decreased \$405,000 during the year ended December 31, 2007 as compared to the year ended December 31, 2006 because certain intangible assets related to previous acquisitions were fully amortized during 2007 and 2006.

We expect amortization expense to increase as we continue to amortize costs related to our recent acquisition of M:Metrics.

***Interest Income, Net***

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

Interest income, net for the year ended December 31, 2008 was \$1.9 million as compared to \$2.6 million for the year ended December 31, 2007. The decrease of \$727,000 during 2008 was due to lower interest rates earned on our investments than those available in the prior year period and a smaller average cash balance due to the use of cash in mid 2008 for the acquisition of M:Metrics. Our cash, cash equivalents and investments decreased by \$29.7 million to \$75.0 million at December 31, 2008 primarily due to the acquisition of M:Metrics and, to a lesser extent, losses on investments.

Interest income, net for the year ended December 31, 2007 was \$2.6 million as compared to \$231,000 for the year ended December 31, 2006. The increase of \$2.4 million during 2007 reflects the net effect of interest income that we earned on our cash and investment balances offset by the interest expense associated with the capital leases that we had in place in each period. Our cash, cash equivalents and investments increased by \$88.7 million to \$104.7 million from \$16.0 million during the year ended December 31, 2007 primarily due to the net proceeds from our initial public offering of \$73.1 million. 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 than those available in prior years and a smaller average cash balance than in prior periods due to the cash utilized in the acquisition of M:Metrics.

***(Loss) Gain from Foreign Currency***

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

Primarily due to the increasing strength of the U.S. Dollar as compared to the British Pound during the year ended December 31, 2008, we recorded a loss of \$321,000 as compared to a loss of \$296,000 during the year ended December 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.

Primarily due to the strength of the Canadian dollar, during the year ended December 31, 2007, we recorded a loss of \$296,000 as compared to a gain of \$125,000 during the year ended December 31, 2006. 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.

### ***Impairment of marketable securities***

Impairment of marketable securities is comprised of unrealized losses related to changes in the fair value of our investments that have a decline that is considered other-than-temporary. During the year ended December 31, 2008, we recorded an impairment charge of \$2.2 million for our marketable securities, which was due to the write down of our investments in auction rate securities that we determined to have an other-than-temporary decline in value. There was no comparable charge in the prior year. For more information on our investments in auction rate securities, see Management's Discussion and Analysis of Financial Condition and results of Operations - Liquidity and Capital Resources.

### ***Provision for Income Taxes***

As of December 31, 2008, we had both federal and state net operating loss carryforwards for tax purposes of approximately \$64.6 million and \$34.7 million, respectively, which begin to expire in 2021 for federal and begin to expire in 2014 for state income tax reporting purposes. In the future, we intend to utilize any carryforwards available to us to reduce our tax payments. A portion of our acquired M:Metrics net operating loss carryforwards are subject to an annual limitation under Section 382 of the Internal Revenue Code. We do not expect that this limitation will impact our ability to utilize all of our net operating losses prior to their expiration. During the year ended December 31, 2008, we recorded an income tax benefit of \$14.9 million due primarily to the release of the valuation allowance against certain deferred tax assets compared to a benefit of \$7.5 million in the same period in 2007 in which we recorded valuation allowance release of \$8.1 million. For the year ended December 31, 2008, the tax provision is comprised of U.S. income tax expense of \$359,000, reflecting our alternative minimum tax, and \$127,000 of foreign income tax expense offset by the release of our valuation allowance of \$20.4 million and a deferred tax expense of approximately \$5.1 million related to the utilization of deferred tax assets during the year.

As of December 31, 2007, we had both federal and state net operating loss carryforwards for tax purposes of approximately \$67.8 million and \$48.1 million, respectively, which begin to expire in 2020 for federal and begin to expire in 2010 for state income tax reporting purposes. In the future, we intend to utilize any carryforwards available to us to reduce our tax payments. During the year ended December 31, 2007, we recorded an income tax benefit of \$7.5 million due primarily to the partial release of our valuation allowance compared to a provision of \$50,000 in the same period in 2006. For the year ended December 31, 2007, the tax provision is comprised of U.S. income tax expense of \$208,000, reflecting our alternative minimum tax, and \$412,000 of foreign income tax expense offset by the partial release of our valuation allowance of \$8.1 million and a decrease of \$78,000 in the deferred tax liability associated with a temporary difference related to certain acquired intangible assets.

In 2006 we had an income tax expense of \$50,000 reflecting a payment of alternative minimum tax (AMT) partly offset by a decrease in the deferred tax liability. This compares to an income tax benefit of \$182,000 in 2005 related to a deferred tax liability of \$356,000 associated with a temporary difference related to certain acquired intangible assets of SurveySite.



## Liquidity and Capital Resources

The following table summarizes our cash flows:

| Consolidated Cash Flow Data                         | Year Ended December 31, |           |           |
|---|-------------------------|-----------|-----------|
|   | 2008                    | 2007      | 2006      |
|   | (In thousands)          |           |           |
| Net cash provided by operating activities           | \$ 32,259               | \$ 21,211 | \$ 10,905 |
| Net cash used in investing activities               | (63,675)                | (30,305)  | (9,573)   |
| Net cash (used in) provided by financing activities | (1,138)                 | 71,979    | (1,381)   |
| Effect of exchange rate changes on cash             | (1,517)                 | 451       | (43)      |
| Net (decrease) increase in cash and equivalents     | (34,071)                | 63,336    | (92)      |

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.

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 2006, we have purchased over \$10.8 million in property and equipment, exclusive of \$9.4 million of property and equipment funded through landlord allowances received in connection with our new Chicago, Reston and San Francisco office leases, made \$4.6 million in principal payments on capital lease obligations, and spent \$44.9 million as the cash component of consideration paid for acquisitions.

As of December 31, 2008, our principal sources of liquidity consisted of cash, cash equivalents and short-term investments of \$71.5 million. As of December 31, 2008, we held \$3.5 million in long-term investments consisting of \$2.9 million in auction rate securities and \$636,000 in other long-term fixed income securities. In prior years we invested in these auction rate securities for short periods of time as part of our investment policy. However, the uncertainties in the credit markets have prevented us and other investors from liquidating holdings of auction rate securities in recent auctions for these securities because the amount of securities submitted for sale has exceeded the amount of purchase orders. Accordingly, we still hold these long-term securities and are due interest at a higher rate than similar securities for which auctions have cleared. None of these investments are mortgage backed securities or collateralized debt obligations. As of December 31, 2008, certain of these investments were fully backed by investment grade and below investment grade bonds and are insured against loss of principal and interest by bond insurers whose ratings are under review and have been downgraded in some cases. These securities were valued using a discounted cash flow model that takes into consideration the financial condition of the issuers and the bond insurers as well as the expected date liquidity will be restored. As of December 31, 2008, based on the valuation models and an analysis of other-than-temporary impairment factors, we have concluded that all of our investments in auction rate securities have experienced an other-than-temporary decline in fair value. Accordingly, we have recorded a pre-tax impairment charge of \$2.2 million related to these securities. If the credit ratings of the issuer, the bond insurers or the collateral continue to deteriorate, we may further adjust the carrying value of these investments. We are uncertain as to when the liquidity issues relating to these investments will improve. Accordingly, we classified these securities as long-term.

*Operating Activities*

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

We generated approximately \$32.3 million of net cash from operating activities during the year ended December 31, 2008. The significant components of cash flows from operations were net income of \$25.2 million, adjusted for \$12.9 million in non-cash depreciation, amortization, provision for bad debts and stock-based compensation expenses, \$9.4 million in deferred rent, \$6.1 million increase in amounts collected from customers

in advance of when we recognize revenues as a result of our growing customer base, \$2.2 million in impairment of marketable securities, and a \$343,000 decrease in other current and non-current assets, offset by a \$15.4 million non-cash deferred tax benefit, \$6.6 million increase in accounts receivable, and a \$1.8 million decrease in accounts payable and accrued expenses.

We generated approximately \$21.2 million of net cash from operating activities during the year ended December 31, 2007. The significant components of cash flows from operations were net income of \$19.3 million, adjusted for \$7.4 million in non-cash depreciation, amortization and stock-based compensation expenses, \$1.2 million in non-cash revaluation of our preferred stock warrant liability, and a \$9.8 million increase in amounts collected from customers in advance of when we recognize revenues as a result of our growing customer base and a \$1.1 million increase in accounts payable and accrued expenses, offset by a \$9.2 million increase in accounts receivable, \$8.1 million non-cash deferred tax benefit and \$231,000 increase in other current and non-current assets.

We generated approximately \$10.9 million of net cash from operating activities during 2006. The significant components of cash flows from operations were net income of \$5.7 million, \$4.3 million in noncash depreciation and amortization expenses, a \$1.4 million increase in accounts payable and accrued expenses and a \$3.1 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 \$3.9 million increase in accounts receivable.

### *Investing Activities*

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

We used \$63.7 million of net cash in investing activities during the year ended December 31, 2008. We used \$44.6 million, net of cash acquired, to purchase M:Metrics. In addition, \$14.3 million was used to purchase property and equipment to maintain and expand our technology and infrastructure. Of this amount, \$9.4 million was funded through landlord allowances received in connection with our Chicago, Reston and San Francisco office leases. We also used a net \$6.2 million to purchase investments. We removed the restrictions associated with certain certificates of deposit that served as collateral for letters of credit associated with office leases, and the related \$1.4 million was reclassified to cash and cash equivalents.

We used \$30.3 million of net cash in investing activities during the year ended December 31, 2007, a net \$25.6 million of which was used to purchase investments, \$3.6 million of which was used to purchase property and equipment to maintain and expand our technology and infrastructure and \$1.1 million used to purchase certificates of deposit to collateralize letters of credit associated with new office leases.

We used \$9.6 million of net cash in investing activities during 2006, a net \$7.0 million of which was used to purchase short-term investments, \$2.3 million of which was used to purchase property and equipment and \$300,000 of which was used to pay contingent considerations associated with our Q2 acquisition.

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 December 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. Through December 31, 2006, we used this credit facility to establish an equipment lease for the amount of approximately \$2.9 million. The base term for this lease is three years and includes a small charge in the event of prepayment.

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

We used \$1.1 million of cash during the year ended December 31, 2008 for financing activities. This included \$1.3 million for shares repurchased by us pursuant to the exercise by stock incentive plan participants of their right to elect to use common stock to satisfy their tax withholding obligations. In addition we used \$900,000 to make payments on our capital lease obligations offset by \$1.0 million in proceeds from the exercise of our common stock options and warrants

We generated \$72.0 million of cash during the year ended December 31, 2007 from financing activities. This included \$73.1 million in net proceeds, after deducting underwriters' commissions and offering costs, from the sale and issuance of common stock in our initial public offering and \$972,000 in proceeds from the exercise of outstanding options for common stock. We also made payments of \$2.1 million on our capital lease obligations during that period.

We used \$1.4 million of net cash in financing activities during 2006. We used \$1.6 million to make payments on our capital lease obligations partially offset by \$241,000 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**

Set forth below is information concerning our known contractual obligations as of December 31, 2008 that are fixed and determinable

|                             | <b>Total</b>          | <b>Less Than<br/>1 Year</b> | <b>1-3 Years</b> | <b>3-5<br/>Years</b> | <b>More<br/>Than<br/>5 Years</b> |
|-----------------------------|-----------------------|-----------------------------|------------------|----------------------|----------------------------------|
|                             | <b>(In thousands)</b> |                             |                  |                      |                                  |
| Capital lease obligations   | \$ 1,021              | \$ 1,021                    | \$               | \$                   | \$                               |
| Operating lease obligations | 44,773                | 4,978                       | 9,816            | 9,064                | 20,915                           |
| <b>Total</b>                | <b>\$ 45,794</b>      | <b>\$ 5,999</b>             | <b>\$ 9,816</b>  | <b>\$ 9,064</b>      | <b>\$ 20,915</b>                 |

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 BBA LIBOR rate plus an applicable margin. This line of credit includes no restrictive financial covenants. On February 27, 2009 the line of credit was extended through April 6, 2009. As of December 31, 2008, no amounts were borrowed against the line of credit and \$4.4 million of letters of credit were outstanding, leaving \$600,000

available for additional letters of credit or other borrowings. These letters of credit may be reduced periodically provided we meet the conditional criteria of each related lease agreement. During the year ended December 31, 2008, one letter of credit was reduced by approximately \$90,000.

We have used \$2.9 million of a \$5.0 million line of credit that was available to us until December 31, 2007 to establish an equipment lease for the amount of approximately \$2.9 million bearing interest at a rate of 7.75% per annum. The line of credit expired on December 31, 2007.

### ***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. If we issue equity securities in order to raise additional funds, substantial dilution to existing stockholders may occur.

### ***Recent Accounting Pronouncements***

Recent accounting pronouncements are detailed in Note 2 to our Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K.

### ***Off-Balance Sheet Arrangements***

We had no off-balance sheet arrangements as of December 31, 2008 and 2007.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES 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 December 31, 2008, our cash reserves were maintained in bank deposit accounts, certificates of deposit, treasury bills, treasury notes, and auction rate securities totaling \$75.0 million. These securities, like all fixed income instruments, are subject to interest rate risk and will decline in value if market interest rates increase. We have the ability to hold our fixed income investments until maturity and, therefore, we would not expect to experience any material adverse impact in income or cash flow.

### **Foreign Currency Risk**

A portion of our revenues and expenses from business operations in foreign countries are derived from transactions denominated in currencies other than the functional currency of our operations in those countries. As such, we have exposure to adverse changes in exchange rates associated with revenues and operating expenses of our foreign operations, but we believe this exposure to be immaterial at this time. As such, we do not currently



engage in any transactions that hedge foreign currency exchange rate risk. As we grow our international operations, our exposure to foreign currency risk has become and will continue to be more significant.

### **Interest Rate Sensitivity**

As of December 31, 2008, our principal sources of liquidity consisted of cash, cash equivalents and short- and long-term investments of \$75.0 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 changed by 1% during the year ended December 31, 2008, our interest exposure would have been approximately \$750,000 assuming consistent investment levels.

### **Auction Rate Securities**

As of December 31, 2008, we held \$3.5 million in long-term investments consisting of \$2.9 million in auction rate securities and \$636,000 in U.S. treasury notes. In prior years we invested in these securities for short periods of time as part of our investment policy. However, the uncertainties in the credit markets have prevented us and other investors from liquidating holdings of auction rate securities in recent auctions for these securities because the amount of securities submitted for sale has exceeded the amount of purchase orders. Accordingly, we still hold these long-term securities and are due interest at a higher rate than similar securities for which auctions have cleared. None of these investments are mortgage backed securities or collateralized debt obligations. As of December 31, 2008, certain of these investments were fully backed by bonds with ratings ranging from A- to B and were insured against loss of principal and interest by bond insurers whose ratings range from BBB to C. However, as of December 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. As of December 31, 2008, we have recognized an impairment charge of approximately \$2.2 million concluding that the decline in value of these five securities is other than temporary. These securities were valued using a discounted cash flow model that takes into consideration the securities coupon rate, the financial condition of the issuers and the bond insurers, the expected date liquidity will be restored, as well as an applied illiquidity discount. As of December 31, 2008, based on the valuation models and an analysis of the other-than-temporary impairment factors we recorded a pre-tax impairment charge of \$2.2 million related to our auction rate securities. If the credit ratings of the issuer, the bond insurers or the collateral continue to deteriorate, we may further adjust the carrying value of these investments. We are uncertain as to when the liquidity issues relating to these investments will improve. Accordingly, we classified these securities as long-term as of December 31, 2008 and December 31, 2007.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders of comScore, Inc.

We have audited the accompanying consolidated balance sheets of comScore, Inc. (the Company) as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of comScore, Inc. at December 31, 2008 and 2007, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), comScore, Inc.'s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 13, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

McLean, Virginia  
March 13, 2009



## COMSCORE, INC.

## CONSOLIDATED BALANCE SHEETS

|  | <b>December 31,</b>  |             |
|--|--|-------------|
|  | <b>2008</b>  | <b>2007</b> |
|  | <b>(In thousands,<br/>except share and<br/>per share data)</b> |             |
| Current assets:  |  |             |
| Cash and cash equivalents  | \$ 34,297  | \$ 68,368   |
| Short-term investments   | 37,164   | 28,449      |
| Accounts receivable, net of allowances of \$479 and \$234, respectively  | 29,947   | 23,446      |
| Prepaid expenses and other current assets  | 1,871  | 1,620       |
| Restricted cash  |  | 1,385       |
| Deferred tax asset   | 13,304   | 176         |
| Total current assets   | 116,583  | 123,444     |
| Long-term investments  | 3,497  | 7,924       |
| Property and equipment, net  | 17,697   | 6,867       |
| Other non-current assets   | 131  | 168         |
| Long-term deferred tax asset   | 13,736   | 7,888       |
| Intangible assets, net   | 8,805  | 17          |
| Goodwill   | 39,114   | 1,364       |
| Total assets   | \$ 199,563   | \$ 147,672  |
| Current liabilities:   |  |             |
| Accounts payable   | \$ 1,755   | \$ 1,140    |
| Accrued expenses   | 9,432  | 6,838       |
| Deferred revenues  | 42,779   | 33,045      |
| Deferred rent  | 1,049  | 154         |
| Capital lease obligations  | 977  | 900         |
| Total current liabilities  | 55,992   | 42,077      |
| Capital lease obligations, long-term   |  | 977         |
| Deferred rent, long-term   | 8,691  | 181         |
| Total liabilities  | 64,683   | 43,235      |
| Commitments and contingencies  |  |             |
| Common Stock subject to put; no shares and 135,635 shares issued and outstanding at December 31, 2008 and 2007, respectively                                 |  | 1,815       |
| Stockholders' equity:  |  |             |
| Preferred stock, \$0.001 par value; 5,000,000 shares authorized at December 31, 2008 and 2007; no shares issued or outstanding at December 31, 2008 and 2007 |  |             |
| Common stock, \$0.001 par value; 100,000,000 shares authorized at December 31, 2008 and 2007; 29,130,140 shares issued and outstanding at December 31, 2008; | 29   | 28          |

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27,960,573 shares issued and outstanding at December 31, 2007

Treasury stock, 164,395 and 24,677 shares at cost at December 31, 2008 and 2007, respectively

|   |            |            |
|---|------------|------------|
|   | (1,265)    |            |
| Additional paid-in capital                    | 192,612    | 183,433    |
| Accumulated other comprehensive (loss) income | (842)      | 1          |
| Accumulated deficit                           | (55,654)   | (80,840)   |
| <br>  |            |            |
| Total stockholders' equity                    | 134,880    | 102,622    |
| <br>  |            |            |
| Total liabilities and stockholders' equity    | \$ 199,563 | \$ 147,672 |

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

## COMSCORE, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS

|  | Year Ended December 31,                         |            |           |
|--|---|------------|-----------|
|  | 2008  | 2007       | 2006      |
|  | (In thousands, except share and per share data) |            |           |
| Revenues   | \$ 117,371                                      | \$ 87,153  | \$ 66,293 |
| Cost of revenues (excludes amortization of intangible assets resulting from acquisitions shown below)(1) | 34,562  | 23,858     | 20,560    |
| Selling and marketing(1)   | 39,400  | 28,659     | 21,473    |
| Research and development(1)  | 14,832  | 11,413     | 9,009     |
| General and administrative(1)  | 16,785  | 11,599     | 8,293     |
| Amortization of intangible assets resulting from acquisitions  | 804   | 966        | 1,371     |
| Total expenses from operations   | 106,383   | 76,495     | 60,706    |
| Income from operations   | 10,988  | 10,658     | 5,587     |
| Interest income, net   | 1,900   | 2,627      | 231       |
| (Loss) gain from foreign currency  | (321)   | (296)      | 125       |
| Impairment of marketable securities  | (2,239)   |            |           |
| Other  | (37)  |            |           |
| Revaluation of preferred stock warrant liabilities   |   | (1,195)    | (224)     |
| Income before benefit (provision) for income taxes   | 10,291  | 11,794     | 5,719     |
| Benefit (provision) for income taxes   | 14,895  | 7,522      | (50)      |
| Net income   | 25,186  | 19,316     | 5,669     |
| Accretion of redeemable preferred stock  |   | (1,829)    | (3,179)   |
| Net income attributable to common stockholders   | \$ 25,186                                       | \$ 17,487  | \$ 2,490  |
| Net income attributable to common stockholders per common share:   |   |            |           |
| Basic  | \$ 0.88   | \$ 0.99    | \$        |
| Diluted  | \$ 0.83   | \$ 0.88    | \$        |
| Weighted-average number of shares used in per share calculation common stock:                            |   |            |           |
| Basic  | 28,691,216                                      | 16,139,365 | 3,847,213 |
| Diluted  | 30,232,714                                      | 18,377,563 | 3,847,213 |
| Net income attributable to common stockholders per common share subject to put:                          |   |            |           |
| Basic  | \$ 0.88   | \$ 1.33    | \$ 0.41   |
| Diluted  | \$ 0.83   | \$ 1.21    | \$ 0.41   |

Weighted-average number of shares used in per share calculation  
common share subject to put:

|   |           |           |          |
|---|-----------|-----------|----------|
| Basic and diluted   | 34,465    | 308,720   | 347,635  |
| (1) Amortization of stock-based compensation is included in the<br>line items above as follows: |           |           |          |
| Cost of revenues  | \$ 861    | \$ 279    | \$ 12    |
| Selling and marketing   | 2,611     | 1,009     | 82       |
| Research and development  | 706       | 245       | 13       |
| General and administrative  | 2,296     | 941       | 91       |
| Comprehensive income:   |           |           |          |
| Net income  | \$ 25,186 | \$ 19,316 | \$ 5,669 |
| Other comprehensive income:   |           |           |          |
| Foreign currency cumulative translation adjustment  | (1,132)   | 258       | (51)     |
| Unrealized gain (loss) on marketable securities   | 289       | (182)     |          |
| Total comprehensive income  | \$ 24,343 | \$ 19,392 | \$ 5,618 |

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

## COMSCORE, INC.

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIT)

|   | Common Stock                      |             | Treasury<br>Stock | Additional<br>Paid-In<br>Capital | Deferred<br>Stock<br>Based<br>Compensation | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Accumulated<br>Deficit | Total<br>Stockholders<br>Equity<br>(Deficit) |
|---|-----------------------------------|-------------|-------------------|----------------------------------|--|---|------------------------|--|
|   | Shares                            | Amount      |                   |                                  |  |   |                        |  |
|   | (In thousands, except share data) |             |                   |                                  |  |   |                        |  |
| <b>Balance at<br/>December 31,<br/>2005</b>       | <b>3,347,488</b>                  | <b>\$ 3</b> | <b>\$</b>         | <b>\$</b>                        | <b>\$ (6)</b>                              | <b>\$ (24)</b>  | <b>\$ (102,267)</b>    | <b>\$ (102,294)</b>                          |
| Net income  |                                   |             |                   |                                  |  |   | 5,669                  | 5,669  |
| Foreign<br>currency<br>translation<br>adjustment  |                                   |             |                   |                                  |  | (51)  |                        | (51)   |
| Exercise of<br>common stock<br>options            | 652,677                           | 1           |                   | 240                              |  |   |                        | 241  |
| Amortization of<br>deferred stock<br>compensation |                                   |             |                   |                                  | 6  |   | (3)                    | 3  |
| Amortization of<br>stock-based<br>compensation    |                                   |             |                   | 195                              |  |   |                        | 195  |
| Accretion of<br>redeemable<br>preferred stock     |                                   |             |                   | (435)                            |  |   | (2,744)                | (3,179)                                      |
| Accretion of<br>common stock<br>subject to put    |                                   |             |                   |                                  |  |   | (141)                  | (141)  |
| <b>Balance at<br/>December 31,<br/>2006</b>       | <b>4,000,165</b>                  | <b>4</b>    |                   |                                  |  | <b>(75)</b>   | <b>(99,486)</b>        | <b>(99,557)</b>                              |
| Net income  |                                   |             |                   |                                  |  |   | 19,316                 | 19,316                                       |
| Foreign<br>currency<br>translation<br>adjustment  |                                   |             |                   |                                  |  | 258   |                        | 258  |
| Unrealized loss<br>on marketable<br>securities    |                                   |             |                   |                                  |  | (182)   |                        | (182)  |
|   | 580,727                           | 1           |                   | 890                              |  |   |                        | 891  |

|   |                   |           |                |          |                 |                |
|---|-------------------|-----------|----------------|----------|-----------------|----------------|
| Exercise of common stock options                                      |                   |           |                |          |                 |                |
| Exercise of common stock warrants, net                                | 138,536           |           | 100            |          |                 | 100            |
| Issuance of restricted stock, net                                     | 771,783           | 1         | (1)            |          |                 |                |
| Net proceeds from issuance of common stock in initial public offering | 5,000,000         | 5         | 73,111         |          |                 | 73,116         |
| Conversion of preferred stock to common stock                         | 17,257,362        | 17        | 103,506        |          |                 | 103,523        |
| Reclassification of common stock subject to put to common stock       | 212,000           |           | 2,650          |          |                 | 2,650          |
| Amortization of stock based compensation                              |                   |           | 2,239          |          |                 | 2,239          |
| Preferred warrant liability reclassification                          |                   |           | 2,200          |          |                 | 2,200          |
| Accretion of redeemable preferred stock                               |                   |           | (1,190)        |          | (639)           | (1,829)        |
| Accretion of common stock subject to put                              |                   |           | (72)           |          | (31)            | (103)          |
| <b>Balance at December 31, 2007</b>                                   | <b>27,960,573</b> | <b>28</b> | <b>183,433</b> | <b>1</b> | <b>(80,840)</b> | <b>102,622</b> |
| Net income  |                   |           |                |          | 25,186          | 25,186         |
| Foreign currency translation adjustment                               |                   |           |                | (1,132)  |                 | (1,132)        |
| Unrealized gain on marketable securities net of tax effect of \$68    |                   |           |                | 289      |                 | 289            |
| Exercise of common stock options                                      | 611,733           | 1         | 976            |          |                 | 977            |

|   |                   |              |                   |                   |                 |                    |                   |
|---|-------------------|--------------|-------------------|-------------------|-----------------|--------------------|-------------------|
| Exercise of common stock warrants, net                          | 4,020             |              | 50                |                   | 50              |                    |                   |
| Issuance of restricted stock, net                               | 465,010           |              |                   |                   |                 |                    |                   |
| Restricted stock units vested                                   | 17,490            |              |                   |                   |                 |                    |                   |
| Common stock received for tax withholding                       | (64,326)          | (1,265)      |                   |                   | (1,265)         |                    |                   |
| Reclassification of common stock subject to put to common stock | 135,640           |              | 1,814             |                   | 1,814           |                    |                   |
| Amortization of stock based compensation                        |                   |              | 6,339             |                   | 6,339           |                    |                   |
| <b>Balance at December 31, 2008</b>                             | <b>29,130,140</b> | <b>\$ 29</b> | <b>\$ (1,265)</b> | <b>\$ 192,612</b> | <b>\$ (842)</b> | <b>\$ (55,654)</b> | <b>\$ 134,880</b> |

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

## COMSCORE, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

|   | Year Ended December 31, |           |          |
|---|-------------------------|-----------|----------|
|   | 2008                    | 2007      | 2006     |
|   | (In<br>thousands)       |           |          |
| <b>Operating activities</b>   |                         |           |          |
| Net income  | \$ 25,186               | \$ 19,316 | \$ 5,669 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                         |           |          |
| Depreciation  | 4,977                   | 3,764     | 2,888    |
| Amortization of intangible assets resulting from acquisitions                     | 798                     | 966       | 1,371    |
| Provisions for bad debts  | 594                     | 142       | 212      |
| Stock-based compensation  | 6,482                   | 2,474     | 198      |
| Revaluation of preferred stock warrant liabilities                                |                         | 1,195     | 224      |
| Impairment of marketable securities   | 2,239                   |           |          |
| Loss on asset disposal  | 50                      |           |          |
| Amortization of deferred finance costs  |                         | 7         | 33       |
| Deferred tax benefit  | (15,386)                | (8,142)   | (97)     |
| Amortization of deferred rent   | (126)                   |           |          |
| Changes in operating assets and liabilities, net of effect of acquisitions:       |                         |           |          |
| Accounts receivable, net  | (6,581)                 | (9,186)   | (3,882)  |
| Prepaid expenses and other current assets   | 229                     | (486)     | (311)    |
| Other non-current assets  | 114                     | 255       | 30       |
| Accounts payable, accrued expenses, and other liabilities                         | (1,838)                 | 1,065     | 1,431    |
| Deferred revenues   | 6,124                   | 9,841     | 3,139    |
| Deferred rent   | 9,397                   |           |          |
| Net cash provided by operating activities   | 32,259                  | 21,211    | 10,905   |
| <b>Investing activities</b>   |                         |           |          |
| Recovery (payment) of restricted cash   | 1,385                   | (1,115)   | (9)      |
| Purchase of investments   | (92,288)                | (56,475)  | (14,900) |
| Sale of investments   | 86,118                  | 30,920    | 7,950    |
| Purchase of property and equipment  | (14,252)                | (3,635)   | (2,314)  |
| Acquisition of business, net of cash acquired                                     | (44,638)                |           |          |
| Payment of additional consideration for acquired businesses                       |                         |           | (300)    |
| Net cash used in investing activities   | (63,675)                | (30,305)  | (9,573)  |
| <b>Financing activities</b>   |                         |           |          |
| Proceeds from the exercise of common stock options and warrants                   | 1,027                   | 972       | 241      |
| Repurchase of common stock  | (1,265)                 |           |          |
| Proceeds from the issuance of common stock, net of offering costs                 |                         | 73,116    |          |
| Principal payments on capital lease obligations                                   | (900)                   | (2,109)   | (1,622)  |



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|  |           |           |          |
|--|-----------|-----------|----------|
| Net cash (used in) provided by financing activities  | (1,138)   | 71,979    | (1,381)  |
| Effect of exchange rate changes on cash              | (1,517)   | 451       | (43)     |
| Net (decrease) increase in cash and cash equivalents | (34,071)  | 63,336    | (92)     |
| Cash and cash equivalents at beginning of year       | 68,368    | 5,032     | 5,124    |
| Cash and cash equivalents at end of year             | \$ 34,297 | \$ 68,368 | \$ 5,032 |
| <b>Supplemental cash flow disclosures</b>            |           |           |          |
| Interest paid  | \$ 122    | \$ 302    | \$ 249   |
| Income tax paid                                      | \$ 325    | \$ 1      | \$ 8     |
| Capital lease obligations incurred                   | \$        | \$        | \$ 2,707 |
| Accretion of preferred stock                         | \$        | \$ 1,829  | \$ 3,179 |

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

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

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

#### 2. Summary of Significant Accounting Policies

##### *Basis of Presentation and Consolidation*

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions and accounts have been eliminated upon consolidation. The Company consolidates investments where it has a controlling financial interest as defined by Accounting Research Bulletin (ARB) No. 51, *Consolidated Financial Statements*, as amended by Statement of Financial Accounting Standards (SFAS) No. 94, *Consolidation of all Majority-Owned Subsidiaries*. The usual condition for controlling

financial interest is ownership of a majority of the voting interest and, therefore, as a general rule, ownership, directly or indirectly, of more than 50% of the outstanding voting shares is a condition indicating consolidation. For investments in variable interest entities, as defined by Financial Accounting Standards Board (FASB) Interpretation No. 46, *Consolidation of Variable Interest Entities*, the Company would consolidate when it is determined to be the primary beneficiary of a variable interest entity. The Company does not have any variable interest entities.

**COMSCORE, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Within the consolidated balance sheets, \$154,000 has been reclassified from accrued expenses to current deferred rent, as of December 31, 2007 to conform to the current year presentation.

***Use of Estimates***

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expense during the reporting periods. Significant estimates and assumptions are inherent in the analysis and the measurement of deferred tax assets, the identification and quantification of income tax liabilities due to uncertain tax positions, valuation of marketable securities, recoverability of intangible assets, other long-lived assets and goodwill, and the determination of the allowance for doubtful accounts. The Company bases its estimates on historical experience and assumptions that it believes are reasonable. Actual results could differ from those estimates.

***Fair Value Measurements***

SFAS No. 107, *Disclosure about Fair Value of Financial Instruments*, defines the fair value of financial instruments as the amount at which the instrument could be exchanged in a current transaction between willing parties. Cash equivalents, investments, accounts receivable, accounts payable, accrued expenses and capital lease obligations reported in the consolidated balance sheets equal or approximate their respective fair values. The fair value of the Company's common stock subject to put is not practicable to determine, as no quoted market price exists for these instruments.

As of January 1, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements* ( SFAS No. 157 ). SFAS No. 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, SFAS No. 157 establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value as follows: Level 1 observable inputs such as quoted prices in active markets; Level 2 inputs other than the quoted prices in active markets that are observable either directly or indirectly; Level 3 unobservable inputs of which there is little or no market data, which require the Company to develop its own assumptions. This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. On a recurring basis, the Company measures its marketable securities at fair value and determines the appropriate classification level for each reporting period. The Company is required to use significant judgments to make this determination.

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

***Cash and Cash Equivalents, Restricted Cash and Investments***

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

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

Restricted cash is comprised of certificates of deposit that are collateral for letters of credit pertaining to security deposits for operating leases. All restrictions were removed during the year ended December 31, 2008 and the restricted cash was subsequently reclassified to cash and cash equivalents.

Investments, which consist principally of U.S. treasury bills, U.S. treasury notes and auction rate securities, are stated at fair value. These securities are accounted for as available-for-sale securities in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. Realized gains and losses on available-for-sale securities are included in interest income. Declines in value judged to be other-than-temporary, if any, on available-for-sale securities are included in impairment of marketable securities on the Statement of Operations. 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 \$2.0 million, \$2.9 million and \$515,000 for the years ended December 31, 2008, 2007 and 2006, respectively.

***Accounts Receivable***

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

The following is a summary of activities in the allowance for doubtful accounts for the fiscal years indicated:

|  | <b>Year Ended December 31,</b> |             |             |
|--|--------------------------------|-------------|-------------|
|  | <b>2008</b>                    | <b>2007</b> | <b>2006</b> |
|  | <b>(In thousands)</b>          |             |             |
| <b>Allowance for Doubtful Accounts</b> |                                |             |             |
| Beginning Balance                      | \$ (234)                       | \$ (188)    | \$ (185)    |
| Additions                              | (602)                          | (142)       | (212)       |

|                |          |          |          |
|----------------|----------|----------|----------|
| Reductions     | 357      | 96       | 209      |
| Ending Balance | \$ (479) | \$ (234) | \$ (188) |

***Property and Equipment***

Property and equipment is stated at cost, net of accumulated depreciation. Property and equipment is depreciated on a straight-line basis over the estimated useful lives of the assets, ranging from three to five years. Assets under capital leases are recorded at their net present value at the inception of the lease and are included in the appropriate asset category. Assets under capital leases and leasehold improvements are amortized over the shorter of the related lease terms or their useful lives. Replacements and major improvements are capitalized, while

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

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 implied 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 each of 2008, 2007 and 2006 and determined that there was no impairment of goodwill.

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

|                                   | <b>Useful<br/>Lives<br/>(Years)</b> |
|-----------------------------------|-------------------------------------|
| Acquired methodologies/technology | 5 to 7                              |
| Customer relationships            | 7                                   |
| Panel                             | 7                                   |
| Intellectual property             | 10                                  |

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



Long-lived assets, including property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount should be evaluated pursuant to SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ( SFAS 144 ). Pursuant to SFAS 144, impairment is determined by comparing the carrying value of these long-lived assets to an estimate of the future undiscounted cash flows expected to result from the use of the assets and eventual disposition. In the event the carrying value is not recoverable, 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 years ended December 31, 2008, 2007 and 2006. In the event that there are changes in the planned use of the Company's long-lived assets or their 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.

**COMSCORE, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Lease Accounting***

The Company leases its facilities under operating leases, and accounts for those leases in accordance with SFAS No. 13, *Accounting for Leases*. For facility leases that contain rent escalations or rent concession provisions, the Company records the total rent payable during the lease term on a straight-line basis over the term of the lease. The Company records the difference between the rent paid and the straight-line rent as a deferred rent liability in the accompanying consolidated balance sheets. Leasehold improvements funded by landlord incentives or allowances are recorded as leasehold improvement assets and a deferred rent liability which is amortized as a reduction of rent expense over the term of the lease.

***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 \$321,000 and \$296,000 for the years ended December 31, 2008 and 2007, respectively, and a gain of \$125,000 for the year ended December 31, 2006. The gains and losses are the result of transactions denominated in currencies other than the functional currency of the Company's foreign subsidiaries.

***Other Comprehensive Income***

The following summary sets forth the components of other comprehensive (loss) income, net of tax, accumulated in stockholders' equity:

|   | <b>December 31,</b>   |             |
|---|-----------------------|-------------|
|   | <b>2008</b>           | <b>2007</b> |
|   | <b>(In thousands)</b> |             |
| Foreign currency translation (loss) gain        | \$ (949)              | \$ 183      |
| Unrealized gain (loss) on marketable securities | 107                   | (182)       |
| Total other comprehensive (loss) income         | \$ (842)              | \$ 1        |

***Business Segment Information***

The Company is managed and operated as one business segment. A single management team reports to the chief operating decision maker who manages the entire business. The Company does not operate any material separate lines of business or separate business entities with respect to its services. The various products that the Company offers are

all related to analyzing consumer behavior on the Internet and mobile devices. The same data source is used regardless of the product delivered. The Company's expenses are shared and are not allocated to individual products. Accordingly, the Company does not accumulate discrete financial information by product line and does not have separately reportable segments as defined by SFAS No. 131, *Disclosure About Segments of an Enterprise and Related Information*.

***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

**COMSCORE, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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.

***Costs of Revenues***

Cost of revenues consists primarily of expenses related to the operating network infrastructure and the recruitment, maintenance and support of consumer panels. Expenses associated with these areas include the salaries, stock-based compensation, benefits and related expenses of network operations, survey operations, custom analytics and technical support departments, and are expensed as they are incurred. Cost of revenues also includes data collection costs for the products and operational costs associated with the Company's data centers, including depreciation expense associated with computer equipment.

***Selling and Marketing***

Selling and marketing expenses consist primarily of salaries, stock-based compensation, benefits, commissions and bonuses paid to the direct sales force and industry analysts, as well as costs related to online and offline advertising, product management, seminars, 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.

**COMSCORE, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Research and Development***

Research and development expenses include new product development costs, consisting primarily of salaries, stock-based compensation, benefits and related costs for personnel associated with research and development activities, and allocated overhead, including rent and depreciation.

***General and Administrative***

General and administrative expenses consist primarily of salaries, stock-based compensation, benefits 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.

***Concentration of Credit Risk***

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash equivalents, investments and accounts receivable. Cash equivalents are held at financial institutions. Investments consist of fixed income and auction rate securities (see Note 4). With respect to accounts receivable, credit risk is mitigated by the Company's ongoing credit evaluation of its customers' financial condition.

For the years ended December 31, 2008, 2007 and 2006, one customer accounted for 12%, 13% and 12%, respectively, of total revenues. As of December 31, 2008, no one customer accounted for more than 10% of accounts receivable. As of December 31, 2007, one customer accounted for 12% of accounts receivable.

***Advertising Costs***

All advertising costs are expensed as incurred. Advertising expense, which is included in sales and marketing expense, totaled \$298,000, \$371,000 and \$210,000 for the years ended December 31, 2008, 2007 and 2006, respectively.

***Stock-Based Compensation***

The Company accounts for share-based compensation expense in accordance with SFAS No. 123 (revised 2005), *Share-Based Payment* (SFAS 123R). SFAS 123R requires the measurement and recognition of compensation expense for share-based awards based on the estimated fair value on the date of the grant. The Company estimates the fair value of each option award on the date of the grant using the Black-Scholes option-pricing model. This model is affected by the Company's stock price as well as estimates regarding a number of variables including expected stock price volatility over the term of the award and projected employee stock option exercise behaviors. The fair value of the restricted stock awards is determined based on the quoted market price of the Company's common stock on the grant date. For stock-based awards subject to graded vesting, the Company has utilized the straight-line ratable method for allocating compensation cost by period. For the years ended December 31, 2008, 2007 and 2006, the Company recorded stock-based compensation expense of \$6.5 million, \$2.5 million and \$198,000, respectively, in accordance with SFAS 123R. Included within 2008 stock-based compensation expense and liabilities was an accrual for \$369,000 for compensation earned during the year. This accrual will be settled with shares of restricted stock to be granted in 2009. Included within 2007 stock-based compensation expense and liabilities was an accrual for \$235,000

for compensation earned during the year. This accrual was settled with shares of restricted stock issued during the first quarter of 2008.

***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

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

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*. The Company's policy is to recognize interest and penalties related to income tax matters in income tax expense.

***Earnings Per Share***

The Company computes earnings per share in accordance with the provisions of SFAS No. 128, *Earnings Per Share* ( SFAS 128 ). The Company previously issued shares of common stock in connection with business acquisitions that gave 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 could have been required to repurchase those shares was being accreted over the period from issuance to the first date at which the Company could have been 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 was also allocated to the Common Stock Subject to Put and the convertible redeemable preferred stock. Prior to conversion of the redeemable preferred stock, in periods of undistributed losses, all losses were allocated to common stock in accordance with EITF 03-06 as the holders of Common Stock Subject to Put and participating preferred stock were not required to fund losses nor were their redemption or put prices reduced as a result of losses incurred. In periods of undistributed income, income was first allocated to the participating



preferred stock for their preferential dividend, \$7.1 million per annum as of July 2, 2007, the date of the conversion of the Company's participating preferred stock upon the closing of its IPO. Any undistributed earnings remaining were then allocated to holders of common stock, Common Stock Subject to Put and preferred stock (assuming conversion) on a pro rata basis. The total earnings or losses allocated to each class of common stock were then divided by the weighted-average number of shares outstanding for each class of common stock to determine basic earnings per share. EITF 03-06 does not require the presentation of basic and diluted

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

earnings per share for securities other than common stock; therefore, earnings per share is only computed for the Company's common stock.

Diluted earnings per share for common stock reflects the potential dilution that could result if securities or other contracts to issue common stock were exercised or converted into common stock. Diluted earnings per share assumes the exercise of stock options and warrants using the treasury stock method. For the period prior to conversion, diluted earnings per share does not assume the conversion of the Company's convertible preferred stock using the if-converted method as the result is anti-dilutive. No potentially dilutive securities were 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.

|  | <b>Year Ended December 31,</b> |             |             |
|--|--------------------------------|-------------|-------------|
|  | <b>2008</b>                    | <b>2007</b> | <b>2006</b> |
| Stock options and restricted stock units | 60,086                         | 3,796       | 2,750,022   |
| Convertible preferred stock warrants     |                                |             | 113,129     |
| Common stock warrants                    | 2,000                          | 2,000       | 115,357     |
| Convertible preferred stock              |                                | 8,605,041   | 17,257,362  |

## COMSCORE, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

|   | Year Ended December 31,           |            |           |
|---|-----------------------------------|------------|-----------|
|   | 2008                              | 2007       | 2006      |
|   | (In thousands, except share data) |            |           |
| <b>Calculation of basic and diluted net income per share two class method:</b>  |                                   |            |           |
| Net income  | \$ 25,186                         | \$ 19,316  | \$ 5,669  |
| Accretion of redeemable preferred stock   |                                   | (1,829)    | (3,179)   |
| Accretion of common stock subject to put  |                                   | (103)      | (141)     |
| Undistributed earnings  | 25,186                            | 17,384     | 2,349     |
| Allocation of undistributed earnings:   |                                   |            |           |
| Common stock  | 25,186                            | 16,358     |           |
| Preferred stock   |                                   | 1,026      | 2,349     |
| Total allocated earnings  | \$ 25,186                         | \$ 17,384  | \$ 2,349  |
| Net income attributable to common stockholders per common share:                |                                   |            |           |
| Basic   | \$ 0.88                           | \$ 0.99    | \$ 0.00   |
| Diluted   | \$ 0.83                           | \$ 0.88    | \$ 0.00   |
| Weighted-average shares outstanding-common stock:                               |                                   |            |           |
| Basic   | 28,691,216                        | 16,139,365 | 3,847,213 |
| Diluted   | 30,232,714                        | 18,377,563 | 3,847,213 |
| Net income attributable to common stockholders per common share subject to put: |                                   |            |           |
| Basic   | \$ 0.88                           | \$ 1.33    | \$ 0.41   |
| Diluted   | \$ 0.83                           | \$ 1.21    | \$ 0.41   |
| Weighted-average shares outstanding-common stock subject to put:                |                                   |            |           |
| Basic   | 34,465                            | 308,720    | 347,635   |
| Diluted   | 34,465                            | 308,720    | 347,635   |

**Recent Pronouncements**

In February 2008, the FASB issued FASB Staff Position (FSP) FAS No. 157-2, *Effective Date of FASB Statement No. 157*, or FSP FAS No. 157-2, which delays 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 (at least annually). The effective date has been delayed by one year to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. The Company adopted SFAS No. 157 except for

those items with respect to which adoption was specifically deferred under FSP FAS No. 157-2. The Company is currently evaluating the impact of the full adoption of FAS No. 157 on our consolidated financial statements.

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

**COMSCORE, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

upon issuance and for financial statements not yet reported. The adoption of FSP No. 157-3 did not have a material impact on the Company's consolidated financial statements.

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

In December 2007, the FASB issued SFAS No. 141 (revised), *Business Combinations* ( SFAS 141(R) ), which is intended to improve reporting by creating greater consistency in the accounting and financial reporting of business combinations. SFAS 141(R) requires that the acquiring entity in a business combination recognize all (and only) the assets and liabilities assumed in the transaction, establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed, and requires the acquirer to disclose to investors and other users all of the information that they need to evaluate and understand the nature and financial effect of the business combination. In addition, SFAS 141(R) modifies the accounting for transaction and restructuring costs. SFAS 141(R) is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. After the effective date of SFAS 141(R), all changes to tax uncertainties and deferred tax asset valuation allowances established in business combination accounting should be recognized in accordance with SFAS 141(R), generally as an adjustment to income tax expense. For the Company's acquisition of M:Metrics, Inc. (see Note 3), the effects of changes outside of the measurement period (or within the measurement period if the changes result from new information about facts that arose after the acquisition date) to deferred tax asset valuation allowances established in acquisition accounting will be recognized directly as an adjustment to income tax expense.

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

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

the Company has not expanded its eligible items subject to the fair value option under SFAS No. 159.

### **3. Acquisition**

On May 28, 2008, comScore completed its merger with M:Metrics, Inc. ( M:Metrics ), a provider of marketing and media intelligence for the mobile medium in the United States and internationally, pursuant to the Agreement and Plan of Merger dated May 28, 2008, (the Merger ). Pursuant to the Agreement and Plan of Merger, the Company acquired all the outstanding common stock of M:Metrics in a cash transaction for approximately

## COMSCORE, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

\$46.0 million. The total preliminary purchase price of \$46.0 million is comprised of \$44.3 million in cash consideration, \$1.2 million in expenses paid on M:Metrics' behalf and estimated acquisition related transaction costs of approximately \$480,000. Acquisition-related transaction costs include legal and accounting fees, and other external costs directly related to the Merger. In connection with the Merger, the Company exchanged the unvested options for M:Metrics common stock for options for the purchase of 51,908 shares of comScore common stock. In addition, \$5.0 million of comScore restricted common stock was reserved for issuance pursuant to the Merger and \$4.72 million was issued to certain former M:Metrics employees that continued as employees of comScore as of June 30, 2008. The estimated fair value of these options and restricted stock will be recognized as compensation expense for post merger services. The Company has included the financial results of M: Metrics in its consolidated financial statements since May 28, 2008, the date of acquisition.

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

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

|   |          |
|---|----------|
| Cash and cash equivalents                 | \$ 1,554 |
| Accounts receivable                       | 2,066    |
| Prepaid expenses and other current assets | 226      |
| Property and equipment                    | 464      |
| Other long term assets                    | 85       |
| Deferred tax assets, net                  | 3,667    |
| Accounts payable                          | (865)    |
| Other accrued liabilities                 | (3,469)  |
| Deferred revenue                          | (5,473)  |
| Other long-term liabilities               | (145)    |
| Net tangible liabilities to be acquired   | (1,890)  |
| Definite-lived intangible assets acquired | 10,160   |
| Goodwill                                  | 37,750   |

Total estimated purchase price \$ 46,020

Included in the preliminary purchase price allocation were \$9.6 million of deferred tax assets and \$3.6 million of deferred tax liabilities initially offset by a full valuation allowance of \$6.0 million. In connection with the reduction of the deferred tax asset valuation allowance recorded as of December 31, 2008 (see Note 9), the Company recorded a \$3.7 million reduction in the valuation allowance recorded for the acquired deferred tax assets of M:Metrics with a corresponding reduction of goodwill.



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

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

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

The unaudited financial information provided below summarizes the combined results of operations of comScore and M:Metrics on a pro forma basis, as though the companies had been combined as of the beginning of the periods presented. The pro forma financial information is presented for informational purposes only and does not purport to be indicative of the Company's financial position or results of operations, which would actually have been obtained had such transaction been completed as of the date or for the periods presented, or of the financial position or results of operations that may be obtained in the future. The pro forma financial information for all periods includes adjustments to include amortization expense from acquired intangibles, adjustments to interest income, the elimination of depreciation from acquired internally developed software and related tax effects.

The unaudited historical financial information of comScore for the periods beginning after May 28, 2008 includes the results of the consolidated companies. The unaudited pro forma financial information for the year ended December 31, 2008 combines the historical results for comScore for the year ended December 31, 2008 and the historical results for M:Metrics for the five months ended May 28, 2008. The unaudited pro forma financial information for the year ended December 31, 2007 combines the historical results for comScore for the year ended December 31, 2007 and the historical results for M: Metrics for the same period.

|   | <b>Year Ended December 31,</b>               |             |
|---|--|-------------|
|   | <b>2008</b>                                  | <b>2007</b> |
|   | <b>(Unaudited)</b>                           |             |
|   | <b>(In thousands, except per share data)</b> |             |
| Revenues  | \$ 122,158                                   | \$ 96,265   |
| Net income                                      | \$ 21,916                                    | \$ 5,398    |
| Basic income per share to common stockholders   | \$ 0.76                                      | \$ 0.33     |
| Diluted income per share to common stockholders | \$ 0.72                                      | \$ 0.29     |

**4. Investments and Fair Value Measurements**

As of December 31, 2008, the Company had \$2.9 million invested in auction rate securities, all of which are classified as long-term investments on its consolidated balance sheet. As of December 31, 2007, the Company had \$30.3 million invested in auction rate securities, of which \$25.4 million were classified as short-term investments and \$4.9 million were classified as long-term investments on its consolidated balance sheet.

Auction rate securities are generally long-term debt instruments that provide liquidity through a Dutch auction process that resets the applicable interest rate at pre-determined calendar intervals, generally every 28 days. This mechanism typically allows existing investors to rollover their holdings and to continue to own their respective securities or liquidate their holdings by selling their securities at par value. These securities often are insured against loss of principal and interest by bond insurers. In prior years, the Company invested in these securities for short periods of time as part of its investment policy. However, the uncertainties in the credit markets have prevented the

## COMSCORE, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Company and other investors from liquidating holdings of certain auction rate securities in recent auctions because the amount of securities submitted for sale has exceeded the amount of purchase orders. Accordingly, the Company continues to hold these long-term securities and is due interest at a higher rate than similar securities for which auctions have cleared.

As of December 31, 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. As there is no active market for these investments, the Company values its auction rate securities using a discounted cash flow model that takes into consideration the securities' coupon rate, the discount rate and the expected date liquidity will be restored. The discount rate reflects the financial condition of the issuers and the bond insurers and incorporates a discount for illiquidity. As of December 31, 2008 and 2007, the estimated fair value of the auction rate securities was below cost, or par value, resulting in an unrealized loss.

As of December 31, 2007, the Company determined that the unrealized losses on its auction rate securities did not represent an other-than-temporary impairment and reflected the unrealized losses within other comprehensive income. The Company determined that the unrealized losses were primarily due to changes in market conditions and an overall lack of demand for auction rate securities. Although certain bond insurers were experiencing financial difficulties and had either their credit ratings downgraded or were placed on watch, the issuers of the auction rate securities maintained AAA ratings. Further, the Company had the ability and intent to hold the investments until an anticipated recovery of the fair value.

During 2008, the length of time and the extent to which the auction rate securities were valued below cost both increased significantly. As of December 31, 2008, the credit ratings of the issuers had deteriorated to a range of A- to B and the bond insurers saw similar downgrades to a range of BBB to C. As a result, the Company concluded that the unrealized losses on its auction rate securities at December 31, 2008 represented an other-than-temporary impairment and recorded a charge of \$2.2 million in earnings.

The Company is unsure as to when the liquidity issues relating to these investments will improve. Accordingly, the Company classified these securities as non-current as of December 31, 2008 and 2007. If the credit ratings of the issuers, the bond insurers or the collateral continue to deteriorate, the Company may further adjust the carrying value of these investments.

Marketable securities, which are classified as available-for-sale, are summarized below.

|                          | <b>Purchased<br/>Amortized<br/>Cost</b> | <b>Gross<br/>Unrealized<br/>Gain</b> | <b>Gross<br/>Unrealized<br/>Loss</b> | <b>Aggregate<br/>Fair<br/>Value</b> | <b>Classification on<br/>Balance Sheet</b> |                                  |
|--------------------------|---|--------------------------------------|--------------------------------------|-------------------------------------|--|----------------------------------|
|                          |   |                                      |                                      |                                     | <b>Short-Term<br/>Investments</b>          | <b>Long-Term<br/>Investments</b> |
|                          | <b>(In thousands)</b>                   |                                      |                                      |                                     |  |                                  |
| As of December 31, 2008: |   |                                      |                                      |                                     |  |                                  |
| U.S. treasury bills      | \$ 24,931                               | \$ 55                                | \$                                   | \$ 24,986                           | \$ 24,986                                  | \$                               |
| U.S. treasury notes      | 12,694                                  | 120                                  |                                      | 12,814                              | 12,178                                     | 636                              |

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|                         |           |        |    |           |           |    |       |
|-------------------------|-----------|--------|----|-----------|-----------|----|-------|
| Auction rate securities | 2,861     |        |    | 2,861     |           |    | 2,861 |
|                         | \$ 40,486 | \$ 175 | \$ | \$ 40,661 | \$ 37,164 | \$ | 3,497 |

|                          | <b>Purchased<br/>Amortized<br/>Cost</b> | <b>Gross<br/>Unrealized<br/>Gain</b> | <b>Gross<br/>Unrealized<br/>Loss</b> | <b>Aggregate<br/>Fair<br/>Value</b> | <b>Classification on<br/>Balance Sheet</b> |                                  |
|--------------------------|---|--------------------------------------|--------------------------------------|-------------------------------------|--|----------------------------------|
|                          |   |                                      |                                      |                                     | <b>Short-Term<br/>Investments</b>          | <b>Long-Term<br/>Investments</b> |
|                          | <b>(In thousands)</b>                   |                                      |                                      |                                     |  |                                  |
| As of December 31, 2007: |   |                                      |                                      |                                     |  |                                  |
| U.S. treasury notes      | \$ 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                         |

## COMSCORE, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

There were no gross unrealized losses related to available-for-sale securities as of December 31, 2008 other than the auction rate securities, for which the unrealized loss was deemed other than temporary and included in earnings. The following table summarizes the fair value and gross unrealized losses related to available-for-sale securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2007:

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

The fair value hierarchy of the Company's marketable securities at fair value as of December 31, 2008 is as follows:

|                         | Fair Value Measurements at Reporting Date Using |  |   |   |
|-------------------------|---|--|---|---|
|                         | December 31, 2008                               | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|                         | (In thousands)                                  |  |   |   |
| Assets:                 |   |  |   |   |
| U.S. treasury bills     | \$ 24,986                                       | \$ 24,986  | \$  | \$  |
| U.S. treasury notes     | 12,814  | 12,814   |   |   |
| Auction rate securities | 2,861   |  |   | 2,861                                     |
| Total                   | \$ 40,661                                       | \$ 37,800  | \$  | \$ 2,861                                  |

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

|  | <b>Short-term<br/>Investments</b> | <b>Long-term<br/>Investments</b> |
|--|-----------------------------------|----------------------------------|
|  | <b>(In thousands)</b>             |                                  |
| Balance on January 1, 2008   | \$                                | \$ 4,880                         |
| Transfers into Level 3   |                                   | 2,350                            |
| Total losses unrealized included in earnings                             |                                   | (2,239)                          |
| Total losses included in other comprehensive income at December 31, 2007 |                                   | 220                              |
| Settlements  |                                   | (2,350)                          |
| Balance on December 31, 2008   | \$                                | \$ 2,861                         |

For the year ended December 31, 2008, an unrealized loss of \$2.2 million related to Level 3 assets held at December 31, 2008 was included in earnings.

**COMSCORE, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****5. Property and Equipment**

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

|   | <b>December 31</b>    |             |
|---|-----------------------|-------------|
|   | <b>2008</b>           | <b>2007</b> |
|   | <b>(In thousands)</b> |             |
| Computer equipment                              | \$ 11,256             | \$ 16,050   |
| Computer software                               | 3,627                 | 2,529       |
| Office equipment and furniture                  | 3,085                 | 1,408       |
| Leasehold improvements                          | 8,405                 | 1,070       |
|   | 26,373                | 21,057      |
| Less: accumulated depreciation and amortization | (8,676)               | (14,190)    |
|   | \$ 17,697             | \$ 6,867    |

During the year ended December 31, 2008, the Company capitalized \$9.4 million of leasehold improvements, furniture and fixtures and office equipment associated with landlord allowances received in connection with its Reston, Chicago and San Francisco office leases (see Note 8).

Property and equipment financed through capital lease obligations, consisting of computer equipment, totaled \$3.1 million at December 31, 2008 and 2007. At December 31, 2008 and 2007, accumulated depreciation related to property and equipment financed through capital leases totaled \$2.2 million and \$1.2 million, respectively. During the years ended December 31, 2008 and 2007, \$10.4 million and \$2.5 million, respectively, of fully depreciated assets were written off. In addition, \$2.6 million of assets financed through terminated capital leases were subsequently returned and written off during the year ended December 31, 2007.

For the years ended December 31, 2008, 2007 and 2006, total depreciation expense was \$5.0 million, \$3.8 million and \$2.9 million, respectively.

**6. Goodwill and Intangible Assets**

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

|          | <b>December 31,</b>   |             |
|----------|-----------------------|-------------|
|          | <b>2008</b>           | <b>2007</b> |
|          | <b>(In thousands)</b> |             |
| Goodwill | \$ 39,114             | \$ 1,364    |

Intangible assets consist of the following:

|                                   |    |       |         |
|-----------------------------------|----|-------|---------|
| Trademarks and brands             | \$ | \$    | 662     |
| Non-compete agreements            |    |       | 326     |
| Customer relationships            |    | 2,927 | 3,467   |
| Acquired methodologies/technology |    | 2,378 | 688     |
| Intellectual property             |    | 2,547 |         |
| Patent                            |    | 1,701 |         |
| Total intangible assets           |    | 9,553 | 5,143   |
| Accumulated amortization          |    | (748) | (5,126) |
| Intangible assets, net            | \$ | 8,805 | \$ 17   |



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

Amortization expense related to intangible assets was approximately \$804,000, \$966,000 and \$1.4 million for the years ended December 31, 2008, 2007 and 2006, respectively.

During the year ended December 31, 2008, \$5.1 million of fully-amortized intangible assets were written off.

The weighted average amortization period by major asset class as of December 31, 2008, is as follows:

|                                   | <b>(In years)</b> |
|-----------------------------------|-------------------|
| Acquired methodologies/technology | 6.6               |
| Customer relationships            | 7.0               |
| Patent                            | 7.0               |
| Intellectual property             | 10.0              |

The estimated future amortization of acquired intangible assets as of December 31, 2008 is as follows:

|            | <b>(In thousands)</b> |       |
|------------|-----------------------|-------|
| 2009       | \$                    | 1,283 |
| 2010       |                       | 1,283 |
| 2011       |                       | 1,283 |
| 2012       |                       | 1,283 |
| 2013       |                       | 1,227 |
| Thereafter |                       | 2,446 |
|            | \$                    | 8,805 |

**7. Accrued Expenses**

Accrued expenses consist of the following:

|                             | <b>December 31,</b>   |             |
|-----------------------------|-----------------------|-------------|
|                             | <b>2008</b>           | <b>2007</b> |
|                             | <b>(In thousands)</b> |             |
| Accrued payroll and related | \$ 3,478              | \$ 3,054    |
| Other                       | 5,954                 | 3,784       |
|                             | \$ 9,432              | \$ 6,838    |

## **8. Commitments and Contingencies**

### *Leases*

In December 2006, the Company 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 the Company continued to expand its technology infrastructure in support of its business growth. This agreement included a \$5.0 million line of credit that was available to the Company until December 31, 2007; its initial utilization of this credit facility was to establish an equipment lease for approximately \$2.9 million bearing interest at a rate of 7.75% per annum. The base term for this lease was three years and included a nominal charge in the event of prepayment. Assets acquired under the equipment leases secure the obligations. The line of credit expired December 31, 2007.

In addition to equipment financed through capital leases, the Company is obligated under various noncancelable operating leases for office facilities and equipment. These leases generally provide for renewal options and

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

escalation increases. Future minimum payments under noncancelable lease agreements with initial terms of one year or more are as follows:

|   | <b>December 31, 2008</b>  |                             |
|---|---------------------------|-----------------------------|
|   | <b>Capital<br/>Leases</b> | <b>Operating<br/>Leases</b> |
| 2009  | \$ 1,021                  | \$ 4,978                    |
| 2010  |                           | 4,939                       |
| 2011  |                           | 4,877                       |
| 2012  |                           | 4,724                       |
| 2013  |                           | 4,340                       |
| Thereafter                                  |                           | 20,915                      |
| <br>  |                           |                             |
| Total minimum lease payments                | 1,021                     | \$ 44,773                   |
| <br>  |                           |                             |
| Less amount representing interest           | (44)                      |                             |
| <br>  |                           |                             |
| Present value of net minimum lease payments | 977                       |                             |
| Less current portion                        | (977)                     |                             |
| <br>  |                           |                             |
| Capital lease obligations, long-term        | \$                        |                             |

Total rent expense was \$4.0 million, \$2.4 million and \$2.1 million for the years ended December 31, 2008, 2007 and 2006, respectively.

In December 2008, the Company agreed with a landlord for the early termination of its Seattle office lease. In connection with this termination, the Company paid \$97,000. This amount is included in expenses from operations for the year ended December 31, 2008. In September 2008, the Company agreed with a landlord for the early termination of the acquired M:Metrics San Francisco office lease. In connection with this termination, the Company paid \$165,000. This amount is included in expenses from operations for the year ended December 31, 2008.

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

In December 2007, the Company entered into a ten year lease with a new landlord for approximately 62,000 square feet of new office space for its corporate headquarters. The Company moved its corporate headquarters in June 2008. In connection with this lease, the Company recorded \$5.3 million of deferred rent and capitalized assets as a result of

landlord allowances and abatements. The deferred rent will be applied to rent expense recognized by the Company over the lease term.

In August 2007, the Company entered into a ten 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 Company recorded \$2.5 million of deferred rent and capitalized assets as a result of landlord allowances and abatements. The deferred rent will be applied to rent expense recognized by the Company over the lease term.

During August 2007, the Company paid the \$582,000 principal balance of certain capital lease obligations resulting in the termination of those lease agreements.

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

On March 6, 2008, the Company opened a \$5.0 revolving line of credit with an interest rate equal to BBA LIBOR rate plus an applicable margin based upon the funded debt to unrestricted EBITDA ratio. This line of credit includes no restrictive financial covenants. On February 27, 2009, the line of credit was extended through April 6, 2009. As of December 31, 2008, no amounts were borrowed against the line of credit and \$4.4 million of letters of credit were outstanding, leaving \$600,000 available for additional letters of credit or other borrowings. These letters of credit may be reduced periodically provided the Company meets the conditional criteria of each related lease agreement. During the year ended December 31, 2008, one letter of credit was reduced by approximately \$90,000. As of December 31, 2007, certain letters of credit were collateralized by \$1.4 million in certificates of deposit which were included in Restricted Cash in the Consolidated Balance Sheets. During the year ended December 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 December 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.

**9. Income Taxes**

The components of pretax income for the years ended December 31, 2008, 2007 and 2006 are as follows:

|          | <b>2008</b>           | <b>2007</b>      | <b>2006</b>     |
|----------|-----------------------|------------------|-----------------|
|          | <b>(In thousands)</b> |                  |                 |
| Domestic | \$ 10,906             | \$ 11,450        | \$ 6,190        |
| Foreign  | (615)                 | 344              | (471)           |
|          | <b>\$ 10,291</b>      | <b>\$ 11,794</b> | <b>\$ 5,719</b> |

Income tax benefit (expense) is comprised of the following:

|          | <b>Year Ended December 31,</b> |             |             |
|----------|--------------------------------|-------------|-------------|
|          | <b>2008</b>                    | <b>2007</b> | <b>2006</b> |
|          | <b>(In thousands)</b>          |             |             |
| Current: |                                |             |             |
| Federal  | \$ (285)                       | \$ (197)    | \$ (147)    |
| State    | (74)                           | (11)        |             |
| Foreign  | (127)                          | (412)       |             |

|                              |           |          |         |
|------------------------------|-----------|----------|---------|
| Total                        | (486)     | (620)    | (147)   |
| Deferred:                    |           |          |         |
| Federal                      | 13,109    | 6,833    |         |
| State                        | 1,671     | 1,112    |         |
| Foreign                      | 601       | 197      | 97      |
| Total                        | 15,381    | 8,142    | 97      |
| Income tax benefit (expense) | \$ 14,895 | \$ 7,522 | \$ (50) |

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

A reconciliation of the statutory United States income tax rate to the effective income tax rate follows:

|  | <b>Year Ended December 31,</b> |             |             |
|--|--------------------------------|-------------|-------------|
|  | <b>2008</b>                    | <b>2007</b> | <b>2006</b> |
| Statutory federal tax rate             | 35.0%                          | 35.0%       | 34.0%       |
| Nondeductible items                    | 4.5                            | 6.6         | 3.4         |
| State tax rate, net of federal benefit | 4.4                            | 6.5         | 5.6         |
| Foreign rate differences               | 1.9                            | (0.3)       | (0.2)       |
| Change in tax rates                    | 6.3                            |             |             |
| Change in valuation allowance          | (196.8)                        | (111.6)     | (41.9)      |
| Effective tax rate                     | (144.7)%                       | (63.8)%     | 0.9%        |

The Company recognized an income tax benefit of approximately \$14.9 million during the year ended December 31, 2008, primarily due to the recording of a reduction in the deferred tax asset valuation allowance of approximately \$20.4 million, which was offset by a current tax expense of \$486,000 related to federal alternative minimum tax expense and state foreign income taxes and a deferred tax expense of approximately \$5.0 million related to the utilization of deferred tax assets during the year.

The Company recognized an income tax benefit of approximately \$7.5 million during the year ended December 31, 2007, primarily due to the recording of a reduction in the deferred tax asset valuation allowance of approximately \$8.1 million offset by federal alternative minimum tax expense and state and foreign income taxes.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's net deferred income taxes are as follows.

|                            | <b>December 31</b>    |             |
|----------------------------|-----------------------|-------------|
|                            | <b>2008</b>           | <b>2007</b> |
|                            | <b>(In thousands)</b> |             |
| Deferred tax asset:        |                       |             |
| Net operating loss         | \$ 27,075             | \$ 26,466   |
| Tax credits                | 973                   | 344         |
| Accrued vacation and bonus | 233                   | 126         |
| Deferred revenues          |                       | 177         |
| Acquired intangibles       |                       | 880         |
| Depreciation               | 708                   | 363         |
| Deferred compensation      | 1,689                 | 779         |
| Deferred rent              | 340                   | 59          |
| Other                      | 1,891                 | 154         |

|                           |           |          |
|---------------------------|-----------|----------|
| Total deferred tax assets | 32,909    | 29,348   |
| Deferred tax liabilities: |           |          |
| Acquired intangibles      | (3,038)   |          |
| Less valuation allowance  | (2,831)   | (21,284) |
| Net deferred tax asset    | \$ 27,040 | \$ 8,064 |

As of December 31, 2008 and 2007, the Company had valuation allowances of \$2.8 million and \$21.3 million, respectively, against certain deferred tax assets, which consisted principally of net operating loss carryforwards.



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

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

As of December 31, 2007, the Company concluded that it was more likely than not that a portion of its U.S. deferred tax assets would be realized in subsequent years and that a reduction of its valuation allowance was necessary. Considering 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 for a limited period of one year into the future. As a result, the Company recorded a reduction in the deferred tax asset valuation allowance of approximately \$8.1 million.

As of December 31, 2008, the Company concluded that it was more likely than not that a substantial portion of its U.S. deferred tax assets and deferred tax assets in certain foreign jurisdictions would be realized and that a further reduction of its valuation allowance was necessary. In making that determination, the Company considered the profitability achieved during 2008, the successful integration of M:Metrics into the base business, and the continued maturity of the online marketing industry, balanced against the current overall economic environment. As a result, the Company recorded a reduction in the deferred tax asset valuation allowance of approximately \$20.4 million.

The remaining valuation allowance as of December 31, 2008 of \$2.8 million relates to the acquired deferred tax assets (primarily net operating loss carryforwards) of the M:Metrics UK subsidiary and the deferred tax asset related to the impairment recognized on auction rate securities. To the extent that the Company determines that the remaining valuation allowance is no longer necessary, the Company expects to recognize an income tax benefit in the period such determination is made. The further reduction of the valuation allowance could have a material impact on the Company's results of operations.

The following is a summary of activities in the deferred tax asset valuation allowance for the fiscal years indicated:

|   | <b>Year Ended December 31,</b> |             |             |
|---|--------------------------------|-------------|-------------|
|   | <b>2008</b>                    | <b>2007</b> | <b>2006</b> |
|   | <b>(In thousands)</b>          |             |             |
| <b>Deferred Tax Valuation Allowance</b> |                                |             |             |
| Beginning Balance                       | \$ (21,284)                    | \$ (33,746) | \$ (36,139) |
| Additions                               | (1,964)                        | (393)       |             |
| Reductions                              | 20,417                         | 12,855      | 2,393       |
| Ending Balance                          | \$ (2,831)                     | \$ (21,284) | \$ (33,746) |

As of December 31, 2008, the Company had both federal and state net operating loss carryforwards for tax purposes of approximately \$64.6 million and \$34.7 million respectively (excluding windfall benefits from stock option exercises). As of December 31, 2007, the Company had both federal and state net operative loss carryforwards for tax purposes of approximately \$67.8 million and \$48.1 million, respectively (excluding windfall benefits from stock option exercises). These net operating loss carryforwards begin to expire in 2021 for federal and begin to expire in 2014 for state income tax reporting purposes. In addition, at December 31, 2008 the Company had an aggregate net operating loss carryforward for tax purposes related to its foreign subsidiaries of \$9.7 million, which begins to expire in 2014.

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 123R, the Company will not recognize a deferred tax asset with respect to the excess stock compensation deductions until those deductions actually reduce

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

the Company's income tax liability. As such, the Company has not recorded a deferred tax asset related to the net operating losses resulting from the exercise of these stock options in the accompanying financial statements. At such time as the Company utilizes these net operating losses to reduce income tax payable, the tax benefit will be recorded as an increase in additional paid in capital. As of December 31, 2008, the cumulative amount of net operating losses related to such option exercises was \$9.1 million

Under the provisions of Internal Revenue Code Section 382, certain substantial changes in the Company's ownership may result in a limitation on the amount of U.S. net operating loss carryforwards that could be utilized annually to offset future taxable income and taxes payable. A portion of the Company's M:Metrics net operating loss carryforwards are subject to an annual limitation under Section 382 of the Internal Revenue Code. We do not expect that this limitation will impact our ability to utilize all of our net operating losses prior to their expiration. Additionally, despite the net operating loss carryforward, the Company may have a future tax liability due to alternative minimum tax, foreign tax or state tax requirements.

The Company intends to indefinitely reinvest the undistributed earnings from its foreign subsidiaries. As of December 31, 2008, the Company has not recorded U.S. income tax expense related to undistributed foreign earnings of approximately \$1.5 million.

The Company adopted FIN 48 on January 1, 2007, which requires financial statement benefits to be recognized for positions taken for tax return purposes when it is more-likely-than-not that the position will be sustained. At December 31, 2008 and December 31, 2007, the Company had unrecognized tax benefits of \$240,000 and \$71,000, respectively, all of which could affect the Company's tax rate if recognized. The net increase in the liability for unrecognized income tax benefits since the date of adoption resulted from the following:

|  | <b>December 31,</b>   |             |
|--|-----------------------|-------------|
|  | <b>2008</b>           | <b>2007</b> |
|  | <b>(In thousands)</b> |             |
| Unrecognized tax benefits beginning balance      | \$ 71                 | \$          |
| Increase related to tax positions of prior years | 169                   | 71          |
| Unrecognized tax benefits ending balance         | \$ 240                | \$ 71       |

The Company or one of its subsidiaries files income tax returns for 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 2004, although carryforward tax attributes that were generated prior to 2004 may still be adjusted upon examination by tax authorities if they either have been or will be utilized.

**10. Convertible Preferred Stock**

Prior to the completion of the Company's IPO on July 2, 2007, the Company's certificate of incorporation authorized the issuance of 9,187,500 shares of Series A Preferred Stock (Series A), 3,535,486 shares of Series B Preferred Stock (Series B), 13,355,052 shares of Series C Preferred Stock (Series C), 357,144 shares of Series C-1 Preferred Stock (Series C-1), 22,238,042 shares of Series D Preferred Stock (Series D) and 25,000,000 shares of Series E Preferred Stock (Series E). Upon the closing of the Company's IPO on July 2, 2007, all shares of convertible preferred stock were converted into 17,257,362 shares of common stock.

Prior to the conversion of the Company's convertible preferred stock, the Series E ranked senior to all other classes of capital stock, with the exception of the Incentive Plan (see Note 13), on a distribution of assets upon liquidation, dissolution, or winding up of the Company. Upon such event, each share of Series E was entitled to a liquidation preference equal to 1.63 times the original purchase price of \$2.50 per share. In addition, each share of Series E was entitled to participate in any distribution pari passu with all classes of stock after \$88,392,465 (the Cap Amount) had been distributed to the holders of Series A through Series D preferred stock. The assets distributed to each share of Series E upon liquidation, dissolution or winding up of the Company shall not have exceeded five

**COMSCORE, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

times the original purchase price of \$2.50 per share. Series E was convertible into common stock at a conversion price equal to the original issuance price, subject to adjustment.

The holders of Series E were entitled to dividends in preference to any class of capital stock of the Company at an annual rate of 8.0%. Following payment of any dividends to holders of Series E, holders of Series D were entitled to dividends in preference to any class of stock other than Series E at an annual rate of 8.0%. Following the payment of any dividends to the holders of Series D, holders of Series A, Series B, Series C and Series C-1 were entitled to dividends in preference to common stockholders at an annual rate of 8.0%. All dividends were noncumulative and were paid only when, if, and as declared by the Board of Directors. No dividend shall have been paid on shares of common stock in any fiscal year unless (i) the noncumulative preferential dividends of the preferred stock had been paid in full and (ii) the holders of preferred stock participated in any such dividend on common stock on a pro rata basis assuming conversion of all preferred stock into common stock.

The Series A, B, C, C-1 and D (Series A-D) each had a liquidation preference senior to the common stock. In the event of any liquidation, dissolution, or winding up of the Company, each Series A-D share was entitled to a liquidation preference equal to a portion of the Cap Amount. The portion of the Cap Amount to which each share of Series A, B, C and C-1 was entitled was equal to the original purchase price for such share (plus all declared and unpaid dividends) multiplied by an adjustment factor set forth in the prior certificate of incorporation. The portion of the Cap Amount to which each share of Series D was entitled was equal to the original issue price (plus all declared and unpaid dividends) plus a 25% premium, compounded annually (but such total not to exceed 250% of the original issue price) multiplied by an adjustment factor set forth in the prior certificate of incorporation. The original purchase price per share for Series A, Series B, Series C, Series C-1 and Series D was \$5.00, \$24.50, \$11.35, \$7.00 and \$4.50 respectively. After the payment of the liquidation preference to the Series A-D, each share of Series A-D was entitled to participate in any distribution *pari passu* with all classes of stock. The assets distributed to each share of Series A-D upon liquidation, dissolution, or winding up of the Company shall not have exceeded 2.5 times the original purchase price of such shares.

Upon the occurrence of a Liquidation Event, defined as a consolidation, merger, or sale of the Company, Management was entitled to receive the first 10% of any liquidation proceeds pursuant to an Incentive Plan (see Note 13). The distributions of such proceeds were to be to the Incentive Plan participants (senior management and Company's founders) based on both their respective equity ownership in the Company and a variable percentage which was subject to Board approval.

As a result of the issuance of Series E, the conversion prices of the Series A, Series B, Series C, Series C-1 and Series D were adjusted to the following rates: Series A \$4.30 per share, Series B \$12.35 per share, Series C \$7.50 per share, Series C-1 \$5.90 per share and Series D of \$4.00 per share.

Each share of preferred stock was convertible at any time into shares of common stock based on the conversion price then in effect. Conversion was automatic in the event of a public offering of common stock at a price of at least \$12.50 per share with gross proceeds of at least \$25 million. Each holder of preferred stock was entitled to the number of votes equal to the number of whole shares of common stock into which the shares held by the holder were then convertible at each meeting of the stockholders of the Company. All series of preferred stock had anti-dilution protection in the event the Company issued shares at a purchase price less than \$2.50.

All classes of preferred stock were redeemable by the holder on or after August 1, 2008. Series E ranked senior to all other classes of stock and may have been redeemed at 1.63 times its original purchase price plus all declared but unpaid dividends. The aggregate redemption value for the Series A-D shares was equal to the Cap Amount. In the event that any series of preferred stock was converted into common stock prior to redemption, the aggregate redemption value of the remaining series of preferred stock remained equal to the Cap Amount. The redemption value for the Series A-D shares was equal to the liquidation preference in effect on the redemption date for each series of preferred stock as adjusted by a formula set forth in the prior certificate of incorporation. Upon the initiation of the Cap Amount, the carrying values of Series A, Series B, Series C and Series C-1 were in excess of

**COMSCORE, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

their individual redemption values. The carrying value of Series D was below its individual redemption value. The differences between the carrying value of each series of preferred stock and its respective redemption value (as adjusted for the Cap Amount for Series A-D) was being accreted as preferred stock dividends using the interest method over the period to the redemption date. Such accretion amounted to \$1.8 million and \$3.2 million for the years ended December 31, 2007 and 2006, respectively.

In connection with the closing of the Company's IPO on July 2, 2007, all outstanding shares of convertible preferred stock were converted into 17,257,362 shares of common stock.

**11. Convertible Preferred Stock Warrants**

In prior years, the Company issued fully vested warrants to purchase 97,324 shares of preferred stock in connection with a master lease and various equipment lease agreements. The exercise prices of the warrants range from \$2.50 to \$24.50 per share and the warrants expire 10 years from the date of issue. The Company recorded the fair value of the warrants totaling \$383,000 as deferred financing costs with an offset to warrants to purchase redeemable preferred stock. The fair value of the warrants was estimated using the Black-Scholes option pricing model. The deferred financing costs were being amortized to interest expense over the respective agreement on a straight line basis. For the years ended December 31, 2008, 2007 and 2006, the Company recorded \$0, \$7,000 and \$33,000 in interest expense.

In accordance with FSP 150-5, the Company adjusted the warrants to fair value at each reporting date. Upon the completion of the IPO, which closed on July 2, 2007, liabilities of \$2.2 million were reclassified to stockholders equity (see Note 1).

To reflect the increase in fair value of the preferred stock warrants during the years ended December 31, 2007 and 2006, the Company recorded charges of \$1.2 million and \$224,000, respectively.

**12. Common Stock Subject to Put**

In prior years, the Company issued 347,635 shares of Common Stock Subject to Put. The carrying value of the Common Stock Subject to the Put right was accreted to the put obligation over the three year term using the effective interest rate method. For the years ended December 31, 2007 and 2006, the Company accreted a total of \$103,000 and \$141,000, respectively. During April 2008, the put right associated with 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. During October 2007, the put right associated with 212,000 shares expired unexercised and the carrying value of the shares of \$2.7 million was reclassified to common stock and additional paid-in capital.

**13. Stockholders Equity**

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

Prior to the effective date of the registration statement for the Company's IPO on June 26, 2007, eligible employees and non-employees were granted options to purchase shares of the Company's common stock, restricted stock or restricted stock units pursuant to the Company's 1999 Stock Plan (the "1999 Plan"). Upon the effective date of the registration statement of the Company's IPO, the Company ceased using the 1999 Plan for the issuance of new equity

awards. Upon the closing of the Company's IPO on July 2, 2007, the Company established its 2007 Equity Incentive Plan (the 2007 Plan and together with the 1999 Plan, the Plans). The 1999 Plan will continue to govern the terms and conditions of outstanding awards granted thereunder. The Plans provide for the issuance of a maximum of 5.4 million shares of common stock. In addition, the 2007 Plan provides for annual increases in the number of shares available for issuance thereunder on the first day of each fiscal year beginning with the 2008 fiscal year, equal to the lesser of:

- (i) 4% of the outstanding shares of our common stock on the last day of the immediately preceding fiscal year;
- (ii) 1,800,000 shares; or
- (iii) such other amount as the Company's board of directors may determine.

The vesting period of options granted under the Plans is determined by the Board of Directors, generally



## COMSCORE, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ratably over a four-year period. The options expire 10 years from the date of the grant. Effective January 1, 2008, the shares available for grant increased 1,118,422 pursuant to the automatic share reserve increase provision under the Plans. As of December 31, 2008, 2,309,667 shares were available for grant under the 2007 Plan.

In connection with the adoption of SFAS 123R, the Company estimates the fair value of stock option awards granted beginning January 1, 2006 using the Black-Scholes option-pricing formula and a single option award approach. The Company then amortizes the fair value of awards expected to vest on a straight-line basis over the requisite service periods of the awards, which is generally the period from the grant date to the end of the vesting period. The weighted-average expected option term for options granted during the year ended December 31, 2006 was calculated using the simplified method described in SAB No. 107, *Share-Based Payment*. The simplified method defines the expected term as the average of the contractual term and the weighted average vesting period. Estimated volatility for the year ended December 31, 2006 also reflected the application of SAB No. 107 interpretive guidance and, accordingly, incorporates historical volatility of similar entities whose share prices are publicly available. The risk-free interest rate is based on the yield curve of a zero-coupon U.S. Treasury bond on the date the stock option award is granted with a maturity equal to the expected term of the stock option award. The Company used historical data to estimate the number of future stock option forfeitures.

The following are the weighted-average assumptions used in valuing the stock options granted during the year ended December 31, 2008, and a discussion of the Company's assumptions:

|                                     | <b>Year Ended<br/>December 31,</b> |             |
|-------------------------------------|------------------------------------|-------------|
|                                     | <b>2008</b>                        | <b>2006</b> |
| Dividend yield                      | 0.00%                              | 0.00%       |
| Expected volatility                 | 60.00%                             | 63.37%      |
| Risk-free interest rate             | 2.93%                              | 4.76%       |
| Expected life of options (in years) | 4.00                               | 6.02        |

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

*Expected volatility* Volatility is a measure of the amount by which a financial variable such as a share price has fluctuated (historical volatility) or is expected to fluctuate (expected volatility) during a period. The Company uses a weighted-average volatility based on 75% of the average historical stock volatilities of similar entities and 25% of the Company's actual historical volatility since the IPO.

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

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

the minimum vest period and the remaining contractual period.

The weighted average grant date fair value of options granted during the year ended December 31, 2008 and 2006 was \$19.34 and \$4.30, no options were granted during the year ended December 31, 2007. The total fair value of shares vested during the years ended December 31, 2008, 2007 and 2006 was \$817,000, \$302,000 and \$178,000, respectively.

## COMSCORE, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A summary of the Plans is presented below:

|  | Number of<br>Shares | Weighted-Average<br>Exercise Price |
|--|---------------------|------------------------------------|
| Options outstanding at December 31, 2005 | 3,372,963           | \$ 1.15                            |
| Options granted                          | 342,710             | 7.25                               |
| Options exercised                        | 652,677             | 0.35                               |
| Options forfeited                        | 301,855             | 2.25                               |
| Options expired                          | 37,201              | 2.80                               |
| Options outstanding at December 31, 2006 | 2,723,940           | 2.00                               |
| Options granted                          |                     |                                    |
| Options exercised                        | 580,727             | 1.50                               |
| Options forfeited                        | 95,133              | 4.27                               |
| Options expired                          | 8,646               | 4.21                               |
| Options outstanding at December 31, 2007 | 2,039,434           | 2.01                               |
| Options granted                          | 51,908              | 6.24                               |
| Options exercised                        | 611,733             | 1.60                               |
| Options forfeited                        | 24,589              | 5.63                               |
| Options expired                          | 1,650               | 9.55                               |
| Options outstanding at December 31, 2008 | 1,453,370           | \$ 2.26                            |
| Options exercisable at December 31, 2008 | 1,255,105           | \$ 1.62                            |

The following table summarizes information about options outstanding at December 31, 2008:

| Range of Exercise Prices | Options Outstanding    |  |  | Options Exercisable    |  |  |
|--------------------------|------------------------|--|--|------------------------|--|--|
|                          | Options<br>Outstanding | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Life<br>(Years) | Options<br>Exercisable | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Life<br>(Years) |
| \$0.00 \$3.67            | 991,884                | \$ 0.54                                  | 5.11   | 984,580                | \$ 0.53                                  | 5.10   |
| \$3.68 \$7.34            | 265,087                | \$ 4.42                                  | 7.03   | 179,460                | \$ 4.42                                  | 6.91   |
| \$7.35 \$13.66           | 196,399                | \$ 8.06                                  | 7.62   | 91,065                 | \$ 7.93                                  | 7.45   |

|           |    |      |      |           |    |      |      |
|-----------|----|------|------|-----------|----|------|------|
| 1,453,370 | \$ | 2.26 | 5.79 | 1,255,105 | \$ | 1.62 | 5.52 |
|-----------|----|------|------|-----------|----|------|------|

The intrinsic value of exercised stock options is calculated based on the difference between the exercise price and the quoted market price of our common stock as of the close of the exercise date. The aggregate intrinsic value of options exercised for the years ended December 31, 2008, 2007 and 2006 was \$10.2 million, \$8.7 million and \$3.7 million, respectively. The aggregate intrinsic value for all options outstanding under the Company's stock plans as of December 31, 2008 was \$15.2 million. The aggregate intrinsic value for options exercisable under the Company's stock plans as of December 31, 2008 was \$14.0 million. The weighted average remaining contractual life for all options outstanding and all options exercisable under the Company's stock plans as of December 31, 2008 was 5.79 years and 5.52 years, respectively. As of December 31, 2008, total unrecognized compensation expense related to non-vested stock options granted prior to that date is estimated at \$899,000, which the Company expects to recognize over a weighted average period of approximately 0.93 years. Total unrecognized compensation expense is estimated and may be increased or decreased in future periods for subsequent grants or forfeitures.

## COMSCORE, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Our nonvested stock awards are comprised of restricted stock and restricted stock units. The Company has a right of repurchase on such shares that lapse at a rate of twenty-five percent (25%) of the total shares awarded at each successive anniversary of the initial award date, provided that the employee continues to provide services to the Company. In the event that an employee terminates their employment with the Company, any shares that remain unvested and consequently subject to the right of repurchase shall be automatically reacquired by the Company at the original cash purchase price paid by the employee, if any. During the year ended December 31, 2008, 75,392 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 December 31, 2008 is presented as follows:

| Nonvested Stock Awards         | Restricted<br>Stock | Restricted<br>Stock<br>Units | Total of<br>Shares<br>Number<br><br>Underlying<br>Awards | Weighted<br>Average<br>Grant-Date<br>Fair<br>Value |
|--------------------------------|---------------------|------------------------------|--|--|
| Nonvested at December 31, 2006 |                     |                              |  |  |
| Granted                        | 798,132             | 65,027                       | 863,159  | \$ 14.04   |
| Vested                         | 249                 |                              | 249  | 11.45  |
| Forfeited                      | 26,100              | 1,300                        | 27,400   | 13.08  |
| Nonvested at December 31, 2007 |                     |                              |  |  |
| Granted                        | 771,783             | 63,727                       | 835,510  | \$ 14.08   |
| Vested                         | 540,667             | 63,794                       | 604,461  | 23.46  |
| Forfeited                      | 193,957             | 17,241                       | 211,198  | 14.24  |
|                                | 75,392              | 13,607                       | 88,999   | 20.36  |
| Nonvested at December 31, 2008 |                     |                              |  |  |
|                                | 1,043,101           | 96,673                       | 1,139,774  | \$ 18.53   |

The aggregate intrinsic value for all non-vested shares of restricted common stock and restricted stock units outstanding as of December 31, 2008 was \$14.5 million. The weighted average remaining contractual life for all non-vested shares of restricted common stock and restricted stock units as of December 31, 2007 was 2.7 years.

We granted nonvested stock awards at no cost to recipients during the years ended December 31, 2008 and 2007. As of December 31, 2008, total unrecognized compensation expense related to non-vested restricted stock and restricted stock units was \$16.8 million, which the Company expects to recognize over a weighted average period of approximately 1.93 years. Total unrecognized compensation expense may be increased or decreased in future periods for subsequent grants or forfeitures.

Of the 211,198 shares of the Company's restricted stock and restricted stock units vesting during the year ended December 31, 2008, the Company repurchased 64,326 shares at an aggregate purchase price of approximately \$1.3 million pursuant to the stockholder's right under the Plans to elect to use common stock to satisfy tax withholding obligations.

*Common Stock Warrants*

In prior years, the Company had granted an aggregate of 403,368 warrants to purchase common stock. The common stock warrants began to expire in February 2006 through to April 2015 with exercise prices ranging from \$3.00 to \$24.50. As of December 31, 2008, warrants to purchase 26,375 shares of common stock were outstanding. As of December 31, 2007, warrants to purchase 30,395 shares of common stock were outstanding.

**COMSCORE, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Shares Reserved for Issuance***

At December 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 2007 Equity Incentive Plan       | 2,309,667 |
| Common stock available for outstanding options and unvested restricted stock units | 1,550,043 |
| Common stock warrants  | 26,375    |
|  | 3,886,085 |

**14. Employee Benefit Plans**

The Company has a 401(k) Plan for the benefit of all employees who meet certain eligibility requirements. This plan covers substantially all of the Company's full-time employees. The Company made \$366,000, \$343,000 and \$221,000 in contributions to the 401(k) Plan for the years ended December 31, 2008, 2007 and 2006, respectively. Effective January 1, 2009, the Company suspended the employer match and does not anticipate making any employer contributions during 2009.

**15. 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. As of December 31, 2007, no services were provided and no amounts were payable to the third party. In 2008, this third party provided services with an aggregated value of \$202,000. This amount was paid by the Company during 2008. As of December 31, 2008, no amounts were 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. In 2008 the Company recognized revenues of \$2.5 million, and in both 2007 and 2006 the Company recognized revenues of \$3.7 million in each year. In relation to this counterparty, there were no amounts included in our accounts receivable balance as of December 31, 2008 and 2007.

**16. 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 each year is set forth below:

**Year Ended December 31,**

|                       | <b>2008</b>           | <b>2007</b>      | <b>2006</b>      |
|-----------------------|-----------------------|------------------|------------------|
|                       | <b>(In thousands)</b> |                  |                  |
| United States         | \$ 100,895            | \$ 77,029        | \$ 60,550        |
| Canada                | 5,827                 | 4,674            | 3,150            |
| United Kingdom/Other  | 10,649                | 5,450            | 2,593            |
| <b>Total Revenues</b> | <b>\$ 117,371</b>     | <b>\$ 87,153</b> | <b>\$ 66,293</b> |



**COMSCORE, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

|                | <b>December 31,</b>   |             |
|----------------|-----------------------|-------------|
|                | <b>2008</b>           | <b>2007</b> |
|                | <b>(In thousands)</b> |             |
| United States  | \$ 17,468             | \$ 6,527    |
| Canada         | 66                    | 183         |
| United Kingdom | 163                   | 157         |
| Total          | \$ 17,697             | \$ 6,867    |

## COMSCORE, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 17. Quarterly Financial Information (Unaudited)

|     | Dec. 31,<br>2008                                | Sep. 30,<br>2008 | Jun. 30,<br>2008 | Three Months Ended |           |           | Jun. 30,<br>2007 | Mar. 31,<br>2008 | Dec. 31,<br>2007 | Sep. 30,<br>2007 | Jun. 30,<br>2007 | Mar. 31,<br>2008 |
|-----|---|------------------|------------------|--------------------|-----------|-----------|------------------|------------------|------------------|------------------|------------------|------------------|
|     | (In thousands, except share and per share data) |                  |                  |                    |           |           |                  |                  |                  |                  |                  |                  |
|     | \$ 31,590                                       | \$ 30,661        | \$ 28,750        | \$ 26,370          | \$ 25,274 | \$ 22,389 | \$ 20,809        | \$               |                  |                  |                  |                  |
| (1) | 10,276  | 9,412            | 7,857            | 7,017              | 6,528     | 5,942     | 6,000            |                  |                  |                  |                  |                  |
| (1) | 10,281  | 10,659           | 9,516            | 8,945              | 8,135     | 7,390     | 6,683            |                  |                  |                  |                  |                  |
| (1) | 3,994   | 4,131            | 3,637            | 3,070              | 3,026     | 3,018     | 2,813            |                  |                  |                  |                  |                  |
| (1) | 4,189   | 4,266            | 4,444            | 3,886              | 3,605     | 3,059     | 2,428            |                  |                  |                  |                  |                  |
|     | 329   | 346              | 122              | 7                  | 169       | 211       | 293              |                  |                  |                  |                  |                  |
|     | 29,069  | 28,814           | 25,576           | 22,925             | 21,463    | 19,620    | 18,217           |                  |                  |                  |                  |                  |
|     | 2,521   | 1,847            | 3,174            | 3,445              | 3,811     | 2,769     | 2,592            |                  |                  |                  |                  |                  |
|     | 322   | 267              | 492              | 819                | 1,206     | 1,180     | 144              |                  |                  |                  |                  |                  |
|     | (302)   | 123              | (87)             | (55)               | 25        | (111)     | (202)            |                  |                  |                  |                  |                  |
|     | (1,398)   | (455)            | (386)            |                    |           |           |                  |                  |                  |                  |                  |                  |
|     | (37)  |                  |                  |                    |           |           |                  |                  |                  |                  |                  |                  |
|     |   |                  |                  |                    |           | 82        | (1,288)          |                  |                  |                  |                  |                  |
|     | 1,106   | 1,782            | 3,193            | 4,209              | 5,042     | 3,920     | 1,246            |                  |                  |                  |                  |                  |
|     | 19,263  | (1,207)          | (1,483)          | (1,678)            | 7,703     | (129)     | (6)              |                  |                  |                  |                  |                  |
|     | 20,369  | 575              | 1,710            | 2,531              | 12,745    | 3,791     | 1,240            |                  |                  |                  |                  |                  |
|     |   |                  |                  |                    |           | (21)      | (923)            |                  |                  |                  |                  |                  |
|     |   |                  |                  |                    |           |           | 194              |                  |                  |                  |                  |                  |

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to

|     |    |        |    |     |    |       |    |       |    |        |    |       |    |     |    |
|-----|----|--------|----|-----|----|-------|----|-------|----|--------|----|-------|----|-----|----|
| ers | \$ | 20,369 | \$ | 575 | \$ | 1,710 | \$ | 2,531 | \$ | 12,745 | \$ | 3,770 | \$ | 317 | \$ |
|-----|----|--------|----|-----|----|-------|----|-------|----|--------|----|-------|----|-----|----|

to

|      |    |        |    |      |    |       |    |       |    |        |    |       |    |      |    |
|------|----|--------|----|------|----|-------|----|-------|----|--------|----|-------|----|------|----|
| ers: | \$ | 20,369 | \$ | 575  | \$ | 1,710 | \$ | 2,531 | \$ | 12,732 | \$ | 3,748 | \$ | 282  | \$ |
|      | \$ | 0.70   | \$ | 0.02 | \$ | 0.06  | \$ | 0.09  | \$ | 0.45   | \$ | 0.13  | \$ | 0.00 | \$ |
|      | \$ | 0.67   | \$ | 0.02 | \$ | 0.06  | \$ | 0.08  | \$ | 0.42   | \$ | 0.12  | \$ | 0.00 | \$ |

average  
F shares  
r share

|       |            |            |            |            |            |            |           |    |
|-------|------------|------------|------------|------------|------------|------------|-----------|----|
| stock | 29,032,423 | 28,878,494 | 28,651,067 | 28,200,934 | 27,795,936 | 27,248,379 | 4,933,081 | 4, |
|       | 30,271,520 | 30,389,519 | 30,269,947 | 29,998,490 | 29,859,926 | 29,545,321 | 4,933,081 | 4, |

to

ers per  
share  
put:

|    |    |    |      |    |      |    |      |    |      |    |      |    |
|----|----|----|------|----|------|----|------|----|------|----|------|----|
| \$ | \$ | \$ | 0.06 | \$ | 0.09 | \$ | 0.53 | \$ | 0.19 | \$ | 0.10 | \$ |
| \$ | \$ | \$ | 0.06 | \$ | 0.08 | \$ | 0.50 | \$ | 0.18 | \$ | 0.10 | \$ |

average  
F shares  
r share  
n  
stock  
put

|  |       |         |         |         |         |
|--|-------|---------|---------|---------|---------|
|  | 2,981 | 135,635 | 193,244 | 347,635 | 347,635 |
|  | 2,981 | 135,635 | 193,244 | 347,635 | 347,635 |

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

**Three Months Ended**

|                            | <b>Dec. 31,<br/>2008</b> | <b>Sep. 30,<br/>2008</b> | <b>Jun. 30,<br/>2008</b> | <b>Mar. 31,<br/>2008</b> | <b>Dec. 31,<br/>2007</b> | <b>Sep. 30,<br/>2007</b> | <b>Jun. 30,<br/>2007</b> | <b>Mar. 31,<br/>2007</b> |
|----------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Cost of revenues           | \$ 251                   | \$ 265                   | \$ 204                   | \$ 141                   | \$ 134                   | \$ 76                    | \$ 60                    | \$ 9                     |
| Selling and marketing      | 788                      | 797                      | 605                      | 421                      | 500                      | 298                      | 172                      | 39                       |
| Research and development   | 199                      | 225                      | 168                      | 114                      | 117                      | 67                       | 53                       | 8                        |
| General and administrative | 599                      | 617                      | 613                      | 467                      | 440                      | 264                      | 186                      | 51                       |



**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. 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 fourth quarter of 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Management's Annual Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2008, based on the guidelines established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Our internal control over financial reporting includes policies and procedures that provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles. Based on that evaluation, management concluded that our internal control over financial reporting was effective at December 31, 2008.

Ernst & Young LLP, an independent registered public accounting firm, which audits our consolidated financial statements, has issued an attestation report on the effectiveness of our internal control over financial reporting included at the end of this section.

**Report of Independent Registered Public Accounting Firm**

**The Board of Directors and Shareholders of comScore, Inc.**

We have audited comScore, Inc.'s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). comScore, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, comScore, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of comScore, Inc. as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 2008 of comScore, Inc. and our report dated March 13, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

McLean, Virginia  
March 13, 2009



**ITEM 9B. OTHER INFORMATION**

On March 10, 2009, the Compensation Committee of our Board of Directors approved a policy authorizing annual bonuses based on executive performance during our 2009 fiscal year. A summary of this policy is filed with this report as Exhibit 10.22 and is incorporated herein by reference.

**PART III****ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by Item 10 of Form 10-K is incorporated by reference to our Proxy Statement for the 2009 Annual Meeting of Stockholders, anticipated to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2008. Certain information required by this item concerning our executive officers is set forth in Part I, Item 1 of this Annual Report on Form 10-K under Executive Officers of the Registrant .

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by Item 11 of Form 10-K is incorporated by reference to our Proxy Statement for the 2009 Annual Meeting of Stockholders, anticipated to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2008.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by Item 12 of Form 10-K is incorporated by reference to our Proxy Statement for the 2009 Annual Meeting of Stockholders, anticipated to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2008.

**EQUITY COMPENSATION PLANS**

The following table summarizes our equity compensation plans as of December 31, 2008:

| Plan Category | Number of<br>Securities to be<br><br>Issued Upon<br>Exercise of<br>Outstanding<br>Options,<br>Warrants<br>and Rights<br>(a) | Weighted-<br>Average<br>Exercise<br><br>Price of<br>Outstanding<br>Options,<br><br>Warrants<br>and Rights<br>(b) | Number of<br>Securities<br>Remaining<br>Available<br>for Future Issuance<br>Under Equity<br>Compensation<br>Plans<br>(Excluding<br>Securities<br>Reflected in<br>Column<br>(a))<br>(c) |
|---------------|---|--|--|
|               | 1,550,043   | \$ 2.26  | 2,309,667(1)   |



Equity compensation plans approved by security holders

Equity compensation plans not approved by security holders

|       |           |    |      |           |
|-------|-----------|----|------|-----------|
| Total | 1,550,043 | \$ | 2.26 | 2,309,667 |
|-------|-----------|----|------|-----------|

- (1) Our 2007 Equity Incentive Plan provides for annual increases in the number of shares available for issuance thereunder on the first day of each fiscal year, beginning with our 2008 fiscal year, equal to the least of: (i) 4% of the outstanding shares of our common stock on the last day of the immediately preceding fiscal year; (ii) 1,800,000 shares; or (iii) such other amount as our board of directors may determine.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by Item 13 of Form 10-K is incorporated by reference to our Proxy Statement for the 2009 Annual Meeting of Stockholders, anticipated to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2008.

**ITEM 14. *PRINCIPAL ACCOUNTING FEES AND SERVICES***

The information required by Item 14 of Form 10-K is incorporated by reference to our Proxy Statement for the 2009 Annual Meeting of Stockholders, anticipated to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2008.

**PART IV**

**ITEM 15. *EXHIBITS, FINANCIAL STATEMENT SCHEDULES***

(a) The following documents are filed as part of this Annual Report on Form 10-K:

- (1) Financial Statements. See Index to Consolidated Financial Statements at Item 8 of this Report on Form 10-K.
- (2) All other schedules are omitted as the required information is inapplicable or the information is presented in the Consolidated Financial Statements and notes thereto in Item 8 of Part II of this Annual Report on Form 10-K.
- (3) Exhibits. The exhibits filed as part of this report are listed under Exhibits at subsection (b) of this Item 15.

(b) Exhibits

**EXHIBIT INDEX**

| <b>Exhibit No.</b> | <b>Exhibit Document</b>  |
|--------------------|--|
| 2.1(2)             | Agreement and Plan of Merger, dated May 28, 2008, amount comScore, Inc., OpinionCounts, Inc., M:Metrics, Inc. and Randolph L. Austin, Jr., as Stockholder Representative. (Exhibit 2.1)*         |
| 3.1(1)             | Amended and Restated Certificate of Incorporation of the Registrant (Exhibit 3.3)  |
| 3.2(1)             | Amended and Restated Bylaws of the Registrant (Exhibit 3.4)  |
| 4.1(1)             | Specimen Common Stock Certificate (Exhibit 4.1)  |
| 4.2(1)             | Fourth Amended and Restated Investor Rights Agreement by and among comScore Networks, Inc. and certain holders of preferred stock, dated August 1, 2003 (Exhibit 4.2)                            |
| 4.3(1)             | Amendment, Waiver and Termination Agreement by and among comScore, Inc. and certain holders of preferred stock, dated June 8, 2007 (Exhibit 10.20)   |
| 4.4(1)             | Warrant to purchase 108,382 shares of Series D Convertible Preferred Stock, dated July 31, 2002 (Exhibit 4.10)   |
| 4.5(1)             | Stock Restriction and Put Right Agreement by and among comScore Networks, Inc., 954253 Ontario, Inc. and Rice and Associates Advertising Consultants, Inc., dated January 1, 2005 (Exhibit 4.16) |
| 10.1(1)            | Form of Indemnification Agreement for directors and executive officers (Exhibit 10.1)  |
| 10.2(3)            | 1999 Stock Plan (Exhibit 4.2)  |
| 10.3(1)            | Form of Stock Option Agreement under 1999 Stock Plan (Exhibit 10.3)  |
| 10.4(1)            | Form of Notice of Grant of Restricted Stock Purchase Right under 1999 Stock Plan (Exhibit 10.4)  |
| 10.5(1)            | Form of Notice of Grant of Restricted Stock Units under 1999 Stock Plan (Exhibit 10.5)   |
| 10.6(3)            | 2007 Equity Incentive Plan (Exhibit 4.3)   |
| 10.7(1)            | Form of Notice of Grant of Stock Option under 2007 Equity Incentive Plan (Exhibit 10.7)  |
| 10.8(1)            | Form of Notice of Grant of Restricted Stock under 2007 Equity Incentive Plan (Exhibit 10.8)  |
| 10.9(1)            | Form of Notice of Grant of Restricted Stock Units under 2007 Equity Incentive Plan (Exhibit 10.9)  |
| 10.10(1)           | Stock Option Agreement with Magid M. Abraham, dated December 16, 2003 (Exhibit 10.10)  |
| 10.11(1)           | Stock Option Agreement with Gian M. Fulgoni, dated December 16, 2003 (Exhibit 10.11)   |
| 10.12(1)           | Lease Agreement by and between comScore Networks, Inc. and Comstock Partners, L.C., dated June 23, 2003, as amended (Exhibit 10.12)  |
| 10.13(1)           | Separation Agreement with Sheri L. Huston, dated February 28, 2006 (Exhibit 10.13)   |
| 10.14(1)           | Letter Agreement with John M. Green, dated May 8, 2006 (Exhibit 10.14)   |
| 10.15(1)           | Letter Agreement with Gregory Dale, dated September 27, 1999 (Exhibit 10.15)   |
| 10.16(1)           | Letter Agreement with Christiana Lin, dated December 29, 2003 (Exhibit 10.16)  |
| 10.17(1)           | Letter Agreement by and between comScore, Inc. and 11465 SH I, LC, dated June 4, 2007 (Exhibit 10.19)  |
| 10.18(1)           | Letter Agreement by and between comScore, Inc. and Citadel Equity Fund Ltd. dated May 25, 2007 (Exhibit 10.21)   |
| 10.19 (1)          | Licensing and Services Agreement, as amended, by and between Citadel Investment Group, L.L.C. and comScore Networks, Inc., dated August 1, 2003 (Exhibit 10.22)                                  |
| 10.20(4)           | Deed of Lease between South of Market LLC (as Landlord) and comScore, Inc. (as Tenant), dated December 21, 2007 (Exhibit 10.1)   |
| 10.21(5)           | Summary of 2008 Executive Compensation Bonus Policy  |
| 10.22              | Summary of 2009 Executive Compensation Bonus Policy  |
| 21.1               | List of Subsidiaries   |
| 23.1               | Consent of Ernst & Young   |
| 24.1               | Power of Attorney (see signature page)   |



| <b>Exhibit No.</b> | <b>Exhibit Document</b>  |
|--------------------|--|
| 31.1               | Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2               | Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1               | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.   |
| 32.2               | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.   |

Confidential treatment requested

\* The Registrant has omitted certain schedules and exhibits identified therein in accordance with Item 601(b)(2) of Regulation S-K. The registrant will furnish the omitted schedules and exhibits to the Securities and Exchange Commission upon request.

- (1) Incorporated by reference to the exhibits to the Registrant's Registration Statement on Form S-1, as amended, dated June 26, 2007 (No. 333-141740). The number given in parentheses indicates the corresponding exhibit number in such Form S-1.
- (2) Incorporated by reference to the exhibits to the Registrant's Current Report on Form 8-K, filed May 28, 2008. The number given in parentheses indicates the corresponding exhibit number in such Form 8-K.
- (3) Incorporated by reference to the exhibits to the Registrant's Registration Statement on Form S-8, as amended, dated July 2, 2007 (No. 333-144281). The number given in parentheses indicates the corresponding exhibit number in such Form S-8.
- (4) Incorporated by reference to the exhibits to the Registrant's Current Report on Form 8-K, filed February 5, 2008. The number given in parentheses indicates the corresponding exhibit number in such Form 8-K.
- (5) Incorporated by reference to the Registrant's Current Report on Form 8-K, filed December 27, 2007.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

comScore, Inc.

By: /s/ Magid M. Abraham, Ph.D.

Magid M. Abraham, Ph.D.  
 President, Chief Executive  
 Officer and Director

March 16, 2009

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Magid M. Abraham, Ph.D. and John M. Green, and each of them acting individually, as his true and lawful attorneys-in-fact and agents, with full power of each to act alone, with full powers of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K with all exhibits thereto and all documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, with full power of each to act alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully for all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or his or their substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| <b>Signature</b>   | <b>Title</b>   | <b>Date</b>    |
|--|--|----------------|
| /s/ Magid M. Abraham, Ph.D.<br><br>Magid M. Abraham, Ph.D. | President, Chief Executive Officer and<br>Director (Principal Executive Officer) | March 16, 2009 |
| /s/ John M. Green<br><br>John M. Green                     | Chief Financial Officer (Principal Financial<br>and Accounting Officer)          | March 16, 2009 |
| /s/ Gian M. Fulgoni<br><br>Gian M. Fulgoni                 | Executive Chairman of the Board of<br>Directors                                  | March 16, 2009 |
| /s/ Jeffrey Ganek  | Director   | March 16, 2009 |

Jeffrey Ganek

/s/ Bruce Golden

Director

March 16, 2009

Bruce Golden

/s/ William J. Henderson

Director

March 16, 2009

William J. Henderson

| <b>Signature</b>                     | <b>Title</b> | <b>Date</b>    |
|--------------------------------------|--------------|----------------|
| /s/ William Katz<br>William Katz     | Director     | March 16, 2009 |
| /s/ Ronald J. Korn<br>Ronald J. Korn | Director     | March 16, 2009 |
| /s/ Jarl Mohn<br>Jarl Mohn           | Director     | March 16, 2009 |