COMSCORE, INC.
Form 10-Q
May 15, 2008

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2008

or

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

For the transition period from __________ __________ to __________ __________

Commission file number: 000-1158172

comScore, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**54-1955550**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
11465 Sunset Hills Road, Suite 200 Reston, VA	**20190**
(Address of principal executive offices)	**(Zip Code)**

(703) 483-2000
(Registrant s telephone number, including area code)
(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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 o	Accelerated filer o	Non-accelerated filer þ (Do not check if a smaller reporting company)	Smaller reporting company o

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: As of May 14, 2008, there were 28,623,218 shares of the registrant s common stock outstanding.

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

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

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

PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

COMSCORE, INC.
CONSOLIDATED BALANCE SHEETS

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

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

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

COMSCORE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

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

(1) Amortization of stock-based compensation is included in the line items above as follows:				
Cost of revenues	$	141	$	9
Selling and marketing		421		39
Research and development		114		8
General and administrative		467		51
Comprehensive income:				
Net income	$	2,531	$	1,540
Other comprehensive income:				
Foreign currency cumulative translation adjustment		(77)		5
Unrealized loss on marketable securities		(219)		
Total comprehensive income	$	2,235	$	1,545

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

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COMSCORE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

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

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

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

COMSCORE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization

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

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

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

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

2. Summary of Significant Accounting Policies

Basis of Presentation and Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions and accounts have been eliminated upon consolidation. The Company consolidates investments where it has a controlling financial interest as defined by Accounting Research Bulletin (ARB) No. 51, *Consolidated Financial Statements*, as amended by Statement of Financial Accounting Standards (SFAS) No. 94, *Consolidation of all Majority-Owned Subsidiaries*. The usual condition for controlling financial interest is ownership of a majority of the voting interest and, therefore, as a general rule, ownership, directly or indirectly, of more than 50% of the outstanding voting shares is a condition indicating consolidation. For investments in variable interest entities, as defined by Financial Accounting Standards Board (FASB) Interpretation No. 46, *Consolidation of Variable Interest Entities*, the Company would consolidate when it is determined to be the primary beneficiary of a variable interest entity. The Company does not have any variable interest entities.

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

Unaudited Interim Financial Information

The condensed consolidated financial statements included in this quarterly report on Form 10-Q have been prepared by the Company without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. However, the Company believes that the disclosures contained in this quarterly report comply with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended, for a quarterly report on Form 10-Q and are adequate to make the information presented not misleading. The condensed consolidated financial statements included herein, reflect all adjustments (consisting of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2007 filed March 11, 2008 with the Securities and Exchange Commission. The results of operations for the three months ended March 31, 2008 are not necessarily indicative of the results to be anticipated for the entire year ending December 31, 2008 or thereafter. All references to March 31, 2008 and 2007 or to the three months ended March 31, 2008 and 2007 in the notes to the consolidated financial statements are unaudited.

Use of Estimates

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

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

Cash and Cash Equivalents, Investments, and Restricted Cash

Cash and cash equivalents consist of highly liquid investments. Cash and cash equivalents consists primarily of bank deposit accounts, certificates of deposit and U.S. treasury bills.

Investments, which consist principally of U.S. treasury notes and auction rate securities, are stated at fair market value. These securities are accounted for as available-for-sale securities in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities.* Realized gains and losses and declines in value judged to be other-than-temporary, if any, on available-for-sale securities are included in interest income. Interest and dividends on securities classified as available-for-sale are included in interest income. The Company uses the specific identification method to compute realized gains and losses on its investments.

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

Interest income on investments was $857,000 and $190,000 for the three months ended March 31, 2008 and 2007, respectively.

Accounts Receivable

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

Property and Equipment

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

Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of identifiable assets acquired and liabilities assumed when other businesses are acquired. The allocation of the purchase price to intangible assets and goodwill involves the extensive use of management s estimates and assumptions, and the result of the allocation process can have a significant impact on future operating results. The Company estimates the fair value of identifiable intangible assets acquired using several different valuation approaches, including the replacement cost, income and market approaches. The replacement cost approach is based on determining the discrete cost of replacing or reproducing a specific asset. The Company generally uses the replacement cost approach for estimating the value of acquired technology/methodology assets. The income approach converts the anticipated economic benefits that the Company assumes will be realized from a given asset into value. Under this approach, value is measured as the present worth of anticipated future net cash flows generated by an asset. The Company generally uses the income approach to value customer relationship assets and non-compete agreements. The market approach compares the acquired asset to similar assets that have been sold. The Company generally uses the market approach to value trademarks and brand assets.

Under SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142), intangible assets with finite lives are amortized over their useful lives while goodwill is not amortized but is evaluated for potential impairment at least annually by comparing the fair value of a reporting unit to its carrying value, including goodwill recorded by the reporting unit. If the carrying value exceeds the fair value, impairment is measured by comparing the derived fair value of the goodwill to its carrying value, and any impairment determined is recorded in the current period. In accordance with SFAS 142, all of the Company s goodwill is associated with one reporting unit. Accordingly, on an annual basis the Company performs the impairment assessment for goodwill required under SFAS 142 at the enterprise level. The Company completed its annual impairment analysis as of October 1st for 2007 and determined that there was no impairment of goodwill. There have been no indicators of impairment since the October 1, 2007 test through March 31, 2008.

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

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

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

Impairment of Long-Lived Assets

Long-lived assets, including property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount should be addressed pursuant to SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144). Pursuant to SFAS 144, impairment is determined by comparing the carrying value of these long-lived assets to an estimate of the future undiscounted cash flows expected to result from the use of the assets and eventual disposition. In the event an impairment exists, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the asset, which is generally determined by using quoted market prices or valuation techniques such as the discounted present value of expected future cash flows, appraisals, or other pricing models as appropriate. There were no impairment charges recognized during the three months ended March 31, 2008 and 2007. In the event that there are changes in the planned use of the Company s long-term assets or its expected future undiscounted cash flows are reduced significantly, the Company s assessment of its ability to recover the carrying value of these assets could change.

Foreign Currency Translation

The Company applies SFAS No. 52, *Foreign Currency Translation*, with respect to its international operations. The functional currency of the Company s foreign subsidiaries is the local currency. All assets and liabilities are translated at the current exchange rate as of the end of the period, and revenues and expenses are translated at average exchange rates in effect during the period. The gain or loss resulting from the process of translating foreign currency financial statements into U.S. dollars is included as a component of other comprehensive income. The Company incurred foreign currency transaction losses of $55,000 and $8,000 for the three months ended March 31, 2008 and 2007. These losses primarily related to U.S. dollar and Euro denominated transactions within the Company s foreign subsidiaries.

Revenue Recognition

The Company recognizes revenues in accordance with Securities and Exchange Commission Staff Accounting Bulletin (SAB) No. 104, *Revenue Recognition* (SAB 104). SAB 104 requires that four basic criteria must be met prior to revenue recognition: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or the services have been rendered, (iii) the fee is fixed or determinable and (iv) collection of the resulting receivable is reasonably assured.

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

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

Certain of the Company s arrangements contain multiple elements, consisting of the various services the Company offers. Multiple element arrangements typically consist of a subscription to the Company s online database combined with customized services. These arrangements are accounted for in accordance with Emerging Issues Task Force (EITF) Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables*. The Company has determined that there is not objective and reliable evidence of fair value for any of its services and, therefore, accounts for all elements in multiple elements arrangements as a single unit of accounting. Access to data under the subscription element is generally provided shortly after the execution of the contract. However, the initial delivery of customized services generally occurs subsequent to contract execution. The Company recognizes the entire arrangement fee over the performance period of the last deliverable. As a result, the total arrangement fee is recognized on a straight-line basis over the period beginning with the commencement of the last customized service delivered.

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

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

Stock-Based Compensation

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

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

Income Taxes

Income taxes are accounted for using the liability method in accordance with SFAS No. 109, *Accounting for Income Taxes*. Deferred income taxes are provided for temporary differences in recognizing certain income, expense and credit items for financial reporting purposes and tax reporting purposes. Such deferred income taxes primarily relate to the difference between the tax bases of assets and liabilities and their financial reporting amounts. Deferred tax assets and liabilities are measured by applying enacted statutory tax rates applicable to the future years in which deferred tax assets or liabilities are expected to be settled or realized.

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

Earnings Per Share

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

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

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

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

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

	Three Months Ended March 31,	
	2008	**2007**
	(Unaudited)	
Stock options and restricted stock units	9,171	2,557,884
Convertible preferred stock warrants		113,129
Common stock warrants	2,000	62,057
Convertible preferred stock		17,257,362

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

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

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
	(Unaudited) (In thousands, except share and per share data	
Calculation of basic and diluted net income per share two class method:		
Net income	$ 2,531	$ 1,540
Accretion of redeemable preferred stock		(885)
Accretion of common stock subject to put		(33)
Undistributed earnings	2,531	622
Allocation of undistributed earnings:		
Common stock	2,531	
Preferred stock		622
Total allocated earnings	$ 2,531	$ 622
Net income attributable to common stockholders per common share:		
Basic	$ 0.09	$ 0.00
Diluted	$ 0.08	$ 0.00
Weighted-average shares outstanding-common stock:		
Basic	28,200,934	4,196,736
Diluted	29,998,490	4,196,736
Net income attributable to common stockholders per common share subject to put:		
Basic	$ 0.09	$ 0.09
Diluted	$ 0.08	$ 0.09
Weighted-average shares outstanding-common stock subject to put:		
Basic	135,635	347,635
Diluted	135,635	347,635

Recent Pronouncements

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

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS No. 141(R)). SFAS No. 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS No. 141(R) also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS No. 141(R) is effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating the potential impact of adopting the provisions of SFAS No. 141(R) on its consolidated results of operations and financial position.

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

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

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

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

3. Investments and Fair Value Measurements

As of March 31, 2008, the Company had $4.5 million invested in auction rate securities, all of which are classified as long-term investments on its consolidated balance sheet. As of December 31, 2007, the Company had $30.3 million invested in auction rate securities, of which $25.4 million are classified as current, short-term investments and $4.9 million are classified as long-term investments on its consolidated balance sheet.

Auction rate securities are generally long-term debt instruments that provide liquidity through a Dutch auction process that resets the applicable interest rate at pre-determined calendar intervals, generally every 28 days. This mechanism typically allows existing investors to rollover their holdings and continue to own their respective securities or liquidate their holdings by selling their securities at par value. The Company generally invests in these securities for short periods of time as part of its investment policy. However, the recent uncertainties in the credit markets have prevented the Company and other investors from liquidating holdings of certain auction rate securities in recent auctions because the amount of securities submitted for sale has exceeded the amount of purchase orders. Accordingly, the Company continues to hold these long-term securities and is due interest at a higher rate than similar securities for which auctions have cleared. As December 31, 2007, these investments were fully backed by AAA rated bonds and insured against loss of principal and interest by bond insurers. However, certain bond insurers are experiencing financial difficulty and have either had their credit ratings downgraded or have been placed on watch. As of March 31, 2008, all investments maintained investment grade ratings. As of March 31, 2008 and December 31, 2007, five auction rate securities with a par value of $5.1 million had failed their most recent auction and are considered illiquid. These securities were valued using a discounted cash flow model that takes into consideration the financial condition of the issuers and the bond insurers, as well as the expected date liquidity will be restored. If the credit ratings of the issuer, the bond insurers or the collateral continues to deteriorate, we may further adjust the carrying value of these investments.