COMSCORE, INC.
Form 10-Q
May 03, 2013
Table of Contents

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

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2013
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: 001-33520

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

Delaware (State or other jurisdiction of incorporation or organization)	54-1955550 (I.R.S. Employer Identification Number)
11950 Democracy Drive, Suite 600 Reston, VA (Address of principal executive offices)	20190 (Zip Code)

(703) 483-2000
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	ý	Accelerated filer	o
Non-accelerated filer	o (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 ¨ No ý

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 2, 2013, there were 35,698,194 shares of the registrant’s common stock outstanding.

Table of Contents

COMSCORE, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2013
TABLE OF CONTENTS

Table of Contents

CAUTIONARY NOTE REGARDING 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, macroeconomic trends that we expect may influence our business, plans for capital expenditures, expectations regarding the introduction of new products, regulatory compliance and expected changes in the regulatory landscape affecting our business, expected impact of litigation, plans for growth and future operations, effects of acquisitions, as well as assumptions relating to the foregoing. Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. These risks and other factors include, but are not limited to, those listed under the section entitled "Risk Factors" in Item 1A of Part II of this Quarterly Report on Form 10-Q. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could," "expect," "plan," "anticipate," "believe," "estimate," "predict," "intend," "continue," "seek" or the negative of these terms or other comparable terminology. These statements are only predictions. Actual events and/or results may differ materially.

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

Table of Contents

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
COMSCORE, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	March 31, 2013 (Unaudited)	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$73,738	$61,764
Accounts receivable, net of allowances of $1,434 and $1,117, respectively	65,831	68,348
Prepaid expenses and other current assets	8,466	8,877
Deferred tax assets	10,045	9,940
Total current assets	158,080	148,929
Property and equipment, net	31,934	31,418
Other non-current assets	643	414
Long-term deferred tax assets	9,915	12,065
Intangible assets, net	38,033	40,759
Goodwill	101,963	102,900
Total assets	$340,568	$336,485
Liabilities and Equity		
Current liabilities:		
Borrowings under revolving credit facility	$3,846	$—
Accounts payable	3,290	7,229
Accrued expenses	20,990	24,409
Deferred revenues	85,489	80,824
Deferred rent	913	807
Deferred tax liabilities	—	17
Capital lease obligations	7,914	8,020
Total current liabilities	122,442	121,306
Deferred rent, long-term	11,148	10,096
Deferred revenue, long-term	1,294	1,715
Deferred tax liabilities, long-term	—	130
Capital lease obligations, long-term	7,186	6,478
Other long-term liabilities	1,130	1,117
Total liabilities	143,200	140,842
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.001 par value per share; 5,000,000 shares authorized at March 31, 2013 and December 31, 2012; no shares issued or outstanding at March 31, 2013 and December 31, 2012	—	—
Common stock, $0.001 par value per share; 100,000,000 shares authorized at March 31, 2013 and December 31, 2012; 35,666,885 and 35,679,430 shares issued and outstanding at March 31, 2013 and December 31, 2012, respectively	36	36
Additional paid-in capital	279,190	274,622
Accumulated other comprehensive income	1,005	1,825
Accumulated deficit	(82,863)	(80,840)
Total stockholders' equity	197,368	195,643

Total liabilities and stockholders' equity	$340,568	$336,485

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

Table of Contents

COMSCORE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME
(Unaudited)
(In thousands, except share and per share data)

	Three months ended March 31, 2013	2012
Revenues	$68,848	$62,275
Cost of revenues (excludes amortization of intangible assets) (1)	22,554	20,401
Selling and marketing (1)	24,458	21,345
Research and development (1)	10,223	8,036
General and administrative (1)	9,012	9,106
Amortization of intangible assets	2,151	2,320
Gain on asset disposition	(210)	—
Total expenses from operations	68,188	61,208
Income from operations	660	1,067
Interest and other (expense), net	(164)	(198)
Loss from foreign currency	(340)	(263)
Income before income tax provision	156	606
Income tax provision	(2,179)	(1,077)
Net loss	$(2,023)	$(471)
Net loss available to common stockholders per common share:		
Basic	$(0.06)	$(0.01)
Diluted	$(0.06)	$(0.01)
Weighted-average number of shares used in per share calculation - common stock:		
Basic	34,113,786	32,889,119
Diluted	34,113,786	32,889,119
Comprehensive (loss) income:		
Net loss	$(2,023)	$(471)
Other comprehensive (loss) income:		
Foreign currency translation adjustment	(820)	1,619
Total comprehensive (loss) income	$(2,843)	$1,148

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

Cost of revenues	$716	$551
Selling and marketing	$2,813	$2,183
Research and development	$614	$405
General and administrative	$856	$1,951

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

Table of Contents

COMSCORE, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)
(In thousands, except share data)

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive (Loss) Income	Accumulated Stockholders' Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance at December 31, 2011	34,015,434	$34	$258,967	$ 617	$(69,051)	$190,567
Net loss	—	—	—	—	(471)	(471)
Foreign currency translation adjustment	—	—	—	1,619	—	1,619
Exercise of common stock options	27,581	—	69	—	—	69
Issuance of restricted stock	1,431,367	1	(1)	—	—	—
Restricted stock cancelled	(10,475)	—	—	—	—	—
Restricted stock units vested	93,613	—	—	—	—	—
Common stock received for tax withholding	(236,813)	—	(5,413)	—	—	(5,413)
Stock based compensation	—	—	9,400	—	—	9,400
Excess tax benefits from stock based compensation, net	—	—	(51)	—	—	(51)
Balance at March 31, 2012	35,320,707	$35	$262,971	$ 2,236	$(69,522)	$195,720
Balance at December 31, 2012	35,679,430	$36	$274,622	$ 1,825	$(80,840)	$195,643
Net loss	—	—	—	—	(2,023)	(2,023)
Foreign currency translation adjustment	—	—	—	(820)	—	(820)
Exercise of common stock options	5,748	—	38	—	—	38
Issuance of restricted stock	395,475	—	—	—	—	—
Restricted stock cancelled	(152,826)	—	—	—	—	—
Restricted stock units vested	147,602	—	—	—	—	—
Common stock received for tax withholding	(408,544)	—	(6,682)	—	—	(6,682)
Stock based compensation	—	—	11,212	—	—	11,212
Balance at March 31, 2013	35,666,885	$36	$279,190	$ 1,005	$(82,863)	$197,368

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

Table of Contents

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

	Three months ended March 31, 2013	2012
Operating activities		
Net loss	$(2,023)	$(471)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	4,111	3,420
Amortization of intangible assets	2,151	2,320
Provision for bad debts	400	221
Stock-based compensation	4,999	5,090
Amortization of deferred rent	226	36
Deferred tax provision	1,788	933
(Gain) Loss on asset disposal	(210)	31
Changes in operating assets and liabilities:		
Accounts receivable	1,907	(1,389)
Prepaid expenses and other current assets	16	(523)
Accounts payable, accrued expenses, and other liabilities	(1,422)	(5,088)
Deferred revenues	5,525	6,754
Deferred rent	952	—
Net cash provided by operating activities	18,420	11,334
Investing activities		
Proceeds from asset disposition	160	—
Purchase of property and equipment	(1,555)	(607)
Net cash used in investing activities	(1,395)	(607)
Financing activities		
Proceeds from the exercise of common stock options	39	69
Repurchase of common stock	(6,682)	(5,413)
Principal payments on capital lease obligations	(2,211)	(1,618)
Proceeds from financing arrangements	3,964	—
Net cash used in financing activities	(4,890)	(6,962)
Effect of exchange rate changes on cash	(161)	575
Net increase in cash and cash equivalents	11,974	4,340
Cash and cash equivalents at beginning of period	61,764	38,071
Cash and cash equivalents at end of period	$73,738	$42,411
Supplemental cash flow disclosures		
Interest paid	$217	$213
Income taxes paid	$135	$298
Supplemental noncash investing and financing activities		
Capital lease obligations incurred	$2,876	$913
Accrued capital expenditures	$1,054	$—
Leasehold improvements acquired through lease incentives	$950	$—

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

7

COMSCORE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization

comScore, Inc. (the “Company”), a Delaware corporation incorporated in August 1999, provides on-demand digital analytics that enable customers to make well-informed business decisions and implement more effective digital business strategies. More specifically, the Company is an Internet technology company that measures what people do as they navigate the digital world and analyzes that information to provide insights and recommended actions for the Company's customers to maximize the value of their digital investments. The Company’s products offer 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. The Company provides its products through a scalable, Software-as-a-Service, SaaS, delivery model, which eliminates the need for customers to install and maintain hardware and software in order to use the Company’s products.

The Company’s digital marketing intelligence platform is comprised of proprietary databases and a computational infrastructure that measures, analyzes and reports on digital activity worldwide. The foundation of the platform is data collected from a panel of more than two million Internet users worldwide who have granted to the Company explicit permission to confidentially measure their Internet usage patterns, online and certain offline buying behavior and other activities. For measuring and reporting online audiences, comScore also supplements panel information with census information obtained from the Company's tagged network of global websites, referred to as the comScore Census Network. This panel information is complemented by a Unified Digital Measurement approach to digital audience measurement. Unified Digital Measurement blends panel and census methodologies into a product that provides a direct linkage and reconciliation between census and panel measurement. By applying advanced statistical methodologies to the panel data, the Company projects consumers’ online behavior for the total online population and a wide variety of user categories. In addition to the Company’s comScore Census Network products, the Company provides software and other products to the large mobile networks that deliver network analysis focused on the experience of wireless subscribers, as well as network intelligence with respect to performance, capacity and configuration analytics. The Company also provides digital and monetization analytics and innovative video measurement products.

2. Summary of Significant Accounting Policies

Basis of Presentation and Consolidation

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

Unaudited Interim Financial Information

The consolidated interim 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 interim financial statements prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) have been condensed or omitted pursuant to such rules and regulations. However, the Company believes that the disclosures contained in this quarterly report comply with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended, for a quarterly report on Form 10-Q and are adequate to make the information presented not misleading. The consolidated interim financial statements included herein, reflect all adjustments (consisting of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented. These consolidated interim 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, 2012, filed February 20, 2013 with the SEC. The results of operations for the three months ended March 31, 2013 are not necessarily indicative of the results to be anticipated for the entire year ending December 31, 2013 or thereafter. All references to March 31, 2013 and 2012 or to the three months ended March 31, 2013 and 2012 in the notes to the consolidated interim financial statements are unaudited.

Table of Contents

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, recoverability of intangible assets, other long-lived assets and goodwill, estimates related to outstanding litigation, and the determination of the allowance for doubtful accounts. The Company bases its estimates on historical experience and assumptions that it believes are reasonable. Actual results could differ from those estimates.

Fair Value Measurements

The Company evaluates the fair value of certain assets and liabilities using the fair value hierarchy. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the Company applies the fair 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.

The Company does not currently have any assets or liabilities that are measured at fair value on a recurring basis. However, cash equivalents, accounts receivable, prepaid expenses and other assets, accounts payable, accrued expenses, deferred revenue, deferred rent and capital lease obligations reported in the consolidated balance sheets equal or approximate their respective fair values.

Assets and liabilities that are measured at fair value on a non-recurring basis include fixed assets, intangible assets and goodwill. The Company recognizes these items at fair value when they are considered to be impaired or upon initial recognition. During the three months ended March 31, 2013 and 2012, there were no impairments and as such, no fair value adjustments were recorded for assets and liabilities measured at fair value.

During the three months ended March 31, 2013, certain intangible assets were measured at fair value using significant unobservable inputs (Level 3) as described in Note 3 and as detailed below:

		Fair Value Measurements Using			
	March 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Description	(In thousands)				
Long-lived assets held and used	$1,182			$1,182	$—

Cash and Cash Equivalents and Investments

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

Interest income on investments and excess cash balances was a nominal amount for the three months ended March 31, 2013 and 2012.

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

9

Table of Contents

uncollectible receivables. Allowances are based on management's judgment, which considers historical experience and specific knowledge of accounts where collectability may not be probable. The Company makes provisions based on historical bad debt experience, a specific review of all significant outstanding invoices and an assessment of general economic conditions. If the financial condition of a customer deteriorates, resulting in an impairment of its ability to make payments, additional allowances may be required.

Property and Equipment

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

Business Combinations

The Company recognizes all of the assets acquired, liabilities assumed, contractual contingencies, and contingent consideration at their fair value on the acquisition date. Acquisition-related costs are recognized separately from the acquisition and expensed as incurred. Generally, restructuring costs incurred in periods subsequent to the acquisition date are expensed when incurred. Subsequent changes to the purchase price (i.e., working capital adjustments) or other fair value adjustments determined during the measurement period are recorded as an adjustment to goodwill. All subsequent changes to an income tax valuation allowance or uncertain tax position that relate to the acquired company and existed at the acquisition date that occur both within the measurement period and as a result of facts and circumstances that existed at the acquisition date are recognized as an adjustment to goodwill. All other changes in income tax valuation allowances are recognized as a reduction or increase to income tax expense or as a direct adjustment to additional paid-in capital as required.

Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of identifiable assets acquired and liabilities assumed when a business is 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 various valuation methods, including the excess earnings and relief from royalty methods.

Intangible assets with finite lives are amortized over their useful lives while goodwill is not amortized but is evaluated for potential impairment at least annually by comparing the fair value of a reporting unit to its carrying value including goodwill recorded by the reporting unit. If the carrying value exceeds the fair value, impairment is measured by comparing the implied fair value of the goodwill to its carrying value, and any impairment determined is recorded in the current period. All of the Company's goodwill is associated with its single reporting unit. Accordingly, on an annual basis the Company performs the impairment assessment for goodwill at the enterprise level. The Company completed its annual impairment analysis as of October 1st for 2012 and determined that there was no impairment of goodwill. There have been no indicators of impairment suggesting that an interim assessment was necessary for goodwill since the October 1, 2012 analysis.

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

	Useful Lives (Years)
Acquired methodologies/technology	3 to 10
Customer relationships	3 to 12
Panel	7
Intellectual property	7 to 13
Trade names	2 to 10

Impairment of Long-Lived Assets

The Company's long-lived assets primarily consist of property and equipment and intangible assets. The Company evaluates its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying value of such assets may not be recoverable. If an indication of impairment is present, the Company compares the estimated undiscounted future cash flows to be generated by the asset to its carrying amount. Recoverability measurement and estimation of

Table of Contents

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 group, the Company records an impairment loss equal to the excess of the asset group's carrying amount over its fair value. The fair value is determined based on valuation techniques such as a comparison to fair values of similar assets or using a discounted cash flow analysis. Although the Company believes that the carrying values of its long-lived assets are appropriately stated, changes in strategy or market conditions or significant technological developments could significantly impact these judgments and require adjustments to recorded asset balances. There were no impairment charges recognized during the three months ended March 31, 2013 or 2012.

Leases

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

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

Foreign Currency

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

The Company incurred foreign currency transaction losses of $0.3 million for the three months ended March 31, 2013 and 2012. These gains and losses are the result of transactions denominated in currencies other than the functional currency of the Company's foreign subsidiaries. The majority of the Company's foreign operations are denominated in the euro, the British Pound and various currencies in Latin America.

Revenue Recognition

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

The Company generates revenues by providing access to the Company's online database or delivering information obtained from the database, usually in the form of periodic reports. Revenues are typically recognized on a straight-line basis over the period in which access to data or reports is provided, which generally ranges from three to twenty-four 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. At the outset of an arrangement, total arrangement consideration is allocated between the development of the survey questionnaire and subsequent data collection, analysis and reporting services based on relative selling price. Revenue allocated to the survey questionnaire is recognized when it is delivered and revenue allocated to the data collection, analysis and reporting services is recognized 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 the Company's arrangements contain multiple elements, consisting of the various services the Company offers. Multiple element arrangements typically consist of either subscriptions to multiple online products or a subscription to the Company's online database combined with customized services.

For these types of arrangements, the Company uses a hierarchy to determine the selling price to be used for allocating arrangement consideration to deliverables: (i) vendor-specific objective evidence of fair value ("VSOE"), (ii) third-party evidence of selling price (“TPE”) if VSOE is not available, or (iii) an estimated selling price (“ESP”) if neither VSOE nor TPE are available. VSOE generally exists only when the Company sells the deliverable separately and is the price actually charged

Table of Contents

by the Company for that deliverable on a stand-alone basis. ESP reflects the Company's estimate of what the selling price of a deliverable would be if it was sold regularly on a stand-alone basis.

The Company has concluded it does not have VSOE, for these types of arrangements, and TPE is generally not available because the Company's service offerings are highly differentiated and the Company is unable to obtain reliable information on the products and pricing practices of the Company's competitors. As such, ESP is used to allocate the total arrangement consideration at the arrangement inception based on each element's relative selling price. The Company's process for determining ESP involves management's judgments based on multiple factors that may vary depending upon the unique facts and circumstances related to each product suite and deliverable. The Company determines ESP by considering several external and internal factors including, but not limited to, current pricing practices, pricing concentrations (such as industry, channel, customer class or geography), internal costs and market penetration of a product or service. The total arrangement consideration is allocated to each of the elements based on the relative selling price. If the ESP is determined as a range of selling prices, the mid-point of the range is used in the relative-selling-price method. Once the total arrangement consideration has been allocated to each deliverable based on the relative allocation of the arrangement fee, the Company commences revenue recognition for each deliverable on a stand-alone basis as the data or service is 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.

The Company also generates revenue through software licenses, professional services (including software customization, implementation, training and consulting services), and maintenance and technical support contracts. The Company's arrangements generally contain multiple elements, consisting of the various service offerings. The Company recognizes software license arrangements that include significant modification and customization of the software in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 985-605, Software Recognition, and ASC 605-35, Revenue Recognition-Construction-Type and Certain Production-Type Contracts, using either percentage-of-completion or the completed-contract method. Under the percentage-of-completion method, the Company uses the input method to measure progress, which is based on the ratio of costs incurred to date to total estimated costs at completion. The percentage-of-completion method is used when reliable estimates of progress and completion under the contract can be made. Under the completed-contract method, billings and costs (to the extent they are recoverable) are accumulated on the balance sheet, but no profit or income is recorded before user acceptance of the software license. The completed-contract method is used when reliable estimates cannot be made or other terms under the contract require it. To the extent estimated costs are expected to exceed revenue, the Company accrues for costs immediately.

The Company accounts for nonmonetary transactions under ASC 845, Nonmonetary Transactions. Nonmonetary transactions with commercial substance are recorded at the estimated fair value of assets surrendered including cash, if cash is less than 25% of the fair value of the overall exchange, unless the fair value of the assets received is more clearly evident, in which case the fair value of the asset received is used. During the three months ended March 31, 2013 the Company recognized $0.3 million in revenue related to nonmonetary transactions. Due to timing differences in the delivery and receipt of the respective nonmonetary assets exchanged, the expense recognized in each period is different from the amount of revenue recognized. As a result, during the three months ended March 31, 2013, the Company recognized $0.4 million in expense related to nonmonetary transactions.

Stock-Based Compensation

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

Table of Contents

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

Income Taxes

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

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

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

Earnings Per Share

Basic net loss per common share excludes dilution for potential common stock issuances and is computed by dividing net loss by the weighted-average number of common shares outstanding for the period. Diluted net loss per common share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Diluted earnings per share assumes the exercise of stock options and warrants using the treasury stock method.

The following table provides a reconciliation of the numerators and denominators used in computing basic and diluted net loss per common share:

	Three Months Ended March 31,	
	2013	2012
	(In thousands, except share and per share data)	
Net income (loss)	$(2,023)	$(471)
Net income (loss) per share - common stock:		
Basic	$(0.06)	$(0.01)
Diluted	$(0.06)	$(0.01)
Weighted-average shares outstanding-common stock, basic and dilutive	34,113,786	32,889,119

13

Table of Contents

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,	
	2013	2012
Stock options and restricted stock	1,486,370	1,243,189
Common stock warrants	—	12,006

Recent Pronouncements

In February 2013, FASB issued Accounting standards update 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income. This update requires an entity to provide information about the amount reclassified out of accumulated other comprehensive income by component. The entity is also required to disclose significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting periods. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other discourses required under U.S. GAAP that provide additional detail about those amounts. The objective in this update is to improve the reporting of reclassifications out of accumulated other comprehensive income. The amendments in this update should be applied prospectively for reporting periods beginning after December 15, 2012. This standard did not have a material impact on the Company’s financial statements.

In February 2013, FASB issued Accounting Standards Update 2013-04, Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date (a consensus of the FASB Emerging Issues Task Force). This guidance requires an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date. This stipulates that (1) it will include the amount the entity agreed to pay for the arrangement between them and the other entities that are also obligated to the liability and (2) any additional amount the entity expects to pay on behalf of the other entities. The objective of this update is to provide guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements. The amendments in this update are effective for fiscal periods (and interim reporting periods within those years) beginning after December 15, 2013. This standard is not expected to have a material impact on the Company’s financial statements.

3. Asset Disposition

On March 18, 2013, the Company and its wholly-owned subsidiary RSC The Quality Measurement Company (also known as ARSgroup), sold certain assets related to its ARS Non-Health Copy-Testing and Equity Tracking business to MSW.ARS LLC, a Delaware limited liability company ("Buyer").

In connection with the disposition, the Company will receive total proceeds of $1.0 million in cash, with $0.25 million received at closing on March 18, 2013, net of advisory fees, and $0.75 million placed in escrow, which will be received in three equal quarterly payments beginning June 30, 2013 and ending on December 31, 2013. In addition, the Company entered into a license agreement in which it will retain the right to use the necessary intellectual property to continue to provide the ARS Copy-Testing and Equity Tracking services to its Health related customers and recorded an intangible asset of $1.2 million based on the estimated fair value of the licensed intellectual property. In determining the fair value of the intangible asset, the Company prepared a discounted cash flow (“DCF”) analysis. In preparing the DCF analysis, the Company used a combination of income approaches including the relief from royalty approach and the excess earnings approach. Determining fair value requires the exercise of significant judgment, including judgments about appropriate discount rates, terminal growth rates, royalty rates and the amount and timing of expected future cash flows. The cash flows employed in the DCF analysis were based on the Company’s most recent budgets, forecasts and business plans as well as growth rate assumptions for years beyond the current business plan period. Significant assumptions used include a discount rate of 18.5%, which is based on an assessment of the risk inherent in the future revenue streams and cash flows associated with the health related customers of ARS, as well as a royalty rate of 3.0%, which is based on an analysis of royalty rates in similar, market transactions. This intangible asset will be amortized on a straight-line basis over its estimated useful life of 3 years beginning April 1, 2013. The assets disposed of included computer equipment, furniture and fixtures, intellectual property and the intangible assets associated with the ARSgroup. Due to the fact that the Company will continue to provide the the ARS Copy-Testing and Equity Tracking services to its Health related customers and has therefore not eliminated the operations and cash flows of the ARSgroup, management has concluded that the disposition does not qualify for presentation as discontinued operations.

Table of Contents

As a result of the disposition, during the three months ended March 31, 2013, the Company recorded a gain on the Disposition of $0.2 million, determined as follows (in thousands):

Cash proceeds received at closing, net	$160
Proceeds receivable (placed in escrow)	750
Fair value of licensed intellectual property	1,182
	2,092
Carrying value of assets disposed	(1,436)
Goodwill allocated to disposition	(289)
Fair value of accelerated equity awards	(157)
Gain on disposition	$210

4. Goodwill and Intangible Assets

The change in the carrying value of goodwill for the three months ended March 31, 2013 is as follows (in thousands):

Balance as of December 31, 2012	$102,900
Goodwill allocated to ARS disposition	(289)
Translation adjustments	(648)
Balance as of March 31, 2013	$101,963

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

	March 31, 2013			December 31, 2012		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Acquired methodologies/technology	$7,592	$(4,258)	$3,334	$8,412	$(4,372)	$4,040
Customer relationships	34,642	(11,600)	23,042	35,766	(11,230)	24,536
Panel	1,606	(1,109)	497	1,639	(1,073)	566
Intellectual property	13,558	(2,837)	10,721	13,571	(2,459)	11,112
Trade names	2,808	(2,369)	439	4,153	(3,648)	505
	$60,206	$(22,173)	$38,033	$63,541	$(22,782)	$40,759

Amortization expense related to intangible assets was approximately $2.2 million and $2.3 million for the three months ended March 31, 2013 and 2012, respectively.

The weighted average remaining amortization period by major asset class as of March 31, 2013, is as follows:

	(In years)
Acquired methodologies/technology	2.5
Customer relationships	6.6
Panel	2.2
Intellectual property	8.1
Trade names	2.3

Table of Contents

The estimated future amortization of acquired intangible assets as of March 31, 2013 is as follows:

	(In thousands)
2013	$5,734
2014	7,505
2015	6,512
2016	5,233
2017	4,206
Thereafter	8,843
	$38,033

5. Accrued Expenses

Accrued expenses consist of the following:

	March 31, 2013	December 31, 2012
	(In thousands)	
Payroll and related	$7,193	$5,556
Income, sales and other taxes	2,813	2,733
Cost of revenues	4,859	4,892
Other	4,030	3,243
Professional fees	1,522	1,333
Stock-based compensation	573	6,652
	$20,990	$24,409

6. Long-term Debt and Other Financing Arrangement

Capital Leases

The Company has a lease financing arrangement with Banc of America Leasing & Capital, LLC in the amount of $10.0 million, of which the Company can utilize approximately $8.7 million as of March 31, 2013 for future capital leases. This arrangement allows the Company to lease new software, hardware and other computer equipment as it expands its technology infrastructure in support of its business growth. Under this arrangement, the Company may enter into new capital leases prior to February 26, 2014. In addition, the Company enters into capital leases under non-committed arrangements, typically directly with equipment manufacturers. Future minimum payments under capital leases with initial terms of one year or more are as follows:

	(In thousands)
2013	$6,978
2014	5,285
2015	3,239
2016	390
2017	7
Total minimum lease payments	15,899
Less amount representing interest	(799)
Present value of net minimum lease payments	15,100
Less current portion	7,914
Capital lease obligations, long-term	$7,186

Table of Contents

During the three months ended March 31, 2013 and 2012, the Company acquired $2.8 million and $0.9 million, respectively, in computer equipment through the issuance of capital leases. This non-cash investing activity has been excluded from the consolidated statement of cash flows.

Secured Revolving Credit Facility

On June 30, 2011, the Company entered into a secured credit and security agreement (the “Credit Agreement”) with Bank of America, N.A. (“Bank of America”) for a two-year, $50.0 million secured revolving credit facility (the “Revolving Credit Facility”). The agreement includes a maximum $7.0 million sublimit for a euro loan facility and a $10.0 million sublimit for the issuance of letters of credit. The maturity date of the Revolving Credit Facility has been extended to September 30, 2013. Borrowings under the Revolving Credit Facility shall be used towards working capital and other general corporate purposes as well as for the issuance of letters of credit. Loans made under the Revolving Credit Facility will bear interest at a fluctuating rate based on the London Interbank Offered Rate (“LIBOR”) plus an applicable margin, which will range from 1.75% to 2.75%, based on the Company’s funded debt ratio. The Company and each of the Company’s material, wholly-owned subsidiaries entered into a Security Agreement in favor of Bank of America (the “Security Agreement”). Pursuant to the Security Agreement, the obligations under the Revolving Credit Facility are secured by a security interest in substantially all of the Company’s assets.

Under the terms of the Revolving Credit Facility, the Company is restricted from paying dividends and incurring certain indebtedness, among other restrictive covenants. The Company continues to be in full compliance with all covenants contained in the Revolving Credit Facility.

As of March 31, 2013, €3.0 million (or approximately $3.8 million) is outstanding under the terms of the Company’s Revolving Credit Facility.

The Company maintains letters of credit in lieu of security deposits with respect to certain office leases as well as to satisfy performance guarantees under certain contracts. As of March 31, 2013, $3.6 million in letters of credit were outstanding, leaving $6.4 million available for additional letters of credit. These letters of credit may be reduced periodically provided the Company meets the conditional criteria of each related lease agreement.

7. Commitments and Contingencies

Leases

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

	(In thousands)
2013	$6,715
2014	9,447
2015	9,571
2016	9,659
2017	9,498
Thereafter	36,715
Total minimum lease payments	$81,605

Total rent expense, under non-cancellable operating leases, was $2.2 million and $1.8 million for the three months ended March 31, 2013 and 2012, respectively.

Contingencies

On August 23, 2011, the Company received notice that Mike Harris and Jeff Dunstan, individually and on behalf of a class of similarly situated individuals, filed a lawsuit against the Company in the United States District Court for the Northern District of Illinois, Eastern Division, alleging, among other things, violations by the Company of the Stored Communications Act, the Electronic Communications Privacy Act, Computer Fraud and Abuse Act and the Illinois Consumer Fraud and Deceptive Practices Act as well as unjust enrichment. The complaint seeks unspecified damages, including statutory damages per violation and punitive damages, injunctive relief and reasonable attorneys’ fees of the plaintiffs. In October 2012, the plaintiffs filed an amended complaint which, among other things, removed the claim relating to alleged violations of the Illinois

17

Table of Contents

Consumer Fraud and Deceptive Practices Act. On April 2, 2013, the District Court issued an order certifying a class for only three of the four claims, refusing to certify a class for unjust enrichment. comScore has filed a petition requesting the United States Court of Appeals for the Seventh Circuit review the class certification order. Based on examination of the remaining claims, the Company believes that they are without merit. The Company continues to investigate the claims and intends to vigorously protect and defend itself. It is not possible for the Company to estimate a potential range of loss at this time.

From time to time, the Company is exposed to unasserted potential claims encountered in the normal course of business. Although the outcome of any legal proceeding cannot be predicted with certainty, management believes that the final outcome and resolution of these matters will not materially affect the Company's consolidated financial position or results of operations.

8. Income Taxes

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

During the three months ended March 31, 2013, the Company recorded an income tax provision of $2.2 million resulting in an effective tax rate of 1,396.8%. During the three months ended March 31, 2012, the Company recorded an income tax provision of $1.1 million resulting in an effective tax rate of 177.7%. These effective tax rates differ from the Federal statutory rate of 35% primarily due to the effects of valuation allowances associated with foreign losses, state income taxes, foreign income taxes, nondeductible expenses such as certain stock compensation and meals and entertainment, unrecognized tax benefits and changes in statutory tax rates which took effect during the year.

The exercise of certain stock options and the vesting of certain restricted stock awards during the three months ended March 31, 2013 and 2012, generated income tax deductions equal to the excess of the fair market value over the exercise price or grant date fair value, as applicable. The Company will not recognize a deferred tax asset with respect to the excess of tax over book stock compensation deductions until the tax deductions actually reduce its current taxes payable. As such, the Company has not recorded a deferred tax asset in the accompanying consolidated financial statements related to the additional net operating losses generated from the windfall tax deductions associated with the exercise of these stock options and the vesting of restricted stock awards. If and when the Company utilizes these net operating losses to reduce income taxes payable, the tax benefit will be recorded as an increase in additional paid-in capital.

During the three months ended March 31, 2013, certain stock options were exercised and certain shares related to restricted stock awards vested at times when the Company's stock price was substantially lower than the fair value of those shares at the time of grant. As a result, the income tax deduction related to such shares is less than the expense previously recognized for book purposes. Such shortfalls reduce additional paid-in capital to the extent windfall tax benefits have been previously recognized. As of December 31, 2012, the Company did not have additional paid-in capital related to windfall tax benefits. As such, shortfalls of$0.9 million have been included in income tax expense for the three months ended March 31, 2013. During the three months ended March 31, 2012, $0.1 million of shortfalls reduced additional paid-in capital and $0.1 million was included in income tax expense.

As of March 31, 2013 and December 31, 2012, the Company had a valuation allowance related to the deferred tax assets of certain foreign subsidiaries (primarily net operating loss carryforwards) that are either loss companies or are in their start-up phases, the U.S. capital loss carryforwards and certain state net operating loss carryforwards. Management will continue to evaluate the Company's deferred tax position of its U.S. and foreign companies throughout 2013 to determine the appropriate level of valuation allowance required against its deferred tax assets.

As of March 31, 2013 and December 31, 2012, the Company had unrecognized tax benefits of approximately $1.4 million. The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. As of March 31, 2013 and December 31, 2012, the amount of accrued interest and penalties on unrecognized tax benefits was approximately $0.7 million.

The Company or one of its subsidiaries files income tax returns in the U.S. Federal jurisdiction and various state and foreign jurisdictions. For income tax returns filed by the Company, the Company is no longer subject to U.S. Federal examinations by tax authorities for years before 2009 or state and local examinations by tax authorities for years before 2008 although tax attribute carryforwards generated prior to these years may still be adjusted upon examination by tax authorities.

Table of Contents

9. Stockholders' Equity

1999 Stock Option Plan and 2007 Equity Incentive Plan

Prior to the effective date of the registration statement for the Company's initial public offering ("IPO") on June 26, 2007, eligible employees and non-employees were awarded options to purchase shares of the Company's common stock, restricted stock or restricted stock units pursuant to the Company's 1999 Stock Plan (the "1999 Plan"). Upon the effective date of the registration statement of the Company's IPO, the Company ceased using the 1999 Plan for the issuance of new equity awards. Upon the closing of the Company's IPO on July 2, 2007, the Company established its 2007 Equity Incentive Plan, as amended (the "2007 Plan" and together with the 1999 Plan, the "Plans"). The 1999 Plan will continue to govern the terms and conditions of outstanding awards granted thereunder, but no further shares are authorized for new awards under the 1999 Plan. As of March 31, 2013 and December 31, 2012, the Plans provided for the issuance of a maximum of approximately 9.9 million shares and 8.5 million shares, respectively, of common stock. In addition, the 2007 Plan provides for annual increases in the number of shares available for issuance thereunder on the first day of each fiscal year beginning with the 2008 fiscal year, equal to the lesser of: (i) 4% of the outstanding shares of the Company's common stock on the last day of the immediately preceding fiscal year; (ii) 1,800,000 shares; or (iii) such other amount as the Company's Board of Directors may determine. The vesting period of options granted under the Plans is determined by the Board of Directors, although, for service-based options the vesting has historically been generally ratable over a four-year period. Options generally expire 10 years from the date of the grant. Effective January 1, 2013, the shares available for grant increased by 1,427,177 pursuant to the automatic share reserve increase provision under the Plans. Accordingly, as of March 31, 2013, a total of 3,648,614 shares were available for future grant under the 2007 Plan.

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

A summary of the Plans is presented below:

	Number of Shares	Weighted-Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Options outstanding at December 31, 2012	90,552	$4.38	2.99	851
Options granted	—	$—	—	—
Options exercised	(5,748)	$6.71	—	54
Options forfeited	—	$—	—	—
Options expired	—	$—	—	—
Options outstanding and exercisable at March 31, 2013	84,804	$4.22	2.40	1,065

The intrinsic value of exercised stock options is calculated based on the difference between the exercise price and the quoted market price of the Company's common stock as of the close of the exercise date. The aggregate intrinsic value for options outstanding and exercisable is calculated as the difference between the exercise price of the underlying stock option awards and the quoted market price of the Company's common stock at March 31, 2013. As of March 31, 2013, there is no unrecognized compensation expense related to non-vested stock options granted prior to that date. The Company's nonvested stock awards are comprised of restricted stock and restricted stock units. The Company has a right of repurchase on such shares that lapse at a rate of twenty-five percent (25)% of the total shares awarded at each successive anniversary of the initial award date, provided that the employee continues to provide services to the Company. In the event that an employee terminates their employment with the Company, any shares that remain unvested and consequently subject to the right of repurchase shall be automatically reacquired by the Company at the original purchase price paid by the employee. During the three months ended March 31, 2013, 152,826 forfeited shares of restricted stock have been repurchased by the Company at no cost.

Table of Contents

A summary of the status for nonvested stock awards as of March 31, 2013 is presented as follows:

Nonvested Stock Awards	Restricted Stock	Restricted Stock Units	Total Number of Shares Underlying Awards	Weighted Average Grant-Date Fair Value
Nonvested at December 31, 2012	1,969,710	466,824	2,436,534	$20.82
Granted	395,475	421,819	817,294	16.56
Vested	(931,539)	(147,602)	(1,079,141)	17.69
Forfeited	(152,826)	(100,744)	(253,570)	21.54
Nonvested at March 31, 2013	1,280,820	640,297	1,921,117	$20.67

The aggregate intrinsic value for all non-vested shares of restricted stock and restricted stock units outstanding as of March 31, 2013 was $32.2 million.

As of March 31, 2013, total unrecognized compensation expense related to non-vested restricted stock and restricted stock units was $26.8 million, which the Company expects to recognize over a weighted-average period of approximately 1.23 years. Total unrecognized compensation expense may be increased or decreased in future periods for subsequent grants or forfeitures.

Of the 1,079,141 shares of the Company’s restricted stock and restricted stock units vesting during the three months ended March 31, 2013, the Company repurchased 408,544 shares at an aggregate purchase price of approximately $6.7 million pursuant to the stockholder’s right under the Plans to elect to use common stock to satisfy tax withholding obligations.

Shares Reserved for Issuance

At March 31, 2013, the Company had reserved for future issuance the following shares of common stock upon the exercise of options:

Common stock available for future issuances under the Plans	3,648,614
Common stock reserved for outstanding options and restricted stock units	725,101
	4,373,715

10. Geographic Information

The Company attributes revenues to customers based on the location of the customer. The composition of the Company’s sales to unaffiliated customers between those in the United States and those in other locations for the three months ended March 31, 2013 and 2012 is set forth below:

	Three months ended March 31,	
	2013	2012
	(In thousands)	
United States	$48,559	$46,082
Europe	12,264	10,323
Canada	3,203	2,688
Other	4,822	3,182
Total Revenues	$68,848	$62,275

Table of Contents

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

	March 31, 2013	December 31, 2012
	(In thousands)	
United States	$25,649	$24,810
Europe	5,122	5,477
Canada	315	291
Other	848	840
Total	$31,934	$31,418

Table of Contents

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

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

Overview

We provide leading, on-demand digital analytics that enable our customers to make well-informed, data-driven decisions and implement more effective digital business strategies. More specifically, we are an Internet technology company that measures what people do as they navigate the digital world, and we turn that information into insights and actions for our clients to maximize the value of their digital investments. One of the key elements of our products is our ability to effectively combine our proprietary comScore data (which we obtain via our global panel and census network) with our clients' own data. Our products provide our customers with deep insight 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. In addition, we offer mobile operator analytics products that provide comprehensive marketing and customer care insight to the various mobile carriers worldwide. During the three months ended March 31, 2013, we provided service to over 2,200 customers worldwide with our broad geographic base of employees located in 31 locations in 23 countries.

We deliver our products on-demand using our digital measurement and analytics platforms, which are comprised of proprietary databases, internally developed software, and a computational infrastructure that measures, analyzes and reports on digital activity. Our scalable, Software-as-a-Service, or SaaS, delivery model, eliminates the need for our customers to install and maintain hardware and software in order to use our products. Our products are hosted and maintained by us, which significantly reduces the cost and complexity for our customers relative to traditional software products and provides significant operating efficiencies. We can quickly deploy or update our products with minimal to no lead time, which significantly enhances our customers' productivity. We offer our products as a subscription-based service for which our customers pay a recurring fee during the subscription term.

Our digital media measurement and analytics platforms are comprised of proprietary databases and a computational infrastructure that measures, analyzes and reports on digital activity worldwide. The foundation of our platform is data collected from our comScore panel of approximately two million Internet users worldwide who have granted us explicit permission to confidentially measure their Internet usage patterns, online and certain offline buying behavior and other activities. By applying advanced statistical methodologies to our panel data, we project consumers' online behavior for the total online population and a wide variety of user categories. This panel information is complemented by our Unified Digital Measurement™ methodology which enables us to more accurately measure digital audiences. Our Unified Digital Measurement approach blends panel and census methodologies into products that provide a direct linkage and reconciliation between census and panel measurement. Our tagged network of global websites and apps is referred to as the comScore Census Network,™ which has been built with a substantial infrastructure and technology that processes over 1.6 trillion events per month worldwide. We also provide products to the large mobile networks that deliver network analysis focused on the experience of wireless subscribers, as well as network intelligence with respect to performance, capacity and configuration analytics. We also provide digital (web, apps, video, gaming, and other digital assets) and monetization analytics and innovative video measurement products.

We deliver our Analytics for a Digital World™ through a wide array of products organized around the following four major suites: audience analytics, advertising analytics, digital business analytics and mobile operator analytics. Our audience analytics products deliver digital media intelligence by providing an independent, third-party measurement of the size, behavior and characteristics of Internet users on multiple devices, such as TVs, PCs, smartphones and tablets as well as insight into the effectiveness of online advertising. Our core product offerings are built around our Media Metrix ™ product, but also include Video Metrix ,™ Mobile Metrix ,™ Plan Metrix ™ and Ad Metrix .™ As the Internet evolves, we are continually creating new solutions, such as Social Essentials, which provides insight into the audience size, composition, behavior and brand engagement of consumers reached by brands on Facebook. We typically deliver our audience analytics products electronically in the form of weekly, monthly or quarterly subscription based reports. Customers can access current and historical data and analyze this data anytime online.

Our advertising analytics products combine the proprietary information gathered from our comScore Census Network with the vertical industry expertise of comScore analysts to deliver digital marketing intelligence, including the measurement of online advertising effectiveness, customized for specific industries. Our advertising analytics products include the AdEffx, ™ suite Media Planner 2.0 ™ and validated Campaign Essentials ,™ which provide a solution for developing, executing and evaluating online advertising campaigns across multiple platforms, including TV, Web (Display and Video) and Mobile (Smartphones and Tablets). In August 2011, we acquired AdXpose, which provides advertisers and publishers with greater transparency in the quality, safety, and performance of their digital advertising campaigns by allowing them to verify and optimize billions of campaign data points captured in real-time. The combination of AdXpose with our Campaign Essentials product has enabled us to develop a new product we refer to as validated Campaign Essentials, or vCE, which provides intelligence regarding validated impressions, ads that are actually seen, shown in safe content and delivered to the right target audience. Our advertising analytics products are typically delivered on a monthly, quarterly or ad hoc basis.

Our digital business analytics products help organizations optimize the customer experience on their digital assets (websites, apps, video, etc.) and maximize return on digital media investments by allowing marketers to collect, view and distribute information tailored to their specific business requirements. Our digital business analytics platform is designed to integrate data from multiple sources including web, mobile, video and social media interactions. Our digital business analytics services are provided primarily through Digital Analytix ™ our SaaS based product that enables our customers to have access to all of their proprietary click stream data. Our digital business analytics platform is further enhanced by data obtained as part of our audience measurement efforts, and viewable on a quick turnaround basis. Customers can access our digital business analytics data sets and reports anytime online.

Our mobile operator analytics products suite connects mobile behavior, content merchandising, and device capabilities to provide comprehensive mobile market intelligence to mobile carriers worldwide. Our core software product, Subscriber Analytix ,™ powered by XPLORE ,™ provides mobile carriers with information on network optimization and capacity planning, customer experience, and market intelligence. Our mobile operator analytics platform is designed to integrate data from multiple sources including web and mobile interactions as well as customer relationship management, call center and back office systems. Customers can access our mobile and network data sets and reports anytime online via our software-based delivery platform.

Brief Company History

Our company was founded in August 1999. In 2007, we completed our initial public offering. We have complemented our internal development initiatives with targeted acquisitions. In February 2010, we acquired the outstanding stock of ARSgroup, Inc. to expand our ability to provide our customers with actionable information to improve their creative and strategic messaging targeted against specific audiences. In July 2010, we acquired the outstanding stock of Nexius, Inc., a provider of software products to the large mobile networks that deliver network analysis focused on the experience of wireless subscribers, as well as network intelligence with respect to performance, capacity and configuration analytics. In August 2010, we acquired the outstanding stock of Nedstat B.V., a provider of web analytics and innovative video measurement products based out of Amsterdam, Netherlands. In August 2011, we acquired all of the outstanding equity of AdXpose, Inc., a provider of digital advertising analytics products based out of Seattle, Washington. In the first quarter of 2013 we sold certain assets related to the ARS Non-Health Copy-Testing and Equity Tracking business.

Since our initial public offering in 2007, our revenues and expenses have grown significantly. We attribute the growth in our revenue and expenses primarily to:

- increased sales to existing customers, as a result of our efforts to deepen our relationships with these customers 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 and from acquired businesses;
- the sales of new products to existing and new customers; and
- growth in sales outside of the U.S., as a result of entering into new international markets.

As a result of economic events such as the global financial crisis in the credit markets, softness in the housing markets, difficulties in the financial services sector, political uncertainty in the Middle East, and concerns regarding the eurozone, the direction and relative strength of the U.S. and global economies have become somewhat uncertain in recent periods. During 2011 and 2012, we experienced a limited number of our current and potential customers ceasing, delaying or reducing renewals of existing subscriptions and purchases of new or additional services and products presumably due to the economic downturn. Further, certain of our existing customers exited the market due to industry consolidation and bankruptcy in connection with these challenging economic conditions. Since these negative economic events began in 2008, we continued to annually add net new customers and our existing customers renewed their subscriptions at a rate of over 90% based on dollars renewed each

Table of Contents

year. Notwithstanding our performance during these macroeconomic trends, if economic recovery slows or economic conditions deteriorate, our operating results could be adversely affected in coming periods.

Our Revenues

We derive our revenues primarily from the fees that we charge for subscription-based products, customized projects, and software licenses. We define subscription-based revenues as revenues that we generate from products that we deliver to a customer on a recurring basis, as well as arrangements where a customer is committing up-front to purchase a series of deliverables over time, which includes revenue from software licenses as further discussed below. We define project revenues as revenues that we generate from customized projects that are performed for a specific customer on a non-recurring basis. A significant characteristic of our SaaS-based business model is our large percentage of subscription-based contracts. Subscription-based revenues accounted for 86% and 85% of total revenues in the three months ended March 31, 2013 and the full year 2012, respectively. 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, 2012, our international revenues were $71.8 million, an increase of $11.8 million, or 20% over international revenues of $60.0 million for the year ended December 31, 2011. For the three months ended March 31, 2013, our international revenues were $20.3 million, an increase of $4.1 million, or 25% over international revenues of $16.2 million for the three months ended March 31, 2012. International revenues comprised approximately 30%, 28% and 26% of our total revenues for the three months ended March 31, 2013 and for the fiscal years ended December 31, 2012 and 2011, respectively.

We anticipate that revenues from our U.S. customers will continue to constitute a substantial portion of our revenues in coming periods, 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 portion of our subscription-based revenues from our Media Metrix product suite. Products within the Media Metrix suite include Media Metrix 360, Media Metrix, 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 our customer research product, if that work is procured by customers on a recurring basis. Through our customer research 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. This data includes responses and information collected from the actual survey questionnaires and can also include behavioral information that we passively collect from our panelists. If a customer has a history of purchasing survey products in each of the last four quarters, then we believe this indicates the surveys are being conducted on a recurring basis, and 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.

Our acquisition of Nedstat resulted in additional revenue sources, including software subscriptions, server calls, and professional services (including training and consulting). Our arrangements generally contain multiple elements, consisting of the various service offerings. Our acquisition of AdXpose, resulted in additional revenue sources, including fees for the use of the AdXpose platform. Fees for the use of the AdXpose platform are generally a fixed fee for each impression that is generated

24

using the AdXpose technology. Revenue is recognized on a usage basis when the impression is delivered and reported via the AdXpose service portal.

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.

Software Licenses

We generate subscription revenue through software licenses, professional services (including software customization, implementation, training and consulting services), and maintenance and technical support contracts. We recognize software license arrangements that include significant modification and customization of the software in accordance with FASB Accounting Standards Codification ("ASC") 985-605, Software Recognition, and ASC 605-35, Revenue Recognition-Construction-Type and Certain Production-Type Contracts, using either percentage-of-completion or the completed-contract method. Under the percentage-of-completion method, the Company uses the input method to measure progress, which is based on the ratio of costs incurred to date to total estimated costs at completion. The percentage-of-completion method is used when reliable estimates of progress and completion under the contract can be made. Under the completed-contract method, billings and costs (to the extent they are recoverable) are accumulated on the balance sheet, but no profit or income is recorded before user acceptance of the software license. The completed-contract method is used when reliable estimates cannot be made or other terms under the contract require it. To the extent estimated costs are expected to exceed revenue, the Company accrues for costs immediately.

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 U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates, assumptions and judgments that affect the amounts reported in our consolidated financial statements and the accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates.

Management considers an accounting policy to be critical if it is important to our financial condition and results of operations, and if it requires significant judgment and estimates on the part of management in its application. The development and selection of these critical accounting policies have been determined by our management. Due to the significant judgment involved in selecting certain of the assumptions used in these areas, it is possible that different parties could choose different assumptions and reach different conclusions. Our critical accounting policies relates to: (a) revenue recognition; (b) fair value measurements; (c) business combinations; (d) goodwill and intangible assets; (e) long-lived assets; (f) allowance for doubtful accounts; (g) income taxes; and (h) stock-based compensation.

Our significant accounting policies are described in more detail in the notes to our consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q and in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2012. For a discussion of our critical accounting policies and estimates, see "Critical Accounting Policies and Estimates" included in our Annual Report on Form 10-K for the year ended December 31, 2012 under the caption Management's Discussion and Analysis of Financial Condition and Results of Operations.

Seasonality

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

Table of Contents

Results of Operations

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

	Three Months Ended March 31,	
	2013	2012
Revenues	100.0 %	100.0 %
Cost of revenues	32.8	32.8
Selling and marketing	35.5	34.3
Research and development	14.8	12.9
General and administrative	13.1	14.6
Amortization of intangible assets	3.1	3.7
Gain on asset disposition	(0.3)	—
Total expenses from operations	99.0	98.3
Income from operations	1.0	1.7
Interest and other (expense), net	(0.2)	(0.3)
Loss from foreign currency	(0.5)	(0.4)
Income before income tax (provision) benefit	0.3	1.0
Income tax (provision) benefit	(3.2)	(1.7)
Net income (loss) attributable to common stockholders	(2.9)%	(0.7)%

Three Months ended March 31, 2013 Compared to the Three Months ended March 31, 2012

Revenues

	Three Months Ended March 31,		Change	
	2013	2012	$	%
	(In thousands)			
Revenues	$68,848	$62,275	$6,573	10.6 %

Total revenues increased by approximately $6.6 million, or approximately 10.6%, during the three months ended March 31, 2013 as compared to the three months ended March 31, 2012. We attribute the revenue growth to increased sales to our existing customer base coupled with a slight increase in revenue from new customers. Revenue from existing customers increased $4.6 million from $56.2 million for the three months ended March 31, 2012 to $60.8 million for the three months ended March 31, 2013, while revenue from new customers increased $1.9 million from $6.1 million for the three months ended March 31, 2012 to $8.0 million for the three months ended March 31, 2013. We experienced continued revenue growth in subscription revenues, which increased by approximately $7.1 million during the three months ended March 31, 2013, from $52.3 million in the prior year period. This was partially offset by a decline in our project-based revenues, which decreased by approximately $0.6 million during the three months ended March 31, 2013, from $10.0 million in the prior year period.

Revenues from U.S customers were $48.5 million for the three months ended March 31, 2013, or approximately 70% of total revenues, while revenues from customers outside of the U.S. was $20.3 million for the three months ended March 31, 2013, or approximately 30% of total revenues. Our focus on organic growth efforts in international markets resulted in increased international revenues of $4.1 million, comprised primarily of increases of $1.9 million in Europe, $0.8 million in Asia, $0.5 million in Canada and $0.5 million in Latin America during the three months ended March 31, 2013 as compared to the prior year period.

Operating Expenses

The majority of our operating expenses consist of employee salaries and related benefits, stock compensation expense, professional fees, rent and other facility related costs, depreciation expense, and amortization and impairment of acquired intangible assets. Our single largest operating expense relates to our people. In order to effectively motivate our employees and

Table of Contents

to provide them with proper long-term incentives, we pay the vast majority of our annual bonus arrangements using our common stock. In addition, three of our most senior executives, including our Chief Executive Officer, have agreed to receive shares of our common stock instead of a cash salary.

Our total operating expenses increased by approximately $7.0 million, or approximately 11%, during the three months ended March 31, 2013 as compared to the three months ended March 31, 2012. This increase is primarily attributable to increased expenditures for employee salaries, benefits and related costs of $4.3 million associated with our increased headcount, increased rent and other facility or facility related costs and depreciation expense of $1.1 million, increased severance costs of $0.9 million associated with a reduction in force that occurred in the first quarter of 2013, increased panel recruitment costs of $0.5 million associated with new panels in the UK and Spain, and increased commissions of $0.5 million associated with our increased level of bookings, partially offset by the gain of $0.2 million associated with the sale of certain assets related to our ARS Non-Health Copy-Testing and Equity Tracking business.

Cost of Revenues

	Three Months Ended March 31,		Change	
	2013	2012	$	%
	(In thousands)			
Cost of revenues	$22,554	$20,401	$2,153	10.6 %
As a percentage of revenues	32.8 %	32.8 %		

Cost of revenues consists primarily of expenses related to operating our network infrastructure, producing our products, and the recruitment, maintenance and support of our consumer panels. Expenses associated with these areas include the salaries, stock-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 that supports our panel and systems, and allocated overhead, which is comprised of rent and other facilities related costs, and depreciation expense generated by general purpose equipment and software.

Cost of revenues increased by approximately $2.2 million during the three months ended March 31, 2013 compared to the three months ended March 31, 2012. This increase is primarily attributable to increased expenditures for employee salaries, benefits and related costs of $0.6 million associated with our increased headcount, increased panel recruitment costs of $0.5 million associated with new panels in the UK and Spain, increased rent and other facility or facility related costs and depreciation expense of $0.4 million, increased severance costs of $0.3 million associated with a reduction in force that occurred in the first quarter of 2013 and an increase of $0.3 million related to the usage of third-party providers for support related to our data collection efforts.

Cost of revenues remained constant as a percentage of revenues during the three months ended March 31, 2013 as compared to the same period in 2012.

Selling and Marketing Expenses

	Three Months Ended March 31,		Change	
	2013	2012	$	%
	(In thousands)			
Selling and marketing	$24,458	$21,345	$3,113	14.6 %
As a percentage of revenues	35.5 %	34.3 %		

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, industry conferences, promotional materials, public relations, other sales and marketing programs, and allocated overhead, which is comprised of rent and other facilities related costs, and depreciation expense generated by general purpose equipment and software. All selling and marketing costs are expensed as they are incurred. Commission plans are developed for our account managers with criteria and size of sales quotas that vary depending upon the individual's role. Commissions are expensed as selling and marketing costs when a sales contract is executed by both the customer and us. Selling and marketing

Table of Contents

expenses have increased because we have been recruiting for additional salespeople in order to support international growth, especially in our DAx and vCE product offerings.

Selling and marketing expenses increased by $3.1 million during the three months ended March 31, 2013 compared to the three months ended March 31, 2012. This increase is primarily attributable to increased employee salaries, benefits and related costs of $1.8 million, increased stock-based compensation of $0.6 million associated with our increased headcount as well as a decision to pay certain sales related bonuses with our common stock, and increased commissions of $0.5 million associated with the timing of our increased level of bookings.

Selling and marketing expenses increased slightly as a percentage of revenues during the three months ended March 31, 2013 as compared to the same period in 2012, due to increased infrastructure costs in anticipation of future sales growth in 2013.

Research and Development Expenses

	Three Months Ended March 31,		Change	
	2013	2012	$	%
	(In thousands)			
Research and development	$10,223	$8,036	$2,187	27.2 %
As a percentage of revenues	14.8 %	12.9 %		

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

Research and development expenses increased $2.2 million during the three months ended March 31, 2013 compared to the three months ended March 31, 2012. This increase is primarily attributable to increased employee salaries, benefits and related costs of $1.4 million associated with a reallocation of resources to focus on the development of new products.

Research and development expenses increased as a percentage of revenues for the three months ended March 31, 2013 as compared to the same periods in 2012, due to the increase in the allocation of resources to research and development activities.

General and Administrative Expenses

	Three Months Ended March 31,		Change	
	2013	2012	$	%
	(In thousands)			
General and administrative	$9,012	$9,106	$(94)	(1.0)%
As a percentage of revenues	13.1 %	14.6 %		

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

General and administrative expenses decreased by $0.1 million during the three months ended March 31, 2013 as compared to the three months ended March 31, 2012. This decrease is primarily attributable to a reduction in stock-based compensation of $1.1 million associated with a reduction in awards made to senior management. This decrease was partially offset by an increase of $0.5 million primarily attributable to increased expenditures for employee salaries, benefits and related costs associated with our increased headcount, and increased professional fees of $0.4 million associated with various corporate initiatives.

General and administrative expenses decreased as a percentage of revenues during the three months ended March 31, 2013 as compared to the same periods in 2012, due to the overall reduction in costs coupled with the increase in revenues.

Table of Contents

Amortization Expense

	Three Months Ended March 31,		Change	
	2013	2012	$	%
	(In thousands)			
Amortization expense	$2,151	$2,320	$(169)	(7.3)%
As a percentage of revenues	3.1%	3.7%		

Amortization expense consists of charges related to the amortization of intangible assets associated with acquisitions. Amortization expense decreased $0.2 million during the three months ended March 31, 2013, respectively, as compared to the three months ended March 31, 2012 due principally to the sale of certain intangible assets associated with the ARS Non-Health Copy-Testing and Equity Tracking business.

Gain on Asset Disposition

During the three months ended March 31, 2013, we completed the sale of certain assets related to our ARS Non-Health Copy-Testing and Equity Tracking business. In connection with the disposition, we will receive total proceeds of $1.0 million in cash, with $0.25 million received at closing on March 18, 2013 and $0.75 million placed in escrow, which will be received in three equal quarterly payments beginning June 30, 2013 and ending on December 31, 2013. In addition, we entered into a license agreement in which we will retain the right to use the necessary intellectual property to continue to provide the ARS Copy-Testing and Equity Tracking services to our Health related customers and recorded an intangible asset of $1.2 million based on the estimated fair value of the licensed intellectual property. In determining the fair value of the intangible asset, the Company prepared a discounted cash flow (“DCF”) analysis. In preparing the DCF analysis, the Company used a combination of income approaches including the relief from royalty approach and the excess earnings approach. Determining fair value requires the exercise of significant judgment, including judgments about appropriate discount rates, terminal growth rates, royalty rates and the amount and timing of expected future cash flows. The cash flows employed in the DCF analysis were based on the Company’s most recent budgets, forecasts and business plans as well as growth rate assumptions for years beyond the current business plan period. Significant assumptions used include a discount rate of 18.5%, which is based on an assessment of the risk inherent in the future revenue streams and cash flows associated with the health related customers of ARS, as well as a royalty rate of 3.0%, which is based on an analysis of royalty rates in similar, market transactions. This intangible asset will be amortized on a straight-line basis over its estimated useful life of 3 years beginning April 1, 2013. The assets disposed of included computer equipment, furniture and fixtures, intellectual property and the intangible assets associated with the ARSgroup. Due to the fact that we will continue to provide the ARS Copy-Testing and Equity Tracking services to its Health related customers and have therefore not eliminated the operations and cash flows of the ARSgroup, we have concluded that the disposition does not qualify for presentation as discontinued operations. In connection with this transaction we recorded a gain on the disposition of $0.2 million.

Interest and Other Income, Net

Interest and other income/expense, net, consists of interest income, interest expense and gains or losses on disposals of fixed assets.

Interest income consists of interest earned from our cash and cash equivalent balances. Interest expense is incurred due to capital leases pursuant to several equipment loan and security agreements to finance the lease of various hardware and other equipment purchases and our revolving credit facility. Our capital lease obligations are secured by a senior security interest in eligible equipment.

Interest and other income (expense), net for the three months ended March 31, 2013 and 2012 resulted in net expense of $0.2 million.

Loss From Foreign Currency

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

We recorded transaction losses of $0.3 million during the three months ended March 31, 2013 and the three months ended March 31, 2012, due to our continued international presence in Europe and Latin America. Our foreign currency

29

Table of Contents

transactions are recorded primarily as a result of fluctuations in the exchange rate between the U.S. dollar and the British Pound, Euro, and the functional currencies of our Latin America entities.

Provision for Income Taxes

During the three months ended March 31, 2013 and 2012, we recorded income tax provisions of $2.2 million and $1.1 million, respectively. The tax provision for the three months ended March 31, 2013 was attributable to current and deferred tax expense of $0.4 million and $1.8 million, respectively. The tax provision for the three months ended March 31, 2012 was attributable to current and deferred tax expense of $0.2 million and $0.9 million, respectively. These amounts include $1.0 million and $0.2 million of current and deferred tax expense for discrete items such as stock compensation, statutory rate changes and changes in uncertain tax positions recorded during the three months ended March 31, 2013 and 2012, respectively. Also, included in the tax provision for three months ended March 31, 2013 is $0.1 million of tax expense related to the gain on the sale of certain assets related to our ARS Non-Health Copy-Testing and Equity Tracking business.

Recent Accounting Pronouncements

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

Liquidity and Capital Resources

The following table summarizes our cash flows:

	Three Months Ended March 31,	
	2013	2012
	(In thousands)	
Consolidated Cash Flow Data		
Net cash provided by operating activities	$18,420	$11,334
Net cash used in investing activities	(1,395)	(607)
Net cash used in financing activities	(4,890)	(6,962)
Effect of exchange rate changes on cash	(161)	575
Net increase in cash and cash equivalents	$11,974	$4,340

Our principal uses of cash historically have consisted of cash paid for business acquisitions, payroll and other operating expenses and payments related to the investments in equipment primarily to support our consumer panel and technical infrastructure required to support our customer base. As of March 31, 2013, our principal sources of liquidity consisted of $73.7 million in cash, the majority of which represents cash generated from operating activities. During the three months ended March 31, 2013, we also borrowed approximately $4.0 million under our revolving credit facility. As of March 31, 2013, $10.0 million of the $73.7 million in cash on hand is held by foreign subsidiaries that would be subject to tax withholding payments if it is repatriated to the U.S. It is management's current intention that all foreign earnings will be indefinitely reinvested in these foreign countries and will not be repatriated to the U.S. However, if management were to repatriate these funds to the U.S., they would be subject to income tax payments ranging from 5% to 15% of the amount repatriated.

On June 30, 2011, we entered into a secured credit and security agreement (the “Credit Agreement”) with Bank of America, N.A. (“Bank of America”) for a two-year, $50.0 million secured revolving credit facility (the “Revolving Credit Facility”). The agreement includes a maximum $7.0 million sublimit for a euro loan facility and a $10.0 million sublimit for the issuance of letters of credit. The maturity date of the Revolving Credit Facility has been extended to September 30, 2013. Borrowings under the Revolving Credit Facility shall be used towards working capital and other general corporate purposes as well as for the issuance of letters of credit. Loans made under the Revolving Credit Facility will bear interest at a fluctuating rate based on the London Interbank Offered Rate (“LIBOR”) plus an applicable margin, which will range from 1.75% to 2.75%, based on our funded debt ratio. We and each of our material, wholly-owned subsidiaries entered into a Security Agreement in favor of Bank of America (the “Security Agreement”). Pursuant to the Security Agreement, the obligations under the Revolving Credit Facility are secured by a security interest in substantially all of our assets.

Under the terms of the Revolving Credit Facility, we are restricted from paying dividends and incurring certain indebtedness, among other restrictive covenants. We continue to be in full compliance with all covenants contained in the Revolving Credit Facility.

Table of Contents

As of March 31, 2013 €3.0 million (or approximately $3.8 million) is outstanding under the terms of our Revolving Credit Facility. We borrowed these funds to pay down certain short-term intercompany loans in order to minimize the potential impact of foreign exchange rate fluctuations. We anticipate paying this borrowing off later in 2013 from cash provided by operating cash flows.

We maintain letters of credit in lieu of security deposits with respect to certain office leases as well as to satisfy performance guarantees under certain contracts. As of March 31, 2013, $3.6 million in letters of credit were outstanding, leaving $6.4 million available for additional letters of credit under the Credit Facility. These letters of credit may be reduced periodically provided that we meet the conditional criteria of each related lease agreement.

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 $18.4 million of net cash from operating activities during the three months ended March 31, 2013. Our cash flows from operations were driven by our net loss of $2.0 million, offset by $13.5 million in non-cash items such as depreciation, amortization, provision for bad debts, stock-based compensation, and a non-cash deferred tax benefit. In addition, our operating cash flows were positively impacted by a $1.9 million decrease in accounts receivable associated with enhanced collection activities, a $5.5 million increase in deferred revenues associated with cash received prior to the recording of revenue, and a $1.0 million increase in deferred rent. Cash flows from operations were negatively impacted by a $1.4 million decrease in accounts payable, accrued expense and other liabilities associated with the timing of payments associated with annual bonuses paid in the first quarter of the year and professional fees accrued as of December 31, 2012.

We generated approximately $11.3 million of net cash from operating activities during the three months ended March 31, 2012. Our cash flows from operations were driven by our net loss of $0.5 million, offset by $12.0 million in non-cash items such as depreciation, amortization, provision for bad debts, stock-based compensation, and a non-cash deferred tax benefit. In addition, our operating cash flows were positively impacted by a $6.8 million net increase in amounts collected from customers in advance of when we recognize revenue due to significant increases in sales to existing customers. Cash flows from operations were negatively impacted by a $1.4 million increase in accounts receivable associated with our increased revenues, a $5.1 decrease in accounts payable, accrued expense and other liabilities associated with the timing of payments associated with annual bonuses paid in the first quarter of the year and professional fees accrued as of December 31, 2011, and a $0.5 million increase in prepaid expenses and other current assets.

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 $1.4 million of net cash in investing activities during the three months ended March 31, 2013. Our cash used for investing activities was driven by the use of $1.6 million of net cash associated with the purchase of property and equipment to maintain and expand our technology infrastructure, offset slightly by $0.2 million in proceeds from the disposition of the ARS Business.

We used $0.6 million of net cash in investing activities during the three months ended March 31, 2012, associated with the purchase of property and equipment to maintain and expand our technology infrastructure.

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

Table of Contents

Financing Activities

We used $4.9 million of cash during the three months ended March 31, 2013 for financing activities. This included $6.7 million for shares repurchased by us pursuant to the exercise by stock incentive plan participants of their right to elect to use common stock to satisfy their tax withholding obligations. In addition we used $2.2 million to make payments on our capital lease obligations. During the three months ended March 31, 2013, we received $4.0 million in financing activities related to borrowings under our revolving credit facility. We borrowed these funds to pay down certain short-term intercompany loans in order to minimize the potential impact of foreign exchange rate fluctuations. We anticipate paying this borrowing off later in 2013 from cash provided by operating cash flows.

We used $7.0 million of cash during the three months ended March 31, 2012 for financing activities. This included $5.4 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 $1.6 million to make payments on our capital lease obligations offset by $0.1 million in proceeds from the exercise of our common stock options.

We do not have any special purpose entities and we do not engage in off-balance sheet financing arrangements.

Contractual Obligations and Known Future Cash Requirements

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