

COMSCORE, INC.  
Form 10-Q  
October 29, 2014  
Table of Contents

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

---

FORM 10-Q

---

(Mark One)

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

For the quarterly period ended September 30, 2014

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 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)  
(703) 438-2000

20190  
(Zip Code)

(Registrant's telephone number, including area code)

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

---

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

Indicate by check mark whether the registrant 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  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

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: As of October 28, 2014, there were 34,200,324 shares of the registrant’s common stock outstanding.

---

Table of Contents

COMSCORE, INC.  
QUARTERLY REPORT ON FORM 10-Q  
FOR THE QUARTER ENDED SEPTEMBER 30, 2014  
TABLE OF CONTENTS

<u>PART I. FINANCIAL INFORMATION</u>	<u>4</u>
<u>Item 1. Financial Statements</u>	<u>4</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>25</u>
<u>Item 3. Quantitative and Qualitative Disclosure about Market Risk</u>	<u>37</u>
<u>Item 4. Controls and Procedures</u>	<u>37</u>
<u>PART II. OTHER INFORMATION</u>	<u>38</u>
<u>Item 1. Legal Proceedings</u>	<u>38</u>
<u>Item 1A. Risk Factors</u>	<u>38</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>57</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>59</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>59</u>
<u>Item 5. Other Information</u>	<u>59</u>
<u>Item 6. Exhibits</u>	<u>61</u>
<u>SIGNATURES</u>	<u>62</u>
<u>EXHIBIT INDEX</u>	<u>63</u>
EX-31.1	
EX-31.2	
EX-32.1	
EX-32.2	



Table of Contents

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## COMSCORE, INC.

## CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	September 30, 2014 (Unaudited)	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$39,610	\$67,795
Accounts receivable, net of allowances of \$2,259 and \$1,667, respectively	80,804	90,040
Prepaid expenses and other current assets	24,688	10,162
Deferred tax assets	13,916	10,802
Total current assets	159,018	178,799
Property and equipment, net	41,751	37,995
Other non-current assets	1,051	1,123
Long-term deferred tax assets	11,923	9,244
Intangible assets, net	20,302	32,938
Goodwill	104,596	103,314
Total assets	\$338,641	\$363,413
Liabilities and Equity		
Current liabilities:		
Accounts payable	\$5,993	\$3,378
Accrued expenses	46,794	33,472
Deferred revenues	79,539	86,607
Deferred rent	1,877	1,155
Deferred tax liabilities	10	10
Capital lease obligations	12,592	10,351
Total current liabilities	146,805	134,973
Deferred rent, long-term	10,066	11,747
Deferred revenue, long-term	2,565	2,859
Deferred tax liabilities, long-term	549	595
Capital lease obligations, long-term	13,039	13,330
Other long-term liabilities	990	1,107
Total liabilities	174,014	164,611
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.001 par value per share; 5,000,000 shares authorized at September 30, 2014 and December 31, 2013; no shares issued or outstanding at September 30, 2014 and December 31, 2013	—	—
Common stock, \$0.001 par value per share; 100,000,000 shares authorized at September 30, 2014 and December 31, 2013; 35,897,027 shares issued and 34,159,918 outstanding as of September 30, 2014 and 35,699,508 shares issued and 35,216,071 shares outstanding at December 31, 2013, respectively	36	36
Additional paid-in capital	307,655	293,322
Accumulated other comprehensive (loss) income	(2,653	) 1,726
Accumulated deficit	(90,416	) (83,173
	(49,995	) (13,109

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

Treasury stock, at cost, 1,737,109 and 483,437 shares as of September 30, 2014 and December 31, 2013, respectively

Total stockholders' equity	164,627	198,802
Total liabilities and stockholders' equity	\$338,641	\$363,413

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

4

---

Table of Contents

COMSCORE, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(Unaudited)

(In thousands, except share and per share data)

	Three Months Ended		Nine Months Ended September		
	September 30,		30,		
	2014	2013	2014	2013	
Revenues	\$82,136	\$71,606	\$239,048	\$210,365	
Cost of revenues (excludes amortization of intangible assets) (1)	24,491	21,603	71,164	65,767	
Selling and marketing (1)	26,125	24,255	78,791	74,204	
Research and development (1)	13,784	10,441	39,192	30,467	
General and administrative (1)	14,966	12,492	42,952	32,742	
Amortization of intangible assets	1,912	1,956	5,786	6,043	
Impairment of intangible assets	6,942	—	6,942	—	
Gain on asset disposition	—	(4	) —	(214	)
Settlement of litigation, net	(80	) —	2,780	(1,160	)
Total expenses from operations	88,140	70,743	247,607	207,849	
Income (loss) from operations	(6,004	) 863	(8,559	) 2,516	
Interest and other expense, net	(382	) (238	) (889	) (570	)
Gain (loss) from foreign currency	570	82	253	(165	)
Income (loss) before income tax provision	(5,816	) 707	(9,195	) 1,781	
Income tax benefit (provision)	2,555	(789	) 1,952	(4,284	)
Net loss	\$(3,261	) \$(82	) \$(7,243	) \$(2,503	)
Net loss available to common stockholders per common share:					
Basic	\$(0.10	) \$0.00	\$(0.22	) \$(0.07	)
Diluted	\$(0.10	) \$0.00	\$(0.22	) \$(0.07	)
Weighted-average number of shares used in per share calculation - common stock:					
Basic	33,502,533	34,502,456	33,550,933	34,417,609	
Diluted	33,502,533	34,502,456	33,550,933	34,417,609	
Comprehensive loss:					
Net loss	\$(3,261	) \$(82	) \$(7,243	) \$(2,503	)
Other comprehensive (loss) income:					
Foreign currency translation adjustment	(4,309	) 1,094	(4,379	) (32	)
Total comprehensive loss	\$(7,570	) \$1,012	\$(11,622	) \$(2,535	)

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

Cost of revenues	\$944	\$887	\$2,671	\$2,435
Selling and marketing	\$3,128	\$2,487	\$9,191	\$8,519
Research and development	\$999	\$947	\$2,580	\$2,163
General and administrative	\$5,088	\$2,922	\$12,000	\$6,271

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	Treasury stock, at cost	Total Stockholders' Equity
	Shares	Amount					
Balance at December 31, 2012	35,679,430	\$36	\$274,622	\$1,825	\$(80,840 )	\$—	\$195,643
Net loss	—	—	—	—	(2,503 )	—	(2,503 )
Foreign currency translation adjustment	—	—	—	(32 )	—	—	(32 )
Exercise of common stock options	44,518	—	189	—	—	—	189
Issuance of restricted stock	447,821	—	—	—	—	—	—
Restricted stock canceled	(189,970 )	—	—	—	—	—	—
Restricted stock units vested	195,381	—	—	—	—	—	—
Common stock received for tax withholding	(485,675 )	—	(8,643 )	—	—	—	(8,643 )
Repurchases of common stock	(23,437 )	—	—	—	—	(496 )	(496 )
Stock-based compensation	—	—	21,320	—	—	—	21,320
Balance at September 30, 2013	35,668,068	\$36	\$287,488	\$1,793	\$(83,343 )	\$(496 )	\$205,478
Balance at December 31, 2013	35,216,071	\$36	\$293,322	\$1,726	\$(83,173 )	\$(13,109 )	\$198,802
Net loss	—	—	—	—	(7,243 )	—	(7,243 )
Foreign currency translation adjustment	—	—	—	(4,379 )	—	—	(4,379 )
Exercise of common stock options	21,742	—	81	—	—	—	81
Issuance of restricted stock	228,084	—	—	—	—	—	—
Restricted stock canceled	(29,846 )	—	—	—	—	—	—
Restricted stock units vested	421,238	—	—	—	—	—	—
Common stock received for tax withholding	(443,699 )	—	(14,458 )	—	—	—	(14,458 )
Repurchase of common stock	(1,253,672 )	—	—	—	—	(36,886 )	(36,886 )

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

Excess tax benefits from stock based compensation, net	—	—	2,229	—	—	—	2,229
Stock-based compensation	—	—	26,481	—	—	—	26,481
Balance at September 30, 2014	34,159,918	\$36	\$307,655	\$(2,653	)	\$(90,416	) \$(49,995 ) \$164,627

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)

	Nine Months Ended September 30,	
	2014	2013
Operating activities		
Net loss	\$(7,243	) \$(2,503
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	13,185	12,120
Amortization of intangible assets	5,786	6,043
Impairment of intangible assets	6,942	—
Provision for bad debts	2,223	596
Stock-based compensation	26,442	19,388
Amortization of deferred rent	(974	) (122
Deferred tax (benefit) provision	(6,113	) 2,894
Loss (gain) on asset disposal	153	(228
Changes in operating assets and liabilities:		
Accounts receivable	6,084	1,585
Prepaid expenses and other current assets	(14,736	) 622
Accounts payable, accrued expenses, and other liabilities	16,487	3,783
Deferred revenues	(6,252	) (7,003
Deferred rent	36	1,637
Net cash provided by operating activities	42,020	38,812
Investing activities		
Acquisitions, net of cash acquired	(4,043	) —
Proceeds from asset disposition	—	160
Purchase of property and equipment	(6,562	) (3,560
Net cash used in investing activities	(10,605	) (3,400
Financing activities		
Proceeds from the exercise of common stock options	81	189
Repurchase of common stock (withholding taxes)	(14,458	) (8,643
Repurchase of common stock (treasury shares)	(36,886	) (496
Excess tax benefits from stock based compensation	2,229	—
Principal payments on capital lease obligations	(8,706	) (7,327
Proceeds from financing arrangements	—	3,952
Principal payments on financing arrangements	—	(3,952
Debt issuance costs	—	(479
Net cash used in financing activities	(57,740	) (16,756
Effect of exchange rate changes on cash	(1,860	) (626
Net (decrease) increase in cash and cash equivalents	(28,185	) 18,030
Cash and cash equivalents at beginning of period	67,795	61,764
Cash and cash equivalents at end of period	\$39,610	\$79,794
Supplemental cash flow disclosures		
Interest paid	\$943	\$492

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

Net income taxes paid	\$955	\$1,112
Supplemental noncash investing and financing activities		
Capital lease obligations incurred	\$10,895	\$11,616
Accrued capital expenditures	\$1,573	\$6,273
Leasehold improvements acquired through lease incentives	\$—	\$1,637
The accompanying notes are an integral part of these consolidated financial statements.		

7

---

Table of Contents

COMSCORE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization

comScore, Inc. (the “Company”), a Delaware corporation incorporated in August 1999, provides digital media analytics that enables its customers to make well-informed, data-driven decisions to effectively manage their business, build successful digital strategies and tactics, and optimize their marketing and advertising investments. The Company is a technology-driven company that measures what people do as they navigate the digital world across multiple technology platforms including personal computers, smartphones, tablets, televisions and interact with digital media, including Web sites, apps, video programming and advertising. The Company aspires to measure all digital interactions across all major digital platforms, at scale, on a global basis.

The Company's products and services provide its customers with deep and actionable insight into consumer behavior including objective, detailed information about consumer usage of digital content and advertising coupled with information on consumer demographic characteristics, attitudes, lifestyles and offline behavior. The Company is skilled in combining proprietary Company data with its clients' own data, as well as data from partners, to provide uniquely valuable digital media analytics. The Company delivers on-demand and real-time products and services through a scalable Software-as-Service delivery model which supports both Company branded products and also partner products integrating the Company's data and services.

2. Summary of Significant Accounting Policies

Basis of Presentation and Consolidation

The accompanying interim 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.

The Company operates as a single reportable segment.

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 (the “Exchange Act”), 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, 2013, filed February 18, 2014 with the SEC. The results of operations for the three and nine months ended September 30, 2014 are not necessarily indicative of the results to be anticipated for the entire year ending December 31, 2014 or thereafter. All references to September 30, 2014 and 2013 or to the three and nine months ended September 30, 2014 and 2013 in the notes to the consolidated interim financial statements are unaudited.

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 deferral or recognition of certain revenue

types, the identification and quantification of income tax liabilities due to uncertain tax positions, valuation of certain assets and liabilities recorded at fair value for recoverability of intangible assets, other long-lived assets and goodwill, estimates related to outstanding litigation, and the determination of the collectability of accounts receivable and 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.

Table of Contents

## 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 an infrequently occurring 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 first quarter of 2013, certain intangible assets acquired were measured at fair value using significant unobservable inputs (Level 3) as described in Note 4.

During the nine months ended September 30, 2013, the Company recorded these assets as follows:

Description	September 30, 2013	Fair Value Measurements Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Long-lived assets held and used	(In thousands) \$1,182	—	—	\$1,182	\$—

During the three and nine months ended September 30, 2014, certain intangible assets were measured at fair value using significant unobservable inputs (Level 3) as described in Note 4. The Company recorded an impairment charge of \$6.9 million pertaining to these assets as follows:

Description	September 30, 2014	Fair Value Measurements Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Long-lived assets held and used	(In thousands) \$2,780	—	—	\$2,780	\$(6,942)

During the three and nine months ended September 30, 2013, there were no impairments and, as such, no fair value adjustments were recorded for assets and liabilities measured on a non-recurring basis.

## Table of Contents

### 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 are maintained with several financial institutions. The combined account balances held on deposit at each institution typically exceed FDIC insurance coverage and, as a result, there is a concentration of credit risk related to amounts on deposit in excess of FDIC insurance coverage. The Company believes the risk is not significant.

Interest income on investments and excess cash balances was a nominal amount for the three and nine months ended September 30, 2014 and 2013.

### Accounts Receivable

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

### 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 (e.g., 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 2013 and determined that there was no impairment of goodwill.

Table of Contents

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 7
Customer relationships	3 to 7
Patent	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 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. During the three and nine months ended September 30, 2014, the Company recorded an impairment charge of \$6.9 million related to certain intangible assets as described in Note 4. During the three and nine months ended September 30, 2013, there were no impairment charges recognized.

#### 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 gains of \$0.6 million and \$0.3 million for the three and nine months ended September 30, 2014, respectively, and a foreign currency transaction gain of \$0.1 million and a transaction loss of \$0.2 million for the three and nine months ended September 30, 2013. 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, the

Canadian Dollar 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.

Table of Contents

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. Sales taxes remitted to government authorities are recorded on a net basis.

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. The Company accounts for these arrangements in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2009-13, Multiple Deliverable Revenue Arrangements, which requires the Company to allocate arrangement consideration at the inception of an arrangement to all deliverables, if they represent a separate unit of accounting, based on their relative selling prices. The guidance establishes 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 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. ESP is analyzed on an annual basis and may be reviewed more frequently if management deems it likely that changes in the estimated selling prices have occurred.

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. Multiple contracts with a single counterparty that are negotiated simultaneously and are considered contemporaneous are accounted for as one arrangement. If there are multiple contracts with one counterparty that are deemed independent of one another, they are accounted for as separate arrangements.

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 FASB Accounting Standards Codification (ASC) 985-605, Software Recognition, and ASC 605-35, Revenue Recognition-Construction-Type and Certain Production-Type Contracts, using either the percentage-of-completion or completed-contract method. Under the percentage-of-completion method, the Company uses the input method to measure progress, which is based

Table of Contents

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, including customer acceptance, 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 of cost to complete 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 considers a contract to be completed when all performance obligations have been delivered and the customer provides formal acceptance in the form of a "User Acceptance Testing" certificate and the Company applies this policy on a consistent basis. For certain customers with contracts for these types of revenues that have multiple deliverables, the Company has VSOE of fair value for post contract support services. For the remainder of the customers with contracts, the Company does not have VSOE for the multiple deliverables and account for all elements in these arrangements as a single unit of accounting, recognizing the entire arrangement fee as revenue over the service period of the last delivered element.

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 to estimate fair value for the exchange. In 2013, the Company entered into an agreement to exchange certain data assets with a corporation. A member of the Company's Board of Directors also serves as a member of the board of directors of that corporation and therefore, the Company has considered the corporation may be a related party. Such member of the Company's Board of Directors does not hold a control position with the counterparty. The transaction was considered to have commercial substance under the guidance in ASC 845 and the Company estimated the fair value of the services delivered based on similar monetary transactions with third parties. No cash was exchanged in this transaction. The Company also considered the guidance in ASC 850, Related Party Disclosures. During the three and nine months ended September 30, 2014, the Company recognized \$4.6 million and \$8.6 million in revenue related to nonmonetary transactions, respectively, of which \$1.5 million and \$4.7 million are attributable to the related party transaction. 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 and nine months ended September 30, 2014, the Company recognized \$2.9 million and \$7.0 million in expense related to nonmonetary transactions, respectively, of which \$2.4 million and \$5.6 million are attributable to the related party transaction. There was no impact of nonmonetary transactions on revenue or expense during the three and nine months ended September 30, 2013.

**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 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 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.

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

Table of Contents

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 weighted-average shares outstanding-common stock has been adjusted downward for share repurchases made during the three and nine months ended September 30, 2014. See Footnote 10 for more information pertaining to the Company's share repurchases. 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 September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands, except share and per share data)		(In thousands, except share and per share data)	
Net loss	\$ (3,261	) \$ (82	) \$ (7,243	) \$ (2,503
Net loss per share - common stock:				
Basic	\$ (0.10	) \$ 0.00	\$ (0.22	) \$ (0.07
Diluted	\$ (0.10	) \$ 0.00	\$ (0.22	) \$ (0.07
Weighted-average shares outstanding-common stock, basic and dilutive	33,502,533	34,502,456	33,550,933	34,417,609

The Company uses the two-class method for earnings allocations between the Company's restricted stock awards, as they are a participating security, and the Company's common stock. 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 September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Stock options and restricted stock	689,327	694,829	749,311	694,781

**Recent Pronouncements**

In July 2013, FASB issued Accounting Standards Update ("ASU") 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Exists, which requires unrecognized tax benefits to be offset against a deferred tax asset for a net operating loss carryforward, similar tax loss or tax credit carryforward in certain situations. The Company had historically followed this presentation and thus the adoption of this standard had no impact on the Company's financial statements.

In April 2014, FASB issued Accounting Standards Update ("ASU") 2014-09, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. The amendments in this Update improve the definition of discontinued operations by limiting discontinued operations reporting to disposals of components of an entity that represent



strategic shifts that have (or will have) a major effect on an entity's operations and financial results. Under current U.S. GAAP, many disposals, some of which may be routine in nature and not a change in an entity's strategy, are reported in discontinued operations. The amendments in this update also require expanded disclosures for discontinued operations. In addition, for individually significant components of an

Table of Contents

entity that does not qualify for discontinued operations reporting, the Update requires the entity to disclose the pretax profit or loss of the component. Publicly-traded entities are required to prospectively apply this guidance for all disposals (or classifications as held for sale) of components that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issuance. The Company is currently evaluating the new standard and the impact the standard is expected to have on the Company's financial statements and related disclosures.

In May 2014, FASB issued Accounting Standards Update ("ASU") 2014-09, Revenue (Topic 606): Revenue from Contracts with Customers, which will replace existing revenue recognition standards and significantly expand the disclosure requirements for revenue arrangements. The new standard will be effective for the Company beginning on January 1, 2017 (i.e. beginning with the first quarter 2017 interim financial statements). The new standard may be adopted retrospectively for all periods presented, or adopted using a modified retrospective approach. Under the retrospective approach, the calendar year 2016 and 2015 financial statements would be adjusted to reflect the effects of applying the new standard to those periods. Under the modified retrospective approach, the new standard would only be applied for the period beginning January 1, 2017 to new contracts and those contracts that are not yet complete at January 1, 2017, with a cumulative catch-up adjustment recorded to beginning retained earnings for existing contracts that still require performance. The Company is currently evaluating the methods of adoption allowed by the new standard and the impact the standard is expected to have on the Company's financial statements and related disclosures.

### 3. Business Combinations

#### Acquisition of MdotLabs

On August 4, 2014 the Company entered into and closed on a definitive Stock Purchase Agreement (the "Stock Purchase Agreement") with M.Labs, Inc., a Delaware corporation ("MdotLabs"). On August 4, 2014 comScore completed its purchase of all of the outstanding capital stock of MdotLabs, and MdotLabs became a wholly-owned subsidiary of comScore. MdotLabs is a SaaS security platform designed to combat invalid activity in web and mobile advertising, such as non-human traffic. The aggregate amount of the consideration paid by the Company upon the closing of the transaction was \$4.5 million, which was comprised entirely of cash.

The acquisition of MdotLabs resulted in goodwill of approximately \$3.3 million, none of which is deductible for tax purposes. This amount represents the residual amount of the total purchase price after determining the fair value for net assets and identifiable intangible assets acquired. The amount recorded as goodwill is consistent with the Company's intentions for the acquisition of MdotLabs. The Company acquired MdotLabs to enhance its capabilities in the marketplace for identification and eradication of non-human traffic.

Definite-lived intangible assets, consisting of MdotLabs developed technology, was assigned a value of \$0.7 million and a useful life of five years. No value was assigned to customer relationships or trade name.

The Company is in the process of evaluating the opening balance sheet for deferred tax related items and may continue to adjust the preliminary purchase accounting after obtaining more information about deferred tax assets acquired and deferred tax liabilities assumed. The Company has included the financial results of MdotLabs in its consolidated financial statements beginning August 4, 2014.

The preliminary purchase price is allocated as follows (in thousands):

Cash and cash equivalents	\$457	
Accounts Receivables, net	233	
Prepaid expenses and other current assets	1	
Property and equipment, net	10	
Deferred tax asset	—	
Accounts payable	(98	)
Accrued expenses	(92	)
Deferred tax liability	—	
Net tangible assets acquired	511	
Definite-lived intangible assets acquired	722	

Goodwill	3,267
Total purchase price	\$4,500

15

---

Table of Contents

## Disposition of ARS

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”). As a result of the disposition, during the nine months ended September 30, 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 nine months ended September 30, 2014 is as follows (in thousands):

Balance as of December 31, 2013	\$ 103,314	
Acquisition of MdotLabs	3,267	
Translation adjustments	(1,985	)
Balance as of September 30, 2014	\$ 104,596	

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. Total translation adjustment to the gross carrying amount and accumulated amortization was a net loss of approximately \$2.0 million for the nine months ended September 30, 2014. The carrying values of the Company’s amortizable acquired intangible assets are as follows (in thousands):

	September 30, 2014			December 31, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Acquired methodologies/technology	\$ 6,865	\$(5,000)	\$ 1,865	\$ 7,770	\$(5,471)	\$ 2,299
Customer relationships	22,469	(12,701)	9,768	35,774	(15,346)	20,428
Panel	1,642	(1,485)	157	1,650	(1,316)	334
Intellectual property	13,572	(5,150)	8,422	13,576	(3,999)	9,577
Trade names	1,844	(1,754)	90	2,904	(2,604)	300
	\$ 46,392	\$(26,090)	\$ 20,302	\$ 61,674	\$(28,736)	\$ 32,938

Amortization expense related to intangible assets was approximately \$1.9 million and \$5.8 million for the three and nine months ended September 30, 2014, respectively, and \$2.0 million and \$6.0 million for the three and nine months ended September 30, 2013, respectively.

The weighted average remaining amortization period by major asset class as of September 30, 2014, is as follows:

	(In years)
Acquired methodologies/technology	2.9
Customer relationships	3.3
Panel	0.7

Intellectual property	6.9
Trade names	2.0

16

---

Table of Contents

The estimated future amortization of acquired intangible assets as of September 30, 2014 is as follows:

	(In thousands)
2014	1,602
2015	5,732
2016	4,702
2017	3,670
2018	1,647
Thereafter	2,949
	\$20,302

During the three months ended September 30, 2014, the Company noted a significant decline in revenues from its wireless division ("CSWS"), which the Company acquired on July 1, 2010. As a result, the Company performed an impairment test of the long-lived assets of CSWS. The long-lived assets of CSWS consist of customer relationships, acquired methodologies and technology. The first step in testing the long-lived assets of CSWS for impairment was to compare the sum of the undiscounted cash flows expected to result from the use and eventual disposition of CSWS to the carrying value of CSWS's long-lived assets. Based on this analysis, the Company determined as of September 30, 2014 that the sum of the expected undiscounted cash flows to be generated from CSWS is less than the carrying value of the CSWS intangible assets. As such, the Company concluded that the CSWS intangible assets were impaired as of September 30, 2014. To measure the amount of the impairment, the Company then estimated the fair value of the intangible assets as of September 30, 2014. In determining the fair value of the intangible assets, the Company prepared a discounted cash flow ("DCF") analysis for each intangible asset. 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 are 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 20.0%, which is based on an assessment of the risk inherent in the future revenue streams and cash flows of CSWS, as well as a royalty rate of 0.8%, which is based on an analysis of royalty rates in similar market transactions. Based on the DCF analysis, the Company estimated the fair value of the intangible asset of CSWS to be \$2.8 million as of September 30, 2014, which resulted in an impairment charge of \$6.9 million during the three months ended September 30, 2014. The impairment charge had a negative impact on income from continuing operations of \$6.9 million and an impact on earnings per share of \$0.21 per share during the three and nine months ended September 30, 2014. In addition, these intangible assets will be assigned new useful lives as follows, beginning October 1, 2014:

	(In years)
Trade name	2.0
Technology	5.0
Customer Relationships	5.0

Table of Contents

## 5. Accrued Expenses

Accrued expenses consist of the following:

	September 30, 2014	December 31, 2013
	(In thousands)	
Settlement of privacy litigation*	\$14,000	\$—
Payroll and related	11,186	9,213
Income, sales and other taxes	4,140	4,716
Stock-based compensation	6,000	6,061
Cost of revenues	4,702	5,641
Professional fees	1,728	3,066
Other	5,038	4,775
	\$46,794	\$33,472

\* The Company recorded an offsetting receivable of \$10.5 million to prepaid expenses and other current assets. The Company recorded a net contingent loss from the settlement related to the privacy class-action litigation. See footnote 7 for further details of the net loss.

## 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 \$12.5 million, of which the Company can utilize approximately \$10.5 million as of September 30, 2014 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 28, 2015. Some of the amounts the Company has utilized to date under this arrangement have not lowered the amount available for future capital leases, because those amounts have been assigned by Banc of America Leasing & Capital, LLC under separate third-party arrangements. 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)
2014	\$3,567
2015	12,903
2016	8,480
2017	2,030
2018	44
Total minimum lease payments	27,024
Less amount representing interest	(1,393 )
Present value of net minimum lease payments	25,631
Less current portion	(12,592 )
Capital lease obligations, long-term	\$13,039

During the nine months ended September 30, 2014 and 2013, the Company acquired \$10.7 million and \$10.2 million, respectively, in computer hardware and software through the issuance of capital leases. This non-cash investing activity has been excluded from the consolidated statement of cash flows, as it pertains to the purchase of property and equipment.

## Revolving Credit Facility

On September 26, 2013, the Company entered into a Credit Agreement (the Credit Agreement) with several banks (the Lenders) with Bank of America, N.A. ("Bank of America") as administrative agent and lead lender. The Credit

Agreement

18

---



Table of Contents

provides for a five-year revolving credit facility of \$100.0 million, which includes a \$10.0 million sublimit for issuance of standby letters of credit, a \$10.0 million sublimit for swing line loans and a \$10.0 million sublimit for alternative currency lending. The maturity date of the Credit Agreement is September 26, 2018. The Credit Agreement also contains an expansion option permitting the Company to request an increase of the credit facility up to an aggregate additional \$50.0 million, subject to certain conditions. 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. On June 23, 2014, the Company executed the First Amendment to the Credit Agreement. This amendment reset the equity repurchase limit to \$50.0 million and, provided certain financial thresholds are met, permits the Company to repurchase equity interests in the Company outside the \$50.0 million limit during the remainder of the five-year revolver term.

Base rate loans and swing line loans will bear interest at the Base Rate plus the Applicable Rate, as such terms are defined in the Credit Agreement and summarized below. The Base Rate is the highest rate of the following: (a) the Federal Funds rate plus 0.50%, (b) the publicly announced Bank of America prime rate, and (c) the Eurocurrency rate, as defined in the Credit Agreement plus 1.0%. The Applicable Rate for base rate loans and swing line loans is 0.50% to 1.50% depending on the Company's funded debt-to-EBITDA ratio at the end of each fiscal quarter. Amounts supporting letters of credit bear interest at the applicable rate for revolving loans. Each Eurocurrency rate loan will bear interest at the Eurocurrency Rate plus the Applicable Rate ranging from 1.50% to 2.50% depending on the Company's funded debt-to-EBITDA ratio at the end of each fiscal quarter. Beginning on September 26, 2013 through the maturity date of the five-year revolver term, the Company is obligated to pay a fee, payable quarterly in arrears, based on the average unused portion of the available amounts under the Credit Agreement at a rate of 0.20% to 0.35% per annum depending on the Company's funded debt-to-EBITDA ratio at the end of each fiscal quarter.

The Credit Agreement contains various usual and customary covenants, including, but not limited to: financial covenants requiring maximum funded debt-to-EBITDA ratio, cash flow-to-fixed charge ratios and a minimum liquidity during equity repurchase periods as well as covenants relating to the Company's ability to dispose of assets, make certain acquisitions, be acquired, incur indebtedness, grant liens and make certain investments. As of September 30, 2014 the Company was in full compliance with all covenants contained in the Credit Agreement and remains so as of the date of this report.

As of September 30, 2014, the Company did not have an outstanding balance under the terms of the Company's Credit Agreement.

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 September 30, 2014, \$3.8 million in letters of credit were outstanding, leaving \$6.2 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)
2014	\$2,633
2015	10,177
2016	9,437
2017	9,163
2018	8,490
Thereafter	28,682
Total minimum lease payments	\$68,582

Total rent expense, under non-cancellable operating leases, was \$2.2 million and \$6.8 million for the three and nine months ended September 30, 2014, respectively, and \$2.3 million and \$6.7 million for the three and nine months ended September 30, 2013, respectively.

Table of Contents

## Contingencies

On August 23, 2011, we received notice that Mike Harris and Jeff Dunstan, individually and on behalf of a class of similarly situated individuals, filed a lawsuit against comScore in the United States District Court for the Northern District of Illinois, Eastern Division, alleging, among other things, violations by comScore 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 sought 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 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. On May 30, 2014, we and the plaintiffs proposed a tentative settlement subject to approval by the District Court, and on October 1, 2014, the Court issued its final approval of those terms. comScore is required to establish a \$14 million settlement fund from which class member claims, attorneys' fees and incentive awards, costs, and administrative expenses will be paid. We and our insurers contributed to the fund. The settlement also requires us to alter certain portions of our privacy policy and implement certain additional protocols to ensure that our privacy practices remain consistent with its disclosures to consumers. During the nine months ended September 30, 2014, the Company recorded a loss of \$3.5 million related to the tentative settlement.

From time to time, the Company is exposed to asserted and 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 and nine months ended September 30, 2014, the Company recorded income tax benefits of \$2.6 million and \$2.0 million, respectively, resulting in effective tax rates of 43.9% and 21.2%, respectively. During the three and nine months ended September 30, 2013, the Company recorded income tax provisions of \$0.8 million and \$4.3 million, respectively, resulting in effective tax rates of 111.6% and 240.5% respectively. 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 and nine months ended September 30, 2014 and 2013 generated income tax deductions equal to the excess of the fair market value over the exercise price or grant date fair value, as applicable. A deferred tax asset cannot be recognized for the excess of tax over book stock compensation deductions until the tax deductions reduce current income taxes payable. Since the Company has not historically paid income taxes in the jurisdictions where these excess tax deductions arise, a deferred tax asset related to the additional net operating losses generated from the windfall tax deductions associated with the exercise of stock options and the vesting of restricted stock awards has not been recorded in the accompanying consolidated financial statements. As the Company utilizes these net operating losses to reduce current income taxes payable, the tax benefit will be recorded as an increase in additional paid-in capital. The Company is currently projecting to utilize a portion of its net operating loss carryforwards related to windfall tax benefits in 2014. As a result, a tax benefit of \$1.0 million and \$2.2 million has been recorded to additional paid-in-capital for the three and nine months ended September 30, 2014, respectively.

During the three and nine months ended September 30, 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, a shortfall of \$1.0 million has been included in income tax expense for the nine months ended September 30, 2013. No shortfall was included in income tax expense for the three months ended September 30, 2013. There were no stock compensation shortfalls for the three and nine months ended September 30, 2014.

Table of Contents

As of September 30, 2014 and December 31, 2013, 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 2014 to determine the appropriate level of valuation allowance required against its deferred tax assets. As of September 30, 2014 and December 31, 2013, the Company had unrecognized tax benefits of approximately \$1.4 million, of which approximately \$0.9 million is netted against certain deferred tax assets on the accompanying consolidated balance sheets. The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. As of September 30, 2014 and December 31, 2013, the amount of accrued interest and penalties on unrecognized tax benefits was approximately \$0.6 million and \$0.7 million, respectively. 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 2011 or state and local examinations by tax authorities for years before 2010 although tax attribute carryforwards generated prior to these years may still be adjusted upon examination by tax authorities.

## 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 September 30, 2014 and December 31, 2013, the Plans provided for the issuance of a maximum of approximately 11.4 million shares and 9.9 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, 2014, the shares available for grant increased by 1,408,642 pursuant to the automatic share reserve increase provision under the 2007 Plan. Accordingly, as of September 30, 2014, a total of 3,829,238 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, 2013	38,234	\$4.37	2.09	927

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

Options granted	—	—	—	—
Options exercised	(21,742	) 3.75	—	729
Options forfeited	—	—	—	—
Options expired	(137	) 9.29	—	—
Options outstanding and exercisable at September 30, 2014	16,355	\$5.15	1.43	511

21

---

Table of Contents

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 September 30, 2014. As of September 30, 2014, there was 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 September 30, 2014, 11,731 forfeited shares of restricted stock have been repurchased by the Company at no cost.

A summary of the status for nonvested stock awards as of September 30, 2014 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, 2013	1,050,610	1,134,926	2,185,536	\$22.10
Granted	228,084	582,478	810,562	32.89
Vested	(738,299)	(421,238)	(1,159,537)	24.41
Forfeited	(29,846)	(135,027)	(164,873)	24.13
Nonvested at September 30, 2014	510,549	1,161,139	1,671,688	\$25.53

The aggregate intrinsic value for all non-vested shares of restricted stock and restricted stock units outstanding as of September 30, 2014 was \$60.9 million.

As of September 30, 2014, total unrecognized compensation expense related to non-vested restricted stock and restricted stock units was \$25.9 million, which the Company expects to recognize over a weighted-average period of approximately 1.08 years. Total unrecognized compensation expense may be increased or decreased in future periods for subsequent grants or forfeitures.

Of the 171,999 shares of the Company's restricted stock and restricted stock units vesting during the three months ended September 30, 2014, the Company repurchased 59,637 shares at an aggregate purchase price of approximately \$2.33 million pursuant to the stockholder's right under the Plans to elect to use common stock to satisfy tax withholding obligations.

#### Shares Reserved for Issuance

At September 30, 2014, the Company had reserved for future issuance the following shares of common stock:

Common stock available for future issuances under the Plans	3,829,238
Common stock reserved for outstanding options and restricted stock units	1,177,494
	5,006,732

## 10. Share Repurchases

### June 2013 Share Repurchase Program

On June 3, 2013 the Company announced that its board of directors had approved the repurchase of up to \$50.0 million of the Company's common stock. Such repurchases may be made from time to time subject to pre-determined price and volume guidelines established by the Company's board of directors. This repurchase program concluded on May 29, 2014 and resulted in the repurchase of \$49.4 million of shares (as measured at the time of repurchase).

As part of this share repurchase program, shares may be purchased in open market transactions or pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Exchange Act. Shares repurchased were classified as Treasury



Stock and presented as a deduction from Stockholders' Equity. Details of the share repurchases during the three and nine months ended September 30, 2014 under the June 2013 share repurchase program were as follows:

	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2014
(Amounts in millions, except share and per share data)		
Total number of shares repurchased	—	1,237,572
Average price paid per share	—	\$29.33
Total value of shares repurchased (as measured at time of repurchase)	—	\$36.3 million

#### June 2014 Share Repurchase Program

On June 5, 2014 the Company announced that its board of directors had approved the repurchase of up to an additional \$50.0 million of our common stock. Such repurchases may be made from time to time subject to pre-determined price and volume guidelines established by our board of directors and commenced on June 6, 2014. As of September 30, 2014, there was \$49.4 million remaining under the share repurchase program.

As part of the share repurchase program, shares may be purchased in open market transactions or pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Exchange Act. The timing, manner, price and amount of any repurchases will be determined at our discretion, and the share repurchase program may be suspended, terminated or modified at any time for any reason. Shares repurchased are classified as Treasury Stock. Details of the share repurchases during the three and nine months ended September 30, 2014 under the June 2014 share repurchase program were as follows:

	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2014
(Amounts in millions, except share and per share data)		
Total number of shares repurchased	16,100	16,100
Average price paid per share	\$36.86	\$36.86
Total value of shares repurchased (as measured at time of repurchase)	\$0.6 million	\$0.6 million

Table of Contents

## 11. Geographic Information

The Company attributes revenues to customers based on the location of the customer. The composition of the Company's sales to unaffiliated customers between those in the United States and those in other locations for the three and nine months ended September 30, 2014 and 2013 is set forth below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands)		(In thousands)	
United States	\$57,038	\$50,291	\$167,297	\$148,306
Europe	14,346	12,508	41,563	36,430
Canada	3,683	3,465	10,376	9,824
Other	7,069	5,342	19,812	15,805
Total Revenues	\$82,136	\$71,606	\$239,048	\$210,365

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

	September 30, 2014	December 31, 2013
	(In thousands)	
United States	\$37,183	\$32,370
Europe	3,818	4,655
Canada	200	256
Other	550	714
Total	\$41,751	\$37,995

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 digital media analytics that enable our customers to make well-informed, data-driven decisions to effectively manage their business, build successful digital strategies and tactics, and optimize their marketing and advertising investments. We are a technology-driven company that measures what people do as they navigate the digital world across multiple technology platforms including personal computers, smartphones, tablets, televisions and interact with digital media, including Web sites, apps, video programming and advertising. We aspire to measure all digital interactions across all major digital platforms, at scale, on a global basis.

Our products and services provide customers with deep and actionable insight into consumer behavior including objective, detailed information about consumer usage of digital content and advertising coupled with information on consumer demographic characteristics, attitudes, lifestyles and offline behavior. We are skilled in combining proprietary comScore data with our clients' own data, as well as data from partners, to provide uniquely valuable digital media analytics. We deliver on-demand and real-time products and services through a scalable Software-as-a-Service delivery model which supports both comScore-branded products and also partner products integrating comScore data and services. During the three months ended September 30, 2014, we provided service to approximately 2,503 customers worldwide with our broad geographic base of employees located in 32 locations in 23 countries.

## Key Metrics

	Three Months Ended September 30,		Nine Months Ended September 30,		
	2014	2013	2014	2013	
	(dollars in thousands)				
Revenue <sup>1</sup>	\$82,136	\$71,606	\$239,048	\$209,035	
Adjusted EBITDA* <sup>1</sup>	\$19,118	\$16,355	\$51,262	\$42,953	
Adjusted EBITDA Margin* <sup>1</sup>	23	% 23	% 21	% 21	%

Adjusted EBITDA is not calculated in accordance with generally accepted accounting principles, or GAAP. A \* reconciliation of this non-GAAP measure to the most directly comparable GAAP-based measure along with a summary of the definition and its material limitation are included in the section titled "-Non-GAAP Financial Measures."

<sup>(1)</sup> We divested our Non-Health Copy Testing and Configuration Manager products in March 2013. Amounts for the nine months ended September 30, 2013 include adjustments to exclude Non-Health Copy Testing and Configuration Manager products and are based on management's estimates of the revenue and results of operations of such products.

We monitor the key financial and operating metrics set forth in the preceding table to help us evaluate trends and measure the effectiveness and efficiency of our operations. We discuss our revenue in the section titled "Our Revenues" and "Results of Operations" and Adjusted EBITDA and Adjusted EBITDA margin in the section titled "Non-GAAP Financial Measures."

## Non-GAAP Financial Measures

To provide investors with additional information regarding our financial results, we have disclosed adjusted EBITDA and adjusted EBITDA margin, which are both non-GAAP financial measures.

We present these non-GAAP financial measures because they are key measures used by our management and board of directors to understand and evaluate our core operating performance and trends. We believe that these non-GAAP financial measures provide useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and board of directors.

We define adjusted EBITDA as net income (loss) plus; amortization of intangible assets, impairment of intangible assets, stock-based compensation, costs related to acquisitions, restructuring and other infrequently occurring items, settlement of litigation, gain on ARS disposition, pro-forma adjustment to exclude the non-Health Copy-Testing and

Table of Contents

Configuration Manager products and deferred tax provision, current cash tax provision, depreciation, and interest expense (income), net. Adjusted EBITDA margin is the quotient of Adjusted EBITDA divided by total revenue.

Our use of these non-GAAP financial measures has limitations as an analytical tool, and you should not consider them in isolation or as a substitute for analysis of our results as reported under GAAP. These limitations are:

- although depreciation and amortization are non-cash charges, the assets being depreciated may have to be replaced in the future, and adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements;
- adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- adjusted EBITDA does not consider the impact of equity-based compensation;
- adjusted EBITDA does not reflect tax payments that may represent a reduction in cash available to us; and
- other companies, including companies in our industry, may calculate adjusted EBITDA differently, which reduces its usefulness as a comparative measure.

Because of these and other limitations, you should consider adjusted EBITDA alongside other GAAP-based financial performance measures, including various cash flow metrics, net income (loss) and our other GAAP financial results. Management addresses the inherent limitations associated with using adjusted EBITDA through disclosure of such limitations, presentation of our financial statements in accordance with GAAP and reconciliation of adjusted EBITDA to the most directly comparable GAAP measure, net income (loss). Further, management also reviews GAAP measures, and evaluates individual measures that are not included in adjusted EBITDA such as our level of capital expenditures and interest expense, among other items.

The following table presents a reconciliation of adjusted EBITDA to net loss, the most comparable GAAP measure, for each of the periods identified:

	Three Months Ended September 30,		Nine months ended September 30,		
	2014	2013	2014	2013	
	(dollars in thousands)				
Net loss	\$(3,261	) \$(82	) \$(7,243	) \$(2,503	)
Amortization of intangible assets	1,912	1,956	5,786	6,043	
Impairment of intangible assets	6,942	—	6,942	—	
Stock-based compensation	10,159	7,243	26,442	19,388	
Costs related to acquisitions, restructuring and other infrequently occurring items	997	2,247	4,433	4,591	
Settlement of litigation	(80	) —	2,780	(1,160	)
Gain on ARS disposition	—	—	—	(210	)
Adjustment to exclude non-Health Copy-Testing and Configuration Manager products	—	—	—	(170	)
Deferred tax (benefit) provision	(4,681	) 192	(6,113	) 2,894	
Current tax provision(2)	2,126	597	4,161	1,390	
Depreciation	4,622	3,964	13,185	12,120	
Interest and other expense, net	382	238	889	570	
Adjusted EBITDA	\$19,118	\$16,355	\$51,262	\$42,953	
Adjusted EBITDA margin(1)	23	% 23	% 21	% 21	%

(1)

Management estimates pro forma revenue of \$1,330 in the nine months ended September 30, 2013, and total pro forma expense of \$1,160 in the nine months ended September 30, 2013, related to the non-Health Copy-Testing and Configuration Manager products, which we disposed of in March 2013. Calculated based on revenues excluding those amounts, adjusted EBITDA margin would have remained at 21% during the nine months ended September 30, 2013.

Included in the tax provision for the three and nine months ended September 30, 2014 was \$1.0 million and \$2.2 (2) million, respectively, of non-cash current tax expense related to excess tax benefits from stock based compensation.

Table of Contents**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 an infrequently occurring basis. A significant characteristic of our SaaS-based business model is our large percentage of subscription-based contracts. Subscription-based revenues accounted for 90% and 86% of total revenues in the nine months ended September 30, 2014 and 2013, 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 continue 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 nine months ended September 30, 2014, our international revenues were \$71.8 million, an increase of \$9.7 million, or 16% over international revenues of \$62.1 million for the nine months ended September 30, 2013. International revenues comprised approximately 30%, 29% and 28% of our total revenues for the nine months ended September 30, 2014 and for the fiscal years ended December 31, 2013 and 2012, respectively.

We anticipate that revenues from our U.S. customers will continue to constitute a substantial portion of our revenues in future 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<sup>®</sup> product suite. Products within the Media Metrix<sup>®</sup> suite include: Video Metrix<sup>™</sup>, Mobile Metrix<sup>™</sup>, Plan Metrix<sup>™</sup>, Ad Metrix<sup>™</sup> and Media Metrix<sup>®</sup> Multi-Platform (MMX MP). 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 any time.

In recent years, we began generating additional subscription revenues from our flagship advertising service, Validated Campaign Essentials (vCE). In January 2014, we entered into a partnership agreement with Google to integrate vCE directly into the DoubleClick ad management platform, allowing DoubleClick customers to add vCE to their ad campaigns with a single click. In April 2014, we entered into a similar partnering agreement with Yahoo!. While vCE provides key analytics about advertising campaigns to ad buyers, we also offer Validated Media Essentials (vME) to advertising sellers, allowing them to evaluate their advertising inventory and optimize their monetization strategy with metrics comparable to those used by ad buyers. The Google and Yahoo! partnerships have not yet impacted revenues for the three and nine months ended September 30, 2014.

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 media analytics 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."

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 include 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.



Table of Contents

Project Revenues

We generate project revenues by providing customized information reports to our customers on a nonrecurring basis through comScore Marketing Solutions. For example, a customer in the media industry might request a custom report that profiles the behavior of the customer's active online users and contrasts their market share and loyalty with similar metrics for a competitor's online user base. If this customer continues to request the report beyond an initial project term of at least nine months and enters into an agreement to purchase the report on a recurring basis, we begin to classify these future revenues as subscription-based.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with 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 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, 2013. 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, 2013 under the caption Management's Discussion and Analysis of Financial Condition and Results of Operations.

Seasonality

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

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 September 30,		Nine Months Ended September 30,			
	2014	2013	2014	2013	2014	2013
Revenues	100.0	% 100.0	% 100.0	% 100.0	% 100.0	% 100.0
Cost of revenues	29.8	30.2	29.8	31.3		
Selling and marketing	31.8	33.9	33.0	35.3		
Research and development	16.8	14.6	16.4	14.5		
General and administrative	18.2	17.4	18.0	15.6		
Amortization of intangible assets	2.3	2.7	2.4	2.9		
Impairment of intangible assets	8.5	—	2.9			
Gain on asset disposition	—	—	—	(0.1)	)	
Settlement of litigation	(0.1)	) —	1.2	(0.6)	)	
Total expenses from operations	107.3	98.8	103.7	98.9		
(Loss) income from operations	(7.3)	) 1.2	(3.7)	) 1.1		
Interest and other (expense), net	(0.5)	) (0.3)	) (0.4)	) (0.3)	)	
Gain (loss) from foreign currency	0.7	0.1	0.1	(0.1)	)	
(Loss) income before income tax (provision) benefit	(7.1)	) 1.0	(4.0)	) 0.7		
Income tax benefit (provision)	3.1	(1.1)	) 0.8	(2.0)	)	
Net loss attributable to common stockholders	(4.0)	)% (0.1)	)% (3.2)	)% (1.3)	)%	

Three and Nine Months Ended September 30, 2014 Compared to the Three and Nine Months Ended September 30, 2013

## Revenues

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change		
	2014	2013	\$	%	2014	2013	\$	%	
Revenues	\$82,136	\$71,606	\$10,530	14.7	%	\$239,048	\$210,365	\$28,683	13.6

(In thousands)

Total revenues increased by approximately \$10.5 million, or approximately 15%, during the three months ended September 30, 2014 as compared to the three months ended September 30, 2013. We attribute the revenue growth primarily to increased sales to our existing customer base. Revenue from existing customers increased \$10.8 million from \$64.5 million for the three months ended September 30, 2013 to \$75.3 million for the three months ended September 30, 2014, while revenue from new customers decreased \$0.3 million from \$7.1 million for the three months ended September 30, 2013 to \$6.8 million for the three months ended September 30, 2014.

We experienced continued growth in subscription revenues, which increased by approximately \$11.6 million during the three months ended September 30, 2014, from \$62.5 million in the prior year period. The increase in subscription revenues is attributable to newer products, such as vCE, which were initially recorded as project revenue but typically become subscription revenue as adoption increases. We experienced a decline in our project revenues for the same reason, which decreased by approximately \$1.1 million during the three months ended September 30, 2014, from \$9.1 million in the prior year period.

Revenues from U.S. customers were \$57.0 million for the three months ended September 30, 2014, or approximately 69% of total revenues, while revenues from customers outside of the U.S. was \$25.1 million for the three months ended September 30, 2014, or approximately 31% of total revenues. Our focus on growth efforts in international markets resulted in a \$3.8 million increase in international revenues during the three months ended September 30,

2014 as compared to the prior year period. This revenue increase was comprised primarily of increases of \$1.8 million in Europe, \$0.9 million in Latin America and \$0.8 million in Asia.

Table of Contents

Total revenues increased by approximately \$28.7 million, or approximately 14%, during the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013. We attribute the revenue growth primarily to increased sales to our existing customer base. Revenue from existing customers increased \$30.6 million from \$187.8 million for the nine months ended September 30, 2013 to \$218.4 million for the nine months ended September 30, 2014, while revenue from new customers decreased \$1.9 million from \$22.6 million for the nine months ended September 30, 2013 to \$20.7 million for the nine months ended September 30, 2014.

We experienced continued growth in subscription revenues, which increased by approximately \$34.3 million during the nine months ended September 30, 2014, from \$181.5 million in the prior year period. The increase in subscription revenues is attributable to newer products, such as vCE, which were initially recorded as project revenue but typically become subscription revenue as adoption increases. We experienced a decline in our project revenues for the same reason, which decreased by approximately \$5.7 million during the nine months ended September 30, 2014, from \$28.9 million in the prior year period.

Revenues from U.S customers were \$167.3 million for the nine months ended September 30, 2014, or approximately 70% of total revenues, while revenues from customers outside of the U.S. was \$71.8 million for the nine months ended September 30, 2014, or approximately 30% of total revenues. Our focus on organic growth efforts in international markets resulted in a \$9.7 million increase in international revenues during the nine months ended September 30, 2014 as compared to the prior year period. This revenue increase was comprised primarily of increases of \$5.2 million in Europe, \$2.6 million in Latin America and \$2.4 million in Asia. These increases were partially offset by decreases in other regions.

**Operating Expenses**

The majority of our operating expenses consist of employee salaries, benefits, stock-based compensation expense, professional fees, rent and other facility related costs, depreciation expense, amortization, impairment of acquired intangible assets and litigation-related expenses. Our single largest operating expense relates to our people. In order to effectively motivate our employees and to provide them with proper long-term incentives, we pay the vast majority of our annual bonuses using our common stock. In addition, two of our most senior executives have agreed to receive shares of our common stock instead of a cash salary.

Our total operating expenses increased by approximately \$17.4 million, or approximately 25%, during the three months ended September 30, 2014 as compared to the three months ended September 30, 2013. This increase is primarily attributable to increases in expenditures for stock compensation of \$2.9 million, increased employee salaries, benefits and related costs of \$2.7 million associated with our increased headcount, increased expenditures for third-party data costs to support the enhancement of existing products of \$2.5 million, increased data and bandwidth costs of \$1.4 million related to our data collection efforts and increased rent and depreciation costs of \$0.6 million.

Our total operating expenses increased by approximately \$39.8 million, or approximately 19%, during the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013. This increase is primarily attributable to increased employee salaries, benefits and related costs of \$7.3 million associated with our increased headcount, increased stock compensation of \$7.1 million, increased expenditures for third-party data costs to support the enhancement of existing products of \$5.7 million, increases in expenditures for the settlement of certain privacy litigation lawsuits, net of expected insurance recoveries, and by reduced gains related to the settlements of certain patent litigation lawsuits for a net increase of \$3.9 million, increased data and bandwidth costs of \$3.8 million related to our data collection efforts, increased bad debt expense of \$1.6 million mainly attributable to longer collection cycles of some of our newer products and increased rent and depreciation costs of \$1.3 million.

**Cost of Revenues**

	Three Months Ended				Change	Nine Months Ended				
	September 30,		Change	%		September 30,		Change	%	
	2014	2013			\$	%	2014			2013
	(In thousands)					(In thousands)				
Cost of revenues	\$24,491	\$21,603	2,888	13.4	%	71,164	\$65,767	\$5,397	8.2	%
	29.8	% 30.2	%			29.8	% 31.3	%		

As a percentage of  
revenues

Cost of revenues consists primarily of expenses related to operating our network infrastructure, producing our products, and the recruitment, maintenance and support of our consumer panels. Expenses associated with these areas include the salaries, benefits, 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

30

---

Table of Contents

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 \$2.9 million during the three months ended September 30, 2014 compared to the three months ended September 30, 2013. This increase is primarily attributable to increased data and bandwidth costs of \$1.6 million related to our data collection efforts and increased employee salaries, benefits and related costs of \$1.0 million.

Cost of revenues increased by approximately \$5.4 million during the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013. This increase is primarily attributable to increased data and bandwidth costs of \$3.8 million related to our data collection efforts and increased expenditures for employee salaries, benefits and related costs of \$1.4 million associated with our increased headcount.

Cost of revenues decreased as a percentage of revenues during the three and nine months ended September 30, 2014 as compared to the same periods in 2013, due to increased operating leverage as our revenues continue to grow.

**Selling and Marketing Expenses**

	Three Months Ended		Change		Nine Months Ended		Change			
	September 30, 2014	2013	\$	%	September 30, 2014	2013	\$	%		
	(In thousands)				(In thousands)					
Selling and marketing	\$26,125	\$24,255	\$1,870	7.7	%	\$78,791	\$74,204	\$4,587	6.2	%
As a percentage of revenues	31.8	% 33.9	%			33.0	% 35.3	%		

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 expenses have increased because we have been recruiting for additional salespeople in order to support our expanded suite of products.

Selling and marketing expenses increased by \$1.9 million during the three months ended September 30, 2014 compared to the three months ended September 30, 2013. This increase is primarily attributable to increased employee salaries, benefits and related costs of \$1.0 million associated with our increased salesforce and increased stock compensation of \$0.6 million.

Selling and marketing expenses increased by \$4.6 million during the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013. This increase is primarily attributable to increased employee salaries, benefits and related costs of \$2.5 million associated with our increased salesforce, increased professional fees of \$0.9 million to support our salesforce, increased stock compensation of \$0.7 million and increased rent and depreciation costs of \$0.6 million.

Selling and marketing expenses decreased as a percentage of revenues during the three and nine months ended September 30, 2014 as compared to the same period in 2013, due to increased operating leverage as our revenues continue to grow.

**Research and Development Expenses**

	Three Months Ended		Change		Nine Months Ended		Change		
	September 30, 2014	2013	\$	%	September 30, 2014	2013	\$	%	

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

	(In thousands)				(In thousands)					
Research and development	\$13,784	\$10,441	\$3,343	32.0	%	\$39,192	\$30,467	\$8,725	28.6	%
As a percentage of revenues	16.8	%	14.6	%		16.4	%	14.5	%	

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

Table of Contents

parties to develop new products and allocated overhead, which is comprised of rent and other facilities related costs, and depreciation expense related to general purpose equipment and software.

Research and development expenses increased by \$3.3 million during the three months ended September 30, 2014 as compared to the three months ended September 30, 2013. This is primarily attributable to increased expenditures for third-party data costs to support the enhancement of existing products of \$2.5 million and expenditures for employee salaries and related benefits of \$0.3 million.

Research and development expenses increased \$8.7 million during the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013. This increase is primarily attributable to increased expenditures for third-party data costs to support the enhancement of existing products of \$5.7 million, increased employee salaries, benefits and related costs of \$1.6 million associated with a reallocation of resources to focus on the development of new products, increased rent and depreciation of \$0.4 million and increased stock compensation of \$0.3 million.

Research and development expenses increased as a percentage of revenues for the three and nine months ended September 30, 2014 compared to the same period in 2013, due to the reallocation of human and data resources to research and development activities.

## General and Administrative Expenses

	Three Months Ended		Change		Nine Months Ended		Change			
	September 30, 2014	2013	\$	%	September 30, 2014	2013	\$	%		
General and administrative	\$14,966	\$12,492	\$2,474	19.8	%	\$42,952	\$32,742	\$10,210	31.2	%
As a percentage of revenues	18.2	% 17.4	%			18.0	% 15.6	%		

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 increased by \$2.5 million during the three months ended September 30, 2014 as compared to the three months ended September 30, 2013. This increase is primarily attributable to increased stock compensation of \$2.2 million and increased employee salaries, benefits and related costs of \$0.4 million.

General and administrative expenses increased by \$10.2 million during the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013. This increase is primarily attributable to increased stock compensation of \$5.7 million, increased bad debt expense of \$1.6 million due to longer collection cycles related to some of our newer products, increased employee salaries, benefits and related costs of \$0.9 million and increased severance expense of \$0.4 million.

General and administrative expenses increased as a percentage of revenues during the three and nine months ended September 30, 2014 as compared to the same period in 2013, due to increased stock compensation and bad debt expenses.

## Amortization Expense

	Three Months Ended		Change		Nine Months Ended		Change			
	September 30, 2014	2013	\$	%	September 30, 2014	2013	\$	%		
Amortization expense	\$1,912	\$1,956	\$(44)	(2.2)	)%	\$5,786	6,043	\$(257)	(4.3)	)%
As a percentage of revenues	2.3	% 2.7	%			2.4	% 2.9	%		



Amortization expense consists of charges related to the amortization of intangible assets associated with acquisitions. Amortization expense decreased \$0.3 million during the nine months ended September 30, 2014, respectively, as compared to the three and nine months ended September 30, 2013.

Table of Contents

## Impairment of Intangible Assets

During the three months ended September 30, 2014, the Company noted a significant decline in revenues from its wireless division ("CSWS"), which the Company acquired on July 1, 2010. As a result, the Company performed an impairment test of the long-lived assets of CSWS. The long-lived assets of CSWS consist of customer relationships, acquired methodologies and technology. The first step in testing the long-lived assets of CSWS for impairment was to compare the sum of the undiscounted cash flows expected to result from the use and eventual disposition of CSWS to the carrying value of CSWS's long-lived assets. Based on this analysis, the Company determined as of September 30, 2014 that the sum of the expected undiscounted cash flows to be generated from CSWS is less than the carrying value of the CSWS intangible assets. As such, the Company concluded that the CSWS intangible assets were impaired as of September 30, 2014. To measure the amount of the impairment, the Company then estimated the fair value of the intangible assets as of September 30, 2014. In determining the fair value of the intangible assets, the Company prepared a discounted cash flow ("DCF") analysis for each intangible asset. 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 are 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 20.0%, which is based on an assessment of the risk inherent in the future revenue streams and cash flows of CSWS, as well as a royalty rate of 0.8%, which is based on an analysis of royalty rates in similar market transactions. Based on the DCF analysis, the Company estimated the fair value of the intangible asset of CSWS to be \$2.8 million as of September 30, 2014, which resulted in an impairment charge of \$6.9 million during the three months ended September 30, 2014. The impairment charge had a negative impact on income from continuing operations of \$6.9 million and an impact on earnings per share of \$0.21 per share during the three and nine months ended September 30, 2013. In addition, these intangible assets will be assigned new useful lives as follows, beginning October 1, 2014:

	(In years)
Trade name	2.0
Technology	5.0
Customer Relationships	5.0

## Interest and Other Income (Expense), 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, software, 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 and nine months ended September 30, 2014 resulted in net expense of \$0.4 million and \$0.9 million, respectively, compared to \$0.2 million and \$0.6 million of net interest expense for the three and nine months ended September 30, 2013, respectively.

## Settlement of litigation, Net

Settlement of litigation, net consists of losses from the settlement related to our outstanding privacy class-action litigation offset by gains from our patent litigation settlements. The loss is net of expected insurance proceeds.

Settlement of litigation, net for the three and nine months ended September 30, 2014 resulted in a net gain of \$0.1 million and a net loss of \$2.9 million, respectively, compared to a \$1.2 million net gain for the three and nine months ended September 30, 2013. The net loss in the nine months ended September 30, 2014 was due to expenditures for the settlement of certain privacy litigation lawsuits, net of expected insurance recoveries, and by reduced gains related to the settlements of certain patent litigation lawsuits for a net increase of \$3.9 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

Table of Contents

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 gains of \$0.6 million and \$0.3 million during the three and nine months ended September 30, 2014, respectively, as compared to a transaction gain of \$0.1 million and a transaction loss of \$0.2 million during the three and nine months ended September 30, 2013, respectively, due to our continued international presence in Europe and Latin America. Our foreign currency 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 and nine months ended September 30, 2014 we recorded income tax benefits of \$2.6 million and \$2.0 million, resulting in effective tax rates of 43.9% and 21.2%, respectively. The tax benefits for the three and nine months ended September 30, 2014 were attributable to current tax expense of \$2.1 million and \$4.2 million, respectively, and deferred tax benefits of \$4.7 million and \$6.1 million respectively. These amounts include \$0.2 million and \$0.3 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 and nine months ended September 30, 2014, respectively. Also, included in the tax provision for the three and nine months ended September 30, 2014 was \$1.0 million and \$2.2 million, respectively, of non-cash current tax expense related to excess tax benefits from stock based compensation.

During the three and nine months ended September 30, 2013, we recorded income tax provisions of \$0.8 million and \$4.3 million, resulting in effective tax rates of 111.6% and 240.5%, respectively. The tax provisions for the three and nine months ended September 30, 2013 were attributable to current tax expense of \$0.6 million and \$1.4 million, respectively, and deferred tax expense of \$0.2 million and \$2.9 million, respectively. These amounts include \$0.0 million and \$0.1 million of current and deferred tax benefit and \$0.9 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 and nine months ended September 30, 2013, respectively. Also, included in the tax provision for the nine months ended September 30, 2013 was \$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:

	Nine Months Ended September 30,	
	2014	2013
	(In thousands)	
<u>Consolidated Cash Flow Data</u>		
Net cash provided by operating activities	\$42,020	\$38,812
Net cash used in investing activities	(10,605	) (3,400
Net cash used in financing activities	(57,740	) (16,756
Effect of exchange rate changes on cash	(1,860	) (626
Net (decrease) increase in cash and cash equivalents	\$(28,185	) \$18,030

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 September 30, 2014, our principal source of liquidity consisted of \$39.6 million in cash, the majority of which represents cash generated from operating activities. As of September 30, 2014, \$12.6 million of the \$39.6 million in cash on hand is held by foreign subsidiaries that would be subject to income tax withholding payments if it was 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 we 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.

34

---

Table of Contents

On September 26, 2013, we entered into a Credit Agreement (the Credit Agreement) with several banks (the Lenders). Bank of America, N.A. ("Bank of America") is the administrative agent and lead lender of this Revolving Credit Facility. The Credit Agreement provides for a five-year revolving credit facility of \$100.0 million, which includes a \$10.0 million sublimit for issuance of standby letters of credit, a \$10 million sublimit for swing line loans and a \$10.0 million sublimit for alternative currency lending. The maturity date of the Credit Agreement is September 26, 2018.

The Credit Agreement also contains an expansion option permitting the Company to request an increase of the credit facility up to an aggregate additional \$50 million, subject to certain conditions. 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.

Base rate loans and swing line loans will bear interest at the Base rate plus the Applicable Rate, as such terms are defined in the Credit Agreement and summarized below. The Base Rate is the highest rate of the following: (a) the Federal Funds rate plus 0.50%, (b) the publicly announced Bank of America prime rate, and (c) the Eurocurrency rate as defined in the Credit Agreement plus 1.0%. The Applicable Rate for base rate loans and swing line loans is 0.50% to 1.50% depending on the Company's funded debt-to-EBITDA ratio at the end of each fiscal quarter. Amounts supporting letters of credit bear interest at the Applicable Rate for revolving loans. Each Eurocurrency rate loan will bear interest at the Eurocurrency Rate (as defined in the Credit Agreement) plus the Applicable Rate ranging from 1.50% to 2.50% depending on our funded debt-to-EBITDA ratio at the end of each fiscal quarter. Beginning September 26, 2013 through the five-year revolver term, we are obligated to pay a fee, payable quarterly in arrears, based on the average unused portion of the available amounts under the Credit Agreement at a rate of 0.20% to 0.35% per annum depending on the Company's funded debt-to-EBITDA ratio at the end of each fiscal quarter.

Under the terms of the Credit Agreement, we are subject to various usual and customary covenants, including, but not limited to: financial covenants requiring maximum funded debt-to-EBITDA ratio, cash flow-to-fixed charge ratios and a minimum liquidity during equity repurchase periods as well as covenants relating to the Company's ability to dispose of assets, make certain acquisitions, be acquired, incur indebtedness, grant liens and make certain investments. As of September 30, 2014 and through the date of this report, we were in full compliance with all covenants contained in the Credit Agreement.

As of September 30, 2014, there were no amounts outstanding under the terms of our Credit Agreement.

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 September 30, 2014, \$3.8 million in letters of credit were outstanding, leaving \$6.2 million available for additional letters of credit under the Credit Agreement. 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 \$42.0 million of net cash from operating activities during the nine months ended September 30, 2014. Our cash flows from operations were driven by our net loss of \$7.2 million, offset by \$47.6 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 \$16.5 million increase in accounts payable, accrued expense and other liabilities associated with the settlement of the privacy litigation, a \$6.1 million decrease in accounts receivable associated with enhanced collection activities and a \$6.3 million increase in deferred revenues associated with cash received prior to the recording of revenue. These increases were offset by a \$14.7 million increase in prepaid and other assets primarily associated with the settlement of the privacy litigation.

We generated approximately \$38.8 million of net cash from operating activities during the nine months ended September 30, 2013. Our cash flows from operations were driven by our net loss of \$2.5 million, offset by \$40.7 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 \$1.6 million decrease in accounts receivable associated with enhanced collection activities, a \$1.6 million increase in deferred rent

and by a \$3.8 million increase in accounts payable, accrued expense and other liabilities associated with the timing of payments associated with annual bonuses and professional fees accrued as of December 31, 2012.

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

## Table of Contents

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 \$10.6 million of net cash in investing activities during the nine months ended September 30, 2014. Our cash used for investing activities was driven by the use of \$6.6 million of net cash associated with the purchase of property and equipment to maintain and expand our technology infrastructure and acquisitions and net of cash acquired of 4.0 million in the acquisition of MdotLabs.

We used \$3.4 million of net cash in investing activities during the nine months ended September 30, 2013. Our cash used for investing activities was driven by the use of \$3.6 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 expect to achieve greater economies of scale and operating leverage as we expand our customer base and utilize our Internet user panel and technical infrastructure more efficiently. While we anticipate that it will be necessary for us to continue to invest in our Internet user panel, technical infrastructure and technical personnel to support the combination of an increased customer base, new products, international expansion and new digital market intelligence formats, we believe that these investment requirements will be less than the revenue growth generated by these actions. This should result in a lower rate of growth in our capital expenditures to support our technical infrastructure. In any given period, the timing of our incremental capital expenditure requirements could impact our cost of revenues, both in absolute dollars and as a percentage of revenues.

### Financing Activities

We used \$57.7 million of cash during the nine months ended September 30, 2014 for financing activities. This included \$14.5 million for shares we repurchased pursuant to the exercise by stock incentive plan participants of their right to elect to use common stock to satisfy their tax withholding obligations. We also used \$36.9 million to repurchase shares under our share repurchase program. In addition we used \$8.7 million to make payments on our capital lease obligations. During the nine months ended September 30, 2014, there were no borrowings or repayments under our revolving credit facility.

We used \$16.8 million of cash during the nine months ended September 30, 2013, for financing activities. This included \$8.6 million for shares we repurchased pursuant to the exercise by stock incentive plan participants of their right to elect to use common stock to satisfy their tax withholding obligations. We also used \$0.5 million to repurchase shares under our share repurchase program. In addition we used \$7.3 million to make payments on our capital lease obligations. During the nine months ended September 30, 2013, we received \$4.0 million in cash related to borrowings under our revolving credit facility and we repaid \$4.0 million 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. The borrowing was repaid in full during 2013.

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 hardware and software 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 liquidity.

During the three months ended March 31, 2014, we entered into a \$12.5 million lease financing arrangement with Banc of America Leasing & Capital, LLC. We can utilize \$10.5 million for future capital leases. This arrangement has been established to allow us to finance the purchase of new software, hardware and other computer equipment as we expand our technology infrastructure in support of our business growth. As of September 30, 2014, we have total outstanding amounts under this arrangement and other arrangements with Banc of America of approximately \$16.8 million. These leases bear an interest rate of approximately 5% per annum. The base terms for these leases range from three years to three and a half years and include a nominal charge in the event of prepayment. Lease payments under the combined arrangements are approximately \$8.1 million per year as of September 30, 2014. Assets



acquired under the equipment lease secure the obligations. In addition to our leasing arrangement with Banc of America, we have also entered into a number of capital lease arrangements with various equipment vendors. As of September 30, 2014, we have total borrowings under these arrangements of \$7.0 million. As of September 30, 2014, \$3.8 million in letters of credit were outstanding, leaving \$6.2 million available for additional letters of credit under the Credit Facility. These letters of credit may be reduced periodically provided we meet the conditional criteria of each related lease agreement.

## Table of Contents

### Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements (as defined in Item 303 of Regulation S-K).

### Item 3. Quantitative and Qualitative Disclosure about Market Risk

Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. We do not hold or issue financial instruments for trading purposes or have any derivative financial instruments. As of September 30, 2014, our cash reserves were maintained primarily in bank deposit accounts totaling \$39.6 million.

#### Foreign Currency Risk

A portion of our revenues and expenses from business operations in foreign countries are derived from transactions denominated in currencies other than the functional currency of our operations in those countries. We operate in several countries in South America, including Brazil, Chile and Argentina as well as countries in Europe and the United Kingdom. As such, we have exposure to adverse changes in exchange rates associated with revenues and operating expenses of our foreign operations, but we believe this exposure to not be significant at this time. We do not currently engage in any transactions that hedge foreign currency exchange rate risk. In addition, because we have operations outside of the United States, the reported amounts of revenues, expenses, assets and liabilities may fluctuate due to movements in foreign currency exchange rates and the resulting foreign currency translation adjustments.

As we grow our international operations, and acquire companies with established business in international regions, our exposure to foreign currency risk could become more significant. For example, at the beginning of 2014, the U.S. Dollar to euro exchange rate was approximately \$1.00 to €0.73. However, during 2014, the U.S. Dollar to euro exchange rate dropped as low as \$1.00 to €0.72 and rose as high as \$1.00 to €0.79. During the nine months ended September 30, 2014, the average U.S. Dollar to euro exchange rate was approximately \$1.00 to €0.74. There can be no guarantee that exchange rates will remain constant over the long-term. In addition to the impact from the U.S. Dollar to euro exchange rate movements, we are also impacted by movements in the exchange rates between the U.S. Dollar and various South American currencies as well as the Pound Sterling. In addition, cash held overseas would be subject to income tax withholding payments if it was repatriated to the United States. As of September 30, 2014, \$12.6 million of the \$39.6 million in cash on hand is held by foreign subsidiaries and would be subject to income tax withholding payments if it was repatriated to the United States. If we were to repatriate these funds to the United States, they would be subject to income tax payments ranging from 5% to 15% of the amount repatriated.

#### Interest Rate Sensitivity

As of September 30, 2014, our principal sources of liquidity consisted of \$39.6 million of cash. The cash is held for working capital purposes. We do not enter into investments for trading or speculative purposes. We believe that we do not have any material exposure to changes in the fair value as a result of changes in interest rates. Declines in interest rates, however, will reduce future investment income. If overall interest rates fell by 1% during the nine months ended September 30, 2014, our interest income would have declined by less than \$0.1 million, assuming consistent investment levels.

### Item 4. Controls and Procedures

#### Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and our Chief Financial Officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Securities Exchange Act of 1934 (the Exchange Act) Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report (the Evaluation Date), have concluded that as of the Evaluation Date, our disclosure controls and procedures are effective, in all material respects, to ensure that information required to be disclosed in the reports that we file and submit under the Exchange Act (i) is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rule and forms and (ii) is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

#### Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal

control over financial reporting.

37

---

Table of Contents

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

From time to time, we are involved in various legal proceedings arising from the normal course of business activities. Except as described below, we are not presently a party to any pending legal proceedings the outcome of which we believe, if determined adversely to us, would individually or in the aggregate have a material adverse impact on our consolidated results of operations, cash flows or financial position.

**Privacy Class Action Litigation**

On August 23, 2011, we received notice that Mike Harris and Jeff Dunstan, individually and on behalf of a class of similarly situated individuals, filed a lawsuit against comScore in the United States District Court for the Northern District of Illinois, Eastern Division, alleging, among other things, violations by comScore 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 sought 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 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. On May 30, 2014, we and the plaintiffs proposed a tentative settlement subject to approval by the District Court, and on October 1, 2014, the Court issued its final approval of those terms. comScore is required to establish a \$14 million settlement fund from which class member claims, attorneys' fees and incentive awards, costs, and administrative expenses will be paid. We and our insurers contributed to the fund. The settlement also requires us to alter certain portions of our privacy policy and implement certain additional protocols to ensure that our privacy practices remain consistent with its disclosures to consumers. For additional details, see footnote 7 of the financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

**ITEM 1A. RISK FACTORS**

An investment in our common stock involves a substantial risk of loss. You should carefully consider these risk factors, together with all of the other information included herewith, before you decide to purchase shares of our common stock. The occurrence of any of the following risks could materially adversely affect our business, financial condition or operating results. In that case, the trading price of our common stock could decline, and you may lose part or all of your investment.

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

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

We currently derive a significant portion of our revenues from our subscription-based digital media analytics products. Subscription-based products accounted for 90% and 86% of our revenues during the nine months ended September 30, 2014 and the year ended December 31, 2013. If our customers terminate their subscriptions for our products, do not renew their subscriptions, delay renewals of their subscriptions or renew on terms less favorable to us, our revenues could decline and our business could suffer.

Our customers have no obligation to renew after the expiration of their initial subscription period, which is typically one year, and we cannot be assured that current subscriptions will be renewed at the same or higher dollar amounts, if at all. Some of our customers have elected not to renew their subscription agreements with us in the past. If we experience a change of control, as defined in such agreements, some of our customers also have the right to terminate their subscriptions. Moreover, some of our major customers have the right to cancel their subscription agreements without cause at any time. Furthermore, our new subscription products, for which revenue is recognized based on impressions used, may be subject to higher fluctuations in revenue.

Given unpredictable economic conditions, our limited historical data with respect to rates of customer subscription renewals, and the usage volumes for our impression based products, we may have difficulty accurately predicting

future customer renewal rates. Uncertain economic conditions or other factors, such as the failure or consolidation of large financial institutions, may cause certain customers to terminate or reduce their subscriptions. Our customer renewal rates may decline or fluctuate as a result of a number of factors, including customer satisfaction or dissatisfaction with our products, the costs or functionality of our products, the prices or functionality of products offered by our competitors, the health of the digital

38

---

Table of Contents

advertising marketplace, mergers and acquisitions affecting our customer base, general economic conditions or reductions in our customers' spending levels.

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

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

- our ability to increase sales to existing customers and attract new customers;
- our failure to accurately estimate or control costs — including those incurred as a result of investments, other business or product development initiatives, litigation, and the integration of acquisitions;
- the timing of revenue recognition for usage-based or impression-based products;
- the potential loss or reduction in spending by significant customers;
- changes in our customers' subscription renewal behaviors and spending on projects;
- the impact on our contract renewal rates, for both our subscription and project-based products, caused by our customers' budgetary constraints, competition, customer dissatisfaction, customer corporate restructuring or change in control, or our customers' actual or perceived lack of need for our products;
- the timing of contract renewals, delivery of products and duration of contracts and the corresponding timing of revenue recognition as well as the effects of revenue derived from recently-acquired companies;
- the mix of subscription-based versus project-based revenues;
- the effect of revenues generated from significant one-time projects or the loss of such projects;
- the timing and success of new product introductions by us or our competitors;
- variations in the demand for our products and the implementation cycles of our products by our customers;
- changes in our pricing and discounting policies or those of our competitors;
- the challenges of persuading customers to switch from incumbent service providers;
- the impact of our decision to discontinue certain products;
- the amount and timing of capital expenditures and operating costs related to the maintenance and expansion of our operations and infrastructure;
- our ability to estimate revenues and cash flows associated with business operations acquired by us;
- the uncertainties associated with the integration of acquired new lines of business, and operations in countries in which we may have little or no previous experience;
- service outages, other technical difficulties or security breaches;
- limitations relating to the capacity of our networks, systems and processes;
- maintaining appropriate staffing levels and capabilities relative to projected growth, or retaining key personnel as a result of the integration of recent acquisitions;
- adverse judgments or settlements in legal disputes;
- the cost and timing of organizational restructuring, in particular in international jurisdictions;
- the extent to which certain expenses are more or less deductible for tax purposes, such as share-based compensation that fluctuates based on the timing of vesting and our stock price;
- the timing of any additional reversal of our deferred tax valuation allowance;
- adoption of new accounting pronouncements; and
- general economic, political, industry and market conditions and those conditions specific to Internet usage and online businesses.

We believe that our quarterly revenues and results of operations on a year-over-year and sequential quarter-over-quarter basis may vary significantly in the future and that period-to-period comparisons of our operating results may not be meaningful. Investors are cautioned not to rely on the results of prior quarters as an indication of future performance.



Table of Contents

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

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

Material defects or errors in our data collection and analysis systems could damage our reputation, result in significant costs to us and impair our ability to sell our products.

Our data collection and analysis systems are complex and may contain material defects or errors. In addition, the large amount of data that we collect may make our data collection and analysis systems more susceptible to defects or errors. Moreover, as technology evolves across digital platforms, we may not be able to continue collection of certain data, due to technological, privacy or other reasons.

Our customers rely on our data collection and analysis software and systems to gain business intelligence or to gain a better understanding of their internal operations or performance. Any defect in our panelist data collection software, our census collection systems, our data collection capabilities, our enterprise focused software and systems, network systems, statistical projections or other methodologies could lead to consequences that could adversely impact operating results, including:

- loss of customers;
- damage to our brand;
- lost or delayed market acceptance and sales of our products;
- interruptions in the availability of our products;
- the incurrence of substantial costs to correct any material defect or error;
- sales credits, refunds or liability to our customers;
- diversion of development resources; and
- increased warranty and insurance costs.

We may lose customers or be liable to certain customers if we provide poor service or if our products do not comply with our customer agreements.

Errors in our systems resulting from the large amount of data that we collect, store and manage could cause the information that we collect to be incomplete or to contain inaccuracies that our customers regard as significant. The failure or inability of our systems, networks and processes to adequately handle the data in a high quality and consistent manner could result in the loss of customers. In addition, we may be liable to certain of our customers for damages they may incur resulting from these events, such as loss of business, loss of future revenues, breach of contract or loss of goodwill to their business.

Our insurance policies may not cover any claim against us for loss of data, unauthorized use of data, improper access to data, inaccuracies in data or other indirect or consequential damages and defending a lawsuit, regardless of its merit, could be costly and divert management's attention. Adequate insurance coverage may not be available in the future on acceptable terms, or at all. Any such developments could adversely affect our business and results of



operations.

40

---

## Table of Contents

If we are unable to provide cross-media analytics, or if our cross-media analytics are incomplete or inaccurate, our ability to grow or maintain our business may be harmed.

As the media and advertising industry looks to evaluate advertising campaigns across various forms of media, such as television, radio, online, and mobile, the ability to measure the combined size and composition of audiences across platforms is increasingly important and demanded. Companies who have historically held a dominant market position within individual media types: such as Nielsen in TV and, through its recent acquisition of Arbitron (now referred to as Nielsen Audio), in Radio; or MRI in magazine, are frequently relying on collaboration with partners in other media to measure multiple media platforms. We have entered into an agreement to acquire and to license certain Nielsen Audio panel data and technology, which provides us with access to both radio and television data to support our cross-platform services, however, if such panel data and technology is not sufficiently maintained, we may suffer a reduction in the quality of our metrics.

If we are unable to accurately measure or gain access to information or technology measuring a media component or type at all or on commercially reasonable terms, our ability to meet our customers' demands and our business and financial performance may be harmed. Furthermore, even if we do have access to cross-media data, if we have insufficient technology, methodology or source materials to parse the information across such media components to avoid duplications at all or in a cost-effective manner, our products may be inferior to other offerings, and we may be unable to meet our customers' demands. In which case, our business and financial performance may be harmed. In particular as mobile devices and technology continue to proliferate, gaining cost-effective access to mobile data will become increasingly critical, and the difficulty in accessing these forms of data will continue to grow.

Our business may be harmed if we change our methodologies or the scope of information we collect.

We have in the past and may in the future change our methodologies, the methodologies of companies we acquire, or the scope of information we collect. Such changes may result from identified deficiencies in current methodologies, development of more advanced methodologies, changes in our business plans, changes in technology used by websites, browsers, applications, servers, or media we measure, integration of acquired companies, changes in our access point to data or expressed or perceived needs of our customers or potential customers. Any such changes or perceived changes, or our inability to accurately or adequately communicate to our customers and the media such changes and the potential implications of such changes on the data we have published or will publish in the future, may result in customer dissatisfaction, particularly if certain information is no longer collected or information collected in future periods is not comparable with information collected in prior periods. As a result of future methodology changes, some of our existing customers or customers of acquired entities may refuse to participate, or participate only in a limited fashion, and other customers may become dissatisfied as a result of changes in our methodology and decide not to continue purchasing their subscriptions or may decide to discontinue providing us with their web beacon or other server-side information. Such customers may elect to publicly air their dissatisfaction with the methodological changes made by us, thereby damaging our brand and harming our reputation. Additionally, we expect that we will need to further integrate new capabilities with our existing methodologies if we develop or acquire additional products or lines of business in the future. The resulting future changes to our methodologies, the information we collect, or the strategy we implement to collect and analyze information, such as the movement away from pure panel-centric measurement to a hybrid of panel- and site-centric measurement, may cause additional customer dissatisfaction and result in loss of customers.

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

We believe that the quality, size and scope of our Internet, mobile and cross-media user panels are critical to our business. There can be no assurance, however, that we will be able to maintain panels of sufficient size and scope to provide the quality of marketing intelligence that our customers demand from our products. We anticipate that the cost of panel recruitment will increase with the proliferation of proprietary and secure digital media platforms (whether they be PC, mobile, tablet, or connected devices), and that the difficulty in collecting these forms of data will continue to grow which may require significant hardware and software investments, as well as increases to our panel incentive and panel management costs.

We may be required to establish new panels that are capable of providing us with information in the areas of mobile, tablets, and other emerging technologies on which people are consuming media and content. We anticipate that this may require significant hardware and software investments, and significant increases to our panel incentive and panel management costs. We have historically acquired new panels, and were able to capitalize the cost of such acquisition. If we are unable to use the same accounting approach in reporting the costs associated with establishing new panels needed, our panel costs may significantly increase our cost of revenues in the future. To the extent that such additional expenses are not accompanied by increased revenues, our operating margins may be reduced and our financial results could be adversely affected.

## Table of Contents

Moreover, if we fail to maintain our existing or newly established panels of sufficient size and scope, including coverage of international markets and users of various forms of digital platforms, customers might decline to purchase our products or renew their subscriptions, our reputation could be damaged and our business could be materially and adversely affected. We expect that our panel costs may increase and may comprise a greater portion of our cost of revenues in the future. The costs associated with maintaining and improving the quality, size and scope of our panel are dependent on many factors, many of which are beyond our control, including the participation rate of potential panel members, the turnover among existing panel members and requirements for active participation of panel members, such as completing survey questionnaires.

Concerns over the potential unauthorized disclosure of personal information or the classification of our software as “spyware” or “adware” may cause existing panel members to uninstall our software or may discourage potential panel members from installing our software. Additionally, certain features limiting or eliminating our ability to track participants built into operating systems and devices may make it harder for us to maintain our panelists. To the extent we experience greater turnover, or churn, in our panel than we have historically experienced, these costs would increase more rapidly. As we seek to enforce our privacy policies, we may be required to terminate relationships with service providers whose practices we believe may not comply with our privacy policies, and have removed and may in the future remove panel members obtained through such service providers. Such actions may result in increased costs for recruiting additional panel members. In addition, publishing content on the Internet and purchasing advertising space on Web sites may become more expensive or restrictive in the future, which could decrease the availability and increase the cost of advertising the incentives we offer to panel members. Finally, we are currently subject to privacy and data security related claims by certain panel members in a pending class action lawsuit, and we may be so again in the future. The outcome of this litigation or the negative public reaction to the details of the litigation may make it difficult for us to attract and retain panel members.

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

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

Difficulties entering into arrangements with website owners, wireless communications operators and other entities supporting server- and census-based methodologies may negatively affect our methodologies and harm our business. We believe that our methodologies are enhanced by the ability to collect information using server-based web beacon information and other census-level approaches. There can be no assurance, however, that we will be able to maintain relationships with a sufficient number and scope of websites in order to provide the quality of marketing intelligence that our customers demand from our products. If we fail to continue to expand the scope of our server-based data collection approaches, customers might decline to purchase our products or renew their subscriptions, our reputation could be damaged and our business could be adversely affected.

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

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

If we are unable to effectively persuade prospective customers to buy our services in substitution for those of an incumbent service provider, our revenue growth will be adversely affected.

Some of our newer products and initiatives, require that we persuade prospective customers, or customers of our existing products, to buy our newer products in substitution for those of an incumbent service provider. In some instances, the prospective customer may have built their systems and processes around the incumbent's products. Persuading such prospective customers to switch service providers may be difficult and require longer sales cycles, that will affect our ability to

Table of Contents

increase revenue in these areas. Moreover, the incumbent service provider may have the ability to significantly discount its services or enter into long-term agreements, which would further impede our ability to increase our revenues.

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

In recent years, we completed several strategic acquisitions. We also expect to continue to evaluate and enter into discussions regarding a wide array of potential strategic transactions, including acquiring complementary products, technologies or businesses. We also have entered into relationships with other businesses such as Google, Yahoo and Acxiom, in order to expand our product offerings. These relationships or transactions could involve preferred or exclusive licenses, discount pricing or investments in other businesses, or to expand our sales capabilities. These transactions could be material to our financial condition and results of operations, and though these transactions may provide additional benefits, they may not be profitable immediately or in the long term. Negotiating any such transactions could be time-consuming, difficult and expensive, and our ability to close these transactions may be subject to regulatory or other approvals and other conditions that are beyond our control. Consequently, we can make no assurances that any such transactions, investments or relationships, if undertaken and announced, would be completed.

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

- encounter difficulties retaining key employees of the acquired company or integrating diverse business cultures;
- issue additional equity securities that would dilute the common stock held by existing stockholders;
- incur large charges or substantial liabilities, including without limitation, liabilities associated with products or technologies accused or found to infringe third party intellectual property;
- become subject to adverse tax consequences, substantial depreciation or deferred compensation charges;
- use cash that we may need in the future to operate our business;
- enter new geographic markets that subject us to different laws and regulations that may have an adverse impact on our business;
- experience difficulties effectively utilizing acquired assets;
- encounter difficulties integrating the information and financial reporting systems of acquired foreign businesses, particularly those that operated under accounting principles other than those generally accepted in the United States prior to the acquisition by us; and
- incur debt on terms unfavorable to us or that we are unable to repay.

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

Following an acquisition of another business, we may also be required to defer the recognition of revenue that we receive from the sale of products that we acquired, or from the sale of bundles products that include products that we acquired. For instance, if we acquire a business and are not able to establish vendor specific objective evidence, or VSOE, for any undelivered elements in the arrangement, we may be required to defer substantial portions of revenue and delay recognition of those revenues. This may result in fluctuations in our operating results and may adversely affect both revenues and operating margins in a given period or periods.

Future acquisitions or dispositions could also result in dilutive issuances of our equity securities, the incurrence of debt, contingent liabilities, amortization expenses, or write-offs of goodwill, any of which could harm our financial condition. In addition, acquisitions will generally result in us recognizing significant amounts of intangible assets. If

we experience significant declines in operating results associated with past, of future, acquisitions, and the anticipated benefits of an acquisition is not expected to materialize, we may be required to perform impairment testing of our long-lived assets, and ultimately may be required to record an impairment charge.

Table of Contents

Our financial condition and results of operations could suffer if there is an additional impairment of goodwill or other intangible assets with indefinite lives.

We are required to test intangible assets with indefinite lives, including goodwill, annually and on an interim basis if an event occurs or there is a change in circumstance that would more likely than not reduce the fair value of reporting units and intangible assets below their carrying values. When the carrying value of a reporting unit's goodwill exceeds its implied fair value of goodwill, a charge to operations is recorded. If the carrying amount of an intangible asset with an indefinite life exceeds its fair value, a charge to operations is recognized. Either event would result in incremental expenses for that quarter, which would reduce any earnings or increase any loss for the period in which the impairment was determined to have occurred.

In connection with the preparation of our financial statements for the three months ended September 30, 2014, we determined to record a \$6.9 million non-cash impairment charge related to intangible assets associated with our mobile operator business line. The impairment was based primarily on an analysis of estimated future cash flows expected to be generated from those assets. In determining the impairment loss, we recorded an amount equal to the excess of the assets' carrying amount over its fair value as determined by an analysis of discounted future cash flows. Our goodwill impairment analysis is sensitive to changes in key assumptions used in our analysis, such as expected future cash flows, the degree of volatility in equity and debt markets, and our stock price. If the assumptions used in our analysis are not realized, it is possible that an impairment charge may need to be recorded in the future. We cannot accurately predict the amount and timing of any impairment of goodwill or other intangible assets. However, any such impairment would have an adverse effect on our results of operations.

Concern over spyware and privacy, including any violations of privacy laws, perceived misuse of personal information, or failure to adhere to the privacy commitments that we make, could cause public relations problems, regulatory scrutiny, and potential class action lawsuits and could impair our ability to recruit panelists or maintain panels of sufficient size and scope, which in turn could adversely affect our ability to provide our products.

Any perception of our practices as an invasion of privacy, whether legal or illegal, may subject us to public criticism, regulatory scrutiny, and potential class action lawsuits. Media coverage and public discourse initiated by lawmakers and regulators have increased the sensitivity of consumers to the collection or use of personal information and online usage information, especially through the use of third party cookies, and the possibility of an unauthorized use or disclosure of this information may create negative public reaction related to our business practices. A shift in public acceptance of measurement technologies such as third party cookies may have a chilling effect on businesses that collect or use online usage information generally or substantially increase the cost of maintaining a business that collects or uses online usage information, increase regulatory scrutiny and increase the potential of class action lawsuits. In response to marketplace concerns about the usage of third party cookies and web beacons to track user behaviors, the major browsers have enabled features that allow the user to limit the collection of certain data. We actively seek to prevent the inclusion of our cookies and beacons on the lists of companies whose activities are automatically blocked without prior individual review of those cookies and beacons by the end user. Additionally, public concern has grown regarding certain kinds of downloadable software known as "spyware" and "adware." These concerns might cause users to refrain from downloading software from the Internet, including our proprietary technology, if they inaccurately believe our software is "spyware" or "adware." This could make it difficult to recruit additional panelists or maintain a panel of sufficient size and scope to provide meaningful marketing intelligence. In response to general spyware and adware concerns in the marketplace, numerous programs are available, many of which are available for free, and that claim to identify, remove or block such software or activity. Some anti-spyware programs have in the past identified, and may in the future identify, our software as spyware or potential spyware applications. We actively seek to prevent the inclusion of our software on lists of spyware applications or potential spyware applications and apply best industry practices for obtaining appropriate consent from panelists, protect the privacy and confidentiality of our panelist data, and comply with existing privacy laws. However, to the extent that we are not successful, and anti-spyware programs classify our software as spyware, a potential spyware application, or third party service providers fail to comply with our privacy or data security requirements, our brand may be harmed and users may refrain from downloading these programs, may uninstall our software or pursue actions against us for damages.



For example, on August 23, 2011, we received notice that Mike Harris and Jeff Dunstan, individually and on behalf of a class of similarly situated individuals, filed a lawsuit against comScore in the United States District Court for the Northern District of Illinois, Eastern Division, alleging, among other things, violations by comScore 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 sought 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 Consumer Fraud and Deceptive Practices Act. On April 2, 2013, the District Court issued an order certifying a class for only

Table of Contents

three of the four claims, refusing to certify a class for unjust enrichment. On May 30, 2014, we and the plaintiffs proposed a tentative settlement subject to approval by the District Court, and on October 1, 2014, the Court issued its final approval of those terms. comScore is required to establish a \$14 million settlement fund from which class member claims, attorneys' fees and incentive awards, costs, and administrative expenses will be paid. We and our insurers contributed to the fund. The settlement also requires us to alter certain portions of our privacy policy and implement certain additional protocols to ensure that our privacy practices remain consistent with its disclosures to consumers. During the nine months ended September 30, 2014, the Company recorded a loss of \$3.5 million related to the tentative settlement. Any resulting reputational harm, potential claims asserted against us or decrease in the size or scope of our panel could reduce the demand for our products, increase the cost of recruiting panelists, adversely affect our ability to provide our products to our customers or result in additional costs in the form of settlement, judgments, restrictions on our business or diversion of resources to address and defend the claims. Any of these adverse effects could harm our business and our operating results.

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

Our business could be adversely impacted by existing or future laws or regulations of, or actions by, domestic or foreign regulatory agencies. For example, privacy concerns could lead to legislative, judicial and regulatory limitations on our ability to collect, maintain and use information about Internet users in the United States and abroad. Various state legislatures have enacted legislation designed to protect Internet users' privacy, for example, by prohibiting spyware. In recent years, similar legislation has been proposed in other states and at the federal level and has been enacted in foreign countries, most notably by the European Union, which adopted a privacy directive regulating the collection of personally identifiable information online and more recently, directives restricting the use of cookies without opt-in consent by the user, and preserving an individual's right to be forgotten. Recently, the U.S. Congress and regulators have expressed concern over the collection of Internet usage information, which started as part of a larger initiative to regulate online behavioral advertising, but which has expanded in scope to a general concern over online tracking. A similar concern has been raised by regulatory agencies in Europe. In addition, U.S. and European lawmakers and regulators have expressed concern over the use of third party cookies or web beacons to understand Internet usage. Additionally, the European Commission has issued a new directive requiring the regulation of cookies throughout the European Union, which will likely lead to the introduction of additional regulations that may vary from country to country. Furthermore, the U.S. Federal and Trade Commission recently updated its regulatory interpretation related to the Children's Online Privacy Protection Act, which may further affect the online advertising market. These laws and regulations, if drafted or interpreted broadly, could be deemed to apply to the technology we use, and could restrict our information collection methods, and the collection methods of third parties from whom we may obtain data, or decrease the amount and utility of the information that we would be permitted to collect. Even if such laws and regulations are not enacted, lawmakers and regulators may publicly call into question the collection and use of Internet or mobile usage data and may affect vendors and customers' willingness to do business with us. In addition, our ability to conduct business in certain foreign jurisdictions, such as China, is restricted by the laws, regulations and agency actions of those jurisdictions. The costs of compliance with, and the other burdens imposed by, these and other laws or regulatory actions may prevent us from selling our products or increase the costs associated with selling our products, and may affect our ability to invest in or jointly develop products in the United States and in foreign jurisdictions.

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

and harm our business.

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

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

Unauthorized disclosure of personally identifiable information regarding Web site visitors, whether through breach of our secure network by an unauthorized party, employee theft or misuse, or otherwise, could harm our business. If there were an inadvertent disclosure of personally identifiable information, or customer confidential information, or if a third party were to gain unauthorized access to the personally identifiable or customer confidential information we possess, our operations could be seriously disrupted and we could be subject to claims or litigation arising from damages suffered by panel members or

Table of Contents

pursuant to the agreements with our customers. In addition, we could incur significant costs in complying with the multitude of state, federal and foreign laws regarding the unauthorized disclosure of personal information. Finally, any perceived or actual unauthorized disclosure of the information we collect could harm our reputation, substantially impair our ability to attract and retain panelists and have an adverse impact on our business.

The success of our business depends in large part on our ability to protect and enforce our intellectual property rights. We rely on a combination of patent, copyright, service mark, trademark and trade secret laws, as well as confidentiality procedures and contractual restrictions, to establish and protect our proprietary rights, all of which provide only limited protection. In addition, where we determine necessary, we pursue enforcement of our intellectual property rights. Such enforcement action may cause us to incur costs, distract the attention of management, and result in unfavorable public opinion or outcomes that are not in our favor, each of which could adversely affect our brand, business and results of operations. While we have filed a number of patent applications and own over 60 issued patents worldwide, we cannot assure you that any additional patents will be issued with respect to any of our pending or future patent applications, nor can we assure you that any patent issued to us will provide adequate protection, or that any patents issued to us will not be challenged, invalidated, circumvented, or held to be unenforceable in actions against alleged infringers. Also, we cannot assure you that any future trademark or service mark registrations will be issued with respect to pending or future applications or that any of our registered trademarks and service marks will be enforceable or provide adequate protection of our proprietary rights. Furthermore, adequate (or any) patent, trademark, service mark, copyright and trade secret protection may not be available in every country in which our services are available.

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

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

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

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

outcomes could adversely affect our business and results of operations. Even if we prove successful in defending ourselves against such claims, we may incur substantial expenses and the active defense of such claims may divert considerable attention of our management team from the normal operation of our business.

## Table of Contents

The market for digital media analytics is developing, and if it does not develop, or develops more slowly than expected, our business will be harmed.

The market for digital media analytics products is still developing, and it is uncertain whether these products will maintain high levels of demand and increased market acceptance. Our success will depend to a substantial extent on the willingness of companies to increase their use of such products and to continue use of such products on a long-term basis. Factors that may affect market acceptance include:

- the reliability of digital media analytics products;
- public concern regarding privacy and data security;
- decisions of our customers and potential customers to develop digital media analytics internally rather than purchasing such products from third-party suppliers like us;
- decisions by industry associations in the United States or in other countries that result in association-directed awards, on behalf of their members, of digital measurement contracts to one or a limited number of competitive vendors;
- the ability to maintain high levels of customer satisfaction; and
- the rate of growth in eCommerce, online advertising and digital media.

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

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

In recent years, we acquired various businesses with substantial presence or clientele in multiple Latin American, European, Asian and Middle Eastern countries. Prior to these acquisitions, we otherwise had limited experience operating in markets outside of the United States. Our inexperience in operating our business outside of the United States may increase the risk that the international expansion efforts in which we are engaged will not be successful. In addition, conducting international operations subjects us to risks that we have not generally faced in the United States. These risks include:

- recruitment and maintenance of a sufficiently large and representative panel both globally and in certain countries;
- expanding the adoption of our server- or census-based web beacon data collection in international countries;
- different customer needs and buying behavior than we are accustomed to in the United States;
- difficulties and expenses associated with tailoring our products to local markets, including their translation into foreign languages;
- difficulties in staffing and managing international operations — including complex and costly hiring, disciplinary, and termination requirements;
- longer accounts receivable payment cycles and difficulties in collecting accounts receivable;
- potentially adverse tax consequences, including the complexities of foreign value-added taxes and restrictions on the repatriation of earnings;
- reduced or varied protection for intellectual property rights in some countries;
- the burdens of complying with a wide variety of foreign laws and regulations;
- fluctuations in currency exchange rates;
- increased accounting and reporting burdens and complexities; and
- political, social and economic instability abroad, terrorist attacks and security concerns.

Additionally, operating in international markets requires significant management attention and financial resources. We cannot be certain that the investments and additional resources required to establish and maintain operations in other countries will hold their value or produce desired levels of revenues or profitability. We cannot be certain that we will be able to maintain and increase the size of the Internet user panel that we currently have in various countries, that we will be able to recruit a representative sample for our audience measurement products, or that we will be able to enter into arrangements with a sufficient number of website owners to allow us to collect server-based information for inclusion in our digital media analytics products. In addition, there can be no assurance that Internet usage and eCommerce will continue to grow in international markets. In addition, governmental authorities in various countries have different views regarding regulatory oversight of the Internet. For example, the Chinese government has taken

steps in the past to restrict the content available to Internet users in China. The impact of any one or more of these risks could negatively affect or delay our plans to expand our international business and, consequently, our future operating results.

## Table of Contents

If the digitally-based or cross-platform focused advertising and eCommerce markets develop more slowly than we expect, our business will suffer.

Our future success will depend on continued growth in the use of the digitally based advertising, a cross-platform focus to buying advertisement campaigns, a continued increase in eCommerce spending and the proliferation of the Internet across platforms, including mobile and connected devices, for a wide variety of consumer activities. These markets are evolving rapidly, and it is not certain that their current growth trends will continue.

The adoption of advertising across digital platforms, particularly by advertisers that have historically relied on traditional offline media, requires the acceptance of new approaches to conducting business and a willingness to invest in such new approaches. Moreover the decision to adopt a cross-platform approach to buying advertisement campaigns, requires a change to buying approaches and a willingness to adopt new data analytics to assist in evaluating such approaches, by advertisement buyers who traditionally focus on buying advertising campaigns through one medium. Advertisers may perceive such new approaches to advertising or understanding advertising to be less effective than traditional methods for marketing their products. They may also be unwilling to pay premium rates for advertising that is targeted at specific segments of validated users based on their demographic profile or Internet behavior across digital media platforms. The digital media advertising and eCommerce markets may also be adversely affected by privacy issues relating to such targeted advertising, including that which makes use of personalized information, or online behavioral information. Furthermore, merchants using new digital media platforms may not be able to establish digital commerce models that are cost effective and may not learn how to effectively compete with other established Web sites or offline merchants. In addition, consumers may not continue to shift their spending on goods and services from offline outlets to other forms of digital media. As a result, growth in the use of digital media for eCommerce may not continue at a rapid rate, or digital media may not be adopted as a medium of commerce by a broad base of customers or companies worldwide. Because of the foregoing factors, among others, the market for cross-platform-focused digital media advertising and eCommerce, may not continue to grow at significant rates. If these markets do not continue to develop, or if they develop more slowly than expected, our business may suffer. Our growth depends upon our ability to retain existing large customers and add new large customers; however, to the extent we are not successful in doing so, our ability to maintain profitability and positive cash flow may be impaired. Our success depends in part on our ability to sell our products to large customers and on the renewal of the subscriptions of those customers in subsequent years. For the nine months ended September 30, 2014 and the years ended December 31, 2013 and 2012, we derived approximately 21%, 21% and 22%, respectively, of our total revenues from our top 10 customers. Uncertain economic conditions or other factors, such as the failure or consolidation of large customer companies, or internal reorganization or changes in focus, may cause certain large customers to terminate or reduce their subscriptions. Moreover, certain recently acquired companies, have revenues highly concentrated in a few large customers. The loss of any one or more of those customers could decrease our revenues and harm our current and future operating results. The addition of new large customers or increases in sales to existing large customers may require particularly long implementation periods and other significant upfront costs, which may adversely affect our profitability. To compete effectively, we have in the past been, and may in the future be, forced to offer significant discounts to maintain existing customers or acquire other large customers. In addition, we may be forced to reduce or withdraw from our relationships with certain existing customers or refrain from acquiring certain new customers in order to acquire or maintain relationships with important large customers. As a result, new large customers or increased usage of our products by large customers may cause our profits to decline and our ability to sell our products to other customers could be adversely affected.

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

We operate in several countries in South America, including Brazil, Chile and Argentina as well as countries in Europe and the United Kingdom. As such, a portion of our revenues and expenses from business operations in foreign countries are derived from transactions denominated in currencies other than the functional currency of our operations in those countries. As such, we have exposure to adverse changes in exchange rates associated with revenues and operating expenses of our foreign operations, but we do not currently enter into any hedging instruments that hedge foreign currency exchange rate risk. As we grow our international operations, and acquire companies with established



business in international regions, our exposure to foreign currency risk could become more significant. For example, at the beginning of 2014, the U.S. Dollar to euro exchange rate was approximately \$1.00 to €0.73. However, during 2014, the U.S. Dollar to euro exchange rate dropped as low as \$1.00 to €0.72 and rose as high as \$1.00 to €0.79. During the nine months ended September 30, 2014, the average U.S. Dollar to euro exchange rate was approximately \$1.00 to €0.74. There can be no guarantee that exchange rates will remain constant over the long-term. In addition to the impact from the U.S. Dollar to euro exchange rate movements, we are also impacted by movements in the exchange rates between the U.S. Dollar and various South American currencies as well as the Pound Sterling. In addition, cash held overseas would be subject to income tax withholding payments if it was repatriated to the United States. As of September 30, 2014, \$12.6 million of the \$39.6 million in cash on hand is held by foreign subsidiaries that

Table of Contents

would be subject to income tax withholding payments if it was repatriated to the United States. If we were to repatriate these funds to the United States, they would be subject to income tax payments ranging from 5% to 15% of the amount repatriated.

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

Adverse economic conditions in markets in which we operate can harm our business. If the economies of the United States and other countries experience prolonged global market uncertainty, customers may delay or reduce their purchases of digital media analytics products and services. In recent years, economic conditions in the countries in which we operate and sell products have experienced volatility, as have the global financial markets, due in part to adverse credit conditions, slower economic activity, inflation and deflation, decreased consumer confidence, increased unemployment, reduced corporate profits and capital spending, adverse business conditions, liquidity and other factors. Notwithstanding economic recovery in recent periods, economic growth may slow again in the U.S. and internationally, particularly in view of instability in the Eastern European region. During challenging economic times, and in tight credit markets, many customers may delay or reduce spending. Additionally, some of our customers may be unable to fully pay for purchases or may discontinue their businesses, resulting in the incurrence of uncollectible receivables for us. This could result in reductions in our sales, longer sales cycles, difficulties in collection of accounts receivable, slower adoption of new technologies and increased price competition. This downturn may also impact our available resources for financing new and existing operations. If global economic and market conditions, or economic conditions in the United States or other key markets begin to deteriorate, we may experience a material and adverse impact on our business, results of operations and financial condition.

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

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

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

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

analytical services companies that provide customers with detailed information of behavior on their own data, content, or web traffic, including Omniture (owned by Adobe), Coremetrics (owned by IBM), and WebTrends; and systems providers including Accenture, EMC, and Terradata;

online advertising companies that provide measurement of online ad effectiveness and ad delivery used for billing purposes, including Nielsen, DoubleClick (owned by Google), Atlas (owned by Facebook), and Kantar (owned by WPP);

large and small companies that create proprietary data and analysis of consumers' online behavior, including Nielsen, Effective Measures, Gemius, Compete Inc. (owned by WPP), Google, Inc., Hitwise (owned by Experian), Quantcast, and Visible Measures;

companies that provide audience ratings for TV, radio and other media that have extended or may extend their current services, particularly in certain international markets, to the measurement of digital media, including Nielsen, Arbitron (owned by Nielsen), Kantar, Rentrack and Taylor Nelson Sofres (owned by WPP);

full-service market research firms and survey providers that may measure online behavior and attitudes, including Harris Interactive, Ipsos, Synnovate, GFK, Kantar (owned by WPP) and Nielsen;

companies that provide behavioral, attitudinal and qualitative advertising effectiveness, including

Toluna/Nurago, Double Verify, MOAT, DataLogix, Context Web's Aperture, Ipsos OTX, Dynamic Logic, Insight

Express and Marketing Evolution; and specialty information providers for certain industries that we serve, including Manhattan Research (healthcare) and The Now Factory (telecommunications).

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

Table of Contents

large software companies, Internet portals and database management companies may enter our market or enhance their current offerings, either by developing competing services or by acquiring our competitors, and could leverage their significant resources and pre-existing relationships with our current and potential customers. Finally, consolidation of our competitors could make it difficult for us to compete effectively.

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

We may encounter difficulties managing our growth and costs, which could adversely affect our results of operations. We have experienced significant growth over the past several years in the U.S. and internationally. We have substantially expanded our overall business, customer base, headcount, data collection and processing infrastructure and operating procedures as our business has grown through both organic growth and acquisitions. As a result of downward adjustments to compensation and reductions in our workforce made in recent periods, however, we may encounter decreased employee morale and increased employee turnover. Moreover, as a result of acquisition integration initiatives, we may reduce the workforce of an acquired company or reassign personnel. Such actions may expose us to disruption by dissatisfied employees or employee-related claims, including without limitation, claims by terminated employees that believe they are owed more compensation than we believe these employees are due under our compensation and benefit plans, or claims maintained internationally in jurisdictions whose laws and procedures differ from those in the United States. In addition, during this same period, we made substantial investments in our network infrastructure operations as a result of our growth and the growth of our panel, and we have also undertaken certain strategic acquisitions.

We believe that we will need to continue to effectively manage and expand our organization, operations and facilities in order to accommodate potential future growth or acquisitions and to successfully integrate acquired businesses. If we continue to grow, either organically or through acquired businesses, our current systems and facilities may not be adequate. Our need to effectively manage our operations and cost structure requires that we continue to assess and improve our operational, financial and management controls, reporting systems and procedures. For example, we may be required to enter into leases for additional facilities or commit to significant investments in the build out of current or new facilities to support our growth. If we are unable to effectively forecast our facilities needs or if we are unable to sublease or terminate leases for unused space, we may experience increased unexpected costs. If we are not able to efficiently and effectively manage our cost structure or are unable to find appropriate space to support our needs, our business may be impaired.

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

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

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

We believe that building and maintaining awareness of comScore and our portfolio of products in a cost-effective manner is critical to achieving widespread acceptance of our current and future products and is an important element in attracting new customers. We will also need to carefully manage the brands used by recently acquired businesses as

we integrate such businesses into our own. We rely on our relationships with the media and the exposure we receive from numerous citations of our data by media outlets to build brand awareness and credibility among our customers and the marketplace. Furthermore, we believe that brand recognition will become more important for us as competition in our market increases. Our brand's success will depend on the effectiveness of our marketing efforts and on our ability to provide reliable and valuable products to our customers at competitive prices. Our brand marketing activities may not yield increased revenues, and even if they do, any increased revenues may not offset the expenses we incur in attempting to build our brand. If we fail to successfully market our

## Table of Contents

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

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

Although we have generated profits in prior periods, we incurred net losses of \$2.3 million, \$11.8 million, and \$15.8 million for the years ended December 31, 2013, 2012 and 2011, respectively. As such we cannot assure you that we will be able to achieve, sustain or increase profitability in the future, particularly if we engage in additional acquisition activity as we did in 2011 and 2010. As of September 30, 2014, we had an accumulated deficit of \$90.4 million. Because a large portion of our costs are fixed, we may not be able to reduce our expenses in response to any decrease in our revenues, which would adversely affect our operating results. In addition, we expect operating expenses to increase as we implement certain growth initiatives, which include, among other things, the development of new products, expansion of our infrastructure, plans for international expansion and general and administrative expenses associated with being a public company. If our revenues do not increase to offset these expected increases in costs and operating expenses, our operating results would be materially and adversely affected. If we continue to incur significant net losses, we may not be able to realize certain deferred tax assets associated with our net operating loss carryforwards. As of September 30, 2014, we estimate our federal and state net operating loss carryforwards for tax purposes are approximately \$33.3 million and \$38.5 million, respectively. You should not consider our revenue growth in recent periods as indicative of our future performance, as our operating results for future periods are subject to numerous uncertainties.

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

We have limited experience in determining the fees that our existing and potential customers will find acceptable for our newer offerings, including the products of companies that we recently acquired, any potential products that are developed as a result of the integration of our company with acquired companies, any new product lines we introduce, or updated or enhanced products that we introduce in the United States or worldwide. The majority of our customers purchase specifically tailored subscription packages that are priced in the aggregate. Due to the level of customization of such subscription packages, the pricing of contracts or individual product components of such packages may not be readily comparable across customers or periods. Existing and potential customers may have difficulty assessing the value of our products and services when comparing it to competing products and services. As the market for our products matures, or as new competitors introduce new products or services that compete with ours, we may be unable to renew our agreements with existing customers or attract new customers with the fees we have historically charged. As a result, it is possible that future competitive dynamics in our market as well as global economic pressures may require us to reduce our fees, which could have an adverse effect on our revenues, profitability and operating results. We depend on third parties for data that is critical to our business, and our business could suffer if we cannot continue to obtain data from these suppliers.

We rely on third-party data sources for information regarding certain activities such as television viewing and mobile usage, as well as for information about offline activities of and demographic information regarding our panelists. The availability and accuracy of this data is important to the continuation and development of our cross-media products, products that use server- or census-based information as part of the research methodology, and products that link online and offline activity. We may be required to enter into vendor relationships, strategic alliances, or even joint ventures with some third-parties in order to obtain access to the data sources that we need. If this information is not available to us at commercially reasonable terms, or is found to be inaccurate, it could harm our reputation, business and financial performance.

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

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

procedures could impede the processing of data, cause the corruption or loss of data or prevent the timely delivery of our products.

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

Table of Contents

of Internet user data may damage our reputation and result in the loss of customers, and our business and results of operations could be adversely affected.

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

We host our products and serve all of our customers from data center facilities located throughout the United States and Europe. While we operate our equipment inside these facilities, we do not control the operation of these facilities, and, depending on service level requirements, we may not continue to operate or maintain redundant data center facilities for all of our products or for all of our data, which could increase our vulnerability. These facilities are vulnerable to damage or interruption from earthquakes, hurricanes, floods, fires, power loss, telecommunications failures and similar events. They are also subject to break-ins, computer viruses, sabotage, intentional acts of vandalism and other misconduct. A natural disaster or an act of terrorism, a decision to close the facilities without adequate notice or other unanticipated problems could result in lengthy interruptions in availability of our products.

We may also encounter capacity limitations at our third-party data centers. Additionally, our data center facility agreements are of limited durations, and our data center facilities have no obligation to renew their agreements with us on commercially reasonable terms, if at all. Our agreements for our various data center facilities expire at various dates through December 2017. We believe that we have good relationships with our data center facility vendors and believe that we will be able to renew, or find alternative data center facilities, at commercially reasonable terms.

Although we are not substantially dependent on our data center facilities because of planned redundancies, and although we currently are able to migrate to alternative data centers, such a migration may result in an interruption or delay in service. If we are unable to renew our agreements with the owners of the facilities on commercially reasonable terms, or if we migrate to a new data center, we may experience delays in delivering our products until an agreement with another data center facility can be arranged or the migration to a new facility is completed.

We currently leverage a large content delivery network, or CDN, to provide services that allow us to offer a more efficient tagging methodology for certain subscription based measurement and analytics product offerings. If that service faced unplanned outage or the service became immediately unavailable, an alternate CDN provider or additional capacity in our data centers would need to be established to support the large volume of tag requests that we currently manage which would either require additional investments in equipment and facilities or a transition plan. This could unexpectedly raise the costs and could contribute to delays or losses in tag data that could affect the quality and reputation of our Media Metrix, vCE, and other data products that involve the measurement of a large amount of digitally transmitted activity across multiple providers.

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

Our operations also rely heavily on the availability of electrical power and cooling capacity, which are also supplied by third-party providers. If we or the third-party data center operators that we use to deliver our products were to experience a major power outage or if the cost of electrical power increases significantly, our operations and profitability would be harmed. If we or the third-party data centers that we use were to experience a major power outage, we would have to rely on back-up generators, which may not function properly, and their supply may be inadequate. Such a power outage could result in the disruption of our business. Additionally, if our current facilities fail to have sufficient cooling capacity or availability of electrical power, we would need to find alternative facilities. Any errors, defects, disruptions or other performance problems with our products caused by third parties could harm our reputation and may damage our business. Interruptions in the availability of our products may reduce our revenues due to increased turnaround time to complete projects, cause us to issue credits to customers, cause customers to terminate their subscription and project agreements or adversely affect our renewal rates. Our business would be harmed if our customers or potential customers believe our products are unreliable.

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



Laws and regulations that apply to communications and commerce over the Internet are becoming more prevalent. In particular, the growth and development of the market for eCommerce has prompted calls for more stringent tax, consumer protection and privacy laws in the United States and abroad that may impose additional burdens on companies conducting business online. The adoption, modification or interpretation of laws or regulations relating to the Internet or our customers' digital operations could negatively affect the businesses of our customers and reduce their demand for our products. Even if such laws and regulations are not enacted, lawmakers and regulators may publicly call into question the collection and use of Internet or mobile usage data and may affect vendors and customers' willingness to do business with us.

Table of Contents

Taxing authorities may successfully assert that we should have collected or in the future should collect sales and use, value added or similar taxes, and we could be subject to liability with respect to past or future sales, which could adversely affect our results of operations.

We do not collect sales and use, value added and similar taxes in all jurisdictions in which we have sales. Sales and use, value added and similar tax laws and rates vary greatly by jurisdiction. Certain jurisdictions in which we do not collect such taxes may assert that such taxes are applicable, which could result in tax assessments, penalties and interest, and we may be required to collect such taxes in the future. Such tax assessments, penalties and interest or future requirements may adversely affect the results of our operations.

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

The market for our products is characterized by rapid technological advances, changes in customer requirements, changes in protocols and evolving industry standards. For example, industry associations such as the Advertising Research Foundation, the Council of American Survey Research Organizations, the Internet Advertising Bureau, or IAB, and the Media Rating Council have independently initiated efforts to either review online market research methodologies or to develop minimum standards for online market research. While certain comScore products and methodologies have been accredited by industry bodies such as the Media Rating Council, any standards adopted by U.S or internationally based industry associations may lead to costly changes to our procedures and methodologies, and costly efforts to update our accreditation or obtain accreditation if necessary to maintain continued adoption of our products and methodologies. As a result, the cost of developing our digital media analytics products could increase. If we do not adhere to standards prescribed by the IAB or other industry associations, our customers could choose to purchase products from competing companies that meet such standards. Furthermore, industry associations based in countries outside of the United States often endorse certain vendors or methodologies. If our methodologies fail to receive an endorsement from an important industry association located in a foreign country, advertising agencies, media companies and advertisers in that country may not purchase our products. As a result, our efforts to further expand internationally could be adversely affected.

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

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

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

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

Changes in, or interpretations of, accounting rules and regulations, could result in unfavorable accounting charges.

Accounting methods and policies, including policies governing revenue recognition, expenses and accounting for stock options are continually subject to review, interpretation, and guidance from relevant accounting authorities, including the Financial Accounting Standards Board, or FASB, and the SEC. Changes to, or interpretations of, accounting methods or policies in the future may require us to reclassify, restate or otherwise change or revise our financial statements.

Table of Contents

Investors could lose confidence in our financial reports, and our business and stock price may be adversely affected, if our internal control over financial reporting is found by management or by our independent registered public accounting firm not to be adequate or if we disclose significant deficiencies or material weaknesses in those controls. Section 404 of the Sarbanes-Oxley Act of 2002 requires us to include a report on our internal control over financial reporting in our Annual Report on Form 10-K. That report includes management's assessment of the effectiveness of our internal control over financial reporting as of the end the fiscal year. Additionally, our independent registered public accounting firm is required to issue a report on their evaluation of the operating effectiveness of our internal control over financial reporting.

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

In future periods, we may upgrade our financial reporting systems and implement new information technology systems to better manage our business, streamline our financial reporting and enhance our existing internal controls. We may experience difficulties if we transition to new or upgraded systems, including loss of data and decreases in productivity as our personnel become familiar with new systems. In addition, we expect that our existing management information systems may require modification and refinement as we grow and our business needs change. Any modifications could prolong difficulties we experience with systems transitions, and we may not always employ the most efficient or effective systems for our purposes. If upgrades cost more or take longer than we anticipate, our operating results could be adversely affected. Moreover, if we experience difficulties in implementing new or upgraded information systems or experience system failures, or if we are unable to successfully modify our management information systems to respond to changes in our business needs, our ability to timely and effectively process analyze and prepare financial statements could be adversely affected.

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

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

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

As of September 30, 2014, we estimate our federal and state net operating loss carryforwards for tax purposes are approximately \$33.3 million and \$38.5 million, respectively. These net operating loss carryforwards will begin to expire in 2022 for federal income tax reporting purposes and in 2014 for state income tax reporting purposes.

In addition, at September 30, 2014 we estimate our aggregate net operating loss carryforwards for tax purposes related to our foreign subsidiaries are \$13.5 million, which begin to expire in 2017.

We apply a valuation allowance to certain deferred tax assets when management does not believe that it is more-likely-than-not that they will be realized. In assessing the need for any valuation allowances, we consider the reversal of existing temporary differences associated with deferred tax assets and liabilities, future taxable income, tax planning strategies and historical and future pre-tax book income (as adjusted for permanent differences between financial and tax accounting items) in

Table of Contents

order to determine if it is more likely than not that the deferred tax asset will be realized. For example, we have had several recent years of pre-tax losses, and further losses may present evidence that our net operating loss carryforwards may not be realized in future periods.

As of September 30, 2014, we had a valuation allowance related to the deferred tax assets of the foreign subsidiaries (primarily net operating loss carryforwards) that are either loss companies or are in their start-up phases, including entities in Spain, and the deferred tax asset related to certain state net operating loss carryforwards. Management will continue to evaluate the deferred tax position of our U.S. and foreign companies to determine the appropriate level of valuation allowance required against our deferred tax assets.

Restrictive covenants in the agreements governing our current and future indebtedness could restrict our operating flexibility.

The agreements governing our existing debt, and debt we may incur in the future, contain, or may contain, affirmative and negative covenants that materially limit our ability to take certain actions, including our ability to incur debt, pay dividends and repurchase stock, make certain investments and other payments, enter into certain mergers and consolidations, and encumber and dispose of assets. Credit market turmoil, adverse events affecting our business or industry, the tightening of lending standards or other factors could negatively impact our ability to obtain future financing or to refinance our outstanding indebtedness on terms acceptable to us or at all.

Our ability to draw on our loan facility may be adversely affected by conditions in the U.S. and international capital markets.

If financial institutions that have extended credit to us are adversely affected by the conditions of the U.S. and international capital and credit markets, they may be unable to fund borrowings under credit commitments to us. For example, we currently have a \$100.0 million revolving line of credit, with a \$10.0 million sublimit for standby letters of credit, a \$10 million sublimit for swing line loans and a \$10.0 million sublimit for alternative currency lending with several banks (the Lenders) with Bank of America as administrative agent and lead lender. As of September 30, 2014, no amounts are outstanding under the terms of our revolving credit facility. If the Lenders are adversely affected by capital and credit market conditions and are unable to make loans to us when requested, there could be a corresponding adverse impact on our financial condition and our ability to borrow additional funds, if needed, for working capital and general corporate purposes.

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

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

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

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

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

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

subject to significant fluctuations and may continue to fluctuate or decline.

The price of our common stock in the market may be higher or lower than the price you pay, depending on many factors, some of which are beyond our control and may not be related to our operating performance. It is possible that, in future

55

---

Table of Contents

quarters, our operating results may be below the expectations of analysts or investors. As a result of these and other factors, the price of our common stock may decline, possibly materially. These fluctuations could cause you to lose all or part of your investment in our common stock. Factors that could cause fluctuations in the trading price of our common stock include the following:

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

In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been brought against that company. If our stock price is volatile, we may become the target of securities litigation, which could result in substantial costs and divert our management's attention and resources from our business. In addition, volatility, lack of positive performance in our stock price or changes to our overall compensation program, including our equity incentive program, may adversely affect our ability to retain key employees.

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

We cannot assure you that a public trading market for our common stock will continue to develop or be sustained. If a market is not sustained, it may be difficult for you to sell your shares of common stock at an attractive price or at all. We cannot predict the prices at which our common stock will trade.

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

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

Future sales of shares by existing stockholders or new issuances of securities by us could cause our stock price to decline.

If we or our existing stockholders sell, or indicate an intention to sell, substantial amounts of our common stock or other securities in the public market, the trading price of our common stock could decline. Sales of substantial amounts of shares of our common stock or other securities by us or our existing stockholders could lower the market price of our common stock and impair our ability to raise capital through the sale of new securities in the future at a time and price that we deem appropriate.





Table of Contents

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

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

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

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

- provide for a classified board of directors so that not all members of our board of directors are elected at one time;
- authorize “blank check” preferred stock that our board of directors could issue to increase the number of outstanding shares to discourage a takeover attempt;
- prohibit stockholder action by written consent, which means that all stockholder actions must be taken at a meeting of our stockholders;
- prohibit stockholders from calling a special meeting of our stockholders;
- provide that the board of directors is expressly authorized to make, alter or repeal our bylaws; and
- provide for advance notice requirements for nominations for elections to our board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings.

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

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) Unregistered Sales of Equity Securities during the Three Months Ended September 30, 2014

None.

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

None.

Table of Contents

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

During the three months ended September 30, 2014, we repurchased the following shares of common stock:

	Total Number of Shares (or Units) Purchased (1)	Average Price Per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans of Programs (2)	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (in millions) (2)
July 1 - July 31, 2014	13,650	\$31.84	10,200	\$49.6
August 1 - August 31, 2014	57,666	\$32.70	1,900	\$49.6
September 1 - September 30, 2014	16,152	\$37.02	4,000	\$49.4
Total	87,468		16,100	\$49.4

The shares included in the table above were repurchased either in connection with (i) our exercise of the repurchase right afforded to us in connection with certain employee restricted stock awards (ii) the forfeiture of shares by an (1) employee as payment of the minimum statutory withholding taxes due upon the vesting of certain employee restricted stock and restricted stock unit awards or (iii) pursuant to our share repurchase programs described in further detail in footnote (2) to this table.

(i) For the three months ended September 30, 2014, the shares repurchased in connection with our exercise of the repurchase right afforded to us upon the cessation of employment consisted of the following:

	Total Number of Shares Purchased	Average Price Per Share
July 1 - July 31, 2014	1,683	\$—
August 1 - August 31, 2014	9,548	\$—
September 1 - September 30, 2014	500	\$—
Total	11,731	

(ii) The shares we repurchased in connection with the payment of minimum statutory withholding taxes due upon the vesting of certain restricted stock and restricted stock unit awards were repurchased at the then current fair market value of the shares. For the three months ended September 30, 2014, these shares consisted of the following:

	Total Number of Shares Purchased	Average Price Per Share
July 1 - July 31, 2014	1,767	\$35.48
August 1 - August 31, 2014	46,218	\$39.25
September 1 - September 30, 2014	11,652	\$38.48
Total	59,637	

(2) During the three months ended September 30, 2014, we conducted one share repurchase program and during the nine months ended September 30, 2014, we conducted two share repurchase programs.

June 2013 Share Repurchase Program

On June 3, 2013 we announced that our board of directors had approved the repurchase of up to \$50.0 million of our common stock. Such repurchases may be made from time to time subject to pre-determined price and volume guidelines established by our board of directors. This repurchase program concluded on May 29, 2014 and resulted in the repurchase of \$49.4 million of shares (as measured at the time of repurchase).

As part of this share repurchase program, shares may be purchased in open market transactions or pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Exchange Act. The timing, manner, price and amount of any

Table of Contents

repurchases were determined at the Company's discretion, and the share repurchase program may have been suspended, terminated or modified at any time for any reason. Shares repurchased are classified as Treasury Stock. Details of the share repurchases during the three and nine months ended September 30, 2014 under the June 2013 share repurchase program were as follows:

	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2014
(Amounts in millions, except share and per share data)	—	
Total number of shares repurchased	—	1,237,572
Average price paid per share	—	\$29.33
Total value of shares repurchased (as measured at time of repurchase)	—	\$36.3 million

## June 2014 Share Repurchase Program

On June 5, 2014 we announced that our board of directors had approved the repurchase of up to an additional \$50.0 million of our common stock. Such repurchases may be made from time to time subject to pre-determined price and volume guidelines established by our board of directors and commenced on June 6, 2014. As of September 30, 2014, there is \$49.4 million remaining under the share repurchase program.

As part of the share repurchase program, shares may be purchased in open market transactions or pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Exchange Act. The timing, manner, price and amount of any repurchases will be determined at our discretion, and the share repurchase program may be suspended, terminated or modified at any time for any reason. Shares repurchased are classified as Treasury Stock. Details of the share repurchases during the three and nine months ended September 30, 2014 under the June 2014 share repurchase program were as follows:

	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2014
(Amounts in millions, except share and per share data)		
Total number of shares repurchased	16,100	16,100
Average price paid per share	\$36.86	\$36.86
Total value of shares repurchased (as measured at time of repurchase)	\$0.6 million	\$0.6 million

## Item 3. Defaults Upon Senior Securities

None.

## Item 4. Mine Safety Disclosures

Not Applicable.

## Item 5. Other Information

(a)

Item 5.02. Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers;

5.02. Compensatory Arrangements of Certain Officers.

## Change of Control and Severance Agreements

On October 28, 2014, the compensation committee of our board of directors (the "Compensation Committee"), following consultation with a third party compensation consultant, approved Change of Control and Severance Agreements (each, an "Agreement" and collectively, the "Agreements") for certain members of our management, including our principal executive officer, principal financial officer and each of our other current named executive officers: Serge Matta; Melvin Wesley; Magid M. Abraham; Gian M. Fulgoni; and Cameron Meierhoefer (each a "Named Executive"). The Agreements are substantially



Table of Contents

similar to the prior Change of Control and Severance Agreements entered into with us by certain of our officers in July 2010 that expired in July 2014.

Each of the Agreements has a three-year initial term with a one-time automatic three-year renewal, and an automatic 12-month extension following the date of a change of control. Each of the Agreements provides that if, prior to a change of control, we terminates the Named Executive's employment without cause, or the Named Executive resigns from such employment for good reason, then subject to certain covenants the Named Executive would be entitled to the following severance benefits:

- payment of all accrued but unpaid vacation, expense reimbursements, wages and other benefits due under Company-provided plans, policies and arrangements;

- continuing payments at a rate equal to the Named Executive's annual base salary then in effect, for the duration of a specified severance period (as identified in the table below for each Named Executive), to be paid periodically in accordance with our normal payroll policies; and

- reimbursement of COBRA premiums until the earlier of the expiration of the specified severance period or the date that the Named Executive becomes covered under a similar plan.

The table below identifies the severance period specified in the Agreements for each Named Executive:

Named Executive	Severance Period
Serge Matta	Two years
Magid M. Abraham	Two years
Gian M. Fulgoni	One and one-half years
Mel Wesley	Six months for first two years as chief financial officer; thereafter one and one-quarter years
Cameron Meierhoefer	one year

Each of the Agreements also provides that if, on or within 12 months after a change of control, we terminate the Named Executive's employment without cause, or the Named Executive resigns for good reason, then subject to certain covenants the Named Executive would be entitled to the following severance benefits:

- payment of all accrued but unpaid vacation, expense reimbursements, wages and other benefits due under Company-provided plans, policies and arrangements;

- a lump sum payment (less applicable withholding taxes) equal to a specified change of control multiple (as identified in the chart below for each Named Executive) multiplied by the Named Executive's annual base salary in effect immediately prior to the Named Executive's termination date or, if greater, at the level in effect immediately prior to the change of control; and

- reimbursement of COBRA premiums until the earlier of the expiration of a specified severance period (as identified in the table above for each Named Executive) or the date that the Named Executive becomes covered under a similar plan.

The table below identifies the change of control multiple specified in the Agreements for each Named Executive:

Named Executive	Change Of Control Multiple
Serge Matta	2x
Magid M. Abraham	2x
Gian M. Fulgoni	1.5x
Mel Wesley	1.25x
Cameron Meierhoefer	1x

Each of the Agreements with Messrs. Matta, Wesley and Meierhoefer provides that if the Named Executive remains employed by or continues to provide services to us through the one-year anniversary of a change of control, one hundred percent of the Named Executive's then outstanding and unvested equity awards as of the date of the change of control shall accelerate and become vested in full. The Agreements for Mr. Fulgoni and Dr. Abraham provide for accelerated vesting of one hundred percent of their then outstanding and unvested equity awards upon a change of

control.

60

---



Table of Contents

In the event that the benefits under an Agreement would (i) constitute “parachute payments” within the meaning of Section 280G of the Internal Revenue Code (the “Code”) or (ii) would be subject the excise tax imposed by Section 4999 of the Code, the Named Executive would receive such payment as would entitle the Named Executive to receive the greatest after-tax benefit.

Item 6. Exhibits

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

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

comScore, Inc.

/s/ Melvin Wesley III  
Melvin Wesley III  
Chief Financial Officer  
(Principal Financial Officer and  
Duly Authorized Officer)

Date: October 29, 2014

Table of Contents

EXHIBIT INDEX

Exhibit No.	Exhibit Document
3.1(1)	Amended and Restated Certificate of Incorporation of the Registrant (Exhibit 3.3)
3.2(1)	Amended and Restated Bylaws of the Registrant (Exhibit 3.4)
10.1	Form of Change of Control and Severance Agreement
10.2	2007 Equity Incentive Plan, as amended and restated September 8, 2014
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101(2)	Interactive Data Files Pursuant to Rule 405 of Regulation S-T: (i) Consolidated Statements of Operations for the three and nine months ended September 30, 2014 and 2013, (ii) Consolidated Balance Sheets as of September 30, 2014 and December 31, 2013, (iii) Consolidated Statements of Stockholders' Equity for the nine months ended September 30, 2014 and 2013, (iv) Consolidated Statements of Cash Flows for the nine months ended September 30, 2014 and 2013 and (v) Notes to Consolidated Financial Statements XBRL Exhibits.

Incorporated by reference to the exhibits to the Registrant's Registration Statement on Form S-1, as amended, dated (1) June 26, 2007 (No. 333-141740). The number given in parentheses indicates the corresponding exhibit number in such Form S-1.

In accordance with Rule 406T of Regulation S-T, the information in these exhibits is furnished and deemed not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Exchange Act of 1934, and otherwise is not subject to (2) liability under these sections and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such filing.