COMSCORE, INC.
Form 10-Q
May 07, 2010

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2010

or

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

For the transition period from __________ to __________

Commission file number: 000-1158172

comScore, Inc.

(Exact name of registrant as specified in its charter)

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

(703) 483-2000

(Registrant s telephone number, including area code)

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

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

Indicate by check mark whether the registrant 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 o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: As of May 6, 2010, there were 31,006,306 shares of the registrant s common stock outstanding.

COMSCORE, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2010
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CAUTIONARY NOTE CONCERNING FORWARD-LOOKING STATEMENTS

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

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

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PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

COMSCORE, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	March 31, 2010 (Unaudited)		December 31, 2009	
Current assets:				
Cash and cash equivalents	$	64,630	$	58,284
Short-term investments		17,306		29,833
Accounts receivable, net of allowances of $468 and $510, respectively		32,841		34,922
Prepaid expenses and other current assets		3,093		2,324
Deferred tax asset		10,440		11,044
Total current assets		128,310		136,407
Long-term investments		2,809		2,809
Property and equipment, net		20,259		17,302
Other non-current assets		192		193
Long-term deferred tax asset		9,745		9,938
Intangible assets, net		17,622		8,745
Goodwill		49,792		42,014
Total assets	$	228,729	$	217,408
Current liabilities:				
Accounts payable	$	2,490	$	2,009
Accrued expenses		10,191		8,370
Deferred revenues		51,531		48,140
Deferred rent		1,288		1,231
Capital lease obligations		1,346		360
Total current liabilities		66,846		60,110
Deferred rent, long-term		8,306		8,210
Capital lease obligations, long-term		3,232		674
Other long-term liabilities		475		475
Total liabilities		78,859		69,469
Commitments and contingencies				
Stockholders equity:				

Preferred stock, $0.001 par value; 5,000,000 shares authorized at March 31, 2010 and December 31, 2009; no shares issued or outstanding at March 31, 2010 and December 31, 2009		
Common stock, $0.001 par value per share; 100,000,000 shares authorized at March 31, 2010 and December 31, 2009; 30,955,439 and 30,385,590 shares issued and outstanding at March 31, 2010 and December 31, 2009, respectively	31	30
Additional paid-in capital	201,299	199,270
Accumulated other comprehensive (loss) income	(4)	324
Accumulated deficit	(51,456)	(51,685)
Total stockholders equity	149,870	147,939
Total liabilities and stockholders equity	$ 228,729	$ 217,408

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

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

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Revenues	**$ 36,139**	**$ 30,624**
Cost of revenues (excludes amortization of intangible assets resulting from acquisitions shown below)(1)	10,359	10,036
Selling and marketing(1)	12,718	10,486
Research and development(1)	5,047	4,005
General and administrative(1)	6,206	4,507
Amortization of intangible assets resulting from acquisitions	507	320
Total expenses from operations	**34,837**	**29,354**
Income from operations	**1,302**	**1,270**
Interest and other income, net	114	175
(Loss) gain from foreign currency	(117)	12
Income before income taxes	**1,299**	**1,457**
Provision for income taxes	(1,070)	(1,180)
Net income	**$ 229**	**$ 277**
Net income attributable to common stockholders per common share:		
Basic	**$ 0.01**	**$ 0.01**
Diluted	**$ 0.01**	**$ 0.01**
Weighted-average number of shares used in per share calculation common stock:		
Basic	30,630,461	29,477,369
Diluted	31,475,136	30,461,974

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

Cost of revenues	$	230	$	320
Selling and marketing		1,219		1,113
Research and development		264		238
General and administrative		961		629
Comprehensive (loss) income:				
Net income	$	229	$	277
Other comprehensive (loss) income:				
Foreign currency cumulative translation adjustment		(325)		(129)
Unrealized loss on marketable securities, net of tax effect of $6,000 and $34,000 for the three months ended March 31, 2010 and 2009, respectively		(3)		(53)
Total comprehensive (loss) income	**$**	**(99)**	**$**	**95**

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

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COMSCORE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31,	
	2010	**2009**
	(Unaudited) (In thousands)	
Operating activities		
Net income	$ 229	$ 277
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,619	1,511
Amortization of intangible assets resulting from acquisitions	507	320
Provisions for bad debts	17	271
Stock-based compensation	2,676	2,300
Amortization of deferred rent	(219)	(99)
Amortization of bond premium	112	51
Deferred tax provision	811	1,253
Loss on asset disposal	1	16
Changes in operating assets and liabilities:		
Accounts receivable	3,802	(2,423)
Prepaid expenses and other current assets	189	(307)
Accounts payable, accrued expenses, and other liabilities	1,168	(2,544)
Deferred rent	365	350
Deferred revenues	3,478	1,299
Net cash provided by operating activities	14,755	2,275
Investing activities		
Acquisition, net of cash acquired	(16,788)	
Purchase of investments		(20,587)
Sales and maturities of investments	12,754	13,211
Purchase of property and equipment	(1,689)	(2,854)
Net cash used in investing activities	(5,723)	(10,230)
Financing activities		
Proceeds from the exercise of common stock options	608	123
Repurchase of common stock	(2,910)	(1,076)
Principal payments on capital lease obligations	(90)	(237)
Net cash used in financing activities	(2,392)	(1,190)
Effect of exchange rate changes on cash	(294)	(126)

Net increase (decrease) in cash and cash equivalents	6,346	(9,271)
Cash and cash equivalents at beginning of period	58,284	34,297
Cash and cash equivalents at end of period	$ 64,630	$ 25,026

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

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COMSCORE, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Organization

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

The Company s digital marketing intelligence platform is comprised of proprietary databases and a computational infrastructure that measures, analyzes and reports on digital activity. The foundation of the platform is data collected from a panel of more than two million Internet users worldwide who have granted to the Company explicit permission to confidentially measure their Internet usage patterns, online and certain offline buying behavior and other activities. For measuring and reporting online audiences, comScore also supplements panel information with Web site server metrics in order to account for 100 percent of a Web site s audience. By applying advanced statistical methodologies to the panel data, the Company projects consumers online behavior for the total online population and a wide variety of user categories. Also, with key acquisitions, the Company has expanded its abilities to provide its customers a more robust solution for the mobile medium as well as expanded its abilities to provide its customers with actionable information to improve their creative and strategic messaging. Acquisitions have also enabled the Company to expand its geographic sales coverage.

2. Summary of Significant Accounting Policies

Basis of Presentation and Consolidation

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

Unaudited Interim Financial Information

The consolidated financial statements included in this quarterly report on Form 10-Q have been prepared by the Company without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been condensed or omitted pursuant to such rules and regulations. However, the Company believes that the disclosures contained in this quarterly report comply with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended, for a quarterly report on Form 10-Q and are adequate to make the information presented not misleading. The consolidated 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 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, 2009, filed March 12, 2010 with the SEC. The results of operations for the three months ended March 31, 2010 are not necessarily indicative of the results to be anticipated for the entire year ending December 31, 2010 or thereafter. All references to March 31, 2010 and 2009 in the notes to the consolidated 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 identification and quantification of income tax liabilities due to uncertain tax positions, valuation of marketable securities, recoverability of intangible assets, other long-lived assets and goodwill, and the determination of the allowance for doubtful accounts. The Company bases its estimates on historical experience and assumptions that it believes are reasonable. Actual results could differ from those estimates.

Fair Value Measurements

The Company evaluates the fair value of certain assets and liabilities using the fair value hierarchy. Fair value is an exit price representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the Company applies the three-tier value hierarchy which prioritizes the inputs used in measuring fair value as follows:

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Level 1 observable inputs such as quoted prices in active markets;
Level 2 inputs other than the quoted prices in active markets that are observable either directly or indirectly;
Level 3 unobservable inputs of which there is little or no market data, which require the Company to develop its own assumptions.

This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. On a recurring basis, the Company measures its marketable securities at fair value and determines the appropriate classification level for each reporting period. The Company is required to use significant judgments to make this determination.

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

Cash equivalents, investments, accounts receivable, prepaid expenses and other assets, accounts payable, accrued expenses, deferred revenue, deferred rent and capital lease obligations reported in the consolidated balance sheets equal or approximate their respective fair values.

Assets and liabilities that are measured at fair value on a non-recurring basis include intangible assets and goodwill. The Company recognizes these items at fair value when they are considered to be impaired. During the three months ended March 31, 2010 and 2009, there were no fair value adjustments for assets and liabilities measured on a non-recurring basis.

Cash and Cash Equivalents and Investments

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

Investments, which consist principally of U.S. treasury bills, U.S. treasury notes and auction rate securities, are stated at fair value. These securities are accounted for as available-for-sale securities. Unrealized holding gains and losses for available-for-sale securities are excluded from earnings and reported as a net amount in a separate component of stockholders equity until realized. Realized gains and losses on available-for-sale securities are included in interest income. Interest and dividends on securities classified as available-for-sale are included in interest income. The Company uses the specific identification method to compute realized gains and losses on its investments. Realized gains and losses for the three months ended March 31, 2010 and 2009 were not material.

Interest income on investments was $96,000 and $195,000 for the three months ended March 31, 2010 and 2009, respectively.

Accounts Receivable

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

Property and Equipment

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

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. All subsequent changes to a 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 valuation allowance are recognized as a reduction or increase to income tax expense or as a direct adjustment to additional paid-in capital as required. Acquired in-process research and development is capitalized as an intangible asset and amortized over its estimated useful life.

Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of identifiable assets acquired and liabilities assumed when other businesses are acquired. The allocation of the purchase price to intangible assets and goodwill involves the extensive use of management s estimates and assumptions, and the result of the allocation process can have a significant impact on future operating results. The Company estimates the fair value of identifiable intangible assets acquired using several different valuation approaches, including the relief from royalty method and, income and market approaches. The relief from royalty method assumes that if the Company did not own the intangible asset or intellectual property, it would be willing to pay a royalty for its use. The Company generally uses the relief from royalty method for estimating the value of acquired technology/methodology assets. The income approach converts the anticipated economic benefits that the Company assumes will be realized from a given asset into value. Under this approach, value is measured as the present value of anticipated future net cash flows generated by an asset. The Company generally uses the income approach to value customer relationship assets and non-compete agreements. The market approach compares the acquired asset to similar assets that have been sold. The Company generally uses the market approach to value trademarks and brand assets.

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 one 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 2009 and determined that there was no impairment of goodwill. There have been no indicators of impairment suggesting that an interim assessment was necessary for goodwill since the October 1, 2009 test.

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

	Useful Lives (Years)
Acquired methodologies/technology	3 to 10
Customer relationships	7
Panel	7
Intellectual property	10
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 the recoverability of 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, the Company records an impairment loss equal to the excess of the asset s carrying amount over its fair value. The fair value is determined based on valuation techniques such as a comparison to fair values of similar assets or using a discounted cash flow analysis. Although the Company believes that the carrying values of its long-lived assets are appropriately stated, changes in strategy or market conditions or significant technological developments could significantly impact these judgments and require adjustments to recorded asset balances. There were no impairment charges recognized during the three months ended March 31, 2010 or 2009.

Lease Accounting

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 in the accompanying consolidated balance sheets. Leasehold improvements funded by landlord incentives or allowances are recorded as leasehold improvement assets and a deferred rent liability which is amortized as a reduction of rent expense over the term of the lease.

Foreign Currency Translation

The 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 Other comprehensive income.

The Company incurred a foreign currency transaction loss of $117,000 for the three months ended March 31, 2010 and realized a foreign currency transaction gain of $12,000 for the three months ended March 31, 2009. These losses and gains are the result of transactions denominated in currencies other than the functional currency of the Company s foreign subsidiaries.

Revenue Recognition

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

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

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

Certain of the Company s arrangements contain multiple elements, consisting of the various services the Company offers. Multiple element arrangements typically consist of a subscription to the Company s online database combined with customized services. The Company has determined that there is not objective and reliable evidence of fair value for any of its services and, therefore, accounts for all elements in multiple elements arrangements as a single unit of accounting. Access to data under the subscription element is generally provided shortly after the execution of the contract. However, the initial delivery of customized services generally occurs subsequent to contract execution. The Company recognizes the entire arrangement fee over the performance period of the last deliverable. As a result, the total arrangement fee is recognized on a straight-line basis over the period beginning with the commencement of the last customized service delivered.

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

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

Stock-Based Compensation

The Company measures and recognizes compensation expense for share-based awards based on the estimated fair value on the date of grant. The Company estimates the fair value of each option award on the date of the grant using the Black-Scholes option-pricing model. This model is affected by the Company s stock price as well as estimates regarding a number of variables including expected stock price volatility over the term of the award and projected employee stock option exercise behaviors. The fair value of the restricted stock awards is determined based on the quoted market price of the Company s common stock on the grant date. For stock-based awards subject to graded vesting, the Company has utilized the straight-line ratable method for allocating compensation cost by period. The Company recorded stock-based compensation expense of $2.7 million and $2.3 million for the three months ended March 31, 2010 and 2009, respectively. As of December 31, 2009, there was an accrual for $1.7 million for compensation earned during 2009 that was settled with shares of restricted stock granted in February 2010.

Income Taxes

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

The Company records a valuation allowance when it determines, based on available positive and negative evidence, that it is more likely than not that some portion or all of its deferred tax assets will not be realized. The Company determines the realizability of its deferred tax assets primarily based on 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 recognition 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

Diluted earnings per share for common stock reflects the potential dilution that could result if securities or other contracts to issue common stock were exercised or converted into common stock. Diluted earnings per share assumes the exercise of stock options and warrants using the treasury stock method.

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The following table sets forth the computation of basic and diluted earnings per share:

	Three Months Ended March 31,	
	2010	2009
	(Unaudited) (In thousands, except share and per share data)	
Net income	$ 229	$ 277
Weighted-average shares outstanding-common stock, basic	30,630,461	29,477,369
Dilutive effect of:		
Options to purchase common stock	787,248	956,956
Unvested shares of restricted stock units	47,057	24,637
Warrants to purchase common stock	10,370	3,012
Weighted-average shares outstanding-common stock, diluted	31,475,136	30,461,974
Net income per share- common stock:		
Basic	$ 0.01	$ 0.01
Diluted	$ 0.01	$ 0.01

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

	Three Months Ended March 31,	
	2010	2009
	(Unaudited)	
Stock options and restricted stock units	41,316	167,203
Common stock warrants		2,000

Recent Pronouncements

In September 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2009-13, *Multiple-Deliverable Revenue Arrangements* (ASU 2009-13), which amends the revenue guidance under the FASB Codification of Accounting Standards Subtopic 605-25, *Multiple Element Arrangements*. ASU 2009-13 addresses how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting and how arrangement consideration shall be measured and allocated to the separate units of accounting in the arrangement. ASU 2009-13 is effective for periods beginning after December 15, 2010 with earlier adoption permitted. The Company is currently evaluating the timing of its adoption of ASU 2009-13 and the impact that ASU 2009-13 will have on its consolidated financial statements.

3. Acquisitions

Certifica

On November 11, 2009, comScore completed its acquisition of Certifica, a leading analyst of Internet traffic measurement in Latin America, pursuant to the Agreement and Plan of Acquisition dated November 11, 2009, (the Acquisition). Pursuant to the Agreement and Plan of Acquisition, the Company acquired all of the outstanding common stock of Certifica in a cash transaction.

The Acquisition resulted in goodwill of approximately $1.9 million. This amount represents the residual amount of the total purchase price after allocation to net assets and indentifiable intangible assets acquired. Included in the total net assets acquired was approximately $679,000 in liabilities related to uncertain tax positions. The amount recorded for goodwill is consistent with the Company s intentions for the acquisition of Certifica. The Company acquired Certifica to strengthen its presence in the Latin America region and enable the Company to offer hybrid measurement as part of its Media Metrix 360 initiative using the same state-of-the-art measurement technologies the Company uses elsewhere in the world.

Definite-lived intangible assets of $1.2 million consist of the value assigned to Certifica s customer relationships, trade name and its core technology of $946,000, $157,000 and $51,000 respectively. The useful lives range from two to seven years (see Note 2).

The Company uses its best estimates and assumptions as a part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the business combination date, its estimates and assumptions are inherently uncertain and subject to refinement. As a result, during the preliminary purchase price allocation period, which may be up to one year from the business combination date, the Company records adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. The Company records adjustments to assets acquired or liabilities assumed subsequent to the purchase price allocation period in our operating results in the period in which the adjustments were determined.

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ARSgroup

On February 19, 2010, comScore completed its acquisition of ARSgroup (ARS), a leading technology-driven market research firm that measures the persuasion of advertising on TV and multi-media platforms, pursuant to the Agreement and Plan of Acquisition dated February 10, 2010, (the ARS Acquisition). Pursuant to the Agreement and Plan of Acquisition, the Company acquired all of the outstanding common stock of ARS in a cash transaction.

The ARS Acquisition resulted in goodwill of approximately $7.8 million. This amount represents the residual amount of the total purchase price of $17.7 million after allocation to net assets and indentifiable intangible assets acquired. The amount recorded for goodwill is consistent with the Company s intentions for the acquisition of ARS. The Company acquired ARS to provide it with technology-driven market research capabilities for measuring the effectiveness of advertising creative content. The additional resources will allow the Company to create new products and tools for designing and measuring more effective advertising on TV, online, and cross media campaigns.

Definite-lived intangible assets of $9.5 million consist of the value assigned to ARS s methodology and database, customer relationships and trade name of $4.1 million, $4.1 million and $1.3 million, respectively. The useful lives range from two to ten years (see Note 2).

The Company uses its best estimates and assumptions as a part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the business combination date, its estimates and assumptions are inherently uncertain and subject to refinement. As a result, during the preliminary purchase price allocation period, which may be up to one year from the business combination date, the Company records adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. The Company records adjustments to assets acquired or liabilities assumed subsequent to the purchase price allocation period in our operating results in the period in which the adjustments were determined. The Company is currently awaiting additional information to determine if ARS will make an Internal Revenue Code section 338(h)(10) election with respect to the acquisition transaction. With such an election, the Company will have fair market value basis in the ARS assets and liabilities for both tax and book purposes and no opening deferred tax balances. However, if the election is not made, the Company will need to record deferred tax assets and/or liabilities for any basis differences between book and tax basis amounts in the ARS assets and liabilities as of the acquisition date. If deferred tax assets and/or deferred tax liabilities are recorded, the offset will be to goodwill. In addition, the Company is awaiting information to support the fair value of the acquired office lease.

4. Investments and Fair Value Measurements

As of March 31, 2010 and December 31, 2009, the Company had $2.8 million in long-term investments consisting of four separate auction rate securities with a par value of $4.3 million.

Auction rate securities are generally long-term debt instruments that provide liquidity through a Dutch auction process that resets the applicable interest rate at pre-determined calendar intervals, generally every 28 days. This mechanism typically allows existing investors to rollover their holdings and to continue to own their respective securities or liquidate their holdings by selling their securities at par value. These securities often are insured against loss of principal and interest by bond insurers. In prior years, the Company invested in these securities for short periods of time as part of its investment policy. However, since 2007, the uncertainties in the credit markets have limited the ability of the Company to liquidate its holdings of certain auction rate securities because the amount of securities submitted for sale has exceeded the amount of purchase orders. Accordingly, the Company continues to hold these long-term securities and is due interest at a higher rate than similar securities for which auctions have cleared. The four remaining securities were valued using a discounted cash flow model that takes into consideration the financial condition of the issuers, the workout period, the discount rate and other factors.

As of March 31, 2010, based on the Company s updated valuation, no further adjustments to the carrying value of these investments was necessary. The Company is unsure as to when the liquidity issues relating to these investments will improve. Accordingly, the Company classified these securities as non-current as of March 31, 2010 and December 31, 2009. If the credit ratings of the issuers, the bond insurers or the collateral deteriorate further, the Company may further adjust the carrying value of these investments.

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

	Amortized Cost	Gross Unrealized Gain	Aggregate Fair Value	Classification on Balance Sheet Short-Term Investments	Long-Term Investments
As of March 31, 2010:					
U.S. treasury notes	$ 17,073	$ 16	$ 17,089	$ 17,089	$
Investments in public company stock	216	1	217	217	
Auction rate securities	2,380	429	2,809		2,809
	$ 19,669	$ 446	$ 20,115	$ 17,306	$ 2,809

		Gross	Aggregate	Classification on Balance Sheet	

(iii)

Sole power to dispose or to direct the disposition of

See Item 7 of each cover page.

(iv)

Shared power to dispose or to direct the disposition of

See Item 8 of each cover page.

Item 5.

Ownership of Five Percent or Less of a Class

Not applicable.

Item 6.

Ownership of More than Five Percent on Behalf of Another Person

In connection with the transactions described herein, Efficacy Capital entered into (i) an Investment Advisory Agreement, dated as of October 20, 2004, by and between Efficacy Capital and Ronin Capital, LLC (the Ronin Agreement), and (ii) an Investment Advisory Agreement, dated as of May 7, 2006, by and between Efficacy Capital and FMG Special Opportunity Fund Ltd. (the FMG Agreement). The Ronin Agreement permits Efficacy Capital to purchase and sell Shares through a broker on behalf of Ronin Capital, LLC. The FMG Agreement permits Efficacy

Capital to purchase, sell, and vote Shares, and to give proxies for Shares, on behalf of FMG Special Opportunity Fund Ltd.

Item 7.

Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on By the Parent Holding Company or Control Person

Not applicable.

Item 8.

Identification and Classification of Members of the Group

Not applicable.

Item 9.

Notice of Dissolution of Group

Not applicable.

Item 10. Certification

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

Signature

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

3/2/2008
Date

/s/ Mark Lappe
Mark Lappe

/s/ Jon Faiz Kayyem
Jon Faiz Kayyem

Efficacy Capital Ltd.,
a Bermuda limited liability company

/s/ Mark Lappe
By: Mark Lappe
Its: Managing Partner

Efficacy Biotech Fund, L.P.,
a Delaware limited partnership

By: Efficacy Capital Ltd.
Its: General Partner

/s/ Mark Lappe
By: Mark Lappe
Its: Managing Partner

Efficacy Biotech Fund Limited,
a Bermuda Exempted Mutual Fund Company

By: Efficacy Capital Ltd.
Its: Manager

/s/ Mark Lappe
By: Mark Lappe
Its: Managing Partner

Efficacy Biotech Master Fund Ltd.,
a Bermuda Exempted Mutual Fund Company

By: Efficacy Capital Ltd.
Its: Manager

/s/ Mark Lappe
By: Mark Lappe
Its: Managing Partner