COMSCORE, INC.
Form 10-Q
November 09, 2018

UNITED STATES 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 September 30, 2018
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	54-1955550
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

11950 Democracy Drive, Suite 600
Reston, Virginia 20190
(Address of Principal Executive Offices)
(703) 438-2000
(Registrant's Telephone Number, Including Area Code)

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 ¨
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes þ No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	þ	Accelerated filer	¨
Non-accelerated filer	o	Smaller reporting company	¨
		Emerging growth company	¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: As of November 6, 2018, there were 58,906,715 shares of the registrant's common stock outstanding.

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COMSCORE, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2018
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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (this "10-Q"), including the information contained in Item 2. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this report, and the information incorporated by reference in this 10-Q, contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are all statements other than statements of historical fact. We attempt, whenever possible, to identify these forward-looking statements by words such as “may,” “will,” “should,” “could,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “predict,” “intend,” “potential,” “continue,” “se of those words and other comparable words. Similarly, statements that describe our business strategy, goals, prospects, opportunities, outlook, objectives, plans or intentions are also forward-looking statements. These statements may relate to, but are not limited to, expectations of future operating results or financial performance, macroeconomic trends that we expect may influence our business, plans for financing and capital expenditures, expectations regarding liquidity and compliance with financing covenants, expectations regarding the introduction of new products, effects of restructuring actions, regulatory compliance and expected changes in the regulatory landscape affecting our business, planned remediation activities, expected impact of litigation, plans for growth and future operations, effects of acquisitions, divestitures and partnerships, 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 statements are based on current expectations and assumptions regarding future events and business performance and involve known and unknown risks, uncertainties and other factors that may cause actual events or results to be materially different from any future events or results expressed or implied by these statements. These factors include those set forth in the following discussion and elsewhere within this report.

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. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this 10-Q. You should carefully review the risk factors described in other documents that we file from time to time with the U.S. Securities and Exchange Commission, or "SEC". Except as required by applicable law, including the rules and regulations of the SEC, we do not plan to publicly update or revise any forward-looking statements, whether as a result of any new information, future events or otherwise, other than through the filing of periodic reports in accordance with the Securities Exchange Act of 1934, as amended. 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

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ITEM 1. FINANCIAL STATEMENTS
COMSCORE, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)

	As of September 30, 2018 (Unaudited)	As of December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 47,876	$ 37,859
Restricted cash	6,338	7,266
Accounts receivable, net of allowances of $1,073 and $1,991, respectively ($2,759 and $2,899 of accounts receivable attributable to related parties, respectively)	61,900	82,029
Prepaid expenses and other current assets	20,254	15,168
Insurance recoverable on litigation settlements	—	37,232
Total current assets	136,368	179,554
Property and equipment, net	27,315	28,893
Other non-current assets	9,572	7,259
Deferred tax assets	3,591	4,532
Intangible assets, net	135,110	159,777
Goodwill	641,594	642,424
Total assets	$ 953,550	$ 1,022,439
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable ($1,467 and $2,715 attributable to related parties, respectively)	$ 19,716	$ 27,889
Accrued expenses ($5,089 and $5,857 attributable to related parties, respectively)	48,352	86,031
Accrued litigation settlements	4,375	27,718
Other current liabilities	8,029	10,485
Customer advances ($2,188 and $2,755 attributable to related parties, respectively)	72,119	98,367
Total current liabilities	152,591	250,490
Financing derivatives (related party)	21,800	—
Senior secured convertible notes (related party)	175,850	—
Deferred tax liabilities	6,033	3,641
Accrued litigation settlements	875	90,800
Other non-current liabilities	27,859	21,016
Total liabilities	385,008	365,947
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.001 par value per share; 5,000,000 shares authorized at September 30, 2018 and December 31, 2017; no shares issued or outstanding as of September 30, 2018 and December 31, 2017	—	—
Common stock, $0.001 par value per share; 150,000,000 shares authorized as of September 30, 2018 and 100,000,000 shares authorized as of December 31, 2017; 65,664,431 shares issued and 58,899,635 shares outstanding as of September 30, 2018, and 60,053,843 shares issued and 57,289,047 shares outstanding as of December 31, 2017	59	60
Additional paid-in capital	1,549,371	1,407,717

Accumulated other comprehensive loss	(9,013)	(6,224)
Accumulated deficit	(741,891)	(609,091)
Treasury stock, at cost, 6,764,796 and 2,764,796 shares as of September 30, 2018 and December 31, 2017, respectively	(229,984)	(135,970)
Total stockholders’ equity	568,542	656,492
Total liabilities and stockholders’ equity	$ 953,550	$ 1,022,439

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues [1]	$102,864	$100,323	$310,172	$300,623
Cost of revenues [1] [2] [3]	49,446	48,803	148,226	143,417
Selling and marketing [1] [2] [3]	24,866	29,873	80,418	90,796
Research and development [1] [2] [3]	18,742	21,580	58,347	64,102
General and administrative [1] [2] [3]	18,707	22,331	66,067	53,426
Investigation and audit related [1]	696	21,392	37,446	56,469
Amortization of intangible assets	7,896	8,491	24,706	25,669
Settlement of litigation, net	—	81,799	5,250	82,417
Restructuring	51	—	5,141	—
Total expenses from operations	120,404	234,269	425,601	516,296
Loss from operations	(17,540)	(133,946)	(115,429)	(215,673)
Interest expense, net [1]	(4,682)	(148)	(11,711)	(554)
Other (expense) income, net	(1,711)	6,619	(827)	12,486
Loss from foreign currency transactions	(304)	(298)	(181)	(1,523)
Loss before income taxes	(24,237)	(127,773)	(128,148)	(205,264)
Income tax provision	(400)	(2,296)	(3,916)	(4,223)
Net loss	$(24,637)	$(130,069)	$(132,064)	$(209,487)
Net loss per common share:				
Basic	$(0.42)	$(2.26)	$(2.32)	$(3.65)
Diluted	$(0.42)	$(2.26)	$(2.32)	$(3.65)
Weighted-average number of shares used in per share calculation - Common Stock:				
Basic	58,212,306	57,547,863	56,877,186	57,442,180
Diluted	58,212,306	57,547,863	56,877,186	57,442,180
Comprehensive loss:				
Net loss	$(24,637)	$(130,069)	$(132,064)	$(209,487)
Other comprehensive (loss) income:				
Foreign currency cumulative translation adjustment	(429)	1,349	(2,789)	4,304
Other	—	23	—	57
Total comprehensive loss	$(25,066)	$(128,697)	$(134,853)	$(205,126)

[1] Transactions with related parties are included in the line items above (refer to Footnote 8, Related Party Transactions, of the Notes to Condensed Consolidated Financial Statements for additional information).
[2] Stock-based compensation expense is included in the line items above as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Cost of revenues	$1,248	$384	$5,235	$1,446
Selling and marketing	1,860	1,461	8,227	4,439
Research and development	1,137	537	5,453	1,808

General and administrative	2,066	6,340	12,276	7,673
	$6,311	$8,722	$31,191	$15,366

(3) Excludes amortization of intangible assets, which is presented separately in the Condensed Consolidated Statements of Operations and Comprehensive Loss.
See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Treasury stock, at cost	Total Stockholders' Equity
	Shares	Amount					
Balance as of December 31, 2017	57,289,047	$ 60	$ 1,407,717	$ (6,224)	$ (609,091)	$ (135,970)	$ 656,492
Adoption of ASC 606	—	—	—	—	(736)	—	(736)
Net loss	—	—	—	—	(132,064)	—	(132,064)
Foreign currency translation adjustment	—	—	—	(2,789)	—	—	(2,789)
Subscription receivable	—	—	8,566	—	—	—	8,566
Common Stock warrants issuable	—	—	5,545	—	—	—	5,545
Exercise of Common Stock options, net	222,229	—	2,855	—	—	—	2,855
Shares issued in connection with settlement of litigation	4,024,115	4	90,764				90,768
Repurchase of Common Stock in exchange for senior secured convertible notes	(4,000,000)	(7)	—	—	—	(94,014)	(94,021)
Restricted stock units vested	1,550,272	2	10,296	—	—	—	10,298
Payments for taxes related to net share settlement of equity awards	(186,028)	—	(4,663)	—	—	—	(4,663)
Stock-based compensation	—	—	28,291	—	—	—	28,291
Balance as of September 30, 2018	58,899,635	$ 59	$ 1,549,371	$ (9,013)	$ (741,891)	$ (229,984)	$ 568,542

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended September 30, 2018	2017
Operating activities:		
Net loss	$ (132,064)	$ (209,487)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	12,974	18,229
Amortization of intangible assets	24,706	25,669
Stock-based compensation	31,191	15,366
Deferred tax provision	2,828	3,787
Change in fair value of financing derivatives	10,141	—
Accretion of debt discount	3,327	—
Amortization of deferred financing costs	703	—
Gain on forgiveness of obligation	—	(4,000)
Accrued litigation settlements to be settled in Common Stock	—	90,800
Other	253	646
Changes in operating assets and liabilities:		
Accounts receivable	19,480	22,731
Prepaid expenses and other assets	3,502	(34,593)
Accounts payable, accrued expenses, and other liabilities	(22,449)	50,214
Customer advances	(28,531)	(7,063)
Net cash used in operating activities	(73,939)	(27,701)
Investing activities:		
Sales of marketable securities	—	15,000

Purchases of property and equipment	(2,183	)	(7,596	)
Capitalized internal-use software costs	(7,447	)	—	
Net cash (used in) provided by investing activities	(9,630	)	7,404	
Financing activities:				
Proceeds from borrowings on senior secured convertible notes (related party)	100,000		—	
Debt issuance costs	(5,132	)	—	
Financing proceeds received on subscription receivable (related party)	7,998		9,011	
Proceeds from the exercise of stock options	2,855		—	
Payments for taxes related to net share settlement of equity awards	(4,663	)	(1,514	)
Principal payments on capital lease and software license arrangements	(7,260	)	(12,699	)
Net cash provided by (used in) financing activities	93,798		(5,202	)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(1,140	)	595	
Net increase (decrease) in cash, cash equivalents and restricted cash	9,089		(24,904	)
Cash, cash equivalents and restricted cash at beginning of period	45,125		88,341	
Cash, cash equivalents and restricted cash at end of period	$ 54,214		$ 63,437	

	As of September 30,	
	2018	2017

Cash and cash equivalents	$	47,876	$	54,782
Restricted cash	6,338		8,655	
Total cash, cash equivalents and restricted cash	$	54,214	$	63,437
Supplemental cash flow disclosures:				
Interest paid ($4,467 of 2018 interest paid attributable to related party)	$	5,069	$	1,444
Income taxes paid	666		479	

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Supplemental non-cash activities:		
Treasury stock received in connection with issuance of senior secured convertible notes	$94,021	$—
Litigation accrual settled through the issuance of Common Stock	90,768	—
Insurance recovery on litigation settlement	27,232	—
Common Stock warrants issuable with senior secured convertible notes	5,733	—
Fair value of financing derivatives issued with senior secured convertible notes	17,359	—
Notes Option derivative liability settlement	5,700	—
Modification of debt in consideration for the reduction of the senior secured convertible note minimum cash balance requirement	2,000	—
Settlement of restricted stock unit liability	10,298	—

See accompanying Notes to Condensed Consolidated Financial Statements.

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COMSCORE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Organization

comScore, Inc., together with its consolidated subsidiaries (collectively, "Comscore" or the “Company”), headquartered in Reston, Virginia, is a global information and analytics company that measures audiences, consumer behavior and advertising across media platforms. On April 23, 2018, the Company announced the appointment of Bryan J. Wiener as its new Chief Executive Officer ("CEO"), effective May 30, 2018. Upon the effective date of the CEO appointment, the Company's President and Executive Vice Chairman stepped down as President and assumed the role of Vice Chairman of the Board of Directors of the Company and special advisor to the CEO. On September 5, 2018, the Company announced the appointment of Sarah Hofstetter as President, effective October 4, 2018. Ms. Hofstetter reports directly to the CEO.

Operating segments are defined as components of a business that can earn revenues and incur expenses for which discrete financial information is available that is evaluated on a regular basis by the chief operating decision maker ("CODM"). The Company’s CODM is its principal executive officer, who decides how to allocate resources and assess performance. The Company has one operating segment. A single management team reports to the CODM who manages the entire business. The Company’s CODM reviews consolidated results of operations to make decisions, allocate resources and assess performance and does not evaluate the profit or loss from any separate geography or product lines. The Company's CEO assumed the role of CODM following his appointment.

On May 30, 2018, The Nasdaq Stock Market LLC approved the Company's application for relisting on The Nasdaq Global Select Market ("Nasdaq") and the Company's common stock, par value $0.001 per share ("Common Stock") began trading on Nasdaq effective June 1, 2018.

Uses and Sources of Liquidity and Management’s Plans

The Company’s primary need for liquidity is to fund working capital requirements of its businesses, capital expenditures and for general corporate purposes. The Company incurred significant investigation and audit related expenses with respect to the recent completion of its restatement and audit process, which significantly reduced working capital as of December 31, 2017. In response to this reduction, in December 2017, the Company announced that it was implementing an organizational restructuring to reduce staffing levels by approximately 10% and exit certain geographic regions, to enable the Company to decrease its global costs and more effectively align resources to business priorities. The restructuring actions discussed above are substantially complete. The Company's Board of Directors authorized management in the second quarter of 2018 to undertake an additional reduction in headcount and rationalization of its portfolio of leased properties. For additional information, refer to Footnote 10, Organizational Restructuring.

The Company continued to incur investigation and audit related expenses during the three and nine months ended September 30, 2018. To increase the Company’s available working capital, on January 16, 2018, the Company entered into certain agreements with funds affiliated with or managed by Starboard Value LP (collectively, “Starboard”), pursuant to which, among other things, the Company issued and sold to Starboard $150.0 million of senior secured convertible notes (the “Initial Notes") in exchange for $85.0 million in cash and 2,600,000 shares of Common Stock. On May 17, 2018, Starboard exercised an option (the “Notes Option”) to purchase an additional $50.0 million of senior secured convertible notes (the "Option Notes", and together with the Initial Notes, the "Notes"), in exchange for $15.0 million in cash and 1,400,000 shares of Common Stock. Interest on the Notes is payable, at the option of the Company, in cash, or, subject to certain conditions, through the issuance by the Company of additional shares of Common Stock (the “PIK Interest Shares”).

The Notes contain certain affirmative and restrictive covenants with which the Company must comply, including (i) covenants with respect to limitations on additional indebtedness, (ii) limitations on liens, (iii) limitations on certain payments, (iv) maintenance of certain minimum cash balances and (v) the timely filing of certain disclosures with the United States Securities and Exchange Commission ("SEC"). The Company is in compliance with its debt covenants as of September 30, 2018. On August 8, 2018, the Company and Starboard amended the Notes in order to provide the

Company with additional financial flexibility. Specifically, through March 31, 2019, the minimum cash balance required to be maintained by the Company has been reduced from $40.0 million to $20.0 million, subject to certain limitations related to the Rights Offering (described below), if undertaken. In connection with, and as consideration for this modification, and pursuant to the amendment, the Company issued to Starboard $2.0 million in additional aggregate principal amount of senior secured convertible notes, the terms of which are identical to the terms of the Notes, except with regard to the date from which interest thereon shall begin to accrue, which is August 8, 2018. For additional information, refer to Footnote 3, Long-term Debt. Based on management’s current plans, including actions within management’s control, the Company does not anticipate any breach of these covenants that would result in an event of default under the Notes.

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In addition, under the agreements with Starboard, the Company has the right to conduct a rights offering (the “Rights Offering”), which would be open to all stockholders of the Company, for up to $150.0 million in senior secured convertible notes (the “Rights Offering Notes”). Starboard also agreed to backstop up to $100.0 million in aggregate principal amount of Rights Offering Notes through the purchase of additional Notes, with the backstop obligation reduced by the amount of Option Notes purchased. If undertaken, the Rights Offering would provide at least $35.0 million in cash if not fully subscribed (assuming that any Notes purchased by Starboard pursuant to the backstop obligation would be issued on the same terms as the Rights Offering Notes), and at least $105.0 million in cash if fully subscribed, as stockholders of the Company who elect to participate in the Rights Offering would be allowed to elect to have up to 30% of the value of the Rights Offering Notes they acquire pursuant thereto delivered through the sale to or exchange with the Company of shares of Common Stock. The Company is not obligated to undertake the Rights Offering, and there is no assurance that the Rights Offering will be commenced or completed.

On June 21, 2018, in connection with the Company's settlement of the federal securities class action litigation and the derivative litigation discussed below in Footnote 9, Commitments and Contingencies, the Company issued a total of 4,024,115 shares of Common Stock to a settlement fund for the benefit of authorized claimants in the federal securities class action and plaintiffs' lead counsel in the derivative litigation. On July 9, 2018, the Virginia Circuit Court dismissed the final derivative actions related to the settlement of the derivative litigation and $10.1 million of insurance funds held in escrow were released to the Company.

The Company continues to be focused on maintaining flexibility in terms of sources, amounts, and the timing of any potential transaction in order to best position the Company for future success. The Company continues to explore all potential available alternatives and has not committed to any specific transaction, including the Rights Offering. The Company believes that the financing actions discussed above, or other sources of financing, are probable of occurring and satisfying the Company’s estimated liquidity needs within one year after the date that the financial statements are issued. However, the Company cannot predict, with certainty, the outcome of its actions to generate liquidity, including the availability of additional debt financing, or whether such actions would generate the expected liquidity as currently planned.

2. Summary of Significant Accounting Policies

Basis of Presentation and Consolidation

The accompanying Condensed Consolidated Financial Statements include the accounts of the Company and its wholly-owned domestic and foreign subsidiaries. All intercompany transactions and balances are eliminated upon consolidation.

Reclassification

Certain amounts in the prior year financial statements have been reclassified to conform to the current quarter presentation. Deferred rent (current) and capital lease obligations (current) have been aggregated within other current liabilities on the Condensed Consolidated Balance Sheets. Deferred rent (non-current), deferred revenue (non-current), and capital lease obligations (non-current) have been aggregated within other non-current liabilities on the Condensed Consolidated Balance Sheets. Unrealized (loss) gain on marketable securities, net and reclassification of realized loss on the sale of marketable securities, net have been aggregated within the Other line item on the Condensed Consolidated Statements of Operations and Comprehensive Loss. Adjustments to reconcile net loss to net cash used in operating activities related to loss from equity method investment, realized loss on marketable securities, provision for bad debts and loss on asset disposition of property plant and equipment have been aggregated within other adjustments on the Condensed Consolidated Statements of Cash Flows.

Unaudited Interim Financial Information

The interim Condensed Consolidated Financial Statements included in this 10-Q have been prepared by the Company and are unaudited, pursuant to the rules and regulations of the SEC. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the U.S. (“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 (the “Exchange Act”), for a quarterly report on Form 10-Q and are adequate to make the information presented not misleading. The interim Condensed Consolidated Financial Statements included herein reflect all adjustments (consisting of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented. These interim Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017 (the "2017 10-K"), filed on March 23, 2018 with the SEC. The results of operations for the three and nine months ended September 30, 2018 are not necessarily indicative of the results to be anticipated for the entire year ending December 31, 2018 or thereafter. All references to September 30, 2018 and 2017 in the Notes to Condensed Consolidated Financial Statements are unaudited.

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Use of Estimates and Judgments in the Preparation of the Condensed Consolidated Financial Statements

The preparation of financial statements in conformity with GAAP 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 judgments are inherent in the analysis and the measurement of: management's standalone selling price ("SSP"), principal versus agent revenue recognition, determination of performance obligations, determination of transaction price, including the determination of variable consideration and allocation of transaction price to performance obligations, deferred tax assets and liabilities, including the identification and quantification of income tax liabilities due to uncertain tax positions, the valuation and recoverability of goodwill and intangible assets, the assessment of potential loss from contingencies, the valuation of assets and liabilities acquired in a business combination, the fair value determination of financing-related liabilities and derivatives, the allowance for doubtful accounts, and valuation of options, performance-based and market-based stock awards. Management bases its estimates and assumptions on historical experience and on various other factors that are believed to be reasonable under the circumstances. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may be affected by changes in those estimates. The Company evaluates its estimates and assumptions on an ongoing basis.

Capitalized Software

Capitalized software, which is included in property and equipment, net, consists of costs to purchase and develop internal-use software, which the Company uses to provide various services to clients. The costs are capitalized from the time that the preliminary project stage is completed and considered probable that the software will be used to perform the function intended, until the time the software is placed in service for its intended use. Once this software is ready for use in the Company's products, these costs are amortized on a straight-line basis over the estimated useful life of the software, which is typically assessed to be 3 to 5 years. During the three and nine months ended September 30, 2018, the Company capitalized $2.2 million and $7.5 million in internal-use software costs, respectively. The Company amortized $0.4 million and $0.6 million in capitalized internal-use software costs during the three and nine months ended September 30, 2018. During the three and nine months ended September 30, 2017, the Company did not capitalize any internal-use software costs. Capitalized software is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If an impairment indicator is present, a recoverability analysis is performed based on estimated undiscounted cash flows to be generated from the software in the future. If the analysis indicates that the carrying value is not recoverable from future cash flows, the software cost is written down to the estimated fair value and an impairment is recognized. These estimates are subject to revision as market conditions and the Company's assessments change.

Revenue Recognition

The Company applies the provisions of Accounting Standards Codification 606, Revenue from Contracts with Customers ("ASC 606" or "Topic 606"), and all related appropriate guidance. The Company recognizes revenue under the core principle to depict the transfer of control to its customers in an amount reflecting the consideration to which it expects to be entitled. In order to achieve that core principle, the Company applies the following five-step approach: (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when a performance obligation is satisfied.

The Company’s contracts with customers may include multiple promised goods and services, consisting of the various services the Company offers. Contracts with multiple performance obligations typically consist of a mix of: subscriptions to the Company’s online database, customized data services, and delivery of periodic custom reports based on information obtained from the database. In such cases, the Company identifies performance obligations by evaluating whether the promised goods and services are capable of being distinct within the context of the contract at contract inception. Promised goods and services that are not distinct at contract inception are combined as one performance obligation. Once the Company identifies the performance obligations, the Company will determine transaction price based on contractually fixed amounts and an estimate of variable consideration. The Company allocates the transaction price to each performance obligation based on relative standalone selling price ("SSP").

Judgment is exercised to determine the SSP of each distinct performance obligation. The Company will constrain estimates of variable consideration based on its expectation of recovery from the customer. Some sources of variable consideration like refunds, penalties, or allowances will reduce transaction price. In some instances, the Company may have non-cash consideration or elements of consideration payable to the customer, which will also be included in the transaction price. These sources of variable consideration are relatively infrequent and not significant. The Company recognizes revenue when (or as) it satisfies a performance obligation by transferring promised goods or services to a customer. Customers may obtain the control of promised goods or services over time or at a point in time. The Company recognizes revenue net of sales taxes remitted to government authorities. In general, transaction price is determined by estimating the fixed amount of consideration to which the Company is entitled for transfer of goods and services and all relevant sources and components of variable consideration. Variable consideration is estimated based on the most likely amount or expected value approach, depending on which method the Company expects to better predict the amount of consideration to which it will be entitled. Once the Company elects one of the methods to estimate variable consideration for a particular type of performance obligation, the Company will apply that method consistently. Subscription-based revenues are typically recognized on a straight-line basis over the access period, which ranges from three to thirty-six months. Revenue for validated Campaign Essentials ("vCE") is recognized over time, either on a time-elapsed basis, as the Company is providing services that the customer is continuously consuming and receiving benefit from, or on an output method, such as volume of impressions processed. Activation products vary in nature, and can be recognized over time, generally on an input method time-elapsed basis, as the Company provides continuous tracking of activity. Other activation products are delivered at a point in time, based on custom attributes agreed upon by customers and the Company. The Company believes that recognizing revenue evenly mirrors the even depiction of the transfer of control and benefit of goods and services to customers, particularly for subscription, vCE and activation products.

The Company’s customized data services are delivered in the form of custom recurring reports or ad hoc reports. Custom report performance obligations, in general, are transferred at a point in time once the product has been delivered to the customer.

Revenues are also generated through survey services under contracts ranging in term from two months to one year . Survey revenue is recognized at a point in time, in general, once the final report has been delivered to the customer. Survey services consist of survey design with subsequent data collection, analysis and reporting.

For performance obligations satisfied at a point in time, the Company evaluates a number of factors to determine whether control of goods and services has been transferred. The Company considers whether there is a present right to payment and whether the customer has accepted the asset. In many instances the Company has objective evidence of the acceptance criteria, while in other cases the acceptance provisions are substantive and the customer must affirmatively signal acceptance. The preceding two factors are not the only factors that may be considered. Other considerations include, but are not limited to, whether risks and rewards of ownership have been transferred for a particular product.

For the majority of its products and services, the Company applies an adjusted market assessment approach for the determination of SSP for identified performance obligations. In general, the Company bundles multiple products and very few are sold on a standalone basis. The Company uses rate cards and pricing calculators that are periodically reviewed and updated to reflect the latest sales data and observable inputs by industry, channel, geography, customer size, and other relevant groupings. Certain products are sold on a standalone basis in a narrow band of prices. If a product is sold outside of the narrow band of prices, it will be assigned the midpoint of the narrow band for purposes of allocating transaction price on a relative SSP basis.

Generally, customers have the right to cancel their contracts by providing a written notice of cancellation, although some subscription-based contracts are non-cancelable. If a customer cancels its contract, the customer is generally not entitled to a refund for prior services. In the event a portion of a contract is refundable, revenue recognition is delayed until the refund provision lapses. For multi-year contracts with annual price increases and no opt out clauses, the total consideration for each of the years included in the contract term will be summed up and recognized on a straight-line basis over the term of the contract.

Contract payments are generally due in advance for subscription-based services or upon delivery of custom reports. If a contract exists under Topic 606, advance payments are recorded as customer advances until services are delivered or obligations are met and revenue is earned. Customer advances represent the excess of amounts invoiced or received from the customer over amounts recognized as revenue. Customer advances to be recognized in the succeeding twelve-month period are classified as current customer advances and the remaining amounts are classified as non-current customer advances.

The Company may enter into multiple contracts with a single counterparty at or near the same time. The Company will combine contracts and account for them as a single contract when one or more of the following criteria are met: (i) the contracts are negotiated as a package with a single commercial objective, (ii) consideration to be paid in one contract depends on the price or performance of the other contract, and (iii) goods or services promised are a single performance obligation.

For transactions that involve third parties, the Company evaluates whether the Company is the principal, in which case the Company recognizes revenue on a gross basis. If the Company is an agent, the Company recognizes revenue on a net basis. In certain countries, the Company may use third-party resellers to sell its products and services. In these transactions, the Company is generally the principal as the Company controls the products and services and is primarily responsible for providing them to the end user. The Company also has certain revenue share arrangements that involve the use of partner data in its sales to end users or the use of its data in partner sales to end users. In these arrangements, the Company assesses which party controls the specified goods or services before they are transferred to the customer, as well as other indicators such as the party primarily responsible for fulfillment, inventory risk, and discretion in establishing price.

The Company enters into a limited number of monetary contracts that involve both the purchase and sale of services with a single counterparty. The Company assesses each contract to determine if the revenue and expense should be presented gross or net. The Company recognizes revenue for these contracts to the extent that SSP is established for distinct services provided. Any excess consideration above the established SSP of services is presented as an offset to cost of revenues in the Condensed Consolidated Statements of Operations and Comprehensive Loss.

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Nonmonetary transactions represent data exchanges, which may consist of digital usage and general demographic data. The data obtained through nonmonetary transactions differs from the data provided by the Company in the exchange. Under Topic 606, the transaction price of a nonmonetary exchange that has commercial substance is based on the fair value of the non-cash consideration received. If an entity cannot reasonably estimate the fair value of the non-cash consideration received, then it uses the estimated selling price of the promised goods or services. None of the nonmonetary transactions entered into by the Company met the requirements to recognize revenue or expense. Therefore, these nonmonetary transactions are not reflected in the Condensed Consolidated Financial Statements.

Nature of Products and Services

In the third quarter of 2018, the CODM determined that the Company should review its revenue results around solution groups that address customer needs. Accordingly, the Company changed its disaggregated revenue presentation from the previous four pillars to the following three solution groups:

i. Ratings and Planning

Ratings and Planning products and services provide measurement of the behavior and characteristics of audiences of content and advertising across television ("TV") and digital platforms including computers, tablets, smartphones, and other connected devices. These products and services are designed to help customers find the most relevant viewing audience, whether that viewing is linear, time shifted/recorded, online or on-demand. These products and services are primarily subscription-based, for which the accounting policy is described above. Certain contracts may contain custom solutions.

ii. Analytics and Optimization

Analytics and Optimization products and services include activation and survey-based products. These products and services provide end-to-end solutions for planning, optimization and evaluation of advertising campaigns and brand protection. These products and services are primarily a part of customized data services, for which the accounting policy is described above.

iii. Movies Reporting and Analytics

Movies Reporting and Analytics products and services measure movie viewership and box office results by capturing movie ticket sales in real time or near real time and include box office analytics, trend analysis and insights for movie studios and movie theater operators worldwide. Movies Reporting and Analytics products and services are generally subscription-based, for which the accounting policy is described above. The services provided under subscription-based agreements consist of a single performance obligation, access to the Company's portal, and generally result in transfer of control over time as services are rendered. Certain contracts may contain custom solutions.

Disaggregation of Revenue

In the following table, revenue is disaggregated by solution group, geographical market and timing of transfer of products and services. The Company has one reportable segment in accordance with Topic 280, Segment Reporting; as such, the disaggregation of revenue below reconciles directly to its unique reportable segment. The change in disaggregated revenue presentation did not result in any changes in the Company's reportable segment.

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(In thousands)	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
By Solution group:		
Ratings and Planning	$ 70,499	$ 210,569
Analytics and Optimization	22,215	68,479
Movies Reporting and Analytics	10,150	31,124
Total	$ 102,864	$ 310,172
By Geographical markets:		
United States	$ 90,250	$ 269,532
Europe	8,014	26,022
Latin America	2,407	7,016
Canada	1,487	5,441
Other	706	2,161
Total	$ 102,864	$ 310,172
Timing of revenue recognition:		
Products and services transferred at a point in time	$ 22,689	$ 80,264
Products and services transferred over time	80,175	229,908
Total	$ 102,864	$ 310,172

Contract Balances

The following table provides information about receivables, contract assets and customer advances from contracts with customers:

(In thousands)	As of September 30, 2018	As of January 1, 2018
Accounts receivable, net	$ 61,900	$ 81,914
Current and non-current contract assets	1,770	612
Current and non-current contract costs	2,460	500
Current customer advances	72,119	99,886
Non-current customer advances	608	1,975

Accounts receivable are billed and unbilled amounts related to the Company's rights to consideration as performance obligations are satisfied when the rights to payment become unconditional but for the passage of time.

Contract assets (current) are included in prepaid expenses and other current assets, and contract assets (non-current) are included in other non-current assets within the Condensed Consolidated Balance Sheets. Contract assets represent the excess of goods and other services transferred to the customer prior to the either receipt of consideration or before payment is due.

Customer advances primarily relate to amounts billed in advance or advance consideration received from customers, for which transfer of control of the good or service occurs at a later point in time. Non-current customer advances are included in other non-current liabilities within the Condensed Consolidated Balance Sheets.

Significant changes in the contract assets and the customer advances balances during the nine months ended September 30, 2018 are as follows:

(In thousands)	Customer advances (current)
Revenue recognized that was included in the customer advances balance at the beginning of period	$ (81,254)
Cash received or amounts billed in advance and not recognized as revenue	54,023

Transaction Price Allocated to the Remaining Performance Obligations

As of September 30, 2018, approximately $218 million of revenue is expected to be recognized from remaining performance obligations that are unsatisfied (or partially unsatisfied) for non-cancelable contracts. The Company expects to recognize revenue on approximately 72% of these remaining performance obligations through December 31, 2019, with the remaining balance recognized thereafter.

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The Company applies the optional exemptions and does not disclose: a) information about remaining performance obligations that have an original expected duration of one year or less and b) transaction price allocated to unsatisfied performance obligations for which variable consideration is allocated entirely to a wholly unsatisfied performance obligation or to a wholly unsatisfied promise to transfer a distinct good or service that forms part of a single performance obligation in accordance with the series guidance. Variable consideration relates to usage-based revenue which is generally part of the Ratings and Planning and Analytics and Optimization solution groups.

Costs to Obtain or Fulfill a Contract

Applying the practical expedient, the Company recognizes the incremental costs of obtaining contracts as an expense when incurred if the amortization period of the assets is one year or less. These costs include commission programs to compensate employees for obtaining new contracts and are included in selling and marketing expenses.

The Company has incurred incremental costs to obtain contracts that meet the criteria for capitalization and are not subject to the practical expedient as the amortization period is over one year. These costs are amortized based on the pattern of transfer of goods or services to which the assets relate. The typical amortization period for capitalized costs to obtain a contract is twenty-four months, and such costs are included in selling and marketing expenses.

Certain costs to fulfill are capitalized in relation to long-term contracts wherein the transfer of goods and services will occur at a point in time. These costs include dedicated employees, subcontractors, and other third-party costs. The Company will assess capitalized costs to fulfill at each reporting period for recoverability. These costs are generally included in costs of revenues and are recognized in the same manner as the corresponding performance obligation(s).

As of September 30, 2018, the Company had $2.5 million in capitalized contract costs. For the nine months ended September 30, 2018, $0.2 million in contract costs have been amortized or expensed. For the three months ended September 30, 2018, amortized and expensed contract costs were immaterial.

Changes in Accounting Policies

Except for the changes below, the Company has consistently applied accounting policies to all periods presented in the Condensed Consolidated Financial Statements.

The Company adopted Topic 606 with a date of initial application of January 1, 2018, using the modified retrospective transition method, and hence applied Topic 606 to contracts with customers that were not completed as of the date of initial application. Comparative information has not been adjusted and continues to be reported under Accounting Standards Codification Topic 605, Revenue Recognition ("Topic 605"). Details of the significant changes and quantitative impact of the changes are set out below:

- As of the date of initial application of January 1, 2018, and under the commission plan in place until then, costs to obtain a contract (generally commissions) qualified for the practical expedient allowing such costs to be expensed as incurred, consistent with Topic 605. Therefore, there was no change in accounting as of the date of initial application. Effective January 1, 2018, the Company implemented a new commission plan whereby the Company expects some costs to obtain a contract to continue to qualify for the practical expedient, but the Company expects to incur some commissions costs that meet the criteria for capitalization as the amortization period is over one year.
- Certain fulfillment costs meet the criteria for capitalization as they relate directly to a contract, generate or enhance a resource being used in satisfying the Company's performance obligation, and are expected to be recovered.

The adoption of the standard related to revenue recognition impacted the Company's previously reported results as follows:

(In thousands)	As previously reported as of December 31, 2017	New revenue standard adjustments	As adjusted as of January 1, 2018

Accounts receivable, net	$ 82,029	$ (115)	$ 81,914
Current and non-current contract assets	—	612	612
Current and non-current contract costs	—	500	500
Current customer advances	98,367	1,519	99,886
Other current liabilities	2,998	292	3,290
Non-current customer advances	2,053	(78)	1,975
Stockholders' equity	656,492	(736)	655,756

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The following tables summarize the impact of adopting Topic 606 on the Company's Condensed Consolidated Financial Statements as of and for the period ended September 30, 2018 (amounts in thousands, except share and per share data):

I. Impact on Condensed Consolidated Balance Sheets

Impact of changes in accounting policies

As of September 30, 2018	As reported	Adjustments	Balance without adoption of Topic 606
Accounts receivable, net	$61,900	$ 1,354	$63,254
Current and non-current contract assets	1,770	(1,770)	—
Current and non-current contract costs	2,460	(2,460)	—
Current customer advances	72,119	(350)	71,769
Other current liabilities	8,029	(210)	7,819
Other non-current liabilities	27,859	(148)	27,711
Accumulated deficit	(741,891)	(2,168)	(744,059)

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II. Impact on Condensed Consolidated Statements of Operations and Comprehensive Loss

Impact of changes in accounting policies

For the Three Months Ended September 30, 2018	As reported	Adjustments	Balance without adoption of Topic 606
Revenues	$ 102,864	$ (198)	$ 102,666
Cost of revenues	49,446	483	49,929
Selling and marketing	24,866	13	24,879
Income tax provision	(400)	—	(400)
Net loss	$ (24,637)	$ (694)	$ (25,331)
Net loss per common share:			
Basic	$ (0.42)		$ (0.44)
Diluted	$ (0.42)		$ (0.44)
Weighted-average number of shares used in per share calculation - Common Stock:			
Basic	58,212,306		58,212,306
Diluted	58,212,306		58,212,306

Impact of changes in accounting policies

For the Nine Months Ended September 30, 2018	As reported	Adjustments	Balance without adoption of Topic 606
Revenues	$ 310,172	$ (944)	$ 309,228
Cost of revenues	148,226	1,897	150,123
Selling and marketing	80,418	63	80,481
Income tax provision	(3,916)	—	(3,916)
Net loss	$ (132,064)	$ (2,904)	$ (134,968)
Net loss per common share:			
Basic	$ (2.32)		$ (2.37)
Diluted	$ (2.32)		$ (2.37)
Weighted-average number of shares used in per share calculation - Common Stock:			
Basic	56,877,186		56,877,186
Diluted	56,877,186		56,877,186

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III. Impact on Condensed Consolidated Statements of Cash Flows

Impact of changes in accounting policies

For the Nine Months Ended September 30, 2018	As reported	Adjustments	Balance without adoption of Topic 606
Operating activities			
Net loss	$(132,064)	$ (2,904)	$(134,968)
Adjustments to reconcile net loss to net cash used in operating activities	86,123	2,904	89,027
Net cash used in operating activities	(73,939)	—	(73,939)
Investing activities	(9,630)	—	(9,630)
Financing activities	93,798	—	93,798
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(1,140)	—	(1,140)
Net increase in cash, cash equivalents and restricted cash	9,089	—	9,089
Cash, cash equivalents and restricted cash at beginning of period	45,125	—	45,125
Cash, cash equivalents and restricted cash at end of period	54,214	—	54,214
Cash and cash equivalents	47,876	—	47,876
Restricted cash	6,338	—	6,338
Total cash, cash equivalents and restricted cash	$54,214	$ —	$54,214

Other (Expense) Income, Net

The following is a summary of other (expense) income, net:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2018	2017	2018	2017
Transition services agreement income from the Digital Analytix ("DAx") disposition	$2,120	$2,662	$6,967	$8,489
Change in fair value of financing derivatives	(5,681)	—	(10,141)	—
Gain on forgiveness of obligation	—	4,000	—	4,000
Other	1,850	(43)	2,347	(3)
Total other (expense) income, net	$(1,711)	$6,619	$(827)	$12,486

Income Taxes

On December 22, 2017, U.S. tax reform legislation known as the Tax Cuts and Jobs Act (the “TCJA”) was signed into law. The TCJA made substantial changes to U.S. tax law, including a reduction in the corporate tax rate from 35% to 21%, a limitation on deductibility of interest expense, a limitation on the use of net operating losses to offset future taxable income, the allowance of immediate expensing of capital expenditures, deemed repatriation of foreign earnings through a transition tax and significant changes to the taxation of foreign earnings going forward.

In December 2017, the SEC staff issued Staff Accounting Bulletin 118 (codified under ASU 2018-05), which provides guidance on how to appropriately report significant legislative changes in financial statements when the accounting for the changes has not been completed. The guidance allows companies to report a provisional amount based on a reasonable estimate of the impact in their financial statements that can be adjusted during a one-year measurement period, similar to the accounting for business combinations.

As of September 30, 2018, the Company's accounting for the TCJA is still to be completed. The Company expects to complete the accounting for the TCJA by year-end. As described in the Company's 2017 10-K, the Company has not yet been able to reasonably estimate the effects of certain provisions, some of which did not take effect until January 1, 2018, including but not limited to: a limitation of the deductibility of certain officers' compensation, a limitation on the current deductibility of net interest expense in excess of 30% of adjusted taxable income, a limitation of net operating losses generated after 2018 to 80% of taxable income, an incremental tax (base erosion anti-abuse or "BEAT") on excessive amounts paid to foreign related parties, and a minimum tax on certain foreign earnings in excess of 10% of the foreign subsidiaries tangible assets (global intangible low-taxed

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income or “GILTI”). For the three and nine months ended September 30, 2018, the Company is still reviewing and assessing the impact of these provisions. However, given the Company’s loss position in the U.S. and the valuation allowance recorded against its U.S. net deferred tax assets, the Company does not believe these provisions will have a material impact on its financial statements.

Loss 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 shares of Common Stock outstanding for the period. 250,000 shares of Common Stock issuable upon the exercise of warrants ("penny warrants") are included in the number of outstanding shares used for the computation of basic loss per share. In periods where the Company reports a net loss, the effect of anti-dilutive stock options, stock appreciation rights, restricted stock units and senior secured convertible notes are excluded and diluted loss per share is equal to basic loss per share.

The following is a summary of the Common Stock equivalents for the securities outstanding during the respective periods that have been excluded from the computation of diluted net loss per common share, as their effect would be anti-dilutive:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Stock options, stock appreciation rights, restricted stock units and senior secured convertible notes	10,313,338	2,786,714	8,591,253	2,845,542

Debt Issuance Costs

The Company reflects debt issuance costs in the Condensed Consolidated Balance Sheets as a direct deduction from the gross amount of debt, consistent with the presentation of a debt discount. Debt issuance costs are amortized to interest expense, net over the term of the underlying debt instrument, utilizing the effective interest method for the Notes.

Derivative Financial Instruments

The Company has derivative financial instruments that are not hedges and do not qualify for hedge accounting. Changes in the fair value of these instruments are immediately recorded in other (expense) income, net in the Condensed Consolidated Statements of Operations and Comprehensive Loss.

Stock-Based Compensation

The Company estimates the fair value of stock-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 units and restricted stock awards is based on the closing price of the Company's Common Stock on the date of grant. The Company amortizes the fair value of awards expected to vest on a straight-line basis over the requisite service periods of the awards, which is generally the period from the grant date to the end of the vesting period. The 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, risk-free rate, expected stock price volatility over the expected life of awards, dividend yield and actual and projected exercise behavior. Additionally, the Company has estimated forfeitures for stock-based awards at the dates of grant based on historical experience and adjusted for future expectation. The Company performs a review of the forfeiture rate assumption at least annually or as deemed necessary if there are changes that could potentially significantly impact the future rate of forfeiture of its stock-based awards. The forfeiture estimate is revised as necessary if actual forfeitures differ from these estimates.

The Company issues restricted stock unit awards with restrictions that lapse upon the passage of time (service vesting), achieving performance targets, fulfillment of market conditions or some combination. For those restricted stock unit awards with only service vesting, the Company recognizes compensation cost on a straight-line basis over the service period. For awards with performance conditions only, or 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. Stock awards that contain performance vesting conditions are excluded from diluted earnings per share computations until the contingency is met as of the end of that reporting period.

For awards with both market and service conditions, the Company starts recognizing compensation cost over the remaining service period, with the effect of the market condition reflected in the calculation of the award's fair value at grant date. The Company values awards with market and service conditions using certain valuation techniques, such as the binomial lattice model. The Company determines the requisite service period based on the longer of the explicit service period and the derived service period. Stock awards that contain market vesting conditions are included in the computations of diluted EPS reflecting the number of shares that would be issued based on the current market price at the end of the period being reported on, if their effect is dilutive. If the condition is based on an average of market prices over some period of time, the corresponding average for the period is used.

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Under the Company's annual incentive compensation plan, the Company may grant immediately vesting restricted stock to certain employees. Under this plan, stock-based compensation expense is recognized over the requisite service period, which generally precedes the grant date. The Company accrues stock-based compensation expense for these liability classified awards until the date of grant.

The Company's stockholders approved the 2018 Equity and Incentive Compensation Plan (the "2018 Plan") at the Company's 2018 Annual Meeting of Stockholders (the "2018 Annual Meeting"), held on May 30, 2018. On June 5, 2018, the Company granted equity awards under the 2018 Plan that were recommended for employees, directors and consultants in 2016, 2017 and 2018. The equity awards have vesting terms ranging from immediate vesting at the time of grant to five-year vesting terms. The fair value of the unvested equity awards at the grant date will be amortized ratably on a straight-line basis over the requisite service period of the awards, the period from the grant date to the end of the vesting period. Refer to Footnote 7, Stockholders' Equity, for additional information.

Accounting Standards Recently Adopted

In January 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-01, Financial Instruments-Overall (Subtopic 825-10), that substantially revises the recognition, measurement and presentation of financial assets and financial liabilities. The new guidance, among other things (i) requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net loss, with some exceptions, (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (iii) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (iv) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements, and (v) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity’s other deferred tax assets. The Company adopted the standard effective January 1, 2018. In February 2018, the FASB issued ASU 2018-03, Technical Corrections and Improvements to Financial Instruments-Overall (Subtopic 825-10), which clarifies certain aspects of the guidance issued in ASU 2016-01. The technical corrections and improvements did not have an effect on the Company's adoption of the guidance.

Prior to adoption of ASU 2016-01, the Company had one cost-method investment in preferred stock of an entity. The $4.6 million value of the cost-method investment was included in other non-current assets in the Condensed Consolidated Balance Sheets as of December 31, 2017. Upon adoption, the Company did not have a cumulative adjustment related to the fair value of the investment. During the nine months ended September 30, 2018, the entity went public and the preferred stock held by the Company was converted to common stock of the entity. As of September 30, 2018, the $5.0 million fair value of the investment was included in other non-current assets in the Condensed Consolidated Balance Sheets. The gain related to the change in the fair value of the investment is recorded in other (expense) income, net within the Condensed Consolidated Statements of Operations and Comprehensive Loss.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Clarification of Certain Cash Receipts and Cash Payments. The objective of ASU 2016-15 is to reduce the diversity in practice related to the classification of certain cash receipts and cash payments in the statement of cash flows, by adding or clarifying guidance on eight specific cash flow issues. The Company adopted ASU 2016-15 effective January 1, 2018. The adoption of the guidance did not have an impact on the Condensed Consolidated Statements of Cash Flows.

In May 2017, the FASB issued ASU 2017-09, Scope of Modification Accounting, which amends the scope of modification accounting for share-based payment arrangements and provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting under ASC 718, Compensation - Stock Compensation. For all entities, ASU 2017-09 is effective for annual reporting periods, including interim periods within those annual reporting periods, beginning after December 15, 2017. The adoption of the guidance did not have an impact on the Condensed Consolidated Financial Statements.

In January 2017, the FASB issued ASU 2017-04, Simplifying the Test for Goodwill Impairment, which eliminates the requirement to compare the implied fair value of goodwill with its carrying amount as part of step 2 of the goodwill impairment test. As a result, under ASU 2017-04, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the impairment loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Early adoption is permitted for interim or annual goodwill impairment tests performed after January 1, 2017. The Company adopted the guidance as of September 30, 2018 and will perform its annual goodwill impairment test under the updated guidance as of October 1, 2018. The adoption did not have an impact on the Condensed Consolidated Financial Statements.

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Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases. ASU 2016-02 requires, among other things, a lessee to recognize a right-of-use asset representing an entity's right to use the underlying asset for the lease term and a liability for lease payments on its balance sheet, regardless of classification of a lease as operating or financing. For leases with a term of twelve months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and liabilities and account for the lease similar to existing guidance for operating leases today. This new guidance supersedes all prior guidance. The guidance is effective for interim periods and fiscal years beginning after December 15, 2018. Early adoption is permitted. The standard requires lessees and lessors to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. Further, in July 2018, the FASB issued ASU 2018-11, Leases (Topic 842), which provides another transition method allowing entities to initially apply the new leases standard at the adoption date (January 1, 2019) and recognize a cumulative-effect adjustment to retained earnings in the period of adoption. The Company plans to adopt the new standard as of January 1, 2019 using the modified retrospective approach with optional transition relief. The Company is in the process of analyzing potential embedded leases and estimates that there is currently between $75.0 million and $100.0 million of lease liabilities on an undiscounted basis which the Company believes will be required to be recorded on the balance sheet upon adoption.

In July 2017, the FASB issued ASU 2017-11, Earnings Per Share, Distinguishing Liabilities from Equity; Derivatives and Hedging. This update was issued to address complexities in accounting for certain equity-linked financial instruments containing down round features. The amendments in ASU 2017-11 change the classification analysis of these financial instruments (or embedded features) so that equity classification is no longer precluded. The amendments in ASU 2017-11 are effective for annual reporting periods beginning after December 15, 2018, including interim reporting periods within those annual reporting periods. Early adoption is permitted. The Company is evaluating the impact to its Condensed Consolidated Financial Statements.

In June 2018, the FASB issued ASU 2018-07, Compensation—Stock Compensation (Topic 718): Improvements to Non-employee Share-Based Payment Accounting. This update was issued to allow companies to account for share-based payment transactions with non-employees in the same way as share-based payment transactions with employees with the main differences being the accounting for attribution and a contractual term election for valuing non-employee equity share options. The amendments in ASU 2018-07 are effective for annual reporting periods beginning after December 15, 2018, including interim reporting periods within those annual reporting periods. Per ASU 2018-07, this update should be applied on a modified retrospective basis via a cumulative effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. Early adoption is permitted only if the Company has adopted ASC 606, Revenue from Contracts with Customers. The Company is evaluating the impact to its Condensed Consolidated Financial Statements.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820), which removes and modifies certain disclosure requirements under Topic 820. The amendments are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. An entity is permitted to early adopt any removed or modified disclosures upon issuance of the update and to delay adoption of the additional disclosures until their effective date. The Company is evaluating the impact to its Condensed Consolidated Financial Statements.

In August 2018, the FASB issued ASU 2018-15, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract. This update was issued to align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The amendments in ASU 2018-15 are effective for annual periods beginning after December 15, 2019, including interim reporting periods within those annual periods. Early adoption is permitted. The Company is evaluating the impact to its Condensed Consolidated Financial Statements.

3. Long-term Debt

Issuance and Sale of Initial Notes

On January 16, 2018, the Company entered into certain agreements with Starboard, pursuant to which, among other things, the Company issued and sold to Starboard $150.0 million of Initial Notes in exchange for $85.0 million in cash and 2,600,000 shares of Common Stock valued at $65.0 million. Based upon the closing bid price of the Common Stock on the OTC Pink Tier on the closing date of the Initial Notes issuance, January 16, 2018, which was $24.45 per share, the difference of $1.4 million was recorded as an issuance discount to the Initial Notes. The Company also granted to Starboard the Notes Option to acquire up to an additional $50.0 million in Option Notes and agreed to grant Starboard warrants to purchase 250,000 shares of Common Stock. In addition, under the agreements, the Company has the right to conduct a Rights Offering, which would be open to all of the Company's stockholders, for up to $150.0 million in Rights Offering Notes.

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The conversion price for the Notes (the “Conversion Price”) is equal to a 30% premium to the volume weighted average trading prices of the Common Stock on each trading day during the 10 consecutive trading days commencing on January 16, 2018, subject to a Conversion Price floor of $28.00 per share. In accordance with the foregoing, the Conversion Price was set at $31.29.

The Notes mature on January 16, 2022. Based upon the determination of the Conversion Price, interest on the Notes will accrue at 6.0% per year through January 30, 2019. On each of January 30, 2019, January 30, 2020 and February 1, 2021, the interest rate on the Notes will reset, and interest will thereafter accrue at a minimum of 4.0% per year and a maximum of 12.0% per year, based upon the then-applicable conversion premium in accordance with the terms of the Notes. The interest rate reset feature of the Initial Notes was determined by management to be a derivative instrument that qualifies for liability treatment. The derivative instrument is initially measured at fair value and classified as a liability on the balance sheet, with subsequent changes in fair value being recorded in earnings. To determine the fair value of the interest rate reset feature, management utilized a "with-and-without" convertible bond model, modified to incorporate the interest rate reset feature, using the following key assumptions:

- Credit Adjusting Discount Rate: The Company estimated a market based discount rate of 25%.
- Stock Price: The stock price was measured using the closing bid price of the Common Stock on the OTC Pink Tier on the closing date of the Initial Notes issuance, January 16, 2018, which was $24.45 per share.
- Risk Free Rate: Assumed to be 2.2% based on the Federal Reserve bond yield.
- Volatility: Based on the historical volatility of the Company's Common Stock, determined to be 41.3% as of the valuation date.
- Term: Based on the time period of the Notes maturity, 4 years.

Based upon the modified convertible bond model utilized by management, the fair value of the interest rate reset feature was determined to be $6.4 million as of January 16, 2018 and was recognized as an issuance discount for the Initial Notes at inception.

Interest on the Initial Notes is payable on a quarterly basis in arrears beginning on April 1, 2018, at the option of the Company, in cash, or, subject to certain conditions, through the issuance by the Company of PIK Interest Shares. Any PIK Interest Shares so issued will be valued at the arithmetic average of the volume-weighted average trading prices of the Common Stock on each trading day during the 10 consecutive trading days ending immediately preceding the applicable interest payment date.

Management evaluated the Notes Option and determined it met the definition of a derivative as it represented a written option. The Notes Option qualified for liability treatment and was initially measured at fair value, with subsequent changes in fair value being recorded in earnings. To determine the fair value of the Notes Option, management utilized an option pricing model as the option represents a put option that gains value as the underlying asset (Common Stock) decreases in value. The following key assumptions were utilized in the Company's estimate of the fair value of the Notes Option derivative:

- Stock Price: The stock price was measured using the closing bid price of the Common Stock on the OTC Pink Tier on the closing date of the Initial Notes issuance, January 16, 2018, which was $24.45 per share.
- Risk Free Rate: Assumed to be 1.6% based on the Federal Reserve bond yield with a term commensurate with the remaining life of the Notes Option.
- Volatility: Based on the historical volatility of the Company's Common Stock, determined to be 38.4% as of the valuation date.
- Term: Based on the time period of the Notes Option, 6 months.

Based upon the option pricing model utilized, management estimated the fair value of the Notes Option as of January 16, 2018 to be $2.1 million. The fair value was recognized as an issuance discount for the Initial Notes at inception.

The Initial Notes contain redemption provisions whereby, upon the occurrence of certain change of control transactions, a holder would have the right to require the Company to redeem all or any portion of such holder's outstanding Initial Notes for cash at a price determined in accordance with the terms of the Initial Notes. Management evaluated this change of control redemption feature and determined that it represented an embedded derivative that must be bifurcated and accounted for separately from the Initial Notes. The change of control derivative is treated as a liability, initially measured at fair value with subsequent changes in fair value recorded in earnings. Management utilized a probability-adjusted binomial lattice model to determine the fair value of the change of control derivative, with the following key assumptions:

- Risk Free Rate: Assumed to be 2.2% based on the U.S. Treasury bonds on the valuation date with a term commensurate with the remaining life of the change of control derivative.
- Probability: The Company utilized a range between 0% and 10% to estimate the likelihood of occurrence.
- Term: Based on the time period of the feature, 4 years.

Based on the binomial lattice model, the Company determined the fair value as of January 16, 2018 to be $4.4 million. The fair value was recognized as an issuance discount of the Initial Notes at inception.

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The Notes contain certain affirmative and restrictive covenants with which the Company must comply, including (i) covenants with respect to limitations on additional indebtedness, (ii) limitations on liens, (iii) limitations on certain payments, (iv) maintenance of certain minimum cash balances (currently at $20.0 million) and (v) the timely filing of certain disclosures with the SEC. The Company is in compliance with its debt covenants as of September 30, 2018.

In connection with the issuance of the Initial Notes, the Company also agreed to issue to Starboard warrants to purchase 250,000 shares of Common Stock at a price of $0.01 per share. The warrants were issued on October 12, 2018, and are exercisable for five years from the date of issuance. The Company valued the warrants using the Black-Scholes model, with the following key assumptions:

- Stock Price: The stock price was measured using the closing bid price of the Common Stock on the OTC Pink Tier on the closing date of the Initial Notes issuance, January 16, 2018, which was $24.45 per share.
- Volatility: The Company determined volatility to be 39.6% based on the historical volatility of its Common Stock daily volume weighted average price with a look-back period commensurate with the term of the warrants.
- Dividend Yield: Assumed to be zero based on the historical payout history of the Company.
- Risk Free Rate: Assumed to be 2.4% based on U.S. Treasury bonds on the valuation date with a 5-year term.

Based on the Black-Scholes model, the Company determined that the fair value of the warrants as of January 16, 2018 was $6.1 million. The Company recorded the warrants at allocated proceeds of $5.7 million, less allocated issuance costs of $0.2 million, as additional paid-in capital.

The cash proceeds and Common Stock received by the Company in exchange for the Initial Notes were net of a $20.1 million issuance discount and $4.6 million in third party debt issuance costs. As noted in Footnote 1, Organization, on August 8, 2018, the Company entered into an amendment to the outstanding Notes to reduce the requirement to maintain certain minimum cash balances. In connection with and as consideration for this modification, the Company issued to Starboard $2.0 million in additional aggregate principal amount of senior secured convertible notes, $1.5 million of which was classified as additional Initial Notes. The terms of the additional notes are identical to the terms of the Initial Notes, except with regard to the date from which interest shall begin to accrue thereon, which is August 8, 2018. The amendment is treated as a modification to the debt agreements and the costs related to the issuance of the additional notes were combined with the existing unamortized discount of the Initial Notes on the modification date and will be amortized to interest expense over the remaining term of the modified debt.

Issuance and Sale of Option Notes

On May 17, 2018, the Notes Option was exercised by Starboard, pursuant to which the Company issued and sold to Starboard $50.0 million of Option Notes in exchange for $15.0 million in cash and 1,400,000 shares of Common Stock valued at $35.0 million. Based upon the closing bid price of the Common Stock on the OTC Pink Tier on the closing date of the Option Notes issuance, May 17, 2018, which was $21.75 per share, the difference of $4.6 million was recorded as an issuance discount to the Option Notes. The Option Notes have the same terms, including maturity, interest rate, convertibility, and security, as the Initial Notes issued on January 16, 2018. Upon the exercise of the Notes Option, the derivative liability recorded for the Notes Option at inception was settled. Management determined the fair value of the Notes Option immediately prior to settlement utilizing an option pricing model using the following key assumptions:

- Stock Price: The stock price was measured using the closing bid price of the Common Stock on the OTC Pink Tier on the closing date of the Option Notes, May 17, 2018, which was $21.75 per share.
- Risk Free Rate: Assumed to be 1.8% based on the Federal Reserve bond yield with a term commensurate with the remaining life of the Notes Option.
- Volatility: Based on the historical volatility of the Company's Common Stock, determined to be 26.3% as of the valuation date.
- Term: Based on the time period of the expected exercise of the Notes Option, 0.16 years.

Based upon the option pricing model utilized, management estimated the fair value of the Notes Option as of May 17, 2018 to be $5.7 million. The loss related to the change in fair value of $1.6 million was recorded in other income, net on the Condensed Consolidated Statement of Operations and Comprehensive Loss. The fair value of the Notes Option was recognized as an issuance premium for the Option Notes at inception.

The interest rate reset feature of the Option Notes was determined by management to be a derivative instrument that qualifies for liability treatment. The derivative instrument is initially measured at fair value and classified as a liability on the balance sheet, with subsequent changes in fair value being recorded in earnings. To determine the fair value of the interest rate reset feature, management utilized a "with-and-without" convertible bond model, modified to incorporate the interest rate reset feature, using the following key assumptions:

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- Credit Adjusting Discount Rate: The Company estimated a market-based discount rate of 24%.
- Stock Price: The stock price was measured using the closing bid price of the Common Stock on the OTC Pink Tier on the closing date of the Option Notes issuance, May 17, 2018, which was $21.75 per share.
- Risk Free Rate: Assumed to be 2.8% based on the Federal Reserve bond yield.
- Volatility: Based on the historical volatility of the Company's Common Stock, determined to be 42.6% as of the valuation date.
- Term: Based on the time period of the Option Notes maturity, 3.7 years.

Based upon the modified convertible bond model utilized by management, the fair value of the interest rate reset feature was determined to be $3.0 million as of May 17, 2018 and was recognized as an issuance discount for the Option Notes at inception.

The Option Notes contain redemption provisions whereby, upon the occurrence of certain change of control transactions, a holder would have the right to require the Company to redeem all or any portion of such holder's outstanding Option Notes for cash at a price determined in accordance with the terms of the Option Notes. Management evaluated this change of control redemption feature and determined that it represented an embedded derivative that must be bifurcated and accounted for separately from the Option Notes. The change of control derivative is treated as a liability, initially measured at fair value with subsequent changes in fair value recorded in earnings. Management utilized a probability-adjusted binomial lattice model to determine the fair value of the change of control derivative, with the following key assumptions:

- Risk Free Rate: Assumed to be 2.8% based on U.S. Treasury bonds on the valuation date with a term commensurate with the remaining life of the change of control derivative.
- Probability: The Company utilized a range between 0% and 10% to estimate the likelihood of occurrence.
- Term: Based on the time period of the feature, 3.7 years.

Based on the binomial lattice model, the Company determined the fair value as of May 17, 2018 to be $1.2 million. The fair value was recognized as an issuance discount of the Option Notes at inception.

The cash proceeds and Common Stock received by the Company in exchange for the Option Notes were net of a $3.1 million issuance discount and $0.2 million in third-party debt issuance costs. As noted in Footnote 1, Organization, on August 8, 2018, the Company entered into an amendment to the outstanding Notes to reduce the requirement to maintain certain minimum cash balances. In connection with the modification, the Company issued to Starboard $2.0 million in additional aggregate principal amount of senior secured convertible notes, $0.5 million of which was classified as additional Option Notes. The terms of the additional notes are identical to the terms of the Option Notes, except with regard to the date from which interest shall begin to accrue thereon, which is August 8, 2018. The amendment is treated as a modification to the debt agreements and the costs related to the issuance of the additional notes were combined with the existing unamortized discount of the Option Notes on the modification date and will be amortized to interest expense over the remaining term of the modified debt.

The Company did not have any outstanding long-term debt as of December 31, 2017. The Company's long-term debt as of September 30, 2018 was as follows:

			As of September 30, 2018			
(In thousands, except interest rates)	Stated Interest Rate	Effective Interest Rate	Face Value	Original Issuance Discount	Deferred Financing Costs	Net Carrying Value
Initial Notes, due January 16, 2022	6.0%	11.5%	$151,500	$(18,676)	$(3,931)	$128,893
Option Notes, due January 16, 2022	6.0%	8.5%	50,500	(3,317)	(226)	46,957
Total			$202,000	$(21,993)	$(4,157)	$175,850

The Company amortized $0.3 million and $0.7 million in debt issuance costs related to the total outstanding long-term debt during the three and nine months ended September 30, 2018, respectively. The Company accreted $1.3 million and $3.3 million in issuance discount related to the total outstanding long-term debt during the three and nine months

ended September 30, 2018, respectively.
The estimated fair value of the Initial Notes and Option Notes, using Level 3 inputs based on interest rates available for debt with terms and maturities similar to the Company's outstanding debt, was $194.7 million as of September 30, 2018.
Potential Rights Offering
Subject to the terms of the Rights Offering, if undertaken, the Company would distribute to all of the Company's stockholders rights to acquire Rights Offering Notes. Stockholders of the Company who elect to participate in the Rights Offering would be allowed to elect to have up to 30% of the Rights Offering Notes they acquire pursuant thereto delivered through the sale to or

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exchange with the Company of shares of Common Stock, with the per share value thereof equal to the closing price of the Common Stock on the last trading day immediately prior to the commencement of the Rights Offering. The Rights Offering Notes would be substantially similar to the Notes, except, among other things, with respect to: (i) the date from which interest thereon would begin to accrue and the maturity date thereof (which would be 4 years from the date of issuance of the Rights Offering Notes) and (ii) the conversion price thereof, which would be equal to 130% of the closing price of the Common Stock on the last trading day immediately prior to the commencement of the Rights Offering (subject to a conversion price floor of $28.00 per share). Starboard also agreed to enter into one or more backstop commitment agreements, pursuant to which Starboard agreed to backstop up to $100.0 million in aggregate principal amount of Rights Offering Notes through the purchase of additional Notes, with such backstop obligation reduced by the amount of Option Notes purchased. The Company is not obligated to undertake the Rights Offering, and there is no assurance that the Rights Offering will be commenced or completed.

Guarantee and Security of Notes

The Notes are guaranteed by certain of the Company’s direct and indirect wholly-owned domestic subsidiaries (the “Guarantors”) and are secured by a security interest in substantially all of the assets of the Company and the Guarantors, pursuant to a Guaranty, dated as of January 16, 2018, entered into by the Guarantors, and a Pledge and Security Agreement, dated as of January 16, 2018, among the Company, the Guarantors and Starboard Value and Opportunity Master Fund Ltd. as collateral agent.

Registration of Underlying Shares

The Company filed a registration statement on Form S-1 with the SEC for the registration of the shares underlying the Notes, potential PIK Interest Shares, and warrants. In conjunction with this registration, WPP plc (together with its affiliates, "WPP") exercised its registration right to have its shares of Common Stock included on the registration statement. The registration statement on Form S-1 was declared effective as of October 16, 2018. For additional information, refer to Footnote 8, Related Party Transactions.

Revolving Credit Facility

On September 26, 2013, the Company entered into a Credit Agreement (the “Credit Agreement”) with several banks with a maturity date of September 26, 2018. Bank of America, N.A. was the administrative agent and lead lender of this revolving credit facility. The Credit Agreement provided for a five-year revolving credit facility of $100.0 million, which included a $10.0 million sublimit for issuance of standby letters of credit (subsequently reduced to $3.6 million in September 2017), a $10.0 million sublimit for swing line loans and a $10.0 million sublimit for alternative currency lending. On January 11, 2018, the Company voluntarily terminated the Credit Agreement and the Security and Pledge Agreement between the Company and Bank of America, N.A., as administrative agent, and other lenders. At the time of termination of the Credit Agreement, $3.5 million in letters of credit remained outstanding and were cash collateralized. As of September 30, 2018, no letters of credit remain outstanding under the Credit Agreement.

On June 1, 2018, the Company entered into a Security Agreement with Wells Fargo Bank, N.A. to issue standby letters of credit. As of September 30, 2018, $3.1 million in letters of credit are outstanding and are cash collateralized under the Security Agreement with Wells Fargo Bank, N.A.

4. Fair Value Measurements

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. The accounting standard for fair value measurements establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

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

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

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

Assets and Liabilities Measured on a Recurring Basis

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The financial instruments measured at fair value in the accompanying Condensed Consolidated Balance Sheets on a recurring basis consist of the following:

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(In thousands)	As of September 30, 2018 Level 1	Level 2	Level 3	Total	As of December 31, 2017 Level 1	Level 2	Level 3	Total
Assets:								
Money market funds [1]	$913	$ —	$—	$913	$860	$ —	$ —	$860
Investment in equity securities [2]	4,964	—	—	4,964	—	—	—	—
Total	$5,877	$ —	$—	$5,877	$860	$ —	$ —	$860
Liabilities:								
Financing derivatives: no hedging designation								
Interest rate reset [3]	—	—	18,100	18,100	—	—	—	—
Change of control redemption [4]	—	—	3,700	3,700	—	—	—	—
Total	$—	$ —	$21,800	$21,800	$—	$ —	$ —	$—

[1] Level 1 cash equivalents are invested in money market funds that are intended to maintain a stable net asset value of $1.00 per share by investing in liquid, high quality U.S. dollar-denominated money market instruments with maturities less than three months.

[2] The Company's investment in common stock of an entity, which is included in other non-current assets, is valued using a market approach based on the quoted market price of the security. Prior to adoption of ASU 2016-01, this investment was classified as a cost-method investment and was measured at historical cost in the prior year.

[3] The fair value of the Company's interest rate reset derivative liability is determined using a with-and-without approach, using a standard binomial tree convertible bond model. The fair value estimate is determined using an estimate for the Company's credit rating, the premium attributable to the payment-in-kind feature of the Notes, and premium estimates for company-specific risk factors. The valuation is derived from techniques which utilize unobservable Level 3 inputs.

[4] The fair value of the Company's change of control redemption derivative liability is determined using a probability adjusted binomial lattice model. The fair value estimate is determined using an estimate for the probability of change of control of the Company, risk-free rate, and remaining term of the redemption feature. These estimates represent Level 3 inputs within the fair value hierarchy.

The Company did not have any transfers between Level 1 and Level 2 fair value measurements during the periods presented.

Due to their short-term nature, the carrying amounts reported approximate the fair value for accounts receivable, accounts payable, capital leases and accrued expenses. The carrying values of capitalized lease obligations approximate their fair value as the terms and interest rates approximate market rates (Level 2). There were no changes to the Company's valuation methodologies during the three and nine months ended September 30, 2018 or 2017, respectively.

The following table presents the changes in the Company's Level 3 fair valued instruments for the nine months ended September 30, 2018:

(In thousands)	Financing Derivative Liabilities
Balance as of December 31, 2017	$ —
Issuances	17,359
Total losses included in other (expense) income, net [1]	10,141
Settlement [2]	(5,700)
Balance as of September 30, 2018	$ 21,800

[1] Represents change in fair value of interest rate reset derivative liability ($8.5 million loss), Notes Option derivative liability ($3.3 million loss), and change of control derivative liability ($1.7 million gain). All losses and gains were recorded in other (expense) income, net in the Condensed Consolidated Statements of Operations and Comprehensive

Loss.
(2) Represents settlement of the Notes Option derivative liability through the issuance of the Option Notes on May 17, 2018. The derivative was net settled with the Option Notes and recorded as an issuance premium. Refer to Footnote 3, Long-term Debt, for further information.

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The following table displays valuation techniques and the significant unobservable inputs for the Company's Level 3 liabilities measured at fair value as of September 30, 2018:

	Fair value measurements as of September 30, 2018		
	Significant valuation technique	Significant unobservable inputs	Input
Interest rate reset derivative liability	Discounted Cash Flow	Discount rate	24.0%
		Stock price	$18.23
		Risk-free rate	2.9%
		Volatility	43.7%
		Term	3.30 years
Change of control redemption derivative liability	Option pricing model	Probability	0-10%
		Risk-free rate	2.9%

The fair values of the Company's financing derivatives are estimated using forward projections and are discounted back at rates commensurate with the remaining term of the related derivative. The primary sensitivity in the interest rate reset derivative liability is driven by the Company's Common Stock price at the measurement date, the observable volatility of the Common Stock, and the discount rate used to determine the present value of the instrument. The primary sensitivity for the change of control redemption derivative liability is driven by the probability of the change of control.

5. Accrued Expenses

(In thousands)	As of September 30, 2018	As of December 31, 2017
Payroll and payroll-related	$ 14,641	$ 20,821
Expected retention awards	—	16,947
Accrued data costs	15,866	14,445
Professional fees	7,647	14,456
Restructuring	2,196	9,184
Amounts due to Adobe	988	5,395
Accrued interest	3,018	—
Other	3,996	4,783
	$ 48,352	$ 86,031

As a result of the stockholders' approval of the 2018 Plan, the Company could settle the expected retention awards liability through the issuance of shares. Consequently, the liability for these awards was reclassified to other non-current liabilities in the Condensed Consolidated Balance Sheets. Prior to the approval of the 2018 Plan, the Company settled the liability in cash upon the departure of certain employees. During the three and nine months ended September 30, 2018, the Company settled $10.3 million of the outstanding liability through the distribution of shares. Refer to Footnote 7, Stockholders' Equity, for further information.

6. Income Taxes

The Company’s income tax provision for interim periods is calculated by applying its estimated annual effective tax rate on its projected ordinary book income (loss) before taxes to year-to-date ordinary book income (loss) before taxes. The income tax effects of any extraordinary, significant unusual or infrequent items not included in ordinary book income (loss) are determined separately and recognized in the period in which the items arise. During the three and nine months ended September 30, 2018, the Company recorded an income tax provision of $0.4 million and $3.9 million, resulting in an effective tax rate of 1.7% and 3.1%, respectively. During the three and nine months ended September 30, 2017, the Company recorded an income tax provision of $2.3 million and $4.2 million, resulting in an effective tax rate of 1.8% and 2.1%, respectively. These effective tax rates differ from the U.S. federal statutory rate primarily due to the effects of foreign tax rate differences and increases in the Company’s valuation allowance against its domestic deferred tax assets. As of September 30, 2018 and December 31, 2017, the Company had unrecognized tax benefits of approximately $2.6 million and $2.5 million, respectively. The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense.

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7. Stockholders' Equity

2018 Equity and Incentive Compensation Plan

The Company's stockholders approved the 2018 Plan at the Company's 2018 Annual Meeting. Under the 2018 Plan, the Company may grant option rights, appreciation rights, restricted stock awards, restricted stock units, performance shares and performance units up to 10,650,000 shares of Common Stock. The aggregate number of shares of Common Stock available will be reduced by: (i) one share of Common Stock for every one share of Common Stock subject to an award of option rights or appreciation rights granted under the 2018 Plan and (ii) two shares of Common Stock for every one share of Common Stock subject to an award other than option rights or appreciation rights granted under the 2018 Plan. If any award granted under the 2018 Plan (in whole or in part) is cancelled or forfeited, expires, is settled in cash, or is unearned, the shares of Common Stock subject to such award will, to the extent of such cancellation, forfeiture, expiration, cash settlement, or unearned amount, again be available at a rate of one share of Common Stock for every one share of Common Stock subject to awards of option rights or appreciation rights and two shares of Common Stock for every one share of Common Stock subject to awards other than of option rights or appreciation rights. Additionally, if, after December 31, 2017, any shares of Common Stock subject to an award granted under the 2007 Equity Incentive Plan (the "2007 Plan") are forfeited, or an award granted under the 2007 Plan (in whole or in part) is canceled or forfeited, expires, is settled in cash, or is unearned, the shares of Common Stock subject to such award will, to the extent of such cancellation, forfeiture, expiration, cash settlement, or unearned amount, be available for awards under the 2018 Plan at a rate of one share for every one share subject to such award. The Company registered the securities under the 2018 Plan with the SEC effective June 1, 2018.

Stock Awards

On June 5, 2018, the Company's Compensation Committee approved and awarded 2,078,151 restricted stock units ("RSUs") under the 2018 Plan to employees, directors and certain consultants of the Company that were recommended in 2016, 2017 and 2018. On June 5, 2018, the closing sales price of Common Stock on Nasdaq was $24.23.

Of these RSUs granted, 1,493,288 vested immediately, of which 229,173 shares were delivered to certain consultants in the second quarter of 2018. 165,086 of the consultant shares related to the compensation of the Company's former CEO as part of his retirement and transition services agreement. During the three months ended September 30, 2018, 816,770 vested shares were delivered to participants in the 2018 Plan. The remainder of the shares that vested immediately are expected to be delivered to the participants between November 2018 and March 2019, contingent on market trading restrictions and applicable deferral features. These undelivered shares are classified as unvested awards until the date of delivery of the shares underlying these awards.

During the third quarter of 2018, the Company's Compensation Committee approved and awarded 460,175 time-based RSUs and 149,705 performance-based RSUs under the 2018 Plan to employees and directors. The Company recognized $6.3 million and $31.2 million in stock-based compensation expense related to these and prior awards during the three and nine months ended September 30, 2018, respectively. Time-based RSUs generally vest after three to four years contingent on continued service, and performance-based RSUs generally vest after three years based on achievement of pre-established revenue and adjusted earnings before interest income, interest expense, income taxes, depreciation and amortization (Adjusted EBITDA) goals. The maximum number of shares available for issuance under the 2018 Plan as of September 30, 2018 is 6,030,735.

A summary of the unvested stock awards as of September 30, 2018 is presented below:

Unvested Stock Awards	Restricted Stock Awards	Restricted Stock Units	Number of Shares Underlying Awards	Weighted Average Grant-Date Fair Value
Unvested as of December 31, 2017	2,125	779,912	782,037	$ 37.22
Granted	—	2,688,031	2,688,031	22.92
Vested and delivered	(2,125)	(1,550,272)	(1,552,397)	28.42

Forfeited	—	(72,490)	(72,490)	30.68
Unvested as of September 30, 2018	—	1,845,181	1,845,181	$ 24.07

The weighted-average remaining vesting period for unvested RSUs as of September 30, 2018 was 2.25 years. As of September 30, 2018, total unrecognized compensation expense related to unvested RSUs was $24.8 million, of which $4.8 million is expected to be recognized during the fourth quarter of 2018. Total unrecognized compensation expense may be increased or decreased in future periods for subsequent grants or forfeitures.

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Stock Options

A summary of the options outstanding, exercised and expired during the nine months ended September 30, 2018 is presented below:

	Number of shares	Weighted-Average Exercise Price
Options outstanding as of December 31, 2017	3,444,252	$ 30.65
Options exercised [1]	(347,752)	15.45
Options expired	(1,987,107)	40.43
Options outstanding as of September 30, 2018	1,109,393	$ 17.91
Options exercisable as of September 30, 2018	1,109,393	$ 17.91

[1] Includes 125,523 options withheld to pay the exercise price for certain excercises during the three months ended September 30, 2018.

No stock options were granted during the three and nine months ended September 30, 2018. The total intrinsic value of the options exercised in 2018 was $1.5 million. The weighted average remaining contractual life of options outstanding and exercisable as of September 30, 2018 is 2.54 years.

8. Related Party Transactions

Transactions with WPP

As of September 30, 2018, WPP owned 11,319,363 shares of the Company's outstanding Common Stock, representing 19.2% ownership in the Company. On July 19, 2018, the Company filed a registration statement on Form S-1 with the SEC for the purpose of registering the shares of Common Stock owned by WPP in order to fulfill the Company's contractual obligations under a stockholders' rights agreement entered into by the Company and WPP in 2015. Refer to Footnote 3, Long-term Debt for more information. The Company provides WPP, in the normal course of business, services amongst its different product lines and receives various services from WPP supporting the Company's data collection efforts. In early 2015, there were a series of business and asset acquisitions and sales and issuances of Common Stock between the Company and WPP (giving rise to the stockholders' rights agreement described above) as well as a Subscription Receivable agreement that the Company entered into with GroupM, a WPP subsidiary.

In 2015, the Company and GroupM entered into an agreement in which GroupM agreed to a minimum commitment to purchase $20.9 million of the Company's products over five years, which is recorded as Subscription Receivable. In December 2017, the Company signed an amendment with Group M in which GroupM agreed to purchase additional subscription services for $17.8 million over three years, which was offset by the $3.7 million Subscription Receivable that remained as of December 31, 2017. As of September 30, 2018, the balance of the Subscription Receivable was $0.7 million. Upon fully utilizing the Subscription Receivable in September 2018, the Company began recognizing revenue under the amendment as the Company delivered products and services under the agreement.

In January 2016, as part of the Company's merger with Rentrak Corporation ("Rentrak"), the Company acquired two contracts with net present value of $14.5 million with WPP wholly-owned subsidiaries which were reflected as Subscription Receivable. As of September 30, 2018 the balance of the Subscription Receivable is $1.0 million. The Company has recorded the Subscription Receivable as contra equity within additional paid-in capital on the Condensed Consolidated Statements of Stockholders' Equ