

COMSCORE, INC.
Form 10-K
February 22, 2012
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2011

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number 001-33520

COMSCORE, INC.

(Exact name of Registrant as Specified in its Charter)

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

Delaware
(State or Other Jurisdiction of

54-1955550
(I.R.S. Employer

Incorporation or Organization)

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)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value \$0.001 per share	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

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

The aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates of the registrant on June 30, 2011, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$824.7 million (based on the closing sales price of the registrant's common stock as reported by the NASDAQ National Global Select Market on that date). Shares of the registrant's common stock held by each officer and director and each person who owns more than 10% or more of the outstanding common stock of the

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

registrant have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: As of February 21, 2012, there were 33,915,782 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Specified portions of the registrant's Proxy Statement with respect to its 2012 annual meeting of stockholders, anticipated to be filed with the Securities and Exchange Commission no later than 120 days following the registrant's fiscal year ended December 31, 2011, are incorporated by reference in Part III of this annual report on Form 10-K.

Table of Contents

COMSCORE, INC.

ANNUAL REPORT ON FORM 10-K

FOR THE PERIOD ENDED DECEMBER 31, 2011

TABLE OF CONTENTS

<u>PART I</u>		1
Item 1.	<u>Business</u>	1
Item 1A.	<u>Risk Factors</u>	15
Item 1B.	<u>Unresolved Staff Comments</u>	37
Item 2.	<u>Properties</u>	37
Item 3.	<u>Legal Proceedings</u>	37
Item 4.	<u>Mine Safety Disclosures</u>	38
<u>PART II</u>		39
Item 5.	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	39
Item 6.	<u>Selected Financial Data</u>	42
Item 7.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	44
Item 7A.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	67
Item 8.	<u>Financial Statements and Supplementary Data</u>	69
Item 9.	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	104
Item 9A.	<u>Controls and Procedures</u>	104
Item 9B.	<u>Other Information</u>	106
<u>PART III</u>		106
Item 10.	<u>Directors, Executive Officers and Corporate Governance</u>	106
Item 11.	<u>Executive Compensation</u>	106
Item 12.	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	106
Item 13.	<u>Certain Relationships and Related Transactions, and Director Independence</u>	107
Item 14.	<u>Principal Accounting Fees and Services</u>	107
<u>PART IV</u>		107
Item 15.	<u>Exhibits, Financial Statement Schedules</u>	107
<u>SIGNATURES</u>		111

Table of Contents

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K, including the Management's Discussion and Analysis of Financial Condition and Results of Operations section in Item 7 of this report, and other materials accompanying this Annual Report on Form 10-K contain forward-looking statements within the meaning of and safe harbor provided by Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. We attempt, whenever possible, to identify these forward-looking statements by words such as intends, will, plans, anticipates, expects, may, estimates, believes, should, projects, or continue, or the negative 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, capital expenditures, introduction of new products, regulatory compliance, plans for growth, expected economic conditions, and future operations, as well as assumptions relating to the foregoing.

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 within Item IA Risk Factors of this Annual Report on Form 10-K and elsewhere within this report.

You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Annual Report on Form 10-K. 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.

Table of Contents

PART I

ITEM 1. BUSINESS

Overview

We provide leading, on-demand digital analytics solutions that enable our customers to make informed, data-driven decisions and implement more effective digital business strategies. Our solutions provide our customers with deep insight into anonymous consumer behavior, including objective, detailed information regarding usage of their online properties and those of their competitors, coupled with information on consumer demographic characteristics, attitudes, lifestyles and offline behavior. In addition, we offer mobile and network analytics products which provide comprehensive market intelligence to mobile carriers worldwide. During the year ended December 31, 2011, we provided our solutions to over 1,970 customers worldwide with our broad geographic base of employees located in 32 locations in 23 countries.

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

The foundation of our platform is data collected from our Internet user panel of approximately two million Internet users worldwide, which is comprised of persons with at least one computer being actively measured by us within the previous thirty-day period that have granted us explicit permission to confidentially measure their Internet usage patterns, online and certain offline buying behavior and other activities. By applying advanced statistical methodologies to our panel data using our proprietary software, we project consumers' online behavior for the total online population and a wide variety of user categories. This panel information is complemented by our census-based solution, which measures consumption of a website's content, to form our Unified Digital Measurement solution, enabling us to enhance the accuracy of our data by blending and reconciling our panel data with data collected directly from customers' servers. In addition to our panelist based platforms, we also provide perpetual software licensing solutions to the large mobile networks that deliver network analysis focused on the experience of wireless subscribers, as well as network intelligence with respect to performance, capacity and configuration analytics. Moreover, we provide website analytics and innovative video measurement solutions.

Our strategy is to deliver the widest array of digital analytic solutions to customers. For example, our digital analytics solutions are aimed at content publishers, advertisers, advertising agencies and mobile network service providers and they have significant overlap in the sense that the same solution can be applicable to multiple types of customers. Although, we operate our business within one operating segment, we leverage our platforms to provide solutions across four key areas:

Audience analytics: tools that measure the size, behavior and characteristics of online audiences across multiple platforms;

Advertising analytics: tools that provide end-to-end solutions for planning, optimization and evaluation of the effectiveness of online advertising;

Web analytics: tools that enable customers to optimize the user experience on the properties; and

Mobile and network analytics: tools that provide comprehensive mobile market intelligence and network solutions for mobile operators.

Table of Contents

Our opportunity

We believe that digital media and platforms are enabling the evolution and innovation of business models in commerce, content, advertising and communications. We believe our opportunity lies in providing customers across multiple industries worldwide with the digital analytics solutions they need to navigate the changing business environment.

Continued growth of Digital Commerce, Content, Advertising and Communications

The United Nations estimates that there are now more than two billion people with access to the Internet. As that number continues to grow, the Internet has risen in importance as a platform for research, commerce, advertising and media distribution and consumption. In the last ten years, digital platforms have enabled the rapid growth of leading Internet businesses, of which the three largest online companies generated in excess of \$100 billion in revenue in 2011 alone.

At the same time, the Internet continues to evolve, with social platforms such as Facebook, Twitter and LinkedIn pushing further evolution of business models among both offline and more established online players. Additionally, as smartphones and tablets become the dominant platform for accessing the Internet for a growing number of people, the user experience is undergoing additional change to cater to consumer demand.

The rapid development and introduction of mobile devices (especially smartphones), tablets, game consoles, e-readers, as well as digital communication technologies such as Voice over Internet Protocol, or VOIP, and Internet Protocol TV, or IPTV, are enabling users to access content and communicate in new ways. We believe these and other new digital media and communications devices and services offer a similar opportunity as the Internet for us to measure and analyze user behavior.

The Measurable World

The interactive, user-specific nature of digital media enables businesses to access a wealth of user information that was virtually unavailable through offline audience measurement and marketing intelligence techniques. Businesses can now measure detailed user activity, such as how users interact with Web page content, how users respond to online marketing, how people consume content, shop and buy online, and how audience and user behavior compare across various Web sites.

Detailed user data can be combined with demographic, attitudinal and transactional information to develop a deeper understanding of user behavior, attributes and preferences. Unlike offline media such as traditional television and radio, which generally only allow for the passive measurement of relative audience size, digital media enable businesses to actively understand the link between digital content, marketing and user behavior. Businesses can use accurate, relevant and objective digital marketing intelligence to develop and validate key strategies and improve performance.

Importance of Digital Media Measurement

Online business models are frequently characterized by low barriers to entry and low switching costs for consumers. In such an environment, access to real-time data and analytics becomes a vital competitive tool, as those businesses that are able to most efficiently acquire, convert and monetize user traffic attain a significant advantage. Additionally, many digital businesses face low incremental costs, and thus small improvements in monetization or operating efficiency can have a significant impact on profitability.

Challenges in Providing Digital Media Measurement

While the interactive and dynamic nature of digital markets creates the opportunity for businesses to gain deep insights into user behavior and competitive standing, there are a number of issues unique to the Internet that make it challenging for companies to provide digital marketing intelligence. Compared to offline media such as

Table of Contents

television or radio, the markets for digital media are significantly more fragmented, complex and dynamic. We believe that there are over 35,000 Web sites worldwide that each receives at least 500,000 monthly unique visitors, as compared to at most a few hundred channels typically available with standard digital cable or satellite television and broadcast or satellite radio. The complexities of online user activity and the breadth of digital content and advertising make providing digital marketing intelligence a technically challenging and highly data-intensive process.

Digital media continues to develop at a rapid pace and in numerous formats such as textual and graphical content, streaming and downloadable video and music, instant messaging, VoIP telephony, online and social gaming and email. Digital advertising also includes multiple formats such as display, search, rich media and video. Detailed user activity such as viewing, clicking or downloading various components of a Web site across digital media or interacting with various advertising formats creates a substantial amount of data that must be captured on a continuous basis. The data must also be cleansed for quality, relevancy and privacy protection and be organized to enable companies to obtain relevant and actionable digital marketing intelligence. This capture of audience data can prove extremely challenging when it involves millions of Internet users with varying demographic characteristics accessing tens of thousands of Web sites across diverse geographies.

Need for Accuracy and Reliability. Relevant digital marketing intelligence requires access to accurate and reliable global data that measures online user activity. Existing data collection methodologies, including those that rely on third party sources, surveys or panels, face significant challenges and limitations. Survey or panel methodologies must measure a sufficiently large and representative sample size of Internet users to accurately capture data that is statistically projectable to the broader Internet population. In addition, the international composition of Internet audiences requires a geographically dispersed sample to accurately capture global digital activity. Digital marketing intelligence that depends solely on third-party sources to obtain Internet audience usage data has the potential to be biased, may be constrained by the data that the third party is capable of capturing, and may be limited in its application. For example, a solution that relies on data supplied by an Internet service provider, or ISP, may show a bias toward the demographic composition or other characteristics of that ISP's users. We believe that a meaningful digital media sourcing methodology must be based on data sourced from a large, representative global sample of online users that can be parsed, enhanced, mined and analyzed; must evolve rapidly and be flexible to adapt to changing technologies; and must be able to provide actionable digital marketing intelligence that can be used to improve business decision-making. Data collected entirely from third-party sources (such as ISPs) may be constrained by the data that the third-party is capable of capturing and may be limited in the breadth of its applicability.

Need for Third-Party Objectivity. We believe that the availability of objective third-party data that measures digital audience size, behavior, demographic and attitudinal characteristics represents a key factor in the continued growth of digital content, advertising and commerce. As the buying and selling of online advertising continues to grow, we believe that companies on both sides of the advertising transaction will increasingly seek third-party marketing intelligence to assess the value and effectiveness of digital media. In addition, as advertisers work with Web site publishers to target online advertising campaigns to reach a specific demographic or behavioral user profile, the need for objective audience and user information, unbiased by either party to the transaction, will become increasingly important.

Need for Competitive Information. In addition to the scope, complexity and rapid evolution of online digital media, the lack of data on competitors makes it difficult for companies to gain a comprehensive view of user behavior beyond their own digital businesses. While products and tools exist that enable companies to understand user activity on their own Web sites, these products are unable to provide a view of digital audience activity on other Web sites or offline. In order for publishers, marketers, merchants and service providers to benefit from accurate and comprehensive digital marketing intelligence they need to understand user activity on Web sites across the Internet and how online consumer behavior translates into offline actions.

Table of Contents

The comScore Digital Media Measurement Platforms

We provide leading digital media measurement platforms that enable our customers to devise and implement more effective digital business strategies. Our platforms are comprised of proprietary databases and a computational infrastructure of internally developed software that measures, analyzes and reports digital activity from our global panel of approximately two million Internet users. This panel information is complemented by a Unified Digital Measurement solution, which blends panel and server methodologies into a solution that provides a direct linkage and reconciliation between server and panel measurement. Through our platforms, we are able to offer our customers deep insights into consumer behavior on their own online properties and those of their competitors, including objective, detailed information on users' demographic characteristics, attitudes, lifestyles and multi-channel buying activity.

Key attributes of our platforms include:

Panel of approximately two million Internet users. A core element of our ability to provide digital marketing intelligence is based on information continuously gathered from a broad cross-section of approximately two million Internet users worldwide who have granted us explicit permission to confidentially measure their Internet usage patterns, online and certain offline buying behavior and other activities. Through our proprietary technology, we measure detailed Internet audience activity across the spectrum of digital content, distribution channels and devices. Many comScore panelists also participate in online survey research that captures and integrates demographic, attitudinal, lifestyle and product preference information with Internet behavior. The global nature of our Internet panel enables us to provide digital marketing intelligence in forty-three individual countries. Our global capability is valuable to companies based in international markets as well as to multi-national companies that want to better understand their global Internet audiences and the effectiveness of their global digital business initiatives.

Census data collection and measurement. Our Unified Digital Measurement solution combines panel measurement of people and audience demographics with a comprehensive and accurate representation of the consumption of a Website's media, which is accomplished by site owners including comScore beacons or reporting pixels on all of their Website content. Census measurement using web beacons reports every server call that the Website owner would register from all locations and devices, allows for full representation of all Website activity across devices, and fully reconciles our panel audience measurement with publisher's internal server logs or web analytics metrics.

Scalable technology infrastructure. We deliver our solutions via a SaaS model and host all of our platforms and the majority of our customer data in a cloud-based environment which enables us to securely and seamlessly update our platforms at any time, allowing our customers to immediately benefit from these updates. Since our platforms are cloud-based, we are in a position to quickly deploy our solutions and add customers of any size with little to no lead time and at minimal additional cost. In addition, our hosted platforms allow our customers anytime access to the solutions needed to effectively manage their business. The design of our scalable technology infrastructure is based on distributed processing and data capture environments that allow for the collection and organization of vast amounts of data and enables us to cost-effectively operate and expand our platforms.

Benefits of our platform include:

Advanced digital marketing intelligence. Our marketing intelligence enables us to provide customers with an enhanced understanding of digital audience activity beyond their own Web sites. We use our proprietary technology to compile vast amounts of data on Internet user activity and to organize the data into discrete, measurable elements that can be used to provide actionable insights to our customers. Digital content providers, marketers, advertising agencies, merchants and service providers use the insights our platform provides to craft improved marketing campaigns and strategies, measure the effectiveness and return on investment of their digital initiatives and better assess and improve their digital content and the link between digital marketing and offline user activity.

Table of Contents

Objective third-party resource for digital marketing intelligence. We provide unbiased data, marketing intelligence, reports and analyses, and businesses use our data to plan and evaluate the purchase and sale of online advertising and to measure the effectiveness of digital marketing. We are an independent company that is not affiliated with the digital businesses we measure and analyze, allowing us to serve as an objective third-party provider and eliminate potential conflicts with customers.

Vertical industry expertise. We believe that companies across different industries have distinct information and marketing intelligence needs related to understanding their digital audiences and buyers, evaluating marketing initiatives and understanding company or product-specific competitive positions. By working with companies in various industries over the course of multiple years and employing personnel dedicated to specific sectors, we have developed the ability to provide digital marketing intelligence specifically tailored to the needs of our customers in multiple sectors, including automotive, consumer packaged goods, entertainment, financial services, media, pharmaceutical, retail, technology, telecommunications and travel.

Ease of use and functionality. The comScore digital marketing intelligence platform is designed to be easy for our customers to use. A majority of our solutions are delivered on a SaaS basis. Customers can also run customized reports and refine their analyses using an intuitive interface available on our Web site. Our solutions are available either through the Internet or by using standard software applications such as Microsoft Excel, Microsoft PowerPoint or SPSS analytical software. Our customers do not need to install additional hardware or complex software to access and use most of our products.

Our offerings

We leverage our platforms to deliver our digital media measurement through a wide array of digital analytical solutions across four key areas: audience analytics, advertising analytics, web analytics, and mobile and network analytics. We typically deliver these solutions via our SaaS-based platforms.

Audience Analytics

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

Advertising Analytics

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

Table of Contents

Web Analytics

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

Mobile and Network Analytics

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

Within each of the foregoing key areas we also provide custom research that uses and leverages comScore's panel, methodologies and expert analysts to deliver industry-leading marketing insights tailored for specific customer needs. Examples of the types of custom research we provide include:

benchmarking studies;

customer satisfaction studies;

e-commerce measurement, which provides a view of consumers' online shopping and spending behaviors;

persuasion research, which provides an analysis on the effectiveness of site design and communication tactics; and

other analysis, which incorporate specific targeted or segmented audiences.

Our strategy

Our objective is to be a leading provider of global digital marketing intelligence solutions. We plan to pursue our objective through internal initiatives and, potentially, through acquisitions and other investments. The key elements we will be focusing on to achieve our objective are:

Deepen our relationships with current customers. We intend to continue to work closely with our customers to enable them to continuously enhance the value they obtain from our digital marketing intelligence platform, including many of the additional product offerings now available as a result of recent acquisitions. Many of our customers are Fortune 1000 companies that deploy multiple marketing initiatives, and we believe many of our customers would benefit from more extensive use of our product offerings to gain additional insights into their key digital initiatives. We will work to develop and expand our customer relationships by cross-selling from our entire suite of products and offerings to increase our customers' use of our digital marketing intelligence platform.

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

Grow our customer base. As the digital media, commerce, marketing and communications sectors continue to grow, we believe the demand for digital marketing intelligence products will increase. To meet this increase in market demand, we intend to further invest in sales, marketing and account management initiatives in an effort to expand our customer base. We intend to offer both general and industry-specific digital marketing solutions that deliver value to a wide range of potential customers in current and new industry verticals.

Table of Contents

Provide a complete suite of integrated products. We intend to continue to refine and expand our product offerings such that we can provide our customers with a one-stop shop for digital analytics. We will be working closely with our customers to more fully understand their specific requirements in order to provide them with product suites that fully address all of their issues. In particular, we intend to address the specific needs of targeted industries such as Advertising Agencies, Automotive, Consumer Packaged Goods, Financial Services, Media, Mobile, Pharmaceutical, Technology, Telecommunication, Educational and the Financial Markets.

In addition to the above key elements, we also intend to:

Expand our digital marketing intelligence platform. We expect to continue to increase our product offerings through our digital marketing intelligence platform. As digital markets become more complex, we believe that companies will require new information and insights to measure, understand and evaluate their digital business initiatives. We intend to develop new applications and offerings that leverage our digital marketing intelligence platform to be able to provide the most timely and relevant information to our customers.

Address emerging digital media. The extension of digital media and communications to include new formats such as content for mobile phones, VoIP, IPTV, and next generation gaming consoles creates new opportunities to measure and analyze emerging digital media. We intend to extend our digital marketing platform to capture, measure and analyze user activity in these emerging digital media and communications formats both through technology developed organically as well as through strategic acquisitions and partnerships.

Grow internationally. While we are currently in the early stages of providing customers with international services, we believe that a significant opportunity exists to provide our product offerings to multi-national and international companies. Approximately half of the existing comScore Internet user panel resides outside of the United States. We plan to expand our sales and marketing and account management presence outside the U.S. as we provide a broader array of digital marketing intelligence products that are tailored to local country markets as well as the global marketplace. We have also completed acquisitions of Certifica in Latin America and Nedstat in Europe in recent years, which we believe will increase our global reach.

Extend technology leadership. We believe that the scalability and functionality of our database and computational, SaaS-based, infrastructure provides us with a competitive advantage in the digital media intelligence market. Accordingly, we intend to continue to invest in research and development to extend our technology leadership. We intend to continue to enhance our technology platform to improve scalability, performance and cost effectiveness and to expand our product offerings.

Build brand awareness through media exposure. Our digital media, commerce and marketing information are frequently cited by media outlets. In addition, we proactively provide them with data and insights that we believe may be relevant to their news reports and articles. We believe that media coverage increases awareness and credibility of the comScore and Media Metrix brands and supplements our marketing efforts. We intend to continue to work with media outlets, including news distributors, newspapers, magazines, television networks, radio stations and online publishers, to increase their use of comScore data in content that discusses digital sector activity.

Integrate and use our acquired resources. Our recent acquisitions have not only helped us to expand our product suite, but they have enabled us to combine existing comScore products, technologies, and other core assets with those from the acquired companies to create new and unique value that we can offer to the marketplace. In the case of our acquisition of Nedstat, we combined core comScore assets such as audience data and segmentation to provide new insights on site visitors; in the case of Nexius, we combined comScore's site dictionary (a uniform resource locator, or URL) level taxonomy of Internet sites with internal data from wireless carriers to provide wireless operators with intelligence about how their customers are using the Internet; in the case of our acquisition of AdXpose, we

Table of Contents

combined their real-time advertising verification technology with our Campaign Essentials product to offer a unique end-to-end, holistic, single-tag solution for audience verification.

Customers

As of December 31, 2011, we had over 1,970 customers, including approximately 100 Fortune 500 companies. Our customers include Internet-based companies such as Microsoft, AOL and Yahoo!, as well as market leading companies in a variety of industries, including Internet service providers, investment banks, creative media agencies, consumer banks, wireless carriers, pharmaceutical makers, credit card issuers and consumer packaged goods companies.

One of our customers, Microsoft Corporation, accounted for approximately 10%, 11% and 12% of our revenues in the years ended December 31, 2011, 2010 and 2009, respectively. No other customer accounted for more than 10% of our revenues during each of those periods.

Selling and Marketing

We sell the majority of our products through a direct sales force. Sales to new customers are managed by sales representatives assigned specifically to focus on new business development, as well as creating overall awareness of our products and offerings. A separate group of account managers within our sales organization is assigned to manage, renew and increase sales to existing customers. This portion of the sales organization is organized vertically by industry with account executives dedicated to selling into the consumer packaged goods, entertainment, financial services, media, pharmaceutical, retail, technology, telecommunications and travel sectors and other industries. Account executives are tasked with both identifying and generating new business in specific verticals as well as servicing existing customers. Our sales and account representatives receive a base salary and are eligible for bonuses or commissions based on performance.

Our marketing communications staff is primarily focused on leveraging the use of comScore data and insights by the media and maximizing the number of times that comScore is cited as a source of information. We believe that the use of our data by general and industry-specific media outlets increases recognition of the comScore brand name and serves to help validate the value of the analyses and products we provide. In order to accomplish this goal, we seek to maintain relationships with key news distributors, publications, TV networks, reporters and other media outlets. We believe that the media views us as a highly recognized and credible resource for digital marketing intelligence. For example, we are regularly cited, on average several hundreds of times a day, by well-known news distributors, publications and TV networks such as the Associated Press, Reuters, Bloomberg, CNBC, The New York Times and The Wall Street Journal. We also target various industry conferences and tradeshows as part of our marketing efforts. These events are typically focused on a particular industry, allowing us to demonstrate to industry participants the value of our products to businesses in that industry.

Panel and Methodology

The foundation of our digital marketing intelligence platform is data collected from our Internet user panel, which includes approximately two million persons worldwide, whose online behavior we have explicit permission to measure on a continuous, passive basis. We believe that our panel is one of the largest global panels of its kind, delivering a multi-faceted view of digital media usage and transactional activity as well as selected offline activity. By applying advanced statistical methodologies to our panel data, we project the behavior of the total online population.

We recruit our panel through a variety of online recruitment programs that have been tested and refined since our inception to ensure a diverse sample that sufficiently represents the broader global Internet population. In addition, in the United States we enlist a sub-sample of panelists through various offline recruiting methods.

Table of Contents

Participants in the comScore research panel receive a package of benefits that is designed to appeal to a broad variety of user categories. Examples of such benefits in 2011 and prior periods included free security applications such as encrypted file protection; free general purpose applications such as screensavers and games; sweepstakes; cash payments; points that may be redeemed for prizes; and planting a tree in the name of all new panelists through our Trees for Knowledge program. Participants' data and privacy are protected by defined privacy policies that safeguard personally-identifiable information. This combination of recruiting methods allows us to maintain a panel large enough to provide statistically representative samples in most demographic segments.

We continuously determine the size, demographics and other characteristics of the online population using enumeration surveys of tens of thousands of persons annually, whereby respondents are asked a variety of questions about their Internet use, as well as demographic and other descriptive questions about themselves and their households. The sample of participants in each enumeration survey is selected using a random recruiting methodology. The result is an up-to-date picture of the population to which the comScore sample is then projected. We use the results from the enumeration surveys to weight and statistically project the panel data to ensure that the projected data reflect the characteristics of the Internet population.

In addition, our Unified Digital Measurement solution combines panel measurement of people and audience demographics with a full and accurate representation of the consumption of a site's media, which is accomplished by site owners embedding comScore beacons or reporting pixels on all of their website content. Census measurement using web beacons reports every server call that the site owner would register from all locations and devices, allows for full representation of these audiences and devices, and fully reconciles audience measurement with our customers or customers' internal server logs or web analytics metrics.

Privacy

We believe that a key factor differentiating our digital marketing intelligence is our ability to track and analyze online usage behavior using the data collected from our panel. Since the founding of our company, we have endeavored to undertake such data collection and analysis responsibly and only with consumer permission. Participation in our research panel is voluntary. Our policies require that participants consent to our privacy and data security practices before our software collects information on the user's online activity. In addition, we provide panelists with multiple opportunities and methods to remove themselves from our panel. We limit the type of information that we collect by identifying and filtering certain personal information from the data collected. The collected data is secured using multiple layers of physical and digital security mechanisms. Moreover, we maintain a strict policy of not sharing comScore panelists' personally identifiable information with our customers. We believe that these actions and policies are consistent with the AICPA/CICA WebTrust criteria for online privacy.

Technology and Infrastructure

We have developed a proprietary system for the measurement of the activity of our global online panel. This system is continuously refined and developed to address the changing digital media landscape and to meet new customer business needs. The system is comprised of hundreds of servers that operate using internally-developed software built on Microsoft and other technologies. Our technology infrastructure is operated in multiple, third-party Tier-1 co-location facilities (located in the United States and Europe). Our systems have multiple redundancies and are structured to ensure the continuation of business operations in the event of network failure or if one of our data centers has been rendered inoperable. As of December 31, 2011, our technology team (excluding employees devoted to research and development) was comprised of approximately 240 full-time employees (or full-time equivalents) working in different geographic locations, who design, develop, maintain and operate our entire technology infrastructure. In addition, we have established a relationship with a third party firm for software development outside the United States as a means to augment our technology efforts for discrete projects.

Table of Contents

Our development efforts have spanned all aspects of our business. We have developed a data capture system that operates across our panelists computers in almost 200 countries and is used for the real-time capture of consumer Internet behavior. We have built a large scale, efficient and proprietary system for processing massive amounts of data. Typically our systems handle and process data in excess of nearly one trillion input records per month. Despite the scale of processing required, these data are generally available on a daily basis for our business use. We have also developed a highly efficient and scalable system for the extraction and tabulation of all online activities of our panelists. Likewise, we have created an award-winning, highly scalable data warehousing environment that allows ready access and analysis of the data we collect. We believe our scalable and highly cost-effective systems and processing methods provide us with a significant competitive advantage.

Our customers access our digital marketing intelligence product offerings through a variety of methods including MyMetrix, our proprietary, Web-based analysis and reporting system, which is used by thousands of active, unique users to produce more than several million reports each year.

Research and Development

Our research and development efforts focus on the enhancement of our existing products and the development of new products to meet our customers' digital marketing intelligence needs across a broad range of industries and applications. Because of the rapidly growing and evolving use of the Internet and other digital media for commerce, content, advertising and communications, these efforts are critical to satisfying our customers' demand for relevant digital marketing intelligence. As of December 31, 2011, we had approximately 240 full-time employees (or full-time equivalents) working on research and development activities (excluding employees on our technology team cited under Technology and Infrastructure above). In addition, we involve management and operations personnel in our research and development efforts. In 2011, 2010 and 2009, we spent \$34.1 million, \$26.4 million and \$17.8 million, respectively, on research and development.

Intellectual Property

We rely on a combination of patent, trademark, copyright and trade secret laws in the United States and other jurisdictions together with confidentiality procedures and contractual provisions to protect our proprietary technology and our brand. We seek patent protection on inventions that we consider important to the development of our business. We control access to our proprietary technology and enter into confidentiality and invention assignment agreements with our employees and consultants and confidentiality agreements with other third parties.

Our success depends in part on our ability to develop patentable products and obtain, maintain and enforce patent and trade secret protection for our products, including successfully defending these patents against any third-party challenges, both in the United States and in other countries. We may be able to protect our technologies from unauthorized use by third parties to the extent that we own or have licensed valid and enforceable patents or trade secrets that cover them. However, the degree of future protection of our proprietary rights is uncertain because legal means afford only limited protection and may not adequately protect our rights or permit us to gain or keep our competitive advantage.

During 2011, our patent portfolio grew significantly due to a variety of factors. We acquired issued U.S. patents and a related family of pending U.S. patent applications generally directed towards, among other things, fraud detection technology for online traffic, a portfolio of U.S. and foreign patent applications directed towards, among other things, online ad verification technology and the measurement of online user behavior, and we acquired four families of U.S. and international patents and patent applications generally directed towards techniques for logging and processing user activity and events on panelist machines, techniques for analyzing and measuring multiple sources of data over a communications network, techniques for associating computer activity with users, techniques for measuring online user activity, and techniques for measuring the visibility of online content received by a computer.

Table of Contents

These acquired patents and applications build on our existing intellectual property portfolio, which include U.S. patents and patent applications generally directed towards, among other things: techniques for collecting consumer data and data relating to a user's usage of a computing device; techniques for monitoring the performance of a network server; techniques for placing user identification in header of data packets usable in user demographic reporting; techniques for querying wireless network offerings; and techniques for acquiring and correlating wireless user profiles with events occurring on user wireless devices.

As a result of this growth, our intellectual property portfolio currently includes approximately 30 U.S. patents and 20 international patents. In addition, we also currently have approximately 50 U.S. and international patent applications pending. However, patents may not be issued for any pending or future pending patent applications owned by or licensed to us, and claims allowed under any issued patent or future issued patent owned or licensed by us may be declared invalid or may not be sufficiently broad to protect our technologies. Any issued patents owned by or licensed to us now or in the future may be challenged, invalidated, held unenforceable or circumvented, and the rights under such patents may not provide us with the expected benefits. In addition, competitors may design around our technology or develop competing technologies. Intellectual property rights may also be unavailable or limited in some foreign countries, which could make it easier for competitors to capture or increase their market share with respect to related technologies. Although we are not currently involved in any legal proceedings related to intellectual property, we could incur substantial costs to defend ourselves in suits brought against us or in suits in which we may assert our patent rights against others. An unfavorable outcome in any such litigation could have a material adverse effect on our business and results of operations.

Under current U.S. law, the statutory term for a patent is 20 years from its earliest effective filing date. Various circumstances, such as the provisions under U.S. patent law for patent term adjustment and patent term extension, may extend the duration of patents. Similarly, various circumstances may shorten the duration of patents, such as a change in U.S. law or a need or decision on our part to terminally disclaim a portion of the statutory term of any of these patents.

In addition to patent and trade secret protection, we also rely on several trademarks and service marks to protect our intellectual property assets. We are the owner of numerous trademarks and service marks and have applied for registration of our trademarks and service marks in the United States and in certain other countries to establish and protect our brand names as part of our intellectual property strategy. Some of our registered marks include comScore, Media Metrix and MyMetrix.

Our intellectual property policy is to protect our products, technology and processes by asserting our intellectual property rights where we believe it is appropriate and prudent. Any pending or future pending patent applications owned by or licensed to us (in the United States or abroad) may not be allowed or may in the future be challenged, invalidated, held unenforceable or circumvented, and the rights under such patents may not provide us with competitive advantages. Any significant impairment of our intellectual property rights could harm our business or our ability to compete. Protecting our intellectual property rights is costly and time consuming. Any increase in the unauthorized use of our intellectual property could make it more expensive to do business and harm our operating results. There is always the risk that third parties may claim that we are infringing upon their intellectual property rights and, if successful in proving such claims, we could be prevented from selling our products.

For additional, important information related to our intellectual property, please review the information set forth in Part I, Item 1A of this Annual Report on Form 10-K, **Risk Factors** **Risks Related to Our Business and Our Technologies**.

Table of Contents

Competition

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

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

online advertising companies that provide measurement of online ad effectiveness, including DoubleClick (owned by Google), Kantar (owned by WPP), ValueClick and WPP;

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

analytical services companies that provide customers with detailed information of behavior on their own Web sites, including Omniture (owned by Adobe), Coremetrics (owned by IBM), and WebTrends;

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

companies that provide behavioral, attitudinal and qualitative advertising effectiveness, including Toluna/Nurago, Click Forensics, Datran's Aperture, Ipsos OTX, Dynamic Logic, Insight Express and Marketing Evolution; and

specialty information providers for certain industries that we serve, including IMS Health (healthcare) and Techtronix (telecommunications).

Some of our current competitors have longer operating histories, access to larger customer bases and substantially greater resources than we do. As a result, these competitors may be able to devote greater resources to marketing and promotional campaigns, panel retention, panel development or development of systems and technologies than we can. In addition, some of our competitors may adopt more aggressive pricing policies or have started to provide some services at no cost. Furthermore, large software companies, Internet portals and database management companies may enter our market or enhance their current offerings, either by developing competing services or by acquiring our competitors, and could leverage their significant resources and pre-existing relationships with our current and potential customers.

We believe the principal competitive factors in our markets include the following:

the ability to provide actual and perceived high-quality, accurate and reliable data regarding Internet and other digital media audience behavior and activity in a timely manner, including the ability to maintain a large and statistically representative sample panel;

the ability to provide reliable and objective third party evidence that is widely accepted in the marketplace;

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

the ability to adapt product offerings to emerging digital media technologies and standards;

the breadth and depth of products and their flexibility and ease of use;

the availability of data across various industry verticals and geographic areas and expertise across these verticals and in these geographic areas;

the ability to offer survey-based information combined with digital media usage, eCommerce data and other online information collected from panelists;

Table of Contents

the ability to offer high-quality analytical services based on Internet and other digital media audience measurement information;

the ability to offer products that meet the changing needs of customers and provide high-quality service; and

the prices that are charged for products based on the perceived value delivered.

We believe that we compete favorably with our competitors on the basis of these factors. However, if we are unable to compete successfully against our current and future competitors, we may not be able to acquire and retain customers, and we may consequently experience a decline in revenues, reduced operating margins, loss of market share and diminished value from our products.

Government Regulation

Although we do not believe that significant existing laws or government regulations adversely impact us, our business could be affected by different interpretations or applications of existing laws or regulations, future laws or regulations, or actions by domestic or foreign regulatory agencies. For example, privacy concerns could lead to legislative, judicial and regulatory limitations on our ability to collect maintain and use information about Internet users in the United States and abroad. Various state legislatures have enacted legislation designed to protect Internet users' privacy, for example by prohibiting spyware. In recent years, similar legislation has been proposed in other states and at the federal level and has been enacted in foreign countries, most notably by the European Union, which adopted a privacy directive regulating the collection of personally identifiable information online and the use of cookies. These laws and regulations, if drafted or interpreted broadly, could be deemed to apply to the technology we use, and could restrict our information collection methods or decrease the amount and utility of the information that we would be permitted to collect. In addition, our ability to conduct business in certain foreign jurisdictions, including China, is restricted by the laws, regulations and agency actions of those jurisdictions. The costs of compliance with, and the other burdens imposed by, these and other laws or regulatory actions may prevent us from selling our products or increase the costs associated with selling our products, and may affect our ability to invest in or jointly develop products in the United States and in foreign jurisdictions. In addition, failure to comply with these and other laws and regulations may result in, among other things, administrative enforcement actions and fines, class action lawsuits and civil and criminal liability. State attorneys general, governmental and nongovernmental entities and private persons may bring legal actions asserting that our methods of collecting, using and distributing Web site visitor information are illegal or improper, which could require us to spend significant time and resources defending these claims. For example, some companies that collect, use and distribute Web site visitor information have been the subject of governmental investigations and class-action lawsuits. Any such regulatory or civil action that is brought against us, even if unsuccessful, may distract our management's attention, divert our resources, negatively affect our public image or reputation among our panelists and customers and harm our business. The impact of any of these current or future laws or regulations could make it more difficult or expensive to attract or maintain panelists, particularly in affected jurisdictions, and could adversely affect our business and results of operations.

Additionally, laws and regulations that apply to communications and commerce over the Internet are becoming more prevalent. In particular, the growth and development of the market for eCommerce has prompted calls for more stringent tax, consumer protection and privacy laws in the United States and abroad that may impose additional burdens on companies conducting business online. The adoption, modification or interpretation of laws or regulations relating to the Internet or our customers' digital operations could negatively affect the businesses of our customers and reduce their demand for our products. For additional, important information related to government regulation of our business, please review the information set forth in Part I, Item 1A of this Annual Report on Form 10K, Risk Factors - Risks Related to Our Business and Our Technologies.

Table of Contents**Executive Officers of the Registrant**

The following table sets forth the names and ages of our current executive officers:

Name	Age	Position
Magid M. Abraham, Ph.D.	53	President, Chief Executive Officer and Director
Gian M. Fulgoni	64	Executive Chairman of the Board of Directors
Kenneth J. Tarpey	59	Chief Financial Officer
Gregory T. Dale	42	Chief Operating Officer
Christiana L. Lin	42	EVP, General Counsel and Chief Privacy Officer

Magid M. Abraham, Ph.D. one of our co-founders, has served as our President, Chief Executive Officer and as a Director since September 1999. In 1995, Dr. Abraham founded Paragren Technologies, Inc., which specialized in delivering large scale Customer Relationship Marketing systems for strategic and target marketing, and served as its Chief Executive Officer from 1995 to 1999. Prior to founding Paragren, Dr. Abraham was employed by Information Resources, Inc. from 1985 until 1995, where he was President and Chief Operating Officer from 1993 to 1994 and later Vice Chairman of the Board of Directors from 1994 until 1995. Dr. Abraham received a Ph.D. in Operations Research and an M.B.A. from MIT. He also holds an Engineering degree from the École Polytechnique in France.

Gian M. Fulgoni, one of our co-founders, has served as our Executive Chairman of the Board of Directors since September 1999. Prior to co-founding comScore, Mr. Fulgoni was employed by Information Resources, Inc., where he served as President from 1981 to 1989, Chief Executive Officer from 1986 to 1998 and Chairman of the Board of Directors from 1991 until 1995. Mr. Fulgoni has served on the board of directors of PetMed Express, Inc., a NASDAQ-listed online retailer, since 2002 and previously served from August 1999 through November 2000. Mr. Fulgoni has also served on the board of directors of the Advertising Research Foundation, an industry research organization, since 2008. Mr. Fulgoni has served on the board of directors of InXpo, Inc., a provider of technology for virtual events, since 2005, the board of Dynamic Signal, Inc., an Internet marketing services company since 2010 and Prophet, Inc., a brand and marketing consulting company, since May 2010. He also served on the board of directors of Platinum Technology, Inc. from 1990 to 1999, U.S. Robotics, Inc. from 1991 to 1994, and Yesmail.com, Inc. from 1999 to 2000. Mr. Fulgoni holds an M.A. in Marketing from the University of Lancaster and a B.Sc. in Physics from the University of Manchester.

Kenneth J. Tarpey has served as our Chief Financial Officer since April 20, 2009. Prior to joining comScore, Mr. Tarpey was Executive Vice President, Chief Financial Officer and Chief Operating Officer of Objectvideo, Inc., a Reston, Virginia-based provider of video surveillance software, from 2003 until April 2009. From 2002 until 2003, Mr. Tarpey was Senior Vice President, Chief Financial Officer and Treasurer of Ai Metrix, Inc., a Herndon, Virginia-based provider of network optimization software. From 1997 until 2001, Mr. Tarpey was Executive Vice President and Chief Financial Officer of Proxicom, a NASDAQ-listed Internet business consulting and development company. Mr. Tarpey holds an M.B.A. from Babson College and a B.A. from College of the Holy Cross.

Gregory T. Dale has served as our Chief Operating Officer since August 2009. Prior to that, he served as our Vice President, Product Management from September 1999 until October 2000 and as our Chief Technology Officer from October 2000 until August 2009. Prior to joining us, he served as Vice President of Client Service at Paragren Technologies, Inc., a company that specialized in enterprise relationship marketing. He holds a B.S. in Industrial Management from Purdue University.

Christiana L. Lin has served as our EVP, General Counsel and Chief Privacy Officer since August 2009. Prior to that, she served as our Deputy General Counsel from February 2001 until March 2003, as our Corporate Counsel and Chief Privacy Officer from March 2003 until January 2006 and as our General Counsel and Chief Privacy Officer from January 2006 until August 2009. Ms. Lin holds a J.D. from the Georgetown University Law Center and a B.A. in Political Science from Yale University.

Table of Contents

Employees

As of December 31, 2011, we had 1,012 employees. None of our employees are represented by a labor union. We have experienced no work stoppages and believe that our employee relations are good.

Geographic Areas

Our primary geographic markets are the United States, Canada, Europe, Latin America and Asia. For information with respect to our geographic markets, see Note 13 to our Consolidated Financial Statements in Part II, Item 8 of this Annual Report on Form 10-K.

Company Information

We incorporated in August 1999 in Delaware. Our principal offices are located at 11950 Democracy Drive, Suite 600, Reston, Virginia 20190. Our telephone number is (703) 438-2000.

Available Information

We make our periodic and current reports available, free of charge, on our website as soon as reasonably practicable after such material is electronically filed with the Securities and Exchange Commission. Our website address is www.comscore.com and such reports are filed under SEC Filings on the Investor Relations portion of our website. Information contained on our Web site is not part of this Annual Report on Form 10-K and is not incorporated in this Annual Report on Form 10-K by reference. Further, a copy of this annual report as well as our other periodic and current reports may be obtained from the SEC, located at the SEC's public reference room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding our filings at www.sec.gov.

ITEM 1A. RISK FACTORS

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

Risks Related to Our Business and Our Technologies

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

We currently derive a significant portion of our revenues from our subscription-based digital marketing intelligence products. Subscription-based products accounted for 85% of our revenues during the years ended December 31, 2011 and 2010. Uncertain economic conditions or other factors, such as the failure or consolidation of large financial institutions, may cause certain customers to terminate or reduce their subscriptions. If our customers terminate their subscriptions for our products, do not renew their subscriptions, delay renewals of their subscriptions or renew on terms less favorable to us, our revenues could decline and our business could suffer.

Our customers have no obligation to renew after the expiration of their initial subscription period, which is typically one year, and we cannot be assured that current subscriptions will be renewed at the same or higher dollar amounts, if at all. Some of our customers have elected not to renew their subscription agreements with us

Table of Contents

in the past. If we experience a change of control, as defined in such agreements, some of our customers also have the right to terminate their subscriptions. Moreover, some of our major customers have the right to cancel their subscription agreements without cause at any time. Given the current unpredictable economic conditions as well as our limited historical data with respect to rates of customer subscription renewals, we may have difficulty accurately predicting future customer renewal rates. Our customer renewal rates may decline or fluctuate as a result of a number of factors, including customer satisfaction or dissatisfaction with our products, the costs or functionality of our products, the prices or functionality of products offered by our competitors, mergers and acquisitions affecting our customer base, general economic conditions or reductions in our customers' spending levels. In this regard, we have seen a number of customers with weaker balance sheets choosing not to renew subscriptions with us during economic downturns.

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

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

our ability to increase sales to existing customers and attract new customers;

our failure to accurately estimate or control costs including those incurred as a result of acquisitions, investments, other business development initiatives and litigation;

the timing of contract renewals, delivery of products and duration of contracts and the corresponding timing of revenue recognition as well as the effects of revenue derived from recently-acquired companies;

the uncertainties associated with the integration of acquired new lines of business, and operations in countries in which we may have little or no previous experience;

the mix of subscription-based versus project-based revenues;

changes in our customers' subscription renewal behaviors and spending on projects;

our ability to estimate revenues and cash flows associated with business operations acquired by us;

the impact on our contract renewal rates, for both our subscription and project-based products, caused by our customers' budgetary constraints, competition, customer dissatisfaction, customer corporate restructuring or change in control, or our customers' actual or perceived lack of need for our products;

the potential loss of significant customers;

the effect of revenues generated from significant one-time projects or the loss of such projects;

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

the impact of our decision to discontinue certain products;

the amount and timing of capital expenditures and operating costs related to the maintenance and expansion of our operations and infrastructure;

the timing and success of new product introductions by us or our competitors;

variations in the demand for our products and the implementation cycles of our products by our customers;

changes in our pricing and discounting policies or those of our competitors;

service outages, other technical difficulties or security breaches;

limitations relating to the capacity of our networks, systems and processes;

Table of Contents

maintaining appropriate staffing levels and capabilities relative to projected growth, or retaining key personnel as a result of the integration of recent acquisitions;

adverse judgments or settlements in legal disputes;

the cost and timing of organizational restructuring, in particular in international jurisdictions;

the extent to which certain expenses are more or less deductible for tax purposes, such as share-based compensation that fluctuates based on the timing of vesting and our stock price;

the timing of any additional reversal of our deferred tax valuation allowance;

adoption of new accounting pronouncements; and

general economic, political, industry and market conditions and those conditions specific to Internet usage and online businesses. We believe that our quarterly revenues and results of operations on a year-over-year and sequential quarter-over-quarter basis may vary significantly in the future and that period-to-period comparisons of our operating results may not be meaningful. Investors are cautioned not to rely on the results of prior quarters as an indication of future performance.

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

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

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

Our data collection and analysis systems are complex and may contain material defects or errors. In addition, the large amount of data that we collect may make our data collection and analysis systems more susceptible to defects or errors. The companies that we recently acquired also rely on data collection and analysis software and systems to service enterprise customers. Any defect in our panelist data collection software, our census collection systems, our enterprise focused software and systems, network systems, statistical projections or other methodologies could lead to consequences that impact operating results, including:

loss of customers;

damage to our brand;

lost or delayed market acceptance and sales of our products;

interruptions in the availability of our products;

Table of Contents

the incurrence of substantial costs to correct any material defect or error;

sales credits, refunds or liability to our customers;

diversion of development resources; and

increased warranty and insurance costs.

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

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

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

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

We have in the past and may in the future change our methodologies, the methodologies of acquired companies, or the scope of information we collect. Such changes may result from identified deficiencies in current methodologies, development of more advanced methodologies, changes in our business plans or expressed or perceived needs of our customers or potential customers. Any such changes or perceived changes, or our inability to accurately or adequately communicate to our customers and the media such changes and the potential implications of such changes on the data we have published or will publish in the future, may result in customer dissatisfaction, particularly if certain information is no longer collected or information collected in future periods is not comparable with information collected in prior periods. For example, in 2009, we adopted new methodology that would integrate server-based web beacon information with our existing panel-based data. In 2009, we also acquired and entered into a strategic alliance with web analytics companies in order to enhance the scope of our server-based web beacon information. As a result, some of our existing customers or customers of acquired entities may refuse to participate, or participate only in a limited fashion, and other may become dissatisfied as a result of changes in our methodology and decide not to continue purchasing their subscriptions or may decide to discontinue providing us with their web beacon or other server-side information. Such customers may elect to publicly air their dissatisfaction with the methodological changes made by us, thereby damaging our brand and harming our reputation. Additionally, we expect that we will need to further integrate new capabilities with our existing methodologies if we develop or acquire additional products or lines of business in the future. The resulting future changes to our methodologies, the information we collect, or the strategy we implement to collect and analyze information, such as the movement away from pure panel-centric measurement to a hybrid of panel- and site-centric measurement, may cause additional customer dissatisfaction and result in loss of customers.

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

We believe that the quality, size and scope of our Internet, mobile and cross-media user panels are critical to our business. There can be no assurance, however, that we will be able to maintain panels of sufficient size and scope to provide the quality of marketing intelligence that our customers demand from our products. If we fail to

Table of Contents

maintain a panel of sufficient size and scope, including coverage of international markets, customers might decline to purchase our products or renew their subscriptions, our reputation could be damaged and our business could be materially and adversely affected. We expect that our panel costs may increase and may comprise a greater portion of our cost of revenues in the future. The costs associated with maintaining and improving the quality, size and scope of our panel are dependent on many factors, many of which are beyond our control, including the participation rate of potential panel members, the turnover among existing panel members and requirements for active participation of panel members, such as completing survey questionnaires. Concerns over the potential unauthorized disclosure of personal information or the classification of our software as spyware or adware may cause existing panel members to uninstall our software or may discourage potential panel members from installing our software. To the extent we experience greater turnover, or churn, in our panel than we have historically experienced, these costs would increase more rapidly. We also have terminated and may in the future terminate relationships with service providers whose practices we believe may not comply with our privacy policies, and have removed and may in the future remove panel members obtained through such service providers. Such actions may result in increased costs for recruiting additional panel members. In addition, publishing content on the Internet and purchasing advertising space on Web sites may become more expensive or restrictive in the future, which could decrease the availability and increase the cost of advertising the incentives we offer to panel members. To the extent that such additional expenses are not accompanied by increased revenues, our operating margins would be reduced and our financial results would be adversely affected. Finally, we are currently subject to privacy and data security related claims by certain panel members in a pending class action lawsuit, and we may be so again in the future. The outcome of this litigation or the negative public reaction to the details of the litigation may make it difficult for us to attract and retain panel members.

Difficulties entering into arrangements with website owners, wireless communications operators and other entities supporting server- and census-based methodologies may negatively affect our methodologies and harm our business.

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

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

In recent years, we acquired M:Metrics, the Certifica group of companies located in Latin America, ARSgroup, Nexius, Nedstat and AdXpose. We also expect to continue to evaluate and enter into discussions regarding a wide array of potential strategic transactions, including acquiring complementary products, technologies or businesses. We also may enter into relationships with other businesses in order to expand our product offerings, which could involve preferred or exclusive licenses, discount pricing or investments in other company, or to expand our sales capabilities. These transactions could be material to our financial condition and results of operations. Although these transactions may provide additional benefits, they may not be profitable immediately or in the long term. Negotiating any such transactions could be time-consuming, difficult and expensive, and our ability to close these transactions may be subject to regulatory or other approvals and other conditions which are beyond our control. Consequently, we can make no assurances that any such transactions, if undertaken and announced, would be completed.

An acquisition, investment or business relationship may result in unforeseen operating difficulties and expenditures. In particular, we may encounter difficulties assimilating or integrating the businesses, technologies, products, personnel or operations of the acquired companies, particularly if the key personnel of the acquired company choose not to be employed by us, and we may have difficulty retaining the customers of any acquired

Table of Contents

business due to changes in management and ownership. Acquisitions may also disrupt our ongoing business, divert our resources and require significant management attention that would otherwise be available for ongoing development of our business. Moreover, we cannot assure you that the anticipated benefits of any acquisition, investment or business relationship would be realized or that we would not be exposed to unknown liabilities. In connection with any such transaction, we may:

encounter difficulties retaining key employees of the acquired company or integrating diverse business cultures;

issue additional equity securities that would dilute the common stock held by existing stockholders;

incur large charges or substantial liabilities, including without limitation, liabilities associated with products or technologies accused or found to infringe third party intellectual property;

become subject to adverse tax consequences, substantial depreciation or deferred compensation charges;

use cash that we may need in the future to operate our business;

enter new geographic markets that subject us to different laws and regulations that may have an adverse impact on our business;

experience difficulties effectively utilizing acquired assets;

encounter difficulties integrating the information and financial reporting systems of acquired foreign businesses, particularly those that operated under accounting principles other than those generally accepted in the United States prior to the acquisition by us; and

incur debt on terms unfavorable to us or that we are unable to repay.

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

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

Future acquisitions or dispositions could also result in dilutive issuances of our equity securities, the incurrence of debt, contingent liabilities, amortization expenses, or write-offs of goodwill, any of which could harm our financial condition. Also, the anticipated benefit of many of our acquisitions may not materialize.

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

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

Any perception of our practices as an invasion of privacy, whether legal or illegal, may subject us to public criticism, regulatory scrutiny, and potential class action lawsuits. Media coverage and public discourse initiated by lawmakers and regulators, have increased the sensitivity of consumers to the collection or use of personal information and online usage information, especially through the use of third party cookies, and the possibility of an unauthorized use or disclosure of this information may create negative public reaction related to our business

Table of Contents

practices. A shift in public acceptance of measurement technologies such as third party cookies may have a chilling effect on businesses that collect or use online usage information generally or substantially increase the cost of maintaining a business that collects or uses online usage information, increase regulatory scrutiny and increase the potential of class action lawsuits. In response to marketplace concerns about the usage of third party cookies and web beacons to track user behaviors, the major browsers have enabled features that allow the user to limit the collection of certain data. We actively seek to prevent the inclusion of our cookies and beacons on the lists of companies whose activities are automatically blocked without prior individual review of those cookies and beacons by the end user. Additionally, public concern has grown regarding certain kinds of downloadable software known as spyware and adware. These concerns might cause users to refrain from downloading software from the Internet, including our proprietary technology, if they inaccurately believe our software is spyware or adware. This could make it difficult to recruit additional panelists or maintain a panel of sufficient size and scope to provide meaningful marketing intelligence. In response to general spyware and adware concerns in the marketplace, numerous programs are available, many of which are available for free, and that claim to identify, remove or block such software or activity. Some anti-spyware programs have in the past identified, and may in the future identify, our software as spyware or potential spyware applications. We actively seek to prevent the inclusion of our software on lists of spyware applications or potential spyware applications and apply best industry practices for obtaining appropriate consent from panelists, protect the privacy and confidentiality of our panelist data, and comply with existing privacy laws. However, to the extent that we are not successful, and anti-spyware programs classify our software as spyware, a potential spyware application, or third party service providers fail to comply with our privacy or data security requirements, our brand may be harmed and users may refrain from downloading these programs, may uninstall our software or pursue actions against us for damages. For example, we received notice in August 2011 that two individuals, filing individually and on behalf of a class of similarly situated individuals, filed a lawsuit against us in the United States District Court for the Northern District of Illinois, Eastern Division, alleging among other things, violations by us of the Stored Communications Act, the Electronic Communications Privacy Act, Computer Fraud and Abuse Act and the Illinois Consumer Fraud and Deceptive Practices Act as well as unjust enrichment. The complaint seeks unspecified damages, including statutory damages per violation and punitive damages, injunctive relief and reasonable attorneys fees of the plaintiffs. Based on an initial review of these claims, we believe that these claims are without merit, and we intend to vigorously protect and defend ourselves. Any resulting reputational harm, potential claims asserted against us or decrease in the size or scope of our panel could reduce the demand for our products, increase the cost of recruiting panelists, adversely affect our ability to provide our products to our customers or result in additional costs in the form of settlement, judgments, restrictions on our business or diversion of resources to address and defend the claims. Any of these adverse effects could harm our business and our operating results.

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

Our business could be adversely impacted by existing or future laws or regulations of, or actions by, domestic or foreign regulatory agencies. For example, privacy concerns could lead to legislative, judicial and regulatory limitations on our ability to collect maintain and use information about Internet users in the United States and abroad. Various state legislatures have enacted legislation designed to protect Internet users' privacy, for example by prohibiting spyware. In recent years, similar legislation has been proposed in other states and at the federal level and has been enacted in foreign countries, most notably by the European Union, which adopted a privacy directive regulating the collection of personally identifiable information online and more recently, restricting the use of cookies without opt-in consent by the user. Recently, the U.S. Congress and regulators have expressed concern over the collection of Internet usage information as part of a larger initiative to regulate online behavioral advertising. A similar concern has been raised by regulatory agencies in Europe. In addition, U.S. and European lawmakers and regulators have expressed concern over the use of third party cookies or web beacons to understand Internet usage. Additionally, the European Commission has issued a new directive requiring the regulation of cookies throughout the European Union, which will likely lead to the introduction of additional

Table of Contents

regulations that may vary from country to country. These laws and regulations, if drafted or interpreted broadly, could be deemed to apply to the technology we use, and could restrict our information collection methods, and the collection methods of third parties from whom we may obtain data, or decrease the amount and utility of the information that we would be permitted to collect. Even if such laws and regulations are not enacted, lawmakers and regulators may publicly call into question the collection and use of Internet or mobile usage data and may affect vendors and customers' willingness to do business with us. In addition, our ability to conduct business in certain foreign jurisdictions, including China, is restricted by the laws, regulations and agency actions of those jurisdictions. The costs of compliance with, and the other burdens imposed by, these and other laws or regulatory actions may prevent us from selling our products or increase the costs associated with selling our products, and may affect our ability to invest in or jointly develop products in the United States and in foreign jurisdictions.

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

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

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

Unauthorized disclosure of personally identifiable information regarding Web site visitors, whether through breach of our secure network by an unauthorized party, employee theft or misuse, or otherwise, could harm our business. If there were an inadvertent disclosure of personally identifiable information, or customer confidential information, or if a third party were to gain unauthorized access to the personally identifiable or customer confidential information we possess, our operations could be seriously disrupted and we could be subject to claims or litigation arising from damages suffered by panel members or pursuant to the agreements with our customers. In addition, we could incur significant costs in complying with the multitude of state, federal and foreign laws regarding the unauthorized disclosure of personal information. Finally, any perceived or actual unauthorized disclosure of the information we collect could harm our reputation, substantially impair our ability to attract and retain panelists and have an adverse impact on our business.

The success of our business depends in large part on our ability to protect and enforce our intellectual property rights.

We rely on a combination of patent, copyright, service mark, trademark and trade secret laws, as well as confidentiality procedures and contractual restrictions, to establish and protect our proprietary rights, all of which provide only limited protection. While we have filed a number of patent applications and own approximately 50 issued patents worldwide, we cannot assure you that any additional patents will be issued with respect to any of our pending or future patent applications, nor can we assure you that any patent issued to us will provide adequate protection, or that any patents issued to us will not be challenged, invalidated, circumvented, or held to be unenforceable in actions against alleged infringers. Also, we cannot assure you that any future trademark or service mark registrations will be issued with respect to pending or future applications or that any of our registered trademarks and service marks will be enforceable or provide adequate protection of our proprietary rights. Furthermore, adequate (or any) patent, trademark, service mark, copyright and trade secret protection may not be available in every country in which our services are available.

Table of Contents

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

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

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

With respect to any intellectual property rights claim against us or our customers, we may have to pay damages or stop using technology found to be in violation of a third party's rights. We may have to seek a license for the technology, which may not be available on reasonable terms or at all, may significantly increase our operating expenses or may significantly restrict our business activities in one or more respects. We may also be required to develop alternative non-infringing technology, which could require significant effort and expense. Any of these outcomes could adversely affect our business and results of operations. Even if we prove successful in defending ourselves against such claims, we may incur substantial expenses and the active defense of such claims may divert considerable attention of our management team from the normal operation of our business.

The market for digital marketing intelligence is at an early stage of development, and if it does not develop, or develops more slowly than expected, our business will be harmed.

The market for digital marketing intelligence products is at a relatively early stage of development, and it is uncertain whether these products will achieve high levels of demand and increased market acceptance. Our success will depend to a substantial extent on the willingness of companies to increase their use of such products and to continue use of such products on a long-term basis. Factors that may affect market acceptance include:

the reliability of digital marketing intelligence products;

public concern regarding privacy and data security;

decisions of our customers and potential customers to develop digital marketing intelligence capabilities internally rather than purchasing such products from third-party suppliers like us;

Table of Contents

decisions by industry associations in the United States or in other countries that result in association-directed awards, on behalf of their members, of digital measurement contracts to one or a limited number of competitive vendors;

the ability to maintain high levels of customer satisfaction; and

the rate of growth in eCommerce, online advertising and digital media.

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

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

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

recruitment and maintenance of a sufficiently large and representative panel both globally and in certain countries;

expanding the adoption of our server- or census-based web beacon data collection in international countries;

different customer needs and buying behavior than we are accustomed to in the United States;

difficulties and expenses associated with tailoring our products to local markets, including their translation into foreign languages;

difficulties in staffing and managing international operations including complex and costly hiring, disciplinary, and termination requirements;

longer accounts receivable payment cycles and difficulties in collecting accounts receivable;

potentially adverse tax consequences, including the complexities of foreign value-added taxes and restrictions on the repatriation of earnings;

reduced or varied protection for intellectual property rights in some countries;

the burdens of complying with a wide variety of foreign laws and regulations;

fluctuations in currency exchange rates;

increased accounting and reporting burdens and complexities; and

political, social and economic instability abroad, terrorist attacks and security concerns.

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

Table of Contents

The impact of any one or more of these risks could negatively affect or delay our plans to expand our international business and, consequently, our future operating results.

If the Internet advertising and eCommerce markets develop more slowly than we expect, our business will suffer.

Our future success will depend on continued growth in the use of the Internet as an advertising medium, a continued increase in eCommerce spending and the proliferation of the Internet as a platform for a wide variety of consumer activities. These markets are evolving rapidly, and it is not certain that their current growth trends will continue.

The adoption of Internet advertising, particularly by advertisers that have historically relied on traditional offline media, requires the acceptance of new approaches to conducting business and a willingness to invest in such new approaches in light of a difficult economic environment. Advertisers may perceive Internet advertising to be less effective than traditional advertising for marketing their products. They may also be unwilling to pay premium rates for online advertising that is targeted at specific segments of users based on their demographic profile or Internet behavior. The online advertising and eCommerce markets may also be adversely affected by privacy issues relating to such targeted advertising, including that which makes use of personalized information, or online behavioral information. Furthermore, online merchants may not be able to establish online commerce models that are cost effective and may not learn how to effectively compete with other Web sites or offline merchants. In addition, consumers may not continue to shift their spending on goods and services from offline outlets to the Internet. As a result, growth in the use of the Internet for eCommerce may not continue at a rapid rate, or the Internet may not be adopted as a medium of commerce by a broad base of customers or companies worldwide. Moreover, the adoption of advertising through mobile media may slow as a result of uncertain economic conditions or other factors. Because of the foregoing factors, among others, the market for Internet advertising and eCommerce, including commerce through mobile media, may not continue to grow at significant rates. If these markets do not continue to develop, or if they develop more slowly than expected, our business will suffer.

Our growth depends upon our ability to retain existing large customers and add new large customers; however, to the extent we are not successful in doing so, our ability to maintain profitability and positive cash flow may be impaired.

Our success depends in part on our ability to sell our products to large customers and on the renewal of the subscriptions of those customers in subsequent years. For the years ended December 31, 2011, 2010 and 2009, we derived approximately 26%, 29% and 29%, respectively, of our total revenues from our top 10 customers. Uncertain economic conditions or other factors, such as the failure or consolidation of large customer companies, or internal reorganization or changes in focus, may cause certain large customers to terminate or reduce their subscriptions. Moreover, certain recently acquired companies, have revenues highly concentrated in a few large customers. The loss of any one or more of those customers could decrease our revenues and harm our current and future operating results. The addition of new large customers or increases in sales to existing large customers may require particularly long implementation periods and other significant upfront costs, which may adversely affect our profitability. To compete effectively, we have in the past been, and may in the future be, forced to offer significant discounts to maintain existing customers or acquire other large customers. In addition, we may be forced to reduce or withdraw from our relationships with certain existing customers or refrain from acquiring certain new customers in order to acquire or maintain relationships with important large customers. As a result, new large customers or increased usage of our products by large customers may cause our profits to decline and our ability to sell our products to other customers could be adversely affected.

We derive a significant portion of our revenues from a single customer, Microsoft Corporation. For the years ended December 31, 2011, 2010 and 2009, we derived approximately 10%, 11% and 12%, respectively, of our total revenues from Microsoft. If Microsoft were to cease or substantially reduce its use of our products, our revenues and earnings might decline.

Table of Contents

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

A portion of our revenues and expenses from business operations in foreign countries are derived from transactions denominated in currencies other than the functional currency of our operations in those countries. As such, we have exposure to adverse changes in exchange rates associated with revenues and operating expenses of our foreign operations, but we believe this exposure to be immaterial at this time and do not currently engage in any transactions that hedge foreign currency exchange rate risk. As we grow our international operations, and acquire companies with established business in international regions, our exposure to foreign currency risk could become more significant. This risk has been compounded by the recent economic turmoil in Europe. For example, at the beginning and end of 2011, the U.S. Dollar to euro exchange rate was approximately 1.0 to 0.76. However, during 2011, the U.S. Dollar to euro exchange rate dropped to as low as 1.0 to 0.68. There can be no guarantee that exchange rates will remain constant over the long-term.

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

Adverse economic conditions in markets in which we operate can harm our business. If the economies of the United States and other countries continue to experience prolonged uncertainty, customers may delay or reduce their purchases of digital marketing intelligence products and services. In recent years, economic conditions in the countries in which we operate and sell products have been negative, and global financial markets have experienced significant volatility stemming from a multitude of factors, including adverse credit conditions impacted by concerns about the credit worthiness of U.S. treasury securities, the subprime-mortgage crisis, slower economic activity, inflation and deflation, decreased consumer confidence, increased unemployment, reduced corporate profits and capital spending, adverse business conditions, liquidity and other factors. Notwithstanding certain signs of economic recovery during 2011, economic growth may stagnate during 2012 in the U.S. and internationally, particularly in view of recent economic turmoil in Europe as well as continuing political unrest in the Middle East. During challenging economic times, and in tight credit markets, many customers have and may continue to delay or reduce spending. Additionally, some of our customers may be unable to fully pay for purchases or may discontinue their businesses, resulting in the incurrence of uncollectible receivables for us. This could result in reductions in our sales, longer sales cycles, difficulties in collection of accounts receivable, slower adoption of new technologies and increased price competition. This downturn may also impact our available resources for financing new and existing operations. If global economic and market conditions, or economic conditions in the United States or other key markets further deteriorate, we may experience a material and adverse impact on our business, results of operations and financial condition.

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

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

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

Our future success will depend in part on our ability to modify or enhance our products to meet customer needs, to add functionality and to address technological advancements. For example, if certain handheld devices become the primary mode of receiving content and conducting transactions on the Internet, and we are unable to adapt to collect information from such devices, then we would not be able to report on online activity. To remain competitive, we will need to develop new products that address these evolving technologies and standards across the universe of digital media including television, Internet and mobile usage. However, we may be

Table of Contents

unsuccessful in identifying new product opportunities or in developing or marketing new products in a timely or cost-effective manner. In addition, our product innovations may not achieve the market penetration or price levels necessary for profitability. If we are unable to develop enhancements to, and new features for, our existing methodologies or products or if we are unable to develop new products that keep pace with rapid technological developments or changing industry standards, our products may become obsolete, less marketable and less competitive, and our business will be harmed.

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

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

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

online advertising companies that provide measurement of online ad effectiveness, including DoubleClick (owned by Google), Kantar (owned by WPP), ValueClick and WPP;

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

analytical services companies that provide customers with detailed information of behavior on their own Web sites, including Omniture (owned by Adobe), Coremetrics (owned by IBM), and WebTrends;

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

companies that provide behavioral, attitudinal and qualitative advertising effectiveness, including Toluna/Nurago, Click Forensics, Datran's Aperture, Ipsos OTX, Dynamic Logic, Insight Express and Marketing Evolution; and

specialty information providers for certain industries that we serve, including IMS Health (healthcare) and Techtronix (telecommunications).

Some of our current competitors have longer operating histories, access to larger customer bases and substantially greater resources than we do. As a result, these competitors may be able to devote greater resources to marketing and promotional campaigns, panel retention, panel development or development of systems and technologies than we can. In addition, some of our competitors may adopt more aggressive pricing policies or have started to provide some services at no cost. Furthermore, large software companies, Internet portals and database management companies may enter our market or enhance their current offerings, either by developing competing services or by acquiring our competitors, and could leverage their significant resources and pre-existing relationships with our current and potential customers.

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

We may encounter difficulties managing our growth and costs, which could adversely affect our results of operations.

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

We have experienced significant growth over the past several years in the U.S. and internationally. We have substantially expanded our overall business, customer base, headcount, data collection and processing

Table of Contents

infrastructure and operating procedures as our business has grown through both organic growth and acquisitions. We increased our total number of full time employees to 1,012 employees as of December 31, 2011 from 588 employees as of December 31, 2008. As a result of downward adjustments to compensation and reductions in our workforce made in recent periods, however, we may encounter decreased employee morale and increased employee turnover. Moreover, as a result of acquisition integration initiatives, we may reduce the workforce of an acquired company or reassign personnel. Such actions may expose us to disruption by dissatisfied employees or employee-related claims, including without limitation, claims by terminated employees that believe they are owed more compensation than we believe these employees are due under our compensation and benefit plans, or claims maintained internationally in jurisdictions whose laws and procedures differ from those in the United States. In addition, during this same period, we made substantial investments in our network infrastructure operations as a result of our growth and the growth of our panel, and we have also undertaken certain strategic acquisitions.

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

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

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

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

We believe that building and maintaining awareness of comScore and our portfolio of products in a cost-effective manner is critical to achieving widespread acceptance of our current and future products and is an important element in attracting new customers. We will also need to carefully manage the brands used by recently-acquired businesses as we integrate such businesses into our own. We rely on our relationships with the media and the exposure we receive from numerous citations of our data by media outlets to build brand awareness and credibility among our customers and the marketplace. Furthermore, we believe that brand recognition will become more important for us as competition in our market increases. Our brand's success will depend on the effectiveness of our marketing efforts and on our ability to provide reliable and valuable products

Table of Contents

to our customers at competitive prices. Our brand marketing activities may not yield increased revenues, and even if they do, any increased revenues may not offset the expenses we incur in attempting to build our brand. If we fail to successfully market our brand, we may fail to attract new customers, retain existing customers or attract media coverage to the extent necessary to realize a sufficient return on our brand-building efforts, and our business and results of operations could suffer.

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

Although we have generated profits in prior periods, we incurred a net loss of \$15.8 million and \$1.6 million for the years ended December 31, 2011 and 2010, respectively. As such we cannot assure you that we will be able to achieve, sustain or increase profitability in the future, particularly if we engage in additional acquisition activity as we did in 2011 and 2010. As of December 31, 2011, we had an accumulated deficit of \$69.1 million. Because a large portion of our costs are fixed, we may not be able to reduce or maintain our expenses in response to any decrease in our revenues, which would adversely affect our operating results. In addition, we expect operating expenses to increase as we implement certain growth initiatives, which include, among other things, the development of new products, expansion of our infrastructure, plans for international expansion and general and administrative expenses associated with being a public company. If our revenues do not increase to offset these expected increases in costs and operating expenses, our operating results would be materially and adversely affected. You should not consider our revenue growth in recent periods as indicative of our future performance, as our operating results for future periods are subject to numerous uncertainties.

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

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

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

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

We depend on third parties for data that is critical to our business, and our business could suffer if we cannot continue to obtain data from these suppliers.

We rely on third-party data sources for information regarding certain digital activities such as television viewing and mobile usage, as well as for information about offline activities of and demographic information regarding our panelists. The availability and accuracy of these data is important to the continuation and

Table of Contents

development of our cross-media products, products that use server- or census-based information as part of the research methodology, and products that link online and offline activity. If this information is not available to us at commercially reasonable terms, or is found to be inaccurate, it could harm our reputation, business and financial performance.

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

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

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

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

We host our products and serve all of our customers from data center facilities located throughout the United States and Europe. While we operate our equipment inside these facilities, we do not control the operation of these facilities, and, depending on service level requirements, we may not continue to operate or maintain redundant data center facilities for all of our products or for all of our data, which could increase our vulnerability. These facilities are vulnerable to damage or interruption from earthquakes, hurricanes, floods, fires, power loss, telecommunications failures and similar events. They are also subject to break-ins, computer viruses, sabotage, intentional acts of vandalism and other misconduct. A natural disaster or an act of terrorism, a decision to close the facilities without adequate notice or other unanticipated problems could result in lengthy interruptions in availability of our products. We may also encounter capacity limitations at our third-party data centers. Additionally, our data center facility agreements are of limited durations, and our data center facilities have no obligation to renew their agreements with us on commercially reasonable terms, if at all. Our agreements for our various data center facilities expire at various dates through August 2014. We believe that we have good relationships with our data center facility vendors and believe that we will be able to renew, or find alternative data center facilities, at commercially reasonable terms. Although we are not substantially dependent on our data center facilities because of planned redundancies, and although we currently are able to migrate to alternative data centers, such a migration may result in an interruption or delay in service. If we are unable to renew our agreements with the owners of the facilities on commercially reasonable terms, or if we migrate to a new data center, we may experience delays in delivering our products until an agreement with another data center facility can be arranged or the migration to a new facility is completed.

We currently leverage a large content delivery network, or CDN, to provide services that allow us to offer a more efficient tagging solution for our Media Metrix 360 product offerings. If that service faced unplanned outage or the service became immediately unavailable, an alternate CDN provider or additional capacity in our

Table of Contents

data centers would need to be established to support the large volume of tag requests that we currently manage which would either require additional investments in equipment and facilities or a transition plan. This could unexpectedly raise the costs and could contribute to delays or losses in tag data that could affect the quality and reputation of our Media Metrix 360 data products.

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

Our operations also rely heavily on the availability of electrical power and cooling capacity, which are also supplied by third-party providers. If we or the third-party data center operators that we use to deliver our products were to experience a major power outage or if the cost of electrical power increases significantly, our operations and profitability would be harmed. If we or the third-party data centers that we use were to experience a major power outage, we would have to rely on back-up generators, which may not function properly, and their supply may be inadequate. Such a power outage could result in the disruption of our business. Additionally, if our current facilities fail to have sufficient cooling capacity or availability of electrical power, we would need to find alternative facilities.

Any errors, defects, disruptions or other performance problems with our products caused by third parties could harm our reputation and may damage our business. Interruptions in the availability of our products may reduce our revenues due to increased turnaround time to complete projects, cause us to issue credits to customers, cause customers to terminate their subscription and project agreements or adversely affect our renewal rates. Our business would be harmed if our customers or potential customers believe our products are unreliable.

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

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

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

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

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

The market for our products is characterized by rapid technological advances, changes in customer requirements, changes in protocols and evolving industry standards. For example, industry associations such as the Advertising Research Foundation, the Council of American Survey Research Organizations, the Internet

Table of Contents

Advertising Bureau, or IAB, and the Media Rating Council have independently initiated efforts to either review online market research methodologies or to develop minimum standards for online market research. In April of 2011, comScore Direct became accredited by the Media Rating Council. Any standards adopted by U.S or internationally based industry associations may lead to costly changes to our procedures and methodologies. As a result, the cost of developing our digital marketing intelligence products could increase. If we do not adhere to standards prescribed by the IAB or other industry associations, our customers could choose to purchase products from competing companies that meet such standards. Furthermore, industry associations based in countries outside of the United States often endorse certain vendors or methodologies. If our methodologies fail to receive an endorsement from an important industry association located in a foreign country, advertising agencies, media companies and advertisers in that country may not purchase our products. As a result, our efforts to further expand internationally could be adversely affected.

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

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

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

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

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

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

Table of Contents

Investors could lose confidence in our financial reports, and our business and stock price may be adversely affected, if our internal control over financial reporting is found by management or by our independent registered public accounting firm to not be adequate or if we disclose significant existing or potential deficiencies or material weaknesses in those controls.

Section 404 of the Sarbanes-Oxley Act of 2002 requires us to include a report on our internal control over financial reporting in our Annual Report on Form 10-K. That report includes management's assessment of the effectiveness of our internal control over financial reporting as of the end of the fiscal year. Additionally, our independent registered public accounting firm is required to issue a report on their evaluation of the operating effectiveness of our internal control over financial reporting.

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

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

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

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

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

Table of Contents

As of December 31, 2011, we estimate our federal and state net operating loss carryforwards for tax purposes are approximately \$50.8 million and \$36.9 million, respectively. These net operating loss carryforwards will begin to expire in 2022 for federal income tax reporting purposes and in 2013 for state income tax reporting purposes.

In addition, at December 31, 2011 we estimate our aggregate net operating loss carryforwards for tax purposes related to our foreign subsidiaries are \$30.6 million, which will begin to expire in 2013.

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

As of December 31, 2011, we had a valuation allowance related to the deferred tax assets of the foreign subsidiaries (primarily net operating loss carryforwards) that are either loss companies or are in their start-up phases, including entities in Mexico, Singapore, Spain, Australia, Netherlands and China. Management will continue to evaluate the deferred tax position of our U.S. and foreign companies to determine the appropriate level of valuation allowance required against our deferred tax assets.

Restrictive Covenants in the Agreements Governing Our Current and Future Indebtedness Could Restrict Our Operating Flexibility.

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

Our Ability To Draw On Our Loan Facility May Be Adversely Affected by Conditions in the U.S. and International Capital Markets.

If financial institutions that have extended credit to us are adversely affected by the conditions of the U.S. and international capital and credit markets, it may be unable to fund borrowings under its credit commitments to us. For example, we currently have a \$50.0 million revolving line of credit, with a \$10.0 million sublimit for standby letters of credit, from Bank of America. As of December 31, 2011 no amounts were outstanding on our revolving line of credit. If Bank of America is adversely affected by capital and credit market conditions and are unable to make loans to us when requested, there could be a corresponding adverse impact on our financial condition and our ability to borrow additional funds, if needed, for working capital and general corporate purposes.

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

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

Accordingly, we may need to engage in equity or debt financings to secure additional funds. If we raise additional funds through further issuances of equity or convertible debt securities, our existing stockholders

Table of Contents

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

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

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

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

The price of our common stock in the market may be higher or lower than the price you pay, depending on many factors, some of which are beyond our control and may not be related to our operating performance. It is possible that, in future quarters, our operating results may be below the expectations of analysts or investors. As a result of these and other factors, the price of our common stock may decline, possibly materially. These fluctuations could cause you to lose all or part of your investment in our common stock. Factors that could cause fluctuations in the trading price of our common stock include the following:

price and volume fluctuations in the overall stock market from time to time;

volatility in the market price and trading volume of technology companies and of companies in our industry;

actual or anticipated changes or fluctuations in our operating results;

actual or anticipated changes in expectations regarding our performance by investors or securities analysts;

the failure of securities analysts to cover our common stock or changes in financial estimates by analysts;

actual or anticipated developments in our competitors' businesses or the competitive landscape;

actual or perceived inaccuracies in, or dissatisfaction with, information we provide to our customers or the media;

litigation involving us, our industry or both;

regulatory developments;

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

privacy and security concerns, including public perception of our practices as an invasion of privacy;

general economic conditions and trends;

major catastrophic events;

sales of large blocks of our stock;

the timing and success of new product introductions or upgrades by us or our competitors;

Table of Contents

changes in our pricing policies or payment terms or those of our competitors;

concerns relating to the security of our network and systems;

our ability to expand our operations, domestically and internationally, and the amount and timing of expenditures related to this expansion; or

departures of key personnel.

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

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

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

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

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

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

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

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

As a public company, we have incurred and will continue to incur significant legal, accounting and other expenses that we would not otherwise incur if we were a private company. In addition, the Sarbanes-Oxley Act of 2002 and the Dodd-Frank Wall Street Reform and Consumer Protection Act, as well as rules implemented by the Securities and Exchange Commission and The NASDAQ Stock Market, requires certain corporate governance practices for public companies. Our management and other personnel devote a substantial amount of time to public reporting requirements and corporate governance. These rules and regulations have significantly increased our legal and financial compliance costs and made some activities more time-consuming and costly. We also have incurred additional costs associated with our public company reporting requirements. If these costs do not continue to be offset by increased revenues and

Table of Contents

improved financial performance, our operating results would be adversely affected. These rules and regulations also make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage if these costs continue to rise. As a result, it may be more difficult for us to attract and retain qualified people to serve on our board of directors or as executive officers.

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

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

provide for a classified board of directors so that not all members of our board of directors are elected at one time;

authorize blank check preferred stock that our board of directors could issue to increase the number of outstanding shares to discourage a takeover attempt;

prohibit stockholder action by written consent, which means that all stockholder actions must be taken at a meeting of our stockholders;

prohibit stockholders from calling a special meeting of our stockholders;

provide that the board of directors is expressly authorized to make, alter or repeal our bylaws; and

provide for advance notice requirements for nominations for elections to our board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our corporate headquarters and executive offices are located in Reston, Virginia, where we occupy approximately 68,000 square feet of office space under a lease that initially expires in 2022, although we have an option to extend until up to 2032, subject to certain conditions. We also lease space in various locations throughout the United States North America, Latin America, Europe, and Japan for sales and other personnel. If we require additional space, we believe that we would be able to obtain such space on commercially reasonable terms.

ITEM 3. LEGAL PROCEEDINGS

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

In addition to the following matters, we may, from time to time, become a party to a variety of legal proceedings that arise in the normal course of our business. While the results of such normal course legal proceedings cannot be predicted with certainty, management believes that, based on current knowledge, the final outcome of the current pending matters will not have a material adverse effect on our financial position, results of operations or cash flows. We are otherwise not presently a party to any pending legal proceedings the outcome of which we believe, if determined adversely to us, would individually or in the aggregate have a material

Table of Contents

adverse impact on our consolidated results of operations, cash flows or financial position. Regardless of the outcome, legal proceedings can have an adverse effect on us because of defense costs, diversion of management resources and other factors.

Litigation with The Nielsen Company (US) LLC and Netratings, LLC d/b/a Nielsen Online

On March 16, 2011, we received notice that The Nielsen Company (US) LLC (*Nielsen*) filed a lawsuit against us in the United States District Court for the Eastern District of Virginia (the *Court*) alleging infringement by the Company of certain patent rights of Nielsen. Nielsen's complaint sought unspecified damages and injunctive relief. On March 22, 2011, we filed a lawsuit against Nielsen and NetRatings, LLC d/b/a Nielsen Online (*NetRatings*) in the United States District Court for the Eastern District of Virginia alleging infringement of certain patent rights of ours by Nielsen and NetRatings. Our complaint sought unspecified damages and injunctive relief (such claims and proceedings brought by Nielsen and the Company, the *Litigation*).

On December 20, 2011, we entered into a Patent Purchase, License and Settlement Agreement (the *Patent Purchase Agreement*) with Nielsen and NetRatings in order to resolve the *Litigation*. In connection with the *Patent Purchase Agreement*, we and Nielsen entered into a *Purchase Agreement* (the *Stock Purchase Agreement*) and a *Voting Agreement* (the *Voting Agreement*), and together with the *Patent Purchase Agreement* and the *Stock Purchase Agreement*, the *Settlement Documents*). Pursuant to the *Settlement Documents*, and subject to retained rights by Nielsen, we acquired ownership of the four Nielsen families of patents asserted in litigation, a portfolio with many U.S. and international patents. We also granted Nielsen worldwide licenses for the families of the four patents we asserted in litigation. Both parties agreed not to bring any patent action against the other for the next three years. In addition, we issued Nielsen 974,358 shares of our common stock, subject to certain restrictions. See Note 9 to our Consolidated Financial Statements in Part II, Item 8 of this Annual Report on Form 10-K.

Privacy Class Action Litigation

On August 23, 2011, we received notice that Mike Harris and Jeff Dunstan, individually and on behalf of a class of similarly situated individuals, filed a lawsuit against us in the United States District Court for the Northern District of Illinois, Eastern Division, alleging, among other things, violations by us of the Stored Communications Act, the Electronic Communications Privacy Act, Computer Fraud and Abuse Act and the Illinois Consumer Fraud and Deceptive Practices Act as well as unjust enrichment. The complaint seeks unspecified damages, including statutory damages per violation and punitive damages, injunctive relief and reasonable attorneys' fees of the plaintiffs. Based on an initial review of these claims, we believe that they are without merit, and we intend to vigorously protect and defend ourselves.

ITEM 4. MINE SAFETY DISCLOSURES

None

Table of Contents**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**
PRICE RANGE OF COMMON STOCK

Our common stock has been traded on the NASDAQ Global Market under the symbol SCOR since our initial public offering in June 2007. The following table sets forth the high and low sales prices of our common stock for each period indicated and are as reported by the NASDAQ Global Market.

Fiscal Period	2011		2010	
	High	Low	High	Low
First Quarter	\$ 29.62	\$ 21.13	\$ 18.16	\$ 12.64
Second Quarter	\$ 31.28	\$ 23.30	\$ 18.86	\$ 14.80
Third Quarter	\$ 28.22	\$ 12.50	\$ 23.73	\$ 15.84
Fourth Quarter	\$ 22.86	\$ 15.35	\$ 24.47	\$ 20.40

HOLDERS

As of February 21, 2012 there were 135 stockholders of record of our common stock, although we believe that there may be a significantly larger number of beneficial owners of our common stock. We derived the number of stockholders by reviewing the listing of outstanding common stock recorded by our transfer agent as of February 21, 2012.

STOCK PERFORMANCE GRAPH

The graph set forth below compares the cumulative total stockholder return on our common stock between June 27, 2007 (the date our common stock first commenced trading on the NASDAQ Global Market) and December 31, 2011 to the cumulative total returns of the NASDAQ Composite Index and NASDAQ Computer Index over the same period. This graph assumes the investment of \$100 at the closing price of the markets on June 27, 2007 in our common stock, the NASDAQ Composite Index and the NASDAQ Computer Index, and assumes the reinvestment of dividends, if any. We have never paid dividends on our common stock and have no present plans to do so.

The comparisons shown in the graph below are based upon historical data. We caution that the stock price performance shown in the graph below is not necessarily indicative of, nor is it intended to forecast, the potential future performance of our common stock.

Table of Contents

COMPARISON OF CUMULATIVE TOTAL RETURN*

among comScore, Inc., The NASDAQ Composite Index

and The NASDAQ Computer Index

* \$100 invested upon market close of the NASDAQ Global Market on June 27, 2007, the date our common stock first commenced trading on the NASDAQ Global Market upon our initial public offering, including reinvestment of dividends. The preceding Stock Performance Graph is not deemed filed with the Securities and Exchange Commission and shall not be incorporated by reference in any of our filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

DIVIDEND POLICY

Since our inception, we have not declared or paid any cash dividends. We currently expect to retain cash generated from operations for use in the operation and expansion of our business and therefore do not anticipate paying any cash dividends in the foreseeable future.

EQUITY COMPENSATION PLANS

The information required by this item regarding equity compensation plans is set forth in Part III, Item 12 Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters of this Annual Report on Form 10-K.

UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Unregistered Sales of Equity Securities during the Three Months Ended December 31, 2011

On December 20, 2011, we issued 974,358 shares of our Common Stock to Nielsen pursuant to the terms of, and as partial consideration for, the agreements referenced in Part 1, Item 3 of this Annual Report on Form 10-K.

Total

35,831

41

Table of Contents

(ii) The shares we repurchased in connection with the payment of minimum statutory withholding taxes due upon the vesting of certain restricted stock and restricted stock unit awards were repurchased at the then current fair market value of the shares. For the three months ended December 31, 2011, these shares consisted of the following:

		Total Number of Shares Purchased	Average Price Per Share
October 1	October 31, 2011	2,111	\$ 21.30
November 1	November 30, 2011	7,419	\$ 20.29
December 1	December 31, 2011	734	\$ 21.20
Total		10,264	

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with our consolidated financial statements and the accompanying notes and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this report. The selected data in this section is not intended to replace the consolidated financial statements.

The consolidated statements of operations data and the consolidated statements of cash flows data for each of the three years ended December 31, 2011, 2010 and 2009 as well as the consolidated balance sheet data as of December 31, 2011 and 2010 are derived from and should be read together with our audited consolidated financial statements and related notes appearing in this report. The consolidated statements of operations data and the consolidated statements of cash flows data for the years ended December 31, 2008 and 2007 as well as the consolidated balance sheet data as of December 31, 2009, 2008 and 2007 are derived from our audited consolidated financial statements not included in this report. Our historical results are not necessarily indicative of results to be expected for future periods.

Table of Contents

	Year Ended December 31,				
	2011	2010	2009	2008	2007
	(In thousands, except share and per share data)				
Consolidated Statement of					
Operations Data:					
Revenues	\$ 232,392	\$ 174,999	\$ 127,740	\$ 117,371	\$ 87,153
Cost of revenues (1)	75,103	51,953	38,730	34,562	23,858
Selling and marketing (1)	78,289	59,641	41,954	39,400	28,659
Research and development (1)	34,050	26,377	17,827	14,832	11,413
General and administrative (1)	48,514	33,953	18,232	16,785	11,599
Amortization	9,301	4,534	1,457	804	966
Settlement of litigation	5,175				
Total expenses from operations	250,432	176,458	118,200	106,383	76,495
(Loss) income from operations	(18,040)	(1,459)	9,540	10,988	10,658
Interest and other (expense) income, net	(525)	53	410	1,863	2,627
Loss from foreign currency	(410)	(347)	(132)	(321)	(296)
Gain on sale (impairment) of marketable securities	211		89	(2,239)	
Revaluation of preferred stock warrant liabilities					(1,195)
(Loss) income before income taxes	(18,764)	(1,753)	9,907	10,291	11,794
Benefit (provision) for income taxes	2,974	177	(5,938)	14,895	7,522
Net (loss) income	(15,790)	(1,576)	3,969	25,186	19,316
Accretion of redeemable preferred stock					(1,829)
Net (loss) income attributable to common stockholders	\$ (15,790)	\$ (1,576)	\$ 3,969	\$ 25,186	\$ 17,487
Net (loss) income attributable to common stockholders per common share:					
Basic	\$ (0.49)	\$ (0.05)	\$ 0.13	\$ 0.88	\$ 0.99
Diluted	\$ (0.49)	\$ (0.05)	\$ 0.13	\$ 0.83	\$ 0.88
Weighted-average number of shares used in per share calculations:					
Basic	32,289,877	31,070,018	30,014,085	28,691,216	16,139,365
Diluted	32,289,877	31,070,018	30,970,642	30,232,714	18,377,563

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

Cost of revenues	\$ 1,976	\$ 1,494	\$ 1,186	\$ 861	\$ 279
Selling and marketing	8,512	6,217	4,617	2,611	1,009
Research and development	1,988	1,868	1,111	706	245
General and administrative	8,784	8,195	2,942	2,296	941

Table of Contents

	2011	2010	December 31, 2009 (In thousands)	2008	2007
Consolidated Balance Sheet Data:					
Cash, cash equivalents and short-term investments	\$ 38,071	\$ 33,736	\$ 88,117	\$ 71,461	\$ 96,817
Total current assets	119,373	103,097	136,419	116,583	123,444
Total assets	320,057	283,079	217,539	199,563	147,672
Total current liabilities	112,390	97,228	59,409	55,992	42,077
Equipment loan and capital lease obligations, long-term	6,676	7,959	674		977
Preferred stock warrant liabilities and common stock subject to put					1,815
Stockholders' equity (deficit)	190,567	165,832	147,939	134,880	102,622

	2011	2010	Year Ended December 31, 2009 (In thousands)	2008	2007
Consolidated Statement of Cash Flows Data:					
Net cash provided by operating activities	\$ 26,750	\$ 25,410	\$ 25,031	\$ 32,989	\$ 21,211
Depreciation and amortization	22,653	12,956	8,001	5,775	4,730
Capital expenditures	7,235	5,119	6,472	14,252	3,635
Please see Critical Accounting Policies and Estimates under Part II, Item 7 of this Annual Report on Form 10-K for further discussion of key accounting changes which occurred during the years covered in the above table. Additional information regarding business combinations and dispositions for the relevant periods above may be found in the notes accompanying our consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K.					

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes to those statements included elsewhere in Part II Item 8 of this Annual Report on Form 10-K. In addition to historical financial information, the following discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results and timing of selected events may differ materially from those anticipated in these forward-looking statements as a result of many factors, including those discussed under Item 1A, Risk Factors and elsewhere in this Annual Report on Form 10-K. See also Cautionary Statement Regarding Forward-Looking Statements at the beginning of this Form 10-K.

Overview

We provide leading, on-demand digital analytics solutions that enable our customers to make well-informed, data-driven decisions and implement more effective digital business strategies. Our solutions provide our customers with deep insight into consumer behavior, including objective, detailed information regarding usage of their online properties and those of their competitors, coupled with information on consumer demographic characteristics, attitudes, lifestyles and offline behavior. In addition, we provide mobile and network analytics products which provides comprehensive market intelligence to the various mobile carriers worldwide. During the year ended December 31, 2011, we provided service to over 1,970 customers worldwide with our broad geographic base of employees located in 32 locations in 23 countries.

We deliver our solutions on-demand using our digital measurement platforms, which are comprised of proprietary databases, internally developed software, and a computational infrastructure that measures, analyzes and reports on digital activity. Our scalable, Software-as-a-Service, or SaaS, delivery model, eliminates the need

Table of Contents

for our customers to install and maintain hardware and software in order to use our solutions. Our solutions are hosted and maintained by us, which significantly reduces the cost and complexity for our customers relative to traditional software solutions and provides significant operating efficiencies. We can quickly deploy or update our solutions with minimal to no lead time, which significantly enhances our customers productivity. We offer our solutions as a subscription-based service for which our customers pay a recurring fee during the subscription term.

Our digital media measurement platforms are comprised of proprietary databases and a computational infrastructure that measures, analyzes and reports on digital activity. The foundation of our platform is data collected from our comScore panel of approximately two million Internet users worldwide who have granted us explicit permission to confidentially measure their Internet usage patterns, online and certain offline buying behavior and other activities. By applying advanced statistical methodologies to our panel data, we project consumers' online behavior for the total online population and a wide variety of user categories. This panel information is complemented by our Unified Digital Measurement solution which enables us to more accurately measure digital audiences. Our Unified Digital Measurement solution blends panel and server methodologies into a solution that provides a direct linkage and reconciliation between server and panel measurement. In addition to our panelist based platforms, we also provide solutions to the large mobile networks that deliver network analysis focused on the experience of wireless subscribers, as well as network intelligence with respect to performance, capacity and configuration analytics. We also provide web analytics and innovative video measurement solutions.

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

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

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

Table of Contents

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

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

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

increased sales to existing customers, as a result of our efforts to deepen our relationships with these customers by increasing their awareness of, and confidence in, the value of our digital marketing intelligence platform;

growth in our customer base through the addition of new customers and from acquired businesses;

the sales of new products to existing and new customers; and

growth in sales outside of the U.S., as a result of entering into new international markets.

As a result of the economic events over the last several years, such as the global financial crisis in the credit markets, softness in the housing markets, difficulties in the financial services sector and political uncertainty in the Middle East, the direction and relative strength of the U.S. and global economies have become somewhat uncertain. During 2010, we experienced a limited number of our current and potential customers ceasing, delaying or reducing renewals of existing subscriptions and purchases of new or additional services and products presumably due to the economic downturn. Further, certain of our existing customers exited the market due to industry consolidation and bankruptcy in connection with these challenging economic conditions. During 2011, the U.S. and other economies showed slow signs of recovery. Nonetheless, we continued to add net new customers and our existing customers renewed their subscriptions at a rate of over 90% based on dollars renewed during 2011. If economic recovery slows or adverse economic conditions continue or further deteriorate, our operating results could be adversely affected.

Our Revenues

We derive our revenues primarily from the fees that we charge for subscription-based products, customized projects, and software licenses. We define subscription-based revenues as revenues that we generate from products that we deliver to a customer on a recurring basis. We define project revenues as revenues that we generate from customized projects that are performed for a specific customer on a non-recurring basis. A significant characteristic of our SaaS-based business model is our large percentage of subscription-based contracts. Subscription-based revenues accounted for 85% of total revenues in the years ended December 31, 2011 and 2010. Many of our customers who initially purchased a customized project have subsequently purchased one of our subscription-based products. Similarly, many of our subscription-based customers have subsequently purchased additional customized projects.

Table of Contents

Historically, we have generated most of our revenues from the sale and delivery of our products to companies and organizations located within the United States. We intend to expand our international revenues by selling our products and deploying our direct sales force model in additional international markets in the future. For the year ended December 31, 2011, our international revenues were \$60.0 million, an increase of \$27.3 million, or 84% over international revenues of \$32.7 million for the year ended December 31, 2010. International revenues comprised approximately 26%, 19% and 15% of our total revenues for the fiscal years ended December 31, 2011, 2010 and 2009.

We anticipate that revenues from our U.S. customers will continue to constitute the substantial majority of our revenues, but we expect that revenues from customers outside of the U.S. will increase as a percentage of total revenues as we build greater international recognition of our brand and expand our sales operations globally.

Subscription Revenues

We generate a significant proportion of our subscription-based revenues from our Media Metrix product suite. Products within the Media Metrix suite include Media Metrix 360, Media Metrix, Plan Metrix, World Metrix, Video Metrix and Ad Metrix. These product offerings provide subscribers with intelligence on digital media usage, audience characteristics, audience demographics and online and offline purchasing behavior. Customers who subscribe to our Media Metrix products are provided with login IDs to our web site, have access to our database and can generate reports at anytime.

We also generate subscription-based revenues from certain reports and analyses provided through our customer research product, if that work is procured by customers for at least a nine-month period and the customer enters into an agreement to continue or extend the work. Through our customer research products, we deliver digital marketing intelligence relating to specific industries, such as automotive, consumer packaged goods, entertainment, financial services, media, pharmaceutical, retail, technology, telecommunications and travel. This marketing intelligence leverages our global consumer panel and extensive database to deliver information unique to a particular customer's needs on a recurring schedule, as well as on a continual-access basis. Our Marketing Solutions customer agreements typically include a fixed fee with an initial term of at least one year. We also provide these products on a non-subscription basis as described under "Project Revenues" below.

In addition, we generate subscription-based revenues from survey products that we sell to our customers. In conducting our surveys, we generally use our global Internet user panel. After questionnaires are distributed to the panel members and completed, we compile their responses and then deliver our findings to the customer, who also has ongoing access to the survey response data as they are compiled and updated over time. These data include responses and information collected from the actual survey questionnaires and can also include behavioral information that we passively collect from our panelists. If a customer contractually commits to having a survey conducted on a recurring basis, we classify the revenues generated from such survey products as subscription-based revenues. Our contracts for survey services typically include a fixed fee with terms that range from two months to one year.

On August 31, 2010, we completed our acquisition of Nedstat, resulting in additional revenue sources, including software subscriptions, server calls, and professional services (including training and consulting). Our arrangements generally contain multiple elements, consisting of the various service offerings. On August 11, 2011, the Company completed the acquisition of AdXpose, resulting in additional revenue sources, including fees for the use of the AdXpose platform. Fees for the use of the AdXpose platform are generally a fixed fee for each impression that is generated using the AdXpose technology. Revenue is recognized on a usage basis when the impression is delivered and reported via the AdXpose service portal.

Table of Contents

Project Revenues

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

Software Licenses

On July 1, 2010, we completed our acquisition of Nexius, resulting in additional revenue sources, including software licenses, professional services (including software customization, implementation, training and consulting services), and maintenance and technical support contracts.

We recognize software license arrangements that include significant modification and customization of the software in accordance with FASB Accounting Standards Codification (ASC) 985-605, Software Recognition, and ASC 605-35, Revenue Recognition-Construction-Type and Certain Production-Type Contracts, typically using the completed-contract method. Prior to March 31, 2011, we had not established VSOE of fair value for the multiple deliverables and therefore accounted for all elements in these arrangements as a single unit of accounting, recognizing the entire arrangement fee as revenue on a straight line basis over the service period of the last delivered element. During the period of performance, billings and costs (to the extent they are recoverable) are accumulated on the balance sheet, but no profit or income is recorded before user acceptance of the software license. To the extent estimated costs are expected to exceed revenue, we accrue for costs immediately. During the quarter ended June 30, 2011 we established VSOE of fair value for post contract support (PCS) services for certain Nexius customers. The establishment of VSOE of fair value followed an alignment of our pricing practices for these services. As a result of establishing VSOE, for the year ended December 31, 2011, we recorded revenue and related costs of revenue of \$2.4 million and \$1.4 million, respectively, of which \$0.9 million and \$0.3 million, respectively, had been previously deferred.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates, assumptions and judgments that affect the amounts reported in our consolidated financial statements and the accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates. While our significant accounting policies are described in more detail in the notes to our consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K, we believe the following accounting policies to be the most critical to the judgments and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition

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

We generate revenues by providing access to our online database or delivering information obtained from our database, usually in the form of periodic reports. Revenues are typically recognized on a straight-line basis over the period in which access to data or reports is provided, which generally ranges from three to twenty four months.

Table of Contents

We also generate revenues through survey services under contracts ranging in term from two months to one year. Our survey services consist of survey and questionnaire design with subsequent data collection, analysis and reporting. At the outset of an arrangement, we allocate total arrangement consideration between the development of the survey questionnaire and subsequent data collection, analysis and reporting services based on relative selling price. We recognize revenue allocated to the survey questionnaire when it is delivered and we recognize revenue allocated to the data collection, analysis and reporting services on a straight-line basis over the estimated data collection period once the survey or questionnaire design has been delivered. Any change in the estimated data collection period results in an adjustment to revenues recognized in future periods.

Certain of our arrangements contain multiple elements, consisting of the various services we offer. Multiple element arrangements typically consist of either subscriptions to multiple online product solutions or a subscription to our online database combined with customized services. Prior to January 1, 2011, we had determined there was not objective and reliable evidence of fair value for any of our services and, therefore, accounted for all elements in multiple element arrangements as a single unit of accounting. Access to data under the subscription element is generally provided shortly after the execution of the contract. However, the initial delivery of customized services generally occurs subsequent to the commencement of the subscription element. For these historical arrangements, we recognized the entire arrangement fee over the performance period of the last deliverable. As a result, the total arrangement fee is recognized on a straight-line basis over the period beginning with the commencement of the last element deliverable.

Effective January 1, 2011, we adopted the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2009-13, *Multiple Deliverable Revenue Arrangements*, which requires us to allocate arrangement consideration at the inception of an arrangement to all deliverables, if they represent a separate unit of accounting, based on their relative selling prices. In addition, this guidance eliminated the use of the residual method for allocating arrangement consideration. This guidance is applicable to us for all arrangements entered into subsequent to December 31, 2010 and for any existing arrangements that are materially modified after December 31, 2010.

For these types of arrangements, the guidance establishes a hierarchy to determine the selling price to be used for allocating arrangement consideration to deliverables: (i) vendor-specific objective evidence of fair value (VSOE), (ii) third-party evidence of selling price (TPE) if VSOE is not available, or (iii) an estimated selling price (ESP) if neither VSOE nor TPE are available. VSOE generally exists only when we sell the deliverable separately and is the price actually charged by us for that deliverable on a stand-alone basis. ESP reflects our estimate of what the selling price of a deliverable would be if it was sold regularly on a stand-alone basis.

We have concluded that we do not have VSOE, for these types of arrangements, and TPE is generally not available because our service offerings are highly differentiated and we are unable to obtain reliable information on the products and pricing practices of our competitors. As such, ESP is used to allocate the total arrangement consideration at the arrangement inception based on each element's relative selling price.

Our process for determining ESP involves management's judgments based on multiple factors that may vary depending upon the unique facts and circumstances related to each product suite and deliverable. We determine ESP by considering several external and internal factors including, but not limited to, current pricing practices, pricing concentrations (such as industry, channel, customer class or geography), internal costs and market penetration of a product or service. The total arrangement consideration is allocated to each of the elements based on the relative selling price. If the ESP is determined as a range of selling prices, the mid-point of the range is used in the relative-selling-price method. Once the total arrangement consideration has been allocated to each deliverable based on the relative allocation of the arrangement fee, we commence revenue recognition for each deliverable on a stand-alone basis as the data or service is delivered.

Table of Contents

The impact of adopting this new revenue recognition guidance, including arrangements that were materially modified, for the year ended December 31, 2011 is that we recognized approximately \$6.2 million in revenue and expenses of approximately \$1.4 million that otherwise would have been recognized in future periods under the previous revenue recognition guidance. ESP is analyzed on an annual basis or more frequently if we deem it likely that changes in the estimated selling prices have occurred.

In the future, as our pricing strategies and market conditions change, modifications may occur in the determination of ESP to reflect these changes. As a result, the future revenue recognized for these arrangements could differ from the results in the current period.

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

In connection with our acquisition of Nexius, Inc., we acquired additional revenue sources, including software licenses, professional services (including software customization implementation, training and consulting services), and maintenance and technical support contracts. Our arrangements generally contain multiple elements, consisting of the various service offerings. We recognize software license arrangements that include significant modification and customization of the software in accordance with ASC 985-605, *Software Recognition* and ASC 605-35, *Revenue Recognition-Construction-Type and Certain Production-Type Contracts*, typically using the completed contract method. During the quarter ended June 30, 2011, we established VSOE of fair value for post contract support services for a group of certain Nexius customers. For these specific arrangements, we allocate the total consideration to the various elements in the arrangement based on VSOE of fair value and recognize revenue when the fundamental revenue recognition criteria above are met. For the remainder of the Nexius customers, we currently do not have VSOE for the multiple deliverables and account for all elements in these arrangements as a single unit of accounting, recognizing the entire arrangement fee as revenue over the service period of the last delivered element. During the period of performance, billings and costs (to the extent they are recoverable) are accumulated on the balance sheet, but no profit or income is recorded before user acceptance of the software license. To the extent estimated costs are expected to exceed revenue we accrue for costs immediately.

Business Combinations

We recognize all of the assets acquired, liabilities assumed, contractual contingencies, and contingent consideration at their fair value on the acquisition date. Acquisition-related costs are recognized separately from the acquisition and expensed as incurred. Generally, restructuring costs incurred in periods subsequent to the acquisition date are expensed when incurred. All subsequent changes to an income tax valuation allowance or uncertain tax position that relate to the acquired company and existed at the acquisition date that occur both within the measurement period and as a result of facts and circumstances that existed at the acquisition date are recognized as an adjustment to goodwill. All other changes in income tax valuation allowances are recognized as a reduction or increase to income tax expense or as a direct adjustment to additional paid-in capital as required. Acquired in-process research and development is capitalized as an intangible asset and amortized over its estimated useful life.

Goodwill and Intangible Assets

We record goodwill and intangible assets when we acquire other businesses. The allocation of the purchase price to intangible assets and goodwill involves the extensive use of management's estimates and assumptions, and the result of the allocation process can have a significant impact on our future operating results. We estimate the fair value of identifiable intangible assets acquired using several different valuation approaches, including

Table of Contents

relief from royalty method, and income and market approaches. The relief from royalty method assumes that if we did not own the intangible asset or intellectual property, we would be willing to pay a royalty for its use. We generally use the relief from royalty method for estimating the value of acquired technology/methodology assets. The income approach converts the anticipated economic benefits that we assume will be realized from a given asset into value. Under this approach, value is measured as the present worth of anticipated future net cash flows generated by an asset. We generally use the income approach to value customer relationship assets and non-compete agreements. The market approach compares the acquired asset to similar assets that have been sold. We generally use the income approach to value trademarks and brand assets.

Intangible assets with finite lives are amortized over their useful lives while goodwill and indefinite lived assets are not amortized, but rather are periodically tested for impairment. An impairment review generally requires developing assumptions and projections regarding our operating performance. We have determined that all of our goodwill is associated with one reporting unit as we do not operate separate lines of business with respect to our services. Accordingly, on an annual basis we perform the impairment assessment for goodwill at the enterprise level by comparing the fair value of our reporting unit to its carrying value including goodwill recorded by the reporting unit. If the carrying value exceeds the fair value, impairment is measured by comparing the implied fair value of the goodwill to its carrying value and any impairment determined is recorded in the current period. If our estimates or the related assumptions change in the future, we may be required to record impairment charges to reduce the carrying value of these assets, which could be material. There were no impairment charges recognized during the years ended December 31, 2011, 2010 or 2009.

Long-lived assets

Our long-lived assets primarily consist of property and equipment and intangible assets. We evaluate the recoverability of our long-lived assets for impairment whenever events or changes in circumstances indicate the carrying value of such assets may not be recoverable. If an indication of impairment is present, we compare the estimated undiscounted future cash flows to be generated by the asset to its carrying amount.

Recoverability measurement and estimation of undiscounted cash flows are grouped at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. If the undiscounted future cash flows are less than the carrying amount of the asset group, we record an impairment loss equal to the excess of the asset group's carrying amount over its fair value. The fair value is determined based on valuation techniques such as a comparison to fair values of similar assets or using a discounted cash flow analysis. Although we believe that the carrying values of our long-lived assets are appropriately stated, changes in strategy or market conditions or significant technological developments could significantly impact these judgments and require adjustments to recorded asset balances. There were no impairment charges recognized during the years ended December 31, 2011, 2010 or 2009.

Allowance for Doubtful Accounts

We manage credit risk on accounts receivable by performing credit evaluations of our customers for existing customers coming up for renewal as well as all prospective new customers, by reviewing our accounts and contracts and by providing appropriate allowances for uncollectible amounts. Allowances are based on management's judgment, which considers historical experience and specific knowledge of accounts that may not be collectible. We make provisions based on our historical bad debt experience, a specific review of all significant outstanding invoices and an assessment of general economic conditions. If the financial condition of a customer deteriorates, resulting in an impairment of its ability to make payments, additional allowances may be required.

Income Taxes

We account for income taxes using the asset and liability method. We estimate our tax liability through calculations we perform for the determination of our current tax liability, together with assessing temporary differences resulting from the different treatment of items for income tax and financial reporting purposes. These

Table of Contents

differences result in deferred tax assets and liabilities, which are recorded on our balance sheet. We then assess the likelihood that deferred tax assets will be recovered in future periods. In assessing the need for a valuation allowance against the deferred tax assets, we consider factors such as future reversals of existing taxable temporary differences, taxable income in prior carryback years, if carryback is permitted under the tax law, tax planning strategies and future taxable income exclusive of reversing temporary differences and carryforwards. In evaluating projections of future taxable income, we consider our history of profitability, the competitive environment, the overall outlook for the online marketing industry and general economic conditions. In addition, we consider the timeframe over which it would take to utilize the deferred tax assets prior to their expiration. To the extent we cannot conclude that it is more-likely-than-not that the benefit of such assets will be realized, we establish a valuation allowance to adjust the carrying value of such assets.

As of December 31, 2011, we estimate our federal and state net operating loss carryforwards for tax purposes are approximately \$50.8 million and \$36.9 million, respectively. These net operating loss carryforwards will begin to expire in 2022 for federal income tax purposes and in 2013 for state income tax purposes. In addition, at December 31, 2011, we estimate our aggregate net operating loss carryforwards for tax purposes related to our foreign subsidiaries is \$30.6 million, which begins to expire in 2013.

As of December 31, 2011 and 2010, we recorded valuation allowances against certain deferred tax assets of \$2.7 million and \$1.0 million, respectively. At December 31, 2011, the valuation allowance was related to the deferred tax assets (primarily net operating loss carryforwards) of the foreign subsidiaries that are either loss companies or are in their start-up phases, including entities in Mexico, Singapore, Spain, Australia, Netherlands and China and the deferred tax asset related to the U.S. Capital loss carryforwards. At December 31, 2010, the valuation allowance was primarily related to the deferred tax assets of the foreign subsidiaries that are in their start-up phases, including China, Spain, Singapore, and certain Certifica and Nedstat subsidiaries, and the deferred tax asset related to the value of our auction rate securities.

As of December 31, 2011, we concluded that it was not more-likely-than-not that a substantial portion of our Netherlands deferred tax assets will be realized and determined that it was appropriate to establish a valuation allowance of \$1.3 million against our Netherlands deferred tax assets. In making that determination, we considered the losses incurred in the Netherlands during 2011 and in prior years and the uncertainty regarding the future profitability of the Netherlands operations. We also concluded that it was not more-likely-than-not that a substantial portion of our deferred tax assets in certain other foreign jurisdictions would be realized and that an increase to the valuation allowance was necessary. In making that determination, we considered the losses incurred in these foreign jurisdictions during 2011, the current overall economic environment, and the uncertainty regarding the profitability of certain foreign operations. As a result we recorded an increase in the deferred tax asset valuation allowance of approximately \$0.4 million.

As of December 31, 2010, we concluded that it was more-likely-than-not that a substantial portion of our UK deferred tax assets will be realized and determined that it was appropriate to release the entire valuation allowance of \$2.8 million in the fourth quarter of 2010. In making that determination, we considered the profitability of the UK entity achieved in 2010 and prior years, coupled with the timing of the reversal of taxable temporary differences and the forecasted profitability in future years. We also concluded that it was not more-likely-than-not that a substantial portion of our deferred tax assets in certain other foreign jurisdictions would be realized and that an increase to the valuation allowance was necessary. In making that determination, we considered the losses incurred in these foreign jurisdictions during 2010, the current overall economic environment, and the uncertainty regarding the profitability of certain foreign operations. As a result, in the fourth quarter of 2010 we recorded an increase in the deferred tax asset valuation allowance of approximately \$0.3 million.

The exercise of certain stock options and the vesting of certain restricted stock awards during the years ended December 31, 2011 and 2010 generated income tax deductions equal to the excess of the fair market value over the exercise price or grant date fair value, as applicable. We will not recognize a deferred tax asset with

Table of Contents

respect to the excess of tax over book stock compensation deductions until the tax deductions actually reduce our current taxes payable. As such, we have not recorded a deferred tax asset in the accompanying financial statements related to the additional net operating losses generated from the windfall tax deductions associated with the exercise of these stock options and the vesting of the restricted stock awards. If and when we utilize these net operating losses to reduce income taxes payable, the tax benefit will be recorded as an increase in additional paid-in capital. As of December 31, 2011 and December 31, 2010, the cumulative amount of net operating losses relating to such option exercises and vesting events that have been included in the gross net operating loss carryforwards above is \$26.4 million and \$16.6 million respectively. During the year ended December 31, 2011, we recognized windfall tax benefits of approximately \$0.2 million related to certain state tax jurisdictions, which were recorded as an increase to additional paid-in capital.

During the years ended December 31, 2011 and 2010, certain stock options were exercised and certain shares related to restricted stock awards vested at times when our stock price was substantially lower than the fair value of those shares at the time of grant. As a result, the income tax deduction related to such shares is less than the expense previously recognized for book purposes. Such shortfalls reduce additional paid-in capital to the extent relevant windfall tax benefits have been previously recognized. As described above, we recognized a portion of the windfall tax benefits in 2011 and recorded an increase to additional paid-in capital. Therefore, the impact of the shortfalls totaling \$0.1 million has not been included in income tax expense but has reduced additional paid-in capital for the year ended December 31, 2011. As of December 31, 2010, we had not yet recognized windfall tax benefits because the tax benefits had not resulted in a reduction of current taxes payable. Therefore, the impact of the shortfalls totaling \$0.9 million was included in income tax expense for the year ended December 31, 2010. Looking forward we cannot predict the stock compensation shortfall impact because of dependency upon future market price performance of our stock.

For uncertain tax positions, we use a more-likely-than-not recognition threshold based on the technical merits of the tax position taken. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefits determined on a cumulative probability basis, which are more-likely-than-not to be realized upon ultimate settlement in the financial statements. As of December 31, 2011, 2010 and 2009, we had unrecognized tax benefits of \$1.4 million, \$2.4 million and \$1.2 million, respectively, on a tax-effected basis. It is our policy to recognize interest and penalties related to income tax matters in income tax expense. As of December 31, 2011, the amount of accrued interest and penalties on unrecognized tax benefits was \$0.6 million. As of December 31, 2010, the amount of accrued interest and penalties on unrecognized tax benefits was \$0.8 million. We or one of our subsidiaries files income tax returns in the U.S. Federal jurisdiction and various state and foreign jurisdictions. For income tax returns filed by us, we are no longer subject to U.S. Federal examinations by tax authorities for years before 2008 or state and local tax examinations by tax authorities for years before 2007, although tax attribute carryforwards generated prior to these years may still be adjusted upon examination by tax authorities.

Stock-Based Compensation

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

Table of Contents

We issue restricted stock awards whose restrictions lapse upon either the passage of time (service vesting), achieving performance targets, or some combination of these restrictions. For those restricted stock awards with only service conditions, we recognize compensation cost on a straight-line basis over the explicit service period. For awards with both performance and service conditions, we start recognizing compensation cost over the remaining service period when it is probable the performance condition will be met. Stock awards that contain performance or market vesting conditions, are excluded from diluted earnings per share computations until the contingency is met as of the end of that reporting period. If factors change and we employ different assumptions in future periods, the compensation expense we record may differ significantly from what we have previously recorded.

At December 31, 2011, total estimated unrecognized compensation expense related to unvested stock-based awards granted prior to that date was \$21.0 million, which is expected to be recognized over a weighted-average period of 1.50 years.

The actual amount of stock-based compensation expense we record in any fiscal period will depend on a number of factors, including the number of shares subject to restricted stock and/or stock options issued, the fair value of our common stock at the time of issuance and the expected volatility of our stock price over time. In addition, changes to our incentive compensation plan that heavily favor stock-based compensation are expected to cause stock-based compensation expense to increase in absolute dollars. If factors change and we employ different assumptions in future period, the compensation expense we record may differ significantly from what we have previously recorded.

Seasonality

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

Results of Operations

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

	2011	Year Ended December 31, 2010	2009
Revenues	100.0%	100.0%	100.0%
Cost of Revenues	32.3	29.7	30.3
Selling and marketing expenses	33.7	34.1	32.8
Research and development	14.7	15.0	