COMSCORE, INC.
Form 10-Q
October 29, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2014

or

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

For the transition period from to

Commission file number: 001-33520

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

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

(703) 438-2000
(Registrant's telephone number, including area code)

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

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

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

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

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

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

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

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FOR THE QUARTER ENDED SEPTEMBER 30, 2014
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CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

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

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

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

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

Treasury stock, at cost, 1,737,109 and 483,437 shares as of September 30, 2014 and December 31, 2013, respectively		
Total stockholders' equity	164,627	198,802
Total liabilities and stockholders' equity	$338,641	$363,413

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

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

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

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

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

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

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

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

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

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

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

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

Net income taxes paid	$955	$1,112
Supplemental noncash investing and financing activities		
Capital lease obligations incurred	$10,895	$11,616
Accrued capital expenditures	$1,573	$6,273
Leasehold improvements acquired through lease incentives	$—	$1,637

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

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COMSCORE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization

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

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

2. Summary of Significant Accounting Policies

Basis of Presentation and Consolidation

The accompanying interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions and accounts have been eliminated upon consolidation. The Company consolidates investments where it has a controlling financial interest. The usual condition for controlling financial interest is ownership of a majority of the voting interest and, therefore, as a general rule, ownership, directly or indirectly, of more than 50% of the outstanding voting shares is a condition indicating consolidation.

The Company operates as a single reportable segment.

Unaudited Interim Financial Information

The consolidated interim financial statements included in this quarterly report on Form 10-Q have been prepared by the Company without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures normally included in consolidated interim financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP") have been condensed or omitted pursuant to such rules and regulations. However, the Company believes that the disclosures contained in this quarterly report comply with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (the "Exchange Act"), as amended, for a quarterly report on Form 10-Q and are adequate to make the information presented not misleading.

The consolidated interim financial statements included herein, reflect all adjustments (consisting of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented. These consolidated interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2013, filed February 18, 2014 with the SEC. The results of operations for the three and nine months ended September 30, 2014 are not necessarily indicative of the results to be anticipated for the entire year ending December 31, 2014 or thereafter. All references to September 30, 2014 and 2013 or to the three and nine months ended September 30, 2014 and 2013 in the notes to the consolidated interim financial statements are unaudited.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expense during the reporting periods. Significant estimates and assumptions are inherent in the analysis and the measurement of deferred tax assets, the deferral or recognition of certain revenue types, the identification and quantification of income tax liabilities due to uncertain tax positions, valuation of certain assets and liabilities recorded at fair value for recoverability of intangible assets, other long-lived assets and goodwill, estimates related to outstanding litigation, and the determination of the collectability of accounts receivable and the allowance for doubtful accounts. The Company bases its estimates on historical experience and assumptions that it believes are reasonable. Actual results could differ from those estimates.

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Fair Value Measurements

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

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

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

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

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

Assets and liabilities that are measured at fair value on an infrequently occurring basis include fixed assets, intangible assets and goodwill. The Company recognizes these items at fair value when they are considered to be impaired or upon initial recognition. During the first quarter of 2013, certain intangible assets acquired were measured at fair value using significant unobservable inputs (Level 3) as described in Note 4.

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

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

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

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

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

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Cash and Cash Equivalents and Investments

Cash and cash equivalents consist of highly liquid investments with an original maturity of three months or less at the time of purchase. Cash and cash equivalents are maintained with several financial institutions. The combined account balances held on deposit at each institution typically exceed FDIC insurance coverage and, as a result, there is a concentration of credit risk related to amounts on deposit in excess of FDIC insurance coverage. The Company believes the risk is not significant.

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

Accounts Receivable

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

Property and Equipment

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

Business Combinations

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

Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of identifiable assets acquired and liabilities assumed when a business is acquired. The allocation of the purchase price to intangible assets and goodwill involves the extensive use of management's estimates and assumptions, and the result of the allocation process can have a significant impact on future operating results. The Company estimates the fair value of identifiable intangible assets acquired using various valuation methods, including the excess earnings and relief from royalty methods.

Intangible assets with finite lives are amortized over their useful lives while goodwill is not amortized but is evaluated for potential impairment at least annually by comparing the fair value of a reporting unit to its carrying value including goodwill recorded by the reporting unit. If the carrying value exceeds the fair value, impairment is measured by comparing the implied fair value of the goodwill to its carrying value, and any impairment determined is recorded in the current period. All of the Company's goodwill is associated with its single reporting unit. Accordingly, on an annual basis the Company performs the impairment assessment for goodwill at the enterprise level. The Company completed its annual impairment analysis as of October 1st for 2013 and determined that there was no impairment of goodwill.

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

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

Impairment of Long-Lived Assets

The Company's long-lived assets primarily consist of property and equipment and intangible assets. The Company evaluates its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying value of such assets may not be recoverable. If an indication of impairment is present, the Company compares the estimated undiscounted future cash flows to be generated by the asset to its carrying amount. Recoverability measurement and estimation of undiscounted cash flows are grouped at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. If the undiscounted future cash flows are less than the carrying amount of the asset group, the Company records an impairment loss equal to the excess of the asset group's carrying amount over its fair value. The fair value is determined based on valuation techniques such as a comparison to fair values of similar assets or using a discounted cash flow analysis. Although the Company believes that the carrying values of its long-lived assets are appropriately stated, changes in strategy or market conditions or significant technological developments could significantly impact these judgments and require adjustments to recorded asset balances. During the three and nine months ended September 30, 2014, the Company recorded an impairment charge of $6.9 million related to certain intangible assets as described in Note 4. During the three and nine months ended September 30, 2013, there were no impairment charges recognized.

Leases

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

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

Foreign Currency

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

The Company incurred foreign currency transaction gains of $0.6 million and $0.3 million for the three and nine months ended September 30, 2014, respectively, and a foreign currency transaction gain of $0.1 million and a transaction loss of $0.2 million for the three and nine months ended September 30, 2013. These gains and losses are the result of transactions denominated in currencies other than the functional currency of the Company's foreign subsidiaries. The majority of the Company's foreign operations are denominated in the euro, the British Pound, the

Canadian Dollar and various currencies in Latin America.

Revenue Recognition

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

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The Company generates revenues by providing access to the Company's online database or delivering information obtained from the database, usually in the form of periodic reports. Revenues are typically recognized on a straight-line basis over the period in which access to data or reports is provided, which generally ranges from three to twenty-four months. Sales taxes remitted to government authorities are recorded on a net basis.

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

Certain of the Company's arrangements contain multiple elements, consisting of the various services the Company offers. Multiple element arrangements typically consist of either subscriptions to multiple online products or a subscription to the Company's online database combined with customized services. The Company accounts for these arrangements in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2009-13, Multiple Deliverable Revenue Arrangements, which requires the Company to allocate arrangement consideration at the inception of an arrangement to all deliverables, if they represent a separate unit of accounting, based on their relative selling prices. The guidance establishes a hierarchy to determine the selling price to be used for allocating arrangement consideration to deliverables: (i) vendor-specific objective evidence of fair value ("VSOE"), (ii) third-party evidence of selling price ("TPE") if VSOE is not available, or (iii) an estimated selling price ("ESP") if neither VSOE nor TPE are available. VSOE generally exists only when the Company sells the deliverable separately and is the price actually charged by the Company for that deliverable on a stand-alone basis. ESP reflects the Company's estimate of what the selling price of a deliverable would be if it was sold regularly on a stand-alone basis. The Company has concluded it does not have VSOE, for these types of arrangements, and TPE is generally not available because the Company's service offerings are highly differentiated and the Company is unable to obtain reliable information on the products and pricing practices of the Company's competitors. As such, ESP is used to allocate the total arrangement consideration at the arrangement inception based on each element's relative selling price. The Company's process for determining ESP involves management's judgments based on multiple factors that may vary depending upon the unique facts and circumstances related to each product suite and deliverable. The Company determines ESP by considering several external and internal factors including, but not limited to, current pricing practices, pricing concentrations such as industry, channel, customer class or geography, internal costs and market penetration of a product or service. The total arrangement consideration is allocated to each of the elements based on the relative selling price. If the ESP is determined as a range of selling prices, the mid-point of the range is used in the relative-selling-price method. Once the total arrangement consideration has been allocated to each deliverable based on the relative allocation of the arrangement fee, the Company commences revenue recognition for each deliverable on a stand-alone basis as the data or service is delivered. ESP is analyzed on an annual basis and may be reviewed more frequently if management deems it likely that changes in the estimated selling prices have occurred.

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

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

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

The Company also generates revenue through software licenses, professional services (including software customization, implementation, training and consulting services), and maintenance and technical support contracts. The Company’s arrangements generally contain multiple elements, consisting of the various service offerings. The Company recognizes software license arrangements that include significant modification and customization of the software in accordance with FASB Accounting Standards Codification (ASC) 985-605, Software Recognition, and ASC 605-35, Revenue Recognition-Construction-Type and Certain Production-Type Contracts, using either the percentage-of-completion or completed-contract method. Under the percentage-of-completion method, the Company uses the input method to measure progress, which is based on the ratio of costs incurred to date to total estimated costs at completion. The percentage-of-completion method is used when reliable estimates of progress, including customer acceptance, and completion under the contract can be made. Under the completed-contract method, billings and costs (to the extent they are recoverable) are accumulated on the balance sheet, but no profit or income is recorded before user acceptance of the software license. The completed-contract method is used when reliable estimates of cost to complete cannot be made or other terms under the contract require it. To the extent estimated costs are expected to exceed revenue, the Company accrues for costs immediately. The Company considers a contract to be completed when all performance obligations have been delivered and the customer provides formal acceptance in the form of a "User Acceptance Testing" certificate and the Company applies this policy on a consistent basis. For certain customers with contacts for these types of revenues that have multiple deliverables, the Company has VSOE of fair value for post contract support services. For the remainder of the customers with contracts, the Company does not have VSOE for the multiple deliverables and account for all elements in these arrangements as a single unit of accounting, recognizing the entire arrangement fee as revenue over the service period of the last delivered element.

The Company accounts for nonmonetary transactions under ASC 845, Nonmonetary Transactions. Nonmonetary transactions with commercial substance are recorded at the estimated fair value of assets surrendered including cash, if cash is less than 25% of the fair value of the overall exchange, unless the fair value of the assets received is more clearly evident, in which case the fair value of the asset received is used to estimate fair value for the exchange.

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

Stock-Based Compensation

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

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

Income Taxes

Income taxes are accounted for using the asset and liability method. Deferred income taxes are provided for temporary differences in recognizing certain income, expense and credit items for financial reporting purposes and tax reporting purposes. Such deferred income taxes primarily relate to the difference between the tax bases of assets and liabilities and their financial reporting amounts. Deferred tax assets and liabilities are measured by applying enacted statutory tax rates applicable to the future years in which deferred tax assets or liabilities are expected to be settled or realized. The Company records a valuation allowance when it determines, based on available positive and negative evidence, that it is more-likely-than-not that some portion or all of its deferred tax assets will not be realized. The Company determines the

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realizability of its deferred tax assets primarily based on the reversal of existing taxable temporary differences and projections of future taxable income (exclusive of reversing temporary differences and carryforwards). In evaluating such projections, the Company considers its history of profitability, the competitive environment, the overall outlook for the online marketing industry and general economic conditions. In addition, the Company considers the timeframe over which it would take to utilize the deferred tax assets prior to their expiration.

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

Earnings Per Share

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

The weighted-average shares outstanding-common stock has been adjusted downward for share repurchases made during the three and nine months ended September 30, 2014. See Footnote 10 for more information pertaining to the Company's share repurchases. The following table provides a reconciliation of the numerators and denominators used in computing basic and diluted net loss per common share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands, except share and per share data)		(In thousands, except share and per share data)	
Net loss	$(3,261)	$(82)	$(7,243)	$(2,503)
Net loss per share - common stock:				
Basic	$(0.10)	$0.00	$(0.22)	$(0.07)
Diluted	$(0.10)	$0.00	$(0.22)	$(0.07)
Weighted-average shares outstanding-common stock, basic and dilutive	33,502,533	34,502,456	33,550,933	34,417,609

The Company uses the two-class method for earnings allocations between the Company's restricted stock awards, as they are a participating security, and the Company's common stock. The following is a summary of common stock equivalents for the securities outstanding during the respective periods that have been excluded from the earnings per share calculations as their impact was anti-dilutive.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Stock options and restricted stock	689,327	694,829	749,311	694,781

Recent Pronouncements

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

In April 2014, FASB issued Accounting Standards Update ("ASU") 2014-09, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. The amendments in this Update improve the definition of discontinued operations by limiting discontinued operations reporting to disposals of components of an entity that represent strategic shifts that have (or will have) a major effect on an entity's operations and financial results. Under current U.S. GAAP, many disposals, some of which may be routine in nature and not a change in an entity's strategy, are reported in discontinued operations. The amendments in this update also require expanded disclosures for discontinued operations. In addition, for individually significant components of an

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

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

3. Business Combinations

Acquisition of MdotLabs

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

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

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

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

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

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

Goodwill	3,267
Total purchase price	$4,500

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Disposition of ARS

On March 18, 2013, the Company and its wholly-owned subsidiary, RSC The Quality Measurement Company (also known as ARSgroup), sold certain assets related to its ARS Non-Health Copy-Testing and Equity Tracking business to MSW.ARS LLC, a Delaware limited liability company (“Buyer”). As a result of the disposition, during the nine months ended September 30, 2013, the Company recorded a gain on the disposition of $0.2 million, determined as follows (in thousands):

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

4. Goodwill and Intangible Assets

The change in the carrying value of goodwill for the nine months ended September 30, 2014 is as follows (in thousands):

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

Certain of the Company’s intangible assets are recorded in euros, British Pounds and the local currencies of the Company’s South American subsidiaries, and therefore, the gross carrying amount and accumulated amortization are subject to foreign currency translation adjustments. Total translation adjustment to the gross carrying amount and to accumulated amortization was a net loss of approximately $2.0 million for the nine months ended September 30, 2014. The carrying values of the Company’s amortizable acquired intangible assets are as follows (in thousands):

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

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

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

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

Intellectual property	6.9
Trade names	2.0

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

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

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

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

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5. Accrued Expenses

Accrued expenses consist of the following:

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

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

6. Long-term Debt and Other Financing Arrangement

Capital Leases

The Company has a lease financing arrangement with Banc of America Leasing & Capital, LLC in the amount of $12.5 million, of which the Company can utilize approximately $10.5 million as of September 30, 2014 for future capital leases. This arrangement allows the Company to lease new software, hardware and other computer equipment as it expands its technology infrastructure in support of its business growth. Under this arrangement, the Company may enter into new capital leases prior to February 28, 2015. Some of the amounts the Company has utilized to date under this arrangement have not lowered the amount available for future capital leases, because those amounts have been assigned by Banc of America Leasing & Capital, LLC under separate third-party arrangements. In addition, the Company enters into capital leases under non-committed arrangements, typically directly with equipment manufacturers. Future minimum payments under capital leases with initial terms of one year or more are as follows:

	(In thousands)	
2014	$3,567	
2015	12,903	
2016	8,480	
2017	2,030	
2018	44	
Total minimum lease payments	27,024	
Less amount representing interest	(1,393	)
Present value of net minimum lease payments	25,631	
Less current portion	(12,592	)
Capital lease obligations, long-term	$13,039	

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

Revolving Credit Facility

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

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

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

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

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

The Company maintains letters of credit in lieu of security deposits with respect to certain office leases as well as to satisfy performance guarantees under certain contracts. As of September 30, 2014, $3.8 million in letters of credit were outstanding, leaving $6.2 million available for additional letters of credit. These letters of credit may be reduced periodically provided the Company meets the conditional criteria of each related lease agreement.

7. Commitments and Contingencies

Leases

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

	(In thousands)
2014	$2,633
2015	10,177
2016	9,437
2017	9,163
2018	8,490
Thereafter	28,682
Total minimum lease payments	$68,582

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

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Contingencies

On August 23, 2011, we received notice that Mike Harris and Jeff Dunstan, individually and on behalf of a class of similarly situated individuals, filed a lawsuit against comScore in the United States District Court for the Northern District of Illinois, Eastern Division, alleging, among other things, violations by comScore of the Stored Communications Act, the Electronic Communications Privacy Act, Computer Fraud and Abuse Act and the Illinois Consumer Fraud and Deceptive Practices Act as well as unjust enrichment. The complaint sought unspecified damages, including statutory damages per violation and punitive damages, injunctive relief and reasonable attorneys' fees of the plaintiffs. In October 2012, the plaintiffs filed an amended complaint which, among other things, removed the claim relating to alleged violations of the Illinois Consumer Fraud and Deceptive Practices Act. On April 2, 2013, the District Court issued an order certifying a class for only three of the four claims, refusing to certify a class for unjust enrichment. On May 30, 2014, we and the plaintiffs proposed a tentative settlement subject to approval by the District Court, and on October 1, 2014, the Court issued its final approval of those terms. comScore is required to establish a $14 million settlement fund from which class member claims, attorneys' fees and incentive awards, costs, and administrative expenses will be paid. We and our insurers contributed to the fund. The settlement also requires us to alter certain portions of our privacy policy and implement certain additional protocols to ensure that our privacy practices remain consistent with its disclosures to consumers. During the nine months ended September 30, 2014, the Company recorded a loss of $3.5 million related to the tentative settlement.

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

8. Income Taxes

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

During the three and nine months ended September 30, 2014, the Company recorded income tax benefits of $2.6 million and $2.0 million, respectively, resulting in effective tax rates of 43.9% and 21.2%, respectively. During the three and nine months ended September 30, 2013, the Company recorded income tax provisions of $0.8 million and $4.3 million, respectively, resulting in effective tax rates of 111.6% and 240.5% respectively. These effective tax rates differ from the Federal statutory rate of 35% primarily due to the effects of valuation allowances associated with foreign losses, state income taxes, foreign income taxes, nondeductible expenses such as certain stock compensation and meals and entertainment, unrecognized tax benefits and changes in statutory tax rates which took effect during the year.

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

During the three and nine months ended September 30, 2013, certain stock options were exercised and certain shares related to restricted stock awards vested at times when the Company's stock price was substantially lower than the fair value of those shares at the time of grant. As a result, the income tax deduction related to such shares is less than the expense previously recognized for book purposes. Such shortfalls reduce additional paid-in capital to the extent windfall tax benefits have been previously recognized. As of December 31, 2012, the Company did not have additional paid-in capital related to windfall tax benefits. As such, a shortfall of $1.0 million has been included in income tax expense for the nine months ended September 30, 2013. No shortfall was included in income tax expense for the three months ended September 30, 2013. There were no stock compensation shortfalls for the three and nine months ended September 30, 2014.

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As of September 30, 2014 and December 31, 2013, the Company had a valuation allowance related to the deferred tax assets of certain foreign subsidiaries (primarily net operating loss carryforwards) that are either loss companies or are in their start-up phases, the U.S. capital loss carryforwards and certain state net operating loss carryforwards. Management will continue to evaluate the Company's deferred tax position of its U.S. and foreign companies throughout 2014 to determine the appropriate level of valuation allowance required against its deferred tax assets.

As of September 30, 2014 and December 31, 2013, the Company had unrecognized tax benefits of approximately $1.4 million, of which approximately $0.9 million is netted against certain deferred tax assets on the accompanying consolidated balance sheets. The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. As of September 30, 2014 and December 31, 2013, the amount of accrued interest and penalties on unrecognized tax benefits was approximately $0.6 million and $0.7 million, respectively.

The Company or one of its subsidiaries files income tax returns in the U.S. Federal jurisdiction and various state and foreign jurisdictions. For income tax returns filed by the Company, the Company is no longer subject to U.S. Federal examinations by tax authorities for years before 2011 or state and local examinations by tax authorities for years before 2010 although tax attribute carryforwards generated prior to these years may still be adjusted upon examination by tax authorities.

9. Stockholders' Equity

1999 Stock Option Plan and 2007 Equity Incentive Plan

Prior to the effective date of the registration statement for the Company's initial public offering ("IPO") on June 26, 2007, eligible employees and non-employees were awarded options to purchase shares of the Company's common stock, restricted stock or restricted stock units pursuant to the Company's 1999 Stock Plan (the "1999 Plan"). Upon the effective date of the registration statement of the Company's IPO, the Company ceased using the 1999 Plan for the issuance of new equity awards. Upon the closing of the Company's IPO on July 2, 2007, the Company established its 2007 Equity Incentive Plan, as amended (the "2007 Plan" and together with the 1999 Plan, the "Plans"). The 1999 Plan will continue to govern the terms and conditions of outstanding awards granted thereunder, but no further shares are authorized for new awards under the 1999 Plan. As of September 30, 2014 and December 31, 2013, the Plans provided for the issuance of a maximum of approximately 11.4 million shares and 9.9 million shares, respectively, of common stock. In addition, the 2007 Plan provides for annual increases in the number of shares available for issuance thereunder on the first day of each fiscal year beginning with the 2008 fiscal year, equal to the lesser of: (i) 4% of the outstanding shares of the Company's common stock on the last day of the immediately preceding fiscal year; (ii) 1,800,000 shares; or (iii) such other amount as the Company's Board of Directors may determine. The vesting period of options granted under the Plans is determined by the Board of Directors, although, for service-based options the vesting has historically been generally ratable over a four-year period. Options generally expire 10 years from the date of the grant. Effective January 1, 2014, the shares available for grant increased by 1,408,642 pursuant to the automatic share reserve increase provision under the 2007 Plan. Accordingly, as of September 30, 2014, a total of 3,829,238 shares were available for future grant under the 2007 Plan.

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

A summary of the Plans is presented below: