COMSCORE, INC.
Form 10-Q
August 09, 2011

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011

or

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

For the transition period from __________ to __________

Commission file number: 000-1158172

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

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

(703) 483-2000
(Registrant s telephone number, including area code)
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: As of August 8, 2011, there were 31,860,338 shares of the registrant s common stock outstanding.

COMSCORE, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2011
TABLE OF CONTENTS

CAUTIONARY NOTE CONCERNING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, including the sections entitled Management s Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosure About Market Risk under Items 2 and 3, respectively, of Part I of this report, and the sections entitled Legal Proceedings, Risk Factors, and Unregistered Sales of Equity Securities and Use of Proceeds under Items 1, 1A and 2, respectively, of Part II of this report, may contain forward-looking statements. These statements may relate to, but are not limited to, expectations of future operating results or financial performance, 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, 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, continue, seek or the negative of these terms or other comparable terminology. These statements are only predictions. Actual events and/or results may differ materially.

We believe that it is important to communicate our future expectations to our investors. However, there may be events in the future that we are not able to accurately predict or control and that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements. Except as required by applicable law, including the securities laws of the United States and the rules and regulations of the 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.

PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

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

	June 30, 2011 (Unaudited)	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 39,945	$ 33,736
Short-term investments	2,591	
Accounts receivable, net of allowances of $875 and $725, respectively	53,330	54,269
Prepaid expenses and other current assets	8,566	8,391
Deferred tax assets	6,151	6,701
Total current assets	110,583	103,097
Long-term investments		2,819
Property and equipment, net	29,746	28,637
Other non-current assets	1,486	733
Long-term deferred tax assets	12,709	11,316
Intangible assets, net	47,873	50,260
Goodwill	88,910	86,217
Total assets	$ 291,307	$ 283,079
Liabilities and Equity		
Current liabilities:		
Accounts payable	$ 9,703	$ 5,588
Accrued expenses	19,175	15,297
Deferred revenues	71,797	70,611
Deferred rent	924	941
Deferred tax liabilities		132
Capital lease obligations	5,423	4,659
Total current liabilities	107,022	97,228
Deferred rent, long-term	8,083	8,019
Deferred revenue, long-term	1,292	843
Deferred tax liabilities, long-term		744
Capital lease obligations, long-term	7,669	7,959
Other long-term liabilities	2,178	2,454
Total liabilities	126,244	117,247
Commitments and contingencies		
Stockholders equity:		

Preferred stock, $0.001 par value per share; 5,000,000 shares authorized at June 30, 2011 and December 31, 2010; no shares issued or outstanding at June 30, 2011 and December 31, 2010				
Common stock, $0.001 par value per share; 100,000,000 shares authorized at June 30, 2011 and December 31, 2010; 31,841,337 and 31,523,559 shares issued and outstanding at June 30, 2011 and December 31, 2010, respectively		32		32
Additional paid-in capital		221,679		216,895
Accumulated other comprehensive income		5,176		2,166
Accumulated deficit		(61,824)		(53,261)
Total stockholders equity		165,063		165,832
Total liabilities and stockholders equity	$	291,307	$	283,079

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
Revenues	**$ 58,095**	**$ 41,962**	**$ 111,046**	**$ 78,101**
Cost of revenues (excludes amortization of intangible assets resulting from acquisitions shown below) (1)	19,302	12,374	36,440	22,733
Selling and marketing (1)	19,717	12,892	37,886	25,610
Research and development (1)	8,833	6,088	16,732	11,135
General and administrative (1)	13,977	8,167	24,295	14,373
Amortization of intangible assets resulting from acquisitions	2,434	658	4,428	1,165
Total expenses from operations	**64,263**	**40,179**	**119,781**	**75,016**
(Loss) Income from operations	**(6,168)**	**1,783**	**(8,735)**	**3,085**
Interest and other (expense) income, net	(124)	40	(213)	154
Gain (loss) from foreign currency	102	(12)	252	(129)
(Loss) Income before income taxes	**(6,190)**	**1,811**	**(8,696)**	**3,110**
Income tax (provision) benefit	(2,039)	(986)	133	(2,056)
Net (loss) income	**$ (8,229)**	**$ 825**	**$ (8,563)**	**$ 1,054**
Net (loss) income available to common stockholders per common share:				
Basic	**$ (0.26)**	**$ 0.03**	**$ (0.27)**	**$ 0.03**
Diluted	**$ (0.26)**	**$ 0.03**	**$ (0.27)**	**$ 0.03**
Weighted-average number of shares used in per share calculation common stock:				
Basic	31,832,105	30,965,800	31,744,988	30,817,853
Diluted	31,832,105	31,736,718	31,744,988	31,625,650
Comprehensive (loss) income:				
Net (loss) income	$ (8,229)	$ 825	$ (8,563)	$ 1,054
Other comprehensive income (loss):				
	869	(93)	3,238	(418)

Foreign currency cumulative translation adjustment								
Unrealized (loss) gain on marketable securities, net of tax effect of $0 for the three and six months ended June 30, 2011, respectively, and $11 and $13 for the three and six months ended June 30, 2010, respectively		(286)		(16)		(228)		(19)
Total comprehensive (loss) income	**$**	**(7,646)**	**$**	**716**	**$**	**(5,553)**	**$**	**617**

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

Cost of revenues	$ 605	$ 246	$ 1,068	$ 476
Selling and marketing	2,066	1,037	4,019	2,256
Research and development	627	315	1,058	579
General and administrative	2,208	1,889	4,886	2,850

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

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

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Operating activities		
Net (loss) income	$ (8,563)	$ 1,054
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation	6,391	3,486
Amortization of intangible assets resulting from acquisitions	4,428	1,166
Provision for bad debts	69	17
Stock-based compensation	11,031	6,165
Amortization of deferred rent	(482)	(440)
Amortization of bond premium		173
Deferred tax (benefit) provision	(1,484)	1,072
Loss on asset disposal	8	1
Changes in operating assets and liabilities:		
Accounts receivable	1,417	1,623
Prepaid expenses and other current assets	(736)	47
Accounts payable, accrued expenses, and other liabilities	7,218	2,233
Deferred revenues	(125)	3,688
Deferred rent	520	407
Net cash provided by operating activities	19,692	20,692
Investing activities		
Acquisitions, net of cash acquired	(834)	(16,788)
Sales and maturities of investments		25,324
Purchase of property and equipment	(4,222)	(2,624)
Net cash (used in) provided by investing activities	(5,056)	5,912
Financing activities		
Proceeds from the exercise of common stock options	271	789
Repurchase of common stock	(6,081)	(3,608)
Principal payments on capital lease obligations	(2,653)	(420)
Debt issuance costs	(69)	
Net cash used in financing activities	(8,532)	(3,239)
Effect of exchange rate changes on cash	105	(322)
Net increase in cash and cash equivalents	6,209	23,043

Cash and cash equivalents at beginning of period	33,736	58,284
Cash and cash equivalents at end of period	$ 39,945	$ 81,327

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

COMSCORE, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Organization

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

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

2. Summary of Significant Accounting Policies

Basis of Presentation and Consolidation

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

Unaudited Interim Financial Information

The consolidated financial statements included in this quarterly report on Form 10-Q have been prepared by the Company without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been condensed or omitted pursuant to such rules and regulations. However, the Company believes that the disclosures contained in this quarterly report comply with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended, for a quarterly report on Form 10-Q and are adequate to make the information presented not misleading. The consolidated financial statements included herein, reflect all adjustments (consisting of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2010, filed March 15, 2011 with the SEC. The results of operations for the three and six months ended June 30, 2011 are not necessarily indicative of the results to be anticipated for the entire year ending December 31, 2011 or thereafter. All references to June 30, 2011 and 2010 or to the three or six months ended June 30, 2011 and 2010 in the notes to the consolidated financial statements are unaudited.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expense during the reporting periods. Significant estimates and assumptions are inherent in the analysis and the measurement of deferred tax assets, the identification and quantification of income tax liabilities due to uncertain tax positions, valuation of marketable securities, recoverability of intangible assets, other long-lived assets and goodwill, the determination of the allowance for doubtful accounts, and the determination of estimated selling prices for allocating arrangement consideration to arrangements with multiple elements. The Company bases its estimates on historical experience and assumptions that it believes are reasonable. Actual results could differ from those estimates.

Fair Value Measurements

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

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

Level 2 inputs other than 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 requires the Company to develop its own assumptions.

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

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

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

Assets and liabilities that are measured at fair value on a non-recurring basis include intangible assets and goodwill. The Company adjusts these items to fair value when they are considered to be impaired. During the three and six months ended June 30, 2011 and 2010, there were no fair value adjustments for assets and liabilities measured on a non-recurring basis.

Cash and Cash Equivalents and Investments

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

Investments, which consist principally of auction rate securities, are stated at fair value. These securities are accounted for as available-for-sale securities. Unrealized holding gains and losses for available-for-sale securities are excluded from earnings and reported as a net amount in a separate component of stockholders equity until realized. Realized gains and losses on available-for-sale securities are included in interest income. Interest and dividends on securities classified as available-for-sale are included in interest income. The Company uses the specific identification method to compute realized gains and losses on its investments. Realized gains and losses for the three and six months ended June 30, 2011 and 2010 were not material.

Interest income on investments was $0.1 million and $0.1 million for the three months ended June 30, 2011 and 2010, respectively, and $0.1 million and $0.2 million for the six months ended June 30, 2011 and 2010, respectively.

Accounts Receivable

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

Property and Equipment

Property and equipment is stated at cost, net of accumulated depreciation. Property and equipment is depreciated on a straight-line basis over the estimated useful lives of the assets, ranging from three to five years. Assets under capital leases are recorded at their net present value at the inception of the lease and are included in the appropriate asset category. Assets under capital leases and leasehold improvements are amortized over the shorter of the related lease terms or their useful lives. Replacements and major improvements are capitalized; maintenance and repairs are charged to expense as incurred. Amortization of assets under capital leases is included within the expense category on the Consolidated Statements of Operations and Comprehensive (Loss) Income 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 (i.e., working capital adjustments) or other fair value adjustments determined during the measurement period are recorded as adjustments to goodwill. All subsequent changes to a valuation allowance or uncertain tax position that relate to the acquired company and existed at the acquisition date that occur both within the measurement period and as a result of facts and circumstances that existed at the acquisition date are recognized as an adjustment to goodwill. All other changes in valuation 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

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 allocation of the purchase price to intangible assets is done at fair value. 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 one reporting unit. Accordingly, on an annual basis the Company performs the impairment assessment for goodwill at the enterprise level. The Company completed its annual impairment analysis as of October 1st for 2010 and determined that there was no impairment of goodwill. There have been no indicators of impairment suggesting that an interim assessment was necessary for goodwill since the October 1, 2010 analysis.

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

	Useful Lives (Years)
Acquired methodologies/technology	3 to 10
Customer relationships	7 to 12
Panel	7
Intellectual property	10
Trade names	2 to 5

Impairment of Long-Lived Assets

The Company s long-lived assets primarily consist of property and equipment and intangible assets. The Company evaluates the recoverability of its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying value of such assets may not be recoverable. If an indication of impairment is present, the Company compares the estimated undiscounted future cash flows to be generated by the asset to its carrying amount. Recoverability measurement and estimation of undiscounted cash flows are grouped at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. If the undiscounted future cash flows are less than the carrying amount of the asset, the Company records an impairment loss equal to the excess of the asset s carrying amount over its fair value. The fair value is determined based on valuation techniques such as a comparison to fair values of similar assets or using a discounted cash flow analysis. Although the Company believes that the carrying values of its long-lived assets are appropriately stated, changes in strategy or market conditions or significant technological developments could significantly impact these judgments and require adjustments to recorded asset balances. There were no impairment charges recognized during the three and six months ended June 30, 2011 or 2010.

Lease Accounting

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

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 in the Consolidated Statements of Operations and Comprehensive (Loss) Income.

Foreign Currency Translation

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

The Company incurred foreign currency transaction gains of $0.1 million and $0.2 million for the three and six months ended June 30, 2011, respectively and realized foreign currency transaction losses of $0.1 million and $0.1 million for the three and six months ended June 30, 2010, respectively. These losses and gains are the result of transactions denominated in currencies other than the functional currency of the Company s foreign subsidiaries.

Revenue Recognition

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

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

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

Certain of the Company s arrangements contain multiple elements, consisting of the various services the Company offers. Multiple element arrangements typically consist of either subscriptions to multiple online product solutions or a subscription to the Company s online database combined with customized services. Historically, the Company had determined there was not objective and reliable evidence of fair value for any of its 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, the Company recognizes the entire arrangement fee over the performance period of the last deliverable. As a result, the total arrangement fee is recognized on a straight-line basis over the period beginning with the commencement of the last element delivered.

Effective January 1, 2011, the Company adopted the provisions of the 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. In addition, this guidance eliminated the use of the residual method for allocating arrangement consideration. This guidance is applicable to the Company 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 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.

The impact of adopting this new revenue recognition guidance in the first half of 2011 is that the Company recognized approximately \$2.2 million in revenue and profit before tax that otherwise would have been recognized in future periods under the previous revenue recognition guidance. Based on the amounts involved, the timing of when this revenue would have been recognized under the previous revenue recognition rules, and the current backlog of arrangements, the Company believes the adoption of this accounting guidance will not have a material impact on the Company s financial statements for the year ended December 31, 2011. ESP will be analyzed on an annual basis or 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.

On July 1, 2010, the Company completed its 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. 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*, typically using the completed-contract method. Prior to March 31, 2011, the Company 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, the Company accrues for costs immediately. During the quarter ended June 30, 2011 the Company established VSOE of fair value for post contract support (PCS) services for a group of certain Nexius customers. The establishment of VSOE of fair value followed an alignment of the Company s pricing practices for these services. As a result of establishing VSOE, the Company, for the three months ended June 30, 2011, recorded revenue and related costs of revenue of \$1.2 million and \$0.6 million, respectively, of which \$0.9 million and \$0.3 million, respectively, had been previously deferred.

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 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 the Company s common stock on the date of grant. The determination of the fair value of the Company s stock option awards and restricted stock 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, adjusted for 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 realizability of its deferred tax assets primarily based on projections of future taxable income (exclusive of reversing temporary differences and carryforwards). In evaluating such projections, the Company considers its history of profitability, the competitive environment, the overall outlook for the online marketing industry and general economic conditions. In addition, the Company considers the timeframe over which it would take to utilize the deferred tax assets prior to their expiration.

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

Earnings Per Share

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
	(In thousands, except share and per share data)			
Net (loss) income	$ (8,229)	$ 825	$ (8,563)	$ 1,054
Weighted-average shares outstanding-common stock, basic	31,832,105	30,965,800	31,744,988	30,817,853
Dilutive effect of:				
Options to purchase common stock		726,798		757,023