COMSCORE, INC.
Form 10-Q/A
May 13, 2013
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A
Amendment No. 1

(Mark One)

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

For the quarterly period ended March 31, 2013

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) 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 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 May 2, 2013, there were 35,698,194 shares of the registrant’s common stock outstanding.

EXPLANATORY NOTE

The purpose of this Amendment No. 1 (this "Amendment") to Quarterly Report of Form 10-Q for comScore, Inc. (the "Company") for the period ended March 31, 2013 originally filed with the Securities and Exchange Commission on May 3, 2013, (the "Original Filing") is to file the correct versions of Exhibit 31.1: Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act and Exhibit 31.2: Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act and furnish correct versions of Exhibit 32.1: Certification of the Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act and Exhibit 32.2: Certification of the Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act (collectively, the "Certifications"). The Certifications were included in Item 6 of the Original Form 10-Q, but they inadvertently referenced the Company's Annual Report on Form 10-K rather than the Original Filing due to a clerical error. The Certifications were otherwise prepared timely and accurately and were appropriately reviewed and signed prior to the Original Filing but for the aforementioned clerical error.

Except as described above, no other changes have been made to the Original Filing. Except as otherwise indicated herein, the Amendment continues to speak as of the date of the Original Filing, and the Company has not updated the disclosures contained therein to reflect any events that occurred subsequent to the date of the Original Filing.

Table of Contents

COMSCORE, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2013
TABLE OF CONTENTS

Table of Contents

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, 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,” “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.

Table of Contents

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

	March 31, 2013 (Unaudited)	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$73,738	$61,764
Accounts receivable, net of allowances of $1,434 and $1,117, respectively	65,831	68,348
Prepaid expenses and other current assets	8,466	8,877
Deferred tax assets	10,045	9,940
Total current assets	158,080	148,929
Property and equipment, net	31,934	31,418
Other non-current assets	643	414
Long-term deferred tax assets	9,915	12,065
Intangible assets, net	38,033	40,759
Goodwill	101,963	102,900
Total assets	$340,568	$336,485
Liabilities and Equity		
Current liabilities:		
Borrowings under revolving credit facility	$3,846	$—
Accounts payable	3,290	7,229
Accrued expenses	20,990	24,409
Deferred revenues	85,489	80,824
Deferred rent	913	807
Deferred tax liabilities	—	17
Capital lease obligations	7,914	8,020
Total current liabilities	122,442	121,306
Deferred rent, long-term	11,148	10,096
Deferred revenue, long-term	1,294	1,715
Deferred tax liabilities, long-term	—	130
Capital lease obligations, long-term	7,186	6,478
Other long-term liabilities	1,130	1,117
Total liabilities	143,200	140,842
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.001 par value per share; 5,000,000 shares authorized at March 31, 2013 and December 31, 2012; no shares issued or outstanding at March 31, 2013 and December 31, 2012	—	—
Common stock, $0.001 par value per share; 100,000,000 shares authorized at March 31, 2013 and December 31, 2012; 35,666,885 and 35,679,430 shares issued and outstanding at March 31, 2013 and December 31, 2012, respectively	36	36
Additional paid-in capital	279,190	274,622
Accumulated other comprehensive income	1,005	1,825
Accumulated deficit	(82,863)	(80,840)
Total stockholders' equity	197,368	195,643

Total liabilities and stockholders’ equity	$340,568	$336,485

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

Table of Contents

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

	Three months ended March 31, 2013	2012
Revenues	$68,848	$62,275
Cost of revenues (excludes amortization of intangible assets) (1)	22,554	20,401
Selling and marketing (1)	24,458	21,345
Research and development (1)	10,223	8,036
General and administrative (1)	9,012	9,106
Amortization of intangible assets	2,151	2,320
Gain on asset disposition	(210)	—
Total expenses from operations	68,188	61,208
Income from operations	660	1,067
Interest and other (expense), net	(164)	(198)
Loss from foreign currency	(340)	(263)
Income before income tax provision	156	606
Income tax provision	(2,179)	(1,077)
Net loss	$(2,023)	$(471)
Net loss available to common stockholders per common share:		
Basic	$(0.06)	$(0.01)
Diluted	$(0.06)	$(0.01)
Weighted-average number of shares used in per share calculation - common stock:		
Basic	34,113,786	32,889,119
Diluted	34,113,786	32,889,119
Comprehensive (loss) income:		
Net loss	$(2,023)	$(471)
Other comprehensive (loss) income:		
Foreign currency translation adjustment	(820)	1,619
Total comprehensive (loss) income	$(2,843)	$1,148

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

Cost of revenues	$716	$551
Selling and marketing	$2,813	$2,183
Research and development	$614	$405
General and administrative	$856	$1,951

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

Table of Contents

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	Total Stockholders' Equity
	Shares	Amount				
Balance at December 31, 2011	34,015,434	$34	$258,967	$ 617	$(69,051)	$190,567
Net loss	—	—	—	—	(471)	(471)
Foreign currency translation adjustment	—	—	—	1,619	—	1,619
Exercise of common stock options	27,581	—	69	—	—	69
Issuance of restricted stock	1,431,367	1	(1)	—	—	—
Restricted stock cancelled	(10,475)	—	—	—	—	—
Restricted stock units vested	93,613	—	—	—	—	—
Common stock received for tax withholding	(236,813)	—	(5,413)	—	—	(5,413)
Stock based compensation	—	—	9,400	—	—	9,400
Excess tax benefits from stock based compensation, net	—	—	(51)	—	—	(51)
Balance at March 31, 2012	35,320,707	$35	$262,971	$ 2,236	$(69,522)	$195,720
Balance at December 31, 2012	35,679,430	$36	$274,622	$ 1,825	$(80,840)	$195,643
Net loss	—	—	—	—	(2,023)	(2,023)
Foreign currency translation adjustment	—	—	—	(820)	—	(820)
Exercise of common stock options	5,748	—	38	—	—	38
Issuance of restricted stock	395,475	—	—	—	—	—
Restricted stock cancelled	(152,826)	—	—	—	—	—
Restricted stock units vested	147,602	—	—	—	—	—
Common stock received for tax withholding	(408,544)	—	(6,682)	—	—	(6,682)
Stock based compensation	—	—	11,212	—	—	11,212
Balance at March 31, 2013	35,666,885	$36	$279,190	$ 1,005	$(82,863)	$197,368

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

Table of Contents

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

	Three months ended March 31,	
	2013	2012
Operating activities		
Net loss	$(2,023)	$(471)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	4,111	3,420
Amortization of intangible assets	2,151	2,320
Provision for bad debts	400	221
Stock-based compensation	4,999	5,090
Amortization of deferred rent	226	36
Deferred tax provision	1,788	933
(Gain) Loss on asset disposal	(210)	31
Changes in operating assets and liabilities:		
Accounts receivable	1,907	(1,389)
Prepaid expenses and other current assets	16	(523)
Accounts payable, accrued expenses, and other liabilities	(1,422)	(5,088)
Deferred revenues	5,525	6,754
Deferred rent	952	—
Net cash provided by operating activities	18,420	11,334
Investing activities		
Proceeds from asset disposition	160	—
Purchase of property and equipment	(1,555)	(607)
Net cash used in investing activities	(1,395)	(607)
Financing activities		
Proceeds from the exercise of common stock options	39	69
Repurchase of common stock	(6,682)	(5,413)
Principal payments on capital lease obligations	(2,211)	(1,618)
Proceeds from financing arrangements	3,964	—
Net cash used in financing activities	(4,890)	(6,962)
Effect of exchange rate changes on cash	(161)	575
Net increase in cash and cash equivalents	11,974	4,340
Cash and cash equivalents at beginning of period	61,764	38,071
Cash and cash equivalents at end of period	$73,738	$42,411
Supplemental cash flow disclosures		
Interest paid	$217	$213
Income taxes paid	$135	$298
Supplemental noncash investing and financing activities		
Capital lease obligations incurred	$2,876	$913
Accrued capital expenditures	$1,054	$—
Leasehold improvements acquired through lease incentives	$950	$—

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

7

Table of Contents

COMSCORE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization

comScore, Inc. (the "Company"), a Delaware corporation incorporated in August 1999, provides on-demand digital analytics that enable customers to make well-informed business decisions and implement more effective digital business strategies. More specifically, the Company is an Internet technology company that measures what people do as they navigate the digital world and analyzes that information to provide insights and recommended actions for the Company's customers to maximize the value of their digital investments. The Company's products offer customers deep 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 provides its products through a scalable, Software-as-a-Service, SaaS, delivery model, which eliminates the need for customers to install and maintain hardware and software in order to use the Company's products.

The Company's digital marketing intelligence platform is comprised of proprietary databases and a computational infrastructure that measures, analyzes and reports on digital activity worldwide. 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 census information obtained from the Company's tagged network of global websites, referred to as the comScore Census Network. This panel information is complemented by a Unified Digital Measurement approach to digital audience measurement. Unified Digital Measurement blends panel and census methodologies into a product that provides a direct linkage and reconciliation between census 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. In addition to the Company's comScore Census Network products, the Company provides software and other products to the large mobile networks that deliver network analysis focused on the experience of wireless subscribers, as well as network intelligence with respect to performance, capacity and configuration analytics. The Company also provides digital and monetization analytics and innovative video measurement products.

2. Summary of Significant Accounting Policies

Basis of Presentation and Consolidation

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

Unaudited Interim Financial Information

The consolidated 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, 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, 2012, filed February 20, 2013 with the SEC. The results of operations for the three months ended March 31, 2013 are not necessarily indicative of the results to be anticipated for the entire year ending December 31, 2013 or thereafter. All references to March 31, 2013 and 2012 or to the three months ended March 31, 2013 and 2012 in the notes to the consolidated interim financial statements are unaudited.

Table of Contents

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, recoverability of intangible assets, other long-lived assets and goodwill, estimates related to outstanding litigation, and the determination of the allowance for doubtful accounts. The Company bases its estimates on historical experience and assumptions that it believes are reasonable. Actual results could differ from those estimates.

Fair Value Measurements

The Company evaluates the fair value of certain assets and liabilities using the fair value hierarchy. Fair value is 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 a non-recurring 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 three months ended March 31, 2013 and 2012, there were no impairments and as such, no fair value adjustments were recorded for assets and liabilities measured at fair value.

During the three months ended March 31, 2013, certain intangible assets were measured at fair value using significant unobservable inputs (Level 3) as described in Note 3 and as detailed below:

		Fair Value Measurements Using			
	March 31, 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	$—

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.

Interest income on investments and excess cash balances was a nominal amount for the three months ended March 31, 2013 and 2012.

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

Table of Contents

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 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 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 2012 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, 2012 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	3 to 12
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. There were no impairment charges recognized during the three months ended March 31, 2013 or 2012.

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 losses of $0.3 million for the three months ended March 31, 2013 and 2012. 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 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.

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.

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.

For these types of arrangements, the Company uses 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.

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.

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 Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 985-605, Software Recognition, and ASC 605-35, Revenue Recognition-Construction-Type and Certain Production-Type Contracts, using either percentage-of-completion or the 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 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 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 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. During the three months ended March 31, 2013 the Company recognized $0.3 million in revenue related to nonmonetary transactions. 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 months ended March 31, 2013, the Company recognized $0.4 million in expense related to nonmonetary transactions.

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 and future expectations. The forfeiture estimate is revised as necessary if actual forfeitures differ from these estimates.

Table of Contents

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 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 following table provides a reconciliation of the numerators and denominators used in computing basic and diluted net loss per common share:

	Three Months Ended March 31,	
	2013	2012
	(In thousands, except share and per share data)	
Net income (loss)	$(2,023)	$(471)
Net income (loss) per share - common stock:		
Basic	$(0.06)	$(0.01)
Diluted	$(0.06)	$(0.01)
Weighted-average shares outstanding-common stock, basic and dilutive	34,113,786	32,889,119

Table of Contents

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

	Three Months Ended March 31,	
	2013	2012
Stock options and restricted stock	1,486,370	1,243,189
Common stock warrants	—	12,006

Recent Pronouncements

In February 2013, FASB issued Accounting standards update 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income. This update requires an entity to provide information about the amount reclassified out of accumulated other comprehensive income by component. The entity is also required to disclose significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting periods. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other discourses required under U.S. GAAP that provide additional detail about those amounts. The objective in this update is to improve the reporting of reclassifications out of accumulated other comprehensive income. The amendments in this update should be applied prospectively for reporting periods beginning after December 15, 2012. This standard did not have a material impact on the Company's financial statements.

In February 2013, FASB issued Accounting Standards Update 2013-04, Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date (a consensus of the FASB Emerging Issues Task Force). This guidance requires an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date. This stipulates that (1) it will include the amount the entity agreed to pay for the arrangement between them and the other entities that are also obligated to the liability and (2) any additional amount the entity expects to pay on behalf of the other entities. The objective of this update is to provide guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements. The amendments in this update are effective for fiscal periods (and interim reporting periods within those years) beginning after December 15, 2013. This standard is not expected to have a material impact on the Company's financial statements.

3. Asset Disposition

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").

In connection with the disposition, the Company will receive total proceeds of $1.0 million in cash, with $0.25 million received at closing on March 18, 2013, net of advisory fees, and $0.75 million placed in escrow, which will be received in three equal quarterly payments beginning June 30, 2013 and ending on December 31, 2013. In addition, the Company entered into a license agreement in which it will retain the right to use the necessary intellectual property to continue to provide the ARS Copy-Testing and Equity Tracking services to its Health related customers and recorded an intangible asset of $1.2 million based on the estimated fair value of the l