PROCTER & GAMBLE CO
Form 424B5
December 10, 2003
Table of Contents

PROSPECTUS SUPPLEMENT

Filed Pursuant to Rule 424(b)(5)
Registration No. 333-84232

(to prospectus dated March 25, 2002)

$150,000,000

The Procter & Gamble Company

4.850% Notes due 2015

We will pay interest on the notes on June 15 and December 15 of each year. The first interest payment date is June 15, 2004. The notes will mature on December 15, 2015. We have the right to redeem all or a portion of the notes at any time at the redemption price described in this prospectus supplement.

The notes will be unsecured obligations and rank equally with our unsecured senior indebtedness. The notes will be issued only in registered form in denominations of $1,000.

The notes offered hereby will have the same terms as our outstanding $550 million aggregate principal amount of 4.850% notes due 2015 issued on November 25, 2003. The notes offered hereby and our outstanding 4.850% notes due 2015 will trade as a single class of freely tradeable notes and will form a single series and class for all purposes under the indenture.

	Per Note	Total
Public offering price (1)	98.927%	$148,390,500
Underwriting discount	.475%	$712,500
Proceeds, before expenses, to Procter & Gamble	98.452%	$147,678,000

(1) Plus accrued interest from November 25, 2003

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The notes will be ready for delivery in book-entry form only through The Depository Trust Company on or about December 11, 2003.

Goldman, Sachs & Co. **JPMorgan** **Merrill Lynch & Co.**

ABN AMRO Incorporated **Deutsche Bank Securities**

The date of this prospectus supplement is December 8, 2003.

TABLE OF CONTENTS

Prospectus Supplement

	Page
About this Prospectus Supplement	S-4
The Company	S-5
Recent Developments	S-5
Summary Consolidated Financial Information	S-7
Management s Discussion and Analysis of Financial Condition and Results of Operations	S-8
Consolidated Ratio of Earnings to Fixed Charges	S-12
Capitalization	S-13
Description of the Notes	S-14
United States Tax Considerations	S-22
Underwriting	S-28
Validity of the Notes	S-31
Available Information	S-31
Incorporation of Documents by Reference	S-31

Prospectus

	Page
The Company	3
Summary Consolidated Financial Information	5
Forward Looking Statements	9
Use of Proceeds	10
Description of Debt Securities	11
Description of Warrants	19
Plan of Distribution	23
Legal Opinions	24
Experts	25
Where You Can Find More Information	25

Table of Contents

ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement contains the terms of this offering of notes. This prospectus supplement, or the information incorporated by reference in this prospectus supplement, may add to, update or change the information in the accompanying prospectus. If information in this prospectus supplement, or the information incorporated by reference in this prospectus supplement, is inconsistent with the accompanying prospectus, this prospectus supplement, or the information incorporated by reference in this prospectus supplement, will apply and will supersede that information in the accompanying prospectus.

It is important for you to read and consider all information contained in this prospectus supplement and the accompanying prospectus in making your investment decision. You should also read and consider the information in the documents we have referred you to in Incorporation of Documents By Reference in this prospectus supplement.

No person is authorized to give any information or to make any representations other than those contained or incorporated by reference in this prospectus supplement or the accompanying prospectus and, if given or made, such information or representations must not be relied upon as having been authorized. This prospectus supplement and the accompanying prospectus do not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities described in this prospectus supplement or an offer to sell or the solicitation of an offer to buy such securities in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this prospectus supplement or the accompanying prospectus, nor any sale made hereunder or thereunder shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this prospectus supplement or the accompanying prospectus, or that the information contained or incorporated by reference herein or therein is correct as of any time subsequent to the date of such information.

The distribution of this prospectus supplement and the accompanying prospectus and the offering of the notes in certain jurisdictions may be restricted by law. This prospectus supplement and the accompanying prospectus do not constitute an offer, or an invitation on our behalf or on behalf of the underwriters or any of them, to subscribe to or purchase, any of the notes, and may not be used for or in connection with an offer or solicitation by anyone, in any jurisdiction in which such an offer or solicitation is not authorized or to any person to whom it is unlawful to make such an offer or solicitation. See Underwriting.

Unless otherwise specified, all references in this prospectus supplement to: (a) Procter & Gamble, we, us, and our are to The Procter & Gamble Company and its subsidiaries; (b) fiscal followed by a specific year are to our fiscal year ended or ending June 30 of that year; and (c) U.S. dollars, dollars, U.S. $ or $ are to the currency of the United States of America.

S-4

Table of Contents

THE COMPANY

The Procter & Gamble Company was incorporated in Ohio in 1905, having been built from a business founded in 1837 by William Procter and James Gamble. Today, the Company manufactures and markets a broad range of consumer products in many countries throughout the world. Our principal executive offices are located at One Procter & Gamble Plaza, Cincinnati, Ohio 45202, and our telephone number is (513) 983-1100.

Our business is organized into five product-based, reportable segments called Global Business Units (GBUs). These units are: Fabric and Home Care; Baby and Family Care; Beauty Care; Health Care; and Snacks and Beverages.

- Fabric and Home Care includes laundry detergents, dish care, fabric enhancers and surface cleaners. Representative brands include Ariel, Tide, Dryel, Downy, Cascade, Dawn, Febreze and Swiffer.
- Baby and Family Care includes diapers, wipes, tissue and towels. Representative brands include Pampers, Luvs, Charmin and Bounty.
- Beauty Care includes hair care, hair colorants, skin care, cosmetics, fine fragrances, deodorants, tampons, pads and pantiliners. Representative brands include Pantene, Herbal Essences, Nice N Easy, Head & Shoulders, Olay, Zest, Cover Girl, Secret, Old Spice, Tampax, Always and Whisper.
- Snacks and Beverages includes coffee, snacks, commercial services and juice. Representative brands include Folgers, Millstone, Pringles and Sunny Delight.
- Health Care includes oral care, personal health care, pharmaceuticals and pet health and nutrition. Representative brands include Crest, Scope, Metamucil, Vicks, Actonel, Asacol, Iams and Eukanuba.

In the most recent fiscal year ended June 30, 2003, the Fabric and Home Care segment accounted for 29% of total sales and Beauty Care accounted for 28% of total sales. Baby and Family Care accounted for 23%, Health Care accounted for 13% and Snacks and Beverages accounted for 7% of total sales.

In the United States, as of June 30, 2003, the Company owned and operated 35 manufacturing facilities and leased and operated 2 manufacturing facilities. These facilities were located in 21 different states. In addition, the Company owned and operated 83 manufacturing facilities in 42 other countries. Many of the domestic and international facilities produced products for multiple business segments. Fabric and Home Care products were produced at 45 of these locations; Baby and Family Care products at 32; Health Care products at 25; Beauty Care products at 39; and Snacks and Beverages products at 11.

RECENT DEVELOPMENTS

In March, 2003, the Company entered into an agreement to acquire a controlling interest in Wella AG from the majority shareholders and, in June, 2003, the Company completed a tender offer for the remaining outstanding voting class shares and preference shares. On September 2, 2003, the Company completed the previously announced purchase of the shares of Wella AG held by the majority shareholders for 3.16 billion Euros (approximately $3.42 billion based on spot exchange rates on that date). On September 10, 2003, the Company purchased the shares secured through the tender offer for 1.49 billion Euros (approximately $1.67 billion based on spot exchange rates on that date). As a result of these purchases, the Company acquired approximately 81% of the outstanding Wella shares (99% of the voting class shares and 45% of the preference shares). The acquisition was financed by a mixture of available cash balances and debt. Wella AG is a leading beauty care company selling its products in more than 150 countries, focused on professional hair care, retail hair care and cosmetics and fragrances.

Table of Contents

On November 16, 2001, the Company completed the acquisition of the Clairol business from Bristol-Myers Squibb Company and, on May 31, 2002, the Company completed the spin-off of the Jif peanut butter and Crisco shortening brands to the Company s shareholders and their subsequent merger into the J.M. Smucker Company.

Table of Contents

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The following summary consolidated financial information for the quarters ended September 30, 2003 and September 30, 2002 has been derived from our unaudited consolidated financial statements contained in our Quarterly Report to Shareholders on Form 10-Q for the quarter ended September 30, 2003. The summary consolidated financial information for the fiscal year ended June 30, 2003 has been derived from our audited consolidated financial statements contained in our Annual Report on Form 10-K for the fiscal year ended June 30, 2003. We believe that all adjustments necessary for the fair presentation thereof have been made to the unaudited financial data. The results for the interim period ended September 30, 2003 are not necessarily indicative of the results for the full fiscal year.

	Three Months Ended September 30	
	2003	2002
	(Amounts in Millions Except Per Share Amounts)	
NET SALES	$ 12,195	$ 10,796
Cost of products sold	5,879	5,489
Marketing, research, administrative and other expenses	3,673	3,128
OPERATING INCOME	2,643	2,179
Interest expense	141	144
Other non-operating income, net	40	103
EARNINGS BEFORE INCOME TAXES	2,542	2,138
Income taxes	781	674
NET EARNINGS	$ 1,761	$ 1,464
PER COMMON SHARE:		
Basic net earnings	$ 1.33	$ 1.10
Diluted net earnings	$ 1.26	$ 1.04
Dividends	$ 0.46	$ 0.41
AVERAGE COMMON SHARES OUTSTANDING DILUTED	1,398.9	1,407.3

	As of September 30, 2003	As of June 30, 2003
	(Amounts in Millions)	
WORKING CAPITAL	$ (1,139)	$ 2,862
TOTAL ASSETS	$ 50,496	$ 43,706
LONG-TERM DEBT	$ 11,993	$ 11,475
SHAREHOLDERS EQUITY	$ 17,371	$ 16,186

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

For the quarter ended September 30, 2003, we had double-digit volume, sales and earnings growth despite strong base period comparisons and heavy competitive activity in certain of our core categories. Going forward, business and market uncertainties could affect results. For a discussion of key factors that could impact and must be managed by us, please refer to the Management s Discussion and Analysis section in our Annual Report on Form 10-K for the fiscal year ended June 30, 2003.

Unit volume increased 12 percent, with all business segments and all geographic regions reporting unit volume growth. Double-digit increases in Health Care, Beauty Care and developing regions helped drive the volume growth. Excluding acquisitions and divestitures, primarily the recently completed acquisition of Wella AG, unit volume increased nine percent.

Net sales increased 13 percent to $12.20 billion. Foreign exchange had a positive impact of three percent, partially offset by mix of one percent and pricing investments of one percent. The foreign exchange impact reflects the strengthening of the Euro, Canadian Dollar and British Pound partially offset by weakening of the Venezuelan Bolivar and the Mexican Peso. Mix was driven, in part, by higher than expected growth in developing markets, including strong growth in China, and the continued portfolio expansion into mid-tier brands. Pricing investments were directed toward activities to drive top line growth in multiple businesses and to respond to competitive activity on Crest Whitestrips and continued high competitive promotion levels in the bath tissue and kitchen towel categories.

We reported net earnings of $1.76 billion, an increase of 20 percent versus the prior year quarter. Earnings growth was primarily driven by volume impacts, the completion of the prior year restructuring program, which had $113 million of after-tax charges in the base period, and lower manufacturing costs, despite inclusion of ongoing costs for restructuring-type activities to maintain a competitive cost structure. These improvements were partially offset by marketing investments to support base business and new product growth.

Net earnings per share were $1.26, an increase of 21 percent. Net earnings in the prior year quarter were $1.46 billion or $1.04 per share. Wella did not have a significant impact on net earnings.

Gross margin was 51.8 percent for the quarter compared to 49.2 percent for the same quarter of the prior year, an increase of 260 basis points. The increase in gross margin was primarily driven by lower cost of products sold due to the scale effect of volume, the reduction of before-tax charges related to the completed restructuring program of $88 million in the prior year quarter and material cost savings, which more than offset certain commodity price increases. Other base business and restructuring savings in the quarter more than offset the pricing investments discussed previously.

Marketing, Research, Administration and Other Costs (MRA&O) for the quarter increased to 30.1 percent versus 29.0 percent in the prior year quarter. The increase was driven by marketing spending and the impact of the Wella acquisition, which more than offset the reduction in prior year restructuring program charges. Marketing investments were made to drive growth on the base business and in support of initiatives such as Crest Whitestrips and Night Effects, Olay Regenerist, Swiffer and Prilosec OTC. The addition of Wella contributed approximately one third of the basis point increase due to higher MRA&O spending as a percent of sales and initial post-acquisition costs.

Operating margin increased 150 basis points to 21.7 percent for the quarter, compared to 20.2 percent in the same quarter year ago. The improvement was driven by the reduction in prior year restructuring program charges and lower cost of products sold, partially offset by the impact of higher MRA&O spending discussed in the previous paragraph.

Table of Contents

We entered into several multi-year service contracts for services estimated at $3.6 billion. The biggest of these went into effect during the quarter ended September 30, 2003, while the remainder will go into effect in future periods.

The following provides supplemental information on the underlying drivers of net sales changes:

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES
JULY-SEPTEMBER NET SALES INFORMATION

(Percent Change vs. Year Ago)**

	Volume	Vol Ex: Acquisitions & Divestitures	FX	Price	Mix/Other	Total Impact	Total Ex-FX
FABRIC AND HOME CARE	8%	8%	3%	-1%	-2%	8%	5%
BABY AND FAMILY CARE	6%	6%	3%	-1%	-1%	7%	4%
BEAUTY CARE	21%	8%	3%	-1%	-3%	20%	17%
SNACKS AND BEVERAGES	3%	3%	3%	1%	2%	9%	6%
HEALTH CARE	23%	23%	3%	-2%	-1%	23%	20%
TOTAL COMPANY	12%	9%	3%	-1%	-1%	13%	10%

** These sales percentage changes are approximations based on quantitative formulas that are consistently applied.

Fabric and Home Care

Fabric & Home Care volume was up eight percent behind strong growth in global fabric care led by the developing regions and double-digit growth in global home care, with the continued success of the Swiffer WetJet and Duster, Dawn Power Dissolver and Dawn Complete and Febreze Anti-Allergen initiatives. Net sales increased eight percent to $3.39 billion. A three percent positive foreign exchange impact was offset by pricing and mix effects. Pricing reflects the continuation of pricing investments taken on select fabric care segments in North America, markets in Western Europe and on the Swiffer brand. Mix reduced sales by two percent driven by double-digit growth in developing geographies, including the expansion of Tide in China, and the expansion of mid-tier brands, including the growth of Bold in Japan. Net earnings increased to $562 million, or three percent versus a strong base period of 22 percent growth. Earnings were impacted by mix effects and increased marketing spending to support product initiatives. Fabric & Home Care earnings growth is expected to improve over the remainder of the fiscal year.

Baby and Family Care

Baby and Family Care unit volume increased six percent. Baby care volume growth was primarily driven by continued momentum in the Baby Stages of Development line in Western Europe and North America, growth in Japan and the broadening of the diaper product line in Latin America. Net sales grew seven percent to $2.61 billion, including a positive foreign exchange impact of three percent, partially offset by pricing investments of one percent and mix of one percent. Pricing was driven by continued high competitive promotional activity in North America family care. Earnings increased 22 percent to $295 million, due to strong volume growth and lower costs including the scale effects of volume.

Beauty Care

Beauty Care volume increased 21 percent, including the benefit from acquisitions and divestitures, primarily Wella. Excluding acquisitions and divestitures, Beauty Care volume increased eight percent despite heavy competitive activity in North America. Net sales increased 20 percent to $3.75 billion, including a positive foreign exchange impact of three percent. Negative mix of three percent was driven by the impact of Wella and developing market growth. The solid base business results were driven by continued global strength of the Pantene, Head & Shoulders, Always/Whisper and Olay brands. Net earnings for Beauty Care increased 12 percent to $616 million driven by volume growth and lower manufacturing costs, partially offset by increased marketing spending to defend against competitive entries in the hair care and skin care categories. Marketing spending also increased to support initiatives, including Pantene Daily Moisture Renewal in Japan, the expansion of Olay Regenerist and continued support of Tampax Pearl.

Snacks and Beverages

Snacks & Beverages volume was up three percent reflecting growth in the Pringles and Folgers brands, partially offset by volume declines in the juice category. Net sales were $896 million, an increase of nine percent, reflecting the benefits of a three percent impact from foreign exchange and three percent from price and mix impacts. Positive pricing includes a partial pass-through of higher commodity costs. For the balance of the fiscal year, the Company expects pricing will have a neutral or slightly negative impact on sales based on the aggressive pricing environment of the coffee category. Net earnings increased 20 percent to $109 million behind volume and sales growth and margin expansion due to base business savings.

Health Care

Health Care delivered volume growth of 23 percent driven by the Prilosec OTC launch in September, the continued success of Actonel, Crest Whitestrips and Night Effects tooth whitening products and base business strength. Net sales increased 23 percent to $1.73 billion, as a positive three percent foreign exchange impact was offset by mix and pricing, primarily the actions on Crest Whitestrips taken in November 2002. Although Prilosec OTC was an important contributor to the quarter results, even without the launch, Health Care delivered double-digit volume, sales and earnings growth. Net earnings increased 41 percent to $276 million as strong volume, sales and lower product costs funded marketing investments behind base business growth and new product introductions. While double-digit top line growth is expected for the fiscal year, results in the remaining quarters are expected to return to consumption levels following the one-time pipeline impact from Prilosec OTC. Additionally, although Prilosec OTC volume was particularly strong with the launch, associated marketing expenses will continue throughout the year.

Corporate

Corporate includes certain operating and non-operating activities, as well as eliminations to adjust management reporting principles to United States Generally Accepted Accounting Principles (U.S. GAAP). Current quarter results primarily reflect lower restructuring program charges partially offset by one-time items in the prior year quarter, including the impact of the Vicks divestiture.

Financial Condition

For the three months ended September 30, 2003, cash generated from operating activities totaled $1.61 billion compared to $2.01 billion in the comparable prior year period. The decrease in cash from operations is due to increases in working capital, as well as base period impacts due to dividends received from a joint venture. Accounts receivable grew slightly ahead of sales since June 30, 2003. The year-over-year accounts receivable increase of $0.3 billion is attributed to sales growth, particularly the timing of the Prilosec OTC launch in September, offset to some extent by an underlying improvement in days sales outstanding. These trends follow a two-day improvement in receivables days outstanding in the prior year period. Inventory increased primarily due to initiative- related activity, shipment trends and capacity utilization planning. The slight increase in inventory days on hand (approximately two days, excluding inventory acquired from Wella) compares to a seven day decrease in the prior year period.

Table of Contents

Investing activities used $5.30 billion of cash year-to-date compared to $0.20 billion used in the prior year period. The acquisition of Wella is the key driver accounting for approximately $5.10 billion. Our acquisition of Wella is discussed in Note 4 of the financial statements. There was no acquisition activity in the comparable prior year period. Capital spending increased to $364 million in the current year versus $281 million in the comparable prior year period. Capital spending as a percent of net sales was three percent, one percentage point below target.

Financing activities provided $1.96 billion in cash for the current fiscal year versus using $0.52 billion in the comparable prior year period. This generated a net cash increase of $2.48 billion driven primarily by short-term debt to support the Wella acquisition, partially offset by a decrease in long-term debt.

Restructuring Program Update

In 1999, concurrent with a reorganization of its operations into product-based global business units, we initiated a multi-year restructuring program. This program was substantially complete at the end of 2003. At June 30, 2003, there was a reserve liability balance remaining of $335 million for the program. This liability is expected to be settled by the end of 2004 through cash payments primarily for separation.

We continue to undertake projects to maintain a competitive cost structure, including manufacturing consolidations and work force rationalization, as part of our normal operations.

Table of Contents

CONSOLIDATED RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth our consolidated ratio of earnings to fixed charges for the periods indicated.

	Three Months Ended September 30	
	2003	2002
Ratio of earnings to fixed charges(1)	16.3x	14.7x

(1) Earnings used to compute this ratio are earnings before income taxes and before fixed charges (excluding interest capitalized during the period) and after deducting undistributed earnings of equity method investees. Fixed charges consist of interest, whether expensed or capitalized, amortization of debt discount and expense, and one-third of all rent expense (considered representation of the interest factor).

Table of Contents

CAPITALIZATION

The following table sets forth the consolidated capitalization of Procter & Gamble and its subsidiaries at September 30, 2003.

	September 30, 2003 (in millions of dollars except per share amounts)
Debt:	
Commercial paper and other borrowing due within one year (1)	$ 5,286
Long-Term Borrowings	11,993
Total Debt (2)(3)	17,279
Shareholders Equity:	
Convertible Class A preferred stock, stated value $1 per share; 600,000,000 shares authorized, 1,567.2 outstanding	1,567
Non-Voting Class B preferred stock, stated value $1 per share; 200,000,000 shares authorized, none outstanding	
Common Stock, stated value $1 per share; 5,000,000,000 shares authorized, 1,296.7 outstanding	1,297
Additional Paid-In Capital	3,070
Reserve for Employee Stock Ownership Plan debt retirement	(1,293)
Accumulated other comprehensive income	(1,830)
Retained earnings	14,560
Total Shareholders Equity	17,371
Total capitalization	$ 34,650

(1) Includes $318 million equivalent to current portion of long-term debt due within one year.

(2) Total debt includes $15.8 billion of The Procter & Gamble Company debt. The balance of debt is held by subsidiaries.

(3) On November 25, 2003, The Procter & Gamble Company issued $650,000,000 aggregate principal amount of notes due 2008 and $550,000,000 aggregate principal amount of notes due 2018. On December 4, 2003, the Procter & Gamble Company issued $30,000,000 in aggregate principal amount of floating rate notes due December 4, 2053. As of December 2, 2003, our credit facilities in support of our short term commercial paper borrowings were reduced from $4.0 billion to $2.77 billion (none of which had been utilized as of December 8, 2003).

Table of Contents

DESCRIPTION OF THE NOTES

The following descriptions of the particular terms of the notes supplements the more general description of the debt securities contained in the accompanying prospectus. If there are any inconsistencies between the information in this section and the information in the prospectus, the information in this section controls.

Investors should read this section together with the section entitled Description of Debt Securities in the accompanying prospectus. Any capitalized terms that are defined in the prospectus have the same meanings in this section unless a different definition appears in this section. We qualify the description of the notes by reference to the indenture as described below.

General

The notes:

- will be in an aggregate principal amount of $150,000,000, subject to our ability to issue additional notes which may be of the same series as the notes as described under Further Issues,
- will mature on December 15, 2015,
- will bear interest at a rate of 4.850%,
- will be senior debt of Procter & Gamble, ranking equally with all other present and future unsecured and unsubordinated indebtedness of Procter & Gamble,
- will be issued as a separate series under the indenture between Procter & Gamble and J.P. Morgan Trust Company, National Association, successor in interest to Bank One Trust Company, National Association, dated as of September 28, 1992, in registered, book-entry form only,
- will be issued in U.S. dollars in denominations of $1,000 and integral multiples of $1,000,
- will be repaid at par at maturity,
- will be redeemable by us at any time prior to maturity as described below under Optional Redemption,
- will be subject to defeasance and covenant defeasance, and

will not be subject to any sinking fund.

On November 25, 2003, we issued $550 million aggregate principal amount of our 4.850% notes due 2015, which we refer to sometimes in this Prospectus as the November notes. The notes offered hereby and our outstanding November notes will have the same terms, will trade as a single class of freely tradeable notes and will form a single series and class for all purposes under the indenture. The total aggregate principal amount outstanding of our 4.850% notes due 2015 will be $700 million.

The indenture and the notes do not limit the amount of indebtedness which may be incurred or the amount of securities which may be issued by us or our subsidiaries, and contain no financial or similar restrictions on us or our subsidiaries, except as described in the prospectus under the caption Description of Debt Securities Restrictive Covenants.

Interest

Interest on the notes will accrue from and include November 25, 2003 or from and include the most recent interest payment date to which interest has been paid or provided for. We will make interest payments semiannually on June 15 and December 15 of each year, with the first interest payment being made on June 15, 2004. We will make interest payments to the person in whose name the notes are registered at the close of business on June 1 or December 1, as applicable, before the next interest payment date.

Table of Contents

If the interest payment date is not a Business Day at the relevant place of payment, payment of interest will be made on the next day that is a Business Day at such place of payment. Business Day means any day that is not a Saturday or Sunday and that is not a day on which banking institutions are generally authorized or obligated by law to close in The City of New York and, for any place of payment outside of The City of New York, in such place of payment.

Interest on the notes will be computed on the basis of a 360-day year of twelve 30-day months.

Optional Redemption

We will have the option to redeem the notes of this series (including both the notes offered hereby and the November notes), in whole or in part, at our option at any time, at a redemption price equal to the greater of (1) 100% of the principal amount of the notes to be redeemed, plus accrued interest on the notes to be redeemed to the date on which the notes are to redeemed, or (2) as determined by a reference treasury dealer that we select, the sum of the present values of the remaining scheduled payments of principal and interest on the notes to be redeemed, not including any portion of these payments of interest accrued as of the date of which the notes are to be redeemed, discounted to the date on which the notes are to be redeemed on a semi-annual basis assuming a 360-day year consisting of twelve 30-day months, at the adjusted treasury rate plus 15 basis points for the notes, plus accrued interest on the notes to be redeemed to the date on which the notes are to be redeemed.

We will utilize the following procedures to calculate the adjusted treasury rate described in the previous paragraph. We will appoint Goldman, Sachs & Co., J.P. Morgan Securities Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated (and their successors) and other primary U.S. Government securities dealers in New York City as reference dealers, and we will appoint one of the reference dealers to be our quotation agent. If any of reference dealers is no longer a primary U.S. Government securities dealer, we will substitute another primary U.S. Government securities dealer in its place as a reference dealer.

The quotation agent will select a United States Treasury security which has a maturity comparable to the remaining maturity of the notes to be redeemed which would be used in accordance with customary financial practice to price new issues of corporate debt securities with a maturity comparable to the remaining maturity of the notes to be redeemed. The reference dealers will provide us and the trustee with the bid and asked prices for that comparable United States Treasury security as of 5:00 p.m. on the third business day before the redemption date. We will calculate the average of the bid and asked prices provided by each reference dealer, eliminate the highest and the lowest reference dealer quotations and then calculate the average of the remaining reference dealer quotations. However, if we obtain fewer than three reference dealer quotations, we will calculate the average of all the reference dealer quotations and not eliminate any quotations. We call this average quotation the comparable treasury price. The adjusted treasury rate will be the semi-annual equivalent yield to maturity of a security whose price, expressed as a percentage of its principal amount, is equal to the comparable treasury price.

Further Issues

We may from time to time, without notice to or the consent of the registered holders of the notes, create and issue further notes of this series ranking equally with the notes of this series (including both the notes offered hereby and the November notes) in all respects (or in all respects other than the payment of interest accruing prior to the issue date of such further notes or except for the first payment of interest following the issue date of such further notes). Such further notes may be consolidated and form a single series with the notes of this series and have the same terms as to status, redemption or otherwise as the notes of this series. Such further notes will have the same terms, will trade as a single class of freely tradeable notes and will form a single series and class for all purposes under the indenture as the notes offered hereby and the November notes.

Book-Entry System

We have obtained the information in this section concerning The Depository Trust Company (DTC), Clearstream Banking, societe anonyme in Luxembourg (Clearstream, Luxembourg) and Euroclear Bank S.A./

Table of Contents

N.V., as operator of the Euroclear System (Euroclear) and their book-entry systems and procedures from sources that we believe to be reliable, but we take no responsibility for the accuracy of this information. In addition, the description of the clearing systems in this section reflects our understanding of the rules and procedures of DTC, Clearstream, Luxembourg and Euroclear as they are currently in effect. Those systems could change their rules and procedures at any time.

The notes will initially be represented by one or more fully registered global notes. Each such global note will be deposited with, or on behalf of, DTC or any successor thereto and registered in the name of Cede & Co. (DTC s nominee). You may hold your interests in the global notes in the United States through DTC, or in Europe through Clearstream, Luxembourg or Euroclear, either as a participant in such systems or indirectly through organizations which are participants in such systems. Clearstream, Luxembourg and Euroclear will hold interests in the global notes on behalf of their respective participating organizations or customers through customers securities accounts in Clearstream, Luxembourg s or Euroclear s names on the books of their respective depositaries, which in turn will hold those positions in customers securities accounts in the depositaries names on the books of DTC. Citibank, N.A. will act as depositary for Clearstream, Luxembourg and JPMorgan Chase Bank will act as depositary for Euroclear.

So long as DTC or its nominee is the registered owner of the global securities representing the notes, DTC or such nominee will be considered the sole owner and holder of the notes for all purposes of the notes and the indenture. Except as provided below, owners of beneficial interests in the notes will not be entitled to have the notes registered in their names, will not receive or be entitled to receive physical delivery of the notes in definitive form and will not be considered the owners or holders of the notes under the indenture, including for purposes of receiving any reports delivered by us or the trustee pursuant to the indenture. Accordingly, each person owning a beneficial interest in a note must rely on the procedures of DTC or its nominee and, if such person is not a participant, on the procedures of the participant through which such person owns its interest, in order to exercise any rights of a holder of notes.

Unless and until we issue the notes in fully certificated, registered form under the limited circumstances described below under the heading Book-Entry System Certificated Notes :

- you will not be entitled to receive a certificate representing your interest in the notes;

- all references in this prospectus supplement or in the accompanying prospectus to actions by holders will refer to actions taken by DTC upon instructions from its direct participants; and

- all references in this prospectus supplement or the accompanying prospectus to payments and notices to holders will refer to payments and notices to DTC or Cede & Co., as the registered holder of the notes, for distribution to you in accordance with DTC procedures.

The Depository Trust Company

DTC will act as securities depositary for the notes. The notes will be issued as fully registered notes registered in the name of Cede & Co. DTC has advised us as follows: DTC is

- a limited-purpose trust company organized under the New York Banking Law;

a banking organization under the New York Banking Law;

a member of the Federal Reserve System;

a clearing corporation under the New York Uniform Commercial Code; and

a clearing agency registered under the provisions of Section 17A of the Securities Exchange Act of 1934.

DTC holds securities that its direct participants deposit with DTC. DTC facilitates the settlement among direct participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in direct participants accounts, thereby eliminating the need for physical movement of securities certificates.

Table of Contents

Direct participants of DTC include securities brokers and dealers (including the underwriters), banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its direct participants. Indirect access to the DTC system is also available to securities brokers and dealers, banks and trust companies that maintain a custodial relationship with a direct participant.

If you are not a direct participant or an indirect participant and you wish to purchase, sell or otherwise transfer ownership of, or other interests in, notes, you must do so through a direct participant or an indirect participant. DTC agrees with and represents to DTC participants that it will administer its book-entry system in accordance with its rules and by-laws and requirements of law. The Securities and Exchange Commission has on file a set of the rules applicable to DTC and its direct participants.

Purchases of notes under DTC s system must be made by or through direct participants, which will receive a credit for the notes on DTC s records. The ownership interest of each beneficial owner is in turn to be recorded on the records of direct participants and indirect participants. Beneficial owners will not receive written confirmation from DTC of their purchase, but beneficial owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the direct participants or indirect participants through which such beneficial owners entered into the transaction. Transfers of ownership interests in the notes are to be accomplished by entries made on the books of participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their ownership interests in notes, except as provided below in Book-Entry System Certificated Notes.

To facilitate subsequent transfers, all notes deposited with DTC are registered in the name of DTC s nominee, Cede & Co. The deposit of notes with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the notes. DTC s records reflect only the identity of the direct participants to whose accounts such notes are credited, which may or may not be the beneficial owners. The participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to direct participants, by direct participants to indirect participants and by direct participants and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Clearstream, Luxembourg

Clearstream, Luxembourg advises that it is incorporated under the laws of Luxembourg as a professional depository. Clearstream, Luxembourg holds securities for its customers and facilitates the clearance and settlement of securities transactions between its customers through electronic book-entry changes in accounts of its customers, thus eliminating the need for physical movement of certificates. Clearstream, Luxembourg provides to its customers, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream, Luxembourg interfaces with domestic markets in a number of countries. Clearstream, Luxembourg is an indirect participant in DTC.

Clearstream, Luxembourg customers are recognized financial institutions around the world, including underwriters, securities brokers and dealers, bank, trust companies, clearing corporations and certain other organizations. Indirect access to Clearstream, Luxembourg is also available to others, such as banks, brokers, dealers and trust companies that clear through, or maintain a custodial relationship with, a Clearstream, Luxembourg customer either directly or indirectly.

The Euroclear System

Euroclear has advised us that the Euroclear System was created in 1968 to hold securities for participants in the Euroclear System and to clear and settle transactions between Euroclear participants through simultaneous electronic book-entry delivery against payment, thus eliminating the need for physical movement of certificates and risk from lack of simultaneous transfers of securities and cash. Transactions may now be settled in many currencies, including United States dollars. The Euroclear System provides various other services, including securities lending and borrowing and interfaces with domestic markets in several countries generally similar to the arrangements for cross-market transfers with DTC described below.

The Euroclear System is operated by Euroclear Bank S.A./N.V., which is known as the Euroclear Operator, under contract with Euroclear Clearance System, S.C., a Belgian cooperative corporation. The Euroclear Operator conducts all operations, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear Operator, not the cooperative. The cooperative establishes policy for the Euroclear System on behalf of Euroclear participants. Euroclear participants include banks (including central banks), securities brokers and dealers and other professional financial intermediaries and may include the underwriters. Indirect access to the Euroclear System is also available to other firms that clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly. Euroclear is an indirect participant in DTC.

The Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System and applicable Belgian law govern securities clearance accounts and cash accounts with the Euroclear Operator. Specifically, these terms and conditions govern:

- transfers of securities and cash within the Euroclear System;
- withdrawal of securities and cash from the Euroclear System; and
- receipts of payments with respect to securities in the Euroclear System.

All securities in the Euroclear System are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the terms and conditions only on behalf of Euroclear participants and has no record of or relationship with persons holding securities through Euroclear participants.

Euroclear further advises that investors that acquire, hold and transfer interests in the notes by book-entry through accounts with the Euroclear Operator or any other securities intermediary are subject to the laws and contractual provisions governing their relationship with their intermediary, as well as the laws and contractual provisions governing the relationship between such an intermediary and each other intermediary, if any, standing between themselves and the notes.

The Euroclear Operator advises that under Belgian law, investors that are credited with securities on the records of the Euroclear Operator have a co-property right in the fungible pool of interests in securities on deposit with the Euroclear Operator in an amount equal to the amount of interests in securities credited to their accounts. In the event of the insolvency of the Euroclear Operator, Euroclear participants would have a right under Belgian law to the return of the amount and type of interests in securities credited to their accounts with the Euroclear Operator. If the Euroclear Operator did not have a sufficient amount of interests in securities on deposit of a particular type to cover the claims of all Euroclear participants credited with such interests in securities on the Euroclear Operator s records, all Euroclear participants having an amount of interests in securities of such type credited to their accounts with the Euroclear Operator would have the right under Belgian law to the return of their pro rata share of the amount of interest in securities actually on deposit.

Under Belgian law, the Euroclear Operator is required to pass on the benefits of ownership in any interests in securities on deposit with it, such as dividends, voting rights and other entitlements, to any person credited with such interests in securities on its records.

Book-Entry Format

Under the book-entry format, the trustee will pay interest or principal payments to Cede & Co., as nominee of DTC. DTC will forward the payment to the direct participants, who will then forward the payment to the indirect participants (including Clearstream, Luxembourg or Euroclear) or to you as the beneficial owner.

Table of Contents

You may experience some delay in receiving your payments under this system. Neither we, the trustee under the indenture nor any paying agent has any direct responsibility or liability for the payment of principal or interest on the notes to owners of beneficial interests in the notes.

DTC is required to make book-entry transfers on behalf of its direct participants and is required to receive and transmit payments of principal, premium, if any, and interests on the notes. Any direct participant or indirect participant with which you have an account is similarly required to make book-entry transfers and to receive and transmit payments with respect to the notes on your behalf. We and the trustee under the indenture have no responsibility for any aspect of the actions of DTC, Clearstream, Luxembourg or Euroclear or any of their direct or indirect participants. We and the trustee under the indenture have no responsibility or liability for any aspect of the records kept by DTC, Clearstream, Luxembourg, Euroclear or any of their direct or indirect participants relating to or payments made on account of beneficial ownership interests in the notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests. We also do not supervise these systems in any way.

The trustee will not recognize you as a holder under the indenture, and you can only exercise the rights of a holder indirectly through DTC and its direct participants. DTC has advised us that it will only take action regarding a note if one or more of the direct participants to whom the note is credited directs DTC to take such action and only in respect of the portion of the aggregate principal amount of the notes as to which that participant or participants has or have given that direction. DTC can only act on behalf of its direct participants. Your ability to pledge notes to non-direct participants, and to take other actions, may be limited because you will not possess a physical certificate that represents your notes.

Clearstream, Luxembourg or Euroclear will credit payments to the cash accounts of Clearstream, Luxembourg customers or Euroclear participants in accordance with the relevant system s rules and procedures, to the extent received by its depositary. These payments will be subject to tax reporting in accordance with relevant United States tax laws and regulations. Clearstream, Luxembourg or the Euroclear Operator, as the case may be, will take any other action permitted to be taken by a holder under the indenture on behalf of a Clearstream, Luxembourg customer or Euroclear participant only in accordance with its relevant rules and procedures and subject to its depositary s ability to effect those actions on its behalf through DTC.

DTC, Clearstream, Luxembourg and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of the notes among participants of DTC, Clearstream, Luxembourg and Euroclear. However, they are under no obligation to perform or continue to perform those procedures, and they may discontinue those procedures at any time.

Transfers Within and Among Book-Entry Systems

Transfers between DTC s direct participants will occur in accordance with DTC rules. Transfers between Clearstream, Luxembourg customers and Euroclear participants will occur in accordance with its applicable rules and operating procedures.

DTC will effect cross-market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through Clearstream, Luxembourg customers or Euroclear participants, on the other hand, in accordance with DTC rules on behalf of the relevant European international clearing system by its depositary. However, cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in that system in accordance with its rules and procedures and within its established deadlines (European time). The relevant European international clearing system will, if the transaction meets its settlement requirements, instruct its depositary to effect final settlement on its behalf by delivering or receiving securities in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Clearstream, Luxembourg customers and Euroclear participants may not deliver instructions directly to the depositaries.

Table of Contents

Because of time-zone differences, credits of securities received in Clearstream, Luxembourg or Euroclear resulting from a transaction with a DTC direct participant will be made during the subsequent securities settlement processing, dated the business day following the DTC settlement date. Those credits or any transactions in those securities settled during that processing will be reported to the relevant Clearstream, Luxembourg customer or Euroclear participant on that business day. Cash received in Clearstream, Luxembourg or Euroclear as a result of sales of securities by or through a Clearstream, Luxembourg customer or a Euroclear participant to a DTC direct participant will be received with value on the DTC settlement date but will be available in the relevant Clearstream, Luxembourg or Euroclear cash amount only as of the business day following settlement in DTC.

Although DTC, Clearstream, Luxembourg and Euroclear has agreed to the foregoing procedures in order to facilitate transfers of notes among their respective participants, they are under no obligation to perform or continue to perform such procedures and such procedures may be discontinued at any time.

Same-Day Settlement and Payment

The underwriters will settle the notes in immediately available funds. We will make principal and interest payments on the notes in immediately available funds or the equivalent. Secondary market trading between DTC direct participants will occur in accordance with DTC rules and will be settled in immediately available funds using DTC s Same-Day Funds Settlement System. Secondary market trading between Clearstream, Luxembourg customers and Euroclear participants will occur in accordance with their respective applicable rules and operating procedures and will be settled using the procedures applicable to conventional eurobonds in immediately available funds. No assurance can be given as to the effect, if any, of settlement in immediately available funds on trading activity (if any) in the notes.

Certificated Notes

Unless and until they are exchanged, in whole or in part, for notes in definitive form in accordance with the terms of the notes, the notes may not be transferred except (1) as a whole by DTC to a nominee of DTC or (2) by a nominee of DTC to DTC or another nominee of DTC or (3) by DTC or any such nominee to a successor of DTC or a nominee of such successor.

We will issue notes to you or your nominees, in fully certificated registered form, rather than to DTC or its nominees, only if:

- we advise the trustee in writing that DTC is no longer willing or able to discharge its responsibilities properly or that DTC is no longer a registered clearing agency under the Securities Exchange Act of 1934, and the trustee or we are unable to locate a qualified successor within 90 days;

- an event of default has occurred and is continuing under the indenture; or

- we, at our option, elect to terminate the book-entry system through DTC.

If any of the three above events occurs, DTC is required to notify all direct participants that notes in fully certificated registered form are available through DTC. DTC will then surrender the global note representing the notes along with instructions for re-registration. The trustee will re-issue the notes in fully certificated registered form and will recognize the registered holders of the certificated notes as holders under the indenture.

Unless and until we issue the notes in fully certificated, registered form, (1) you will not be entitled to receive a certificate representing your interest in the notes; (2) all references in this prospectus supplement or in the accompanying prospectus to actions by holders will refer to actions taken by the depositary upon instructions

Table of Contents

from their direct participants; and (3) all references in this prospectus supplement or the accompanying prospectus to payments and notices to holders will refer to payments and notices to the depositary, as the registered holder of the notes, for distribution to you in accordance with its policies and procedures.

Governing Law

The indenture and the notes for all purposes shall be governed by and construed in accordance with the law of the State of New York.

Table of Contents

UNITED STATES TAX CONSIDERATIONS

The following summary describes the material United States federal income tax consequences and, in the case of a holder that is a non-U.S. holder (as defined below), the United States federal estate tax consequences, of purchasing, owning and disposing of notes. This summary applies to you only if you are the initial holder of the notes and you acquire the notes for a price equal to the issue price of the notes. The issue price of the notes is the first price at which a substantial amount of the notes is sold other than to bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers.

This summary deals only with notes held as capital assets (generally, investment property) and does not deal with special tax situations such as:

- dealers in securities or currencies;
- traders in securities;
- United States holders (as defined below) whose functional currency is not the United States dollar;
- persons holding notes as part of a hedge, straddle, conversion or other integrated transaction;
- certain United States expatriates;
- financial institutions;
- insurance companies;
- entities that are tax-exempt for United States federal income tax purposes; and
- persons that acquire the notes for a price other than their issue price.

This summary does not discuss all of the aspects of United States federal income and estate taxation which may be relevant to you in light of your particular investment or other circumstances. In addition, this summary does not discuss any United States state or local income or foreign income or other tax consequences. This summary is based on United States federal income tax law, including the provisions of the Internal Revenue Code of 1986, as amended, (the Internal Revenue Code), Treasury regulations, administrative rulings and judicial authority, all as in effect as of the date of this prospectus supplement. Subsequent developments in United States federal income tax law, including changes in law or differing interpretations, which may be applied retroactively, could have a material effect on the United States federal income tax consequences of purchasing, owning and disposing of notes as set forth in this summary. Before you purchase notes, you should consult your own tax advisor regarding the particular United States federal, state and local and foreign income and other tax consequences of acquiring, owning and disposing of the notes that may be applicable to you.

United States Holders

The following summary applies to you only if you are a United States holder (as defined below).

Definition of a United States Holder

A United States holder is a beneficial owner of notes who or which for United States federal income tax purposes is:

- an individual citizen or resident of the United States;

Table of Contents

- a corporation or partnership (or other entity classified as a corporation or partnership for these purposes) created or organized in or under the laws of the United States or of any political subdivision of the United States, including any State (unless, in the case of a partnership, future Treasury regulations otherwise provide);

- an estate, the income of which is subject to United States federal income taxation regardless of the source of that income; or

- a trust, if, in general, a United States court is able to exercise primary supervision over the trust s administration and one or more United States persons (within the meaning of the Internal Revenue Code) has the authority to control all of the trust s substantial decisions.

Payments of Interest

Interest on your notes will be taxed as ordinary interest income. In addition:

- if you use the cash method of accounting for United States federal income tax purposes, you will have to include the interest on your notes in your gross income at the time you receive the interest; and

- if you use the accrual method of accounting for United States federal income tax purposes, you will have to include the interest on your notes in your gross income at the time the interest accrues.

Pre-Issuance Accrued Interest

The purchase price of the notes includes an amount attributable to interest accrued prior to the issue date of the notes. We believe that a portion of the first interest payment equal to such amount should be treated as a return of the pre-issuance accrued interest, rather than as interest payable on the notes. If this position is respected, as will be assumed for purposes of the remainder of this summary, our payment of such amount would not be treated as taxable income to you. You should consult your own tax advisor concerning the tax treatment of the pre-issuance accrued interest.

Sale, Redemption or Other Disposition of Notes

You generally will recognize taxable gain or loss when you sell or otherwise dispose of your notes equal to the difference, if any, between:

- the amount realized on the sale or other disposition (less any amount attributable to accrued interest, which will be taxable in the manner described under United States Tax Considerations United States Holders Payments of Interest); and

- your tax basis in the notes.

Your tax basis in your notes generally will be their cost, excluding the amount of any pre-issuance accrued interest paid upon acquisition of the notes. However, the tax basis consequences of pre-issuance accrued interest are unclear, and it is possible that the amount of the pre-issuance accrued interest could be included in the initial tax basis of your notes. If that were the case, your tax basis in your notes should be reduced by the amount of the pre-issuance accrued interest returned to you as part of the first interest payment, and if your notes were sold or disposed of prior to the first interest payment, your amount realized would not be reduced by the amount attributable to the pre-issuance accrued interest for purposes of determining your gain or loss.

Your gain or loss generally will be capital gain or loss. Such capital gain or loss will be long-term capital gain or loss if at the time of the sale or other disposition, you have held the notes for more than one year. If you are a non-corporate United States holder, your long-term capital gain generally will be subject to a

Table of Contents

maximum tax rate of 15%, which minimum tax rate will increase to 20% for dispositions occurring during taxable years beginning on or after January 1, 2009. Subject to limited exceptions, your capital losses cannot be used to offset your ordinary income.

Any portion of the amount realized on a sale or other disposition of your notes that is attributable to accrued but unpaid interest will generally be taxable as ordinary income if it has not previously been included in your income under the rules described above, except that in the event of a sale or disposition prior to the first interest payment, any amount attributable to pre-issuance accrued interest should not be treated as taxable income to you.

Backup Withholding

In general, backup withholding at a rate of 28% (which rate will increase to 31% for taxable years beginning on or after January 1, 2011) may apply:

to any payments made to you of principal of and interest on your note, and

to payment of the proceeds of a sale or exchange of your note before maturity,

if you are a non-corporate United States holder and fail to provide a correct taxpayer identification number or otherwise comply with applicable requirements of the backup withholding rules.

The backup withholding tax is not an additional tax and may be credited against your United States federal income tax liability, provided that correct information is provided to the Internal Revenue Service.

Non-U.S. Holders

The following summary applies to you if you are a beneficial owner of a note or notes who or which, for United States federal income tax purposes, is not a United States holder (as defined above) (a non-U.S. holder). An individual may, subject to exceptions, be deemed to be a resident alien, as opposed to a non-resident alien, by virtue of being present in the United States:

on at least 31 days in the calendar year, and

for an aggregate of at least 183 days during a three-year period ending in the current calendar year, counting for such purposes all of the days present in the current year, one-third of the days present in the immediately preceding year, and one-sixth of the days present in the second preceding year.

Resident aliens are subject to United States federal income tax as if they were United States citizens.

United States Federal Withholding Tax

Under current United States federal income tax laws, and subject to the discussion below, United States federal withholding tax will not apply to payments by Procter & Gamble or any paying agent of Procter & Gamble (in its capacity as such) of principal of and interest on your notes under the portfolio interest exception of the Internal Revenue Code, provided that in the case of interest:

- you do not, directly or indirectly, actually or constructively, own ten percent or more of the total combined voting power of all classes of the stock of Procter & Gamble entitled to vote within the meaning of section 871(h)(3) of the Internal Revenue Code and the Treasury regulations thereunder;

- you are not (i) a controlled foreign corporation for United States federal income tax purposes that is related, directly or indirectly, to Procter & Gamble through sufficient stock ownership (as provided in the Internal Revenue Code), or (ii) a bank receiving interest described in section 881(c)(3)(A) of the Internal Revenue Code;

Table of Contents

- such interest is not effectively connected with your conduct of a United States trade or business; and

- you provide a signed IRS Form W-8 BEN certifying, under penalties of perjury, that you are not a United States person within the meaning of the Internal Revenue Code to:

  (A) Procter & Gamble or any paying agent of Procter & Gamble; or

  (B) a securities clearing organization, bank or other financial institution that holds customers securities in the ordinary course of its trade or business and holds your notes on your behalf and that certifies to Procter & Gamble or any paying agent of Procter & Gamble under penalties of perjury that it, or the bank or financial institution between it and you, has received from you your signed IRS Form W-8BEN and provides Procter & Gamble or any paying agent of Procter & Gamble with a copy of this Form.

Treasury regulations provide alternative methods for satisfying the certification requirement described in this section. In addition, under these regulations

- if you are a foreign partnership, the certification requirement will generally apply to partners in you (or partners in such partners in the case of multiple-tiered partnerships):

- if you are a foreign trust, the certification requirement will generally apply to you if you are a foreign complex trust , or to beneficiaries in you if you are a foreign simple trust , or a foreign grantor trust , all as defined in the Treasury regulations.

If you are a foreign partnership or a foreign trust, you should consult your own tax advisor regarding your status under these Treasury regulations and the certification requirements applicable to you.

United States Federal Income Tax

Except for the possible application of United States withholding tax (see United States Tax Considerations Non-U.S. Holders United States Federal Withholding Tax above) and backup withholding tax (see United States Tax Considerations Backup Withholding and Information Reporting below), you generally will not have to pay United States federal income tax on payments of principal of and interest on your notes, or on any gain or income realized from the sale, redemption, retirement at maturity or other disposition of your notes (provided that, in the case of proceeds representing accrued interest, the conditions described in United States Tax Considerations Non-U.S. Holders United States Federal Withholding Tax are met) unless:

- in the case of gain, you are an individual who is present in the United States for 183 days or more during the taxable year of the sale or other disposition of your notes, and specific other conditions are met; or

- the gain is effectively connected with your conduct of a United States trade or business, and, if an income tax treaty applies, is generally attributable to a United States permanent establishment maintained by you.

If you are engaged in a trade or business in the United States and interest, gain or any other income in respect of your notes is effectively connected with the conduct of your trade or business, and if an income tax treaty applies and you maintain a United States permanent establishment to which the interest, gain or other income is generally attributable, you may be subject to United States federal income tax on a net basis on the interest, gain or income (although interest is exempt from the withholding tax discussed in the preceding paragraphs provided that you provide a properly executed Internal Revenue Service form on or before any payment date to claim the exemption). In addition, if you are a foreign corporation, you may be subject to a branch profits tax equal to 30% of your effectively connected earnings and profits for the taxable year, as

Table of Contents

adjusted for certain items, unless a lower rate applies to you under a United States income tax treaty with your country of residence. For this purpose, you must include interest, gain or income on your notes in the earnings and profits subject to the branch tax if these amounts are effectively connected with the conduct of your United States trade or business.

United States Federal Estate Tax

If you are an individual and are not a United States citizen or resident of the United States (as specially defined for United States federal estate tax purposes) at the time of your death, your notes will generally not be subject to the United States federal estate tax, unless, at the time of your death:

- you directly or indirectly, actually or constructively, own ten percent or more of the total combined voting power of all classes of stock of Procter & Gamble that is entitled to vote within the meaning of section 871(h)(3) of the Internal Revenue Code and the Treasury regulations thereunder; or

- your interest on the notes is effectively connected with your conduct of a United States trade or business.

Recently enacted legislation reduces the maximum federal estate tax over an 8-year period beginning in 2002 and eliminates the tax for estates of decedents dying after December 31, 2009. In the absence of renewal legislation, these amendments will expire and the federal estate tax provisions in effect immediately prior to 2002 will be restored for estates of decedents dying after December 31, 2010.

Backup Withholding and Information Reporting

Under current Treasury regulations, backup withholding and information reporting will not apply to payments made by Procter & Gamble or any paying agent of Procter & Gamble (in its capacity as such) to you if you have provided the required certification that you are a non-U.S. holder as described in United States Tax Considerations Non-U.S. Holders United States Federal Withholding Tax above, and provided that neither Procter & Gamble nor any paying agent of Procter & Gamble has actual knowledge or reason to know that you are a United States holder (as described in United States Tax Considerations United States Holders above). Procter & Gamble or any paying agent of Procter & Gamble generally will, however, report payments of interest on the notes.

The gross proceeds from the disposition of your notes may be subject to information reporting and backup withholding, at a rate of 28% (which rate will increase to 31% for taxable years beginning on or after January 1, 2011.) If you sell your notes outside the United States through a non-United States office of a non-United States broker and the sales proceeds are paid to you outside the United States, then the United States backup withholding and information reporting requirements generally will not apply to that payment. However, United States information reporting will apply to a payment of sales proceeds, even if that payment is made outside the United States, if you sell your notes through a non-United States office of a broker that is:

- a United States person (as defined in the Internal Revenue Code);

a controlled foreign corporation for United States federal income tax purposes;

a foreign person 50% or more of whose gross income is effectively connected with a United States trade or business for a specified three-year period; or

a foreign partnership, if at any time during its tax year, one or more of its partners are United States persons, as defined in Treasury regulations, who in the aggregate hold more than 50% of the income or capital interest in the partnership or if, at any time during its tax year, the foreign partnership is engaged in a United States trade or business;

Table of Contents

unless the broker has documentary evidence in its files that you are a non-U.S. person and certain other conditions are met or you otherwise establish an exemption. In circumstances where information reporting by a non-United States office of a broker is required, backup withholding will be required only if the broker has actual knowledge that you are a United States holder.

Payments of the proceeds from your disposition of a note made to or through the United States office of a broker is subject to information reporting and backup withholding unless you provide an IRS Form W-8BEN certifying that you are a non-U.S. person or you otherwise establish an exemption from information reporting and backup withholding.

You should consult your own tax advisor regarding application of backup withholding in your particular circumstance and the availability of and procedure for obtaining an exemption from backup withholding under current Treasury regulations. Any amounts withheld under the backup withholding rules from a payment to you will be allowed as a refund or a credit against your United States federal income tax liability, provided the required information is furnished to the United States Internal Revenue Service.

Table of Contents

UNDERWRITING

We intend to offer the notes through the underwriters. Goldman, Sachs & Co., J.P. Morgan Securities Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated, are acting as representatives of the underwriters named below. Subject to the terms and conditions contained in an underwriting agreement and the related pricing agreement between us and the underwriters, we have agreed to sell to the underwriters and the underwriters have agreed to purchase from us, the principal amount of the notes listed opposite their names below.

Underwriter	Principal Amount
Goldman, Sachs & Co.	$ 30,000,000
J.P. Morgan Securities Inc.	30,000,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated	30,000,000
ABN AMRO Incorporated	30,000,000
Deutsche Bank Securities Inc.	30,000,000
Total	$ 150,000,000

The underwriters have agreed to purchase all of the notes sold pursuant to the underwriting agreement if any of these notes are purchased. If an underwriter defaults, the underwriting agreement provides that the purchase commitments of the nondefaulting underwriters may be increased or the underwriting agreement may be terminated.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the underwriters may be required to make in respect of those liabilities.

The underwriters are offering the notes, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the notes, and other conditions contained in the underwriting agreement, such as the receipt by the underwriters of officer s certificates and legal opinions. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

Commissions and Discounts

The underwriters have advised us that they propose initially to offer the notes to the public at the public offering price on the cover page of this prospectus supplement, and to dealers at that price less a concession not in excess of .3% of the principal amount of the notes. The underwriters may allow, and the dealers may reallow, a discount not in excess of .25 % of the principal amount of the notes to other dealers. After the initial public offering, the public offering price, concession and discount may be changed.

The expenses of the offering, not including the underwriting discount, are estimated to be $160,000 and are payable by us.

Market for the Notes

We do not intend to apply for listing of the notes on any national securities exchange or for quotation of the notes on any automated dealer quotation system. We have been advised by the underwriters that they presently intend to make a market in the notes after completion of the offering. However, they are under no obligation to do so and may discontinue any market-making activities at any time without any notice. We cannot assure the liquidity of the trading market for the notes or that an active public market for the notes will be maintained. If an active public trading market for the notes is not maintained, the market price and liquidity of the notes may be adversely affected.

Table of Contents

Price Stabilization and Short Positions

In connection with the offering, the underwriters are permitted to engage in transactions that stabilize the market price of the notes. Such transactions consist of bids or purchases to peg, fix or maintain the price of the notes. If the underwriters create a short position in the notes in connection with the offering, i.e., if they sell more notes than are on the cover page of this prospectus, the underwriters may reduce that short position by purchasing notes in the open market. Purchases of a security to stabilize the price or to reduce a short position could cause the price of the security to be higher than it might be in the absence of such purchases.

Neither we nor any of the underwriters makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the notes. In addition, neither we nor any of the underwriters makes any representation that the underwriters will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

Selling Restrictions

Each underwriter has agreed that it will not offer, sell or deliver any of the notes in any jurisdiction outside the United States except under circumstances that will result in compliance with the applicable laws thereof. Each underwriter has acknowledged that no action has been taken to permit a public offering in any jurisdiction outside the United States where action would be required for such purpose.

Each underwriter has represented, warranted and agreed that: (i) it has not offered or sold and, prior to the expiry of a period of six months from the issue date, will not offer or sell any notes to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995; (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (FSMA) received by it in connection with the issue or sale of any notes in circumstances in which section 21(1) of the FSMA does not apply to the issuer; and (iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by them in relation to the notes in, from or otherwise involving the United Kingdom;

Each underwriter has acknowledged and agreed that the notes have not been registered under the Securities and Exchange Law of Japan and are not being offered or sold and may not be offered or sold, directly or indirectly, in Japan or to or for the account of any resident of Japan, except (i) pursuant to an exemption from the registration requirements of the Securities and Exchange Law of Japan and (ii) in compliance with any other applicable requirements of Japanese law.

Purchasers of the notes may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the issue price set forth on the cover page hereof.

To the extent any underwriter that is not a U.S.-registered broker-dealer intends to effect sales of notes in the United States, it will do so through one or more U.S.-registered broker-dealers in accordance with the applicable U.S. securities laws and regulations.

Internet Distribution

J.P. Morgan Securities Inc. (JPMorgan) will make the notes available for distribution on the Internet through a proprietary Web site and/or a third-party system operated by Market Axess Inc., an Internet-based communications technology provider. Market Axess Inc. is providing the system as a conduit for

Table of Contents

communications between JPMorgan and its customers and is not a party to any transactions. Market Axess Inc., a registered broker-dealer, will receive compensation from JPMorgan based on transactions JPMorgan conducts through the system. JPMorgan will make the notes available to its customers through the Internet distributions, whether made through a proprietary or third-party system, on the same terms as distributions made through other channels.

Other Relationships

The underwriters and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us. They have received customary fees and commissions for these transactions. Goldman, Sachs & Co., J.P. Morgan Securities Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, ABN AMRO Incorporated and Deutsche Bank Securities Inc. acted as underwriters of a portion of our $1.2 billion debt offering in November 2003. Merrill Lynch, Pierce, Fenner & Smith Incorporated also acted as the sole underwriter in connection with our $30 million debt offering in December 2003. J.P. Morgan Trust Company, National Association (successor in interest to Bank One Trust Company, National Association), which is an affiliate of J.P. Morgan Securities Inc., is the trustee under the indenture governing the notes offered hereby and the notes issued in November 2003 and December 2003.

Table of Contents

VALIDITY OF THE NOTES

The validity of the notes will be passed upon for Procter & Gamble by Joe Stegbauer, Senior Counsel, The Procter & Gamble Company, One Procter & Gamble Plaza, Cincinnati, Ohio 45202, and for the underwriters by Fried, Frank, Harris, Shriver & Jacobson (a partnership including professional corporations), One New York Plaza, New York, New York 10004. Mr. Stegbauer may rely as to matters of New York law upon the opinion of Fried, Frank, Harris, Shriver & Jacobson, and Fried, Frank, Harris, Shriver & Jacobson may rely as to matters of Ohio law upon the opinion of Mr. Stegbauer. Fried, Frank, Harris, Shriver & Jacobson from time to time performs legal services for Procter & Gamble.

AVAILABLE INFORMATION

We file reports, proxy statements and other information with the Securities and Exchange Commission. Such reports, proxy statements and other information can be inspected and copied at the public reference room maintained by the SEC at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the SEC s regional office at 175 W. Jackson Boulevard, Suite 900, Chicago, Illinois 60604. Information relating to the operation of the public reference facility may be obtained by calling the SEC at 1-800-SEC-0330.

The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of the SEC s Internet site is http://www.sec.gov. Copies of such materials can be obtained by mail from the Public Reference Branch of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates.

In addition, reports, proxy statements and other information concerning us may also be inspected at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005, and the offices of the Cincinnati Stock Exchange, 400 S. LaSalle Street, 5th Floor, Chicago, Illinois 60605.

We have filed with the SEC a registration statement on Form S-3 with respect to the securities that we are offering through this prospectus supplement and the accompanying prospectus. This registration statement, together with all amendments, exhibits and documents incorporated by reference, is referred to as the registration statement. This prospectus supplement does not contain all of the information included in the registration statement. Certain parts of the registration statement are omitted in accordance with the rules and regulations of the SEC. For further information, reference is made to the registration statement.

INCORPORATION OF DOCUMENTS BY REFERENCE

The SEC allows us to incorporate by reference the information in documents that we file with them. This means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is an important part of this prospectus supplement and the accompanying prospectus, and information in documents that we file after the date of this prospectus supplement and before the termination of the offering will automatically update information in this prospectus supplement and the accompanying prospectus.

We incorporate by reference into this prospectus supplement:

our Annual Report on Form 10-K for the year ended June 30, 2003;

our Quarterly Report on Form 10-Q for the period ended September 30, 2003; and

any future filings which we make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, until we sell all of the securities offered by this prospectus supplement and the accompanying prospectus.

Table of Contents

PROSPECTUS

$5,000,000,000

The Procter & Gamble Company

By this prospectus, we may offer

Debt Securities

Warrants

We will provide the specific terms of these securities in supplements to this prospectus. You should read this prospectus and any prospectus supplement carefully before you invest.

This prospectus may not be used to offer and sell securities unless accompanied by a prospectus supplement.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

This prospectus is dated March 25, 2002

Table of Contents

TABLE OF CONTENTS

	Page
The Company	3
Summary Consolidated Financial Information	5
Forward Looking Statements	9
Use of Proceeds	10
Description of Debt Securities	11
Description of Warrants	19
Plan of Distribution	23
Legal Opinions	24
Experts	25
Where You Can Find More Information	25

This prospectus is part of a registration statement that we filed with the SEC utilizing a shelf registration process. Under this shelf process, combining this Registration Statement with the remaining availability under our most recently filed prior Registration Statement, we may, from time to time, sell in one or more offerings up to a total dollar amount of $5,000,000,000 of any combination of our debt securities and warrants.

This prospectus provides you with a general description of the securities that we may offer. Each time we sell securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering, including the specific amounts, prices and terms of the securities offered. The prospectus supplement may also add, update or change information contained in this prospectus.

You should carefully read both this prospectus and any prospectus supplement together with additional information described below under the heading Where You Can Find More Information.

Table of Contents

THE COMPANY

In this prospectus supplement and the accompanying prospectus, unless we otherwise specify or the context otherwise requires, references to:

- Procter & Gamble, we, us, and our are to The Procter & Gamble Company and its subsidiaries;
- fiscal followed by a specific year are to our fiscal year ended or ending June 30 of that year; and
- dollars, $ and U.S.$ are to United States dollars.

Procter & Gamble was incorporated in Ohio in 1905, having been built from a business founded in 1837 by William Procter and James Gamble. Today, we manufacture and market a broad range of consumer products in many countries throughout the world.

Our business is organized into five product-based, reportable segments called Global Business Units (GBUs). These units are: Fabric and Home Care; Baby, Feminine, and Family Care; Beauty Care; Health Care; and Food and Beverage.

- Fabric and Home Care includes laundry, fabric enhancers, dishcare, and household cleaning products. Representative brands include Ariel, Tide, Dryel, Downy, Cascade, Dawn and Swiffer.
- Baby, Feminine and Family Care includes tissues, towels, tampons, pads and liners, diapers and wipes. Representative brands include Bounty, Charmin, Always, Whisper, Pampers and Pampers Wipes.
- Beauty Care includes hair care, hair colorants, deodorants, personal cleansing, skin care and cosmetics and fragrances, including all hair care, hair color and personal care products acquired in connection with our recent purchase of Clairol, Inc. from Bristol-Myers Squibb Company. Representative brands include Pantene, Herbal Essences, Nice N Easy, Head & Shoulders, Secret, Zest, Olay, Cover Girl and Old Spice.
- Food and Beverage includes coffee, peanut butter, juice, snacks and oils. Representative brands include Folgers, Jif, Sunny Delight, Pringles and Crisco.
- Health Care includes oral care, personal health care, pharmaceuticals and pet health and nutrition. Representative brands include Crest, Scope, Metamucil, Vicks, Actonel, Asacol, Iams and Eukanuba.

In the most recent fiscal year ended June 30, 2001, the Fabric and Home Care and Baby, Feminine and Family Care global business units each accounted for 30% of total sales. Beauty Care accounted for 18%, and Health Care and Food and Beverage each accounted for 11% of total sales.

Our GBU structure is complemented by eight Market Development Organizations MDOs , which are intended to maximize the business potential for the entire product portfolio in each local market. In addition, we are in the process of streamlining and standardizing our essential global business services, such as accounting, employee benefits management, order management and information technology services, into a common Global Business Services organization.

We began implementing the GBU/ MDO structure in 1999 as part of our Organization 2005 restructuring program. The program was expanded in 2001 to deliver further cost reductions.

In the United States, as of June 30, 2001, we owned and operated 40 manufacturing facilities and leased and operated 2 manufacturing facilities in 23 states. In addition, we owned and operated 92 manufacturing facilities in 45 other countries as of that date. Fabric and Home Care products were produced at 47 of these locations; Baby, Feminine and Family Care products at 50; Health Care products at 27; Beauty Care products at 34; and Food and Beverage products at 15.

Table of Contents

In November 2001, we purchased the Clairol business from Bristol-Myers Squibb Company. This acquisition includes hair care, hair color and personal care products with approximately $1.6 billion in annual net sales. We are currently in the process of fully integrating the Clairol business into our Beauty Care GBU.

In October 2001, we announced our intention to divest our Crisco and Jif brands in a spin-merge transaction with the J.M. Smucker Company. We expect this transaction to be completed by the end of our current fiscal year.

Our principal executive offices are located at One Procter & Gamble Plaza, Cincinnati, Ohio 45202, and our telephone number is (513) 983-1100.

Table of Contents

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The summary consolidated financial information for the years ended June 30, 2001 and 2000 has been derived from our consolidated financial statements contained in our Annual Report on Form 10-K for the fiscal year ended June 30, 2001. The summary consolidated financial information for the years ended June 30, 1999 and 1998 has been derived from our consolidated financial statements contained in our Annual Report on Form 10-K for the fiscal year ended June 30, 1999. The summary consolidated financial information for the year ended June 30, 1997 has been derived from our consolidated financial statements contained in our Annual Report on Form 10-K for the fiscal year ended June 30, 1998. All information is reported in U.S. dollars.

	Years Ended June 30,				
(In millions, except per share data)	**1997**	**1998**	**1999**	**2000**	**2001**
Operating Results:					
Net sales	$ 35,764	$ 37,154	$ 38,125	$ 39,951	$ 39,244
Cost of products sold(1)	20,510	20,896	21,027	21,514	22,102
Marketing, Research and Administrative Expenses(1)	9,766	10,203	10,845	12,483	12,406
Operating Income	5,488	6,055	6,253	5,954	4,736
Interest Expense	457	548	650	722	794
Other Income, Net	218	201	235	304	674
Earnings before income taxes	5,249	5,708	5,838	5,536	4,616
Income taxes	1,834	1,928	2,075	1,994	1,694
Net earnings	3,415	3,780	3,763	3,542	2,922
Basic net earnings per common share	$ 2.43	$ 2.74	$ 2.75	$ 2.61	$ 2.15
Diluted net earnings per common share	$ 2.28	$ 2.56	$ 2.59	$ 2.47	$ 2.07
Basic average shares outstanding (in millions)(2)	1,360.3	1,343.4	1,328.1	1,313.2	1,300.3
Diluted average shares outstanding (in millions)(2)	1,487.0	1,465.5	1,446.8	1,427.2	1,405.6
Ratio of earnings to fixed charges(3)	10.9	9.9	8.8	7.1	6.2
Financial Position (at period end):					
Working Capital	$ 2,988	$ 1,327	$ 597	$ 5	$ 1,043
Total Assets(1)	27,598	31,042	32,192	34,366	34,387
Long-term debt(1)	4,159	5,774	6,265	9,012	9,792
Shareholders equity	12,046	12,236	12,058	12,287	12,010

(1) Certain reclassifications of prior years amounts have been made to conform to the fiscal year 2001 presentation.

(2) Restated for two-for-one stock split effective August 22, 1997.

(3) Earnings used to compute this ratio are earnings before income taxes and before fixed charges (excluding interest capitalized during the period) and after deducting undistributed earnings of equity method investees. Fixed charges consist of interest, whether expensed or capitalized, amortization of debt discount and expense, and one-third of all rent expense (considered representative of the interest factor).

Table of Contents

Results of Operations: Year Ended June 30, 2001 Compared to the Year Ended June 30, 2000

Financial Review

Results of Operations

Fiscal 2001 was a year of progress in making choices, establishing realistic goals and delivering on commitments. We also made considerable progress on strengthening our cost structure and improving cash efficiency. This was despite a tough year that included weakening economies in some major geographies, significant currency impacts, rising commodity prices and an increasingly competitive environment.

To accelerate long-term growth, we have made and will continue to make tough, clear choices about where to play and how to win. We are focused on building superior shareholder return by creating and building big brands with top-line results, sales margins and cash flow at the best competitive benchmarks.

During the past year, we refocused on our core categories to develop high-margin growth businesses with global leadership potential. We also expanded our restructuring program, initiated in June 1999, in conjunction with Organization 2005, to drive further enrollment reductions and address under-performing businesses. These actions are critical to delivering on our long-term goals to consistently grow earnings and earnings per share at double-digit rates.

Net Earnings

Reported net earnings were $2.92 billion or $2.07 per share in 2001. This compared to $3.54 billion or $2.47 per share in 2000, and $3.76 billion or $2.59 per share in 1999. Current year results include charges of $1.48 billion after tax for restructuring program costs. These costs were $688 million and $385 million in 2000 and 1999, respectively. This program covers a significant reduction in enrollment, manufacturing consolidations and portfolio choices to scale back or discontinue under-performing businesses and initiatives.

Core net earnings, which exclude restructuring program costs, increased to $4.40 billion in 2001 from $4.23 billion in 2000 and $4.15 billion in 1999. Core net earnings per share were $3.12, compared to $2.95 per share in 2000 and $2.85 per share in 1999. Core net earnings per share increased 6% in 2001, compared to 4% in 2000. Core net earnings progress was significant in light of product cost increases and exchange impacts, which were offset by pricing benefits, lower taxes and gains from the divestiture of non-strategic brands. Growth in the prior year was affected by significant investments in new initiatives.

Net Sales

Reported net sales were $39.24 billion, compared to $39.95 billion in 2000 and $38.13 billion in 1999. Excluding an unfavorable exchange rate impact of over 3% in the current year, net sales grew 2%, reflecting improved pricing in beauty care, fabric and home care and paper, primarily family care. Unit volume was flat in 2001, as exceptionally strong performance by new businesses in health care was offset by softness in food and beverage. Unit volume grew 4% in 2000, while net sales excluding a 2% unfavorable exchange impact increased 7%. This growth reflected strong product initiative activity, the acquisition of the Iams pet health and nutrition business and progress on flagship brands, largely in fabric and home care.

Operating Costs

Consistent with our commitment to reduce our cost structure to more competitive levels, in the fourth quarter, we broadened our restructuring program to deliver further cost reductions by reducing overheads,

Table of Contents

consolidating manufacturing operations and addressing under-performing businesses and initiatives. Given the nature and magnitude of the charges related to this program, the following discussions include supplemental information on a core basis excluding restructuring charges.

Cost of products sold was $22.10 billion in 2001, compared to $21.51 billion and $21.03 billion in 2000 and 1999, respectively. Restructuring costs included in cost of products sold were $1.14 billion in 2001, $496 million in 2000 and $443 million in 1999. Excluding restructuring charges, cost of products sold was flat versus the prior year, as a disciplined cost focus overcame commodity cost increases, such as energy. Core cost of products sold was up 2% in 2000.

Marketing, research and administrative expense was $12.41 billion versus $12.48 billion in 2000 and $10.85 billion in 1999. These include restructuring costs of $583 million in 2001, $318 million in 2000 and $38 million in 1999, primarily due to employee separation expenses. Excluding restructuring charges, marketing, research and administrative expense was $11.82 billion in the current year versus $12.17 billion in 2000 and $10.81 billion in 1999. As a percent of net sales, this was 30.0% in 2001, 30.4% in 2000 and 28.3% in 1999. The decrease in the current year was due to a reduction in overhead costs, as well as marketing support efficiencies. The increase in 2000 reflects the high level of initiative investment.

Margins

In 2001, gross margin was 43.7%, compared to 46.1% in 2000 and 44.8% in 1999. Gross margin included restructuring charges that consisted primarily of accelerated depreciation, asset write-downs and employee separation costs for manufacturing employees.

Excluding these charges, gross margin was 46.8%, 47.4% and 46.0% in 2001, 2000 and 1999, respectively, reflecting rising material costs despite the benefit of pricing actions and effective cost management.

Operating margin was 12.1%, compared to 14.9% in 2000 and 16.4% in 1999. Excluding restructuring charges, core operating margin was 16.7%, compared to 16.9% in 2000 and 17.7% in 1999.

Net earnings margin was 7.4% versus 8.9% in 2000 and 9.9% in 1999. Excluding restructuring charges, core net earnings margin was 11.2%, up from 10.6% in 2000 and 10.9% in 1999. The margin increase in 2001 reflects the gains from minor brand divestitures and lower taxes, partially offset by increased product costs and unfavorable exchange impacts. In 2000, the core net earnings margin decreased, reflecting increased spending, primarily from initiative investments.

Non-Operating Items

Interest expense was $794 million in 2001, compared to $722 million in 2000 and $650 million in 1999. The interest expense trend reflects higher average debt levels, primarily due to share repurchases and acquisitions.

Other income, net, which consists primarily of interest and investment income and divestiture gains contributed $674 million, compared to $304 million in 2000 and $235 million in 1999. Increased gains from the divestiture of minor brands drove the year-to-year changes.

Our effective tax rate for the current year was 36.7%, compared to 36.0% in 2000 and 35.5% in 1999. Excluding restructuring costs and related tax effects, the effective tax rate was 32.0%, compared to 33.4% in 2000 and 34.4% in 1999. This change reflects the continuing benefit of the implementation of our new global business unit structure.

Table of Contents

Financial Condition

One of our focus areas is to improve our cash efficiency as a key element of achieving superior shareholder return.

Cash

Operating cash flow provides the primary source of funds to finance operating needs, capital expenditures and shareholder dividends. This is supplemented by additional borrowings to provide funds to finance the share repurchase program and acquisitions.

Cash flow from operations was $5.80 billion, $4.68 billion and $5.54 billion in 2001, 2000 and 1999, respectively. Operating cash flow trends were primarily impacted by working capital changes, including the impact of restructuring program accruals.

Cash and cash equivalents increased $891 million in the current year to $2.31 billion, reflecting reduced capital expenditures and improved working capital. Cash and cash equivalents were $1.42 billion in 2000 and $2.29 billion in 1999. The decrease in 2000 reflected acquisition spending and lower net earnings, partially offset by the issuance of debt.

Net cash used for acquisitions completed during 2001 totaled $138 million. This compares to acquisition spending of $2.97 billion in 2000 and $137 million in 1999. Spending in fiscal 2000 was primarily related to the acquisitions of The Iams Company and Affiliates, Recovery Engineering, Inc. and a joint venture ownership increase in China. In May 2001, the Company announced its intent to acquire the Clairol business, pending regulatory clearance. This transaction was consummated in November 2001. A substantial portion of the $4.95 billion purchase price was financed with debt.

We continue our program to divest certain non-strategic brands in order to focus resources on core businesses. The proceeds from these and other asset sales generated $788 million in cash flow in the current year, compared to $419 million and $434 million in 2000 and 1999, respectively.

We maintain a share repurchase program, which authorizes the purchase of shares annually on the open market to mitigate the dilutive impact of employee compensation programs. We also have a discretionary buy-back program under which we may repurchase additional outstanding shares. Current year purchases under the combined programs were $1.25 billion, compared to $1.77 billion in 2000 and $2.53 billion in 1999. We issued equity put options in 2001 for one million shares at approximately $74 per share and for 12 million shares at prices ranging from $60 to $71 per share in 2000, which reduced our cash outlay for share repurchases.

Common share dividends grew 9% to $1.40 per share in 2001, compared to $1.28 and $1.14 in 2000 and 1999, respectively. During 2002, the annual dividend rate will increase to $1.52 per common share, marking the 46th consecutive year of increased common share dividend payments. Total dividend payments, to both common and preferred shareholders, were $1.94 billion, $1.80 billion and $1.63 billion in 2001, 2000 and 1999, respectively.

Total debt was fairly stable at $12.03 billion at June 30, 2001 and $12.25 billion at June 30, 2000. A number of factors influenced the various debt components, including issuance of long-term debt, reductions in short-term debt, currency effects and mark-to-market impacts of derivative financial instruments.

Long-term borrowing available under our shelf registration statement filed in 1995, as amended in July 1997 and September 1999, was $489 million at June 30, 2001. Additionally, the Company is able to issue commercial paper at favorable rates and to access general bank financing.

Table of Contents

Capital Spending

Significant progress was made in 2001, as capital expenditures decreased to $2.49 billion compared to $3.02 billion in 2000 and $2.83 billion in 1999. Current year spending is 6.3% of net sales, compared to 7.6% and 7.4% in 2000 and 1999. During 2001, capital spending declined in most segments due to more choiceful investments, increased efficiencies and favorable currency impacts.

FORWARD LOOKING STATEMENTS

All statements, other than statements of historical fact, included or incorporated by reference in this prospectus and in any prospectus supplement, are forward looking statements, as that term is defined in the Private Securities Litigation Reform Act of 1995. In addition to the risks and uncertainties noted in this prospectus and in any prospectus supplement, there are certain risk factors that could cause results to differ materially from those anticipated by some of the statements made. These include achievement of the business unit volume and income growth projections, the achievement of our cost containment goals, the successful integration of the Clairol business, the timely and successful closing of the Jif and Crisco spin/merge transaction, the continued political and/or economic uncertainty in Latin America, any political and/or economic uncertainty due to terrorist activities, Kmart s successful management during, and emergence from, Chapter 11 bankruptcy and our successful management of business, legal and financial matters during Kmart s Chapter 11 bankruptcy proceedings, as well as factors listed in Management s Discussion and Analysis of Financial Condition and Results of Operations in our most recently filed Forms 10-K and 10-Q and in our most recently filed Form 8-Ks.

Table of Contents

USE OF PROCEEDS

Unless otherwise indicated in the applicable prospectus supplement, we will use the net proceeds from the sale of debt securities and warrants offered by this prospectus for general corporate purposes.

Table of Contents

DESCRIPTION OF DEBT SECURITIES

This section describes the general terms and provisions of any debt securities that we may offer in the future. A prospectus supplement relating to a particular series of debt securities will describe the specific terms of that particular series and the extent to which the general terms and provisions apply to that particular series.

General

We expect to issue the debt securities under an indenture, dated as of September 28, 1992, between us and Bank One Trust Company, NA, successor in interest to The First National Bank of Chicago, as trustee. We have filed a copy of the indenture as an exhibit to the registration statement of which this prospectus forms a part. The following summaries of various provisions of the indenture are not complete. You should read the indenture for a more complete understanding of the provisions described in this section. The indenture itself, not this description or the description in the prospectus supplement, defines your rights as a holder of debt securities. Parenthetical section and article numbers in this description refer to sections and articles in the indenture.

The debt securities will be unsecured obligations of Procter & Gamble. The indenture does not limit the amount of debt securities that we may issue under the indenture. The indenture provides that we may issue debt securities from time to time in one or more series.

Terms of a Particular Series

Each prospectus supplement relating to a particular series of debt securities will include specific information relating to the offering. This information will include some or all of the following terms of the debt securities of the series:

- the title of the debt securities;
- any limit on the total principal amount of the debt securities;
- the date or dates on which the debt securities will mature;
- the rate or rates, which may be fixed or variable, at which the debt securities will bear interest, if any, and the date or dates from which interest will accrue;
- the dates on which interest, if any, will be payable and the regular record dates for interest payments;
- any mandatory or optional sinking fund or similar provisions;

any optional or mandatory redemption provisions, including the price at which, the periods within which, and the terms and conditions upon which we may redeem or repurchase the debt securities;

the terms and conditions upon which the debt securities may be repayable prior to final maturity at the option of the holder;

the portion of the principal amount of the debt securities that will be payable upon acceleration of maturity, if other than the entire principal amount;

provisions allowing us to defease the debt securities or certain restrictive covenants and certain events of default under the indenture;

if other than in United States dollars, the currency or currencies, including composite currencies, of payment of principal of and premium, if any, and interest on the debt securities;

Table of Contents

the federal income tax consequences and other special considerations applicable to any debt securities denominated in a currency or currencies other than United States dollars;

any index used to determine the amount of payments of principal of and premium, if any, and interest, if any, on the debt securities;

if the debt securities will be issuable only in the form of a global security as described below, the depository or its nominee with respect to the debt securities and the circumstances under which the global security may be registered for transfer or exchange in the name of a person other than the depository or its nominee; and

any other terms of the debt securities. (Section 301)

Payment of Principal, Premium and Interest

Unless otherwise indicated in the prospectus supplement, principal of and premium, if any, and interest, if any, on the debt securities will be payable, and the debt securities will be exchangeable and transfers of debt securities will be registrable, at the office of the trustee at One North Street, 9th Floor, Chicago, Illinois 60670. At our option, however, payment of interest may be made by:

wire transfer on the date of payment in immediately available federal funds or next day funds to an account specified by written notice to the trustee from any holder of debt securities;

any similar manner that the holder may designate in writing to the trustee; or

check mailed to the address of the holder as it appears in the security register. (Sections 301, 305 and 1002)

Any payment of principal and premium, if any, and interest, if any, required to be made on a day that is not a business day need not be made on that day, but may be made on the next succeeding business day with the same force and effect as if made on the non-business day. No interest will accrue for the period from and after the non-business day. (Section 113)

Unless otherwise indicated in the prospectus supplement relating to the particular series of debt securities, we will issue the debt securities only in fully registered form, without coupons, in denominations of $1,000 or any multiple of $1,000. (Section 302) We will not require a service charge for any transfer or exchange of the debt securities, but we may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection with any transfer or exchange. (Section 305)

Original Issue Discount Securities

Debt securities may be issued under the indenture as original issue discount securities to be offered and sold at a substantial discount from their stated principal amount. An original issue discount security under the indenture includes any security which provides for an amount less than its principal amount to be due and payable upon a declaration of acceleration upon the occurrence of an event of default. In addition, under regulations of the U.S. Treasury Department it is possible that debt securities which are offered and sold at their stated principal amount would, under certain circumstances, be treated as issued at an original issue discount for federal income tax purposes, and special rules may apply to debt securities and warrants which are considered to be issued as investment units . Federal income tax consequences and other special considerations applicable to any such original issue discount securities, or other debt securities treated as issued at an original issue discount, and to investment units will be described in the applicable prospectus supplement.

Table of Contents

Book-Entry Debt Securities

The debt securities of a series may be issued in the form of one or more global securities that will be deposited with a depository or its nominee identified in the prospectus supplement relating to the debt securities. In this case, one or more global securities will be issued in a denomination or total denominations equal to the portion of the total principal amount of outstanding debt securities to be represented by the global security or securities. Unless and until it is exchanged in whole or in part for debt securities in definitive registered form, a global security may not be registered for transfer or exchange except as a whole by the depository for the global security to a nominee of the depository and except in the circumstances described in the prospectus supplement relating to the debt securities. We will describe in the prospectus supplement the terms of any depositary arrangement and the rights and limitations of owners of beneficial interests in any global debt security. (Sections 204 and 305)

Restrictive Covenants

In this section we describe the principal covenants that will apply to the debt securities unless the prospectus supplement for a particular series of debt securities states otherwise. We make use of several defined terms in this section. The definitions for these terms are located at the end of this section under Definitions Applicable to Covenants.

Restrictions on Secured Debt

If we or any Domestic Subsidiary shall incur, assume or guarantee any Debt secured by a Mortgage on any Principal Domestic Manufacturing Property or on any shares of stock or debt of any Domestic Subsidiary, we will secure, or cause such Domestic Subsidiary to secure, the debt securities then outstanding equally and ratably with (or prior to) such Debt. However, we will not be restricted by this covenant if, after giving effect to the particular Debt so secured the total amount of all Debt so secured, together with all Attributable Debt in respect of sale and leaseback transactions involving Principal Domestic Manufacturing Properties, would not exceed 5% of our and our consolidated subsidiaries Consolidated Net Tangible Assets.

In addition, the restriction will not apply to, and there shall be excluded in computing secured Debt for the purpose of the restriction, Debt secured by

(1) Mortgages on property of, or on any shares of stock or debt of, any corporation existing at the time the corporation becomes a Domestic Subsidiary;

(2) Mortgages in favor of us or a Domestic Subsidiary;

(3) Mortgages in favor of U.S. governmental bodies to secure progress or advance payments;

(4) Mortgages on property, shares of stock or debt existing at the time of their acquisition, including acquisition through merger or consolidation, purchase money Mortgages and construction cost Mortgages; and

(5) any extension, renewal or refunding of any Mortgage referred to in the immediately preceding clauses (1) through (4), inclusive. (Section 1004)

The indenture does not restrict the incurrence of unsecured debt by us or our subsidiaries.

Table of Contents

Restrictions on Sales and Leasebacks

Neither we nor any Domestic Subsidiary may enter into any sale and leaseback transaction involving any Principal Domestic Manufacturing Property, the completion of construction and commencement of full operation of which has occurred more than 120 days prior to the transaction, unless

- we or the Domestic Subsidiary could incur a lien on the property under the restrictions described above under Restrictions on Secured Debt in an amount equal to the Attributable Debt with respect to the sale and leaseback transaction without equally and ratably securing the debt securities then outstanding or

- we, within 120 days, apply to the retirement of our Funded Debt an amount not less than the greater of (1) the net proceeds of the sale of the Principal Domestic Manufacturing Property leased pursuant to such arrangement or (2) the fair value of the Principal Domestic Manufacturing Property so leased, subject to credits for various voluntary retirements of Funded Debt.

This restriction will not apply to any sale and leaseback transaction

- between us and a Domestic Subsidiary,

- between Domestic Subsidiaries or

- involving the taking back of a lease for a period of less than three years. (Section 1005)

Definitions Applicable to Covenants

The term Attributable Debt means the total net amount of rent, discounted at 10% per annum compounded annually, required to be paid during the remaining term of any lease.

The term Consolidated Net Tangible Assets means the total amount of assets, less applicable reserves and other properly deductible items, after deducting (a) all current liabilities and (b) all goodwill, trade names, trademarks, patents, unamortized debt discount and expense and other like intangibles, all as described on our and our consolidated subsidiaries most recent balance sheet and computed in accordance with generally accepted accounting principles.

The term Debt means notes, bonds, debentures or other similar evidences of indebtedness for money borrowed.

The term Domestic Subsidiary means any of our subsidiaries except a subsidiary which neither transacts any substantial portion of its business nor regularly maintains any substantial portion of its fixed assets within the United States or which is engaged primarily in financing our and our subsidiaries operations outside the United States.

The term Funded Debt means Debt having a maturity of, or by its terms extendible or renewable for, a period of more than 12 months after the date of determination of the amount of Debt.

The term Mortgage means pledges, mortgages and other liens.

The term Principal Domestic Manufacturing Property means any facility (together with the land on which it is erected and fixtures comprising a part of the land) used primarily for manufacturing or processing, located in the United States, owned or leased by us or one of our subsidiaries and having a gross book value in excess of 3/4 of 1% of Consolidated Net Tangible Assets. However, the term Principal Domestic Manufacturing Property does not include any facility or portion of a facility (1) which is a pollution control or other facility financed by obligations issued by a state or local governmental unit pursuant to Section 103(b)(4)(E), 103(b)(4)(F) or 103(b)(6) of the Internal Revenue Code of 1954, or any successor provision thereof, or (2) which,

Table of Contents

in the opinion of our board of directors, is not of material importance to the total business conducted by us and our subsidiaries as an entirety.

Events of Default

Any one of the following are events of default under the indenture with respect to debt securities of any series:

(1) our failure to pay principal of or premium, if any, on any debt security of that series when due;

(2) our failure to pay any interest on any debt security of that series when due, continued for 30 days;

(3) our failure to deposit any sinking fund payment, when due, in respect of any debt security of that series;

(4) our failure to perform any other of our covenants in the indenture, other than a covenant included in the indenture solely for the benefit of other series of debt securities, continued for 90 days after written notice as provided in the indenture;

(5) certain events involving bankruptcy, insolvency or reorganization; and

(6) any other event of default provided with respect to debt securities of that series. (Section 501)

If an event of default with respect to outstanding debt securities of any series shall occur and be continuing, either the trustee or the holders of at least 25% in principal amount of the outstanding debt securities of that series may declare the principal amount (or, if the debt securities of that series are original issue discount securities, the portion of the principal amount as may be specified in the terms of that series) of all the debt securities of that series to be due and payable immediately. At any time after a declaration of acceleration with respect to debt securities of any series has been made, but before a judgment or decree based on acceleration has been obtained, the holders of a majority in principal amount of the outstanding debt securities of that series may, under some circumstances, rescind and annul the acceleration. (Section 502) For information as to waiver of defaults, see the section below entitled Modification and Waiver .

A prospectus supplement relating to each series of debt securities which are original issue discount securities will describe the particular provisions relating to acceleration of the maturity of a portion of the principal amount of such original issue discount securities upon the occurrence of an event of default and its continuation.

During default, the trustee has a duty to act with the required standard of care. Otherwise, the indenture provides that the trustee will be under no obligation to exercise any of its rights or powers under the indenture at the request or direction of any of the holders, unless the holders shall have offered to the trustee reasonable indemnity. (Section 603) If the provisions for indemnification of the trustee have been satisfied, the holders of a majority in principal amount of the outstanding debt securities of any series will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the trustee, or exercising any trust or power conferred on the trustee, with respect to the debt securities of that series. (Section 512)

We will furnish to the trustee annually a certificate as to our compliance with all conditions and covenants under the indenture. (Section 1007)

Table of Contents

Defeasance

The prospectus supplement will state if any defeasance provision will apply to the debt securities. Defeasance refers to the discharge of some or all of our obligations under the indenture.

Defeasance and Discharge

We will be discharged from any and all obligations in respect of the debt securities of any series if we deposit with the trustee, in trust, money and/or U.S. government securities which through the payment of interest and principal will provide money in an amount sufficient to pay the principal of and premium, if any, and each installment of interest on the debt securities of the series on the dates those payments are due and payable.

If we defease a series of debt securities, the holders of the debt securities of the series will not be entitled to the benefits of the indenture, except for

- the rights of holders to receive from the trust funds payment of principal, premium and interest on the debt securities,
- our obligation to register the transfer or exchange of debt securities of the series,
- our obligation to replace stolen, lost or mutilated debt securities of the series,
- our obligation to maintain paying agencies,
- our obligation to hold monies for payment in trust and
- the rights of holders to benefit, as applicable, from the rights, powers, trusts, duties and immunities of the trustee.

We may defease a series of debt securities only if, among other things:

- we have received from, or there has been published by, the Internal Revenue Service a ruling to the effect that holders of the debt securities of the series will not recognize income, gain or loss for federal income tax purposes as a result of the deposit, defeasance and discharge and will be subject to federal income tax on the same amount and in the same manner and at the same times as would have been the case if the deposit, defeasance and discharge had not occurred, and we have delivered to the trustee an opinion of counsel, who may be our employee or counsel, to the effect that the debt securities of the series, if then listed on the New York Stock Exchange, will not be delisted as a result of the deposit, defeasance and discharge. (Section 403)

Defeasance of Covenants and Events of Default

We may omit to comply with the covenants described above under Restrictions on Secured Debt (Section 1004) and Restrictions on Sales and Leasebacks (Section 1005), and the failure to comply with these covenants will not be deemed an event of default (Section 501(4)), if we deposit with the trustee, in trust, money and/or U.S. government securities which through the payment of interest and principal will provide money in an amount sufficient to pay the principal of and premium, if any, and each installment of interest on the debt securities of the series on the dates those payments are due and payable. Our obligations under the indenture and the debt securities of the series will remain in full force and effect, other than with respect to the defeased covenants and related events of default.

We may defease the covenants and the related events of default described above only if, among other things, we have delivered to the trustee an opinion of counsel, who may be our employee or counsel, to the effect that

the holders of the debt securities of the series will not recognize income, gain or loss for federal income tax purposes as a result of the deposit and defeasance of the covenants and events of default, and the

Table of Contents

holders of the debt securities of the series will be subject to federal income tax on the same amount and in the same manner and at the same times as would have been the case if the deposit and defeasance had not occurred, and

the debt securities of the series, if then listed on the New York Stock Exchange, will not be delisted as a result of the deposit and defeasance. (Section 1006)

If we choose covenant defeasance with respect to the debt securities of any series as described above and the debt securities of the series are declared due and payable because of the occurrence of any event of default other than the event of default described in clause (4) under Events of Default , the amount of money and U.S. government securities on deposit with the trustee will be sufficient to pay amounts due on the debt securities of the series at the time of their stated maturity. The amount on deposit with the trustee may not be sufficient to pay amounts due on the debt securities of the series at the time of the acceleration resulting from the event of default. However, we will remain liable for these payments.

Modification and Waiver

Procter & Gamble and the trustee may make modifications of and amendments to the indenture if the holders of at least 66 $^{2}/_{3}$% in principal amount of the outstanding debt securities of each series affected by the modification or amendment consent to the modification or amendment.

However, the consent of the holder of each debt security affected will be required for any modification or amendment that

changes the stated maturity of the principal of, or any installment of principal of or interest on, any debt security,

reduces the principal amount of, or the premium, if any, or interest, if any, on, any debt security,

reduces the amount of principal of an original issue discount security payable upon acceleration of the maturity of the security,

changes the place or currency of payment of principal of, or premium, if any, or interest, if any, on, any debt security,

impairs the right to institute suit for the enforcement of any payment on any debt security, or

reduces the percentage in principal amount of debt securities of any series necessary to modify or amend the indenture or to waive compliance with various provisions of the indenture or to waive various defaults. (Section 902)

Without the consent of any holder of debt securities, we and the trustee may make modifications or amendments to the indenture in order to

evidence the succession of another person to us and the assumption by that person of the covenants in the indenture, add to the covenants for the benefit of the holders,

add additional events of default,

permit or facilitate the issuance of securities in bearer form or uncertificated form,

add to, change, or eliminate any provision of the indenture in respect of a series of debt securities to be created in the future,

Table of Contents

secure the securities as required by Restrictions on Secured Debt,

establish the form or terms of securities of any series,

evidence the appointment of a successor trustee, or

cure any ambiguity, correct or supplement any provision which may be inconsistent with another provision, or make any other provision, provided that any action may not adversely affect the interests of holders of debt securities in any material respect.

The holders of at least 66 $^{2}/_{3}$% in principal amount of the outstanding debt securities of any series may on behalf of the holders of all debt securities of that series waive compliance by us with various restrictive provisions of the indenture. (Section 1008)

The holders of a majority in principal amount of the outstanding debt securities of any series may on behalf of the holders of all debt securities of that series waive any past default with respect to that series, except

a default in the payment of the principal of or premium, if any, or interest on any debt security of that series, or

a default in respect of a provision which under the indenture cannot be modified or amended without the consent of the holder of each outstanding debt security of that series that would be affected. (Section 513)

Consolidation, Merger and Sale of Assets

If the conditions below are met, we may, without the consent of any holders of outstanding debt securities:

consolidate or merge with or into another entity, or

transfer or lease our assets as an entirety to another entity.

We have agreed that we will engage in a consolidation, merger or transfer or lease of assets as an entirety only if

the entity formed by the consolidation or into which we are merged or which acquires or leases our assets is a corporation, partnership or trust organized and existing under the laws of any United States jurisdiction and assumes our obligations on the debt securities and under the indenture,

after giving effect to the transaction no event of default would have happened and be continuing, and various other conditions are met. (Article Eight)

Regarding the Trustee

Bank One Trust Company, NA, successor in interest to The First National Bank of Chicago, is the trustee under the indenture. Bank One is also a depositary of Procter & Gamble and has performed other services for us and our subsidiaries in the normal course of its business.

Table of Contents

DESCRIPTION OF WARRANTS

This section describes the general terms and provisions of the warrants to which any prospectus supplement may relate. The particular terms of the warrants offered by any prospectus supplement and the extent, if any, to which the general provisions may apply to the warrants so offered will be described in the prospectus supplement relating to the offered warrants.

We may issue the following types of warrants:

- warrants for the purchase of debt securities,
- warrants to buy or sell government debt securities, which are debt securities of or guaranteed by the United States,
- warrants to buy or sell foreign currencies, currency units or units of a currency index or currency basket,
- warrants to buy or sell units of a stock index or stock basket and
- warrants to buy and sell a commodity or a commodity index.

We may issue warrants independently or together with any debt securities offered by any prospectus supplement. Warrants may be attached to or separate from any debt securities. The warrants will be settled either through physical delivery or through payment of a cash settlement value as described below and in any applicable prospectus supplement.

Warrants will be issued under a warrant agreement to be entered into between Procter & Gamble and a bank or trust company, as warrant agent, all as described in the prospectus supplement relating to the particular issue of warrants. The warrant agent will act solely as our agent in connection with the warrant certificates and will not assume any obligation or relationship of agency or trust for or with any holders of warrant certificates or beneficial owners of warrants.

We have filed a copy of the form of warrant agreement, including the form of warrant certificate, as an exhibit to the registration statement of which this prospectus forms a part. The following summaries of various provisions of the form of warrant agreement are not complete. You should read the form of warrant agreement for a more complete understanding of the provisions described in this section. The warrant agreement itself, not this description or the description in the prospectus supplement, defines your rights as a holder of warrants.

Terms

The prospectus supplement will describe the following terms of the offered warrants:

the offering price;

the currency, currency unit, currency index or currency basket based on or relating to currencies for which warrants may be purchased;

the date on which the right to exercise the warrants commences and the date on which the right expires;

whether the warrant certificates will be issuable in definitive registered form or global form or both;

federal income tax consequences;

whether the warrant is for debt securities, government debt securities, currencies, currency units, currency indices or currency baskets, stock indices, stock baskets,

Table of Contents

- commodities, commodity indices or another index or reference as described in the prospectus supplement; and
- any other terms of the warrants, including any terms which may be required or advisable under United States laws or regulations.

Warrants to Purchase Debt Securities

If the offered warrants are to purchase debt securities, the prospectus supplement will also describe

- the designation, total principal amount, currency, currency unit or currency basket of denomination and other terms of the debt securities purchasable upon exercise of the offered warrants;
- the designation and terms of the debt securities with which the offered warrants are issued and the number of offered warrants issued with each debt security;
- the date on and after which the offered warrants and the related debt securities will be separately transferable; and
- the principal amount of debt securities purchasable upon exercise of one offered warrant and the price at which and currency, currency unit or currency basket in which such principal amount of debt securities may be purchased upon exercise.

Warrants to Buy or Sell Government Debt Securities or Foreign Currencies

If the offered warrants are to buy or sell government debt securities or a foreign currency, currency unit, currency index or currency basket, the offered warrants will be listed on a national securities exchange and the prospectus supplement will describe

- the amount and designation of the government debt securities or currency, currency unit, currency index or currency basket, as the case may be, subject to each offered warrant,
- whether the offered warrants provide for cash settlement or delivery of the government debt securities or foreign currency, currency unit, units of the currency index or currency basket upon exercise, and

	December 1	December 31, 2008
Total	2,086	

ITEM 6. ***SELECTED FINANCIAL DATA***

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

The consolidated statements of operations data and the consolidated statements of cash flows data for each of the three years ended December 31, 2008, 2007 and 2006 as well as the consolidated balance sheet data as of December 31, 2008 and 2007 are derived from and should be read together with our audited consolidated financial statements and related notes appearing in this report. The consolidated statements of operations data and the consolidated statements of cash flows data for the years ended December 31, 2005 and 2004 as well as the consolidated balance sheet data as of December 31, 2006, 2005 and 2004 are derived from our audited consolidated financial statements not included in this report. Our historical results are not necessarily indicative of results to be expected for future periods.

	Year Ended December 31,				
	2008	**2007**	**2006**	**2005**	**2004**
	(In thousands, except share and per share data)				
Consolidated Statement of Operations Data:					
Revenues	$ 117,371	$ 87,153	$ 66,293	$ 50,267	$ 34,894
Cost of revenues(1)	34,562	23,858	20,560	18,218	13,153
Selling and marketing(1)	39,400	28,659	21,473	18,953	13,890
Research and development(1)	14,832	11,413	9,009	7,416	5,493
General and administrative(1)	16,785	11,599	8,293	7,089	4,982
Amortization	804	966	1,371	2,437	356
Total expenses from operations	106,383	76,495	60,706	54,113	37,874
Income (loss) from operations	10,988	10,658	5,587	(3,846)	(2,980)
Interest income (expense), net	1,900	2,627	231	(208)	(246)
(Loss) gain from foreign currency	(321)	(296)	125	(96)	
Impairment of marketable securities	(2,239)				
Other	(37)				
Revaluation of preferred stock warrant liabilities		(1,195)	(224)	(14)	
Income (loss) before income taxes and cumulative effect of change in accounting principle	10,291	11,794	5,719	(4,164)	(3,226)
Benefit (provision) for income taxes	14,895	7,522	(50)	182	
Net income (loss) before cumulative effect of change in	25,186	19,316	5,669	(3,982)	(3,226)

accounting principle										
Cumulative effect of change in accounting principle								(440)		
Net income (loss)		25,186		19,316		5,669		(4,422)		(3,226)
Accretion of redeemable preferred stock				(1,829)		(3,179)		(2,638)		(2,141)
Net income (loss) attributable to common stockholders	$	25,186	$	17,487	$	2,490	$	(7,060)	$	(5,367)
Net income (loss) attributable to common stockholders per common share:										
Basic	$	0.88	$	0.99	$		$	(2.30)	$	(1.88)
Diluted	$	0.83	$	0.88	$		$	(2.30)	$	(1.88)
Weighted-average number of shares used in per share calculations:										
Basic		28,691,216		16,139,365		3,847,213		3,130,194		2,871,713
Diluted		30,232,714		18,377,563		3,847,213		3,130,194		2,871,713

43

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

	2008	2007	2006	2005	2004
			(In thousands)		
Cost of revenues	$ 861	$ 279	$ 12	$	$
Selling and marketing	2,611	1,009	82		
Research and development	706	245	13		
General and administrative	2,296	941	91	3	14

	2008	2007	December 31, 2006 (In thousands)	2005	2004
Consolidated Balance Sheet Data:					
Cash, cash equivalents and short-term investments	$ 71,461	$ 96,817	$ 16,032	$ 9,174	$ 8,404
Total current assets	116,583	123,444	31,493	20,792	15,678
Total assets	199,563	147,672	42,087	29,477	23,618
Total current liabilities	55,992	42,077	32,880	27,220	18,591
Equipment loan and capital lease obligations, long-term		977	2,261	1,283	1,438
Preferred stock warrant liabilities and common stock subject to put		1,815	5,362	4,997	(2,141)
Redeemable preferred stock			101,695	98,516	95,878
Stockholders equity (deficit)	134,880	102,622	(99,557)	(102,294)	(95,230)

	Year Ended December 31,				
	2008	2007	2006	2005	2004
			(In thousands)		
Consolidated Statement of Cash Flows Data:					
Net cash provided by operating activities	$ 32,259	$ 21,211	$ 10,905	$ 4,253	$ 1,907
Depreciation and amortization	5,775	4,730	4,259	5,123	2,745
Capital expenditures	14,252	3,635	2,314	1,071	1,208

Please see Critical Accounting Policies and Estimates under Part II, Item 7 of this Annual Report on Form 10-K for further discussion of key accounting changes which occurred during the years covered in the above table. Additional information regarding business combinations and dispositions for the relevant periods above may be found in the notes accompanying our consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K.

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

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

Overview

We provide a leading digital marketing intelligence platform that helps our customers make better-informed business decisions and implement more effective digital business strategies. Our products and solutions offer our 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.

Our digital marketing intelligence platform is comprised of proprietary databases and a computational infrastructure that measures, analyzes and reports on digital activity. The foundation of our platform is data collected from our comScore panel of more than two million Internet users worldwide who have granted us explicit permission to confidentially measure their Internet usage patterns, online and certain offline buying behavior and other activities. By applying advanced statistical methodologies to our panel data, we project consumers online behavior for the total online population and a wide variety of user categories.

We deliver our digital marketing intelligence through our comScore Media Metrix product family, through our comScore Marketing Solutions products and since May 2008 through our M:Metrics products suite. Media Metrix delivers digital media intelligence by providing an independent, third-party measurement of the size, behavior and characteristics of Web site and online advertising network audiences among home, work and university Internet users as well as insight into the effectiveness of online advertising. Our Marketing Solutions products combine the proprietary information gathered from the comScore panel with the vertical industry expertise of comScore analysts to deliver digital marketing intelligence, including the measurement of online advertising effectiveness, customized for specific industries. We typically deliver our Media Metrix products electronically in the form of weekly, monthly or quarterly reports. Customers can access current and historical Media Metrix data and analyze these data anytime online. Our M:Metrics products suite connects mobile consumer behavior, content merchandising, and device capabilities to provide comprehensive mobile market intelligence. Customers can access our M:Metrics data sets and reports anytime online. Our Marketing Solutions products are typically delivered on a monthly, quarterly or ad hoc basis through electronic reports and analyses.

Our company was founded in August 1999. By 2000, we had established a panel of Internet users and began delivering digital marketing intelligence products that measured online browsing and buying behavior to our first customers. We also introduced netScore, our initial syndicated Internet audience measurement product. We accelerated our introduction of new products in 2003 with the launch of Plan Metrix (formerly AiM 2.0), qSearch, and the Campaign R/F (Reach and Frequency) analysis system and product offerings that measure online activity at the local market level. By 2004, we had built a global panel of over two million Internet users. In that year, in cooperation with Arbitron, we launched a service that provides ratings of online radio audiences. In 2005, we expanded our presence in Europe by opening an office in London. In 2006, we continued to expand our measurement capabilities with the launch of World Metrix, a product that provides worldwide data on digital media usage, and Video Metrix, our product that measures the audience for streaming online video. In 2007, we completed our initial public offering, resulting in the sale and issuance by us of 5,000,000 shares of our common stock, and we also launched ten new products during that year, including Campaign Metrix, qSearch 2.0, Ad Metrix, Brand Metrix, Segment Metrix and comScore Marketer. During the first quarter of 2008, we launched Ad Metrix-Advertiser View, a tool for agencies and publishers designed to support their media buying and selling activities and supply their competitive intelligence needs. In April 2008, we launched the second generation of our media planning product, Plan Metrix, and increased the frequency of reporting from semi-annual to a monthly cycle. In October 2008, we launched Extended Web Measurement which allows the tracking of distributed web content across third party sites, such as video, music, gaming applications, widgets and social media. It enables publishers to report audience reach and characteristics of their various advertising sales packages providing them with the ability to market those packages more effectively.

We have complemented our internal development initiatives with select acquisitions. On June 6, 2002, we acquired certain Media Metrix assets from Jupiter Media Metrix, Inc. Through this acquisition, we acquired certain Internet audience measurement services that report details of Web site usage and visitor demographics. On July 28, 2004, we acquired the outstanding stock of Denaro and Associates, Inc, otherwise known as Q2 Brand Intelligence, Inc. or Q2, to improve our ability to provide our customers more robust survey research integrated with our underlying digital marketing intelligence platform. On January 4, 2005, we acquired the assets and assumed certain liabilities of SurveySite Inc., or SurveySite. Through this acquisition, we acquired proprietary Internet-based data-collection technologies and increased our customer penetration and revenues in the survey business. On May 28, 2008, we acquired the outstanding stock of M:Metrics, Inc. to expand our abilities to provide our customers a more robust solution for the mobile medium. The total cost of the acquisition of M:Metrics was approximately $46.0 million, consisting of cash and transaction fees.

Our total revenues have grown to $117.4 million during the fiscal year ending December 31, 2008 from $50.2 million during the fiscal year ended December 31, 2005. By comparison, our total expenses from operations have grown to $106.4 million from $54.1 million over the same period. The growth in our revenues was primarily the result of:

- increased sales to existing customers, as a result of our efforts to deepen our relationships with these clients by increasing their awareness of, and confidence in, the value of our digital marketing intelligence platform;
- growth in our customer base through the addition of new customers;
- increases in the prices of our products and services;
- the sales of new products to existing and new customers;
- growth in sales outside of the U.S. as a result of entering into new international markets; and
- growth from the acquisition of M:Metrics.

As of December 31, 2008, we had 1,166 customers, compared to 565 as of December 31, 2005. We sell most of our products through our direct sales force. We established an inside sales force dedicated to selling comScore Marketer, which was launched in the fourth quarter of 2007.

As a result of the recent global financial crisis in the credit markets, softness in the housing markets, difficulties in the financial services sector and continuing economic uncertainties, the direction and relative strength of the U.S. and global economies have become increasingly uncertain. During the year ended December 31, 2008, we experienced a limited number of our current and potential customers ceasing, delaying or reducing renewals of existing subscriptions and purchases of new or additional services and products presumably due to the current economic downturn. Further, certain of our existing customers have exited the market due to industry consolidation and bankruptcy in connection with these challenging economic conditions. Despite this economic downturn, we continued to add net new customers during each quarter of 2008, and our existing customers renewed their subscriptions at a rate of over 90% based on dollars renewed in the year ended December 31, 2008. However, if these adverse economic conditions continue or further deteriorate, our operating results could be adversely affected.

Our Revenues

We derive our revenues primarily from the fees that we charge for subscription-based products and customized projects. We define subscription-based revenues as revenues that we generate from products that we deliver to a customer on a recurring basis. We define project revenues as revenues that we generate from customized projects that are performed for a specific customer on a non-recurring basis. We market our subscription-based products, customized projects and survey services within the comScore Media Metrix and M:Metrics product families and through comScore Marketing Solutions.

A significant characteristic of our business model is our large percentage of subscription-based contracts. Subscription-based revenues accounted for 78% of our total revenues in 2004 and decreased to 70% of total revenues in 2005 primarily due to the acquisition of SurveySite. Subscription-based revenues increased to 75% of total revenues in 2006, to 79% in 2007 and to 83% of total revenues during the year ended December 31, 2008.

Many of our customers who initially purchased a customized project have subsequently purchased one of our subscription-based products. Similarly, many of our subscription-based customers have subsequently purchased additional customized projects.

Historically, we have generated most of our revenues from the sale and delivery of our products to companies and organizations located within the United States. We intend to expand our international revenues by selling our products and deploying our direct sales force model in additional international markets in the future. For the year ended December 31, 2008, our international revenues were $16.5 million, an increase of $6.4 million, or 63%, compared to 2007. International revenues comprised approximately 14%, 12% and 9% of our total revenues for the fiscal years ended December 31, 2008 and 2007 and, 2006, respectively.

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

Subscription Revenues

We generate a significant proportion of our subscription-based revenues from our Media Metrix product family. Products within the Media Metrix family include Media Metrix 2.0, Plan Metrix, World Metrix, Video Metrix and Ad Metrix. These product offerings provide subscribers with intelligence on digital media usage, audience characteristics, audience demographics and online and offline purchasing behavior. Customers who subscribe to our Media Metrix products are provided with login IDs to our Web site, have access to our database and can generate reports at anytime.

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

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

Project Revenues

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

In the second quarter of 2007, we launched Campaign Metrix, a suite of products that enables our customers to measure their return on investment from their investment in digital marketing campaigns and that we believe will help their revenue growth. In 2008, we also launched Brand Metrix, which shows customers the test compared to control effectiveness of a campaign using survey-based metrics that we collect for our Ad Recruit technology. Project revenues from Campaign Metrix and Brand Metrix will be generated when a customer accesses or downloads a report through our Web site. Pricing for our Campaign Metrix and Brand Metrix products are presently based on the scope of the information provided in the report generated by the customer.

Critical Accounting Policies and Estimates

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

Revenue Recognition

We recognize revenues in accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 104, *Revenue Recognition* (SAB 104). SAB 104 requires that four basic criteria must be met prior to revenue recognition: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or the services have been rendered, (iii) the fee is fixed or determinable, and (iv) collection of the resulting receivable is reasonably assured.

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

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

Certain of our arrangements contain multiple elements, consisting of the various services we offer. Multiple element arrangements typically consist of a subscription to our online database combined with customized services. These arrangements are accounted for in accordance with Emerging Issues Task Force (EITF) Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables*. We have determined that there is not objective and reliable evidence of fair value for any of our services and, therefore, account for all elements in multiple elements 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 contract execution. We recognize 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 customized service delivered.

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

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.

Fair Value Measurements

As of January 1, 2008, we adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 clarifies that 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, SFAS No. 157 establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

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

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

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

This hierarchy requires the use of observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. On a recurring basis, we measure our marketable securities at fair value and determine the appropriate classification level for each reporting period. This determination requires significant judgments to be made by us.

Our 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 a discounted cash flow model that takes into consideration the securities coupon rate, the financial condition of the issuers and the bond insurers, the expected date liquidity will be restored, as well as an applied illiquidity discount. The types of instruments valued based on quoted market prices in active markets include most 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.

Goodwill and Intangible Assets

We record goodwill and intangible assets when we acquire other businesses. The allocation of acquisition costs to intangible assets and goodwill involves the extensive use of management s estimates and assumptions, and the result of the allocation process can have a significant impact on our future operating results. We estimate the fair value of identifiable intangible assets acquired using several different valuation approaches, including the replacement cost, income and market approaches. The replacement cost approach is based on determining the discrete cost of replacing or reproducing a specific asset. We generally use the replacement cost approach for estimating the value of acquired technology/methodology assets. The income approach converts the anticipated economic benefits that we assume will be realized from a given asset into value. Under this approach, value is measured as the present worth of anticipated future net cash flows generated by an asset. We generally use the income approach to value customer relationship assets and non-compete agreements. The market approach compares the acquired asset to similar assets that have been sold. We generally use the market approach to value trademarks and brand assets.

Under SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142), intangible assets with finite lives are amortized over their useful lives while goodwill and indefinite lived assets are not amortized, but rather are periodically tested for impairment. An impairment review generally requires developing assumptions and projections regarding our operating performance. In accordance with SFAS 142, we have determined that all of our goodwill is associated with one reporting unit as we do not operate separate lines of business with respect to our services. Accordingly, on an annual basis we perform the impairment assessment for goodwill required under SFAS 142 at the enterprise level by comparing the fair value of our reporting unit to its carrying value including goodwill recorded by the reporting unit. If the carrying value exceeds the fair value, impairment is measured by comparing the implied fair value of the goodwill to its carrying value and any impairment determined is recorded in the current period. If our estimates or the related assumptions change in the future, we may be required to record impairment charges to reduce the carrying value of these assets, which could be material.

Long-lived assets

Our long-lived assets primarily consist of property and equipment and intangible assets. In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* , we evaluate the recoverability of our long-lived assets for impairment whenever events or changes in circumstances indicate the carrying value of such assets may not be recoverable. If an indication of impairment is present, we compare the estimated undiscounted future cash flows to be generated by the asset to its carrying amount. Recoverability measurement and estimation of undiscounted cash flows are grouped at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. If the undiscounted future cash flows are less than the carrying amount of the asset, we record 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 we believe that the carrying values of our long-lived assets are appropriately stated, changes in strategy or market conditions or significant technological developments could significantly impact these judgments and require adjustments to recorded asset balances. There were no impairment charges recognized during the years ended December 31, 2008, 2007, or 2006.

Allowance for Doubtful Accounts

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

Income Taxes

We account for income taxes using the liability method in accordance with SFAS No. 109, *Accounting for Income Taxes*. We estimate our tax liability through calculations we perform for the determination of our current tax liability, together with assessing temporary differences resulting from the different treatment of items for income tax and financial reporting purposes. These differences result in deferred tax assets and liabilities, which are recorded on our balance sheet. We then assess the likelihood that deferred tax assets will be recovered in future periods. In assessing the need for a valuation allowance against the net deferred tax asset, we consider factors such as future reversals of existing taxable temporary differences, taxable income in prior carryback years, if carryback is permitted under the tax law, tax planning strategies and future taxable income exclusive of reversing temporary differences and carryforwards. To the extent that we cannot conclude that it is more likely than not that the benefit of such assets will be realized, we establish a valuation allowance to adjust the net carrying value of such assets.

As of December 31, 2008, we had both federal and state net operating loss carryforwards for tax purposes of approximately $64.6 million and $34.7 million, respectively. These net operating loss carryforwards begin to expire in 2021 for federal and begin to expire in 2014 for state income tax reporting purposes. In addition, at December 31, 2008, we had an aggregate net operating loss carryforward for tax purposes related to our foreign subsidiaries of $9.7 million which begin to expire in 2014.

As of December 31, 2008 and 2007, we had valuation allowances of $2.8 million and $21.3 million, respectively. At December 31, 2007, the valuation allowance related principally to net operating loss carryforwards.

At December 31, 2008, the remaining valuation allowance relates to the acquired deferred tax assets of our M:Metrics UK subsidiary and the deferred tax asset related to the impairment recorded on our marketable securities in the U.S.

We record a valuation allowance when we determine, based on available positive and negative evidence, that it is more likely than not that some portion or all of our deferred tax assets will not be realized. We determine the realizability of our deferred tax assets primarily based on projections of future taxable income (exclusive of reversing temporary differences and carryforwards). In evaluating such projections, we consider our history of profitability, the competitive environment, the overall outlook for the online marketing industry and general economic conditions. In addition, we consider the timeframe over which it would take to utilize the deferred tax assets prior to their expiration.

As of December 31, 2007, we concluded that it was more likely than not that a portion of our U.S. deferred tax assets would be realized in subsequent years and that a reduction of our valuation allowance was necessary. Considering our relatively limited history of profitability and the fact that the online marketing industry is a young and developing industry, we concluded that it was appropriate to consider future taxable income for a limited period of one year into the future. As a result, we recorded a reduction in the deferred tax asset valuation allowance of approximately $8.1 million.

As of December 31, 2008, we concluded that it was more likely than not that a substantial portion of our U.S. deferred tax assets and deferred tax assets in certain foreign jurisdictions would be realized and that a further reduction of our valuation allowance was necessary. In making that determination, we considered the profitability achieved during 2008, the successful integration of M:Metrics into the base business, and the continued maturity of the online marketing industry, balanced against the current overall economic environment. As a result, we recorded a reduction in the deferred tax asset valuation allowance of approximately $20.4 million.

The exercise of stock options during 2007 and 2008 generated income tax deductions equal to the excess of the fair market value over the exercise price. In accordance with SFAS No. 123R, *Share Based Compensation* (SFAS No. 123R), we will not recognize a deferred tax asset with respect to the excess stock compensation deductions until those deductions actually reduce our income tax liability. As such, we have not recorded a deferred tax asset related to the net operating losses resulting from the exercise of these stock options in the accompanying financial statements. At such time as we utilize these net operating losses to reduce income tax payable, the tax benefit will be recorded as an increase in additional paid in capital.

In June 2006, the FASB issued FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes, an interpretation of SFAS No. 109. This interpretation clarifies the accounting for income taxes by prescribing that a company should use a more-likely-than-not recognition threshold based on the technical merits of the tax position taken. Tax provisions that meet the more-likely-than-not recognition threshold should be measured as the largest amount of tax benefits, determined on a cumulative probability basis, which is more likely than not to be realized upon ultimate settlement in the financial statements. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting for interim periods, disclosure and transition, and explicitly excludes income taxes from the scope of SFAS No. 5, Accounting for Contingencies. FIN 48 is effective for fiscal years beginning after December 15, 2006, and was adopted by us on January 1, 2007. As of the adoption date of FIN 48 on January 1, 2007, we did not have any material gross unrecognized tax benefits. As of December 31, 2008, we had unrecognized tax benefits of $240,000 on a tax affected basis. We or one of our subsidiaries files income tax returns in the U.S. federal jurisdiction and various states and foreign jurisdictions. For income tax returns filed by us, we are no longer subject to U.S. federal, state and local tax examinations by tax authorities for years before 2004, although carryforward tax attributes that were generated prior to 2004 may still be adjusted upon examination by tax authorities if they either have been or will be utilized. It is our policy to recognize interest and penalties related to income tax matters in income tax expense.

Stock-Based Compensation

Through December 31, 2005, as permitted by SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS 123), we applied the intrinsic value method for accounting for stock-based compensation as set forth in Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25). For purposes of the pro forma disclosures required under SFAS 123, we used the minimum-value method to estimate the fair value of our stock-based awards. On January 1, 2006, we adopted SFAS No. 123R; Under SFAS 123R, a non-public company that previously used the minimum value method for pro forma disclosure purposes is required to adopt the standard using the prospective method. Under the prospective method, all awards granted, modified or settled after the date of adoption are accounted for using the measurement, recognition and attribution provisions of SFAS 123R. As a result, stock-based awards granted prior to the date of adoption of SFAS 123R will continue to be accounted for under APB 25 with no recognition of stock-based compensation in future periods, unless such awards are modified or settled.

Subsequent to the adoption of SFAS 123R, we estimate the fair value of our stock-based awards on the date of grant using the Black-Scholes option-pricing model. The determination of fair value using the Black-Scholes model requires a number of complex and subjective variables. One key input into the model is the fair value of our common stock on the date of grant. Prior to our initial public offering, our board of directors estimated the fair value of our common stock for the purpose of determining stock-based compensation expense. Our board utilized valuation methodologies commonly used in the valuation of private company equity securities for purposes of estimating the fair value of our common stock.

Other key variables in the Black-Scholes option-pricing model include the expected volatility of our common stock price, the expected term of the award and the risk-free interest rate. In addition, under SFAS 123R, we are required to estimate forfeitures of unvested awards when recognizing compensation expense. If factors change and we employ different assumptions in the application of SFAS 123R in future periods, the compensation expense we record may differ significantly from what we have previously recorded.

At December 31, 2008, total estimated unrecognized compensation expense related to unvested stock-based awards granted prior to that date was $17.7 million, which is expected to be recognized over a weighted-average period of 1.87 years.

We expect stock-based compensation expense to increase in absolute dollars as a result of the adoption of SFAS 123R as options that were granted at the beginning of 2006 and beyond vest. Beginning in 2007, we made use of restricted stock awards and reduced our use of stock options as a form of stock-based compensation. The actual amount of stock-based compensation expense we record in any fiscal period will depend on a number of factors, including the number of shares subject to the stock awards issued, the fair value of our common stock at the time of issuance, the expected forfeiture rate and the expected volatility of our stock price over time.

Estimation of Fair Value of Warrants

On July 1, 2005, we adopted FASB Staff Position 150-5 (FSP 150-5). Certain of our outstanding warrants to purchase shares of our stock were subject to the requirements in FSP 150-5, which required us to classify these warrants as current liabilities and to adjust the value of these warrants to their fair value at the end of each reporting period. We estimated the fair value of these warrants at the respective dates using the Black-Scholes option valuation model, based on the estimated market value of the underlying stock at the valuation measurement date, the contractual term of the warrant, risk-free interest rates and expected dividends on and expected volatility of the price of the underlying stock. These estimates, especially the market value of the underlying redeemable convertible preferred stock and the expected volatility, are highly judgmental. Upon the closing of our initial public offering on July 2, 2007, these liabilities were reclassified to stockholder s equity (deficit).

Seasonality

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

Results of Operations

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

	Year Ended December 31,		
	2008	2007	2006
Revenues	100.0%	100.0%	100.0%
Cost of revenues	29.4	27.4	31.0
Selling and marketing expenses	33.6	32.9	32.4
Research and development	12.6	13.1	13.6
General and administrative	14.3	13.3	12.5
Amortization	0.7	1.1	2.1
Total expenses from operations	90.6	87.8	91.6
Income from operations	9.4	12.2	8.4
Interest income net	1.6	3.0	0.3
(Loss) gain from foreign currency	(0.3)	(0.3)	0.2
Impairment of marketable securities	(1.9)		
Other			
Revaluation of preferred stock warrant liabilities		(1.4)	(0.3)
Income before income taxes	8.8	13.5	8.6
Benefit (provision) for income taxes	12.7	8.7	
Net income	21.5	22.2	8.6
Accretion of redeemable preferred stock		(2.1)	(4.8)
Net income attributable to common stockholders	21.5%	20.1%	3.8%

Year Ended December 31, 2008 Compared to Year Ended December 31, 2007 and Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

Revenues

	Year Ended December 31,			Change		Percent Change	
	2008	2007	2006	2008 vs. 2007	2007 vs. 2006	2008 vs. 2007	2007 vs. 2006
	(Dollars in thousands)						
Revenues	$ 117,371	$ 87,153	$ 66,293	$ 30,218	$ 20,860	34.7%	31.5%

Total revenues increased by approximately $30.2 million during the year ended December 31, 2008 as compared to the year ended December 31, 2007. This increase was primarily due to sales to existing customers based in the U.S. totaling $85.3 million during 2008, which was a $18.3 million increase over 2007. In addition, revenues during the year ended December 31, 2008 from new U.S. customers were $15.6 million, an increase of approximately $5.6 million as compared to 2007. Revenues from customers outside of the U.S. totaled approximately $16.5 million, or approximately 14% of total revenues, during the year ended December 31, 2008, which was an increase of $6.4 million as compared to 2007. This increase was due primarily to our ongoing expansion efforts in Europe and continued growth in Canada. Revenues in 2008 also include the impact of the M:Metrics acquisition, which was completed at the end of May 2008.

During the year ended December 31, 2008, our total customer base grew by a net increase of 271 customers from 895 at December 31, 2007 to 1,166 customers at December 31, 2008. There was continued revenue growth in both our subscription revenues, which increased by approximately $28.6 million from $68.8 million during

2007 to $97.4 million during 2008, and, to a lesser extent, our project-based revenues, which increased by $1.6 million from $18.4 million during 2007 to $20.0 million during 2008.

Total revenues increased by approximately $20.9 million during the year ended December 31, 2007 as compared to the year ended December 31, 2006. This increase was primarily due to increased sales to existing customers based in the U.S. totaling $67.1 million during 2007, which was $14.2 million higher than in 2006. In addition, revenues during the year ended December 31, 2007 from new U.S. customers were $10.0 million, an increase of approximately $2.3 million as compared to 2006. Revenues from customers outside of the U.S. totaled approximately $10.1 million, or approximately 12% of total revenues, during 2007, which was an increase of $4.4 million as compared to 2006. This increase was due primarily to our ongoing expansion efforts in Europe and continued growth in Canada.

During the year ended December 31, 2007, our total customer base grew by a net increase of 189 customers from 706 at December 31, 2006 to 895 customers at December 31, 2007. There was continued revenue growth in both our subscription revenues, which increased by approximately $18.9 million from $49.9 million during 2006 to $68.8 million during 2007, and, to a lesser extent, our project-based revenues, which increased by $2.0 million from $16.4 million during 2006 to $18.4 million during 2007.

We generally invoice customers on an annual, quarterly or monthly basis, or at the completion of certain milestones, in advance of revenues being recognized. Amounts that have been invoiced are recorded in accounts receivable and any unearned revenues are recorded in deferred revenues until the invoice has been collected and the revenue recognized.

Cost of Revenues

	Year Ended December 31,			Change		Percent Change	
	2008	2007	2006	2008 vs. 2007	2007 vs. 2006	2008 vs. 2007	2007 vs. 2006
	(Dollars in thousands)						
Cost of revenues	$ 34,562	$ 23,858	$ 20,560	$ 10,704	$ 3,298	44.9%	16.0%
As a percentage of revenues	29.4%	27.4%	31.0%				

Cost of revenues consists primarily of expenses related to operating our network infrastructure, producing our products, and the recruitment, maintenance and support of our consumer panels. Expenses associated with these areas include the salaries, benefits, bonuses, stock-based compensation, and related personnel expenses of network operations, survey operations, custom analytics and technical support, all of which are expensed as they are incurred. Cost of revenues also includes data collection costs for our products, operational costs associated with our data centers, including depreciation expense associated with computer equipment, and allocated overhead.

Cost of revenues increased by approximately $10.7 million during the year ended December 31, 2008 as compared to the year ended December 31, 2007. This increase was primarily due to a $4.4 million increase in employee salaries, benefits, and stock-based compensation costs associated with an expanded workforce supporting a larger product and customer base and the additional employee costs from our acquisition of M:Metrics as compared to 2007. We experienced increases of approximately $3.1 million in costs paid to outside service vendors and incentives to our panel members related to the development of our products during 2008 as compared to 2007. We also experienced increases in panel, data and bandwidth costs of $3.4 million to support our consumer panel during 2008 as compared to 2007. Cost of revenues increased as a percentage of revenues by two percentage points during the year ended December 31, 2008 over 2007. We attribute this increase primarily to the increased costs associated with our acquisition of M:Metrics.

Cost of revenues increased by approximately $3.3 million during the year ended December 31, 2007 as compared to the year ended December 31, 2006. This increase was primarily due to a $1.9 million increase in employee salaries, benefits, and stock-based compensation costs associated with an expanded workforce supporting a larger product and customer base. We experienced an increase of $700,000 in depreciation expense related to prior purchases of network infrastructure equipment and an increase of $200,000 in data center costs to support our consumer panel and the relocation of our data centers. Cost of revenues declined as a percentage of revenues by 3.6 percentage points during 2007 over 2006. This decrease was primarily due to the increase in revenues as described above and a moderation of the increase in costs to build and maintain our panel. In addition, the headcount and costs associated with our technology staff grew at a lower rate than our growth in revenues.

We expect cost of revenues to increase in absolute dollar amounts as we seek to grow our business but vary as a percentage of revenues depending on whether we benefit from investments in our panel and network infrastructure and benefit from the synergies resulting from the integration of M:Metrics for our panel recruiting activities.

Selling and Marketing Expenses

	Year Ended December 31,			Change		Percent Change	
	2008	2007	2006	2008 vs. 2007	2007 vs. 2006	2008 vs. 2007	2007 vs. 2006
	(Dollars in thousands)						
Selling and marketing expenses	$ 39,400	$ 28,659	$ 21,473	$ 10,741	$ 7,186	37.5%	33.5%
As a percentage of revenues	33.6%	32.9%	32.4%				

Selling and marketing expenses consist primarily of salaries, benefits, commissions, bonuses, and stock-based compensation paid to our direct sales force and industry analysts, as well as costs related to online and offline advertising, product management, industry conferences, promotional materials, public relations, other sales and marketing programs, and allocated overhead, including rent and depreciation. All selling and marketing costs are expensed as they are incurred. Commission plans are developed for our account managers with criteria and size of sales quotas that vary depending upon the individual s role. Commissions are paid to a salesperson and are expensed as selling and marketing costs when a sales contract is executed by both the customer and us. In the case of multi-year agreements, one year of commissions is paid initially, with the remaining amounts paid at the beginning of the succeeding years.

Selling and marketing expenses increased by $10.7 million during the year ended December 31, 2008 as compared to the year ended December 31, 2007. This increase was primarily due to a $6.1 million increase in employee salaries, benefits and related costs associated with an increase in account management personnel for our sales force, the formation of our product management team, our expansion in foreign markets, our acquisition of M:Metrics and an increase in commission and bonus costs associated with increased revenues. We also experienced a $1.6 million increase in stock-based compensation as compared to 2007. Our selling and marketing headcount totaled 261 employees as of December 31, 2008, an increase of 57 employees as compared to December 31, 2007. In addition, we attribute the remaining increase to increases in allocated overhead costs such as rent, additional advertising and marketing costs and travel and related costs to support our growing customer base. The inclusion of the operations of M:Metrics beginning in May 2008 contributed to the increase in selling and marketing expenses during the year ended December 31, 2008, however, a portion of these costs are attributed to one-time integration costs associated with employees that are not expected to continue service or that have already been terminated. Selling and marketing expenses as a percentage of revenues increased during 2008 as compared to 2007 principally due to the increased costs associated with our acquisition of M:Metrics relative to the revenue generated from M:Metrics for the period.

Selling and marketing expenses increased by $7.2 million during the year ended December 31, 2007 as compared to the year ended December 31, 2006. This increase was primarily due to a $4.4 million increase in employee salaries, benefits and related costs associated with an increase in account management personnel for our sales force, the formation of our product management team, our expansion in foreign markets and an increase in commission costs associated with increased revenues. We also experienced a $900,000 increase in stock-based compensation as compared to 2006. Our selling and marketing headcount totaled 204 employees as of December 31, 2007, an increase of 40 employees as compared to December 31, 2006. In addition, we experienced increases in consulting costs related to the development and launch of new products, recruiting and relocation fees associated with the hiring of additional personnel and advertising costs. Selling and marketing expenses as a percentage of revenues increased in 2007 also due primarily to the opening of a new sales office in Tokyo, Japan, our first commercial presence in Asia. Additionally, the recruitment of additional sales force lags behind revenue productivity as the incremental sales force is integrated into our business and gains a better understanding of our products and territories.

We expect selling and marketing expenses to increase in absolute dollar amounts as we continue to grow our selling and marketing efforts but to vary in future periods as a percentage of revenues depending on whether we benefit from increased productivity in our sales force and from increased revenues resulting in part from our ongoing marketing initiatives.

Research and Development Expenses

	Year Ended December 31,			Change		Percent Change	
	2008	2007	2006	2008 vs. 2007	2007 vs. 2006	2008 vs. 2007	2007 vs. 2006
	(Dollars in thousands)						
Research and development	$ 14,832	$ 11,413	$ 9,009	$ 3,419	$ 2,404	30.0%	26.7%
As a percentage of revenues	12.6%	13.1%	13.6%				

Research and development expenses include new product development costs, consisting primarily of salaries, benefits, stock-based compensation and related costs for personnel associated with research and development activities, fees paid to third parties to develop new products and allocated overhead, including rent and depreciation.

Research and development expenses increased by $3.4 million during the year ended December 31, 2008 as compared to the year ended December 31, 2007. This increase was primarily due to a $3.4 million increase in employee salaries, benefits, stock-based compensation and related costs associated with the increase in headcount, our continued focus on developing new products, as well as costs from our acquisition of M:Metrics in May 2008. Research and development costs decreased slightly as a percentage of revenues for the year ended December 31, 2008 as compared to the prior year period primarily due to our growth in revenues outpacing our investments in research and development.

Research and development expenses increased by $2.4 million during the year ended December 31, 2007 as compared to the year ended December 31, 2006. This increase was primarily due to a $1.9 million increase in employee salaries, benefits, stock-based compensation and related costs associated with the increase in headcount and our continued focus on developing new products, such as Campaign Metrix, Ad Metrix and Segment Metrix, comScore Marketer and the launch of qSearch 2.0, which is a second generation monthly scorecard of the search market. We also experienced an increase in costs paid to outsourced service providers to support our development of new products. Research and development costs decreased slightly as a percentage of revenues for the year ended December 31, 2007 as compared to the prior year period primarily due to our growth in revenues outpacing our investments in research and development.

We expect research and development expenses to increase in absolute dollar amounts as we continue to enhance and expand our product offerings. As a result of the size and diversity of our panel and our historical investment in our technology infrastructure, we expect that we will be able to develop new products with moderate increases in research and development spending as compared to our growth in revenues.

General and Administrative Expenses

	Year Ended December 31,			Change		Percent Change	
	2008	2007	2006	2008 vs. 2007	2007 vs. 2006	2008 vs. 2007	2007 vs. 2006
	(Dollars in thousands)						
General and administrative	$ 16,785	$ 11,599	$ 8,293	$ 5,186	$ 3,306	44.7%	39.9%
As a percentage of revenues	14.3%	13.3%	12.5%				

General and administrative expenses consist primarily of salaries, benefits, stock-based compensation, and related expenses for executive management, finance, accounting, human capital, legal, and other administrative functions, as well as professional fees, overhead, including allocated rent and depreciation, and expenses incurred for other general corporate purposes.

General and administrative expenses increased by $5.2 million during the year ended December 31, 2008 as compared to the year ended December 31, 2007. The increase was primarily due to increased costs associated with our additional obligations as a public company that did not apply for all of 2007. Our professional fees associated with Sarbanes-Oxley compliance requirements, other professional fees, insurance costs, franchise taxes and board compensation increased by approximately $1.3 million during the year ended December 31, 2008, as compared to 2007. We also experienced increases in employee salaries, benefits and related costs of almost $1.4 million associated with our expanding finance, legal and human capital departments as well as in connection with our acquisition of M:Metrics during the year ended December 31, 2008, as compared to 2007. In addition, stock-based compensation increased $1.4 million during the year ended December 31, 2008 as compared to the prior year. General and administrative expenses also increased by approximately $1.1 million during the year ended December 31, 2008 as compared to 2007 due to our investment to support further revenue growth, increases in allocated overhead costs, such as rent, increased bad debt expense, additional charitable contributions and other charges. General and administrative expenses as a percentage of revenue increased during 2008 as compared to 2007, primarily due to the increased costs associated with being a public company.

General and administrative expenses increased by $3.3 million during the year ended December 31, 2007 as compared to the year ended December 31, 2006. This increase was primarily due to increased costs associated with being a public company beginning in mid 2007. Our professional fees, insurance costs and board compensation increased by approximately $920,000 during 2007 as compared to 2006. We also experienced increases in employee salaries, benefits and related costs of almost $500,000 associated with our expanding finance, legal and human capital departments. In addition, stock-based compensation increased $850,000 as compared to the prior year. During the fourth quarter of 2007, we also recorded $390,000 in professional fees associated with our withdrawn follow-on offering. General and administrative expenses also increased to a lesser extent due to our investment to support further revenue growth. General and administrative expenses as a percentage of revenue increased in 2007 primarily due to the increased costs associated with being a public company and the professional fees associated with our withdrawn follow-on offering.

We expect general and administrative expenses to increase on an absolute basis in future annual periods as we incur increased costs related to normal compensation increases and costs related to being a public company such as directors and officers liability insurance premiums and professional fees such as audit and outside legal counsel support both in absolute dollars and as a percentage of revenues.

Amortization Expense

	Year Ended December 31,			Change		Percent Change	
	2008	2007	2006	2008 vs. 2007	2007 vs. 2006	2008 vs. 2007	2007 vs. 2006
	(Dollars in thousands)						
Amortization expense	$ 804	$ 966	$ 1,371	$ (162)	$ (405)	(16.8)%	(29.5)%
As a percentage of revenues	0.7%	1.1%	2.1%				

Amortization expense consists of charges related to the amortization of intangible assets associated with acquisitions.

Amortization expense decreased $162,000 during the year ended December 31, 2008 as compared to the year ended December 31, 2007 because certain intangible assets related to previous acquisitions were fully amortized during 2008 and 2007 and were partially offset by additional amortization expense related to our acquisition of M:Metrics in May 2008.

Amortization expense decreased $405,000 during the year ended December 31, 2007 as compared to the year ended December 31, 2006 because certain intangible assets related to previous acquisitions were fully amortized during 2007 and 2006.

We expect amortization expense to increase as we continue to amortize costs related to our recent acquisition of M:Metrics.

Interest Income, Net

Interest income consists primarily of interest earned from investments, such as short and long-term fixed income securities and auction rate securities, and our cash and cash equivalent balances. Interest expense is incurred due to capital leases pursuant to several equipment loan and security agreements and a line of credit that we have entered into in order to finance the lease of various hardware and other equipment purchases. Our capital lease obligations are secured by a senior security interest in eligible equipment.

Interest income, net for the year ended December 31, 2008 was $1.9 million as compared to $2.6 million for the year ended December 31, 2007. The decrease of $727,000 during 2008 was due to lower interest rates earned on our investments than those available in the prior year period and a smaller average cash balance due to the use of cash in mid 2008 for the acquisition of M:Metrics. Our cash, cash equivalents and investments decreased by $29.7 million to $75.0 million at December 31, 2008 primarily due to the acquisition of M:Metrics and, to a lesser extent, losses on investments.

Interest income, net for the year ended December 31, 2007 was $2.6 million as compared to $231,000 for the year ended December 31, 2006. The increase of $2.4 million during 2007 reflects the net effect of interest income that we earned on our cash and investment balances offset by the interest expense associated with the capital leases that we had in place in each period. Our cash, cash equivalents and investments increased by $88.7 million to $104.7 million from $16.0 million during the year ended December 31, 2007 primarily due to the net proceeds from our initial public offering of $73.1 million. We also continued to reduce the outstanding balance on our outstanding capital lease obligations.

We anticipate that interest income, net may decrease in future periods due to lower interest rates earned on our investments than those available in prior years and a smaller average cash balance than in prior periods due to the cash utilized in the acquisition of M:Metrics.

(Loss) Gain from Foreign Currency

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

Primarily due to the increasing strength of the U.S. Dollar as compared to the British Pound during the year ended December 31, 2008, we recorded a loss of $321,000 as compared to a loss of $296,000 during the year ended December 31, 2007. Our foreign currency transactions are recorded as a result of fluctuations in the exchange rate between the U.S. dollar and the Canadian dollar, Euro and British Pound.

Primarily due to the strength of the Canadian dollar, during the year ended December 31, 2007, we recorded a loss of $296,000 as compared to a gain of $125,000 during the year ended December 31, 2006. Our foreign currency transactions are recorded as a result of fluctuations in the exchange rate between the U.S. dollar and the Canadian dollar, Euro and British Pound.

Impairment of marketable securities

Impairment of marketable securities is comprised of unrealized losses related to changes in the fair value of our investments that have a decline that is considered other-than-temporary. During the year ended December 31, 2008, we recorded an impairment charge of $2.2 million for our marketable securities, which was due to the write down of our investments in auction rate securities that we determined to have an other-than-temporary decline in value. There was no comparable charge in the prior year. For more information on our investments in auction rate securities, see Management s Discussion and Analysis of Financial Condition and results of Operations Liquidity and Capital Resources.

Provision for Income Taxes

As of December 31, 2008, we had both federal and state net operating loss carryforwards for tax purposes of approximately $64.6 million and $34.7 million, respectively, which begin to expire in 2021 for federal and begin to expire in 2014 for state income tax reporting purposes. In the future, we intend to utilize any carryforwards available to us to reduce our tax payments. A portion of our acquired M:Metrics net operating loss carryforwards are subject to an annual limitation under Section 382 of the Internal Revenue Code. We do not expect that this limitation will impact our ability to utilize all of our net operating losses prior to their expiration. During the year ended December 31, 2008, we recorded an income tax benefit of $14.9 million due primarily to the release of the valuation allowance against certain deferred tax assets compared to a benefit of $7.5 million in the same period in 2007 in which we recorded valuation allowance release of $8.1 million. For the year ended December 31, 2008, the tax provision is comprised of U.S. income tax expense of $359,000, reflecting our alternative minimum tax, and $127,000 of foreign income tax expense offset by the release of our valuation allowance of $20.4 million and a deferred tax expense of approximately $5.1 million related to the utilization of deferred tax assets during the year.

As of December 31, 2007, we had both federal and state net operating loss carryforwards for tax purposes of approximately $67.8 million and $48.1 million, respectively, which begin to expire in 2020 for federal and begin to expire in 2010 for state income tax reporting purposes. In the future, we intend to utilize any carryforwards available to us to reduce our tax payments. During the year ended December 31, 2007, we recorded an income tax benefit of $7.5 million due primarily to the partial release of our valuation allowance compared to a provision of $50,000 in the same period in 2006. For the year ended December 31, 2007, the tax provision is comprised of U.S. income tax expense of $208,000, reflecting our alternative minimum tax, and $412,000 of foreign income tax expense offset by the partial release of our valuation allowance of $8.1 million and a decrease of $78,000 in the deferred tax liability associated with a temporary difference related to certain acquired intangible assets.

In 2006 we had an income tax expense of $50,000 reflecting a payment of alternative minimum tax (AMT) partly offset by a decrease in the deferred tax liability. This compares to an income tax benefit of $182,000 in 2005 related to a deferred tax liability of $356,000 associated with a temporary difference related to certain acquired intangible assets of SurveySite.

Liquidity and Capital Resources

The following table summarizes our cash flows:

Consolidated Cash Flow Data	Year Ended December 31, 2008	2007	2006
	(In thousands)		
Net cash provided by operating activities	$ 32,259	$ 21,211	$ 10,905
Net cash used in investing activities	(63,675)	(30,305)	(9,573)
Net cash (used in) provided by financing activities	(1,138)	71,979	(1,381)
Effect of exchange rate changes on cash	(1,517)	451	(43)
Net (decrease) increase in cash and equivalents	(34,071)	63,336	(92)

Prior to our initial public offering, which closed on July 2, 2007, we funded our operations and met our capital expenditure requirements primarily with venture capital and private equity funding.

On July 2, 2007, we completed our initial public offering and issued 5,000,000 shares of our common stock and received gross proceeds of $82.5 million. Net proceeds were $73.1 million after deducting underwriting discounts and commissions and offering costs.

Our principal uses of cash historically have consisted of payroll and other operating expenses and payments related to the purchase of equipment primarily to support our consumer panel and technical infrastructure required to support our customer base. Since the beginning of 2006, we have purchased over $10.8 million in property and equipment, exclusive of $9.4 million of property and equipment funded through landlord allowances received in connection with our new Chicago, Reston and San Francisco office leases, made $4.6 million in principal payments on capital lease obligations, and spent $44.9 million as the cash component of consideration paid for acquisitions.

As of December 31, 2008, our principal sources of liquidity consisted of cash, cash equivalents and short-term investments of $71.5 million. As of December 31, 2008, we held $3.5 million in long-term investments consisting of $2.9 million in auction rate securities and $636,000 in other long-term fixed income securities. In prior years we invested in these auction rate securities for short periods of time as part of our investment policy. However, the uncertainties in the credit markets have prevented us and other investors from liquidating holdings of auction rate securities in recent auctions for these securities because the amount of securities submitted for sale has exceeded the amount of purchase orders. Accordingly, we still hold these long-term securities and are due interest at a higher rate than similar securities for which auctions have cleared. None of these investments are mortgage backed securities or collateralized debt obligations. As of December 31, 2008, certain of these investments were fully backed by investment grade and below investment grade bonds and are insured against loss of principal and interest by bond insurers whose ratings are under review and have been downgraded in some cases. These securities were valued using a discounted cash flow model that takes into consideration the financial condition of the issuers and the bond insurers as well as the expected date liquidity will be restored. As of December 31, 2008, based on the valuation models and an analysis of other-than-temporary impairment factors, we have concluded that all of our investments in auction rate securities have experienced an other-than-temporary decline in fair value. Accordingly, we have recorded a pre-tax impairment charge of $2.2 million related to these securities. If the credit ratings of the issuer, the bond insurers or the collateral continue to deteriorate, we may further adjust the carrying value of these investments. We are uncertain as to when the liquidity issues relating to these investments will improve. Accordingly, we classified these securities as long-term.

Operating Activities

Our cash flows from operating activities are significantly influenced by our investments in personnel and infrastructure to support the anticipated growth in our business, increases in the number of customers using our products and the amount and timing of payments made by these customers.

We generated approximately $32.3 million of net cash from operating activities during the year ended December 31, 2008. The significant components of cash flows from operations were net income of $25.2 million, adjusted for $12.9 million in non-cash depreciation, amortization, provision for bad debts and stock-based compensation expenses, $9.4 million in deferred rent, $6.1 million increase in amounts collected from customers in advance of when we recognize revenues as a result of our growing customer base, $2.2 million in impairment of marketable securities, and a $343,000 decrease in other current and non-current assets, offset by a $15.4 million non-cash deferred tax benefit, $6.6 million increase in accounts receivable, and a $1.8 million decrease in accounts payable and accrued expenses.

We generated approximately $21.2 million of net cash from operating activities during the year ended December 31, 2007. The significant components of cash flows from operations were net income of $19.3 million, adjusted for $7.4 million in non-cash depreciation, amortization and stock-based compensation expenses, $1.2 million in non-cash revaluation of our preferred stock warrant liability, and a $9.8 million increase in amounts collected from customers in advance of when we recognize revenues as a result of our growing customer base and a $1.1 million increase in accounts payable and accrued expenses, offset by a $9.2 million increase in accounts receivable, $8.1 million non-cash deferred tax benefit and $231,000 increase in other current and non-current assets.

We generated approximately $10.9 million of net cash from operating activities during 2006. The significant components of cash flows from operations were net income of $5.7 million, $4.3 million in noncash depreciation and amortization expenses, a $1.4 million increase in accounts payable and accrued expenses and a $3.1 million increase in amounts collected from customers in advance of when we recognize revenues as a result of our growing customer base, offset by a $3.9 million increase in accounts receivable.

Investing Activities

Our primary regularly recurring investing activities have consisted of purchases of computer network equipment to support our Internet user panel and maintenance of our database, furniture and equipment to support our operations, purchases and sales of marketable securities, and payments related to the acquisition of several companies. As our customer base continues to expand, we expect purchases of technical infrastructure equipment to grow in absolute dollars. The extent of these investments will be affected by our ability to expand relationships with existing customers, grow our customer base, introduce new digital formats and increase our international presence.

We used $63.7 million of net cash in investing activities during the year ended December 31, 2008. We used $44.6 million, net of cash acquired, to purchase M:Metrics. In addition, $14.3 million was used to purchase property and equipment to maintain and expand our technology and infrastructure. Of this amount, $9.4 million was funded through landlord allowances received in connection with our Chicago, Reston and San Francisco office leases. We also used a net $6.2 million to purchase investments. We removed the restrictions associated with certain certificates of deposit that served as collateral for letters of credit associated with office leases, and the related $1.4 million was reclassified to cash and cash equivalents.

We used $30.3 million of net cash in investing activities during the year ended December 31, 2007, a net $25.6 million of which was used to purchase investments, $3.6 million of which was used to purchase property and equipment to maintain and expand our technology and infrastructure and $1.1 million used to purchase certificates of deposit to collateralize letters of credit associated with new office leases.

We used $9.6 million of net cash in investing activities during 2006, a net $7.0 million of which was used to purchase short-term investments, $2.3 million of which was used to purchase property and equipment and $300,000 of which was used to pay contingent considerations associated with our Q2 acquisition.

We expect to achieve greater economies of scale and operating leverage as we expand our customer base and utilize our Internet user panel and technical infrastructure more efficiently. While we anticipate that it will be necessary for us to continue to invest in our Internet user panel, technical infrastructure and technical personnel to support the combination of an increased customer base, new products, international expansion and new digital market intelligence formats, we believe that these investment requirements will be less than the revenue growth generated by these actions. This should result in a lower rate of growth in our capital expenditures to support our technical infrastructure. In any given period, the timing of our incremental capital expenditure requirements could impact our cost of revenues, both in absolute dollars and as a percentage of revenues.

Financing Activities

Our primary financing activities from 2004 until mid-2007 consisted of financings to fund the acquisition of capital assets. We entered into an equipment lease agreement with GE Capital in 2003 and a line of credit agreement with GE Capital in 2005, both of which were paid in full in 2007, to finance the purchase of hardware and other computer equipment to support our business growth. These borrowings were secured by a senior security interest in the equipment acquired under the facility. In December 2006, we entered into an equipment lease agreement with Banc of America Leasing & Capital, LLC to finance the purchase of new hardware and other computer equipment as we continue to expand our technology infrastructure in support of our business growth. This agreement included a $5 million line of credit which expired December 31, 2007. Through December 31, 2006, we used this credit facility to establish an equipment lease for the amount of approximately $2.9 million. The base term for this lease is three years and includes a small charge in the event of prepayment.

On July 2, 2007, we completed our initial public offering, in which we issued and sold 5,000,000 shares of our common stock for approximately $73.1 million, which amount reflects the net proceeds received by us in that offering.

We used $1.1 million of cash during the year ended December 31, 2008 for financing activities. This included $1.3 million for shares repurchased by us pursuant to the exercise by stock incentive plan participants of their right to elect to use common stock to satisfy their tax withholding obligations. In addition we used $900,000 to make payments on our capital lease obligations offset by $1.0 million in proceeds from the exercise of our common stock options and warrants

We generated $72.0 million of cash during the year ended December 31, 2007 from financing activities. This included $73.1 million in net proceeds, after deducting underwriters commissions and offering costs, from the sale and issuance of common stock in our initial public offering and $972,000 in proceeds from the exercise of outstanding options for common stock. We also made payments of $2.1 million on our capital lease obligations during that period.

We used $1.4 million of net cash in financing activities during 2006. We used $1.6 million to make payments on our capital lease obligations partially offset by $241,000 in proceeds from the exercise of our common stock options.

We do not have any special purpose entities, and other than operating leases for office space, described below, we do not engage in off-balance sheet financing arrangements.

Contractual Obligations and Known Future Cash Requirements

Set forth below is information concerning our known contractual obligations as of December 31, 2008 that are fixed and determinable

	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
			(In thousands)		
Capital lease obligations	$ 1,021	$ 1,021	$	$	$
Operating lease obligations	44,773	4,978	9,816	9,064	20,915
Total	$ 45,794	$ 5,999	$ 9,816	$ 9,064	$ 20,915

Our principal lease commitments consist of obligations under leases for office space and computer and telecommunications equipment. We finance the purchase of some of our computer equipment under a capital lease arrangement over a period of 36 months. Our purchase obligations relate to outstanding orders to purchase computer equipment and are typically small; they do not materially impact our overall liquidity.

On March 6, 2008, the Company opened a $5.0 million revolving line of credit with an interest rate equal to BBA LIBOR rate plus an applicable margin. This line of credit includes no restrictive financial covenants. On February 27, 2009 the line of credit was extended through April 6, 2009. As of December 31, 2008, no amounts were borrowed against the line of credit and $4.4 million of letters of credit were outstanding, leaving $600,000 available for additional letters of credit or other borrowings. These letters of credit may be reduced periodically provided we meet the conditional criteria of each related lease agreement. During the year ended December 31, 2008, one letter of credit was reduced by approximately $90,000.

We have used $2.9 million of a $5.0 million line of credit that was available to us until December 31, 2007 to establish an equipment lease for the amount of approximately $2.9 million bearing interest at a rate of 7.75% per annum. The line of credit expired on December 31, 2007.

Future Capital Requirements

We believe that our existing cash, cash equivalents, and short-term investments and operating cash flow will be sufficient to meet our projected operating and capital expenditure requirements for at least the next twelve months. In addition, we expect that the net proceeds from our IPO will provide us with the financial flexibility to execute our strategic objectives, including the ability to make acquisitions and strategic investments. Our ability to generate cash, however, is subject to our performance, general economic conditions, industry trends and other factors. To the extent that funds from our IPO, combined with existing cash, cash equivalents, short-term investments and operating cash flow are insufficient to fund our future activities and requirements, we may need to raise additional funds through public or private equity or debt financing. If we issue equity securities in order to raise additional funds, substantial dilution to existing stockholders may occur.

Recent Accounting Pronouncements

Recent accounting pronouncements are detailed in Note 2 to our Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K.

Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements as of December 31, 2008 and 2007.

ITEM 7A. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*

Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. We do not hold or issue financial instruments for trading purposes or have any derivative financial instruments. To date, most payments made under our contracts are denominated in U.S. dollars, and we have not experienced material gains or losses as a result of transactions denominated in foreign currencies. As of December 31, 2008, our cash reserves were maintained in bank deposit accounts, certificates of deposit, treasury bills, treasury notes, and auction rate securities totaling $75.0 million. These securities, like all fixed income instruments, are subject to interest rate risk and will decline in value if market interest rates increase. We have the ability to hold our fixed income investments until maturity and, therefore, we would not expect to experience any material adverse impact in income or cash flow.

Foreign Currency Risk

A portion of our revenues and expenses from business operations in foreign countries are derived from transactions denominated in currencies other than the functional currency of our operations in those countries. As such, we have exposure to adverse changes in exchange rates associated with revenues and operating expenses of our foreign operations, but we believe this exposure to be immaterial at this time. As such, we do not currently

engage in any transactions that hedge foreign currency exchange rate risk. As we grow our international operations, our exposure to foreign currency risk has become and will continue to be more significant.

Interest Rate Sensitivity

As of December 31, 2008, our principal sources of liquidity consisted of cash, cash equivalents and short- and long-term investments of $75.0 million. These amounts were invested primarily in certificates of deposit, U.S. treasury bills and U.S. treasury notes. The cash and cash equivalents are held for working capital purposes. We do not enter into investments for trading or speculative purposes. We believe that we do not have any material exposure to changes in the fair value as a result of changes in interest rates. Declines in interest rates, however, will reduce future investment income. If overall interest rates changed by 1% during the year ended December 31, 2008, our interest exposure would have been approximately $750,000 assuming consistent investment levels.

Auction Rate Securities

As of December 31, 2008, we held $3.5 million in long-term investments consisting of $2.9 million in auction rate securities and $636,000 in U.S. treasury notes. In prior years we invested in these securities for short periods of time as part of our investment policy. However, the uncertainties in the credit markets have prevented us and other investors from liquidating holdings of auction rate securities in recent auctions for these securities because the amount of securities submitted for sale has exceeded the amount of purchase orders. Accordingly, we still hold these long-term securities and are due interest at a higher rate than similar securities for which auctions have cleared. None of these investments are mortgage backed securities or collateralized debt obligations. As of December 31, 2008, certain of these investments were fully backed by bonds with ratings ranging from A- to B and were insured against loss of principal and interest by bond insurers whose ratings range from BBB to C However, as of December 31, 2008 and December 31, 2007, five auction rate securities with a par value of $5.1 million had failed their most recent auction and are considered illiquid. As of December 31, 2008, we have recognized an impairment charge of approximately $2.2 million concluding that the decline in value of these five securities is other than temporary. These securities were valued using a discounted cash flow model that takes into consideration the securities coupon rate, the financial condition of the issuers and the bond insurers, the expected date liquidity will be restored, as well as an applied illiquidity discount. As of December 31, 2008, based on the valuation models and an analysis of the other-than-temporary impairment factors we recorded a pre-tax impairment charge of $2.2 million related to our auction rate securities. If the credit ratings of the issuer, the bond insurers or the collateral continue to deteriorate, we may further adjust the carrying value of these investments. We are uncertain as to when the liquidity issues relating to these investments will improve. Accordingly, we classified these securities as long-term as of December 31, 2008 and December 31, 2007.

ITEM 8. ***FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA***

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
comScore, Inc. consolidated financial statements	
Report of Independent Registered Public Accounting Firm	66
Consolidated Balance Sheets	67
Consolidated Statements of Operations	68
Consolidated Statements of Stockholders Equity (Deficit)	69
Consolidated Statements of Cash Flows	70
Notes to Consolidated Financial Statements	71

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of comScore, Inc.

We have audited the accompanying consolidated balance sheets of comScore, Inc. (the Company) as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders equity (deficit), and cash flows for each of the three years in the period ended December 31, 2008. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of comScore, Inc. at December 31, 2008 and 2007, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), comScore, Inc s. internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 13, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

McLean, Virginia
March 13, 2009

COMSCORE, INC.

CONSOLIDATED BALANCE SHEETS

	December 31, 2008	December 31, 2007
	(In thousands, except share and per share data)	
Current assets:		
Cash and cash equivalents	$ 34,297	$ 68,368
Short-term investments	37,164	28,449
Accounts receivable, net of allowances of $479 and $234, respectively	29,947	23,446
Prepaid expenses and other current assets	1,871	1,620
Restricted cash		1,385
Deferred tax asset	13,304	176
Total current assets	116,583	123,444
Long-term investments	3,497	7,924
Property and equipment, net	17,697	6,867
Other non-current assets	131	168
Long-term deferred tax asset	13,736	7,888
Intangible assets, net	8,805	17
Goodwill	39,114	1,364
Total assets	$ 199,563	$ 147,672
Current liabilities:		
Accounts payable	$ 1,755	$ 1,140
Accrued expenses	9,432	6,838
Deferred revenues	42,779	33,045
Deferred rent	1,049	154
Capital lease obligations	977	900
Total current liabilities	55,992	42,077
Capital lease obligations, long-term		977
Deferred rent, long-term	8,691	181
Total liabilities	64,683	43,235
Commitments and contingencies		
Common Stock subject to put; no shares and 135,635 shares issued and outstanding at December 31, 2008 and 2007, respectively		1,815
Stockholders equity:		
Preferred stock, $0.001 par value; 5,000,000 shares authorized at December 31, 2008 and 2007; no shares issued or outstanding at December 31, 2008 and 2007		
Common stock, $0.001 par value; 100,000,000 shares authorized at December 31, 2008 and 2007; 29,130,140 shares issued and outstanding at December 31, 2008;	29	28

27,960,573 shares issued and outstanding at December 31, 2007		
Treasury stock, 164,395 and 24,677 shares at cost at December 31, 2008 and 2007, respectively	(1,265)	
Additional paid-in capital	192,612	183,433
Accumulated other comprehensive (loss) income	(842)	1
Accumulated deficit	(55,654)	(80,840)
Total stockholders equity	134,880	102,622
Total liabilities and stockholders equity	$ 199,563	$ 147,672

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

COMSCORE, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31, 2008	2007	2006
	(In thousands, except share and per share data)		
Revenues	$ 117,371	$ 87,153	$ 66,293
Cost of revenues (excludes amortization of intangible assets resulting from acquisitions shown below)(1)	34,562	23,858	20,560
Selling and marketing(1)	39,400	28,659	21,473
Research and development(1)	14,832	11,413	9,009
General and administrative(1)	16,785	11,599	8,293
Amortization of intangible assets resulting from acquisitions	804	966	1,371
Total expenses from operations	106,383	76,495	60,706
Income from operations	10,988	10,658	5,587
Interest income, net	1,900	2,627	231
(Loss) gain from foreign currency	(321)	(296)	125
Impairment of marketable securities	(2,239)		
Other	(37)		
Revaluation of preferred stock warrant liabilities		(1,195)	(224)
Income before benefit (provision) for income taxes	10,291	11,794	5,719
Benefit (provision) for income taxes	14,895	7,522	(50)
Net income	25,186	19,316	5,669
Accretion of redeemable preferred stock		(1,829)	(3,179)
Net income attributable to common stockholders	$ 25,186	$ 17,487	$ 2,490
Net income attributable to common stockholders per common share:			
Basic	$ 0.88	$ 0.99	$
Diluted	$ 0.83	$ 0.88	$
Weighted-average number of shares used in per share calculation common stock:			
Basic	28,691,216	16,139,365	3,847,213
Diluted	30,232,714	18,377,563	3,847,213
Net income attributable to common stockholders per common share subject to put:			
Basic	$ 0.88	$ 1.33	$ 0.41
Diluted	$ 0.83	$ 1.21	$ 0.41

Weighted-average number of shares used in per share calculation common share subject to put:			
Basic and diluted	34,465	308,720	347,635
(1) Amortization of stock-based compensation is included in the line items above as follows:			
Cost of revenues	$ 861	$ 279	$ 12
Selling and marketing	2,611	1,009	82
Research and development	706	245	13
General and administrative	2,296	941	91
Comprehensive income:			
Net income	$ 25,186	$ 19,316	$ 5,669
Other comprehensive income:			
Foreign currency cumulative translation adjustment	(1,132)	258	(51)
Unrealized gain (loss) on marketable securities	289	(182)	
Total comprehensive income	$ 24,343	$ 19,392	$ 5,618

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

COMSCORE, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIT)

	Common Stock		Treasury	Additional Paid-In	Deferred Stock Based	Accumulated Other Comprehensive Income	Accumulated	Total Stockholders Equity
	Shares	Amount	Stock	Capital	Compensation	(Loss)	Deficit	(Deficit)
	(In thousands, except share data)							
Balance at December 31, 2005	**3,347,488**	**$ 3**	**$**	**$**	**$ (6)**	**$ (24)**	**$ (102,267)**	**$ (102,294)**
Net income							5,669	5,669
Foreign currency translation adjustment						(51)		(51)
Exercise of common stock options	652,677	1		240				241
Amortization of deferred stock compensation					6		(3)	3
Amortization of stock-based compensation				195				195
Accretion of redeemable preferred stock				(435)			(2,744)	(3,179)
Accretion of common stock subject to put							(141)	(141)
Balance at December 31, 2006	**4,000,165**	**4**				**(75)**	**(99,486)**	**(99,557)**
Net income							19,316	19,316
Foreign currency translation adjustment						258		258
Unrealized loss on marketable securities						(182)		(182)
	580,727	1		890				891

Exercise of common stock options						
Exercise of common stock warrants, net	138,536		100			100
Issuance of restricted stock, net	771,783	1	(1)			
Net proceeds from issuance of common stock in initial public offering	5,000,000	5	73,111			73,116
Conversion of preferred stock to common stock	17,257,362	17	103,506			103,523
Reclassification of common stock subject to put to common stock	212,000		2,650			2,650
Amortization of stock based compensation			2,239			2,239
Preferred warrant liability reclassification			2,200			2,200
Accretion of redeemable preferred stock			(1,190)		(639)	(1,829)
Accretion of common stock subject to put			(72)		(31)	(103)
Balance at December 31, 2007	**27,960,573**	**28**	**183,433**	**1**	**(80,840)**	**102,622**
Net income					25,186	25,186
Foreign currency translation adjustment				(1,132)		(1,132)
Unrealized gain on marketable securities net of tax effect of $68				289		289
Exercise of common stock options	611,733	1	976			977

Exercise of common stock warrants, net	4,020			50				50
Issuance of restricted stock, net	465,010							
Restricted stock units vested	17,490							
Common stock received for tax withholding	(64,326)		(1,265)					(1,265)
Reclassification of common stock subject to put to common stock	135,640			1,814				1,814
Amortization of stock based compensation				6,339				6,339
Balance at December 31, 2008	**29,130,140**	**$ 29**	**$ (1,265)**	**$ 192,612**	**$**	**$ (842)**	**$ (55,654)**	**$ 134,880**

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

COMSCORE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2008	2007 (In thousands)	2006
Operating activities			
Net income	$ 25,186	$ 19,316	$ 5,669
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	4,977	3,764	2,888
Amortization of intangible assets resulting from acquisitions	798	966	1,371
Provisions for bad debts	594	142	212
Stock-based compensation	6,482	2,474	198
Revaluation of preferred stock warrant liabilities		1,195	224
Impairment of marketable securities	2,239		
Loss on asset disposal	50		
Amortization of deferred finance costs		7	33
Deferred tax benefit	(15,386)	(8,142)	(97)
Amortization of deferred rent	(126)		
Changes in operating assets and liabilities, net of effect of acquisitions:			
Accounts receivable, net	(6,581)	(9,186)	(3,882)
Prepaid expenses and other current assets	229	(486)	(311)
Other non-current assets	114	255	30
Accounts payable, accrued expenses, and other liabilities	(1,838)	1,065	1,431
Deferred revenues	6,124	9,841	3,139
Deferred rent	9,397		
Net cash provided by operating activities	32,259	21,211	10,905
Investing activities			
Recovery (payment) of restricted cash	1,385	(1,115)	(9)
Purchase of investments	(92,288)	(56,475)	(14,900)
Sale of investments	86,118	30,920	7,950
Purchase of property and equipment	(14,252)	(3,635)	(2,314)
Acquisition of business, net of cash acquired	(44,638)		
Payment of additional consideration for acquired businesses			(300)
Net cash used in investing activities	(63,675)	(30,305)	(9,573)
Financing activities			
Proceeds from the exercise of common stock options and warrants	1,027	972	241
Repurchase of common stock	(1,265)		
Proceeds from the issuance of common stock, net of offering costs		73,116	
Principal payments on capital lease obligations	(900)	(2,109)	(1,622)

Net cash (used in) provided by financing activities	(1,138)	71,979	(1,381)
Effect of exchange rate changes on cash	(1,517)	451	(43)
Net (decrease) increase in cash and cash equivalents	(34,071)	63,336	(92)
Cash and cash equivalents at beginning of year	68,368	5,032	5,124
Cash and cash equivalents at end of year	$ 34,297	$ 68,368	$ 5,032
Supplemental cash flow disclosures			
Interest paid	$ 122	$ 302	$ 249
Income tax paid	$ 325	$ 1	$ 8
Capital lease obligations incurred	$	$	$ 2,707
Accretion of preferred stock	$	$ 1,829	$ 3,179

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

COMSCORE, INC.

NOTES TO 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. 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.

On July 2, 2007, the Company completed its initial public offering (the IPO) of common stock in which the Company issued and sold 5,000,000 shares of its common stock at an issuance price of $16.50 per share. In addition, selling stockholders, including officers and directors of the Company or entities affiliated therewith, sold an aggregate of 1,095,000 shares of common stock, which amount included the exercise of the underwriters over-allotment option in the IPO. The Company raised a total of $82,500,000 in gross proceeds from the IPO, or approximately $73,116,000 in net proceeds after deducting underwriting discounts and commissions of $5,775,000 and offering costs of $3,609,000. The Company did not receive any proceeds from the sale of shares in the IPO by the selling stockholders. Upon the closing of the IPO, all shares of convertible preferred stock then outstanding automatically converted into 17,257,362 shares of common stock, and all preferred stock warrants converted into common stock warrants.

In connection with the IPO, the Company s Board of Directors and stockholders approved a 1-for-5 reverse stock split of the then outstanding common stock and convertible preferred stock effective June 21, 2007. All share and per share amounts contained in these consolidated financial statements have been retroactively adjusted to reflect the reverse stock split.

On May 28, 2008, the Company acquired the outstanding stock of M:Metrics, Inc., a provider of marketing and media intelligence for the mobile medium in the United States and internationally, to expand its abilities to provide its customers a more robust solution for the mobile medium.

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 as defined by Accounting Research Bulletin (ARB) No. 51, *Consolidated Financial Statements* , as amended by Statement of Financial Accounting Standards (SFAS) No. 94, *Consolidation of all Majority-Owned Subsidiaries* . 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, as defined by Financial Accounting Standards Board (FASB) Interpretation No. 46, *Consolidation of 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.

COMSCORE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Within the consolidated balance sheets, $154,000 has been reclassified from accrued expenses to current deferred rent, as of December 31, 2007 to conform to the current year presentation.

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, 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

SFAS No. 107, *Disclosure about Fair Value of Financial Instruments,* defines the fair value of financial instruments as the amount at which the instrument could be exchanged in a current transaction between willing parties. Cash equivalents, investments, accounts receivable, accounts payable, accrued expenses and capital lease obligations reported in the consolidated balance sheets equal or approximate their respective fair values. The fair value of the Company s common stock subject to put is not practicable to determine, as no quoted market price exists for these instruments.

As of January 1, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 clarifies that 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, SFAS No. 157 establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value as follows: Level 1 observable inputs such as quoted prices in active markets; Level 2 inputs other than the quoted prices in active markets that are observable either directly or indirectly; Level 3 unobservable inputs of which there is little or no market data, which require 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 most 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 and Cash Equivalents, Restricted Cash 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 and certificates of deposit.

COMSCORE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Restricted cash is comprised of certificates of deposit that are collateral for letters of credit pertaining to security deposits for operating leases. All restrictions were removed during the year ended December 31, 2008 and the restricted cash was subsequently reclassified to cash and cash equivalents.

Investments, which consist principally of U.S. treasury bills, U.S. treasury notes and auction rate securities, are stated at fair value. These securities are accounted for as available-for-sale securities in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities.* Realized gains and losses on available-for-sale securities are included in interest income. Declines in value judged to be other-than-temporary, if any, on available-for-sale securities are included in impairment of marketable securities on the Statement of Operations. 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.

The Company periodically evaluates whether any declines in the fair value of investments are other-than-temporary. This evaluation consists of a review of several factors, including but not limited to: the length of time and extent that a security has been in an unrealized loss position; the near-term prospects for recovery of the market value of a security; and the intent and ability of the Company to hold the security until the market value recovers. Declines in value below cost for investments where it is considered probable that all contractual terms of the investment will be satisfied, due primarily to changes in market demand, and not because of increased credit risk, and where the Company intends and has the ability to hold the investment for a period of time sufficient to allow a market recovery, are not assumed to be other-than-temporary.

Interest income on investments was $2.0 million, $2.9 million and $515,000 for the years ended December 31, 2008, 2007 and 2006, 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.

The following is a summary of activities in the allowance for doubtful accounts for the fiscal years indicated:

	Year Ended December 31,		
	2008	2007	2006
	(In thousands)		
Allowance for Doubtful Accounts			
Beginning Balance	$ (234)	$ (188)	$ (185)
Additions	(602)	(142)	(212)

Reductions	357	96	209
Ending Balance	$ (479)	$ (234)	$ (188)

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, while

COMSCORE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

maintenance and repairs are charged to expense as incurred. Amortization of assets under capital leases is included within the expense category on the Statement of Operations in which the asset is deployed.

Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of identifiable assets acquired and liabilities assumed when other businesses are 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 several different valuation approaches, including the replacement cost, income and market approaches. The replacement cost approach is based on determining the discrete cost of replacing or reproducing a specific asset. The Company generally uses the replacement cost approach for estimating the value of acquired technology/methodology assets. The income approach converts the anticipated economic benefits that the Company assumes will be realized from a given asset into value. Under this approach, value is measured as the present worth of anticipated future net cash flows generated by an asset. The Company generally uses the income approach to value customer relationship assets and non-compete agreements. The market approach compares the acquired asset to similar assets that have been sold. The Company generally uses the market approach to value trademarks and brand assets.

Under SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142), 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. In accordance with SFAS 142, 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 required under SFAS 142 at the enterprise level. The Company completed its annual impairment analysis as of October 1st for each of 2008, 2007 and 2006 and determined that there was no impairment of goodwill.

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

	Useful Lives (Years)
Acquired methodologies/technology	5 to 7
Customer relationships	7
Panel	7
Intellectual property	10

Impairment of Long-Lived Assets

Long-lived assets, including property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount should be evaluated pursuant to SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144). Pursuant to SFAS 144, impairment is determined by comparing the carrying value of these long-lived assets to an estimate of the future undiscounted cash flows expected to result from the use of the assets and eventual disposition. In the event the carrying value is not recoverable, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the asset, which is generally determined by using quoted market prices or valuation techniques such as the discounted present value of expected future cash flows, appraisals, or other pricing models as appropriate. There were no impairment charges recognized during the years ended December 31, 2008, 2007 and 2006. In the event that there are changes in the planned use of the Company s long-lived assets or their expected future undiscounted cash flows are reduced significantly, the Company s assessment of its ability to recover the carrying value of these assets could change.

COMSCORE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Lease Accounting

The Company leases its facilities under operating leases, and accounts for those leases in accordance with SFAS No. 13, *Accounting for 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.

Foreign Currency Translation

The Company applies SFAS No. 52, *Foreign Currency Translation*, with respect to its international operations. 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 included as a component of other comprehensive income.

The Company incurred foreign currency transaction losses of $321,000 and $296,000 for the years ended December 31, 2008 and 2007, respectively, and a gain of $125,000 for the year ended December 31, 2006. The gains and losses are the result of transactions denominated in currencies other than the functional currency of the Company s foreign subsidiaries.

Other Comprehensive Income

The following summary sets forth the components of other comprehensive (loss) income, net of tax, accumulated in stockholders equity:

	December 31,	
	2008	2007
	(In thousands)	
Foreign currency translation (loss) gain	$ (949)	$ 183
Unrealized gain (loss) on marketable securities	107	(182)
Total other comprehensive (loss) income	$ (842)	$ 1

Business Segment Information

The Company is managed and operated as one business segment. A single management team reports to the chief operating decision maker who manages the entire business. The Company does not operate any material separate lines of business or separate business entities with respect to its services. The various products that the Company offers are all related to analyzing consumer behavior on the Internet and mobile devices. The same data source is used regardless of the product delivered. The Company s expenses are shared and are not allocated to individual products. Accordingly, the Company does not accumulate discrete financial information by product line and does not have separately reportable segments as defined by SFAS No. 131, *Disclosure About Segments of an Enterprise and Related Information*.

Revenue Recognition

The Company recognizes revenues in accordance with Securities and Exchange Commission Staff Accounting Bulletin (SAB) No. 104, *Revenue Recognition* (SAB 104). SAB 104 requires that four basic criteria must be met prior to revenue recognition: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or the

COMSCORE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 are 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 or 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 a subscription to the Company s online database combined with customized services. These arrangements are accounted for in accordance with Emerging Issues Task Force (EITF) Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables*. The Company has determined that there is not objective and reliable evidence of fair value for any of its services and, therefore, accounts for all elements in multiple elements 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 contract execution. 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 customized service 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.

Costs of Revenues

Cost of revenues consists primarily of expenses related to the operating network infrastructure and the recruitment, maintenance and support of consumer panels. Expenses associated with these areas include the salaries, stock-based compensation, benefits and related expenses of network operations, survey operations, custom analytics and technical support departments, and are expensed as they are incurred. Cost of revenues also includes data collection costs for the products and operational costs associated with the Company s data centers, including depreciation expense associated with computer equipment.

Selling and Marketing

Selling and marketing expenses consist primarily of salaries, stock-based compensation, benefits, commissions and bonuses paid to the direct sales force and industry analysts, as well as costs related to online and offline advertising, product management, seminars, promotional materials, public relations, other sales and marketing programs, and allocated overhead, including rent and depreciation. All selling and marketing costs are expensed as they are incurred.

COMSCORE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Research and Development

Research and development expenses include new product development costs, consisting primarily of salaries, stock-based compensation, benefits and related costs for personnel associated with research and development activities, and allocated overhead, including rent and depreciation.

General and Administrative

General and administrative expenses consist primarily of salaries, stock-based compensation, benefits and related expenses for executive management, finance, accounting, human capital, legal, information technology and other administrative functions, as well as professional fees, overhead, including allocated rent and depreciation and expenses incurred for other general corporate purposes.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash equivalents, investments and accounts receivable. Cash equivalents are held at financial institutions. Investments consist of fixed income and auction rate securities (see Note 4). With respect to accounts receivable, credit risk is mitigated by the Company s ongoing credit evaluation of its customers financial condition.

For the years ended December 31, 2008, 2007 and 2006, one customer accounted for 12%, 13% and 12%, respectively, of total revenues. As of December 31, 2008, no one customer accounted for more than 10% of accounts receivable. As of December 31, 2007, one customer accounted for 12% of accounts receivable.

Advertising Costs

All advertising costs are expensed as incurred. Advertising expense, which is included in sales and marketing expense, totaled $298,000, $371,000 and $210,000 for the years ended December 31, 2008, 2007 and 2006, respectively.

Stock-Based Compensation

The Company accounts for share-based compensation expense in accordance with SFAS No. 123 (revised 2005), *Share-Based Payment* (SFAS 123R). SFAS 123R requires the measurement and recognition of compensation expense for share-based awards based on the estimated fair value on the date of the grant. The Company estimates the fair value of each option award on the date of the grant using the Black-Scholes option-pricing model. This model is affected by the Company s stock price as well as estimates regarding a number of variables including expected stock price volatility over the term of the award and projected employee stock option exercise behaviors. The fair value of the restricted stock awards is determined based on the quoted market price of the Company s common stock on the grant date. For stock-based awards subject to graded vesting, the Company has utilized the straight-line ratable method for allocating compensation cost by period. For the years ended December 31, 2008, 2007 and 2006, the Company recorded stock-based compensation expense of $6.5 million, $2.5 million and $198,000, respectively, in accordance with SFAS 123R. Included within 2008 stock-based compensation expense and liabilities was an accrual for $369,000 for compensation earned during the year. This accrual will be settled with shares of restricted stock to be granted in 2009. Included within 2007 stock-base compensation expense and liabilities was an accrual for $235,000 for compensation earned during the year. This accrual was settled with shares of restricted stock issued during the first quarter of 2008.

Income Taxes

Income taxes are accounted for using the liability method in accordance with SFAS No. 109, *Accounting for Income Taxes*. 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

COMSCORE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, an interpretation of SFAS No. 109, clarifies the accounting for income taxes by prescribing that a company should use a more-likely-than not recognition threshold based on the technical merits of the tax position taken. Tax provisions that meet the more-likely-than-not recognition threshold should be measured as the largest amount of tax benefits, determined on a cumulative probability basis, which is more likely than not to be realized upon ultimate settlement in the financial statements. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting for interim periods, disclosure and transition, and explicitly excludes income taxes from the scope of SFAS No. 5, *Accounting for Contingencies.* The Company s policy is to recognize interest and penalties related to income tax matters in income tax expense.

Earnings Per Share

The Company computes earnings per share in accordance with the provisions of SFAS No. 128, *Earnings Per Share* (SFAS 128). The Company previously issued shares of common stock in connection with business acquisitions that gave the holders the right to require the Company to repurchase the shares at a fixed price at a specified future date (Common Stock Subject to Put). The difference between the fair value of the shares of Common Stock Subject to Put on the issuance date and the price at which the Company could have been required to repurchase those shares was being accreted over the period from issuance to the first date at which the Company could have been required to repurchase the shares as a dividend to the holders. EITF Topic D-98, *Classification and Measurement of Redeemable Securities* (EITF D-98) states that when a common shareholder has a contractual right to receive, at share redemption, an amount that is other than fair value, such shareholder has received, in substance, a preferential distribution. Under SFAS 128, entities with capital structures that include classes of common stock with different dividend rates are required to apply the two-class method of calculating earnings per share. Accordingly, the Company calculates earnings per share for its common stock and its Common Stock Subject to Put using a method akin to the two-class method under SFAS 128.

In addition, the Company s series of convertible redeemable preferred stock that were outstanding until their automatic conversion upon the completion of the IPO on July 2, 2007 were considered participating securities as they were entitled to an 8% noncumulative preferential dividend before any dividends could be paid to common stockholders. The Company includes its participating preferred stock in the computation of earnings per share using the two-class method in accordance with EITF 03-06, *Participating Securities and the Two Class Method under FASB Statement No. 128* (EITF 03-06).

The two-class computation method for each period allocates the undistributed earnings or losses to each participating security based on their respective rights to receive dividends. In addition to undistributed earnings or losses, the accretion to their redemption or put prices was also allocated to the Common Stock Subject to Put and the convertible redeemable preferred stock. Prior to conversion of the redeemable preferred stock, in periods of undistributed losses, all losses were allocated to common stock in accordance with EITF 03-06 as the holders of Common Stock Subject to Put and participating preferred stock were not required to fund losses nor were their redemption or put prices reduced as a result of losses incurred. In periods of undistributed income, income was first allocated to the participating preferred stock for their preferential dividend, $7.1 million per annum as of July 2, 2007, the date of the conversion of the Company s participating preferred stock upon the closing of its IPO. Any undistributed earnings remaining were then allocated to holders of common stock, Common Stock Subject to Put and preferred stock (assuming conversion) on a pro rata basis. The total earnings or losses allocated to each class of common stock were then divided by the weighted-average number of shares outstanding for each class of common stock to determine basic earnings per share. EITF 03-06 does not require the presentation of basic and diluted

COMSCORE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

earnings per share for securities other than common stock; therefore, earnings per share is only computed for the Company s common stock.

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. For the period prior to conversion, diluted earnings per share does not assume the conversion of the Company s convertible preferred stock using the if-converted method as the result is anti-dilutive. No potentially dilutive securities were convertible or exercisable into shares of Common Stock Subject to Put.

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.

	Year Ended December 31,		
	2008	2007	2006
Stock options and restricted stock units	60,086	3,796	2,750,022
Convertible preferred stock warrants			113,129
Common stock warrants	2,000	2,000	115,357
Convertible preferred stock		8,605,041	17,257,362

COMSCORE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table sets forth the computation of basic and diluted EPS:

	Year Ended December 31,		
	2008	2007	2006
	(In thousands, except share data)		
Calculation of basic and diluted net income per share two class method:			
Net income	$ 25,186	$ 19,316	$ 5,669
Accretion of redeemable preferred stock		(1,829)	(3,179)
Accretion of common stock subject to put		(103)	(141)
Undistributed earnings	25,186	17,384	2,349
Allocation of undistributed earnings:			
Common stock	25,186	16,358	
Preferred stock		1,026	2,349
Total allocated earnings	$ 25,186	$ 17,384	$ 2,349
Net income attributable to common stockholders per common share:			
Basic	$ 0.88	$ 0.99	$ 0.00
Diluted	$ 0.83	$ 0.88	$ 0.00
Weighted-average shares outstanding-common stock:			
Basic	28,691,216	16,139,365	3,847,213
Diluted	30,232,714	18,377,563	3,847,213
Net income attributable to common stockholders per common share subject to put:			
Basic	$ 0.88	$ 1.33	$ 0.41
Diluted	$ 0.83	$ 1.21	$ 0.41
Weighted-average shares outstanding-common stock subject to put:			
Basic	34,465	308,720	347,635
Diluted	34,465	308,720	347,635

Recent Pronouncements

In February 2008, the FASB issued FASB Staff Position (FSP) FAS No. 157-2, *Effective Date of FASB Statement No. 157*, or FSP FAS No. 157-2, which delays the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The effective date has been delayed by one year to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. The Company adopted SFAS No. 157 except for those items with respect to which adoption was specifically deferred under FSP FAS No. 157-2. The Company is currently evaluating the impact of the full adoption of FAS No. 157 on our consolidated financial statements.

In October 2008, the FASB issued FSP No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active* (FSP No. 157-3). FSP No. 157-3 clarifies the application of SFAS No. 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. The provisions of FSP No. 157-3 were effective

COMSCORE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

upon issuance and for financial statements not yet reported. The adoption of FSP No. 157-3 did not have a material impact on the Company s consolidated financial statements.

In December 2007, the SEC staff issued Staff Accounting Bulletin No. 110 (SAB 110), which expresses the views of the SEC staff regarding the use of a simplified method in developing an estimate of expected term of plain vanilla share options in accordance with SFAS 123R. The use of the simplified method, which was first described in Staff Accounting Bulletin No. 107, was scheduled to expire on December 31, 2007. SAB 110 extends the use of the simplified method for plain vanilla awards in certain situations. The SEC staff does not expect the simplified method to be used when sufficient information regarding exercise behavior, such as historical exercise data or exercise information from external sources, becomes available. SAB 110 was effective January 1, 2008. The adoption of SAB 110 did not have a material impact on the Company s consolidated results of operations or financial position.

In December 2007, the FASB issued SFAS No. 141 (revised), *Business Combinations* (SFAS 141(R)), which is intended to improve reporting by creating greater consistency in the accounting and financial reporting of business combinations. SFAS 141(R) requires that the acquiring entity in a business combination recognize all (and only) the assets and liabilities assumed in the transaction, establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed, and requires the acquirer to disclose to investors and other users all of the information that they need to evaluate and understand the nature and financial effect of the business combination. In addition, SFAS 141(R) modifies the accounting for transaction and restructuring costs. SFAS 141(R) is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. After the effective date of SFAS 141(R), all changes to tax uncertainties and deferred tax asset valuation allowances established in business combination accounting should be recognized in accordance with SFAS 141(R), generally as an adjustment to income tax expense. For the Company s acquisition of M:Metrics, Inc. (see Note 3), the effects of changes outside of the measurement period (or within the measurement period if the changes result from new information about facts that arose after the acquisition date) to deferred tax asset valuation allowances established in acquisition accounting will be recognized directly as an adjustment to income tax expense.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of Accounting Research Bulletin No. 51* (SFAS No. 160). SFAS No. 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of the consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent s ownership interest, and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS No. 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating the potential impact of adopting the provisions of SFAS No. 160 on its consolidated results of operations and financial position.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159), to permit all entities to choose to elect, at specified election dates, to measure eligible financial instruments and certain other items at fair value. An entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date, and recognize upfront costs and fees related to those items in earnings as incurred and not deferred. If elected, SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company adopted SFAS No. 159 on January 1, 2008; however, the Company has not expanded its eligible items subject to the fair value option under SFAS No. 159.

3. Acquisition

On May 28, 2008, comScore completed its merger with M:Metrics, Inc. (M:Metrics), a provider of marketing and media intelligence for the mobile medium in the United States and internationally, pursuant to the Agreement and Plan of Merger dated May 28, 2008, (the Merger). Pursuant to the Agreement and Plan of Merger, the Company acquired all the outstanding common stock of M:Metrics in a cash transaction for approximately

COMSCORE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

$46.0 million. The total preliminary purchase price of $46.0 million is comprised of $44.3 million in cash consideration, $1.2 million in expenses paid on M:Metrics behalf and estimated acquisition related transaction costs of approximately $480,000. Acquisition-related transaction costs include legal and accounting fees, and other external costs directly related to the Merger. In connection with the Merger, the Company exchanged the unvested options for M:Metrics common stock for options for the purchase of 51,908 shares of comScore common stock. In addition, $5.0 million of comScore restricted common stock was reserved for issuance pursuant to the Merger and $4.72 million was issued to certain former M:Metrics employees that continued as employees of comScore as of June 30, 2008. The estimated fair value of these options and restricted stock will be recognized as compensation expense for post merger services. The Company has included the financial results of M: Metrics in its consolidated financial statements since May 28, 2008, the date of acquisition.

The Company believes the Merger with M:Metrics supports the Company s long-term strategic direction and that the demands in the digital marketing intelligence industry continue to accelerate at a rapid pace as advertising moves to new digital mediums. In evaluating the acquisition of M:Metrics, the Company focused primarily on the business s revenues and customer base, the strategic fit of the business s product line with the Company s existing product offerings, and opportunities for cost reductions and other synergies, rather than on the business s tangible or intangible assets, such as its property and equipment. As a result, the fair value of the acquired assets corresponds to a relatively smaller portion of the acquisition price, with the Company recording a substantial amount of goodwill associated with the acquisition.

The Merger was accounted for under the purchase method of accounting in accordance with SFAS No. 141, *Business Combinations* (SFAS 141). Assets acquired and liabilities assumed were recorded at their estimated fair values as of May 28, 2008. Under the purchase method of accounting, the total estimated purchase price is allocated to M:Metrics net tangible and intangible assets based on their estimated fair values as of May 28, 2008, the effective date of the Merger. The preliminary estimated purchase price allocation as shown in the table below was based on management s preliminary valuation, which was based on estimates and assumptions that are subject to change. We are awaiting additional information about assets acquired and liabilities assumed that may result in an adjustment to the preliminary purchase price. The preliminary purchase price was allocated as follows (in thousands):

Cash and cash equivalents	$	1,554
Accounts receivable		2,066
Prepaid expenses and other current assets		226
Property and equipment		464
Other long term assets		85
Deferred tax assets, net		3,667
Accounts payable		(865)
Other accrued liabilities		(3,469)
Deferred revenue		(5,473)
Other long-term liabilities		(145)
Net tangible liabilities to be acquired		(1,890)
Definite-lived intangible assets acquired		10,160
Goodwill		37,750

Total estimated purchase price	$ 46,020

Included in the preliminary purchase price allocation were $9.6 million of deferred tax assets and $3.6 million of deferred tax liabilities initially offset by a full valuation allowance of $6.0 million. In connection with the reduction of the deferred tax asset valuation allowance recorded as of December 31, 2008 (see Note 9), the Company recorded a $3.7 million reduction in the valuation allowance recorded for the acquired deferred tax assets of M:Metrics with a corresponding reduction of goodwill.

COMSCORE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Of the total estimated purchase price, a preliminary estimate of $1.9 million has been allocated to net tangible liabilities to be acquired, and $10.2 million has been allocated to definite-lived intangible assets acquired. Definite-lived intangible assets of $10.2 million consist of the value assigned to M:Metrics customer relationships of $3.2 million, intellectual property of $2.6 million, developed and core technology of $2.5 million and panel of $1.9 million. The useful lives range from five to ten years (see Note 2). Goodwill represents the excess of the purchase price of an acquired business over the fair value of the net tangible and intangible assets acquired. Goodwill is not deductible for tax purposes.

In connection with the preliminary purchase price allocation, the estimated fair value of the deferred revenue assumed from M:Metrics in connection with the Merger was determined utilizing a cost build-up approach. The cost build-up approach determines fair value by estimating the costs relating to fulfilling the assumed contractual obligations plus a market profit margin. The present value of the sum of the costs and operating profit approximates the amount that the Company would be required to pay a third party to assume the obligations. The estimated costs to fulfill the obligation were based on the historical direct costs related to providing the services.

The unaudited financial information provided below summarizes the combined results of operations of comScore and M:Metrics on a pro forma basis, as though the companies had been combined as of the beginning of the periods presented. The pro forma financial information is presented for informational purposes only and does not purport to be indicative of the Company s financial position or results of operations, which would actually have been obtained had such transaction been completed as of the date or for the periods presented, or of the financial position or results of operations that may be obtained in the future. The pro forma financial information for all periods includes adjustments to include amortization expense from acquired intangibles, adjustments to interest income, the elimination of depreciation from acquired internally developed software and related tax effects.

The unaudited historical financial information of comScore for the periods beginning after May 28, 2008 includes the results of the consolidated companies. The unaudited pro forma financial information for the year ended December 31, 2008 combines the historical results for comScore for the year ended December 31, 2008 and the historical results for M:Metrics for the five months ended May 28, 2008. The unaudited pro forma financial information for the year ended December 31, 2007 combines the historical results for comScore for the year ended December 31, 2007 and the historical results for M: Metrics for the same period.

	Year Ended December 31, 2008		2007	
	(Unaudited) (In thousands, except per share data)			
Revenues	$	122,158	$	96,265
Net income	$	21,916	$	5,398
Basic income per share to common stockholders	$	0.76	$	0.33
Diluted income per share to common stockholders	$	0.72	$	0.29

4. Investments and Fair Value Measurements

As of December 31, 2008, the Company had $2.9 million invested in auction rate securities, all of which are classified as long-term investments on its consolidated balance sheet. As of December 31, 2007, the Company had $30.3 million invested in auction rate securities, of which $25.4 million were classified as short-term investments and $4.9 million were classified as long-term investments on its consolidated balance sheet.

Auction rate securities are generally long-term debt instruments that provide liquidity through a Dutch auction process that resets the applicable interest rate at pre-determined calendar intervals, generally every 28 days. This mechanism typically allows existing investors to rollover their holdings and to continue to own their respective securities or liquidate their holdings by selling their securities at par value. These securities often are insured against loss of principal and interest by bond insurers. In prior years, the Company invested in these securities for short periods of time as part of its investment policy. However, the uncertainties in the credit markets have prevented the

COMSCORE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Company and other investors from liquidating holdings of certain auction rate securities in recent auctions because the amount of securities submitted for sale has exceeded the amount of purchase orders. Accordingly, the Company continues to hold these long-term securities and is due interest at a higher rate than similar securities for which auctions have cleared.

As of December 31, 2008 and December 31, 2007, five auction rate securities with a par value of $5.1 million had failed their most recent auction and are considered illiquid. As there is no active market for these investments, the Company values its auction rate securities using a discounted cash flow model that takes into consideration the securities coupon rate, the discount rate and the expected date liquidity will be restored. The discount rate reflects the financial condition of the issuers and the bond insurers and incorporates a discount for illiquidity. As of December 31, 2008 and 2007, the estimated fair value of the auction rate securities was below cost, or par value, resulting in an unrealized loss.

As of December 31, 2007, the Company determined that the unrealized losses on its auction rate securities did not represent an other-than-temporary impairment and reflected the unrealized losses within other comprehensive income. The Company determined that the unrealized losses were primarily due to changes in market conditions and an overall lack of demand for auction rate securities. Although certain bond insurers were experiencing financial difficulties and had either their credit ratings downgraded or were placed on watch, the issuers of the auction rate securities maintained AAA ratings. Further, the Company had the ability and intent to hold the investments until an anticipated recovery of the fair value.

During 2008, the length of time and the extent to which the auction rate securities were valued below cost both increased significantly. As of December 31, 2008, the credit ratings of the issuers had deteriorated to a range of A- to B and the bond insurers saw similar downgrades to a range of BBB to C. As a result, the Company concluded that the unrealized losses on its auction rate securities at December 31, 2008 represented an other-than-temporary impairment and recorded a charge of $2.2 million in earnings.

The Company is unsure as to when the liquidity issues relating to these investments will improve. Accordingly, the Company classified these securities as non-current as of December 31, 2008 and 2007. If the credit ratings of the issuers, the bond insurers or the collateral continue to deteriorate, the Company may further adjust the carrying value of these investments.

Marketable securities, which are classified as available-for-sale, are summarized below.

	Purchased Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Aggregate Fair Value	Classification on Balance Sheet Short-Term Investments	Classification on Balance Sheet Long-Term Investments
			(In thousands)			
As of December 31, 2008:						
U.S. treasury bills	$ 24,931	$ 55	$	$ 24,986	$ 24,986	$
U.S. treasury notes	12,694	120		12,814	12,178	636

Auction rate securities	2,861			2,861		2,861
	$ 40,486	$ 175	$	$ 40,661	$ 37,164	$ 3,497

	Purchased Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Aggregate Fair Value	Classification on Balance Sheet Short-Term Investments	Long-Term Investments
			(In thousands)			
As of December 31, 2007:						
U.S. treasury notes	$ 6,005	$ 38	$	$ 6,043	$ 2,999	$ 3,044
Auction rate securities	30,550		(220)	30,330	25,450	4,880
	$ 36,555	$ 38	$ (220)	$ 36,373	$ 28,449	$ 7,924

COMSCORE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

There were no gross unrealized losses related to available-for-sale securities as of December 31, 2008 other than the auction rate securities, for which the unrealized loss was deemed other than temporary and included in earnings. The following table summarizes the fair value and gross unrealized losses related to available-for-sale securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2007:

	Less Than 12 Months		More Than 12 Months		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
	(In thousands)					
As of December 31, 2007:						
Auction rate securities	$ 30,330	$ (220)	$	$	$ 30,330	$ (220)
	$ 30,330	$ (220)	$	$	$ 30,330	$ (220)

The fair value hierarchy of the Company s marketable securities at fair value as of December 31, 2008 is as follows:

		Fair Value Measurements at Reporting Date Using		
	December 31, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)			
Assets:				
U.S. treasury bills	$ 24,986	$ 24,986	$	$
U.S. treasury notes	12,814	12,814		
Auction rate securities	2,861			2,861
Total	$ 40,661	$ 37,800	$	$ 2,861

The following table provides a reconciliation of the beginning and ending balances for the major classes of assets measured at fair value using significant unobservable inputs (Level 3):

	Short-term Investments	Long-term Investments
	(In thousands)	
Balance on January 1, 2008	$	$ 4,880
Transfers into Level 3		2,350
Total losses unrealized included in earnings		(2,239)
Total losses included in other comprehensive income at December 31, 2007		220
Settlements		(2,350)
Balance on December 31, 2008	$	$ 2,861

For the year ended December 31, 2008, an unrealized loss of $2.2 million related to Level 3 assets held at December 31, 2008 was included in earnings.

COMSCORE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Property and Equipment

Property and equipment, including equipment under capital lease obligations, consists of the following:

	December 31 2008	December 31 2007
	(In thousands)	
Computer equipment	$ 11,256	$ 16,050
Computer software	3,627	2,529
Office equipment and furniture	3,085	1,408
Leasehold improvements	8,405	1,070
	26,373	21,057
Less: accumulated depreciation and amortization	(8,676)	(14,190)
	$ 17,697	$ 6,867

During the year ended December 31, 2008, the Company capitalized $9.4 million of leasehold improvements, furniture and fixtures and office equipment associated with landlord allowances received in connection with its Reston, Chicago and San Francisco office leases (see Note 8).

Property and equipment financed through capital lease obligations, consisting of computer equipment, totaled $3.1 million at December 31, 2008 and 2007. At December 31, 2008 and 2007, accumulated depreciation related to property and equipment financed through capital leases totaled $2.2 million and $1.2 million, respectively. During the years ended December 31, 2008 and 2007, $10.4 million and $2.5 million, respectively, of fully depreciated assets were written off. In addition, $2.6 million of assets financed through terminated capital leases were subsequently returned and written off during the year ended December 31, 2007.

For the years ended December 31, 2008, 2007 and 2006, total depreciation expense was $5.0 million, $3.8 million and $2.9 million, respectively.

6. Goodwill and Intangible Assets

The carrying amounts of goodwill and intangible assets are as follows:

	December 31, 2008	December 31, 2007
	(In thousands)	
Goodwill	$ 39,114	$ 1,364

Intangible assets consist of the following:		
Trademarks and brands	$	$ 662
Non-compete agreements		326
Customer relationships	2,927	3,467
Acquired methodologies/technology	2,378	688
Intellectual property	2,547	
Panel	1,701	
Total intangible assets	9,553	5,143
Accumulated amortization	(748)	(5,126)
Intangible assets, net	$ 8,805	$ 17

COMSCORE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Amortization expense related to intangible assets was approximately $804,000, $966,000 and $1.4 million for the years ended December 31, 2008, 2007 and 2006, respectively.

During the year ended December 31, 2008, $5.1 million of fully-amortized intangible assets were written off.

The weighted average amortization period by major asset class as of December 31, 2008, is as follows:

	(In years)
Acquired methodologies/technology	6.6
Customer relationships	7.0
Panel	7.0
Intellectual property	10.0

The estimated future amortization of acquired intangible assets as of December 31, 2008 is as follows:

	(In thousands)
2009	$ 1,283
2010	1,283
2011	1,283
2012	1,283
2013	1,227
Thereafter	2,446
	$ 8,805

7. Accrued Expenses

Accrued expenses consist of the following:

	December 31, 2008	December 31, 2007
	(In thousands)	
Accrued payroll and related	$ 3,478	$ 3,054
Other	5,954	3,784
	$ 9,432	$ 6,838

8. Commitments and Contingencies

Leases

In December 2006, the Company entered into an equipment lease agreement with Banc of America Leasing & Capital, LLC to finance the purchase of new hardware and other computer equipment as the Company continued to expand its technology infrastructure in support of its business growth. This agreement included a $5.0 million line of credit that was available to the Company until December 31, 2007; its initial utilization of this credit facility was to establish an equipment lease for approximately $2.9 million bearing interest at a rate of 7.75% per annum. The base term for this lease was three years and included a nominal charge in the event of prepayment. Assets acquired under the equipment leases secure the obligations. The line of credit expired December 31, 2007.

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

COMSCORE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

escalation increases. Future minimum payments under noncancelable lease agreements with initial terms of one year or more are as follows:

	December 31, 2008	
	Capital Leases	Operating Leases
2009	$ 1,021	$ 4,978
2010		4,939
2011		4,877
2012		4,724
2013		4,340
Thereafter		20,915
Total minimum lease payments	1,021	$ 44,773
Less amount representing interest	(44)	
Present value of net minimum lease payments	977	
Less current portion	(977)	
Capital lease obligations, long-term	$	

Total rent expense was $4.0 million, $2.4 million and $2.1 million for the years ended December 31, 2008, 2007 and 2006, respectively.

In December 2008, the Company agreed with a landlord for the early termination of its Seattle office lease. In connection with this termination, the Company paid $97,000. This amount is included in expenses from operations for the year ended December 31, 2008. In September 2008, the Company agreed with a landlord for the early termination of the acquired M:Metrics San Francisco office lease. In connection with this termination, the Company paid $165,000. This amount is included in expenses from operations for the year ended December 31, 2008

In June 2008, the Company entered into a ten year lease with a new landlord for approximately 16,674 square feet of new office space for its San Francisco office. The base rent in the first year is approximately $676,000 and escalates 3% per annum over the lease term. The Company consolidated the comScore and M:Metrics San Francisco offices and moved into this new integrated office in September 2008. In connection with this lease, the Company recorded $1.5 million of deferred rent and capitalized assets as a result of landlord allowances. The deferred rent will be applied to rent expense recognized by the Company over the lease term.

In December 2007, the Company entered into a ten year lease with a new landlord for approximately 62,000 square feet of new office space for its corporate headquarters. The Company moved its corporate headquarters in June 2008. In connection with this lease, the Company recorded $5.3 million of deferred rent and capitalized assets as a result of landlord allowances and abatements. The deferred rent will be applied to rent expense recognized by the Company over the lease term.

In August 2007, the Company entered into a ten year lease with a new landlord for approximately 28,000 square feet of new office space for its Chicago office. The Company moved its Chicago office in March 2008. In connection with this lease, the Company recorded $2.5 million of deferred rent and capitalized assets as a result of landlord allowances and abatements. The deferred rent will be applied to rent expense recognized by the Company over the lease term.

During August 2007, the Company paid the $582,000 principal balance of certain capital lease obligations resulting in the termination of those lease agreements.

COMSCORE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Contingencies

On March 6, 2008, the Company opened a $5.0 revolving line of credit with an interest rate equal to BBA LIBOR rate plus an applicable margin based upon the funded debt to unrestricted EBITDA ratio. This line of credit includes no restrictive financial covenants. On February 27, 2009, the line of credit was extended through April 6, 2009. As of December 31, 2008, no amounts were borrowed against the line of credit and $4.4 million of letters of credit were outstanding, leaving $600,000 available for additional letters of credit or other borrowings. These letters of credit may be reduced periodically provided the Company meets the conditional criteria of each related lease agreement. During the year ended December 31, 2008, one letter of credit was reduced by approximately $90,000. As of December 31, 2007, certain letters of credit were collateralized by $1.4 million in certificates of deposit which were included in Restricted Cash in the Consolidated Balance Sheets. During the year ended December 31, 2008, the security deposits were collateralized by the line of credit, reducing availability under the facility, and the restrictions were removed from the $1.4 million of certificates of deposit, which were reclassified to cash and cash equivalents.

The Company has no asserted claims as of December 31, 2008, but is from time to time exposed to unasserted potential claims encountered in the normal course of business. Although the outcome of any legal proceedings cannot be predicted with certainty, management believes that the final resolution of these matters will not materially affect the Company s consolidated financial position or results of operations.

9. Income Taxes

The components of pretax income for the years ended December 31, 2008, 2007 and 2006 are as follows:

	2008	2007	2006
		(In thousands)	
Domestic	$ 10,906	$ 11,450	$ 6,190
Foreign	(615)	344	(471)
	$ 10,291	$ 11,794	$ 5,719

Income tax benefit (expense) is comprised of the following:

	Year Ended December 31,		
	2008	2007	2006
		(In thousands)	
Current:			
Federal	$ (285)	$ (197)	$ (147)
State	(74)	(11)	
Foreign	(127)	(412)	

Total	(486)	(620)	(147)
Deferred:			
Federal	13,109	6,833	
State	1,671	1,112	
Foreign	601	197	97
Total	15,381	8,142	97
Income tax benefit (expense)	$ 14,895	$ 7,522	$ (50)

COMSCORE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A reconciliation of the statutory United States income tax rate to the effective income tax rate follows:

	Year Ended December 31,		
	2008	**2007**	**2006**
Statutory federal tax rate	35.0%	35.0%	34.0%
Nondeductible items	4.5	6.6	3.4
State tax rate, net of federal benefit	4.4	6.5	5.6
Foreign rate differences	1.9	(0.3)	(0.2)
Change in tax rates	6.3		
Change in valuation allowance	(196.8)	(111.6)	(41.9)
Effective tax rate	(144.7)%	(63.8)%	0.9%

The Company recognized an income tax benefit of approximately $14.9 million during the year ended December 31, 2008, primarily due to the recording of a reduction in the deferred tax asset valuation allowance of approximately $20.4 million, which was offset by a current tax expense of $486,000 related to federal alternative minimum tax expense and state foreign income taxes and a deferred tax expense of approximately $5.0 million related to the utilization of deferred tax assets during the year.

The Company recognized an income tax benefit of approximately $7.5 million during the year ended December 31, 2007, primarily due to the recording of a reduction in the deferred tax asset valuation allowance of approximately $8.1 million offset by federal alternative minimum tax expense and state and foreign income taxes.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company s net deferred income taxes are as follows.

	December 31	
	2008	**2007**
	(In thousands)	
Deferred tax asset:		
Net operating loss	$ 27,075	$ 26,466
Tax credits	973	344
Accrued vacation and bonus	233	126
Deferred revenues		177
Acquired intangibles		880
Depreciation	708	363
Deferred compensation	1,689	779
Deferred rent	340	59
Other	1,891	154

Total deferred tax assets	32,909	29,348
Deferred tax liabilities:		
Acquired intangibles	(3,038)	
Less valuation allowance	(2,831)	(21,284)
Net deferred tax asset	$ 27,040	$ 8,064

As of December 31, 2008 and 2007, the Company had valuation allowances of $2.8 million and $21.3 million, respectively, against certain deferred tax assets, which consisted principally of net operating loss carryforwards.

COMSCORE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

As of December 31, 2007, the Company concluded that it was more likely than not that a portion of its U.S. deferred tax assets would be realized in subsequent years and that a reduction of its valuation allowance was necessary. Considering the relatively limited history of profitability and the fact that the online marketing industry is a young and developing industry, the Company concluded that it was appropriate to consider future taxable income for a limited period of one year into the future. As a result, the Company recorded a reduction in the deferred tax asset valuation allowance of approximately $8.1 million.

As of December 31, 2008, the Company concluded that it was more likely than not that a substantial portion of its U.S. deferred tax assets and deferred tax assets in certain foreign jurisdictions would be realized and that a further reduction of its valuation allowance was necessary. In making that determination, the Company considered the profitability achieved during 2008, the successful integration of M:Metrics into the base business, and the continued maturity of the online marketing industry, balanced against the current overall economic environment. As a result, the Company recorded a reduction in the deferred tax asset valuation allowance of approximately $20.4 million.

The remaining valuation allowance as of December 31, 2008 of $2.8 million relates to the acquired deferred tax assets (primarily net operating loss carryforwards) of the M:Metrics UK subsidiary and the deferred tax asset related to the impairment recognized on auction rate securities. To the extent that the Company determines that the remaining valuation allowance is no longer necessary, the Company expects to recognize an income tax benefit in the period such determination is made. The further reduction of the valuation allowance could have a material impact on the Company s results of operations.

The following is a summary of activities in the deferred tax asset valuation allowance for the fiscal years indicated:

	Year Ended December 31,		
	2008	2007	2006
		(In thousands)	
Deferred Tax Valuation Allowance			
Beginning Balance	$ (21,284)	$ (33,746)	$ (36,139)
Additions	(1,964)	(393)	
Reductions	20,417	12,855	2,393
Ending Balance	$ (2,831)	$ (21,284)	$ (33,746)

As of December 31, 2008, the Company had both federal and state net operating loss carryforwards for tax purposes of approximately $64.6 million and $34.7 million respectively (excluding windfall benefits from stock option exercises). As of December 31, 2007, the Company had both federal and state net operative loss carryforwards for tax purposes of approximately $67.8 million and $48.1 million, respectively (excluding windfall benefits from stock option exercises). These net operating loss carryforwards begin to expire in 2021 for federal and begin to expire in 2014 for state income tax reporting purposes. In addition, at December 31, 2008 the Company had an aggregate net operating loss carryforward for tax purposes related to its foreign subsidiaries of $9.7 million, which begins to expire in 2014.

The exercise of stock options during 2008 and 2007 generated an income tax deduction equal to the excess of the fair market value over the exercise price. In accordance with SFAS 123R, the Company will not recognize a deferred tax asset with respect to the excess stock compensation deductions until those deductions actually reduce

COMSCORE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the Company s income tax liability. As such, the Company has not recorded a deferred tax asset related to the net operating losses resulting from the exercise of these stock options in the accompanying financial statements. At such time as the Company utilizes these net operating losses to reduce income tax payable, the tax benefit will be recorded as an increase in additional paid in capital. As of December 31, 2008, the cumulative amount of net operating losses related to such option exercises was $9.1 million

Under the provisions of Internal Revenue Code Section 382, certain substantial changes in the Company s ownership may result in a limitation on the amount of U.S. net operating loss carryforwards that could be utilized annually to offset future taxable income and taxes payable. A portion of the Company s M:Metrics net operating loss carryforwards are subject to an annual limitation under Section 382 of the Internal Revenue Code. We do not expect that this limitation will impact our ability to utilize all of our net operating losses prior to their expiration. Additionally, despite the net operating loss carryforward, the Company may have a future tax liability due to alternative minimum tax, foreign tax or state tax requirements.

The Company intends to indefinitely reinvest the undistributed earnings from its foreign subsidiaries. As of December 31, 2008, the Company has not recorded U.S. income tax expense related to undistributed foreign earnings of approximately $1.5 million.

The Company adopted FIN 48 on January 1, 2007, which requires financial statement benefits to be recognized for positions taken for tax return purposes when it is more-likely-than-not that the position will be sustained. At December 31, 2008 and December 31, 2007, the Company had unrecognized tax benefits of $240,000 and $71,000, respectively, all of which could affect the Company s tax rate if recognized. The net increase in the liability for unrecognized income tax benefits since the date of adoption resulted from the following:

	December 31,	
	2008	2007
	(In thousands)	
Unrecognized tax benefits beginning balance	$ 71	$
Increase related to tax positions of prior years	169	71
Unrecognized tax benefits ending balance	$ 240	$ 71

The Company or one of its subsidiaries files income tax returns for U.S. federal jurisdiction and various states and foreign jurisdictions. For income tax returns filed by the Company, the Company is no longer subject to U.S. federal, state and local tax examinations by tax authorities for years before 2004, although carryforward tax attributes that were generated prior to 2004 may still be adjusted upon examination by tax authorities if they either have been or will be utilized.

10. Convertible Preferred Stock

Prior to the completion of the Company s IPO on July 2, 2007, the Company s certificate of incorporation authorized the issuance of 9,187,500 shares of Series A Preferred Stock (Series A), 3,535,486 shares of Series B Preferred Stock (Series B), 13,355,052 shares of Series C Preferred Stock (Series C), 357,144 shares of Series C-1 Preferred Stock (Series C-1), 22,238,042 shares of Series D Preferred Stock (Series D) and 25,000,000 shares of Series E Preferred Stock (Series E). Upon the closing of the Company s IPO on July 2, 2007, all shares of convertible preferred stock were converted into 17,257,362 shares of common stock.

Prior to the conversion of the Company s convertible preferred stock, the Series E ranked senior to all other classes of capital stock, with the exception of the Incentive Plan (see Note 13), on a distribution of assets upon liquidation, dissolution, or winding up of the Company. Upon such event, each share of Series E was entitled to a liquidation preference equal to 1.63 times the original purchase price of $2.50 per share. In addition, each share of Series E was entitled to participate in any distribution pari passu with all classes of stock after $88,392,465 (the Cap Amount) had been distributed to the holders of Series A through Series D preferred stock. The assets distributed to each share of Series E upon liquidation, dissolution or winding up of the Company shall not have exceeded five

COMSCORE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

times the original purchase price of $2.50 per share. Series E was convertible into common stock at a conversion price equal to the original issuance price, subject to adjustment.

The holders of Series E were entitled to dividends in preference to any class of capital stock of the Company at an annual rate of 8.0%. Following payment of any dividends to holders of Series E, holders of Series D were entitled to dividends in preference to any class of stock other than Series E at an annual rate of 8.0%. Following the payment of any dividends to the holders of Series D, holders of Series A, Series B, Series C and Series C-1 were entitled to dividends in preference to common stockholders at an annual rate of 8.0%. All dividends were noncumulative and were paid only when, if, and as declared by the Board of Directors. No dividend shall have been paid on shares of common stock in any fiscal year unless (i) the noncumulative preferential dividends of the preferred stock had been paid in full and (ii) the holders of preferred stock participated in any such dividend on common stock on a pro rata basis assuming conversion of all preferred stock into common stock.

The Series A, B, C, C-1 and D (Series A-D) each had a liquidation preference senior to the common stock. In the event of any liquidation, dissolution, or winding up of the Company, each Series A-D share was entitled to a liquidation preference equal to a portion of the Cap Amount. The portion of the Cap Amount to which each share of Series A, B, C and C-1 was entitled was equal to the original purchase price for such share (plus all declared and unpaid dividends) multiplied by an adjustment factor set forth in the prior certificate of incorporation. The portion of the Cap Amount to which each share of Series D was entitled was equal to the original issue price (plus all declared and unpaid dividends) plus a 25% premium, compounded annually (but such total not to exceed 250% of the original issue price) multiplied by an adjustment factor set forth in the prior certificate of incorporation. The original purchase price per share for Series A, Series B, Series C, Series C-1 and Series D was $5.00, $24.50, $11.35, $7.00 and $4.50 respectively. After the payment of the liquidation preference to the Series A-D, each share of Series A-D was entitled to participate in any distribution pari passu with all classes of stock. The assets distributed to each share of Series A-D upon liquidation, dissolution, or winding up of the Company shall not have exceeded 2.5 times the original purchase price of such shares.

Upon the occurrence of a Liquidation Event, defined as a consolidation, merger, or sale of the Company, Management was entitled to receive the first 10% of any liquidation proceeds pursuant to an Incentive Plan (see Note 13). The distributions of such proceeds were to be to the Incentive Plan participants (senior management and Company s founders) based on both their respective equity ownership in the Company and a variable percentage which was subject to Board approval.

As a result of the issuance of Series E, the conversion prices of the Series A, Series B, Series C, Series C-1 and Series D were adjusted to the following rates: Series A $4.30 per share, Series B $12.35 per share, Series C $7.50 per share, Series C-1 $5.90 per share and Series D of $4.00 per share.

Each share of preferred stock was convertible at any time into shares of common stock based on the conversion price then in effect. Conversion was automatic in the event of a public offering of common stock at a price of at least $12.50 per share with gross proceeds of at least $25 million. Each holder of preferred stock was entitled to the number of votes equal to the number of whole shares of common stock into which the shares held by the holder were then convertible at each meeting of the stockholders of the Company. All series of preferred stock had anti-dilution protection in the event the Company issued shares at a purchase price less than $2.50.

All classes of preferred stock were redeemable by the holder on or after August 1, 2008. Series E ranked senior to all other classes of stock and may have been redeemed at 1.63 times its original purchase price plus all declared but unpaid dividends. The aggregate redemption value for the Series A-D shares was equal to the Cap Amount. In the event that any series of preferred stock was converted into common stock prior to redemption, the aggregate redemption value of the remaining series of preferred stock remained equal to the Cap Amount. The redemption value for the Series A-D shares was equal to the liquidation preference in effect on the redemption date for each series of preferred stock as adjusted by a formula set forth in the prior certificate of incorporation. Upon the initiation of the Cap Amount, the carrying values of Series A, Series B, Series C and Series C-1 were in excess of

COMSCORE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

their individual redemption values. The carrying value of Series D was below its individual redemption value. The differences between the carrying value of each series of preferred stock and its respective redemption value (as adjusted for the Cap Amount for Series A-D) was being accreted as preferred stock dividends using the interest method over the period to the redemption date. Such accretion amounted to $1.8 million and $3.2 million for the years ended December 31, 2007 and 2006, respectively.

In connection with the closing of the Company s IPO on July 2, 2007, all outstanding shares of convertible preferred stock were converted into 17,257,362 shares of common stock.

11. Convertible Preferred Stock Warrants

In prior years, the Company issued fully vested warrants to purchase 97,324 shares of preferred stock in connection with a master lease and various equipment lease agreements. The exercise prices of the warrants range from $2.50 to $24.50 per share and the warrants expire 10 years from the date of issue. The Company recorded the fair value of the warrants totaling $383,000 as deferred financing costs with an offset to warrants to purchase redeemable preferred stock. The fair value of the warrants was estimated using the Black-Scholes option pricing model. The deferred financing costs were being amortized to interest expense over the respective agreement on a straight line basis. For the years ended December 31, 2008, 2007 and 2006, the Company recorded $0, $7,000 and $33,000 in interest expense.

In accordance with FSP 150-5, the Company adjusted the warrants to fair value at each reporting date. Upon the completion of the IPO, which closed on July 2, 2007, liabilities of $2.2 million were reclassified to stockholders equity (see Note 1).

To reflect the increase in fair value of the preferred stock warrants during the years ended December 31, 2007 and 2006, the Company recorded charges of $1.2 million and $224,000, respectively.

12. Common Stock Subject to Put

In prior years, the Company issued 347,635 shares of Common Stock Subject to Put. The carrying value of the Common Stock Subject to the Put right was accreted to the put obligation over the three year term using the effective interest rate method. For the years ended December 31, 2007 and 2006, the Company accreted a total of$103,000 and $141,000, respectively. During April 2008, the put right associated with 135,635 shares expired unexercised and the carrying value of the shares of $1.8 million was reclassified to common stock and additional paid in capital. During October 2007, the put right associated with 212,000 shares expired unexercised and the carrying value of the shares of $2.7 million was reclassified to common stock and additional paid-in capital.

13. Stockholders Equity

1999 Stock Option Plan and 2007 Equity Incentive Plan

Prior to the effective date of the registration statement for the Company s IPO on June 26, 2007, eligible employees and non-employees were granted 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 (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. The Plans provide for the issuance of a maximum of 5.4 million shares 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 our 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, generally

COMSCORE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ratably over a four-year period. The options expire 10 years from the date of the grant. Effective January 1, 2008, the shares available for grant increased 1,118,422 pursuant to the automatic share reserve increase provision under the Plans. As of December 31, 2008, 2,309,667 shares were available for grant under the 2007 Plan.

In connection with the adoption of SFAS 123R, the Company estimates the fair value of stock option awards granted beginning January 1, 2006 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 straight-line basis over the requisite service periods of the awards, which is generally the period from the grant date to the end of the vesting period. The weighted-average expected option term for options granted during the year ended December 31, 2006 was calculated using the simplified method described in SAB No. 107, *Share-Based Payment*. The simplified method defines the expected term as the average of the contractual term and the weighted average vesting period. Estimated volatility for the year ended December 31, 2006 also reflected the application of SAB No. 107 interpretive guidance and, accordingly, incorporates historical volatility of similar entities whose share prices are publicly available. The risk-free interest rate is based on the yield curve of a zero-coupon U.S. Treasury bond on the date the stock option award is granted with a maturity equal to the expected term of the stock option award. The Company used historical data to estimate the number of future stock option forfeitures.

The following are the weighted-average assumptions used in valuing the stock options granted during the year ended December 31, 2008, and a discussion of the Company s assumptions:

	Year Ended December 31,	
	2008	**2006**
Dividend yield	0.00%	0.00%
Expected volatility	60.00%	63.37%
Risk-free interest rate	2.93%	4.76%
Expected life of options (in years)	4.00	6.02

Dividend yield The Company has never declared or paid dividends on its common stock and has no plans to pay dividends in the foreseeable future.

Expected volatility Volatility is a measure of the amount by which a financial variable such as a share price has fluctuated (historical volatility) or is expected to fluctuate (expected volatility) during a period. The Company uses a weighted-average volatility based on 75% of the average historical stock volatilities of similar entities and 25% of the Company s actual historical volatility since the IPO.

Risk-free interest rate This is the average U.S. Treasury rate with a term that most closely resembles the expected life of the option on the date the option was granted.

Expected life of the options This is the period of time that the options granted are expected to remain outstanding. This estimate is derived based on an analysis of the Company s historical exercise data combined with expected future exercise patterns based on several factors including the strike price in relation to the current and expected stock price, the minimum vest period and the remaining contractual period.

The weighted average grant date fair value of options granted during the year ended December 31, 2008 and 2006 was $19.34 and $4.30, no options were granted during the year ended December 31, 2007. The total fair value of shares vested during the years ended December 31, 2008, 2007 and 2006 was $817,000, $302,000 and $178,000, respectively.

COMSCORE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A summary of the Plans is presented below:

	Number of Shares	Weighted-Average Exercise Price
Options outstanding at December 31, 2005	3,372,963	$ 1.15
Options granted	342,710	7.25
Options exercised	652,677	0.35
Options forfeited	301,855	2.25
Options expired	37,201	2.80
Options outstanding at December 31, 2006	2,723,940	2.00
Options granted		
Options exercised	580,727	1.50
Options forfeited	95,133	4.27
Options expired	8,646	4.21
Options outstanding at December 31, 2007	2,039,434	2.01
Options granted	51,908	6.24
Options exercised	611,733	1.60
Options forfeited	24,589	5.63
Options expired	1,650	9.55
Options outstanding at December 31, 2008	1,453,370	$ 2.26
Options exercisable at December 31, 2008	1,255,105	$ 1.62

The following table summarizes information about options outstanding at December 31, 2008:

	Options Outstanding			Options Exercisable		
Range of Exercise Prices	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Options Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
$0.00 $3.67	991,884	$ 0.54	5.11	984,580	$ 0.53	5.10
$3.68 $7.34	265,087	$ 4.42	7.03	179,460	$ 4.42	6.91
$7.35 $13.66	196,399	$ 8.06	7.62	91,065	$ 7.93	7.45

1,453,370	$	2.26	5.79	1,255,105	$	1.62	5.52

The intrinsic value of exercised stock options is calculated based on the difference between the exercise price and the quoted market price of our common stock as of the close of the exercise date. The aggregate intrinsic value of options exercised for the years ended December 31, 2008, 2007 and 2006 was $10.2 million, $8.7 million and $3.7 million, respectively. The aggregate intrinsic value for all options outstanding under the Company s stock plans as of December 31, 2008 was $15.2 million. The aggregate intrinsic value for options exercisable under the Company s stock plans as of December 31, 2008 was $14.0 million. The weighted average remaining contractual life for all options outstanding and all options exercisable under the Company s stock plans as of December 31, 2008 was 5.79 years and 5.52 years, respectively. As of December 31, 2008, total unrecognized compensation expense related to non-vested stock options granted prior to that date is estimated at $899,000, which the Company expects to recognize over a weighted average period of approximately 0.93 years. Total unrecognized compensation expense is estimated and may be increased or decreased in future periods for subsequent grants or forfeitures.

COMSCORE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Our nonvested stock awards are comprised of restricted stock and restricted stock units. The Company has a right of repurchase on such shares that lapse at a rate of twenty-five percent (25%) of the total shares awarded at each successive anniversary of the initial award date, provided that the employee continues to provide services to the Company. In the event that an employee terminates their employment with the Company, any shares that remain unvested and consequently subject to the right of repurchase shall be automatically reacquired by the Company at the original cash purchase price paid by the employee, if any. During the year ended December 31, 2008, 75,392 forfeited shares of restricted stock have been repurchased by the Company at no cost. A summary of the status for nonvested stock awards as of December 31, 2008 is presented as follows:

Nonvested Stock Awards	Restricted Stock	Restricted Stock Units	Total of Shares Number Underlying Awards	Weighted Average Grant-Date Fair Value
Nonvested at December 31, 2006				
Granted	798,132	65,027	863,159	$ 14.04
Vested	249		249	11.45
Forfeited	26,100	1,300	27,400	13.08
Nonvested at December 31, 2007	771,783	63,727	835,510	$ 14.08
Granted	540,667	63,794	604,461	23.46
Vested	193,957	17,241	211,198	14.24
Forfeited	75,392	13,607	88,999	20.36
Nonvested at December 31, 2008	1,043,101	96,673	1,139,774	$ 18.53

The aggregate intrinsic value for all non-vested shares of restricted common stock and restricted stock units outstanding as of December 31, 2008 was $14.5 million. The weighted average remaining contractual life for all non-vested shares of restricted common stock and restricted stock units as of December 31, 2007 was 2.7 years.

We granted nonvested stock awards at no cost to recipients during the years ended December 31, 2008 and 2007. As of December 31, 2008, total unrecognized compensation expense related to non-vested restricted stock and restricted stock units was $16.8 million, which the Company expects to recognize over a weighted average period of approximately 1.93 years. Total unrecognized compensation expense may be increased or decreased in future periods for subsequent grants or forfeitures.

Of the 211,198 shares of the Company s restricted stock and restricted stock units vesting during the year ended December 31, 2008, the Company repurchased 64,326 shares at an aggregate purchase price of approximately $1.3 million pursuant to the stockholder s right under the Plans to elect to use common stock to satisfy tax withholding obligations.

Common Stock Warrants

In prior years, the Company had granted an aggregate of 403,368 warrants to purchase common stock. The common stock warrants began to expire in February 2006 through to April 2015 with exercise prices ranging from $3.00 to $24.50. As of December 31, 2008, warrants to purchase 26,375 shares of common stock were outstanding. As of December 31, 2007, warrants to purchase 30,395 shares of common stock were outstanding.

COMSCORE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Shares Reserved for Issuance

At December 31, 2008, the Company had reserved for future issuance the following shares of common stock upon the exercise of options and warrants:

Common stock available for future issuances under 2007 Equity Incentive Plan	2,309,667
Common stock available for outstanding options and unvested restricted stock units	1,550,043
Common stock warrants	26,375
	3,886,085

14. Employee Benefit Plans

The Company has a 401(k) Plan for the benefit of all employees who meet certain eligibility requirements. This plan covers substantially all of the Company s full-time employees. The Company made $366,000, $343,000 and $221,000 in contributions to the 401(k) Plan for the years ended December 31, 2008, 2007 and 2006, respectively. Effective January 1, 2009, the Company suspended the employer match and does not anticipate making any employer contributions during 2009.

15. Related Party Transactions

During December 2007, the Company entered into a services agreement with an aggregated value of approximately $150,000 with a third party for which the Chairman of the Board of the Company is also a member of the third party s board of directors. As of December 31, 2007, no services were provided and no amounts were payable to the third party. In 2008, this third party provided services with an aggregated value of $202,000. This amount was paid by the Company during 2008. As of December 31, 2008, no amounts were payable to the third party.

On August 1, 2003, the Company entered into a Licensing and Services Agreement with a counterparty that until November 27, 2006 was a stockholder of the Company. Pursuant to the terms of the Licensing and Services Agreement, the Company granted the counterparty a license to certain digital marketing intelligence data and products. In 2008 the Company recognized revenues of $2.5 million, and in both 2007 and 2006 the Company recognized revenues of $3.7 million in each year. In relation to this counterparty, there were no amounts included in our accounts receivable balance as of December 31, 2008 and 2007.

16. Geographic Information

The Company attributes revenues to customers based on the location of the customer. The composition of the Company s sales to unaffiliated customers between those in the United States and those in other locations for each year is set forth below:

Year Ended December 31,

	2008	2007	2006
		(In thousands)	
United States	$ 100,895	$ 77,029	$ 60,550
Canada	5,827	4,674	3,150
United Kingdom/Other	10,649	5,450	2,593
Total Revenues	$ 117,371	$ 87,153	$ 66,293

COMSCORE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The composition of the Company s property and equipment between those in the United States and those in other countries as of the end of each year is set forth below:

	December 31, 2008	December 31, 2007
	(In thousands)	
United States	$ 17,468	$ 6,527
Canada	66	183
United Kingdom	163	157
Total	$ 17,697	$ 6,867

COMSCORE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Quarterly Financial Information (Unaudited)

	Three Months Ended Dec. 31, 2008	Sep. 30, 2008	Jun. 30, 2008	Mar. 31, 2008	Dec. 31, 2007	Sep. 30, 2007	Jun. 30, 2007	Ma 2
	(In thousands, except share and per share data)							
	$ 31,590	$ 30,661	$ 28,750	$ 26,370	$ 25,274	$ 22,389	$ 20,809	$
1)	10,276	9,412	7,857	7,017	6,528	5,942	6,000	
d (1)	10,281	10,659	9,516	8,945	8,135	7,390	6,683	
and ent(1)	3,994	4,131	3,637	3,070	3,026	3,018	2,813	
nd ative(1)	4,189	4,266	4,444	3,886	3,605	3,059	2,428	
ion	329	346	122	7	169	211	293	
enses ations	29,069	28,814	25,576	22,925	21,463	19,620	18,217	
om s	2,521	1,847	3,174	3,445	3,811	2,769	2,592	
come,	322	267	492	819	1,206	1,180	144	
n from rrency	(302)	123	(87)	(55)	25	(111)	(202)	
nt of e	(1,398)	(455)	(386)					
	(37)							
on of stock abilities						82	(1,288)	
efore xes	1,106	1,782	3,193	4,209	5,042	3,920	1,246	
rovision) e taxes	19,263	(1,207)	(1,483)	(1,678)	7,703	(129)	(6)	
ne	20,369	575	1,710	2,531	12,745	3,791	1,240	
						(21)	(923)	

of le stock																	
he e to																	
ers	$	20,369	$	575	$	1,710	$	2,531	$	12,745	$	3,770	$	317	$		
he e to																	
ers:	$	20,369	$	575	$	1,710	$	2,531	$	12,732	$	3,748	$	282	$		
	$	0.70	$	0.02	$	0.06	$	0.09	$	0.45	$	0.13	$	0.00	$		
	$	0.67	$	0.02	$	0.06	$	0.08	$	0.42	$	0.12	$	0.00	$		
-average f shares r share n stock																	
		29,032,423		28,878,494		28,651,067		28,200,934		27,795,936		27,248,379		4,933,081		4,	
		30,271,520		30,389,519		30,269,947		29,998,490		29,859,926		29,545,321		4,933,081		4,	
he e to ers per share put:																	
	$		$		$	0.06	$	0.09	$	0.53	$	0.19	$	0.10	$		
	$		$		$	0.06	$	0.08	$	0.50	$	0.18	$	0.10	$		
-average f shares r share n stock put																	
						2,981		135,635		193,244		347,635		347,635			
						2,981		135,635		193,244		347,635		347,635			

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

	Three Months Ended							
	Dec. 31, 2008	**Sep. 30, 2008**	**Jun. 30, 2008**	**Mar. 31, 2008**	**Dec. 31, 2007**	**Sep. 30, 2007**	**Jun. 30, 2007**	**Mar. 31, 2007**
Cost of revenues	$ 251	$ 265	$ 204	$ 141	$ 134	$ 76	$ 60	$ 9
Selling and marketing	788	797	605	421	500	298	172	39
Research and development	199	225	168	114	117	67	53	8
General and administrative	599	617	613	467	440	264	186	51

ITEM 9. ***CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE***

None.

ITEM 9A. ***CONTROLS AND PROCEDURES***

Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and our Chief Financial Officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Securities Exchange Act of 1934 (the Exchange Act) Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report (the Evaluation Date), have concluded that as of the Evaluation Date, our disclosure controls and procedures are effective, in all material respects, to ensure that information required to be disclosed in the reports that we file and submit under the Exchange Act (i) is recorded, processed, summarized and reported as and when required and (ii) is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the fourth quarter of 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management s Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2008, based on the guidelines established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Our internal control over financial reporting includes policies and procedures that provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles. Based on that evaluation, management concluded that our internal control over financial reporting was effective at December 31, 2008.

Ernst & Young LLP, an independent registered public accounting firm, which audits our consolidated financial statements, has issued an attestation report on the effectiveness of our internal control over financial reporting included at the end of this section.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of comScore, Inc.

We have audited comScore, Inc. s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). comScore, Inc. s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, comScore, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of comScore, Inc. as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders equity (deficit), and cash flows for each of the three years in the period ended December 31, 2008 of comScore, Inc. and our report dated March 13, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

McLean, Virginia
March 13, 2009

ITEM 9B. ***OTHER INFORMATION***

On March 10, 2009, the Compensation Committee of our Board of Directors approved a policy authorizing annual bonuses based on executive performance during our 2009 fiscal year. A summary of this policy is filed with this report as Exhibit 10.22 and is incorporated herein by reference.

PART III

ITEM 10. ***DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE***

The information required by Item 10 of Form 10-K is incorporated by reference to our Proxy Statement for the 2009 Annual Meeting of Stockholders, anticipated to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2008. Certain information required by this item concerning our executive officers is set forth in Part I, Item 1 of this Annual Report on Form 10-K under Executive Officers of the Registrant .

ITEM 11. ***EXECUTIVE COMPENSATION***

The information required by Item 11 of Form 10-K is incorporated by reference to our Proxy Statement for the 2009 Annual Meeting of Stockholders, anticipated to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2008.

ITEM 12. ***SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS***

The information required by Item 12 of Form 10-K is incorporated by reference to our Proxy Statement for the 2009 Annual Meeting of Stockholders, anticipated to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2008.

EQUITY COMPENSATION PLANS

The following table summarizes our equity compensation plans as of December 31, 2008:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
	1,550,043	$ 2.26	2,309,667(1)

Equity compensation plans approved by security holders				
Equity compensation plans not approved by security holders				
Total	1,550,043	$	2.26	2,309,667

(1) Our 2007 Equity Incentive Plan provides for annual increases in the number of shares available for issuance thereunder on the first day of each fiscal year, beginning with our 2008 fiscal year, equal to the least of: (i) 4% of the outstanding shares of our common stock on the last day of the immediately preceding fiscal year; (ii) 1,800,000 shares; or (iii) such other amount as our board of directors may determine.

ITEM 13. *CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE*

The information required by Item 13 of Form 10-K is incorporated by reference to our Proxy Statement for the 2009 Annual Meeting of Stockholders, anticipated to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2008.

ITEM 14. ***PRINCIPAL ACCOUNTING FEES AND SERVICES***

The information required by Item 14 of Form 10-K is incorporated by reference to our Proxy Statement for the 2009 Annual Meeting of Stockholders, anticipated to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2008.

PART IV

ITEM 15. ***EXHIBITS, FINANCIAL STATEMENT SCHEDULES***

(a) The following documents are filed as part of this Annual Report on Form 10-K:

(1) Financial Statements. See Index to Consolidated Financial Statements at Item 8 of this Report on Form 10-K.

(2) All other schedules are omitted as the required information is inapplicable or the information is presented in the Consolidated Financial Statements and notes thereto in Item 8 of Part II of this Annual Report on Form 10-K.

(3) Exhibits. The exhibits filed as part of this report are listed under Exhibits at subsection (b) of this Item 15.

(b) Exhibits

EXHIBIT INDEX

Exhibit No.	Exhibit Document
2.1(2)	Agreement and Plan of Merger, dated May 28, 2008, amount comScore, Inc., OpinionCounts, Inc., M:Metrics, Inc. and Randolph L. Austin, Jr., as Stockholder Representative. (Exhibit 2.1)*
3.1(1)	Amended and Restated Certificate of Incorporation of the Registrant (Exhibit 3.3)
3.2(1)	Amended and Restated Bylaws of the Registrant (Exhibit 3.4)
4.1(1)	Specimen Common Stock Certificate (Exhibit 4.1)
4.2(1)	Fourth Amended and Restated Investor Rights Agreement by and among comScore Networks, Inc. and certain holders of preferred stock, dated August 1, 2003 (Exhibit 4.2)
4.3(1)	Amendment, Waiver and Termination Agreement by and among comScore, Inc. and certain holders of preferred stock, dated June 8, 2007 (Exhibit 10.20)
4.4(1)	Warrant to purchase 108,382 shares of Series D Convertible Preferred Stock, dated July 31, 2002 (Exhibit 4.10)
4.5(1)	Stock Restriction and Put Right Agreement by and among comScore Networks, Inc., 954253 Ontario, Inc. and Rice and Associates Advertising Consultants, Inc., dated January 1, 2005 (Exhibit 4.16)
10.1(1)	Form of Indemnification Agreement for directors and executive officers (Exhibit 10.1)
10.2(3)	1999 Stock Plan (Exhibit 4.2)
10.3(1)	Form of Stock Option Agreement under 1999 Stock Plan (Exhibit 10.3)
10.4(1)	Form of Notice of Grant of Restricted Stock Purchase Right under 1999 Stock Plan (Exhibit 10.4)
10.5(1)	Form of Notice of Grant of Restricted Stock Units under 1999 Stock Plan (Exhibit 10.5)
10.6(3)	2007 Equity Incentive Plan (Exhibit 4.3)
10.7(1)	Form of Notice of Grant of Stock Option under 2007 Equity Incentive Plan (Exhibit 10.7)
10.8(1)	Form of Notice of Grant of Restricted Stock under 2007 Equity Incentive Plan (Exhibit 10.8)
10.9(1)	Form of Notice of Grant of Restricted Stock Units under 2007 Equity Incentive Plan (Exhibit 10.9)
10.10(1)	Stock Option Agreement with Magid M. Abraham, dated December 16, 2003 (Exhibit 10.10)
10.11(1)	Stock Option Agreement with Gian M. Fulgoni, dated December 16, 2003 (Exhibit 10.11)
10.12(1)	Lease Agreement by and between comScore Networks, Inc. and Comstock Partners, L.C., dated June 23, 2003, as amended (Exhibit 10.12)
10.13(1)	Separation Agreement with Sheri L. Huston, dated February 28, 2006 (Exhibit 10.13)
10.14(1)	Letter Agreement with John M. Green, dated May 8, 2006 (Exhibit 10.14)
10.15(1)	Letter Agreement with Gregory Dale, dated September 27, 1999 (Exhibit 10.15)
10.16(1)	Letter Agreement with Christiana Lin, dated December 29, 2003 (Exhibit 10.16)
10.17(1)	Letter Agreement by and between comScore, Inc. and 11465 SH I, LC, dated June 4, 2007 (Exhibit 10.19)
10.18(1)	Letter Agreement by and between comScore, Inc. and Citadel Equity Fund Ltd. dated May 25, 2007 (Exhibit 10.21)
10.19 (1)	Licensing and Services Agreement, as amended, by and between Citadel Investment Group, L.L.C. and comScore Networks, Inc., dated August 1, 2003 (Exhibit 10.22)
10.20(4)	Deed of Lease between South of Market LLC (as Landlord) and comScore, Inc. (as Tenant), dated December 21, 2007 (Exhibit 10.1)
10.21(5)	Summary of 2008 Executive Compensation Bonus Policy
10.22	Summary of 2009 Executive Compensation Bonus Policy
21.1	List of Subsidiaries
23.1	Consent of Ernst & Young
24.1	Power of Attorney (see signature page)

Exhibit No.	Exhibit Document
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Confidential treatment requested

* The Registrant has omitted certain schedules and exhibits identified therein in accordance with Item 601(b)(2) of Regulation S-K. The registrant will furnish the omitted schedules and exhibits to the Securities and Exchange Commission upon request.

(1) Incorporated by reference to the exhibits to the Registrant s Registration Statement on Form S-1, as amended, dated June 26, 2007 (No. 333-141740). The number given in parentheses indicates the corresponding exhibit number in such Form S-1.

(2) Incorporated by reference to the exhibits to the Registrant s Current Report on Form 8-K, filed May 28, 2008. The number given in parentheses indicates the corresponding exhibit number in such Form 8-K.

(3) Incorporated by reference to the exhibits to the Registrant s Registration Statement on Form S-8, as amended, dated July 2, 2007 (No. 333-144281). The number given in parentheses indicates the corresponding exhibit number in such Form S-8.

(4) Incorporated by reference to the exhibits to the Registrant s Current Report on Form 8-K, filed February 5, 2008. The number given in parentheses indicates the corresponding exhibit number in such Form 8-K.

(5) Incorporated by reference to the Registrant s Current Report on Form 8-K, filed December 27, 2007.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

comScore, Inc.

By: /s/ Magid M. Abraham, Ph.D.

Magid M. Abraham, Ph.D.
President, Chief Executive
Officer and Director

March 16, 2009

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Magid M. Abraham, Ph.D. and John M. Green, and each of them acting individually, as his true and lawful attorneys-in-fact and agents, with full power of each to act alone, with full powers of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K with all exhibits thereto and all documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, with full power of each to act alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully for all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or his or their substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Magid M. Abraham, Ph.D. Magid M. Abraham, Ph.D.	President, Chief Executive Officer and Director (Principal Executive Officer)	March 16, 2009
/s/ John M. Green John M. Green	Chief Financial Officer (Principal Financial and Accounting Officer)	March 16, 2009
/s/ Gian M. Fulgoni Gian M. Fulgoni	Executive Chairman of the Board of Directors	March 16, 2009
/s/ Jeffrey Ganek	Director	March 16, 2009

Jeffrey Ganek		
/s/ Bruce Golden	Director	March 16, 2009
Bruce Golden		
/s/ William J. Henderson	Director	March 16, 2009
William J. Henderson		

Signature	Title	Date
/s/ William Katz William Katz	Director	March 16, 2009
/s/ Ronald J. Korn Ronald J. Korn	Director	March 16, 2009
/s/ Jarl Mohn Jarl Mohn	Director	March 16, 2009