

TechTarget Inc
Form 10-Q
August 09, 2012
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2012

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

For the transition period from _____ to _____

Commission File Number: 1-33472

TECHTARGET, INC.

(Exact name of registrant as specified in its charter)

Edgar Filing: TechTarget Inc - Form 10-Q

Delaware
(State or other jurisdiction of
incorporation or organization)

04-3483216
(I.R.S. Employer
Identification No.)

275 Grove Street

Newton, Massachusetts 02466

(Address of principal executive offices) (zip code)

(617) 431-9200

(Registrant's telephone number, including area code)

(Former name, former address and formal fiscal year, if changed since last report): Not applicable

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

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

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

Large Accelerated Filer Accelerated Filer

Non-Accelerated Filer (Do not check if a smaller reporting company) Smaller Reporting Company

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

The registrant had 39,477,589 shares of Common Stock, \$0.001 par value per share, outstanding as of July 31, 2012.

Table of Contents

TABLE OF CONTENTS

Item	Page
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	
<u>Consolidated Balance Sheets as of June 30, 2012 (unaudited) and December 31, 2011</u>	3
<u>Consolidated Statements of Operations and Comprehensive Income for the Three and Six Months Ended June 30, 2012 and 2011 (unaudited)</u>	4
<u>Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2012 and 2011 (unaudited)</u>	5
<u>Notes to Consolidated Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	19
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	33
Item 4. <u>Controls and Procedures</u>	33
<u>PART II. OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	34
Item 1A. <u>Risk Factors</u>	34
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	45
Item 3. <u>Defaults upon Senior Securities</u>	46
Item 4. <u>Mine Safety Disclosures</u>	46
Item 5. <u>Other Information</u>	46
Item 6. <u>Exhibits</u>	46
<u>Signatures</u>	47

Table of Contents**PART I. FINANCIAL INFORMATION**

Item 1. Financial Statements

TECHTARGET, INC.**Consolidated Balance Sheets****(In thousands, except share and per share data)**

	June 30, 2012 (Unaudited)	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	\$ 28,368	\$ 25,786
Short-term investments	26,666	30,684
Accounts receivable, net of allowance for doubtful accounts of \$836 and \$1,062 as of June 30, 2012 and December 31, 2011, respectively	28,900	26,272
Prepaid expenses and other current assets	2,851	1,782
Deferred tax assets	1,286	1,287
Total current assets	88,071	85,811
Property and equipment, net	8,745	7,942
Long-term investments	11,516	6,751
Goodwill	92,520	92,519
Intangible assets, net of accumulated amortization	6,492	8,277
Deferred tax assets	9,463	9,743
Other assets	307	204
Total assets	\$ 217,114	\$ 211,247
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 3,659	\$ 2,941
Accrued expenses and other current liabilities	3,368	2,698
Accrued compensation expenses	619	1,199
Income taxes payable	350	1,287
Contingent consideration		1,405
Deferred revenue	7,611	5,610
Total current liabilities	15,607	15,140
Long-term liabilities:		
Deferred rent	3,407	3,474
Deferred tax liabilities	2,060	2,060
Other liabilities	893	898
Total liabilities	21,967	21,572
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Preferred stock, 5,000,000 shares authorized; no shares issued or outstanding		
Common stock, \$0.001 par value per share, 100,000,000 shares authorized, 45,229,928 shares issued and 39,372,050 shares outstanding at June 30, 2012 and 44,501,390 shares issued and 38,643,512 shares outstanding at December 31, 2011	45	45

Edgar Filing: TechTarget Inc - Form 10-Q

Treasury stock	(35,343)	(35,343)
Additional paid-in capital	260,556	257,459
Accumulated other comprehensive loss	(205)	(250)
Accumulated deficit	(29,906)	(32,236)
Total stockholders' equity	195,147	189,675
Total liabilities and stockholders' equity	\$ 217,114	\$ 211,247

See accompanying notes.

Table of Contents**TECHTARGET, INC.****Consolidated Statements of Operations and Comprehensive Income****(In thousands, except per share data)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(Unaudited)			
Revenues:				
Online	\$ 23,038	\$ 24,151	\$ 45,109	\$ 44,531
Events	3,331	3,951	4,974	6,137
Total revenues	26,369	28,102	50,083	50,668
Cost of revenues:				
Online(1)	5,949	5,720	11,990	11,326
Events(1)	1,154	1,242	1,917	2,119
Total cost of revenues	7,103	6,962	13,907	13,445
Gross profit	19,266	21,140	36,176	37,223
Operating expenses:				
Selling and marketing(1)	9,227	10,184	18,390	18,815
Product development(1)	1,881	1,870	3,736	3,816
General and administrative(1)	2,979	3,458	6,627	7,257
Restructuring charge		384		384
Depreciation	811	668	1,578	1,309
Amortization of intangible assets	874	989	1,812	2,075
Total operating expenses	15,772	17,553	32,143	33,656
Operating income	3,494	3,587	4,033	3,567
Interest income, net	23	6	47	12
Income before provision for income taxes	3,517	3,593	4,080	3,579
Provision for income taxes	1,552	1,775	1,750	1,836
Net income	\$ 1,965	\$ 1,818	\$ 2,330	\$ 1,743
Net income per common share:				
Basic	\$ 0.05	\$ 0.05	\$ 0.06	\$ 0.05
Net income per common share:				
Diluted	\$ 0.05	\$ 0.04	\$ 0.06	\$ 0.04
Weighted average common shares outstanding:				
Basic	40,185	38,332	40,024	38,136
Weighted average common shares outstanding:				
Diluted	40,952	40,691	40,903	40,863
Comprehensive income	\$ 1,881	\$ 1,722	\$ 2,375	\$ 1,668

Edgar Filing: TechTarget Inc - Form 10-Q

(1) Amounts include stock-based compensation expense as follows:

Cost of online revenues	\$ 47	\$ 62	\$ 100	\$ 132
Cost of events revenues	4	20	8	42
Selling and marketing	658	1,082	1,389	2,240
Product development	63	100	128	206
General and administrative	357	682	798	1,326

See accompanying notes.

Table of Contents**TECHTARGET, INC.****Consolidated Statements of Cash Flows****(In thousands)**

	Six Months Ended June 30, 2012 2011 (Unaudited)	
Operating Activities:		
Net income	\$ 2,330	\$ 1,743
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,390	3,384
Provision for bad debt	289	302
Amortization of investment premiums	624	349
Stock-based compensation expense	2,423	3,946
Deferred tax benefit	(1)	(217)
Excess tax benefit stock options	(264)	(471)
Changes in operating assets and liabilities:		
Accounts receivable	(2,905)	(4,319)
Prepaid expenses and other current assets	(1,066)	(538)
Other assets	(100)	(89)
Accounts payable	718	269
Income taxes payable	(672)	689
Accrued expenses and other current liabilities	(973)	1,761
Accrued compensation expenses	(426)	(1,019)
Deferred revenue	2,000	2,189
Other liabilities	(72)	(618)
Net cash provided by operating activities	5,295	7,361
Investing activities:		
Purchases of property and equipment, and other assets	(2,377)	(2,357)
Purchases of investments	(7,380)	(28,487)
Proceeds from sales and maturities of investments	6,000	13,145
Acquisition of businesses		(2,006)
Net cash used in investing activities	(3,757)	(19,705)
Financing activities:		
Excess tax benefit stock options	264	471
Proceeds from exercise of stock options	759	1,106
Net cash provided by financing activities	1,023	1,577
Effect of exchange rate changes on cash and cash equivalents	21	
Net increase (decrease) in cash and cash equivalents	2,582	(10,767)
Cash and cash equivalents at beginning of period	25,786	32,584
Cash and cash equivalents at end of period	\$ 28,368	\$ 21,817

Edgar Filing: TechTarget Inc - Form 10-Q

Supplemental disclosure of cash flow information:

Cash paid for interest	\$	\$
Cash paid for taxes	\$ 2,690	\$ 1,347

See accompanying notes.

Table of Contents**TECHTARGET, INC.****Notes to Consolidated Financial Statements****(In thousands, except share and per share data, where otherwise noted or instances where expressed in millions)****1. Organization and Operations**

TechTarget, Inc. (the Company) is a leading provider of specialized online content and brand advertising that brings together buyers and sellers of corporate information technology (IT) products. The Company sells customized marketing programs that enable IT vendors to reach corporate IT decision makers who are actively researching specific IT purchases. Online content is specifically defined as those advertising and media offerings being available to users via Internet websites as opposed to traditional offline media offerings available in print, radio and television advertising.

The Company's integrated content platform consists of a network of over 115 websites that are complemented with targeted in-person events. During the critical stages of the purchase decision process, these content offerings meet IT professionals' needs for expert, peer and IT vendor information, and provide a platform on which IT vendors can launch targeted marketing campaigns which generate measurable, high return on investment (ROI). As IT professionals have become increasingly specialized, they have come to rely on the Company's sector-specific websites for purchasing decision support. The Company's content enables IT professionals to navigate the complex and rapidly changing IT landscape where purchasing decisions can have significant financial and operational consequences. Based upon the logical clustering of users' respective job responsibilities and the marketing focus of the products that the Company's customers are advertising, content offerings are currently categorized across nine distinct media groups: Application Architecture and Development; Channel; CIO/IT Strategy; Data Center and Virtualization Technologies; Business Applications and Analytics; Networking; Security; Storage; and TechnologyGuide.

2. Summary of Significant Accounting Policies

The accompanying consolidated financial statements reflect the application of certain significant accounting policies as described below and elsewhere in these Notes to Consolidated Financial Statements.

Principles of Consolidation

The accompanying Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiaries, which include KnowledgeStorm, Inc., Bitpipe, Inc., TechTarget Securities Corporation (TSC), TechTarget Limited, TechTarget (HK) Limited, TechTarget (Beijing) Information Technology Consulting Co., Ltd., TechTarget (Australia) Pty Ltd. and TechTarget (Singapore) Pte Ltd. KnowledgeStorm, Inc. and Bitpipe, Inc. feature websites that provide in-depth vendor generated content targeted to corporate IT professionals. TechTarget Securities Corporation is a Massachusetts security corporation incorporated in 2004. TechTarget Limited is a subsidiary doing business principally in the United Kingdom. TechTarget (HK) Limited (TTGT HK) is a subsidiary incorporated in Hong Kong in order to facilitate the Company's activities in Asia-Pacific. Additionally, through its wholly-owned subsidiaries, TTGT HK and TechTarget (Beijing) Information Technology Consulting Co., Ltd. (TTGT Consulting, incorporated on December 16, 2011), the Company effectively controls a variable interest entity (VIE), Keji Wangtuo Information Technology Co., Ltd., (KWIT), which was incorporated under the laws of the People's Republic of China (PRC) on November 27, 2007. TechTarget (Australia) Pty Ltd. (incorporated on December 15, 2011), and TechTarget (Singapore) Pte Ltd. (incorporated on February 12, 2012) are the entities through which the Company does business in Australia and Singapore, respectively.

PRC laws and regulations prohibit or restrict foreign ownership of Internet-related services and advertising businesses. To comply with these foreign ownership restrictions, the Company operates its websites and provides online advertising services in the PRC through KWIT. The Company entered into certain exclusive agreements with KWIT and its shareholders through TTGT HK, which obligated TTGT HK to absorb all of the risk of loss from KWIT's activities and entitled TTGT HK to receive all of their residual returns. In addition, the Company entered into certain agreements with the authorized parties through TTGT HK, including Management and Consulting Services, Voting Proxy, Equity Pledge and Option Agreements. On December 31, 2011, TTGT HK assigned all of its rights and obligations to the newly formed wholly foreign-owned enterprise (WFOE), TTGT Consulting. The WFOE is established and existing under the laws of the PRC, and is wholly owned by TTGT HK.

Based on these contractual arrangements, the Company consolidates the financial results of KWIT as required by Accounting Standards Codification (ASC) subtopic 810-10 (ASC 810-10), *Consolidation: Overall* (Pre-Codification: Financial Accounting Standards Board (FASB) Interpretation No. 46R, *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51*), because the Company holds all the variable interests of KWIT through the WFOE, which is the primary beneficiary of KWIT. Despite the lack of technical majority ownership, there

Table of Contents

exists a parent-subsiary relationship between the Company and the VIE through the aforementioned agreements, whereby the equity holders of KWIT assigned all of their voting rights underlying their equity interest in KWIT to the WFOE. In addition, through the other aforementioned agreements, the Company demonstrates its ability and intention to continue to exercise the ability to obtain substantially all of the profits and absorb all of the expected losses of KWIT. All significant intercompany accounts and transactions between the Company, its subsidiaries, and KWIT have been eliminated in consolidation.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (generally accepted accounting principles, or GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. All adjustments which, in the opinion of management, are considered necessary for a fair presentation of the results of operations for the periods shown, are of a normal recurring nature and have been reflected in the consolidated financial statements. The results of operations for the periods presented are not necessarily indicative of results to be expected for any other interim periods or for the full year. The information included in these consolidated financial statements should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations contained in this report and the consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, the Company evaluates its estimates, including those related to revenue, long-lived assets, the allowance for doubtful accounts, stock-based compensation, and income taxes. Estimates of the carrying value of certain assets and liabilities are based on historical experience and on various other assumptions that the Company believes to be reasonable. Actual results could differ from those estimates.

Revenue Recognition

The Company generates substantially all of its revenue from the sale of targeted advertising campaigns, which are delivered via its network of websites, and events. Revenue is recognized only when the price is fixed or determinable, persuasive evidence of an arrangement exists, the service is performed and collectability of the resulting receivable is reasonably assured.

The majority of the Company's online media sales involve multiple product offerings, which are described in more detail below. Because neither vendor-specific objective evidence of fair value nor third party evidence of selling price exists for all elements in the Company's bundled product offerings, the Company uses an estimated selling price which represents management's best estimate of the stand-alone selling price of deliverables for each deliverable in an arrangement. The Company establishes best estimates considering multiple factors including, but not limited to, class of client, size of transaction, available media inventory, pricing strategies and market conditions. The Company believes the use of the best estimate of selling price allows revenue recognition in a manner consistent with the underlying economics of the transaction. The Company uses the relative selling price method to allocate consideration at the inception of the arrangement to each deliverable in a multiple element arrangement. The relative selling price method allocates any discount in the arrangement proportionately to each deliverable on the basis of the deliverable's best estimated selling price. Revenue is then recognized as delivery occurs.

The Company evaluates all deliverables of an arrangement at inception and each time an item is delivered, to determine whether they represent separate units of accounting. Based on this evaluation, the arrangement consideration is measured and allocated to each of these elements.

Event Sponsorships. Revenue from vendor-sponsored events, whether sponsored exclusively by a single vendor or in a multi-vendor sponsored event, is recognized in the period during which the event is completed. The majority of the Company's events are free to qualified attendees; however, certain events are based on a paid attendee model. The Company recognizes revenue for paid attendee events upon completion of the event.

Table of Contents

Online Media. Revenue for lead generation campaigns is recognized as follows:

Beginning in the period ending March 31, 2012, the Company's lead generation campaigns all offer the Activity Intelligence Dashboard. In order to manage the lead generation component, the Company has changed its operational approach and the contractual terms and conditions under which it sells its products. Instead of selling individual elements, it sells various lead generation campaigns with the Dashboard. Revenue is recognized ratably over the duration of the campaigns. As part of these offerings, the Company will guarantee a minimum number of qualified leads to be delivered over the course of the advertising campaign. The Company determines the content necessary to achieve performance guarantees. Scheduled end dates of advertising campaigns sometimes need to be extended, pursuant to the terms of the arrangement, to satisfy lead guarantees.

In 2011, revenue for elements of lead generation campaigns was recognized as follows:

White Papers. White paper revenue was recognized ratably over the period in which the white paper was available on the Company's websites.

Webcasts, Podcasts, Videocasts and Virtual Trade Shows. Webcast, podcast, videocast, virtual trade show and similar content revenue was recognized ratably over the period in which the webcast, podcast, videocast or virtual trade show was available on the Company's websites.

As part of these offerings, the Company will guarantee a minimum number of qualified leads to be delivered over the course of the advertising campaign. Scheduled end dates of advertising campaigns sometimes need to be extended, pursuant to the terms of the arrangement, to satisfy lead guarantees or to fulfill all elements of the advertising campaign based on delayed receipt of advertising media collateral from the customer.

Revenue for other online media offerings is recognized as follows for 2011 as well as for the three and six months ending June 30, 2012:

Custom Content Creation. Custom content revenue is recognized when the creation is completed and delivered to the customer.

Content Sponsorships. Content sponsorship revenue is recognized ratably over the period in which the related content vehicle is available on the Company's websites.

List Rentals. List rental revenue is recognized in the period in which the list is sent to the Company's customers.

Banners. Banner revenue is recognized in the period in which the banner impressions or clicks occur.

Third Party Revenue Sharing Arrangements. Revenue from third party revenue sharing arrangements is recognized on a net basis in the period in which the services are performed. For certain third party agreements where the Company is the primary obligor, revenue is recognized on a gross basis in the period in which the services are performed.

The Company recognizes revenue from cost per lead advertising in the period during which the leads are delivered to its customers.

Amounts collected or billed prior to satisfying the above revenue recognition criteria are recorded as deferred revenue.

Fair Value of Financial Instruments

Edgar Filing: TechTarget Inc - Form 10-Q

Financial instruments consist of cash and cash equivalents, short and long-term investments, accounts receivable and accounts payable. Due to their short-term nature and liquidity, the carrying value of these instruments approximates their estimated fair values.

Allowance for Doubtful Accounts

The Company offsets gross trade accounts receivable with an allowance for doubtful accounts. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in their existing accounts receivable. The allowance for doubtful accounts is reviewed on a regular basis, and all past due balances are reviewed individually for collectability. Account balances are charged against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Provisions for doubtful accounts are recorded in general and administrative expense.

Table of Contents

The allowance for doubtful accounts was \$0.8 million at June 30, 2012 and \$1.1 million at December 31, 2011.

Long-lived Assets

Long-lived assets consist primarily of property and equipment, goodwill and other intangible assets. The Company reviews long-lived assets, including property and equipment and intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Conditions that would trigger an impairment assessment include, but are not limited to, a significant adverse change in legal factors or business climate that could affect the value of an asset or an adverse action or a significant decrease in the market price. A specifically identified intangible asset must be recorded as a separate asset from goodwill if either of the following two criteria is met: (1) the intangible asset acquired arises from contractual or other legal rights; or (2) the intangible asset is separable. Accordingly, intangible assets consist of specifically identified intangible assets. Goodwill is the excess of any purchase price over the estimated fair market value of net tangible and intangible assets acquired.

Goodwill and indefinite-lived intangible assets are not amortized but are reviewed annually for impairment or more frequently if impairment indicators arise. Separable intangible assets that are not deemed to have an indefinite life are amortized over their estimated useful lives, which range from one to nine years, using methods of amortization that are expected to reflect the estimated pattern of economic use, and are reviewed for impairment when events or changes in circumstances suggest that the assets may not be recoverable. The Company performs its annual test of impairment of goodwill as of December 31st of each year, and whenever events or changes in circumstances suggest that the carrying amount may not be recoverable. Based on this evaluation, the Company believes that, as of each of the balance sheet dates presented, none of the Company's goodwill or other long-lived assets were impaired. The Company did not have any intangible assets with indefinite lives as of June 30, 2012 or December 31, 2011.

Internal-Use Software and Website Development Costs

The Company capitalizes costs incurred during the development of its website applications and infrastructure as well as certain costs relating to internal-use software. The estimated useful life of costs capitalized is evaluated for each specific project. Capitalized internal-use software and website development costs are reviewed for recoverability whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. An impairment loss would be recognized only if the carrying amount of the asset is not recoverable and exceeds its fair value. The Company capitalized internal-use software and website development costs of \$0.7 million and \$0.8 million for the three months ended June 30, 2012 and 2011, respectively, and \$1.6 million for the six months ended June 30, 2012 and 2011.

Income Taxes

The Company's deferred tax assets and liabilities are recognized based on temporary differences between the financial reporting and income tax bases of assets and liabilities using statutory rates. A valuation allowance is established against net deferred tax assets if, based upon available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. The Company records a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return using a more likely than not threshold as required by the provisions of ASC 740-10, *Accounting for Uncertainty in Income Taxes*.

The Company recognizes any interest and penalties related to unrecognized tax benefits in income tax expense.

Stock-Based Compensation

The Company has two stock-based employee compensation plans which are more fully described in Note 10. Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized in the Statement of Operations using the straight-line method over the vesting period of the award or using the accelerated method if the award is contingent upon performance goals. The Company uses the Black-Scholes option-pricing model to determine the fair value of stock option awards.

Net Income (Loss) Per Share

Basic earnings per share is computed based on the weighted average number of common shares and vested restricted stock awards outstanding during the period. Because the holders of unvested restricted stock awards do not have

Table of Contents

nonforfeitable rights to dividends or dividend equivalents, the Company does not consider these awards to be participating securities that should be included in its computation of earnings per share under the two-class method. Diluted earnings per share is computed using the weighted average number of common shares and vested restricted stock awards outstanding during the period, plus the dilutive effect of potential future issuances of common stock relating to stock option programs and other potentially dilutive securities using the treasury stock method. In calculating diluted earnings per share, the dilutive effect of stock options and restricted stock awards is computed using the average market price for the respective period. In addition, the assumed proceeds under the treasury stock method include the average unrecognized compensation expense and assumed tax benefit of stock options and restricted stock awards that are in-the-money. This results in the assumed buyback of additional shares, thereby reducing the dilutive impact of stock options and restricted stock awards.

Recent Accounting Pronouncements

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS* (ASU 2011-04), which provides common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with GAAP and International Financial Reporting Standards (IFRS). ASU 2011-04 changes certain fair value measurement principles, clarifies the application of existing fair value measurement and expands ASC 820 disclosure requirements, particularly for Level 3 fair value measurements. ASU 2011-04 is effective during interim and annual periods beginning after December 15, 2011. The adoption of this standard in the first quarter of 2012 did not have a material impact on the Company's consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, *Presentation of Comprehensive Income* (ASU 2011-05), which requires entities to present reclassification adjustments included in other comprehensive income on the face of the financial statements and allows entities to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. It also eliminates the option for entities to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. For public companies, ASU 2011-05 is effective for fiscal years (and interim periods within those years) beginning after December 15, 2011, with earlier adoption permitted. In December 2011, the FASB issued ASU No. 2011-12, Topic 220 *Comprehensive Income* (ASU 2011-12), which indefinitely deferred certain provisions of ASU 2011-05, including the requirement to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement in which net income is presented and the statement in which other comprehensive income is presented. This amendment is effective for both annual and interim financial statements beginning after December 15, 2011. Although the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under existing guidance. The Company adopted these ASUs using a single continuous statement in Q1 2012 for all periods presented. The Company's adoption of ASU 2011-12 did not have an impact on its consolidated results of operations or financial condition.

In September 2011, the FASB issued ASU 2011-08, *Testing for Goodwill Impairment* (ASU 2011-08), which amends current goodwill impairment testing guidance by providing entities with an option to perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. ASU 2011-08 is effective for interim and annual goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The adoption of the standard did not have a material impact on the Company's consolidated financial statements.

3. Fair Value Measurements

The Company measures certain financial assets and liabilities at fair value on a recurring basis, including cash equivalents, short- and long-term investments and contingent consideration. The fair value of these financial assets and liabilities was determined based on three levels of input as follows:

Level 1. Quoted prices in active markets for identical assets and liabilities;

Level 2. Observable inputs other than quoted prices in active markets; and

Level 3. Unobservable inputs.

Table of Contents

The fair value hierarchy of the Company's financial assets and liabilities carried at fair value and measured on a recurring basis is as follows:

	June 30, 2012	Fair Value Measurements at Reporting Date Using Quoted Prices		
		in Active Markets for Identical Assets (Level 1) (Unaudited)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds(1)	\$ 9,691	\$ 9,691	\$	\$
Short-term investments(2)	26,666		26,666	
Long-term investments(2)	11,516		11,516	
Total	\$ 47,873	\$ 9,691	\$ 38,182	\$

	December 31, 2011	Fair Value Measurements at Reporting Date Using Quoted Prices		
		in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds(1)	\$ 8,361	\$ 8,361	\$	\$
Short-term investments(2)	30,684		30,684	
Long-term investments(2)	6,751		6,751	
Total	\$ 45,796	\$ 8,361	\$ 37,435	\$
Liabilities:				
Contingent consideration(3)	\$ 1,405	\$	\$	\$ 1,405
Total liabilities	\$ 1,405	\$	\$	\$ 1,405

- (1) Included in cash and cash equivalents on the accompanying consolidated balance sheets; valued at quoted market prices in active markets.
- (2) Short- and long-term investments consist of municipal bonds and government agency bonds; their fair value is calculated using an interest rate yield curve for similar instruments.
- (3) The fair value of contingent consideration payable in connection with acquisitions was determined using a probability approach under which the contingent consideration was calculated based on the weighted probability of several forecasted outcomes and discounted using an applicable rate. This amount was paid in full during the first quarter of 2012.

4. Cash, Cash Equivalents and Investments

Edgar Filing: TechTarget Inc - Form 10-Q

Cash and cash equivalents consist of highly liquid investments with maturities of three months or less at date of purchase. Cash equivalents are carried at cost, which approximates their fair market value. Cash and cash equivalents consisted of the following:

	June 30, 2012 (Unaudited)	December 31, 2011
Cash	\$ 18,677	\$ 17,425
Money market funds	9,691	8,361
Total cash and cash equivalents	\$ 28,368	\$ 25,786

The Company's short- and long-term investments are accounted for as available for sale securities. These investments are recorded at fair value with the related unrealized gains and losses included in accumulated other comprehensive (loss) income, a component of stockholders' equity, net of tax. The unrealized gain, net of taxes, was \$20 and \$12 as of June 30, 2012 and December 31, 2011, respectively. Realized gains and losses on the sale of these investments are determined using the specific identification method. There were no realized gains or losses during the three or six months ended June 30, 2012 or 2011.

Table of Contents

Short- and long-term investments consisted of the following:

	Cost	June 30, 2012		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
(Unaudited)				
Short- and long-term investments:				
Municipal bonds	\$ 35,663	\$ 33	\$ (12)	\$ 35,684
Government agency bonds	2,499		(1)	2,498
Total short- and long-term investments	\$ 38,162	\$ 33	\$ (13)	\$ 38,182

	Cost	December 31, 2011		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
(Unaudited)				
Short- and long-term investments:				
Municipal bonds	\$ 37,416	\$ 29	\$ (10)	\$ 37,435
Total short- and long-term investments	\$ 37,416	\$ 29	\$ (10)	\$ 37,435

The Company had eleven debt securities in an unrealized loss position at June 30, 2012. All of these securities have been in such a position for less than 12 months. The unrealized loss on those securities was approximately \$12 and the fair value was \$19.1 million. As of June 30, 2012, the Company does not consider these investments to be other-than-temporarily impaired.

Municipal bonds have contractual maturity dates that range from July 2012 to July 2019. All income generated from these investments is recorded as interest income.

5. Intangible Assets

Intangible assets subject to amortization as of June 30, 2012 and December 31, 2011 consist of the following:

	Estimated Useful Lives (Years)	As of June 30, 2012		
		Gross Carrying Amount	Accumulated Amortization (Unaudited)	Net
Customer, affiliate and advertiser relationships	4 - 9	\$ 7,148	\$ (3,326)	\$ 3,822
Developed websites	3	5,400	(4,650)	750
Trademark, trade name and domain name	1 - 7	1,821	(1,016)	805
Proprietary user information database and Internet traffic	5	5,194	(4,190)	1,004
Non-compete agreements	2 - 3	344	(233)	111
Total intangible assets		\$ 19,907	\$ (13,415)	\$ 6,492

As of December 31, 2011

Edgar Filing: TechTarget Inc - Form 10-Q

	Estimated Useful Lives (Years)	Gross Carrying Amount	Accumulated Amortization	Net
Customer, affiliate and advertiser relationships	4 - 9	\$ 8,928	\$ (4,509)	\$ 4,419
Developed websites	3	5,400	(4,200)	1,200
Trademark, trade name and domain name	1 - 7	1,942	(978)	964
Proprietary user information database and Internet traffic	5	5,188	(3,669)	1,519
Non-compete agreements	2 - 3	343	(168)	175
 Total intangible assets		 \$ 21,801	 \$ (13,524)	 \$ 8,277

Table of Contents

Intangible assets are amortized over their estimated useful lives, which range from one to nine years, using methods of amortization that are expected to reflect the estimated pattern of economic use. The remaining amortization expense will be recognized over a weighted-average period of approximately 2.13 years. Amortization expense was \$0.9 million and \$1.0 million for the three months ended June 30, 2012 and 2011, respectively, and \$1.8 million and \$2.1 million for the six months ended June 30, 2012 and 2011, respectively. Amortization expense is recorded within operating expenses as the intangible assets consist of customer-related assets and website traffic that the Company considers to be in support of selling and marketing activities. The Company wrote off \$1.9 million of fully amortized intangible assets in the first half of 2012.

The Company expects amortization expense of intangible assets to be as follows:

Years Ending December 31:	Amortization Expense (Unaudited)
2012 (July 1st - December 31st)	\$ 1,527
2013	1,780
2014	1,385
2015	1,138
2016	662
Thereafter	
	\$ 6,492

6. Net Income Per Common Share

A reconciliation of the numerator and denominator used in the calculation of basic and diluted net income per common share is as follows:

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
	(Unaudited)			
Numerator:				
Net income	\$ 1,965	\$ 1,818	\$ 2,330	\$ 1,743
Denominator:				
Basic:				
Weighted average shares of common stock outstanding	40,185,062	38,331,895	40,023,696	38,136,159
Diluted:				
Weighted average shares of common stock outstanding	40,185,062	38,331,895	40,023,696	38,136,159
Effect of potentially dilutive shares(1)	767,262	2,358,984	878,885	2,726,364
Total weighted average shares of common stock outstanding	40,952,324	40,690,879	40,902,581	40,862,523
Net Income Per Common Share:				
Basic net income per common share	\$ 0.05	\$ 0.05	\$ 0.06	\$ 0.05
Net Income Per Common Share:				
Diluted net income per common share	\$ 0.05	\$ 0.04	\$ 0.06	\$ 0.04

- (1) In calculating diluted earnings per share, 3,912,783 and 1,486,342 shares related to outstanding stock options and unvested restricted stock awards were excluded for the three months ended June 30, 2012 and 2011, respectively, and 3,989,333 and 1,094,481 shares related to outstanding stock options and unvested restricted stock awards were excluded for the six months ended June 30, 2012 and 2011, respectively, because they were anti-dilutive.

7. Bank Term Loan Payable

The Company's \$5.0 million revolving credit facility was amended in August 2011, extending its term and adjusting certain other financial terms and covenants. Unless earlier payment is required by an event of default, all principal and unpaid interest will be due and payable on August 31, 2016. At the Company's option, the Revolving Credit Facility (the "Credit Agreement") bears interest at either the prime rate less 1.00% or the London Interbank Offered Rate ("LIBOR") plus the applicable LIBOR margin. The applicable LIBOR margin is based on the ratio of total funded debt to earnings before interest, other income and expense, income taxes, depreciation, and amortization ("EBITDA") for the preceding four fiscal quarters. As of June 30, 2012, the applicable LIBOR margin was 1.25%.

Table of Contents

The Company is also required to pay an unused line fee on the daily unused amount of its Credit Agreement at a per annum rate based on the ratio of total funded debt to EBITDA for the preceding four fiscal quarters. As of June 30, 2012, the per annum unused line fee rate was 0.20%.

At June 30, 2012 and December 31, 2011 there were no amounts outstanding under the Credit Agreement. There was a \$1.5 million standby letter of credit related to the Company's corporate headquarters lease outstanding at December 31, 2011 and March 31, 2012. This letter of credit was amended in May 2012, reducing the balance to \$1.2 million and bringing the Company's available borrowings on the \$5.0 million facility to \$3.8 million.

Borrowings under the Credit Agreement are collateralized by a security interest in substantially all assets of the Company. Covenants governing the Credit Agreement include the maintenance of certain financial ratios. At June 30, 2012 the Company was in compliance with all covenants under the Credit Agreement.

8. Commitments and Contingencies***Operating Leases***

The Company conducts its operations in leased office facilities under various noncancelable operating lease agreements that expire through March 2020. In August 2009, the Company entered into an agreement to lease approximately 87,875 square feet of office space in Newton, Massachusetts. The lease commenced in February 2010 and has a term of ten years. The Company is receiving certain rent concessions over the life of the lease. In November 2010, the Newton lease was amended to include an additional 8,400 square feet of office space. The amended lease commenced in March 2011 and runs concurrently with the term of the original lease. The Company is receiving certain rent concessions over the life of the amended lease.

Certain of the Company's operating leases include lease incentives and escalating payment amounts and are renewable for varying periods. The Company is recognizing the related rent expense on a straight-line basis over the term of the lease taking into account the lease incentives and escalating lease payments.

Future minimum lease payments under the Company's noncancelable operating leases at June 30, 2012 are as follows:

Years Ending December 31:	Minimum Lease Payments (Unaudited)
2012 (July 1st - December 31st)	\$ 2,106
2013	3,965
2014	3,950
2015	3,408
2016	3,485
Thereafter	10,721
	\$ 27,635

The Company has an irrevocable standby letter of credit outstanding in the aggregate amount of \$1.2 million. This letter of credit supports the lease the Company entered into in 2009 for its corporate headquarters. This letter of credit extends, subject to certain reductions, annually through February 28, 2020 unless notification of termination is received.

Net Worth Tax Contingency

In late March 2010, the Company received a letter from the Department of Revenue of the Commonwealth of Massachusetts (the MA DOR) requesting documentation demonstrating that TSC has been classified by the MA DOR as a Massachusetts security corporation. Following subsequent correspondence with the MA DOR and a settlement conference on March 22, 2011, the Company received on July 16, 2011 a Notice of Assessment from the MA DOR for 2006 and 2007 in the amount of approximately \$198 (which amount included all interest and penalties to date) with respect to additional excise taxes on net worth related to TSC. Based on the Company's previous assessment that it was probable that

Edgar Filing: TechTarget Inc - Form 10-Q

the MA DOR would require an adjustment to correct TSC's tax filings such that it will be treated as a Massachusetts business corporation for the applicable years, for the year ended December 31, 2010, the Company recorded a liability of approximately \$200, representing its best estimate at that time of the potential net worth tax

Table of Contents

exposure. The tax benefits available to a Massachusetts security corporation are comprised of (i) a different rate structure (1.32% on gross investment income vs. 9.5% on net income) and (ii) exemption from the 0.26% excise tax on net worth. On August 17, 2011, the Company filed Applications for Abatement with the MA DOR. On January 6, 2012, the Company filed Petitions for Formal Procedure with the Massachusetts Appellate Tax Board; a status conference has been scheduled for October 11, 2012. The Company intends to continue to dispute the assessment and believes it has meritorious defenses which it intends to vigorously assert. There were no changes to the net worth tax reserve assessment as of June 30, 2012.

Litigation

From time to time and in the ordinary course of business, the Company may be subject to various claims, charges, and litigation. At June 30, 2012 and December 31, 2011, the Company did not have any pending claims, charges, or litigation that it expects would have a material adverse effect on its consolidated financial position, results of operations, or cash flows.

9. Comprehensive Income

Comprehensive income includes all changes in equity during a period, except those resulting from investments by stockholders and distributions to stockholders. For the three and six months ended June 30, 2012 and 2011 the Company's comprehensive income is as follows:

	For the Three		For the Six Months	
	Months Ended June 30, 2012	Months Ended June 30, 2011	Months Ended June 30, 2012	Months Ended June 30, 2011
			(Unaudited)	
Net income	\$ 1,965	\$ 1,818	\$ 2,330	\$ 1,743
Other comprehensive (loss) income:				
Unrealized (loss) gain on investments (net of tax effect of (\$3), \$2, \$7 and \$4, respectively)	(6)	5	1	9
Unrealized (loss) gain on foreign currency exchange	(78)	(101)	44	(84)
Other comprehensive (loss) income	(84)	(96)	45	(75)
Total comprehensive income	\$ 1,881	\$ 1,722	\$ 2,375	\$ 1,668

10. Stock-Based Compensation**Stock Option Plans**

In September 1999, the Company approved a stock option plan (the 1999 Plan) that provides for the issuance of up to 12,384,646 shares of common stock incentives. The 1999 Plan provides for the granting of incentive stock options (ISOs), nonqualified stock options (NSOs), and stock grants. These incentives may be offered to the Company's employees, officers, directors, consultants, and advisors, as defined. ISOs may not be granted at less than fair market value on the date of grant, as determined by the Company's Board of Directors (the Board). Each option shall be exercisable at such times and subject to such terms as determined by the Board; grants generally vest over a four year period, and expire no later than ten years after the grant date.

In April 2007, the Board approved the 2007 Stock Option and Incentive Plan (the 2007 Plan), which was approved by the stockholders and became effective upon the consummation of the Company's initial public offering (IPO) in May 2007. Effective upon the consummation of the IPO, no further awards were made pursuant to the 1999 Plan, but any outstanding awards under the 1999 Plan will remain in effect and will continue to be subject to the terms of the 1999 Plan. The 2007 Plan allows the Company to grant ISOs, NSOs, stock appreciation rights, deferred stock awards, restricted stock and other awards. Under the 2007 Plan, stock options may not be granted at less than fair market value on the date of grant, and grants generally vest over a four year period. Stock options granted under the 2007 Plan expire no later than ten years after the grant date. The Company has reserved for issuance an aggregate of 2,911,667 shares of common stock under the 2007 Plan plus an additional annual increase to be added automatically on January 1 of each year, beginning on January 1, 2008, equal to the lesser of (a) 2% of the outstanding number of shares of common stock (on a fully-diluted basis) on the immediately preceding December 31 and (b) such lower number of shares as may be determined by the Company's compensation committee. The number of shares available for issuance under the 2007 Plan is

Edgar Filing: TechTarget Inc - Form 10-Q

subject to adjustment in the event of a stock split, stock dividend or other change in capitalization. Generally, shares that are forfeited or canceled from awards under the 2007 Plan also will be available for future awards. To date, approximately 4.9 million shares have been added to the plan in accordance with the automatic annual increase. In addition, shares subject to stock options returned to the 1999 Plan, as a result of their expiration, cancellation or termination, are automatically made available for issuance under the 2007 Plan. As of June 30, 2012 a total of 2,164,097 shares were available for grant under the 2007 Plan.

Table of Contents**Accounting for Stock-Based Compensation**

The Company uses the Black-Scholes option pricing model to calculate the grant-date fair value of an award. The Company calculated the fair values of the options granted using the following estimated weighted-average assumptions:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(Unaudited)			
Expected volatility	*	*	*	79%
Expected term	*	*	*	6.25 years
Risk-free interest rate	*	*	*	2.30%
Expected dividend yield	*	*	*	0.00%
Weighted-average grant date fair value per share	*	*	*	\$ 5.16

* there were no options granted in the first half of 2012 or the second quarter of 2011

As there was no public market for the Company's common stock prior to the Company's IPO in May 2007, and limited historical information on the volatility of its common stock since the date of the Company's IPO, the Company determined the volatility for options granted in the first half of 2011 based on an analysis of the historical volatility of the Company's stock and reported data for a peer group of companies that issued options with substantially similar terms. There were no stock options granted in the three or six months ended June 30, 2012.

The expected volatility of options granted has been determined using a weighted average of the historical volatility of the Company's stock and the peer group of companies for a period equal to the expected life of the option. The expected life of options has been determined utilizing the simplified method. The risk-free interest rate is based on a zero coupon United States treasury instrument whose term is consistent with the expected life of the stock options. The Company has not paid and does not anticipate paying cash dividends on its shares of common stock; therefore, the expected dividend yield is assumed to be zero. The Company applied an estimated annual forfeiture rate based on its historical forfeiture experience of 11.3% and 3.6% in determining the expense recorded in the six months ended June 30, 2012 and 2011, respectively.

A summary of the stock option activity under the Company's stock option plan for the six months ended June 30, 2012 is presented below:

Year-to-Date Activity	Options Outstanding	Weighted- Average Exercise Price Per Share	Weighted- Average Remaining Contractual Term in Years	Aggregate Intrinsic Value
		(Unaudited)		
Options outstanding at December 31, 2011	6,010,000	\$ 6.90		
Granted				
Exercised	(144,696)	5.26		
Forfeited	(83,438)	5.74		
Cancelled	(152,684)	9.89		
Options outstanding at June 30, 2012	5,629,182	\$ 6.88	4.7	\$ 1,489
Options exercisable at June 30, 2012	5,194,264	\$ 6.94	4.4	\$ 1,473
Options vested or expected to vest at June 30, 2012 (1)	5,580,008	\$ 6.88	4.6	\$ 1,487

- (1) In addition to the vested options, the Company expects a portion of the unvested options to vest at some point in the future. Options expected to vest is calculated by applying an estimated forfeiture rate to the unvested options. During the six months ended June 30, 2012 and 2011, the total intrinsic value of options exercised (i.e. the difference between the market price at exercise and the price paid by the employee to exercise the options) was \$0.2 million and \$0.4 million, respectively, and the total amount of cash received from exercise of these options was \$0.3 million and \$1.1 million, respectively. The total grant date fair value of stock options granted after January 1, 2006 that vested during the six months ended June 30, 2012 and 2011 was \$0.7 million and \$1.2 million, respectively.

Table of Contents**Restricted Stock Awards**

Restricted stock awards are valued at the market price of a share of the Company's common stock on the date of grant. A summary of the restricted stock award activity under the 2007 Stock Plan for the six months ended June 30, 2012 is presented below:

Year-to-Date Activity	Shares	Weighted-Average Grant Date Fair Value Per Share (Unaudited)	Aggregate Intrinsic Value
Nonvested outstanding at December 31, 2011	1,663,751	\$ 5.66	
Granted	606,746	6.19	
Vested	(374,248)	4.77	
Forfeited	(148,750)	6.27	
Nonvested outstanding at June 30, 2012	1,747,499	\$ 5.44	\$ 13,217

The total grant-date fair value of restricted stock awards that vested during the six months ended June 30, 2012 and 2011 was \$1.8 million and \$1.9 million, respectively. As of June 30, 2012, there was \$9.7 million of total unrecognized compensation expense related to stock options and restricted stock awards which is expected to be recognized over a weighted average period of 2.2 years.

11. Stockholders' Equity**Preferred Shares Authorized**

In April 2007, the Board of Directors authorized 5,000,000 shares of undesignated preferred stock, par value \$0.001 per share. No preferred shares have been issued as of June 30, 2012.

Reserved Common Stock

As of June 30, 2012, the Company has reserved 10,415,717 shares of common stock for options and restricted stock awards outstanding and available for grant under stock option plans.

12. Income Taxes

The Company's effective income tax rate was 42.9% and 51% for the six months ended June 30, 2012 and 2011, respectively. The effective income tax rate is based upon the estimated annual effective tax rate in compliance with ASC 740, *Income Taxes*, and other related guidance. The Company updates the estimate of its annual effective tax rate at the end of each quarterly period. The Company's estimate takes into account estimations of annual pre-tax income, the geographic mix of pre-tax income and its interpretations of tax laws.

The Company's practice is to recognize interest and/or penalties related to income tax matters in income tax expense. The Company recognized interest and penalties totaling \$9 in income tax expense in the six months ended June 30, 2012.

For the year ended December 31, 2010, the Company had recorded a tax reserve of approximately \$400 for the potential state income tax liability arising from the difference between the income tax rates applicable for security corporations and business corporations in Massachusetts, relating to the matter described in Note 8. In connection with such matter, on July 16, 2011, the Company received a Notice of Assessment from the MA DOR for 2006 and 2007 in the amount of approximately \$345 (which amount included all interest and penalties to date) with respect to additional income taxes related to TechTarget, Inc. The Company increased the reserve assessment to reflect additional interest accrued through the second quarter of 2012. The balance of the reserve assessment as of June 30, 2012 was \$436. On August 17, 2011, the Company filed Applications for Abatement with the MA DOR. On January 6, 2012, the Company filed Petitions under Formal Procedure with the Massachusetts Appellate Tax Board; a status conference has been scheduled for October 11, 2012. The Company intends to continue to

dispute the assessment and believes it has meritorious defenses which it intends to vigorously assert.

Table of Contents

Tax years 2008 through 2011 are subject to examination by the federal and state taxing authorities. The Company received notification during the second quarter of 2012 that the IRS will examine the 2009 and 2010 federal tax returns, and that New York State will examine the Company's 2008 through 2011 state returns.

There are no income tax examinations currently in process with the exception of the matter noted above related to the MA DOR.

13. Segment Information

The Company views its operations and manages its business as one operating segment based on factors such as how the Company manages its operations and how its CEO, COO and President review results and make decisions on how to allocate resources and assess performance.

Geographic Data

Net sales to unaffiliated customers by geographic area were as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
	(Unaudited)			
North America	\$ 22,902	\$ 25,876	\$ 43,384	\$ 46,666
International	3,467	2,226	6,699	4,002
Total	\$ 26,369	\$ 28,102	\$ 50,083	\$ 50,668

14. Subsequent Event

On August 7, 2012, the Company announced that, on August 3, 2012, its Board of Directors authorized a \$20 million stock repurchase program. The Company is authorized to repurchase the Company's common stock from time to time on the open market or in privately negotiated transactions. The timing and amount of any shares repurchased will be determined based on an evaluation of market conditions and other factors. The Company may elect to implement a Rule 10b5-1 trading plan to make such purchases, which would permit shares to be repurchased when the Company might otherwise be precluded from doing so under insider trading laws. The repurchase program may be suspended or discontinued at any time. Any repurchased shares will be funded with cash on hand.

Table of Contents

Item 2. 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 the consolidated financial statements and accompanying notes and the other financial information included elsewhere in this Quarterly Report on Form 10-Q. In this discussion and analysis, dollar, share and per share amounts are not rounded to thousands unless otherwise indicated. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this Quarterly Report on Form 10-Q, particularly under the heading Risk Factors.

Overview

Background

We are a leading provider of specialized online content and brand advertising that brings together buyers and sellers of corporate information technology (IT) products. We sell customized marketing programs that enable IT vendors to reach corporate IT decision makers who are actively researching specific IT purchases.

Our integrated content platform consists of a network of over 115 websites that we complement with targeted in-person events. Throughout the critical stages of the purchase decision process, our content offerings meet IT professionals' needs for expert, peer and IT vendor information, and provide a platform on which IT vendors can launch targeted marketing campaigns that generate measurable, high Return on Investment (ROI). As IT professionals have become increasingly specialized, they have come to rely on our sector-specific websites for purchasing decision support. Our content enables IT professionals to navigate the complex and rapidly changing IT landscape where purchasing decisions can have significant financial and operational consequences. Based upon the logical clustering of our users' respective job responsibilities and the marketing focus of the products that our customers are advertising, we currently categorize our content offerings across nine distinct media groups: Application Architecture and Development; Channel; CIO/IT Strategy; Data Center and Virtualization Technologies; Business Applications and Analytics; Networking; Security; Storage; and TechnologyGuide.

Executive Summary

During 2011 and the six-month period ended June 30, 2012, we made significant progress on our strategy to grow our business and increase the reach of our offerings. It continues to be the case that, central to these efforts, is the progress that we are making with our new product platform, Activity Intelligence , and the continued expansion of our direct international capabilities.

Key strategic activities during the period ended June 30, 2012 included:

Activity Intelligence Approximately 350 of our customers now have access to the Activity Intelligence dashboard, with over 40 of those customers having purchased the Nurture and Notify offering. We also have other product initiatives designed to leverage this platform in the development pipeline that we currently anticipate will increase our penetration of our accounts, as well as potentially leverage our core capabilities in complementary offerings.

Table of Contents

International Update International geo-targeted revenue grew 18% sequentially from the first quarter of 2012 and represented 20% of revenues in the second quarter. We believe that our integrated product offering across regions is resonating with international marketers and contributing to our successful results, and we plan on continuing to invest in these capabilities as we seek opportunities to increase our global reach. As noted previously, we recently established an office in Singapore to help better manage Southeast Asia sales operations and work more closely with Asia-Pacific (APAC) regional marketers. We have approximately 435,000 registered members from Southeast Asia and serve more than 8 million Southeast Asian ad impressions each quarter across our network of sites that focus on enterprise information technology topics such as data centers, virtualization, cloud computing, storage, networking and business applications. The new Singapore office adds to the established operational bases we have in APAC, including offices in China, India and Australia.

Site launches: In the six month period ended June 30, 2012, we launched the following new websites:

SearchFinancialApplications.com , a new website designed to assist business and information technology professionals using technology to manage finance and human resources (HR) functions. Launching with over 25,000 active, registered members, SearchFinancialApplications.com publishes articles, tutorials and other resources to help organizations make smarter technology purchasing decisions in areas such as accounting/general ledger (GL), procurement, analytics, employee financials, payroll, HR/HCM, talent management, workforce analytics and more.

SearchSolidStateStorage.com , a new website designed to assist information technology professionals with technical research on solid state storage products including flash technologies. Solid state storage is made from silicon microchips and unlike traditional spinning hard disk drives and tape media stores data electronically instead of magnetically, so it has no mechanical parts. Solid state storage is gaining rapid deployment as the latest in a wave of technology innovations intended to add efficiency to storage infrastructures, innovations that include data deduplication, automated tiering, thin provisioning and storage virtualization.

SearchCloudApplications.com , a new website dedicated to serving the information needs of information technology (IT) and business professionals deploying Software-as-a-Service (SaaS) business applications in the cloud, and developers and architects tasked with building custom applications leveraging the cloud.

Business Trends

The following discussion highlights key trends affecting our business.

Macro-economic Conditions and Industry Trends. Because all of our customers are IT vendors, the success of our business is intrinsically linked to the health, and subject to market conditions, of the IT industry. In addition to the ongoing instability and unpredictable growth continuing to affect the domestic and international economies, generally, in the six month period ended June 30, 2012, we saw a continued weakness in the IT market. Using the six largest Global IT vendors by revenue (HP, IBM, Dell, Microsoft, Cisco, Oracle) as a barometer, their aggregate revenue has declined, indicating that there appears to be a continuing deceleration in the growth in the Global IT market. As a result, we continue to see evidence that some IT vendors' North American advertising budgets are being reduced or deferred, which is negatively affecting our results. Additionally, this deceleration has affected all segments of our customer base. As a result, until management is able to better determine if the pullback in spending by our customers is a temporary condition or a new level of spending, although we will continue to invest in growth areas, management will continue to carefully control discretionary spending such as travel and entertainment, and the filling of new and replacement positions, in an effort to maintain profit margins and cash flow.

Customer Segments. In the three-month period ended June 30, 2012 all three of our customer segments report being negatively affected by the challenging macro-economic conditions. Specifically, during that three-month period, revenues from our mid-sized customers grew in the low single digits, while revenues from the top 12 Global IT vendors and small customers declined in the single digits. All three of our customer segments report being negatively affected by macro conditions. Although we expect the short term

Edgar Filing: TechTarget Inc - Form 10-Q

pressure from the weak macro-economic conditions to continue, from a more long-term perspective we are encouraged by the strategic level of discussions that we continue to have with our largest customers about our new and developing product capabilities.

Table of Contents

Sources of Revenues

We sell advertising programs to IT vendors targeting a specific audience within a particular IT sector or sub-sector. We maintain multiple points of contact with our customers to provide support throughout their organizations and the sales cycle. As a result, our customers often run multiple advertising programs with us in order to reach discrete portions of our targeted audience. There are multiple factors that can impact our customers' advertising objectives and spending with us, including but not limited to, product launches, increases or decreases to their advertising budgets, the timing of key industry marketing events, responses to competitor activities and efforts to address specific marketing objectives such as creating brand awareness or generating sales leads. Our services are generally delivered under short-term contracts that run for the length of a given advertising program, typically less than six months.

We use the following online and event offerings to provide IT vendors with numerous touch points to reach key IT decision makers and to provide IT professionals with highly specialized content across multiple forms of media. We are experienced in assisting advertisers to develop custom advertising programs that maximize branding and ROI. The following is a description of the services we offer:

Online. Our network of websites forms the core of our content platform. Our websites provide IT professionals with comprehensive decision support information tailored to their specific areas of responsibility and purchasing decisions. Through our websites, we offer a variety of online media offerings to connect IT vendors to IT professionals. Our lead generation offerings allow IT vendors to maximize ROI by capturing qualified sales leads from the distribution and promotion of content to our audience of IT professionals. In August of 2011, TechTarget released a major upgrade to our Activity Intelligence platform. Beginning in 2012, all of our lead generation campaigns offer the Activity Intelligence Dashboard. In March 2012, we introduced Nurture & Notify as a new service of the Activity Intelligence platform. Our branding offerings provide IT vendors exposure to targeted audiences of IT professionals actively researching information related to their products and services. Our branding offerings include display advertising and custom offerings. Display advertising can be purchased on specific websites within our network, and against specific technology segments. Our custom offerings allow customers to have content or entire micro-sites created that focus on topics related to their marketing objectives and include promotion of these vehicles to our users. These offerings give IT vendors the ability to increase their brand awareness to highly specialized IT sectors.

Our lead generation offerings include the following:

Activity Intelligence Dashboard. This new technology platform gives TechTarget's customer's marketers and sales representatives a real-time view of their prospects, which includes insights on the research activities of technology buying teams, including at an account level.

White Papers. White papers are technical documents created by IT vendors to describe business or technical problems which are addressed by the vendors' products or services. As part of a lead generation campaign, we post white papers on our relevant websites and our users receive targeted promotions about these content assets. Prior to viewing white papers, our registered members and visitors supply their corporate contact information and agree to receive further information from the vendor. The corporate contact and other qualification information for these leads are supplied to the vendor in real time through our proprietary lead management software.

Webcasts, Podcasts, Videocasts and Virtual Trade Shows. Webcasts, podcasts, videocasts, virtual trade shows and similar content bring informational sessions directly to attendees' desktops and, in the case of podcasts, directly to their mobile devices. As is the case with white papers, our users supply their corporate contact and qualification information to the webcast, podcast, virtual trade show or videocast sponsor when they view or download the content. Sponsorship includes access to the registrant information and visibility before, during and after the event.

Our other offerings include the following:

Nurture and Notify. This new service, using the Activity Intelligence platform, helps both technology marketers and their sales teams to identify highly active prospects, detect emerging projects, retarget interested buying teams, and accelerate engagement with specific accounts.

Custom Content Creation. In support of our advertisers lead generation programs, we will sometimes create white papers, case studies, webcasts, or videos to our customers specifications through our Custom Media team. These content assets are then promoted to our audience in the context of the advertisers lead generation programs.

Table of Contents

Content Sponsorships. IT vendors pay us to sponsor editorially created content vehicles on specific technology topics, such as e-Zines, e-Books, and e-Guides. In some cases, these vehicles are supported by multiple sponsors in a single segment, with the registrant information provided to all participating sponsors. Because these offerings are editorially driven, advertisers get the benefit of association with independently created content, and access to qualified sales leads that are researching the topic.

List Rentals. We also offer IT vendors the ability to message relevant registered members on topics related to their interests. IT vendors can rent our e-mail and postal lists of registered members using specific criteria such as company size, geography or job title.

Third Party Revenue Sharing Arrangements. We have arrangements with certain third parties, including for the licensing of our online content, for the renting of our database of opted-in e-mail subscribers and for which advertising from customers of certain third parties is made available to our website visitors. In each of these arrangements we are paid a share of the resulting revenue.

Events. Events revenue represented approximately 13% and 14% of total revenues for the three months ended June 30, 2012 and 2011, respectively, and approximately 10% and 12% of total revenues for the six months ended June 30, 2012 and 2011, respectively. Most of our media groups operate revenue generating events. The majority of our events are free to IT professionals and are sponsored by IT vendors. Attendees are pre-screened based on event-specific criteria such as sector-specific budget size, company size, or job title. We offer three types of events: multi-day conferences, single-day seminars and custom events. Multi-day conferences provide independent expert content for our attendees and allow vendors to purchase exhibit space and other sponsorship offerings that enable interaction with the attendees. We also hold single-day seminars on various topics in major cities. These seminars provide independent content on key sub-topics in the sectors we serve, are free to qualified attendees, and offer multiple vendors the ability to interact with specific, targeted audiences actively focused on buying decisions. Our custom events differ from our seminars in that they are exclusively sponsored by a single IT vendor, and the content is driven primarily by the sole sponsor.

Cost of Revenues, Operating Expenses and Other

Expenses consist of cost of revenues, selling and marketing, product development, general and administrative, depreciation, and amortization expenses. Personnel-related costs are a significant component of most of these expense categories except for depreciation and amortization.

Cost of Online Revenue. Cost of online revenue consists primarily of: salaries and related personnel costs; member acquisition expenses (primarily keyword purchases from leading Internet search sites); freelance writer expenses; website hosting costs; vendor expenses associated with the delivery of webcast, podcast, videocast and similar content, and list rental offerings; stock-based compensation expenses; facilities and other related overhead.

Cost of Events Revenue. Cost of events revenue consists primarily of: facility expenses, including food and beverages for the event attendees as well as office space; salaries and related personnel costs; event speaker expenses; stock-based compensation expenses; and other related overhead.

Selling and Marketing. Selling and marketing expense consists primarily of: salaries and related personnel costs; sales commissions; travel, lodging and other out-of-pocket expenses; stock-based compensation expenses; facilities and related overhead. Sales commissions are recorded as expense when earned by the employee, based on recorded revenue.

Product Development. Product development expense includes the creation and maintenance of our network of websites, advertiser offerings and technical infrastructure. Product development expense consists primarily of salaries and related personnel costs; stock-based compensation expenses; facilities and other related overhead.

General and Administrative. General and administrative expense consists primarily of: salaries and related personnel costs; facilities expenses; accounting, legal and other professional fees; and stock-based compensation expenses.

Depreciation. Depreciation expense consists of the depreciation of our property and equipment. Depreciation of property and equipment is calculated using the straight-line method over their estimated useful lives, ranging from two to ten years.

Table of Contents

Amortization of Intangible Assets. Amortization of intangible assets expense consists of the amortization of intangible assets recorded in connection with our acquisitions. Separable intangible assets that are not deemed to have an indefinite life are amortized over their estimated useful lives, which range from one to nine years, using methods that are expected to reflect the estimated pattern of economic use.

Interest Income (Expense), Net. Interest income (expense), net consists primarily of interest income earned on cash, cash equivalents and short and long-term investments less any interest expense incurred. We historically have invested our cash in money market accounts, municipal bonds and government agency bonds.

Application of Critical Accounting Policies and Use of Estimates

The discussion of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates, judgments and assumptions that affect the reported amount of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to revenue, long-lived assets, the allowance for doubtful accounts, stock-based compensation, and income taxes. We based our estimates of the carrying value of certain assets and liabilities on historical experience and on various other assumptions that we believe to be reasonable. In many cases, we could reasonably have used different accounting policies and estimates. In some cases, changes in the accounting estimates are reasonably likely to occur from period to period. Our actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments used in the preparation of our consolidated financial statements. See the notes to our consolidated financial statements for information about these critical accounting policies as well as a description of our other accounting policies.

Revenue Recognition

We generate substantially all of our revenue from the sale of targeted advertising campaigns which we deliver via our network of websites and events. In all cases, we recognize revenue only when the price is fixed or determinable, persuasive evidence of an arrangement exists, the service is performed and collectability of the resulting receivable is reasonably assured.

The majority of our online media sales involve multiple product offerings. Although each of our online media offerings can be sold separately, most of our online media sales involve multiple online offerings. Because objective evidence of fair value does not exist for all elements in our bundled product offerings, we use a best estimate of selling price of individual deliverables in the arrangement in the absence of vendor-specific objective evidence or other third party evidence of selling price. We establish best estimates considering multiple factors including, but not limited to, class of client, size of transaction, available media inventory, pricing strategies and market conditions. We believe the use of the best estimate of selling price allows revenue recognition in a manner consistent with the underlying economics of the transaction. We apply a relative selling price method to allocate arrangement consideration at the inception of the arrangement to each deliverable in a multiple element arrangement. Revenue is then recognized as delivery occurs.

We evaluate all deliverables of an arrangement at inception and each time an item is delivered, to determine whether they represent separate units of accounting. Based on this evaluation, the arrangement consideration is measured and allocated to each of these elements.

Event Sponsorships. We sell our events separately from our other service offerings and recognize sponsorship revenue from events in the period in which the event occurs. The majority of our events are free to qualified attendees; however, certain events are based on a paid attendee model. We recognize revenue for paid attendee events upon completion of the event. Amounts collected or billed prior to satisfying the above revenue recognition criteria are recorded as deferred revenue.

Online Media. Revenue for lead generation campaigns is recognized as follows:

Beginning in the period ended March 31, 2012, our lead generation campaigns all offer the Activity Intelligence Dashboard. In order to manage the lead generation component, we have changed our operational approach and the contractual terms and conditions under which we sell our products. Instead of selling individual elements, we sell various lead generation campaigns with the dashboard. Revenue is recognized ratably over the duration of the campaigns. As part of these offerings, we will guarantee a minimum number of qualified leads to be delivered over the course of the advertising campaign. We determine the content necessary to achieve performance guarantees. Scheduled end dates of advertising campaigns sometimes need to be extended, pursuant to the terms of the

arrangement, to satisfy lead guarantees.

Table of Contents

In 2011, revenue for elements of lead generation campaigns was recognized as follows:

White Papers. White paper revenue was recognized ratably over the period in which the white paper was available on our websites.

Webcasts, Podcasts, Videocasts and Virtual Trade Shows. Webcast, podcast, videocast, virtual trade show and similar content revenue was recognized ratably over the period in which the webcast, podcast, videocast or virtual trade show was available on our websites.

As part of these offerings, we will guarantee a minimum number of qualified leads to be delivered over the course of the advertising campaign. Scheduled end dates of advertising campaigns sometimes need to be extended, pursuant to the terms of the arrangement, to satisfy lead guarantees or to fulfill all elements of the advertising campaign based on delayed receipts of advertising media collateral from the customer.

Revenue for other online media offerings is recognized as follows for 2011 as well as for the three and six-month periods ended June 30, 2012:

Custom Content Creation. Custom content revenue is recognized when the creation is completed and delivered to the customer.

Content Sponsorships. Content sponsorship revenue is recognized ratably over the period in which the related content vehicle is available on our websites.

List Rentals. List rental revenue is recognized in the period in which the list is sent to our customers.

Banners. Banner revenue is recognized in the period in which the banner impressions or clicks occur.

Third Party Revenue Sharing Arrangements. Revenue from third party revenue sharing arrangements is recognized on a net basis in the period in which the services are performed. For certain third party agreements where we are the primary obligor, revenue is recognized on a gross basis in the period in which the services are performed.

We recognize revenue from cost per lead advertising in the period during which the leads are delivered, which is typically less than six months.

Amounts collected or billed prior to satisfying the above revenue recognition criteria are recorded as deferred revenue.

Long-Lived Assets

Our long-lived assets consist primarily of property and equipment, goodwill and other intangible assets. Goodwill and other intangible assets have arisen principally from our acquisitions. The amount assigned to intangible assets is subjective and based on our estimates of the future benefit of the intangible assets using accepted valuation techniques, such as discounted cash flow and replacement cost models. Our long-lived assets, other than goodwill, are amortized over their estimated useful lives, which we determined based on the consideration of several factors including the period of time the asset is expected to remain in service. Intangible assets are amortized over their estimated useful lives, which range from one to nine years, using methods of amortization that are expected to reflect the estimated pattern of economic use. We evaluate the carrying value and remaining useful lives of long-lived assets, other than goodwill, whenever indicators of impairment are present. We evaluate the carrying value of goodwill annually, and whenever indicators of impairment are present. We use a discounted cash flow approach to determine the fair value of goodwill.

Fair Value of Financial Instruments

Financial instruments consist of cash and cash equivalents, short-term and long-term investments, accounts receivable and accounts payable. The carrying value of these instruments approximates their estimated fair values.

Table of Contents***Allowance for Doubtful Accounts***

We offset gross trade accounts receivable with an allowance for doubtful accounts. The allowance for doubtful accounts is our best estimate of the amount of probable credit losses in our existing accounts receivable. We review our allowance for doubtful accounts on a regular basis, and all past due balances are reviewed individually for collectability. Account balances are charged against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Provisions for doubtful accounts are recorded in general and administrative expense. If our historical collection experience does not reflect our future ability to collect outstanding accounts receivable, our future provision for doubtful accounts could be materially affected. To date, we have not incurred any write-offs of accounts receivable significantly different than the amounts reserved.

The allowance for doubtful accounts was \$0.8 million at June 30, 2012 and \$1.1 million at December 31, 2011.

Stock-Based Compensation

We measure stock-based compensation at the grant date based on the fair value of the award and recognize stock-based compensation expense in the Statement of Operations using the straight-line method over the vesting period of the award or using the accelerated method if the award is contingent upon performance goals. We use the Black-Scholes option-pricing model to determine the fair-value of stock option awards. We calculated the fair values of the options granted using the following estimated weighted-average assumptions:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Expected volatility	*	*	*	79%
Expected term	*	*	*	6.25 years
Risk-free interest rate	*	*	*	2.30%
Expected dividend yield	*	*	*	0.00%
Weighted-average grant date fair value per share	*	*	*	\$5.16

* there were no options granted in the first half of 2012 or the second quarter of 2011

As there was no public market for our common stock prior to our initial public offering in May 2007, and there has been limited historical information on the volatility of our common stock since the date of our initial public offering, we determined the volatility for options granted in the first half of 2011 based on an analysis of the historical volatility of our stock and reported data for a peer group of companies that issued options with substantially similar terms. There were no options granted during the six months ended June 30, 2012.

The expected volatility of options granted has been determined using a weighted average of the historical volatility of our stock and the peer group of companies for a period equal to the expected life of the option. The risk-free interest rate is based on a zero coupon United States treasury instrument whose term is consistent with the expected life of the stock options. We have not paid and do not anticipate paying cash dividends on our shares of common stock; therefore, the expected dividend yield is assumed to be zero. We applied an estimated annual forfeiture rate based on our historical forfeiture experience of 11.3% and 3.6% in determining the expense recorded in the six months ended June 30, 2012 and 2011, respectively.

Internal-Use Software and Website Development Costs

We capitalize costs of materials, consultants and compensation and related expenses of employees who devote time to the development of internal-use software and website applications and infrastructure involving developing software to operate our websites. However, we expense as incurred website development costs for new features and functionalities since it is not probable that they will result in additional functionality until they are both developed and tested with confirmation that they are more effective than the current set of features and functionalities on our websites. Our judgment is required in determining the point at which various projects enter the states at which costs may be capitalized, in assessing the ongoing value of the capitalized costs and in determining the estimated useful lives over which the costs are amortized, which is generally three years. To the extent that we change the manner in which we develop and test new features and functionalities related to our websites, assess the ongoing value of capitalized assets or determine the estimated useful lives over which the costs are amortized, the amount of website development costs we capitalize and amortize in future periods would be impacted. We review capitalized internal-use software and website development costs for recoverability whenever events or changes in circumstances indicate that the carrying amount of the asset may not

Edgar Filing: TechTarget Inc - Form 10-Q

be recoverable. We would recognize an impairment loss only if the carrying amount of the asset is not recoverable and exceeds its fair value. We capitalized internal-use software and website development costs of \$0.7 million and \$0.8 million for the three months ended June 30, 2012 and 2011, respectively, and \$1.6 million for the six months ended June 30, 2012 and 2011.

Table of Contents**Income Taxes**

We are subject to income taxes in both the United States and foreign jurisdictions, and we use estimates in determining our provision for income taxes. We recognize deferred tax assets and liabilities based on temporary differences between the financial reporting and income tax bases of assets and liabilities using statutory rates.

Our deferred tax assets are comprised primarily of book to tax differences on stock-based compensation and net operating loss (NOL) carryforwards. As of December 31, 2011, we had state NOL carryforwards of approximately \$17.6 million, which may be used to offset future taxable income. The NOL carryforwards expire through 2029.

Net Income (Loss) Per Share

We calculate basic earnings per share (EPS) by dividing earnings available to common shareholders for the period by the weighted average number of common shares and vested, undelivered restricted stock awards. Because the holders of unvested restricted stock awards do not have nonforfeitable rights to dividends or dividend equivalents, we do not consider these awards to be participating securities that should be included in our computation of earnings per share under the two-class method. Diluted EPS is computed using the weighted-average number of common shares and vested, undelivered restricted stock awards during the period, plus the dilutive effect of potential future issuances of common stock relating to stock option programs and other potentially dilutive securities using the treasury stock method. In calculating diluted EPS, the dilutive effect of stock options and restricted stock awards is computed using the average market price for the respective period. In addition, the assumed proceeds under the treasury stock method include the average unrecognized compensation expense and assumed tax benefit of stock options and restricted stock awards that are in-the-money. This results in the assumed buyback of additional shares, thereby reducing the dilutive impact of stock options.

Results of Operations

The following table sets forth our results of operations for the periods indicated:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2012		2011		2012		2011	
	(\$ in thousands)							
Revenues:								
Online	\$ 23,038	87%	\$ 24,151	86%	\$ 45,109	90%	\$ 44,531	88%
Events	3,331	13	3,951	14	4,974	10	6,137	12
Total revenues	26,369	100	28,102	100	50,083	100	50,668	100
Cost of revenues:								
Online	5,949	23	5,720	20	11,990	24	11,326	22
Events	1,154	4	1,242	4	1,917	4	2,119	4
Total cost of revenues	7,103	27	6,962	25	13,907	28	13,445	27
Gross profit	19,266	73	21,140	75	36,176	72	37,223	73
Operating expenses:								
Selling and marketing	9,227	35	10,184	36	18,390	37	18,815	37
Product development	1,881	7	1,870	7	3,736	7	3,816	8
General and administrative	2,979	11	3,458	12	6,627	13	7,257	14
Restructuring			384	1			384	1
Depreciation	811	3	668	2	1,578	3	1,309	3
Amortization of intangible assets	874	3	989	4	1,812	4	2,075	4
Total operating expenses	15,772	60	17,553	62	32,143	64	33,656	66
Operating income	3,494	13	3,587	13	4,033	8	3,567	7

Edgar Filing: TechTarget Inc - Form 10-Q

Interest income, net	23	*	6	*	47	*	12	*
Income before provision for income taxes	3,517	13	3,593	13	4,080	8	3,579	7
Provision for income taxes	1,552	6	1,775	6	1,750	3	1,836	4
Net income	\$ 1,965	7%	\$ 1,818	6%	\$ 2,330	5%	\$ 1,743	3%

* Not meaningful

Table of Contents**Comparison of Three Months Ended June 30, 2012 and 2011****Revenues**

	Three Months Ended June 30,			Percent Change
	2012	2011 (Unaudited)	Increase (Decrease) (\$ in thousands)	
Revenues:				
Online	\$ 23,038	\$ 24,151	\$ (1,113)	(5)%
Events	3,331	3,951	(620)	(16)
Total revenues	\$ 26,369	\$ 28,102	\$ (1,733)	(6)%

Online. The decrease in online revenue was primarily attributable to a \$0.6 million decrease in branding revenues, primarily due to decreases in newsletter and banner sales volume. Lead generation offerings also decreased by \$0.4 million.

Events. The decrease in events revenue is caused by reductions in custom events and seminars, offset in part by an increase in conference revenues due to an additional multi-day conference held in the second quarter of 2012 that was not held in 2011.

Cost of Revenues and Gross Profit

	Three Months Ended June 30,			Percent Change
	2012	2011 (Unaudited)	Increase (Decrease) (\$ in thousands)	
Cost of revenues:				
Online	\$ 5,949	\$ 5,720	\$ 229	4%
Events	1,154	1,242	(88)	(7)
Total cost of revenues	\$ 7,103	\$ 6,962	\$ 141	2%
Gross profit	\$ 19,266	\$ 21,140	\$ (1,874)	(9)%
Gross profit percentage	73%	75%		

Cost of Online Revenues. The increase in cost of online revenues was primarily attributable to an increase in payroll-related expenses due to increased headcount.

Cost of Events Revenues. Cost of events revenues decreased in the second quarter as compared to the same period a year ago, primarily due to decreases in variable direct costs as a result of the decrease in the number of events that we conducted.

Gross Profit. Our gross profit is equal to the difference between our revenues and our cost of revenues for the period. Gross profit for the second quarter of 2012 was 73% as compared to 75% for the same period of 2011. The decrease in online gross profit was \$1.3 million, attributable to the decrease in online revenue in combination with increases in compensation costs, as compared to the second quarter of 2011. Events gross profit decreased by \$0.5 million as a result of the lower events revenues, offset in part by a decrease in related variable direct costs. Because the majority of our costs are labor-related, we expect our gross profit to fluctuate from period to period depending on the total revenues for the period, as well as the relative contribution of online and events revenues to our total revenues.

Table of Contents**Operating Expenses and Other**

	Three Months Ended June 30,			Percent Change
	2012	2011 (Unaudited)	Increase (Decrease)	
(\$ in thousands)				
Operating expenses:				
Selling and marketing	\$ 9,227	\$ 10,184	\$ (957)	(9)%
Product development	1,881	1,870	11	1
General and administrative	2,979	3,458	(479)	(14)
Restructuring charge		384	(384)	
Depreciation	811	668	143	21
Amortization of intangible assets	874	989	(115)	(12)
 Total operating expenses	 \$ 15,772	 \$ 17,553	 \$ (1,781)	 (10)%
Interest income, net	\$ 23	\$ 6	\$ 17	283%
 Provision for income taxes	 \$ 1,552	 \$ 1,775	 \$ (223)	 (13)%

Selling and Marketing. Selling and marketing expenses decreased \$1.0 million, primarily due to a \$0.3 million decrease in incentive compensation due to lower revenues, a \$0.4 million decrease in stock-based compensation due to the completion of vesting of certain equity awards and a \$0.2 million decrease in travel costs.

Product Development. Product development expense remained flat year over year.

General and Administrative. The decrease in general and administrative expense was primarily attributable to a \$0.3 million reduction in stock-based compensation, primarily due to the completion of vesting of certain equity awards, and a \$0.2 million decrease in bad debt and legal fees, primarily related to the acquisition of Computer Weekly in the second quarter of 2011.

Restructuring Charge. The restructuring charge in 2011 was for redundancy costs related to the Computer Weekly acquisition.

Depreciation and Amortization of Intangible Assets. The increase in depreciation expense is related to our increased fixed asset base, primarily as a result of our continued investment in internal-use software development costs and computer equipment. The decrease in amortization of intangible assets expense was primarily attributable to certain intangible assets becoming fully amortized during 2011, partially offset by amortization on newly acquired intangible assets.

Interest Income, Net. The increase in interest income, net, reflects our higher cash balances in the three months ended June 30, 2012 as compared to the same period in 2011.

Provision for Income Taxes. Our effective income tax rate was 44.1% and 49% for the three months ended June 30, 2012 and 2011, respectively. The decrease in the tax rate year over year is caused by a decrease in the amount of non tax-deductible stock-based compensation during those respective periods. The effective income tax rate is based upon the estimated annual effective tax rate in compliance with Accounting Standards Codification (ASC) 740, *Income Taxes*, and other related guidance. We update the estimate of our annual effective tax rate at the end of each quarterly period. Our estimate takes into account estimations of annual pre-tax income, the geographic mix of pre-tax income and interpretations of tax laws.

Comparison of Six Months Ended June 30, 2012 and 2011**Revenues**

Edgar Filing: TechTarget Inc - Form 10-Q

	Six Months Ended June 30,			Percent
	2012	2011	Increase (Decrease)	Change
		(Unaudited)		
	(\$ in thousands)			
Revenues:				
Online	\$ 45,109	\$ 44,531	\$ 578	1%
Events	4,974	6,137	(1,163)	(19)
Total revenues	\$ 50,083	\$ 50,668	\$ (585)	(1)%

Table of Contents

Online. The increase in online revenue was attributable to a \$1.3 million increase in delivery of lead generation offerings, primarily in the first quarter of 2012. This increase was offset in part by a decrease in banner sales volume and, to a lesser extent, third party revenues.

Events. The decrease in events revenue is primarily due to a reduction in seminar revenues and, to a lesser extent, custom events.

Cost of Revenues and Gross Profit

	Six Months Ended June 30,			Percent Change
	2012	2011 (Unaudited) (\$ in thousands)	Increase (Decrease)	
Cost of revenues:				
Online	\$ 11,990	\$ 11,326	\$ 664	6%
Events	1,917	2,119	(202)	(10)
Total cost of revenues	\$ 13,907	\$ 13,445	\$ 462	3%
Gross profit	\$ 36,176	\$ 37,223	\$ (1,047)	(3)%
Gross profit percentage	72%	73%		

Cost of Online Revenues. The increase in cost of online revenues was primarily attributable to an increase in payroll-related expenses due to increased headcount.

Cost of Events Revenues. Cost of events revenues decreased in the first half of 2012 as compared to the same period a year ago, primarily due to decreases in variable direct costs as a result of the decrease in the number of events that we conducted.

Gross Profit. Our gross profit is equal to the difference between our revenues and our cost of revenues for the period. Gross profit for the first half of 2012 was 72%, as compared to 73% for the same period in 2011. Online gross profit was relatively flat from the first half of 2011 to the same period in 2012, attributable to the increase in online revenue offset by increases in compensation costs as compared to the first half of 2011. Events gross profit decreased by \$1.0 million, primarily as a result of the lower events revenues, which were offset in part by a reduction in related variable direct costs. Because the majority of our costs are labor-related, we expect our gross profit to fluctuate from period to period depending on the total revenues for the period, as well as the relative contribution of online and events revenues to our total revenues.

Operating Expenses and Other

	Six Months Ended June 30,			Percent Change
	2012	2011 (Unaudited) (\$ in thousands)	Increase (Decrease)	
Operating expenses:				
Selling and marketing	\$ 18,390	\$ 18,815	\$ (425)	(2)%
Product development	3,736	3,816	(80)	(2)
General and administrative	6,627	7,257	(630)	(9)
Restructuring charge		384	(384)	
Depreciation	1,578	1,309	269	21
Amortization of intangible assets	1,812	2,075	(263)	(13)
Total operating expenses	\$ 32,143	\$ 33,656	\$ (1,513)	(4)%

Edgar Filing: TechTarget Inc - Form 10-Q

Interest income, net	\$ 47	\$ 12	\$ 35	292%
Provision for income taxes	\$ 1,750	\$ 1,836	\$ (86)	(5)%

Table of Contents

Selling and Marketing. Selling and marketing expenses decreased \$0.4 million, primarily due to a \$0.8 million decrease in stock-based compensation due to the completion of vesting of certain equity awards, offset in part by a \$0.4 million increase in compensation costs, due primarily to increased headcount from international expansion.

Product Development. The decrease in product development expense was primarily caused by lower stock-based compensation expense due to the completion of vesting of certain equity awards.

General and Administrative. The decrease in general and administrative expense was primarily attributable to a \$0.5 million reduction in stock-based compensation, primarily due to the completion of vesting of certain equity awards, and a \$0.2 million decrease in acquisition-related legal fees related to the Computer Weekly acquisition in the first half of 2011. These decreases were partially offset by increased accounting and tax-related professional fees.

Restructuring Charge. The restructuring charge was for redundancy costs related to the Computer Weekly acquisition.

Depreciation and Amortization of Intangible Assets. The increase in depreciation expense is related to our increased fixed asset base, primarily as a result of our continued investment in internal-use software development costs and computer equipment. The decrease in amortization of intangible assets expense was primarily attributable to certain intangible assets becoming fully amortized during 2011, partially offset by amortization on newly acquired intangible assets.

Interest Income, Net. The increase in interest income, net, reflects our higher cash balances in the six months ended June 30, 2012 as compared to the same period in 2011.

Provision for Income Taxes. Our effective income tax rate was 42.9% and 51% for the six months ended June 30, 2012 and 2011, respectively. The decrease in the tax rate year over year is caused by a decrease in the amount of non tax-deductible stock-based compensation during those respective periods. The effective income tax rate is based upon the estimated annual effective tax rate in compliance with ASC 740, *Income Taxes*, and other related guidance. We update the estimate of our annual effective tax rate at the end of each quarterly period. Our estimate takes into account estimations of annual pre-tax income, the geographic mix of pre-tax income and interpretations of tax laws.

Seasonality

The timing of our revenues is affected by seasonal factors. Our revenues are seasonal primarily as a result of the annual budget approval process of many of our customers, the normal timing at which our customers have their new product introductions and the historical decrease in advertising and events activity in summer months. Events revenue may vary depending on which quarters we produce the event, which may vary when compared to previous periods. The timing of revenues in relation to our expenses, much of which does not vary directly with revenue, has an impact on the cost of online revenues, selling and marketing, product development, and general and administrative expenses as a percentage of revenue in each calendar quarter during the year.

The majority of our expenses are personnel-related and include salaries, stock-based compensation, benefits and incentive-based compensation plan expenses. As a result, we have not experienced significant seasonal fluctuations in the timing of our expenses period to period.

Liquidity and Capital Resources

Resources

We believe that our existing cash, cash equivalents and investments, our cash flow from operating activities and available bank borrowings will be sufficient to meet our anticipated cash needs for at least the next twelve months. Our future working capital requirements will depend on many factors, including the operations of our existing business, our potential strategic expansion internationally, future acquisitions we might undertake, and the expansion into complementary businesses. To the extent that our cash, cash equivalents and investments, our cash flow from operating activities and available bank borrowings are insufficient to fund our future activities, we may need to raise additional funds through bank credit arrangements or public or private equity or debt financings. We also may need to raise additional funds in the event we determine in the future to effect one or more additional acquisitions of businesses.

Table of Contents

	June 30, 2012 (Unaudited)	December 31, 2011
	(\$ in thousands)	
Cash, cash equivalents and investments	\$ 66,550	\$ 63,221
Accounts receivable, net	\$ 28,900	\$ 26,272

Cash, Cash Equivalents and Investments

Our cash, cash equivalents and investments at June 30, 2012 were held for working capital purposes and were invested primarily in money market accounts and municipal bonds. We do not enter into investments for trading or speculative purposes.

On August 3, 2012, our Board of Directors authorized a \$20 million stock repurchase program. We are authorized to repurchase our common stock from time to time on the open market or in privately negotiated transactions. The timing and amount of any shares repurchased will be determined based on an evaluation of market conditions and other factors. We may elect to implement a Rule 10b5-1 trading plan to make such purchases, which would permit shares to be repurchased when we might otherwise be precluded from doing so under insider trading laws. The repurchase program may be suspended or discontinued at any time. The program will be funded with cash on hand.

Accounts Receivable, Net

Our accounts receivable balance fluctuates from period to period, which affects our cash flow from operating activities. The fluctuations vary depending on the timing of our service delivery and billing activity, cash collections, and changes to our allowance for doubtful accounts. We use days sales outstanding, (DSO), as a measurement of the quality and status of our receivables. We define DSO as net accounts receivable at period end divided by total revenue for the applicable period, multiplied by the number of days in the applicable period. DSO was 100 days for the quarter ended June 30, 2012 and 84 days at December 31, 2011. The increase in DSO is primarily the result of cash collections being \$1.6 million lower than billings during the first half of the year. The aged accounts receivable balance at June 30, 2012 was also reflective of approximately \$0.5 million of write-offs that were processed in the quarter which reduced the allowance for doubtful accounts. Collections are increasing quarter to quarter and were approximately 20.6% higher in the second quarter of 2012, as compared to the previous quarter.

Cash Flows

	Six Months Ended June 30,	
	2012	2011
	(Unaudited)	
	(\$ in thousands)	
Net cash provided by operating activities	\$ 5,295	\$ 7,361
Net cash used in investing activities(1)	\$ (2,377)	\$ (4,363)
Net cash provided by financing activities	\$ 1,023	\$ 1,577

(1) Cash used in investing activities is shown net of investment activity of (\$1.4) million and (\$15.3) million for the six months ended June 30, 2012 and 2011, respectively.

Operating Activities

Cash provided by operating activities primarily consists of net income adjusted for certain non-cash items including depreciation and amortization, the provision for bad debt, stock-based compensation, deferred income taxes, and the effect of changes in working capital and other activities. Cash provided by operating activities for the six months ended June 30, 2012 was \$5.3 million compared to cash provided by operating activities of \$7.4 million in the six months ended June 30, 2011. The decrease in cash provided by operating activities was a result of

Edgar Filing: TechTarget Inc - Form 10-Q

changes in operating assets and liabilities of (\$3.6) million in the first half of 2012 compared to (\$1.7) million in the first half of 2011. Significant components of the changes in assets and liabilities included a \$1.0 million decrease in accrued expenses during the first half of 2012 compared to an increase of \$1.8 million in the first half of 2011, caused primarily by the payment of contingent compensation in the first half of 2012; a decrease in income taxes payable of \$0.7 million in 2012 as compared with an increase of \$0.7 million in 2011; an increase in prepaid expenses and other current assets of \$1.1 million in 2012 as compared with an increase of \$0.5 million in 2011 primarily caused by an income tax receivable balance at June 30, 2012; and a decrease in deferred revenue of \$2.0 million in the first half of 2012 as compared with a decrease of \$2.2 million in the first half of 2011. These changes were offset in part by an increase in accounts receivable of \$2.9 million in 2012 compared to an increase of \$4.3 million in 2011, primarily due to the timing of annual billing cycles with

Table of Contents

some of our larger customers as of June 30, 2011; a decrease in accrued compensation of \$0.4 million in 2012 as compared with a decrease of \$1.0 million in 2011 related to incentive compensation; a decrease in other liabilities, primarily deferred rent, of \$0.1 million in 2012 as compared with an increase of \$0.6 million in 2011; and an increase in accounts payable of \$0.7 million in 2012 as compared with an increase of \$0.3 million in 2011. Additionally, there was a \$0.2 million decrease in net income adjusted for non-cash related items.

Investing Activities

Cash used in investing activities in the six months ended June 30, 2012, net of investment activity, was \$2.4 million for the purchase of property and equipment made up primarily of website development costs, computer equipment and related software and internal-use development costs. Cash investment of \$2.0 million was also made for the acquisition of Computer Weekly and its sister channel-targeted brand, MicroScope, from Reed Business Information Limited in the first half of 2011.

Equity Financing Activities

We received proceeds from the exercise of stock options in the amounts of \$0.8 million and \$1.1 million in the six months ended June 30, 2012 and 2011, respectively.

Term Loan and Credit Facility Borrowings

In August 2006, we entered into a credit agreement (the *Credit Agreement*) with a commercial bank, which included a \$10.0 million term loan (the *Term Loan*) and a \$20.0 million revolving credit facility (the *Revolving Credit Facility*). The *Credit Agreement* was amended in August 2007, in December 2008, in December 2009 and again in August 2011. The amendment in 2009 reduced the *Revolving Credit Facility* to \$5.0 million. We paid off the remaining balance of the *Term Loan* in December 2009. The amendment in August 2011 extended the term of the facility and adjusted certain other financial terms and covenants.

The *Revolving Credit Facility* matures on August 31, 2016. Unless earlier payment is required by an event of default, all principal and unpaid interest will be due and payable on August 31, 2016. At our option, the *Revolving Credit Facility* bears interest at either the prime rate less 1.00% or the London Interbank Offered Rate (LIBOR) plus the applicable LIBOR margin. The applicable LIBOR margin is based on the ratio of total funded debt to EBITDA for the preceding four fiscal quarters. As of June 30, 2012, the applicable LIBOR margin was 1.25%.

We are also required to pay an unused line fee on the daily unused amount of our *Revolving Credit Facility* at a per annum rate based on the ratio of total funded debt to EBITDA for the preceding four fiscal quarters. As of June 30, 2012, unused availability under the *Revolving Credit Facility* totaled \$3.2 million and the per annum unused line fee rate was 0.20%.

At June 30, 2012 and 2011 there were no amounts outstanding under this revolving loan agreement. There is a \$1.2 million standby letter of credit related to our corporate headquarters lease that is outstanding at June 30, 2012, bringing our available borrowings on the \$5.0 million facility to \$3.8 million.

Borrowings under the *Credit Agreement* are collateralized by a security interest in substantially all of our assets. Covenants governing the *Credit Agreement* include the maintenance of certain financial ratios. At June 30, 2012 we were in compliance with all covenants under the *Credit Agreement*.

Capital Expenditures

We have made capital expenditures primarily for computer equipment and related software needed to host our websites, internal-use software development costs, as well as for leasehold improvements and other general purposes to support our growth. Our capital expenditures totaled \$2.4 million for the six month periods ended June 30, 2012 and 2011. A majority of our capital expenditures in the first half of 2012 and 2011 were internal-use development costs and, to a lesser extent, computer equipment and related software. We are not currently party to any purchase contracts related to future capital expenditures.

Contractual Obligations and Commitments

As of June 30, 2012, our principal commitments consist of obligations under leases for office space. The offices are leased under noncancelable operating lease agreements that expire through 2020. The following table sets forth our commitments to settle contractual obligations in cash as of June 30, 2012:

Table of Contents

	Payments Due By Period				
	Total	Less than 1 Year	1 - 3 Years (Unaudited) (\$ in thousands)	3 - 5 Years	More than 5 Years
Operating leases	\$ 27,635	\$ 4,116	\$ 7,609	\$ 6,865	\$ 9,045

At June 30, 2012, we had an irrevocable standby letter of credit outstanding in the aggregate amount of \$1.2 million. This letter of credit supports the lease we entered into in 2009 for our corporate headquarters. This letter of credit, subject to certain reductions, extends annually through February 28, 2020 unless notification of termination is received.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Recent Accounting Pronouncements

See Note 2 of Notes to Consolidated Financial Statements for recent accounting pronouncements that could have an effect on our consolidated financial statements.

Item 3. 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. Our market risk exposure is primarily a result of fluctuations in foreign exchange rates and interest rates. We do not hold or issue financial instruments for trading purposes.

Foreign Currency Exchange Risk

Our subsidiary, TechTarget Limited, was established in July 2006 and is located in London, England. In August 2010 our Hong Kong subsidiary, TechTarget (HK) Limited (TTGT HK), was formed in order to facilitate our activities in the Asia-Pacific region. In December 2011 a wholly foreign-owned enterprise (WFOE) was formed under the laws of the People's Republic of China as a wholly owned subsidiary of TTGT HK. We also have offices in India, Australia and Singapore and a VIE in Beijing, China. Less than 15% of our revenues for the six months ended June 30, 2012 were derived from advertisers located outside of North America and our foreign exchange gains/losses were not significant. We currently believe our exposure to foreign currency exchange rate fluctuations is financially immaterial and therefore have not entered into foreign currency hedging transactions. We continue to review this issue and may consider hedging certain foreign exchange risks through the use of currency futures or options in the future.

Interest Rate Risk

At June 30, 2012, we had cash, cash equivalents and investments totaling \$66.6 million. These amounts were invested primarily in money market accounts and municipal bonds. The cash, cash equivalents and investments were held for working capital purposes. We do not enter into investments for trading or speculative purposes. Due to the short-term nature of these investments, we believe that we do not have any material exposure to changes in the fair value of our investment portfolio as a result of changes in interest rates. Declines in interest rates, however, would reduce future investment income.

Our exposure to market risk also relates to the amount of interest expense we must pay under our revolving credit facility. The advances under this credit facility bear a variable rate of interest determined as a function of the lender's prime rate or LIBOR. At June 30, 2012, there were no amounts outstanding under our revolving credit facility.

Item 4. Controls and Procedures Disclosure Controls and Procedures

The Company is required to maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in its reports under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the

Edgar Filing: TechTarget Inc - Form 10-Q

Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosure.

Table of Contents

In connection with the preparation of the Form 10-K for the period ended December 31, 2011, management, under the supervision of the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of disclosure controls and procedures. Based on that evaluation, and due to the material weakness in our internal control over financial reporting described below, our Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were not effective at the reasonable assurance level. At the conclusion of the six month period ending June 30, 2012, the material weakness identified in the 2011 Form 10-K had not been fully remediated. As a result, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are not effective as of the filing date of this Form 10-Q.

As disclosed in the Company's 2011 Annual Report filed on Form 10-K, management identified the following material weakness in connection with its assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2011:

Inadequate staffing as well as ineffective accounting and reporting system for processing and reporting of certain complex service revenue transactions.

Remediation Plans

In order to ensure the Company's accounting and reporting systems are adequate to carry out the level and complexities associated with our service revenue transactions, we have initiated and intend to continue to:

Enhance other control activities including exception reporting and detailed reconciliations included as manual controls within the month end closing process to further mitigate process risks not addressed by the current accounting and reporting systems.

Enhance procedures and analyses relating to best estimate of selling price.

Changes in Internal Control over Financial Reporting

The Company made several internal control improvements over financial reporting during the six months ended June 30, 2012 (including the three months ended June 30, 2012 covered by this Form 10-Q) that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting. These improvements include changes as part of the remediation plan relating to:

Created or modified over ten analysis and exception reports

Improved procedures relating to new customer review

Hired key personnel and implemented retention procedures

Implemented improved contract processes

Although the Company made significant efforts and achieved progressive improvement to address and remediate its previously identified material weakness, the Company believes that such efforts have not yet yielded the results required to fully remediate the material weakness.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

Edgar Filing: TechTarget Inc - Form 10-Q

We are not currently a party to any material legal proceedings and we are not aware of any pending or threatened litigation against us that could have a material adverse effect on our business, operating results or financial condition. On January 6, 2012, the Company filed Petitions under Formal Procedure with the Massachusetts Appellate Tax Board in connection with the classification of the Company's wholly-owned subsidiary, TechTarget Securities Corporation, and assessments made by the Massachusetts Department of Revenue. The Company intends to continue to dispute the assessment and believes it has meritorious claims which it intends to vigorously assert.

Item 1A. Risk Factors

The following discussion highlights certain risks that may affect future operating results and share price. These are the risks and uncertainties we believe are most important for our existing and potential stockholders to consider. Additional risks and uncertainties not presently known to us, which we currently deem immaterial or which are similar to those faced by other companies in our industry or business in general, may also impair our business operations. If any of the following risks or uncertainties actually occurs, our business, financial condition and operating results would likely suffer.

Table of Contents

Risks Relating to Our Business

Because we depend on our ability to generate revenues from the sale of advertising, fluctuations in advertising spending could have an adverse effect on our operating results.

The primary source of our revenues is the sale of advertising to our customers. Our advertising revenues accounted for approximately 99% of our total revenues for the six months ended June 30, 2012. We believe that advertising spending on the Internet, as in traditional media, fluctuates significantly as a result of a variety of factors, many of which are outside of our control. These factors include:

variations in expenditures by advertisers due to budgetary constraints;

the cancellation or delay of projects by advertisers;

the cyclical and discretionary nature of advertising spending;

general economic conditions, as well as economic conditions specific to the Internet and online and offline media industry; and

the occurrence of extraordinary events, such as natural disasters and international or domestic political and economic unrest.

Because all of our customers are in the IT industry, our revenues are subject to characteristics of the IT industry that can affect advertising spending by IT vendors.

The IT industry is characterized by, among other things, volatile quarterly results, uneven sales patterns, short product life cycles, rapid technological developments and frequent new product introductions and enhancements. As a result, our customers' advertising budgets, which are often viewed as discretionary expenditures, may increase or decrease significantly over a short period of time. In addition, the advertising budgets of our customers may fluctuate as a result of:

weakness in corporate IT spending, resulting in a decline in IT advertising spending;

increased concentration in the IT industry as a result of consolidations, leading to a decrease in the number of current and prospective customers, as well as an overall reduction in advertising;

reduced spending by combined entities following such consolidations;

the timing of advertising campaigns around new product introductions and initiatives; and

economic conditions specific to the IT industry.

The continuing general economic, business or industry conditions may adversely affect the business of the Company, as well as our ability to forecast financial results.

Edgar Filing: TechTarget Inc - Form 10-Q

The domestic and international economies continue to experience ongoing instability and inconsistent, unpredictable growth. This period of instability has been magnified by factors including changes in the availability of credit, decreased business and consumer confidence and continuing high unemployment. These and other macro-economic conditions have contributed to increased volatility and diminished expectations for the global economy and expectations of future global economic growth. If the economic climate in the U.S. and abroad does not improve or deteriorates, our customers or potential customers could reduce or delay their purchases of our offerings, which would adversely impact our revenues and our ability to sell our offerings, collect customer receivables and, ultimately, our profitability. Additionally, future economic conditions currently continue to have a high degree of inherent uncertainty. As a result, it continues to be difficult to estimate the level of growth or contraction for the economy as a whole, as well as for the various sectors of the economy, such as the IT market. Because all components of our budgeting and forecasting are dependent upon estimates of growth or contraction in the IT market and demand for our offerings, the prevailing economic uncertainties continue to render accurate estimates of future income and expenditures very difficult to make. We cannot predict the effect or duration of current economic conditions or the duration or strength of an economic recovery, worldwide or in the IT industry. Further adverse changes may occur as a result of soft global, domestic or regional economic conditions, wavering consumer confidence, unemployment, declines in stock markets, or other factors affecting economic conditions generally. These changes may negatively affect the sales of our offerings, increase exposure to losses from bad debts, increase the cost and decrease the availability of financing, or increase the risk of loss on investments.

Table of Contents

Lingering effects of financial market instability and continued uncertain conditions in the United States and global economies have in the past and could in the future adversely affect our revenues and operating results.

We believe that the lingering effects of the instability affecting the financial markets and a further deterioration in the current business climate within the United States and/or certain other geographic regions in which we do business have had, and could continue to have, a negative impact on our revenue growth and operating results. Because all of our clients are in the IT industry, the success of our business is intrinsically linked to the health, and subject to market conditions, of the IT industry, and regional, domestic and global economic conditions. In turn, many of our customers have reassessed and will, for the foreseeable future, be likely to continue to scrutinize their spending on advertising campaigns. Prior market downturns in the IT industry have resulted in declines in advertising spending, which can cause longer sales cycles, deferral or delay of purchases by IT vendors and generally reduced expenditures for advertising and related services. Our revenues and profitability depend on the overall demand for advertising services from our customers. We believe that demand for our offerings has been in the past, and could be in the future, disproportionately affected by fluctuations, disruptions, instability or downturns in the economy and the IT industry, which may cause customers and potential customers to exit the industry or delay, cancel or reduce any planned expenditures for our advertising offerings. Furthermore, competitors may respond to market conditions by lowering prices and attempting to lure away our customers and prospects to lower cost offerings. In addition, the slowdown in the formation of new IT companies, and the decline in the growth of existing IT companies, may cause a decline in demand for our offerings.

Our quarterly operating results are subject to fluctuations, and these fluctuations may adversely affect the trading price of our common stock.

We have experienced fluctuations in our quarterly revenues and operating results. Our quarterly revenues and operating results may fluctuate from quarter to quarter due to a number of factors, many of which are outside of our control. In addition to the factors described elsewhere in this Risk Factors section, these factors include:

the spending priorities and advertising budget cycles of specific advertisers;

the addition or loss of advertisers;

the addition of new sites and services by us or our competitors; and

seasonal fluctuations in advertising spending.

Due to such risks, you should not rely on quarter-to-quarter comparisons of our results of operations as an indicator of our future results. Due to the foregoing factors, it is also possible that our results of operations in one or more quarters may fall below the expectations of investors and/or securities analysts. In such an event, the trading price of our common stock is likely to decline.

Our revenues are primarily derived from short-term contracts that may not be renewed.

The primary source of our revenues is the sale of advertising to our customers, and we expect that this will continue to be the case for the foreseeable future. Our advertising contracts are primarily short-term, typically less than six months, and are generally subject to termination without substantial penalty by the customer at any time, generally with minimal notice requirements. We cannot assure you that our current customers will fulfill their obligations under their existing contracts, continue to participate in our existing programs beyond the terms of their existing contracts or enter into any additional contracts for new programs that we offer. If a significant number of advertisers or a few large advertisers decided not to continue advertising on our websites or conducting or sponsoring events, we could experience a rapid decline in our revenues over a relatively short period of time.

If we are unable to deliver content and services that attract and retain users, our ability to attract advertisers may be affected, which could in turn have an adverse effect on our revenues.

Our future success depends on our continued ability to deliver original and compelling content and services to attract and retain users. Our user base is comprised of corporate IT professionals who demand specialized websites and events tailored to the sectors of the IT products for which

Edgar Filing: TechTarget Inc - Form 10-Q

they are responsible and that they purchase. Our content and services may not be attractive to a sufficient number of users to attract advertisers and generate revenues consistent with our estimates. We also may not develop new content or services in a timely or cost-effective manner. Our ability to develop and produce this specialized content successfully is subject to numerous uncertainties, including our ability to:

anticipate and respond successfully to rapidly changing IT developments and preferences to ensure that our content remains timely and interesting to our users;

attract and retain qualified editors, writers and technical personnel;

fund new development for our programs and other offerings;

successfully expand our content offerings into new platform and delivery mechanisms; and

promote and strengthen the brands of our websites and our name.

Table of Contents

If we are not successful in maintaining and growing our user base, our ability to retain and attract advertisers may be affected, which could in turn have an adverse effect on our revenues.

Our inability to sustain our historical advertising rates could adversely affect our operating results.

The market for advertising has fluctuated over the past few years. If we are unable to maintain historical pricing levels for advertising on our websites and for sponsorships at our events, our revenues could be adversely affected.

Competition for advertisers is intense, and we may not compete successfully, which could result in a material reduction in our market share, the number of our advertisers and our revenues.

We compete for potential advertisers with a number of different types of offerings and companies, including: broad-based media outlets, such as television, newspapers and business periodicals that are designed to reach a wide audience; general purpose portals and search engines; and offline and online offerings of media companies that produce content specifically for IT professionals, including International Data Group, United Business Media, QuinStreet and CNet. Advertisers may choose our competitors over us not only because they prefer our competitors online and events offerings to ours but also because advertisers prefer to utilize other forms of advertising offered by our competitors that are not offered by us and/or to diversify their advertising expenditures. Although less than 15% of our revenues for the six months ended June 30, 2012 were derived from advertisers located outside of North America, as we continue to expand internationally, as we have in the last several years by commencing operations of our own websites in the United Kingdom, India, Spain, China and Australia, by acquiring the Computer Weekly and MicroScope properties from Reed Business Information Limited in the United Kingdom and, most recently, by commencing operations in Singapore in February 2012, we expect to compete with many of the competitors mentioned above, as well as with established media companies based in particular countries or geographical regions. Many of these foreign-based media companies will be larger than we are and will have established relationships with local advertisers. Many of our current and potential competitors have longer operating histories, larger customer bases, greater brand recognition and significantly greater financial, marketing and other resources than we have. As a result, we could lose market share to our competitors in one or more of our businesses and our revenues could decline.

We depend upon Internet search engines to attract a significant portion of the users who visit our websites, and if we were listed less prominently in search result listings, our business and operating results would be harmed.

We derive a significant portion of our website traffic from users who search for IT purchasing content through Internet search engines, such as Google, MSN, Bing and Yahoo!. A critical factor in attracting users to our websites is whether we are prominently displayed in response to an Internet search relating to IT content. Search result listings are determined and displayed in accordance with a set of formulas or algorithms developed by the particular Internet search engine. The algorithms determine the order of the listing of results in response to the user's Internet search. From time to time, search engines revise their algorithms. In some instances, these modifications may cause our websites to be listed less prominently in unpaid search results, which will result in decreased traffic from search engine users to our websites. Our websites may also become listed less prominently in unpaid search results for other reasons, such as search engine technical difficulties, search engine technical changes and changes we make to our websites. In addition, search engines have deemed the practices of some companies to be inconsistent with search engine guidelines and have decided not to list their websites in search result listings at all. If we are listed less prominently or not at all in search result listings for any reason, the traffic to our websites likely will decline, which could harm our operating results. If we decide to attempt to replace this traffic, we may be required to increase our marketing expenditures, which also could harm our operating results.

We may not innovate at a successful pace, which could harm our operating results.

Our industry is rapidly adopting new technologies and standards to create and satisfy the demands of users and advertisers. It is critical that we continue to innovate by anticipating and adapting to these changes to ensure that our content-delivery and lead generation platforms and services remain effective and interesting to our users, advertisers and partners. In addition, we may discover that we must make significant expenditures to achieve these goals. If we fail to accomplish these goals, we may lose users and the advertisers that seek to reach those users, which could harm our operating results.

Table of Contents

We may be unable to continue to build awareness of our brands, which could negatively impact our business and cause our revenues to decline.

Building and maintaining recognition of our brands is critical to attracting and expanding our online user base and attendance at our events. We intend to continue to build existing brands and introduce new brands that will resonate with our targeted audiences, but we may not be successful. In order to promote these brands, in response to competitive pressures or otherwise, we may find it necessary to increase our marketing budget, hire additional marketing and public relations personnel or otherwise increase our financial commitment to creating and maintaining brand loyalty among our clients. If we fail to promote and maintain our brands effectively, or incur excessive expenses attempting to promote and maintain our brands, our business and financial results may suffer.

If we do not retain our key personnel, our ability to execute our business strategy will be adversely affected.

Our continued success depends to a significant extent upon the recruitment, retention and effective succession of our executive officers and key management. Our management team has significant industry experience and would be difficult to replace. These individuals possess sales, marketing, financial and administrative skills that are critical to the operation of our business. The competition for these employees is intense. The loss of the services of one or more of our key personnel could have a material adverse effect on our operating results.

We may not be able to attract, hire and retain qualified personnel cost-effectively, which could impact the quality of our content and services and the effectiveness and efficiency of our management, resulting in increased costs and losses in revenues.

Our success depends on our ability to attract, hire and retain qualified technical, editorial, sales and marketing, customer support, financial and accounting and other managerial personnel at commercially reasonable rates. The competition for personnel in the industries in which we operate is intense. Our personnel may terminate their employment at any time for any reason. Loss of personnel may also result in increased costs for replacement hiring and training. If we fail to attract and hire new personnel or retain and motivate our current personnel, we may not be able to operate our businesses effectively or efficiently, serve our customers properly or maintain the quality of our content and services. In particular, our success depends in significant part on maintaining and growing an effective sales force. This dependence involves a number of challenges, including:

the need to hire, integrate, motivate and retain additional sales and sales support personnel;

the need to train new sales personnel, many of whom lack sales experience when they are hired; and

competition from other companies in hiring and retaining sales personnel.

We may fail to identify or successfully acquire and integrate businesses, products and technologies that would otherwise enhance our service offerings to our customers and users, and as a result our revenues may decline or fail to grow.

We have acquired, and in the future may acquire or invest in, complementary businesses, products or technologies. Acquisitions and investments involve numerous risks including:

difficulty in assimilating the operations and personnel of acquired businesses;

potential disruption of our ongoing businesses and distraction of our management and the management of acquired companies;

difficulty in incorporating acquired technology and rights into our offerings and services;

Edgar Filing: TechTarget Inc - Form 10-Q

unanticipated expenses related to technology and other integration;

potential failure to achieve additional sales and enhance our customer bases through cross marketing of the combined company's services to new and existing customers;

potential detrimental impact to our pricing based on the historical pricing of any acquired business with common clients and the market generally;

potential litigation resulting from our business combinations or acquisition activities; and

potential unknown liabilities associated with the acquired businesses.

Our inability to integrate any acquired business successfully, or the failure to achieve any expected synergies, could result in increased expenses and a reduction in expected revenues or revenue growth. As a result, our stock price could fluctuate or decline. In addition, we cannot assure you that we will be successful in expanding into complementary sectors in the future, which could harm our business, operating results and financial condition.

Table of Contents

The costs associated with potential acquisitions or strategic partnerships could dilute your investment or adversely affect our results of operations.

In order to finance acquisitions, investments or strategic partnerships, we may use equity securities, debt, cash, or a combination of the foregoing. Any issuance of equity securities or securities convertible into equity may result in substantial dilution to our existing stockholders, reduce the market price of our common stock, or both. Any debt financing is likely to have financial and other covenants that could have an adverse impact on our business if we do not achieve our projected results. In addition, the related increases in expenses could adversely affect our results of operations.

We have limited protection of our intellectual property and could be subject to infringement claims that may result in costly litigation, the payment of damages or the need to revise the way we conduct our business.

Our success and ability to compete are dependent in part on the strength of our proprietary rights, on the goodwill associated with our trademarks, trade names and service marks, and on our ability to use U.S. and foreign laws to protect them. Our intellectual property includes, among other things, our original content, our editorial features, logos, brands, domain names, the technology that we use to deliver our services, the various databases of information that we maintain and make available by license, and the appearances of our websites. We claim common law protection on certain names and marks that we have used in connection with our business activities. Although we have applied for and obtained registration of some of our marks in countries outside of the United States where we do business, we have not been able to obtain registration of all of our key marks in such jurisdictions, in some cases due to prior registration or use by third parties employing similar marks. In addition to U.S. and foreign laws, we rely on confidentiality agreements with our employees and third parties and protective contractual provisions to safeguard our intellectual property. Policing our intellectual property rights worldwide is a difficult task, and we may not be able to identify infringing users. We cannot be certain that third party licensees of our content will always take actions to protect the value of our proprietary rights and reputation. Intellectual property laws and our agreements may not be sufficient to prevent others from copying or otherwise obtaining and using our content or technologies. In addition, others may develop non-infringing technologies that are similar or superior to ours. In seeking to protect our marks, copyrights, domain names and other proprietary rights, or in defending ourselves against claims of infringement that may be with or without merit, we could face costly litigation and the diversion of our management's attention and resources. These claims could result in the need to develop alternative trademarks, content or technology or to enter into costly royalty or licensing agreements, which could have a material adverse effect on our business, results of operations and financial condition. We may not have, in all cases, conducted formal evaluations to confirm that our technology and services do not or will not infringe upon the intellectual property rights of third parties. As a result, we cannot be certain that our technology, offerings, services or online content do not or will not infringe upon the intellectual property rights of third parties. If we were found to have infringed on a third party's intellectual property rights, the value of our brands and our business reputation could be impaired, and our business could suffer.

Our business could be harmed if we are unable to correspond with existing and potential users by e-mail.

We use e-mail as a significant means of communicating with our existing users. The laws and regulations governing the use of e-mail for marketing purposes continue to evolve, and the growth and development of the market for commerce over the Internet may lead to the adoption of additional legislation and/or changes to existing laws. If new laws or regulations are adopted, or existing laws and regulations are interpreted and/or amended or modified to impose additional restrictions on our ability to send e-mail to our users or potential users, we may not be able to communicate with them in a cost-effective manner. In addition to legal restrictions on the use of e-mail, Internet service providers and others typically attempt to block the transmission of unsolicited e-mail, commonly known as spam. If an Internet service provider or software program identifies e-mail from us as spam, we could be placed on a restricted list that would block our e-mail to users or potential users who maintain e-mail accounts with these Internet service providers or who use these software programs. If we are unable to communicate by e-mail with our users and potential users as a result of legislation, blockage or otherwise, our business, operating results and financial condition could be harmed.

Changes in laws and standards relating to data collection and use, and the privacy of Internet users and other data could impair our efforts to maintain and grow our audience and thereby decrease our advertising revenue.

We collect information from our users who register on our websites or for services or respond to surveys. Subject to each user's permission (or right to decline, which we refer to as an opt-out), a practice that may differ across our various websites, depending on the applicable regulatory requirements of different countries' laws), we may use this information to inform our users of services that they have indicated may be of interest to them. We may also share this information with our advertising clients for registered members who have elected to receive additional promotional materials and have granted us permission to share their information with third parties. We also collect information on our registered members and users based on their activity on our sites. The U.S. federal and various state governments have adopted or proposed limitations on the collection, distribution and use of personal information of Internet users. Additionally, several foreign jurisdictions, including the European Union, the United Kingdom and Canada, have

Table of Contents

adopted legislation (including directives or regulations) that may increase the requirements for collecting, or limit our collection and use of, information from Internet users in these jurisdictions. In addition, growing public concern about privacy, data security and the collection, distribution and use of personal information has led to self-regulation of these practices by the Internet advertising and direct marketing industry, and to increased federal and state regulation. In addition, on January 23, 2012, the Obama administration released a report that proposes a framework to address online consumer privacy. The administration's framework consists of four key elements including a Consumer Privacy Bill of Rights, a multi-stakeholder process to specify how the principles in the Consumer Privacy Bill of Rights apply in particular business contexts, effective FTC enforcement, and a commitment to increase interoperability with international privacy frameworks. The proposed Consumer Bill of Rights would notably allow consumers the right to exercise control over the collection and use of personal data, including the ability to access and correct personal data, for such personal data to be collected and used in accordance with easily understandable privacy and security policies and expect the secure and responsible handling of personal data. The Obama administration has asked the U.S. Department of Commerce to work with industry, privacy advocates and other stakeholders to create and implement enforceable codes of conduct based on the White House report. Because many of the proposed laws or regulations are in their early stages, we cannot yet determine the impact these regulations may have on our business over time. Although, to date, our efforts to comply with applicable federal and state laws and regulations have not hurt our business, additional, more burdensome laws or regulations, including more restrictive consumer privacy and data security laws, could be enacted or applied to us or our customers. Such laws or regulations could impair our ability to collect user information that helps us to provide more targeted advertising to our users and detailed lead data to our advertising clients, thereby impairing our ability to maintain and grow our audience and maximize advertising revenue from our clients. Additionally, the FTC and many state attorneys general are applying federal and state consumer protection laws to require that the online collection, use and dissemination of data, and the presentation of Web site content, comply with certain standards for notice, choice, security and access. Courts may also adopt these developing standards. In many cases, the specific limitations imposed by these standards are subject to interpretation by courts and other governmental authorities. A few states have also introduced legislation that, if enacted, would restrict or prohibit behavioral advertising within the state. In the absence of a federal law pre-empting their enforcement, such state legislation would likely have the practical effect of regulating behavioral advertising nationwide because of the difficulties behind implementing state-specific policies or identifying the location of a particular user. In the event of additional legislation in this area, our ability to effectively target our users may be limited. We believe that we are in compliance with applicable consumer protection laws that apply to us, but a determination by a state or federal agency or court that any of our practices do not meet these regulations could create liability to us, result in adverse publicity and affect negatively our businesses. New interpretations of these standards could also require us to incur additional costs and restrict our business operations. In addition, several foreign governmental bodies, including the European Union, the United Kingdom and Canada have regulations dealing with the collection and use of personal information obtained from their citizens, some of which we have become subject to as a result of the expansion of our business internationally. Regulations in these territories have focused on the collection, use, disclosure and security of information that may be used to identify or that actually identifies an individual, such as an email address or a name. Further, within the European Union, certain member state data protection authorities regard IP addresses as personal information, and legislation adopted recently in the European Union requires informed consent for the placement of a cookie on a user device. We believe that we are in material compliance with such regulations as applicable to us; however, such regulations and laws may be modified and new laws may be enacted in the future. Any such developments (or developments stemming from enactment or modification of other laws) or the failure to anticipate accurately the application or interpretation of these laws could create liability to us, result in adverse publicity and negatively affect our businesses.

U.S. and European lawmakers and regulators have recently expressed concern over the use of third party cookies or web beacons for the purpose of online behavioral advertising, and efforts to address these uses may result in broader requirements that would apply to research activities, including understanding our users' Internet usage. Such actions may have a chilling effect on businesses that collect or use online usage information generally or substantially increase the cost of maintaining a business that collects or uses online usage information, increase regulatory scrutiny and increase the potential of class action lawsuits. In response to marketplace concerns about the usage of third party cookies and web beacons to track user behaviors, the major browser applications have enabled features that allow the user to limit the collection of certain data. These developments could impair our ability to collect user information that helps us provide more targeted advertising to our users. In addition, several browser applications, including but not limited to Microsoft's Internet Explorer, Mozilla Firefox, Google Chrome and Apple's Safari browser contain tracking protection features and options that allow users to opt-out of ad-tracking cookies and in certain cases block behavioral tracking from specified websites. In the event users implement these tracking features and options, they have the potential to affect our business negatively.

Table of Contents

Increased exposure from loss of personal information could impose significant additional costs on us.

Many states in which we operate have enacted regulations requiring us to notify customers in the event that certain customer information is accessed, or believed to have been accessed, without authorization and in some cases also develop proscriptive policies to protect against such unauthorized access. Such notifications can result in private causes of action being filed against us. Additionally, increasing regulatory demands are requiring us to provide protection of personal information to prevent identity theft. Should we experience a loss of protected data, efforts to regain compliance and address penalties imposed by such regulatory regimes could increase our costs.

There are a number of risks associated with expansion of our business internationally that could adversely affect our business.

We have license and other arrangements in various countries, and maintain direct presences in the United Kingdom, India and Australia, as well as operations in China, sales operations in Singapore, and Spanish and German language websites. In addition to facing many of the same challenges we face domestically, there are additional risks and costs inherent in expanding our business in international markets, including:

limitations on our activities in foreign countries where we have granted rights to existing business partners;

the adaptation of our websites and advertising programs to meet local needs and to comply with local legal regulatory requirements;

varied, unfamiliar and unclear legal and regulatory restrictions, as well as unforeseen changes in, legal and regulatory requirements;

more restrictive data protection regulation, which may vary by country;

more extensive labor regulation, which may vary by country;

difficulties in staffing and managing multinational operations;

difficulties in finding appropriate foreign licensees or joint venture partners;

distance, language and cultural differences in doing business with foreign entities;

foreign political and economic uncertainty;

less extensive adoption of the Internet as an information source and increased restriction on the content of websites;

currency exchange-rate fluctuations; and

potential adverse tax requirements.

Edgar Filing: TechTarget Inc - Form 10-Q

As a result, we may face difficulties and unforeseen expenses in expanding our business internationally and, even if we attempt to do so, we may be unsuccessful, which could harm our business, operating results and financial condition.

There are substantial uncertainties regarding the interpretation and application of the laws and regulations of the People's Republic of China, or PRC, including, but not limited to, the laws and regulations governing our business in the PRC, and the enforcement and performance of the contractual arrangements between our wholly-owned subsidiary, TechTarget (Beijing) Information Technology Consulting Co., Ltd, or TTGT China, and our affiliated Chinese entity, Keji Wangtuo (Beijing) Information Technology Co., Ltd, or Keji Wangtuo, and its shareholders. The Company is considered a foreign person under PRC law. As a result, the Company is subject to PRC law limitations on foreign ownership of companies engaged in value-added telecommunications services, including internet-related services, and advertising. Accordingly, we operate our websites and our online advertising business in China through Keji Wangtuo, a company wholly-owned by two citizens of the PRC; we have no equity ownership interest in Keji Wangtuo. Keji Wangtuo holds the licenses and approvals necessary to operate our websites and online advertising business in China. Through our wholly-owned subsidiary, TTGT China, we have contractual arrangements with Keji Wangtuo and its shareholders that allow us to substantially control and operate Keji Wangtuo and give us the economic benefit of those operations. We cannot be sure that we will be able to enforce these contracts. In addition, such contractual arrangements may not prove as effective in exercising control over Keji Wangtuo as direct ownership. Although we believe we are in compliance with current PRC regulations, we cannot be sure that the Chinese government would agree that our operating and equity arrangements with Keji Wangtuo comply with Chinese law. If the Chinese government determines that we are not in compliance with applicable law, it could revoke our business and operating licenses, require us to discontinue or restrict our operations, restrict our right to collect revenues, block our websites in China, require us to restructure our Chinese operations, impose additional conditions or requirements with which we may not be able to comply, impose restrictions on our business operations or on our customers, or take other regulatory or enforcement actions against us that could be harmful to our business in China.

Changes in regulations could adversely affect our business and results of operations.

It is possible that new laws and regulations or new interpretations of existing laws and regulations in the United States and elsewhere will be adopted covering issues affecting our business, including:

Table of Contents

privacy, data security and use of personally identifiable information;

copyrights, trademarks and domain names; and

marketing practices such as behavioral advertising, e-mail or direct marketing.

Increased government regulation, or the application of existing laws to online activities, could:

decrease the growth rate of the Internet;

reduce our revenues;

increase our operating expenses; or

expose us to significant liabilities.

Furthermore, the relationship between regulations governing domain names and laws protecting trademarks and similar proprietary rights is still evolving. Therefore, we might be unable to prevent third parties from acquiring domain names that infringe or otherwise decrease the value of our trademarks and other proprietary rights. Any impairment in the value of these important assets could cause our stock price to decline. We cannot be sure what effect any future material noncompliance by us with these laws and regulations or any material changes in these laws and regulations could have on our business, operating results and financial condition.

As a creator and a distributor of content over the Internet, we face potential liability for legal claims based on the nature and content of the materials that we create or distribute.

Due to the nature of content published on our online network, including content placed on our online network by third parties, and as a creator and distributor of original content and research, we face potential liability based on a variety of theories, including defamation, negligence, copyright or trademark infringement, or other legal theories based on the nature, creation or distribution of this information. Such claims may also include, among others, claims that by providing hypertext links to websites operated by third parties, we are liable for wrongful actions by those third parties through these websites. Similar claims have been brought, and sometimes successfully asserted, against online services. It is also possible that our users could make claims against us for losses incurred in reliance on information provided on our networks. In addition, we could be exposed to liability in connection with material posted to our Internet sites by third parties. For example, many of our sites offer users an opportunity to post unmoderated comments and opinions. Some of this user-generated content may infringe on third party intellectual property rights or privacy rights or may otherwise be subject to challenge under copyright laws. Such claims, whether brought in the United States or abroad, could divert management time and attention away from our business and result in significant cost to investigate and defend, regardless of the merit of these claims. In addition, if we become subject to these types of claims and are not successful in our defense, we may be forced to pay substantial damages. Our insurance may not adequately protect us against these claims. The filing of these claims may also damage our reputation as a high quality provider of unbiased, timely analysis and result in client cancellations or overall decreased demand for our services.

We may be liable if third parties or our employees misappropriate our users' confidential business information.

We currently retain confidential information relating to our users in secure database servers. Although we observe security measures throughout our operations, we cannot assure you that we will be able to prevent individuals from gaining unauthorized access to these database servers. Any unauthorized access to our servers, or abuse by our employees, could result in the theft of confidential user information. If confidential information is compromised, we could lose customers or become subject to liability or litigation and our reputation could be harmed, any of which could materially and adversely affect our business and results of operations.

Our business, which is dependent on centrally located communications and computer hardware systems, is vulnerable to natural disasters, telecommunication and systems failures, terrorism and other problems, which could reduce traffic on our networks or websites and result in decreased capacity for advertising space.

Our operations are dependent on our communications systems and computer hardware, all of which are located in data centers operated by third parties. These systems could be damaged by fire, floods, earthquakes, power loss, telecommunication failures and similar events. Our insurance policies have limited coverage levels for loss or damages in these events and may not adequately compensate us for any losses that may occur. In addition, terrorist acts or acts of war may cause harm to our employees or damage our facilities, our clients, our clients' customers and vendors, or cause us to postpone or cancel, or result in dramatically reduced attendance at, our events, which could adversely impact our revenues, costs and expenses and financial position. We are predominantly uninsured for losses and interruptions to our systems or cancellations of events caused by terrorist acts and acts of war.

Table of Contents

Our systems may be subject to slower response times and system disruptions that could adversely affect our revenues.

Our ability to attract and maintain relationships with users, advertisers and strategic partners depends on the satisfactory performance, reliability and availability of our Internet infrastructure. Our Internet advertising revenues relate directly to the number of advertisements and other marketing opportunities delivered to our users. System interruptions or delays that result in the unavailability of Internet sites or slower response times for users would reduce the number of advertising impressions and leads delivered. This could reduce our revenues as the attractiveness of our sites to users and advertisers decreases. Our insurance policies provide only limited coverage for service interruptions and may not adequately compensate us for any losses that may occur due to any failures or interruptions in our systems. Further, we do not have multiple site capacity for all of our services in the event of any such occurrence.

We may experience service disruptions for the following reasons:

occasional scheduled maintenance;

equipment failure;

volume of visits to our websites that exceed our infrastructure's capacity; and

natural disasters, telecommunications failures, power failures, other system failures, maintenance, viruses, hacking or other events outside of our control.

In addition, our networks and websites must accommodate a high volume of traffic and deliver frequently updated information. They have experienced in the past, and may experience in the future, slower response times or decreased traffic for a variety of reasons. There have been instances where our online networks as a whole, or our websites individually, have been inaccessible. Also, slower response times, which have occurred more frequently, can result from general Internet problems, routing and equipment problems involving third party Internet access providers, problems with third party advertising servers, increased traffic to our servers, viruses and other security breaches, many of which problems are out of our control. In addition, our users depend on Internet service providers and online service providers for access to our online networks or websites. Those providers have experienced outages and delays in the past, and may experience outages or delays in the future. Moreover, our Internet infrastructure might not be able to support continued growth of our online networks or websites. Any of these problems could result in less traffic to our networks or websites or harm the perception of our networks or websites as reliable sources of information. Less traffic on our networks and websites or periodic interruptions in service could have the effect of reducing demand for advertising on our networks or websites, thereby reducing our advertising revenues.

Our networks may be vulnerable to unauthorized persons accessing our systems, viruses and other disruptions, which could result in the theft of our proprietary information and/or disrupt our Internet operations making our websites less attractive and reliable for our users and advertisers.

Internet usage could decline if any well-publicized compromise of security occurs. Hacking involves efforts to gain unauthorized access to information or systems or to cause intentional malfunctions or loss or corruption of data, software, hardware or other computer equipment. Hackers, if successful, could misappropriate proprietary information or cause disruptions in our service. We may be required to expend capital and other resources to protect our websites against hackers. Our online networks could also be affected by computer viruses or other similar disruptive problems, and we could inadvertently transmit viruses across our networks to our users or other third parties. Any of these occurrences could harm our business or give rise to a cause of action against us. Providing unimpeded access to our online networks is critical to servicing our customers and providing superior customer service. Our inability to provide continuous access to our online networks could cause some of our customers to discontinue purchasing advertising programs and services and/or prevent or deter our users from accessing our networks. Our activities and the activities of third party contractors involve the storage and transmission of proprietary and personal information. Accordingly, security breaches could expose us to a risk of loss or litigation and possible liability. We cannot assure that contractual provisions attempting to limit our liability in these areas will be successful or enforceable, or that other parties will accept such contractual provisions as part of our agreements.

We have identified a material weakness in our internal controls over financial reporting, which has not been fully remediated. In addition, we may experience additional material weaknesses in the future. Any material weaknesses in our internal control over financial reporting or our failure to remediate such material weaknesses could result in a material misstatement in our financial statements not being prevented or detected and could adversely affect investor confidence in the accuracy and completeness of our financial statements, as well as our stock price.

Table of Contents

We have identified a material weakness in our internal control over financial reporting. Our current accounting and financial reporting system and related internal controls are inadequate to carry out the volume and level of complexities associated with our online service revenue transactions. There exists a reasonable possibility that a material error related to revenue and revenue-related accounts would not be detected on a timely basis. This material weakness and our remediation plans are described further in Item 4 of Part I in this Quarterly Report on Form 10-Q. Material weaknesses in our internal control over financial reporting could result in material misstatements in our financial statements not being prevented or detected. Although we have implemented a Sarbanes-Oxley Remediation Plan, we may experience difficulties or delays in achieving goals under this plan and completing remediation, or may not be able to successfully remediate material weaknesses at all. Any material weakness or unsuccessful remediation could harm investor confidence in the accuracy and completeness of our financial statements, which in turn could harm our business and have an adverse effect on our stock price and our ability to raise additional funds.

Our ability to raise capital in the future may be limited.

Our business and operations may consume resources faster than we anticipate. In the future, we may need to raise additional funds to expand our sales and marketing and service development efforts or to make acquisitions. Additional financing may not be available on favorable terms, if at all. If adequate funds are not available on acceptable terms, we may be unable to fund the expansion of our sales and marketing and research and development efforts or take advantage of acquisition or other opportunities, which could seriously harm our business and operating results. If we incur debt, the debt holders would have rights senior to common stockholders to make claims on our assets and the terms of any debt could restrict our operations, including our ability to pay dividends on our common stock. Furthermore, if we issue additional equity securities, stockholders will experience dilution, and the new equity securities could have rights senior to those of our common stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, our stockholders bear the risk of our future securities offerings reducing the market price of our common stock and diluting their interest.

The impairment of a significant amount of goodwill and intangible assets on our balance sheet could result in a decrease in earnings and, as a result, our stock price could decline.

In the course of our operating history, we have acquired assets and businesses. Some of our acquisitions have resulted in the recording of a significant amount of goodwill and/or intangible assets on our financial statements. We had approximately \$99.0 million of goodwill and net intangible assets as of June 30, 2012. The goodwill and/or intangible assets were recorded because the fair value of the net tangible assets acquired was less than the purchase price. We may not realize the full value of the goodwill and/or intangible assets. As such, we evaluate goodwill and other intangible assets with indefinite useful lives for impairment on an annual basis or more frequently if events or circumstances suggest that the asset may be impaired. We did not have any intangible assets with indefinite lives as of June 30, 2012 or December 31, 2011. We evaluate other intangible assets subject to amortization whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable. If goodwill or other intangible assets are determined to be impaired, we will write off the unrecoverable portion as a charge to our earnings. If we acquire new assets and businesses in the future, as we intend to do, we may record additional goodwill and/or intangible assets. The possible write-off of the goodwill and/or intangible assets could negatively impact our future earnings and, as a result, the market price of our common stock could decline.

The trading value of our common stock may be volatile and decline substantially.

The trading price of our common stock is likely to be volatile and could be subject to wide fluctuations in response to various factors, some of which are beyond our control. In addition to the factors discussed in this Risk Factors section and elsewhere in this Quarterly Report, these factors include:

our operating performance and the operating performance of similar companies;

the overall performance of the equity markets;

announcements by us or our competitors of acquisitions, business plans or commercial relationships;

Edgar Filing: TechTarget Inc - Form 10-Q

threatened or actual litigation;

changes in laws or regulations relating to the provision of Internet content;

any change in our board of directors or management;

publication of research reports about us, our competitors or our industry, or positive or negative recommendations or withdrawal of research coverage by securities analysts;

our sale of common stock or other securities in the future;

large volumes of sales of our shares of common stock by existing stockholders; and

general political and economic conditions.

Table of Contents

In addition, the stock market in general, and historically the market for Internet-related companies in particular, has experienced price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. Securities class action litigation has often been instituted against companies following periods of volatility in the overall market and in the market price of a company's securities. This litigation, if instituted against us, could result in substantial costs, divert our management's attention and resources and harm our business, operating results and financial condition.

Provisions of our certificate of incorporation, bylaws and Delaware law could deter takeover attempts.

Various provisions in our certificate of incorporation and bylaws could delay, prevent or make more difficult a merger, tender offer, proxy contest or change of control. Our stockholders might view any transaction of this type as being in their best interest since the transaction could result in a higher stock price than the then-current market price for our common stock. Among other things, our certificate of incorporation and bylaws:

authorize our board of directors to issue preferred stock with the terms of each series to be fixed by our board of directors, which could be used to institute a "poison pill" that would work to dilute the share ownership of a potential hostile acquirer, effectively preventing acquisitions that have not been approved by our board;

divide our board of directors into three classes so that only approximately one-third of the total number of directors is elected each year;

permit directors to be removed only for cause;

prohibit action by less than unanimous written consent of our stockholders; and

specify advance notice requirements for stockholder proposals and director nominations. In addition, with some exceptions, the Delaware General Corporation Law restricts or delays mergers and other business combinations between us and any stockholder that acquires 15% or more of our voting stock.

Future sales of shares of our common stock by existing stockholders could depress the market price of our common stock.

If our existing stockholders sell, or indicate an intent to sell, substantial amounts of our common stock in the public market, the trading price of our common stock could decline significantly. A large portion of our outstanding shares of common stock is held by our officers, directors and significant stockholders. Two of the largest percentages of our shares are owned by venture capital funds, which are typically structured to have a finite life. As these venture capital funds approach or pass the respective terms of the fund, the decision to sell or hold our stock may be based not only on the underlying investment merits of our stock but also on the requirements of their internal fund structure. Our directors, executive officers and significant stockholders beneficially own approximately 24 million shares of our common stock, which represents 61% of our shares outstanding as of June 30, 2012. If these additional shares are sold, or if it is perceived that they will be sold in the public market, the trading price of our common stock could decline substantially.

A limited number of stockholders will have the ability to influence the outcome of director elections and other matters requiring stockholder approval.

Our directors, executive officers and significant stockholders beneficially own approximately 61% of our outstanding common stock. These stockholders, if they act together, could exert substantial influence over matters requiring approval by our stockholders, including the election of directors, the amendment of our certificate of incorporation and bylaws and the approval of mergers or other business combination transactions. This concentration of ownership may discourage, delay or prevent a change in control of our company, which could deprive our stockholders of an opportunity to receive a premium for their stock as part of a sale of our company and might reduce our stock price. These actions may be taken even if they are opposed by other stockholders.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) Sales of Unregistered Securities

None.

(b) Use of Proceeds from Registered Securities

None.

(c) Purchases of Equity Securities by the Issuer and Affiliated Purchasers

We did not purchase any of our equity securities during the three month period ended June 30, 2012. As described in detail in Part I, Item 2 above, our Board of Directors authorized a \$20 million stock repurchase program on August 3, 2012.

Table of Contents

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

The exhibits listed in the Exhibit Index immediately preceding the exhibits are filed as part of this Quarterly Report on Form 10-Q and such Exhibit Index is incorporated herein by reference.

Table of Contents

SIGNATURES

Pursuant to the requirements 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.

TECHTARGET, INC

(Registrant)

Date: August 9, 2012

By: */s/ GREG STRAKOSCH*
Greg Strakosch, *Chief Executive Officer*

(Principal Executive Officer)

Date: August 9, 2012

By: */s/ JANICE KELLIHER*
Janice Kelliher, *Chief Financial Officer and Treasurer*

(Principal Accounting and Financial Officer)

Table of Contents

Exhibit Index

Exhibit No.	Description of Exhibit
31.1	Certification of Greg Strakosch, Chief Executive Officer of TechTarget, Inc., pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, dated August 9, 2012.
31.2	Certification of Janice Kelliher, Chief Financial Officer and Treasurer of TechTarget, Inc., pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, dated August 9, 2012.
32.1 *	Certifications of Greg Strakosch, Chief Executive Officer of TechTarget, Inc. and Janice Kelliher, Chief Financial Officer and Treasurer of TechTarget, Inc. pursuant to 18 U.S.C. Section 1350, dated August 9, 2012.
101**	The following materials from TechTarget Inc. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Cash Flows, and (iv) Condensed Notes to Consolidated Financial Statements (unaudited).

* This exhibit shall not be deemed filed for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, whether made before or after the date hereof and irrespective of any general incorporation language in any filing, except to the extent the Company specifically incorporates it by reference.

** Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.