

TechTarget Inc  
Form 10-Q  
August 09, 2011

**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, 2011**

**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)

**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

Smaller Reporting Company

(Do not check if a 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 37,787,656 shares of Common Stock, \$0.001 par value per share, outstanding as of July 30, 2011.



**TABLE OF CONTENTS**

<b>Item</b>	<b>Page</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<b><u>Item 1. Financial Statements</u></b>	
<u>Consolidated Balance Sheets as of June 30, 2011 (unaudited) and December 31, 2010</u>	3
<u>Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2011 and 2010 (unaudited)</u>	4
<u>Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2011 and 2010 (unaudited)</u>	5
<u>Notes to Consolidated Financial Statements</u>	6
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	30
<u>Item 4. Controls and Procedures</u>	30
<b><u>PART II. OTHER INFORMATION</u></b>	
<u>Item 1. Legal Proceedings</u>	32
<u>Item 1A. Risk Factors</u>	32
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	43
<u>Item 3. Defaults upon Senior Securities</u>	43
<u>Item 4. [Removed and reserved]</u>	43
<u>Item 5. Other Information</u>	43
<u>Item 6. Exhibits</u>	43
<u>Signatures</u>	44
<u>Exhibit 31.1</u>	
<u>Exhibit 31.2</u>	
<u>Exhibit 32.1</u>	
<u>EX-101 INSTANCE DOCUMENT</u>	
<u>EX-101 SCHEMA DOCUMENT</u>	
<u>EX-101 CALCULATION LINKBASE DOCUMENT</u>	
<u>EX-101 LABELS LINKBASE DOCUMENT</u>	
<u>EX-101 PRESENTATION LINKBASE DOCUMENT</u>	



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

## Item 1. Financial Statements

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

	<b>June 30, 2011 (Unaudited)</b>	<b>December 31, 2010</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 21,817	\$ 32,584
Short-term investments	10,474	17,550
Accounts receivable, net of allowance for doubtful accounts of \$1,148 and \$1,026 as of June 30, 2011 and December 31, 2010, respectively	28,961	24,678
Prepaid expenses and other current assets	1,550	1,021
Deferred tax assets	849	729
Total current assets	63,651	76,562
Property and equipment, net	7,289	6,235
Long-term investments	22,094	
Goodwill	92,470	92,382
Intangible assets, net of accumulated amortization	10,208	10,469
Deferred tax assets	7,675	7,985
Other assets	214	125
Total assets	\$ 203,601	\$ 193,758
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Accounts payable	\$ 4,066	\$ 3,797
Accrued expenses and other current liabilities	3,934	2,181
Accrued compensation expenses	960	1,979
Income taxes payable	443	226
Deferred revenue	9,050	6,603
Total current liabilities	18,453	14,786
Long-term liabilities:		
Other liabilities	4,494	5,112
Total liabilities	22,947	19,898
Commitments and contingencies (Note 9)		
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, 43,533,368 shares issued and 37,675,490 shares outstanding at June 30, 2011 and 42,901,926 shares issued and 37,044,048 shares outstanding at December 31, 2010	44	43

Edgar Filing: TechTarget Inc - Form 10-Q

Treasury stock	(35,343)	(35,343)
Additional paid-in capital	251,205	246,080
Accumulated other comprehensive (loss) income	(70)	5
Accumulated deficit	(35,182)	(36,925)
Total stockholders' equity	180,654	173,860
Total liabilities and stockholders' equity	\$ 203,601	\$ 193,758

See accompanying notes.

**Table of Contents**

**TECHTARGET, INC.**  
**Consolidated Statements of Operations**  
(In thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(Unaudited)			
Revenues:				
Online	\$ 24,151	\$ 20,626	\$ 44,531	\$ 39,187
Events	3,951	4,447	6,137	6,929
Total revenues	28,102	25,073	50,668	46,116
Cost of revenues:				
Online(1)	5,720	5,180	11,326	10,122
Events(1)	1,242	1,373	2,119	2,311
Total cost of revenues	6,962	6,553	13,445	12,433
Gross profit	21,140	18,520	37,223	33,683
Operating expenses:				
Selling and marketing(1)	10,184	9,420	18,815	18,831
Product development(1)	1,870	2,180	3,816	4,535
General and administrative(1)	3,458	3,757	7,257	8,104
Restructuring charge	384		384	
Depreciation	668	642	1,309	1,167
Amortization of intangible assets	989	1,140	2,075	2,275
Total operating expenses	17,553	17,139	33,656	34,912
Operating income (loss)	3,587	1,381	3,567	(1,229)
Interest income, net	6	84	12	191
Income (loss) before provision for income taxes	3,593	1,465	3,579	(1,038)
Provision for income taxes	1,775	1,019	1,836	856
Net income (loss)	\$ 1,818	\$ 446	\$ 1,743	\$ (1,894)
Net income (loss) per common share:				
Basic	\$ 0.05	\$ 0.01	\$ 0.05	\$ (0.04)
Net income (loss) per common share:				
Diluted	\$ 0.04	\$ 0.01	\$ 0.04	\$ (0.04)
Weighted average common shares outstanding:				
Basic	38,332	42,944	38,136	42,712
Weighted average common shares outstanding:				
Diluted	40,691	45,053	40,863	42,712



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

Consolidated Statements of Operations

Cost of online revenues	\$	62	\$	86	\$	132	\$	174
Cost of events revenues		20		20		42		46
Selling and marketing		1,082		1,535		2,240		3,464
Product development		100		155		206		316
General and administrative		682		1,359		1,326		2,584

See accompanying notes.

**Table of Contents**

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

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2011</b>	<b>2010</b>
	<b>(Unaudited)</b>	
<b>Operating Activities:</b>		
Net income (loss)	\$ 1,743	\$ (1,894)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	3,384	3,442
Provision for bad debt	302	93
Amortization of investment premiums	349	852
Stock-based compensation expense	3,946	6,584
Deferred tax benefit	(217)	(415)
Excess tax benefit stock options	(471)	(121)
Changes in operating assets and liabilities, net of businesses acquired:		
Accounts receivable	(4,319)	(9,607)
Prepaid expenses and other current assets	(538)	110
Other assets	(89)	2
Accounts payable	269	175
Income taxes payable	689	121
Accrued expenses and other current liabilities	1,761	(735)
Accrued compensation expenses	(1,019)	563
Deferred revenue	2,189	365
Other liabilities	(618)	1,310
Net cash provided by operating activities	7,361	845
<b>Investing activities:</b>		
Purchases of property and equipment, and other assets	(2,357)	(3,278)
Purchases of investments	(28,487)	(21,707)
Proceeds from sales and maturities of investments	13,145	23,175
Acquisition of businesses	(2,006)	(1,790)
Net cash used in investing activities	(19,705)	(3,600)
<b>Financing activities:</b>		
Excess tax benefit stock options	471	121
Proceeds from exercise of stock options	1,106	273
Net cash provided by financing activities	1,577	394
Net decrease in cash and cash equivalents	(10,767)	(2,361)
Cash and cash equivalents at beginning of period	32,584	20,884
Cash and cash equivalents at end of period	\$ 21,817	\$ 18,523
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	\$	\$

Cash paid for taxes	\$	1,347	\$	825
---------------------	----	-------	----	-----

See accompanying notes.

**Table of Contents****TECHTARGET, INC.****Notes to Consolidated Financial Statements****(In thousands, except share and per share data, or as otherwise stated)****1. Organization and Operations**

TechTarget, Inc. (the Company) is a leading provider of specialized online content 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 more than 100 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 that 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.com.

**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 the 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, TechTarget Limited and TechTarget (HK) Limited. KnowledgeStorm, Inc. and Bitpipe, Inc. are leading websites providing in-depth vendor generated content targeted toward corporate IT professionals. TechTarget Securities Corporation is a Massachusetts Securities Corporation incorporated in 2004. TechTarget Limited is a subsidiary doing business principally in the United Kingdom. TechTarget (HK) Limited is a subsidiary incorporated in Hong Kong in August 2010 in order to facilitate the Company's activities in Asia-Pac. Additionally, as of October 1, 2010, through its wholly-owned subsidiary, TechTarget (HK) Limited (TTGT HK), 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.

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 this VIE. The Company has entered into certain exclusive agreements with the VIE and its shareholders through TTGT HK, which obligate TTGT HK to absorb a majority of the risk of loss from the VIE's activities and entitles TTGT HK to receive a majority of their residual returns. In addition, the Company has entered into certain agreements with the authorized parties through TTGT HK, including Management and Consulting Services, Voting Proxy, Equity Pledge and Option Agreements.

Based on these contractual arrangements, the Company consolidates the VIE 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 the VIE through TTGT HK, which is the primary beneficiary of the VIE. Despite the lack of technical majority ownership, there exists a parent-subsidary relationship between the Company and the VIE through the aforementioned agreements, whereby the equity holders of the VIEs effectively assigned all of their voting rights underlying their equity interest in the VIE to TTGT HK. 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 the VIE. All significant intercompany accounts and transactions between the Company, its subsidiaries, and the VIE have been eliminated in consolidation.

**Table of Contents*****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, 2010.

***Reclassifications***

In 2011, the Company changed the manner in which it allocates real estate facilities costs to align with actual departmental headcount. Previously, these costs were all included as a part of general and administrative expenses. Amounts in the prior years' financial statements have been reclassified to conform to the current year presentation. In the three months ended June 30, 2010 this resulted in additional online cost of sales, events cost of sales, sales and marketing and product development expense of \$388, \$71, \$429 and \$159, respectively, offset by a decrease in general and administrative expense of \$1.0 million. In the six months ended June 30, 2010 this resulted in additional online cost of sales, events cost of sales, sales and marketing and product development expense of \$794, \$144, \$927 and \$330, respectively, offset by a decrease in general and administrative expense of \$2.2 million.

***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. Actual results could differ from those estimates.

***Revenue Recognition***

The Company generates substantially all of its revenue from the sale of targeted advertising campaigns that 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.

Although each of the Company's online media offerings can be sold separately, the majority of the Company's online media sales involve multiple online offerings, which are described in more detail below. During fiscal 2010 and prior, because objective evidence of fair value did not exist for all elements in the Company's bundled advertising campaigns, no allocation could be made among the various elements, so the Company recognized revenue on all units of accounting ratably over the term of the arrangement. In September 2009, the FASB ratified Accounting Standards Update (ASU) 2009-13, *Revenue Arrangements with Multiple Deliverables*, which updates the existing multiple-element revenue arrangements guidance included in ASC 605-25. ASU 2009-13 requires companies to allocate the overall consideration to each deliverable by using 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. The Company adopted the new standard, beginning on January 1, 2011, on a prospective basis. 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 advertising campaigns, 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 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 selling price. Revenue is then recognized as delivery occurs. For content posted on websites, revenue recognition is generally over the period the

content is available.

The Company has concluded that adoption of this standard did not materially affect results in the first half of 2011, nor is it expected to materially affect future periods.

**Table of Contents**

*Event Sponsorships.* Revenue from vendor-sponsored events, whether sponsored exclusively by a single vendor or in a multi-vendor sponsored event, is recognized upon completion of the event in the period the event occurs. 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 and receipt of payment from the attendee. Amounts collected or billed prior to satisfying the above revenue recognition criteria are recorded as deferred revenue.

*Online Media.* Revenue for online media offerings is recognized for specific online media offerings as follows when these items are sold separately:

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

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

*Custom Media.* Custom media revenue is recognized ratably over the period in which the custom media is available on the Company's websites.

*Promotional E-mails and E-newsletters.* Promotional e-mail revenue is recognized ratably over the period in which the related content is available on its websites because promotional e-mails do not have standalone value from the related content. E-newsletter revenue is recognized in the period in which the e-newsletter is sent.

*List Rentals.* List rental revenue is recognized in the period in which the e-mail is sent to the list of registered members.

*Banners.* Banner revenue is recognized in the period in which the banner impressions 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.

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

***Fair Value of Financial Instruments***

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

***Long-lived Assets***

Long-lived assets consist primarily of property and equipment, goodwill and other intangible assets. 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 assets acquired not allocated to specific intangible assets.

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 was impaired.



**Table of Contents*****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 shall 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 \$0.8 million and \$0.5 million for the three months ended June 30, 2011 and 2010, respectively, and \$1.6 million and \$1.0 million for the six months ended June 30, 2011 and 2010, respectively.

***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. If required, 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 recognizes any interest and penalties related to uncertain tax positions in income tax expense.

***Stock-Based Compensation***

At June 30, 2011, the Company had two stock-based employee compensation plans which are more fully described in Note 11. 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 on a straight-line basis 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 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 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 that are in-the-money. This results in the assumed buyback of additional shares, thereby reducing the dilutive impact of stock options.

***Recent Accounting Pronouncements***

In October 2009, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2009-14, *Certain Revenue Arrangements That Include Software Elements* ( ASU 2009-14 ). ASU 2009-14 amends guidance included within Accounting Standards Codification ( ASC ) Topic 985-605 to exclude tangible products containing software components and non-software components that function together to deliver the product's essential functionality. Entities that sell joint hardware and software products that meet this scope exception will be required to follow the guidance of ASU 2009-13. ASU 2009-14 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption and retrospective application are also permitted. The Company determined that adopting the provisions of ASU 2009-14 did not impact its consolidated financial statements.

In December 2010, the FASB issued ASU 2010-29, *Disclosure of Supplementary Pro Forma Information for Business Combinations* (Topic 805), which specifies that if a public entity presents financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the year occurred as of the beginning of the comparable prior annual reporting period only. This ASU also expands the supplemental pro forma disclosure. The ASU is effective for business combinations for which the acquisition date is on or after the annual reporting period beginning on or after December 15, 2010. The adoption of this standard did not

affect the Company's consolidated financial statements.

**Table of Contents**

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. Early application is prohibited. The Company is currently assessing the potential impact of this standard but does not expect the adoption of the standard to have a material impact on the Company's consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, *Presentation of Comprehensive Income*, 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. Adoption of this ASU is not expected to have a material effect on the Company's consolidated financial statements.

**3. Fair Value Measurements**

The Company measures certain financial assets at fair value on a recurring basis, including cash equivalents, and short and long-term investments. The fair value of these financial assets 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.

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, 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)
		(Unaudited)		
Money market funds(1)	\$ 8,173	\$ 8,173	\$	\$
Short-term investments(2)	10,474		10,474	
Long-term investments(2)	22,094		22,094	
Total	\$ 40,741	\$ 8,173	\$ 32,568	\$

**Fair Value Measurements at Reporting Date  
Using  
Quoted  
Prices**

	<b>December 31, 2010</b>	<b>in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Money market funds(1)	\$ 23,375	\$ 23,375	\$	\$
Short-term investments(2)	17,550		17,550	
Total	\$ 40,925	\$ 23,375	\$ 17,550	\$

- (1) Included in cash and cash equivalents on the accompanying consolidated balance sheets; valued at quoted market prices in active markets.
- (2) Our short and long-term investments consist of government agency and municipal bonds; their fair value is calculated using an interest rate yield curve for similar instruments.

**Table of Contents****4. Cash, Cash Equivalents and Investments**

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:

	<b>June 30, 2011 (Unaudited)</b>	<b>December 31, 2010</b>
Cash	\$ 13,644	\$ 9,209
Money market funds	8,173	23,375
Total cash and cash equivalents	\$ 21,817	\$ 32,584

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 income (loss), a component of stockholders' equity, net of tax. The unrealized gain (loss), net of taxes, was \$5 and \$(5) as of June 30, 2011 and December 31, 2010, 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, 2011 or 2010.

Short and long-term investments consisted of the following:

	<b>Cost</b>	<b>June 30, 2011 Gross Unrealized Gains Gross Unrealized Losses (Unaudited)</b>		<b>Estimated Fair Value</b>
Short and long-term investments:				
Municipal bonds	\$ 32,560	\$ 26	\$ (18)	\$ 32,568
Total short and long-term investments	\$ 32,560	\$ 26	\$ (18)	\$ 32,568

	<b>Cost</b>	<b>December 31, 2010 Gross Unrealized Gains Gross Unrealized Losses</b>		<b>Estimated Fair Value</b>
Short and long-term investments:				
Government agency bonds	\$ 2,008	\$ 1	\$	\$ 2,009
Municipal bonds	15,550	2	(11)	15,541
Total short and long-term investments	\$ 17,558	\$ 3	\$ (11)	\$ 17,550

The Company had seven debt securities in an unrealized loss position at June 30, 2011. Six of these securities have been in such a position for less than 12 months; the unrealized loss on those securities was approximately \$17 and the fair value was \$13.1 million. As of June 30, 2011, the Company does not consider these investments to be other-than-temporarily impaired. One of these securities has been in such a position for more than 12 months and may be permanently impaired. The unrealized loss on that security was approximately \$1 and the fair value was \$2.0 million.

Municipal bonds have contractual maturity dates within 18 months. All income generated from these investments is recorded as interest income.

**5. Acquisitions**

On April 26, 2011 the Company acquired the websites, product offerings, and events associated with Computer Weekly and its sister channel-targeted brand, MicroScope, from Reed Business Information Limited for \$2.0 million in cash plus the payment of approximately \$0.4 million in restructuring costs relating to redundancy costs of Computer Weekly employees not brought over as part of the acquisition.

In connection with this acquisition, the Company's preliminary allocation of purchase price is approximately \$40 of net tangible assets, \$90 of goodwill and \$1.9 million of intangible assets related to customer relationships, a member database, a non-compete agreement and trade names with estimated useful lives ranging from two to five years.

**Table of Contents**

The estimated fair value of the \$1.9 million of acquired intangible assets is assigned as follows:

	<b>Useful Life</b>	<b>Estimated Fair Value (in 000 s)</b>
Customer relationship	60 months	\$ 825
Member database	60 months	512
Non-compete agreement	24 months	100
Trade name	60 months	430
 Total intangible assets		 \$ 1,867

The Company engaged a third party valuation specialist to assist management in determining the fair value of the intangible assets of the Computer Weekly and MicroScope businesses. To value the customer relationship assets, an income approach was used, specifically a variation of the discounted cash-flow method known as the multi-period excess earnings method. The projected net cash flows were discounted using a discount rate of 28.3%. To value the member database, a replacement cost approach was used, specifically a calculation of costs to acquire new members based on the cost to acquire new members in 2010 divided by new members acquired. Additionally, the present value of the sum of projected lost profits was added to the calculated replacement cost to calculate the total fair value of the member database asset. To value the non-compete agreement, a comparative business valuation method was used. Based on a non-compete term of 24 months, management projected net cash flows for the Company with and without the non-compete agreement in place. The present value of the sum of the difference between the net cash flows with and without the non-compete agreement in place was calculated, based on a discount rate of 28.3%. To value the trade name intangible asset, a relief from royalty method was used to estimate the pre-tax royalty savings to the Company related to the Computer Weekly and MicroScope trade names. The projected net cash flows from the pre-tax royalty savings were tax affected using an effective rate of 26% and then discounted using a discount rate of 28.3% to calculate the value of the trade name intangible asset.

**6. Intangible Assets**

Intangible assets subject to amortization as of June 30, 2011 and December 31, 2010 consist of the following:

	<b>As of June 30, 2011</b>			
	<b>Estimated Useful Lives (Years)</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net</b>
		<b>(Unaudited)</b>		
Customer, affiliate and advertiser relationships	1 - 9	\$ 8,958	\$ (3,846)	\$ 5,112
Developed websites	3 - 6	5,400	(3,750)	1,650
Trademark, trade name and domain name	1 - 7	1,938	(812)	1,126
Proprietary user information database and Internet traffic	3 - 5	5,207	(3,152)	2,055
Non-compete agreements	1 - 3	544	(279)	265
 Total intangible assets		 \$ 22,047	 \$ (11,839)	 \$ 10,208

	<b>As of December 31, 2010</b>			
	<b>Estimated Useful Lives (Years)</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net</b>

Edgar Filing: TechTarget Inc - Form 10-Q

Customer, affiliate and advertiser relationships	1 - 9	\$ 12,879	\$ (7,654)	\$ 5,225
Developed websites	3 - 6	5,400	(3,300)	2,100
Trademark, trade name and domain name	1 - 7	2,373	(1,526)	847
Proprietary user information database and Internet traffic	3 - 5	5,400	(3,354)	2,046
Non-compete agreements	1 - 3	1,573	(1,322)	251
Total intangible assets		\$ 27,625	\$ (17,156)	\$ 10,469



**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 2.36 years. Amortization expense was \$1.0 and \$1.1 million for the three month periods ended June 30, 2011 and 2010, respectively, and \$2.1 million and \$2.3 million for the six months ended June 30, 2011 and 2010, 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 \$7.5 million of fully amortized intangible assets in the first half of 2011.

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

<b>Years Ending December 31:</b>	<b>Amortization Expense (Unaudited)</b>
2011 (July 1st - December 31st)	\$ 1,887
2012	3,326
2013	1,789
2014	1,394
2015	1,147
Thereafter	665
	<b>\$ 10,208</b>

**7. Net Income (Loss) Per Common Share**

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

	<b>For the Three Months Ended June 30,</b>		<b>For the Six Months Ended June 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>(Unaudited)</b>			
<b>Numerator:</b>				
Net income (loss)	\$ 1,818	\$ 446	\$ 1,743	\$ (1,894)
<b>Denominator:</b>				
<b>Basic:</b>				
Weighted average shares of common stock outstanding	38,331,895	42,943,465	38,136,159	42,711,730
<b>Diluted:</b>				
Weighted average shares of common stock outstanding	38,331,895	42,943,465	38,136,159	42,711,730
Effect of potentially dilutive shares(1)	2,358,984	2,109,169	2,726,364	
Total weighted average shares of common stock outstanding	40,690,879	45,052,635	40,862,523	42,711,730
<b>Net Income (Loss) Per Common Share:</b>				

Edgar Filing: TechTarget Inc - Form 10-Q

Basic net income (loss) per common share	\$	0.05	\$	0.01	\$	0.05	\$	(0.04)
<b>Net Income (Loss) Per Common Share:</b>								
Diluted net income (loss) per common share	\$	0.04	\$	0.01	\$	0.04	\$	(0.04)

(1) In calculating diluted earnings per share, shares related to outstanding stock options, unvested restricted stock awards and warrants were excluded for the six months ended June 30, 2010 because they were anti-dilutive.

**8. Bank Term Loan Payable**

The Company has a \$5.0 million revolving credit facility that matures on August 30, 2011. Unless earlier payment is required by an event of default, all principal and unpaid interest will be due and payable on August 30, 2011. At the Company's 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 earnings before interest, other income and expense, income taxes, depreciation, and amortization ( EBITDA ) for the preceding four fiscal quarters. As of June 30, 2011, the applicable LIBOR margin, which was the operative rate during the quarter ended June 30, 2011, was 1.25%.

**Table of Contents**

The Company is also required to pay an unused line fee on the daily unused amount of its 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, 2011, unused availability under the Revolving Credit Facility totaled \$3.5 million and the per annum unused line fee rate was 0.20%.

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, 2011 the Company was in compliance with all covenants under the Credit Agreement.

The Company is currently in negotiations to renew its Revolving Credit Facility when it becomes due.

At June 30, 2011 and December 31, 2010 there were no amounts outstanding under this revolving loan agreement.

There was a \$1.5 million standby letter of credit related to the Company's corporate headquarters lease that was outstanding at June 30, 2011, bringing our available borrowings on the \$5.0 million facility to \$3.5 million.

**9. Commitments and Contingencies****Operating Leases**

The Company conducts its operations in leased office facilities under various non-cancelable operating lease agreements that expire through March 2020. Future minimum lease payments under the Company's non-cancelable operating leases at June 30, 2011 are as follows:

<b>Years Ending December 31:</b>	<b>Minimum Lease Payments (Unaudited)</b>
2011 (July 1st - December 31st)	\$ 2,010
2012	4,084
2013	3,170
2014	3,172
2015	3,191
Thereafter	13,957
	<b>\$ 29,584</b>

The Company has an irrevocable standby letter of credit outstanding in the aggregate amount of \$1.5 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 TechTarget Securities Corporation (TSC), a wholly-owned subsidiary of the Company, 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 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 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 exposure. The tax benefits available to a Massachusetts security corporation are comprised of (i) lower income tax rate (1.32% vs. 9.5%) and (ii) exemption from the 0.26% excise tax on net worth. The Company intends 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, 2011.

***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, 2011 and December 31, 2010, 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.

**Table of Contents****10. Comprehensive Income (Loss)**

Comprehensive income (loss) 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, 2011 and 2010 the Company's comprehensive income (loss) is as follows:

	<b>For the Three Months Ended June 30,</b>		<b>For the Six Months Ended June 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
		<b>(Unaudited)</b>		
Net income (loss)	\$ 1,818	\$ 446	\$ 1,743	\$ (1,894)
Other comprehensive income (loss):				
Unrealized gain (loss) on investments (net of tax effect of \$2, \$(3), \$4 and \$(32), respectively)	5	(4)	9	(45)
Unrealized (loss) gain on foreign currency exchange	(101)	8	(84)	(6)
Other comprehensive (loss) income	(96)	4	(75)	(51)
Total comprehensive income (loss)	\$ 1,722	\$ 450	\$ 1,668	\$ (1,945)

**11. 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 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 an aggregate of 2,911,667 shares of common stock for issuance 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 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. 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, 2011 a total of 1,290,238 shares were available for grant under the 2007 Plan.

***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:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
			<b>(Unaudited)</b>	
Expected volatility	*	*	79%	78%
Expected term	*	*	6.25 years	6.25 years
Risk-free interest rate	*	*	2.30%	2.85%
Expected dividend yield	*	*	0.00%	0.00%
Weighted-average grant date fair value per share	*	*	\$ 5.16	\$ 3.89

\* There were no grants during the second quarter of 2011 or 2010.

**Table of Contents**

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 six months ended June 30, 2011 and 2010 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. 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 estimated annual forfeiture rates of 3.6% and 2% for the six months ended June 30, 2011 and 2010, respectively based on its historical forfeiture experience in determining the expense recorded in those periods.

A summary of the stock option activity under the Company's stock option plan for the six months ended June 30, 2011 is presented below:

<b>Year-to-Date Activity</b>	<b>Options Outstanding</b>	<b>Weighted-Average Exercise Price Per Share</b>	<b>Weighted-Average Remaining Contractual Term in Years</b>	<b>Aggregate Intrinsic Value</b>
			<b>(Unaudited)</b>	
Options outstanding at December 31, 2010	7,095,090	\$ 6.41		
Granted	20,000	7.37		
Exercised	(189,933)	5.82		
Forfeited	(43,750)	5.70		
Cancelled	(7,282)	10.84		
Options outstanding at June 30, 2011	6,874,125	\$ 6.43	5.2	\$ 11,880
Options exercisable at June 30, 2011	5,878,463	\$ 6.45	4.6	\$ 10,268
Options vested or expected to vest at June 30, 2011 (1)	6,797,658	\$ 6.43	5.1	\$ 11,756

(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, 2011 and 2010, 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 \$425 and \$333, respectively, and the total amount of cash received from exercise of these options was \$1,106 and \$272, respectively. The total grant date fair value of stock options granted after January 1, 2006 that vested during the six months ended June 30, 2011 and 2010 was \$1.2 million and \$3.0 million, respectively.

**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, 2011 is presented below:

<b>Year-to-Date Activity</b>	<b>Shares</b>	<b>Weighted-Ave. Grant Date Date Fair Value Value Per Share (Unaudited)</b>	<b>Aggregate Intrinsic Value</b>
Nonvested outstanding at December 31, 2010	2,693,453	\$ 5.92	
Granted	85,217	7.27	
Vested	(392,715)	4.80	
Forfeited	(99,640)	7.28	
Nonvested outstanding at June 30, 2011	2,286,315	\$ 6.23	\$ 17,307



**Table of Contents**

The total grant-date fair value of restricted stock awards that vested during the six months ended June 30, 2011 and 2010 was \$1.9 million and \$3.0 million, respectively.

**12. Stockholders Equity****Reserved Common Stock**

As of June 30, 2011, the Company has reserved 11,209,990 shares of common stock for options outstanding and available for grant under stock option plans.

**Warrants**

In connection with an acquisition in May 2000, the Company issued to the seller a warrant to purchase 40,625 shares of common stock at a price of \$2.36 per share. In 2007, the seller exercised warrants to purchase 30,981 shares of common stock using the conversion rights in the warrants. As result of the exercise using the conversion rights, the Company issued 26,024 shares of common stock to the seller and cancelled the 4,957 shares received in lieu of payment of the exercise price. In 2008, the seller exercised additional warrants to purchase 8,375 shares of common stock using the conversion rights in the warrants. As result of the exercise using the conversion rights, the Company issued 6,886 shares of common stock to the seller and cancelled the 1,489 shares received in lieu of payment of the exercise price. The balance of the unexercised portion of the warrant expired in the second quarter of 2010.

**13. Income Taxes**

The Company's effective tax rate was 51% and (82)% for the six months ended June 30, 2011 and 2010, respectively. The provision for income taxes for the six months ended June 30, 2011 includes a discrete tax expense of \$75 related to a state tax assessment for a prior period. The effective tax rate excluding the discrete tax expense was 50% for the six months ended June 30, 2011. The change in the effective tax rate excluding the discrete tax expense was as a result of applying the provision of ASC 740, *Income Taxes*, as it relates to interim periods. For the six months ended June 30, 2011, the Company calculated the provision for income taxes using a forecasted tax rate for the year ended December 31, 2011. For the six months ended June 30, 2010, the Company calculated the benefit from income taxes using a period-to-date approach. The Company recognized interest and penalties totaling \$8 in income tax expense in the six months ended June 30, 2011.

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 9. In connection with such matter, on July 21, 2011, the Company received a Notice of Assessment from 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 as of June 30, 2011 to \$422 in order to reflect additional interest accrued. The Company intends to dispute the assessment and believes it has meritorious defenses which it intends to vigorously assert.

Tax years 2007 through 2010 are subject to examination by the federal and state taxing authorities. There are no income tax examinations currently in process with the exception of the TSC matter noted above related to the MA DOR.

**14. 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 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,	
	2011	2010	2011	2010
	(Unaudited)			
North America	\$ 25,876	\$ 23,881	\$ 46,666	\$ 43,762
International	2,226	1,192	4,002	2,354

Edgar Filing: TechTarget Inc - Form 10-Q

Total	\$ 28,102	\$ 25,073	\$ 50,668	\$ 46,116
-------	-----------	-----------	-----------	-----------

**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 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 approximately 100 websites that we complement 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 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.com.

***Recent Acquisition***

On April 26, 2011 we announced that we had completed the acquisition of the websites, product offerings, and events associated with Computer Weekly and its sister channel-targeted brand, MicroScope, from Reed Business Information Limited. Computer Weekly, through its websites and events (and print properties, which will not be continued), has served UK Managers, Directors and CIOs monitoring the technology landscape, and the advertisers looking to reach them. Computer Weekly and MicroScope also serve UK IT decision makers by bringing technology news and IT management focused content. These two websites will complement our established offerings in the region, including SearchDataManagement.co.uk, SearchNetworking.co.uk, SearchSecurity.co.uk, SearchStorage.co.uk, and SearchVirtualDataCentre.co.uk, by giving advertisers new ways to reach key UK and European IT decision makers.

***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 in length.

We generate substantially all of our revenues from the sale of targeted advertising campaigns that we deliver via our network of websites and in-person events.



**Table of Contents**

*Online.* The majority of our revenue is derived from the delivery of our online offerings. Online revenue represented approximately 86% and 82% of total revenues for the three months ended June 30, 2011 and 2010, and approximately 88% and 85% of total revenues for the six months ended June 30, 2011 and 2010. We expect the majority of our revenues to be derived through the delivery of online offerings for the foreseeable future. As a result of our customers advertising objectives and preferences, the specific allocation of online advertising offerings sold and delivered by us, on a period by period basis, can fluctuate.

Through our websites we sell a variety of online media offerings to connect IT vendors to IT professionals. Our lead generation offerings allow IT vendors to capture qualified sales leads from the distribution and promotion of content to our audience of IT professionals. 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 banners and e-newsletters. Banner advertising can be purchased on specific websites within our network. We also offer the ability to advertise in e-newsletters focused on key site sub-topics across our portfolio of websites. These offerings give IT vendors the ability to increase their brand awareness to highly specialized IT sectors.

Our lead generation offerings include the following:

*White Papers.* White papers are technical documents created by IT vendors to describe business or technical problems that are addressed by the vendors' products or services. IT vendors pay us to have their white papers distributed to our users and receive targeted promotions on our relevant websites. Prior to viewing white papers, our registered members and visitors supply their corporate contact and qualification 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.* IT vendors pay us to sponsor and host webcasts, podcasts, videocasts, virtual trade shows and similar content that 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, videocast or virtual trade show sponsor when they view or download the content. Sponsorship includes access to the registrant information and visibility before, during and after the event.

*Promotional E-mails.* IT vendors pay us to further target the promotion of their white papers, webcasts, videocasts, podcasts or similar media by including their content in our periodic e-mail updates to the relevant registered users of our websites. Users who have voluntarily registered on our websites receive an e-mail update from us when vendor content directly related to their interests is listed on our sites.

*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.

*Contextual Advertising.* Our contextual advertising programs associate IT vendor white papers, webcasts, podcasts, virtual trade shows or other content on a particular topic with our related sector-specific content. IT vendors have the option to purchase exclusive sponsorship of content related to their product or category.

*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 14% and 18% of total revenues for the three months ended June 30, 2011 and 2010, and approximately 12% and 15% of total revenues for the six months ended June 30, 2011 and 2010. 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 conferences and seminars in that they are exclusively sponsored by a single IT vendor, and the content is driven primarily by the sole sponsor.

**Table of Contents*****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 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; accounting, legal and other professional fees; stock-based compensation expenses; facilities and other related overhead.

*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 three to five years.

*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.

**Table of Contents*****Revenue Recognition***

We generate substantially all of our revenue from the sale of targeted advertising campaigns that 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.

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 advertising campaigns, 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 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. For assets posted on websites, revenue recognition is generally over the period the asset is available.

*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 and receipt of payment from the attendee. Amounts collected or billed prior to satisfying the above revenue recognition criteria are recorded as deferred revenue.

*Online Media.* We recognize revenue from our specific online media offerings as follows when these items are sold separately:

*White Papers.* We recognize white paper revenue ratably over the period in which the white paper is available on our websites.

*Webcasts, Podcasts, Videocasts and Virtual Trade Shows.* We recognize webcast, podcast, videocast, virtual trade show and similar content offerings revenue ratably over the period in which the webcast, podcast, videocast, virtual trade show or similar content offering is available on our websites.

*Promotional E-mails and E-newsletters.* We recognize promotional e-mail revenue ratably over the period in which the related content asset is available on our websites because promotional e-mails do not have standalone value from the related content asset. We recognize e-newsletter revenue in the period in which the e-newsletter is sent.

*List Rentals.* List rental revenue is recognized in the period in which the e-mail is sent to the list of registered members.

*Banners.* Banner revenue is recognized in the period in which the banner impressions 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.

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.





**Table of Contents*****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 value.

***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 the allowance 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 \$1.1 million at June 30, 2011 and \$1.0 million at December 31, 2010.

***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 on a straight-line basis 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:

	<b>Three Months Ended June</b>		<b>Six Months Ended June</b>	
	<b>2011</b>	<b>30, 2010</b>	<b>2011</b>	<b>30, 2010</b>
Expected volatility	*	*	79%	78%
Expected term	*	*	6.25 years	6.25 years
Risk-free interest rate	*	*	2.30%	2.85%
Expected dividend yield	*	*	0.00%	0.00%
Weighted-average grant date fair value per share	*	*	\$ 5.16	\$ 3.89

\* There were no grants made in the second quarter of 2011 or 2010.

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 three and six months ended June 30, 2011 and 2010 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. 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 estimated annual forfeiture rates of 3.6% and 2% for the six months ended June 30, 2011 and June 30, 2010, respectively based on our historical forfeiture experience in determining the expense recorded in those periods.

***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 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 \$0.8 million and \$0.5 million for the three and six months ended June 30, 2011 and 2010, respectively, and \$1.6 million and \$1.0 million for the three and six months ended June 30, 2011 and 2010, respectively.

**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 net operating loss ( NOL ) carryforwards. As of December 31, 2010, we had state NOL carryforwards of approximately \$17.7 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 restricted stock awards outstanding. 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 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 EPS, the dilutive effect of stock options 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 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				Six Months Ended			
	June 30,		June 30,		June 30,		June 30,	
	2011		2010		2011		2010	
	(\$ in thousands)							
Revenues:								
Online	\$ 24,151	86%	\$ 20,626	82%	\$ 44,531	88%	\$ 39,187	85%
Events	3,951	14	4,447	18	6,137	12	6,929	15
Total revenues	28,102	100	25,073	100	50,668	100	46,116	100
Cost of revenues:								
Online	5,720	20	5,180	21	11,326	22	10,122	22
Events	1,242	4	1,373	5	2,119	4	2,311	5
Total cost of revenues	6,962	25	6,553	26	13,445	27	12,433	27
Gross profit	21,140	75	18,520	74	37,223	73	33,683	73
Operating expenses:								
Selling and marketing	10,184	36	9,420	38	18,815	37	18,831	41
Product development	1,870	7	2,180	9	3,816	8	4,535	10
General and administrative	3,458	12	3,757	15	7,257	14	8,104	18
Restructuring	384	1			384	1		
Depreciation	668	2	642	3	1,309	3	1,167	3
Amortization of intangible assets	989	4	1,140	5	2,075	4	2,275	5

Edgar Filing: TechTarget Inc - Form 10-Q

Total operating expenses	17,553	62	17,139	68	33,656	66	34,912	76
Operating income (loss)	3,587	13	1,381	6	3,567	7	(1,229)	(3)
Interest income, net	6	*	84	*	12	*	191	*
Income (loss) before provision for income taxes	3,593	13	1,465	6	3,579	7	(1,038)	(2)
Provision for income taxes	1,775	6	1,019	4	1,836	4	856	2
Net income (loss)	\$ 1,818	6%	\$ 446	2%	\$ 1,743	3%	\$ (1,894)	(4)%

\* Not meaningful

**Table of Contents****Comparison of Three Months Ended June 30, 2011 and 2010****Revenues**

	2011	2010	Three Months Ended June 30, Increase (Decrease) (\$ in thousands)	Percent Change
Revenues:				
Online	\$ 24,151	\$ 20,626	\$ 3,525	17%
Events	3,951	4,447	(496)	(11)
Total revenues	\$ 28,102	\$ 25,073	\$ 3,029	12%

*Online.* The increase in online revenue was primarily attributable to a \$2.9 million increase in lead generation offerings, primarily due to an increase in sponsorship and white paper sales volumes. Branding revenues also increased by \$0.7 million, due primarily to an increase in banner sales volume.

*Events.* The decrease in events revenue is due to the timing of a major multi-day conference held in the second quarter of 2010 that will be held in the third quarter of 2011.

**Cost of Revenues and Gross Profit**

	2011	2010	Three Months Ended June 30, Increase (Decrease) (\$ in thousands)	Percent Change
Cost of revenues:				
Online	\$ 5,720	\$ 5,180	\$ 540	10%
Events	1,242	1,373	(131)	(10)
Total cost of revenues	\$ 6,962	\$ 6,553	\$ 409	6%
Gross profit	\$ 21,140	\$ 18,520	\$ 2,620	14%
Gross profit percentage	75%	74%		

*Cost of Online Revenues.* The increase in cost of online revenues was primarily attributable to a \$0.4 million increase in hosting and production costs, primarily related to increased international partner activity and freelancer costs, and a \$0.2 million 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 compensation and variable direct costs as a result of lower revenues.

*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 2011 was 75% as compared to 74% for the same period of 2010. The increase in online gross profit was \$3.0 million, attributable to the increase in online revenue offset by increases in hosting and production and compensation costs as compared to the second quarter of 2010. Events gross profit decreased by \$0.4 million, primarily as a result of the lower events revenues. 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
	2011	2010	Increase (Decrease) (\$ in thousands)	
Operating expenses:				
Selling and marketing	\$ 10,184	\$ 9,420	\$ 764	8%
Product development	1,870	2,180	(310)	(14)
General and administrative	3,458	3,757	(299)	(8)
Restructuring charge	384		384	
Depreciation	668	642	26	4
Amortization of intangible assets	989	1,140	(151)	(13)
Total operating expenses	\$ 17,553	\$ 17,139	\$ 414	2%
Interest income, net	\$ 6	\$ 84	\$ (78)	(93)%
Provision for income taxes	\$ 1,775	\$ 1,019	\$ 756	74%

*Selling and Marketing.* Selling and marketing expenses increased \$0.8 million, primarily due to a \$0.8 million increase in compensation and related benefits costs due to increased headcount, including hiring expenses and the use of temporary help during the recruitment process, and a \$0.3 million increase in facilities and employee-related costs due primarily to international expansion. These increases were offset in part by a \$0.4 million decrease in stock-based compensation due to the accelerated vesting of performance-based awards as well as the completion of vesting of certain equity awards in the second quarter of 2010.

*Product Development.* The decrease in product development expense was primarily due to a reduction in payroll related costs due to lower headcount and, to a lesser extent, a reduction in stock-based compensation, primarily due to the accelerated vesting of performance-based awards as well as the completion of vesting of certain equity awards in the second quarter of 2010.

*General and Administrative.* The decrease in general and administrative expense was primarily attributable to a \$0.7 million reduction in stock-based compensation, primarily due to the accelerated vesting of performance-based awards as well as the completion of vesting of certain equity awards in the second quarter of 2010 and a \$0.2 million decrease in audit and compliance fees. These decreases were offset in part by a \$0.3 million increase in personnel-related costs, including hiring expenses and the use of consultants during the recruitment process, and \$0.1 million increases to our bad debt reserve and legal fees, primarily related to the acquisition of Computer Weekly.

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

*Depreciation and Amortization of Intangible Assets.* The slight increase in depreciation expense is related to our increased fixed asset base, primarily as a result of leasehold improvements associated with our move to the new corporate headquarters on March 1, 2010, as well as 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 2010, partially offset by amortization on newly acquired intangible assets.

*Interest Income, Net.* The decrease in interest income, net primarily reflects our lower cash balances in the three months ended June 30, 2011 as compared to the same period in 2010 resulting from the completed tender offer in the fourth quarter of 2010.

*Provision for Income Taxes.* Our effective tax rate was 49% and 70% for the three months ended June 30, 2011 and 2010, respectively. For the three months ended June 30, 2011, we calculated the provision for income taxes using a forecasted tax rate for the year ended December 31, 2011. For the three months ended June 30, 2010, due to net

operating losses, we calculated the benefit from income taxes using a period-to-date approach.

**Comparison of Six Months Ended June 30, 2011 and 2010**

*Revenues*

	<b>2011</b>	<b>2010</b>	<b>Six Months Ended June 30, Increase (Decrease) (\$ in thousands)</b>	<b>Percent Change</b>
Revenues:				
Online	\$ 44,531	\$ 39,187	\$ 5,344	14%
Events	6,137	6,929	(792)	(11)
Total revenues	\$ 50,668	\$ 46,116	\$ 4,552	10%



**Table of Contents**

*Online.* The increase in online revenue was primarily attributable to a \$4.5 million increase in lead generation offerings, primarily due to an increase in sponsorship and white paper sales volumes. Branding revenues also increased by \$1.0 million, due primarily to an increase in banner sales volume.

*Events.* The decrease in events revenue is consistent with our stated focus on reducing overall events volume in the first half of 2011 to focus on those events that we deem most profitable as well as the timing of a major multi-day conference held in the first half of 2010 that will be held in the third quarter of 2011.

**Cost of Revenues and Gross Profit**

	<b>Six Months Ended June 30,</b>			<b>Percent Change</b>
	<b>2011</b>	<b>2010</b>	<b>Increase (Decrease)</b>	
	(\$ in thousands)			
Cost of revenues:				
Online	\$ 11,326	\$ 10,122	\$ 1,204	12%
Events	2,119	2,311	(192)	(8)
Total cost of revenues	\$ 13,445	\$ 12,433	\$ 1,012	8%
Gross profit	\$ 37,223	\$ 33,683	\$ 3,540	11%
Gross profit percentage	73%	73%		

*Cost of Online Revenues.* The increase in cost of online revenues was primarily attributable to a \$0.8 million increase in hosting and production costs, primarily related to increased international partner activity and freelancer costs, and a \$0.5 million increase in payroll-related expenses due to increased headcount.

*Cost of Events Revenues.* Cost of events revenues decreased in the first half of the year as compared to the same period a year ago, primarily due to decreases in compensation and variable direct costs as a result of lower revenues.

*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 2011 and 2010 was 73%. The increase in online gross profit was \$4.1 million, attributable to the increase in online revenue offset by increases in hosting and production and compensation costs as compared to the first half of 2010. Events gross profit decreased by \$0.6 million, primarily as a result of the lower events revenues. 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**

	<b>Six Months Ended June 30,</b>			<b>Percent Change</b>
	<b>2011</b>	<b>2010</b>	<b>Increase (Decrease)</b>	
	(\$ in thousands)			
Operating expenses:				
Selling and marketing	\$ 18,815	\$ 18,831	\$ (16)	(0)%
Product development	3,816	4,535	(719)	(16)
General and administrative	7,257	8,104	(847)	(10)
Restructuring charge	384		384	
Depreciation	1,309	1,167	142	12
Amortization of intangible assets	2,075	2,275	(200)	(9)
Total operating expenses	\$ 33,656	\$ 34,912	\$ (1,256)	(5)%

Edgar Filing: TechTarget Inc - Form 10-Q

Interest income, net	\$	12	\$	191	\$	(179)	(94)%
Provision for income taxes	\$	1,836	\$	856	\$	980	114%

**Table of Contents**

*Selling and Marketing.* Selling and marketing expenses decreased slightly in the first half of 2011 as compared with the first half of 2010. Stock-based compensation decreased \$1.2 million due to the accelerated vesting of performance-based awards as well as the completion of vesting of certain equity awards in the first half of 2010. This decrease was offset in part by a \$0.8 million increase in compensation and related benefits costs due to increased headcount, including hiring expenses and the use of temporary help during the recruitment process, and a \$0.3 million increase in facilities and employee-related costs related primarily to international expansion.

*Product Development.* The decrease in product development expense was primarily due to a \$0.4 million reduction in payroll related costs due to reduced headcount, a \$0.1 million reduction in consulting costs and a \$0.1 million reduction in stock-based compensation, primarily due to the accelerated vesting of performance-based awards as well as the completion of vesting of certain equity awards in the second quarter of 2010.

*General and Administrative.* The decrease in general and administrative expense was primarily attributable to a \$1.3 million reduction in stock-based compensation, primarily due to the accelerated vesting of performance-based awards as well as the completion of vesting of certain equity awards in the first half of 2010 and a \$0.5 million decrease in audit and compliance fees. These decreases were offset in part by a \$0.3 million increase in personnel-related costs, including hiring expenses and the use of consultants during the recruitment process, a \$0.2 million increase to our bad debt reserve, a \$0.3 million increase in legal fees, primarily related to acquisitions and a \$0.2 million accrual recorded for a net worth tax liability related to TechTarget Securities Corporation's tax status for the current period (see note 9 to our consolidated financial statements for additional information).

*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 leasehold improvements associated with our move to the new corporate headquarters on March 1, 2010, as well as 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 2010, partially offset by amortization on newly acquired intangible assets.

*Interest Income, Net.* The decrease in interest income, net primarily reflects our lower cash balances in the six months ended June 30, 2011 as compared to the same period in 2010 resulting from the completed tender offer in the fourth quarter of 2010.

*Provision for Income Taxes.* Our effective tax rate was 51% and (82%) for the six months ended June 30, 2011 and 2010, respectively. The provision for income taxes for the six months ended June 30, 2011 includes a discrete tax expense of \$75,000 related to a state tax assessment for a prior period. Our effective tax rate excluding the discrete tax expense was 50% for the six months ended June 30, 2011. The change in the effective tax rate excluding the discrete tax expense was as a result of applying the provision of ASC 740, *Income Taxes*, as it relates to interim periods. For the six months ended June 30, 2011, we calculated the provision for income taxes using a forecasted tax rate for the year ended December 31, 2011. For the six months ended June 30, 2010, due to net operating losses, we calculated the benefit from income taxes using a period-to-date approach.

**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 and the historical decrease in advertising and events activity in summer months. Consequently, our fiscal second and fourth quarters tend to have larger online revenue in relative terms when compared to our fiscal first and third quarters. 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.



**Table of Contents****Liquidity and Capital Resources*****Resources***

We believe that our existing cash and cash equivalents, investments, 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 and cash equivalents and cash flow from operating activities 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.

	<b>June 30, 2011</b>	<b>December 31, 2010</b>
	(\$ in thousands)	
Cash, cash equivalents and investments	\$ 54,385	\$ 50,134
Accounts receivable, net	\$ 28,961	\$ 24,678

***Cash, Cash Equivalents and Investments***

Our cash, cash equivalents and investments at June 30, 2011 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. At June 30, 2011, we held long-term investments of \$22.1 million in instruments not exceeding maturities of eighteen months. Due to the liquidation of investments in the fourth quarter of 2010 in connection with the Company's tender offer, no amounts were invested in long-term instruments at December 31, 2010.

***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, or DSO, as a measurement of the quality and status of our receivables. We define DSO as net accounts receivable divided by total revenue for the applicable period, multiplied by the number of days in the applicable period. DSO was 93 days for the quarter ended June 30, 2011 and 84 days at December 31, 2010.

***Cash Flows***

	<b>Six Months Ended June 30,</b>	
	<b>2011</b>	<b>2010</b>
	(\$ in thousands)	
Net cash provided by operating activities	\$ 7,361	\$ 845
Net cash used in investing activities(1)	\$ (4,363)	\$ (5,068)
Net cash provided by financing activities	\$ 1,577	\$ 394

(1) Cash used in investing activities is shown net of investment activity of \$15.3 million and \$1.5 million for the six months ended June 30, 2011 and 2010, 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, 2011 was \$7.4 million compared to \$0.8 million in the six months ended June 30, 2010. The increase in cash provided by operating activities was primarily a result of changes in operating assets and liabilities of \$(1.7) million in the first half of 2011 compared to \$(7.7) million in the first half of 2010. The change in operating assets and liabilities was primarily caused by a \$4.3 million increase in accounts receivable during the first half of 2011 compared to an increase of \$9.6 million during the first half of 2010 and a \$2.0 million increase in deferred revenue during the first half of 2011 compared to an increase of \$0.4 million in the first half of 2010. The change in accounts receivable is primarily caused by an increase in unbilled during the six months ended June 30, 2010 due to the timing of annual billing cycles with some of our larger customers. The change in deferred revenue is primarily due to increased advanced billings during the six months ended June 30, 2011. Cash provided by operations also increased because of an increase in net income of \$1.7 million in the first half of 2011 compared with a net loss of \$1.9 million in the first half of 2010, offset in part by a decrease in non-cash stock-based compensation from \$6.6 million in 2010 to \$3.9 million in 2011 due to the accelerated vesting of performance-based awards in 2010.

**Table of Contents**

***Investing Activities***

Cash used in investing activities in the six months ended June 30, 2011, 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 websites, product offerings and events associated with Computer Weekly and its sister channel-targeted brand, MicroScope, from Reed Business Information Limited in April 2011.

***Equity Financing Activities***

We received proceeds from the exercise of stock options in the amounts of \$1.1 million and \$0.3 million in the six months ended June 30, 2011 and 2010, 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 and again in December 2009. 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 *Revolving Credit Facility* matures on August 30, 2011. Unless earlier payment is required by an event of default, all principal and unpaid interest will be due and payable on August 30, 2011. 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, 2011, the applicable *LIBOR* margin, which was the operative rate during the six months ended June 30, 2011, 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, 2011, unused availability under the *Revolving Credit Facility* totaled \$3.5 million and the per annum unused line fee rate was 0.20%.

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, 2011 we were in compliance with all covenants under the *Credit Agreement*.

We are currently in negotiations to renew our *Revolving Credit Facility* when it becomes due.

At June 30, 2011 and December 31, 2010 there was no amount outstanding under this revolving loan agreement. There is a \$1.5 million standby letter of credit related to our corporate headquarters lease that is outstanding at June 30, 2011, bringing our available borrowings on the \$5.0 million facility to \$3.5 million.

***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 and \$3.3 million for the six months ended June 30, 2011 and 2010, respectively. A majority of our capital expenditures in the first half of 2011 were internal-use development costs and, to a lesser extent, computer equipment and related software. A majority of our capital expenditures for the first half of 2010 were leasehold improvements for our new corporate headquarters, which we occupied beginning on March 1, 2010, as well as website development costs, computer equipment and related software, and internal-use development costs. We are not currently party to any purchase contracts related to future capital expenditures.

**Table of Contents****Contractual Obligations and Commitments**

As of June 30, 2011, our principal commitments consist of obligations under leases for office space. The offices are leased under noncancelable operating lease agreements that expire through March 2020. The following table sets forth our commitments to settle contractual obligations in cash as of June 30, 2011:

	Total	Payments Due By Period			More than 5 Years
		Less than 1 Year	1 - 3 Years (\$ in thousands)	3 - 5 Years	
Operating leases	\$ 29,584	\$ 4,091	\$ 6,752	\$ 6,412	\$ 12,329

At June 30, 2011, we had an irrevocable standby letter of credit outstanding in the aggregate amount of \$1.5 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 us.

**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, was formed in order to facilitate our activities in Asia-Pac. We also have a branch office in India and a VIE in Beijing, China. As of June 30, 2011, most of our international agreements have been denominated in U.S. dollars and aggregate foreign currency payments made by us through these entities have not been 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, 2011, we had cash, cash equivalents and investments totaling \$54.4 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, 2011, 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 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, 2010, 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 in our accompanying *Management's Report on Internal Controls over Financial Reporting* 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. To date, the material weakness identified in the 2010 Form 10-K has not been fully remediated. As a result, the Chief Executive Officer and Chief Financial Officer continue to conclude 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 2010 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, 2010:

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

***Remediation Plans***

Management has identified the following measures to strengthen our internal control over financial reporting and to address the material weakness identified above. We believe that these planned actions will adequately address the material weakness.

In order to ensure that 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 continue to:

Evaluate the effectiveness of the software application implemented in 2010 and make improvements to its role in providing control over revenue transactions until we are able to implement a new fully integrated financial accounting and reporting platform containing adequate system level controls to support an appropriate control environment.

Additionally, a cross-functional committee has been convened to review the current processes and systems and to make detailed recommendations for improvement. Such recommendations will be reviewed by the Company's executive team, and are expected to include short-term upgrades to the existing financial system as well as longer ranging initiatives that could include full replacement of the existing system.

Enhance other control activities to further mitigate process risks not addressed by the current accounting and reporting systems. These enhancements include the periodic review of system exception reports, as well as the use of analytic procedures to increase the effectiveness of the account reconciliation process.

***Changes in Internal Control over Financial Reporting***

Except for changes in connection with the remediation plan subsequent to December 31, 2010 of the material weakness described above, there were no changes in the Company's internal control over financial reporting that occurred during the six months ended June 30, 2011 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

**Table of Contents**

**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

We are not currently a party to any material litigation, 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.

**Item 1A. Risk Factors**

*In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed under the heading, Risk Factors in our Annual Report filed on Form 10-K for the year ended December 31, 2010. These are risks and uncertainties that could cause actual results to differ materially from the results contemplated by the forward-looking statements contained in this Quarterly Report on Form 10-Q. Because of these factors, as well as other variables affecting our operating results, past financial performance should not be considered as a reliable indicator of future performance and investors should not use historical trends to anticipate results or trends in future periods. These risks are not the only ones facing us.*

**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, 2011. 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, international or domestic terrorist attacks or armed conflict.

*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;

**Table of Contents**

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 continue to adversely affect the business of the Company, as well as our ability to forecast financial results.***

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.

***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 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 continue to 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 and expect to continue to experience 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.

**Table of Contents**

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 6 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 affect 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 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.

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 affect 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, CNet and Ziff Davis Enterprise. 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 9% of our revenues for the six months ended June 30, 2011 were derived from advertisers located outside of North America, as we continue to expand internationally, as we did in 2008 by commencing operations of our own websites in the United Kingdom, in 2009 in India and Spain, in 2010 operating in both China and Australia and, most recently by acquiring the Computer Weekly and Microscope properties from Reed Business Information Limited in the UK in April 2011, 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.

**Table of Contents**

***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, as Google did in February of this year, 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 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.

***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.

***Given the tenure and experience of our Chief Executive Officer and President, and their guiding roles in developing our business and growth strategy since our inception, our growth may be inhibited or our operations may be impaired if we were to lose the services of either of them.***

Our growth and success depends to a significant extent on our ability to retain Greg Strakosch, our Chief Executive Officer, and Don Hawk, our President, who co-founded the company and have developed, engineered and stewarded the growth and operation of our business since its inception. The loss of the services of either of these persons could inhibit our growth or impair our operations and cause our stock price to decline.

***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 at commercially reasonable rates qualified technical, editorial, sales and marketing, customer support, financial and accounting and other managerial personnel. 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.

**Table of Contents**

***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;

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.

***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.

**Table of Contents*****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 based 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 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. 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 U.S. Federal Trade Commission (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. In addition, on December 20, 2007, the FTC published for public comment proposed principles to address consumer privacy issues that may arise from so-called behavioral targeting (i.e. the tracking of a user's online activities in order to deliver advertising tailored to his or her interests) and to encourage industry self-regulation. On February 12, 2009, following public comment, the FTC released a Staff Report with its revised principles for self-regulation of behavioral targeting. Although the FTC currently appears to be less concerned with first-party behavioral and contextual advertising (each being the type of behavioral targeting activities in which we are currently primarily engaged) than other types of behavioral targeting that include the storage of more potentially sensitive, data or that collects information outside of the traditional Web site context (such as through a mobile device or by an ISP), the FTC has stated that it will continue to evaluate self-regulatory programs. Further, through preliminary staff reports published in October and December, 2010, the FTC indicated that it is considering regulations regarding behavioral targeting which may

include implementation of a more rigorous opt-in regime. An opt-in policy would prohibit businesses from collecting and using information obtained through behavioral targeting activities from individuals who have not voluntarily consented. Among other things, the implementation of an opt-in regime could require substantial technical support and negatively impact the market for our services. Prompted by the FTC reports, several legislators have introduced various online consumer privacy bills that would provide the FTC with the rulemaking authority it currently lacks to establish standards for an online mechanism to prohibit the collection of certain information. Additionally, Senators John McCain (R-Az.) and John Kerry (D-Mass.) introduced a Commercial Privacy Bill of Rights on April 12, 2011, creating an online privacy bill of rights, which will require companies to seek an individual's permission to collect sensitive personally identifiable information. The bill also requires that companies allow individuals to opt-out of unauthorized use of covered information. A few states have also introduced legislation that, if enacted, would restrict or prohibit

**Table of Contents**

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 affect negatively our businesses.

U.S. and European lawmakers and regulators recently have 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 browsers 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. Microsoft's Internet Explorer 9 contains a tracking protection device that allows users to create lists of websites with which they do not wish to share personal information. If a user lists our websites in a no-tracking list, we will not be able to collect online activity data about the user. Internet Explorer 9 also includes Do Not Track headers, which allow users to configure their browsers to send a header to every website that transmits a user's preferences not to be tracked. Mozilla's Firefox 4 Beta web browser contains a similar Do Not Track mechanism. Google's Chrome browser also allows users to opt-out of ad-tracking cookies. In the event users implement these developments, they have the potential to negatively affect our business.

***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 and India, as well as operations in China and Australia. 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;

## **Table of Contents**

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.

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 (HK) Limited, or TTGT HK, and our affiliated Chinese entity, Keji Wangtuo (Beijing) Information Technology Co., Ltd, or Keji Wangtuo, and its shareholders. The Company and TTGT HK are considered foreign persons under PRC law. As a result, the Company and TTGT HK are 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 HK, 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:

privacy, data security and use of personally identifiable information;  
copyrights, trademarks and domain names; and  
marketing practices, such as 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.

**Table of Contents*****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.

***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 will depend 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;
- volumes 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.



**Table of Contents**

***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.***

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 \$103.1 million of goodwill and net intangible assets as of June 30, 2011. 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 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.

**Table of Contents**

***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 prospectus, 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;
- threatened or actual litigation;
- changes in laws or regulations relating to the provision of Internet content;
- any major 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.

In addition, the stock market in general, and historically the market for Internet-related companies in particular, has experienced extreme 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 are 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 23 million shares of our common stock, which represents 61% of our shares outstanding as of June 30, 2011. 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.



**Table of Contents**

***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 Public Offering of Common Stock*

None.

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

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Removed and reserved**

**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, 2011

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

Date: August 9, 2011

By: /s/ JEFFREY WAKELY  
Jeffrey Wakely, *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, 2011.
31.2	Certification of Jeffrey Wakely, 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, 2011.
32.1	Certifications of Greg Strakosch, Chief Executive Officer of TechTarget, Inc. and Jeffrey Wakely, Chief Financial Officer and Treasurer of TechTarget, Inc. pursuant to 18 U.S.C. Section 1350, dated August 9, 2011.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document

\* Pursuant to Rule 406T of Regulation S-T, these interactive data files 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, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability under those sections.