

TechTarget Inc
Form 10-Q
August 09, 2013
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, 2013

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

For the transition period from _____ to _____

Commission File Number: 1-33472

TECHTARGET, INC.

(Exact name of registrant as specified in its charter)

Edgar Filing: TechTarget Inc - Form 10-Q

Delaware
(State or other jurisdiction of
incorporation or organization)

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

275 Grove Street

Newton, Massachusetts 02466

(Address of principal executive offices) (zip code)

(617) 431-9200

(Registrant's telephone number, including area code)

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

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

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

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

Large Accelerated Filer Accelerated Filer

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

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

The registrant had 38,433,822 shares of Common Stock, \$0.001 par value per share, outstanding as of July 31, 2013.

Table of Contents

TABLE OF CONTENTS

Item	Page
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	
<u>Consolidated Balance Sheets as of June 30, 2013 (unaudited) and December 31, 2012</u>	3
<u>Consolidated Statements of Operations and Comprehensive Income for the Three and Six Months Ended June 30, 2013 and 2012 (unaudited)</u>	4
<u>Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2013 and 2012 (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>	20
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	33
<u>Item 4. Controls and Procedures</u>	33
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	34
<u>Item 1A. Risk Factors</u>	34
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	45
<u>Item 3. Defaults upon Senior Securities</u>	45
<u>Item 4. Mine Safety Disclosures</u>	45
<u>Item 5. Other Information</u>	45
<u>Item 6. Exhibits</u>	45
<u>Signatures</u>	46

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

Item 1. Financial Statements

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

	June 30, 2013 (Unaudited)	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 23,553	\$ 48,409
Short-term investments	8,925	6,610
Accounts receivable, net of allowance for doubtful accounts of \$796 and \$911 as of June 30, 2013 and December 31, 2012, respectively	27,780	24,185
Prepaid expenses and other current assets	4,730	1,427
Deferred tax assets	875	862
Total current assets	65,863	81,493
Property and equipment, net	9,551	8,817
Long-term investments	30,053	21,321
Goodwill	94,055	93,792
Intangible assets, net of accumulated amortization	5,720	7,043
Deferred tax assets	7,147	7,457
Other assets	296	269
Total assets	\$ 212,685	\$ 220,192
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 3,642	\$ 2,907
Accrued expenses and other current liabilities	3,576	3,535
Accrued compensation expenses	628	1,233
Income taxes payable	9,613	1,186
Deferred revenue	9,613	5,985
Total current liabilities	17,459	14,846
Long-term liabilities:		
Deferred rent	3,117	3,250
Deferred tax liabilities	705	702
Contingent consideration	1,252	1,180
Other liabilities	918	900
Total liabilities	23,451	20,878
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Preferred stock, 5,000,000 shares authorized; no shares issued or outstanding	47	46

Edgar Filing: TechTarget Inc - Form 10-Q

Common stock, \$0.001 par value per share, 100,000,000 shares authorized, 46,748,208 shares issued and 38,337,851 shares outstanding at June 30, 2013 and 45,461,257 shares issued and 39,507,439 shares outstanding at December 31, 2012		
Treasury stock	(47,540)	(35,810)
Additional paid-in capital	267,212	263,426
Accumulated other comprehensive income (loss)	140	(136)
Accumulated deficit	(30,625)	(28,212)
Total stockholders' equity	189,234	199,314
Total liabilities and stockholders' equity	\$ 212,685	\$ 220,192

See accompanying notes.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(Unaudited)			
Revenues:				
Online	\$ 20,371	\$ 23,038	\$ 38,846	\$ 45,109
Events	2,727	3,331	3,800	4,974
Total revenues	23,098	26,369	42,646	50,083
Cost of revenues:				
Online(1)	6,138	5,949	12,066	11,990
Events(1)	1,087	1,154	1,763	1,917
Total cost of revenues	7,225	7,103	13,829	13,907
Gross profit	15,873	19,266	28,817	36,176
Operating expenses:				
Selling and marketing(1)	9,093	9,227	18,213	18,390
Product development(1)	1,676	1,881	3,417	3,736
General and administrative(1)	3,645	2,979	6,952	6,627
Depreciation	985	811	1,857	1,578
Amortization of intangible assets	548	874	1,282	1,812
Total operating expenses	15,947	15,772	31,721	32,143
Operating (loss) income	(74)	3,494	(2,904)	4,033
Interest (expense) income, net	(9)	23	(6)	47
(Loss) income before provision for (benefit from) income taxes	(83)	3,517	(2,910)	4,080
Provision for (benefit from) income taxes	788	1,552	(497)	1,750
Net (loss) income	\$ (871)	\$ 1,965	\$ (2,413)	\$ 2,330
Net (loss) income per common share:				
Basic	\$ (0.02)	\$ 0.05	\$ (0.06)	\$ 0.06
Net (loss) income per common share:				
Diluted	\$ (0.02)	\$ 0.05	\$ (0.06)	\$ 0.06
Weighted average common shares outstanding:				
Basic	39,110	40,185	39,567	40,024
Weighted average common shares outstanding:				
Diluted	39,110	40,952	39,567	40,903
Comprehensive (loss) income	\$ (786)	\$ 1,881	\$ (2,137)	\$ 2,375

Edgar Filing: TechTarget Inc - Form 10-Q

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

Cost of online revenues	\$ 38	\$ 47	\$ 85	\$ 100
Cost of events revenues	4	4	8	8
Selling and marketing	588	658	1,291	1,389
Product development	48	63	101	128
General and administrative	536	357	1,160	798

See accompanying notes.

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

	Six Months Ended June 30, 2013 2012 (Unaudited)	
Operating Activities:		
Net (loss) income	\$ (2,413)	\$ 2,330
Adjustments to reconcile net (loss) income to net cash (used for) provided by operating activities:		
Depreciation and amortization	3,139	3,390
Provision for bad debt	292	289
Amortization of investment premiums	255	624
Stock-based compensation expense	2,643	2,423
Deferred tax benefit	21	(1)
Excess tax benefit stock options	(512)	(264)
Other non cash	19	
Changes in operating assets and liabilities:		
Accounts receivable	(3,921)	(2,905)
Prepaid expenses and other current assets	(3,251)	(1,066)
Other assets	(58)	(100)
Accounts payable	726	718
Income taxes payable	(792)	(672)
Accrued expenses and other current liabilities	229	(973)
Accrued compensation expenses	(639)	(426)
Deferred revenue	3,629	2,000
Other liabilities	35	(72)
Net cash (used for) provided by operating activities	(598)	5,295
Investing activities:		
Purchases of property and equipment, and other assets	(2,608)	(2,377)
Purchases of investments	(13,831)	(7,380)
Proceeds from sales and maturities of investments	2,500	6,000
Net cash used in investing activities	(13,939)	(3,757)
Financing activities:		
Excess tax benefit stock options	512	264
Purchase of treasury shares	(11,730)	
Proceeds from exercise of stock options	938	759
Net cash (used in) provided by financing activities	(10,280)	1,023
Effect of exchange rate changes on cash and cash equivalents	(39)	21
Net (decrease) increase in cash and cash equivalents	(24,856)	2,582
Cash and cash equivalents at beginning of period	48,409	25,786
Cash and cash equivalents at end of period	\$ 23,553	\$ 28,368

Supplemental disclosure of cash flow information:

Cash paid for interest	\$	\$
Cash paid for taxes	\$ 2,835	\$ 2,690

See accompanying notes.

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

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

The Company's integrated content platform consists of a network of over 130 websites that are complemented with targeted in-person events. During the critical stages of the purchase decision process, these content offerings meet IT professionals' needs for expert, peer and IT vendor information, and provide a platform on which IT vendors can launch targeted marketing campaigns which generate measurable, high return on investment (ROI). As IT professionals have become increasingly specialized, they have come to rely on the Company's sector-specific websites for purchasing decision support. The Company's content enables IT professionals to navigate the complex and rapidly changing IT landscape where purchasing decisions can have significant financial and operational consequences. Based upon the logical clustering of users' respective job responsibilities and the marketing focus of the products that the Company's customers are advertising, content offerings are currently categorized across nine distinct media groups: Application Architecture and Development; Channel; CIO/IT Strategy; Data Center and Virtualization Technologies; Business Applications and Analytics; Networking; Security; Storage; and TechnologyGuide.

2. Summary of Significant Accounting Policies

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

Principles of Consolidation

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

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

Based on these contractual arrangements, the Company consolidates the financial results of KWIT as required by Accounting Standards Codification (ASC) subtopic 810-10 (ASC 810-10), *Consolidation: Overall* (Pre-Codification: Financial Accounting Standards Board (FASB) Interpretation No. 46R, *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51*), because the Company holds all the

variable interests of KWIT

Table of Contents

through the WFOE, which is the primary beneficiary of KWIT. 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 KWIT assigned all of their voting rights underlying their equity interest in KWIT to the WFOE. In addition, through the other aforementioned agreements, the Company demonstrates its ability and intention to continue to exercise the ability to obtain substantially all of the profits and absorb all of the expected losses of KWIT. All significant intercompany accounts and transactions between the Company, its subsidiaries, and KWIT have been eliminated in consolidation.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (generally accepted accounting principles, or GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. All adjustments, which, in the opinion of management, are considered necessary for a fair presentation of the results of operations for the periods shown, are of a normal recurring nature and have been reflected in the consolidated financial statements. The results of operations for the periods presented are not necessarily indicative of results to be expected for any other interim periods or for the full year. The information included in these consolidated financial statements should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations contained in this report and the consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

Use of Estimates

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

Revenue Recognition

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

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

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

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

Beginning in the period ended March 31, 2012, the Company's lead generation campaigns all offer the Activity Intelligence Dashboard (the Dashboard). In order to manage the lead generation component, the Company has changed its operational approach and the contractual terms and conditions under which it sells its products. Instead of contracting to sell individual elements, the Company sells various lead generation campaigns with the Dashboard. Accordingly, revenue is recognized ratably over the duration of the campaigns, which is usually less than six months.

Table of Contents

Lead generation offerings may also include an additional service, Nurture & Qualify (formerly called Nurture & Notify), in which case revenue is recognized ratably over the period of the campaign as a combined unit of accounting. As part of these lead generation campaign offerings, the Company will guarantee a minimum number of qualified leads to be delivered over the course of the advertising campaign. The Company determines the content necessary to achieve performance guarantees. Scheduled end dates of advertising campaigns sometimes need to be extended, pursuant to the terms of the arrangement, to satisfy lead guarantees. The Company estimates a revenue reserve necessary to adjust revenue recognition for extended advertising campaigns. These estimates are based on the Company's experience in managing and fulfilling these offerings. The customer has cancellation privileges which generally require advance notice by the customer and require proportional payment by the customer for the portion of the campaign period provided by the Company. Additionally, the Company offers sales incentives to certain customers, primarily in the form of volume rebates, which are classified as a reduction of revenues and are calculated based on the terms of the specific customer's contract. The Company accrues for these sales incentives based on contractual terms and historical experience.

Revenue for other significant online media offerings is recognized as follows:

Custom Content Creation. Custom content revenue is recognized when the creation is completed and delivered to the customer, with the exception of microsites which are recognized over the period during which they are live.

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

List Rentals and IT Deal Alert. List rental and IT Deal Alert revenue is recognized in the period in which the delivery is made to the Company's customer.

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

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

The Company recognizes revenue on contracts where pricing is based on cost per lead in the period during which the leads are delivered to its customers.

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.

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, accounts payable and contingent consideration. Due to their short-term nature and liquidity, the carrying value of these instruments with the exception of contingent consideration approximates their estimated fair values. The fair value of contingent consideration was estimated using a discounted cash flow method described in Note 5.

Long-lived Assets, Goodwill and Indefinite-lived Intangible Assets

Long-lived assets consist primarily of property and equipment, capitalized software, goodwill and other intangible assets. The Company reviews long-lived assets, including property and equipment and intangible assets, for impairment whenever events or changes in circumstances indicate

Edgar Filing: TechTarget Inc - Form 10-Q

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

Table of Contents

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 ten 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 the aforementioned evaluation, the Company believes that, as of each of the balance sheet dates presented, none of the Company's goodwill or other long-lived assets were impaired. The Company did not have any intangible assets with indefinite lives as of June 30, 2013 or December 31, 2012.

Allowance for Doubtful Accounts

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

Property and Equipment

Property and equipment is stated at cost. Property and equipment acquired through acquisitions of businesses are initially recorded at fair value. Depreciation is calculated on the straight-line method based on the month the asset is placed in service over their estimated useful lives.

Internal-Use Software and Website Development Costs

The Company capitalizes costs incurred during the development of its website applications and infrastructure as well as certain costs relating to internal-use software. The estimated useful life of costs capitalized is evaluated for each specific project. Capitalized internal-use software and website development costs are reviewed for recoverability whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. An impairment loss would be recognized only if the carrying amount of the asset is not recoverable and exceeds its fair value. The Company capitalized internal-use software and website development costs of \$1.0 million and \$0.7 million for the three months ended June 30, 2013 and 2012, respectively, and \$2.0 million and \$1.6 million for the six months ended June 30, 2013 and 2012.

Income Taxes

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

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

Stock-Based Compensation

The Company has two stock-based employee compensation plans which are more fully described in Note 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 using the straight-line method over the vesting period of the award or using the accelerated method if the award is contingent upon performance goals. The Company uses the Black-Scholes option-pricing model to determine the fair value of stock option awards.

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. The Company's comprehensive income (loss) includes changes in the fair value of the Company's unrealized gains (losses) on available for sale securities and foreign currency translation.

Table of Contents***Foreign Currency***

The functional currency for each of the Company's subsidiaries is each country's local currency. All assets and liabilities are translated into U.S. dollar equivalents at either the exchange rate in effect on the balance sheet date or at a historical rate. Revenues and expenses are translated at the average exchange rates for the year. Translation gains or losses are recorded in stockholders' equity as an element of accumulated other comprehensive income (loss).

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 and restricted stock awards is computed using the average market price for the respective period. In addition, the assumed proceeds under the treasury stock method include the average unrecognized compensation expense and assumed tax benefit of stock options and restricted stock awards that are in-the-money. This results in the assumed buyback of additional shares, thereby reducing the dilutive impact of stock options and restricted stock awards.

Recent Accounting Pronouncements

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

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

In February 2013, the FASB issued ASU No. 2013-02, which establishes the effective date for the requirement to present components of reclassifications out of accumulated other comprehensive income on the face of the income statement. The standard is effective in the first quarter of fiscal 2013 and did not have an impact on the Company's consolidated results of operations or financial condition.

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

Table of Contents**3. Fair Value Measurements**

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

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

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

Level 3. Unobservable inputs.

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:

	Fair Value Measurements at Reporting Date Using			
	June 30, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds(1)	\$ 15,247	\$ 15,247	\$	\$
Short-term investments(2)	8,925		8,925	
Long-term investments(2)	30,053		30,053	
Total	\$ 54,225	\$ 15,247	\$ 38,978	\$
Liabilities:				
Contingent consideration(3)	\$ 1,252	\$	\$	\$ 1,252
Total liabilities	\$ 1,252	\$	\$	\$ 1,252

	Fair Value Measurements at Reporting Date Using			
	December 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds(1)	\$ 33,345	\$ 33,345	\$	\$
Short-term investments(2)	6,610		6,610	
Long-term investments(2)	21,321		21,321	
Total	\$ 61,276	\$ 33,345	\$ 27,931	\$

Edgar Filing: TechTarget Inc - Form 10-Q

Liabilities:

Contingent consideration(3)	\$ 1,180	\$	\$	\$ 1,180
Total liabilities	\$ 1,180	\$	\$	\$ 1,180

- (1) Included in cash and cash equivalents on the accompanying consolidated balance sheets; valued at quoted market prices in active markets.
- (2) Short- and long-term investments consist of municipal bonds and government agency bonds; their fair value is calculated using an interest rate yield curve for similar instruments.
- (3) Our valuation techniques and Level 3 inputs used to estimate the fair value of contingent consideration payable in connection with our 2012 acquisition are described in Note 5. During the six months ended June 30, 2013 the contingent consideration increased by approximately \$141 when it was remeasured to fair value; however, the increase was offset in part by the change in foreign exchange rates during that period.

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:

	June 30, 2013 (Unaudited)	December 31, 2012
Cash	\$ 8,306	\$ 15,064
Money market funds	15,247	33,345
Total cash and cash equivalents	\$ 23,553	\$ 48,409

The Company's short- and long-term investments are accounted for as available for sale securities. These investments are recorded at fair value with the related unrealized gains and losses included in accumulated other comprehensive (loss) income, a component of stockholders' equity, net of tax. The unrealized (loss) gain, net of taxes, was \$(4) and \$14 as of June 30, 2013 and December 31, 2012, 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, 2013 or 2012.

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

	Cost	June 30, 2013		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
(Unaudited)				
Short- and long-term investments:				
Municipal bonds	\$ 22,341	\$ 8	\$ (15)	\$ 22,334
Government agency and US Treasury bonds	16,645	8	(9)	16,644
Total short- and long-term investments	\$ 38,986	\$ 16	\$ (24)	\$ 38,978

	Cost	December 31, 2012		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
Short- and long-term investments:				
Municipal bonds	\$ 16,373	\$ 10	\$ (7)	\$ 16,376
Government agency bonds	11,535	20		11,555
Total short- and long-term investments	\$ 27,908	\$ 30	\$ (7)	\$ 27,931

The Company had ten debt securities in an unrealized loss position at June 30, 2013. All of these securities have been in such a position for less than 15 months. The unrealized loss on those securities was approximately \$23 and the fair value was \$17.6 million. As of June 30, 2013, the Company does not consider these investments to be other-than-temporarily impaired.

These securities have contractual maturity dates that range from July 2013 to December 2015. All income generated from these investments is recorded as interest income.

5. Acquisition

LeMagIT

On December 17, 2012 the Company purchased all of the outstanding shares of its French partner, E-Magine Médias SAS, for approximately \$2.2 million in cash plus a potential future earnout valued at \$0.7 million at the time of the acquisition. Approximately \$1.2 million of the cash payment was made at closing, with the remainder due in two equal installments in fiscal years 2013 and 2014. The third installment is subject to certain revenue growth targets and may be reduced based on actual results. If all targets are met or exceeded, the total purchase price, including the earnout, shall not exceed approximately \$5.2 million, depending on exchange rates at the time of calculation. The installment payments have been recorded at present value using a discount rate of 10%; the discount will be amortized to interest through the payment dates. The second installment, to be paid in 2013, is included in accrued liabilities in the Company's consolidated balance sheet; the final installment payment and earnout are included in non-current liabilities.

In connection with this acquisition, the Company's allocation of purchase price was approximately \$0.3 million of net tangible assets, \$1.3 million of goodwill and \$2.0 million of intangible assets related to developed websites, customer relationships, a member database, a non-compete agreement and trade names with estimated useful lives ranging from three to ten years, offset by a deferred tax liability in the amount of \$0.7 million. Goodwill is attributable primarily to expected synergies from combining operations as well as intangible assets that do not qualify for recognition, such as an assembled workforce.

Table of Contents

The estimated fair value of the \$2.0 million of acquired intangible assets is assigned as follows:

	Useful Life	Estimated Fair Value (in 000 s)
Developed websites	120 months	\$ 1,474
Customer relationship	60 months	118
Member database	60 months	145
Non-compete agreement	36 months	92
Trade name	96 months	211
Total intangible assets		\$ 2,040

The Company engaged a third party valuation specialist to assist management in determining the fair value of the intangible assets of LeMagIT as well as the contingent consideration related to the transaction. To value the developed websites 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%. To value the customer relationship and trade name assets, a relief from royalty method was used to estimate the pre-tax royalty savings to the Company of owning the customer relationships and trade name related to LeMagIT directly rather than having to pay to use the asset. The projected net cash flows from the pre-tax royalty savings were tax affected using an effective rate of 33.3% and then discounted using a discount rate of 28% to calculate the value of the customer relationship and trade name intangible assets. To value the member database, a replacement cost approach was used, specifically a calculation of costs to acquire new members by taking the cost of a member list acquired by LeMagIT in 2012, applying a premium of 50% per member, and multiplying it times the total number of active members at the valuation date. This value was tax effected using an effective rate of 33.3%. Additionally, a tax benefit multiplier of 1.141 was applied to the value of the member database to arrive at 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 36 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 27%.

Contingent consideration related to this acquisition consists of a potential earnout as well as the final payment, both of which are subject to future revenue targets and may differ from the amounts that are ultimately payable based on the final calculations. In valuing the contingent consideration it was determined that fair value adjustments were necessary to appropriately reflect the inherent risk and related time value of money associated with these potential payments. Accordingly, discount rates of 28% and 10% were used for the earnout and the final payment, respectively. The calculation of these fair values required the use of significant inputs that are not observable in the market and thus represent a Level 3 fair value measurement as defined in ASC 820. The significant inputs in the Level 3 measurements not supported by market activity include estimated future revenues as well as the rates used to discount them.

Financial results of LeMagIT are included in our consolidated financial statements from the date of acquisition. These results were not material to the consolidated financial statements. Financial results of LeMagIT prior to the date of acquisition are not material to the Company's results.

6. Intangible Assets

Intangible assets subject to amortization as of June 30, 2013 and December 31, 2012 consist of the following:

	Estimated Useful Lives (Years)	As of June 30, 2013		
		Gross Carrying Amount	Accumulated Amortization (Unaudited)	Net
Customer, affiliate and advertiser relationships	4 9	\$ 7,068	\$ (4,053)	\$ 3,015
Developed websites, technology and patents	3 10	6,857	(5,558)	1,299
Trademark, trade name and domain name	1 8	1,999	(1,306)	693

Edgar Filing: TechTarget Inc - Form 10-Q

Proprietary user information database and internet traffic	5	1,269	(639)	630
Non-compete agreements	2 3	437	(354)	83
Total intangible assets		\$ 17,630	\$ (11,910)	\$ 5,720

Table of Contents

	As of December 31, 2012				
	Estimated Useful Lives (Years)		Gross Carrying Amount	Accumulated Amortization	Net
Customer, affiliate and advertiser relationships	4 9		\$ 7,067	\$ (3,586)	\$ 3,481
Developed websites, technology and patents	3 10		6,874	(5,100)	1,774
Trademark, trade name and domain name	1 8		2,026	(1,152)	874
Proprietary user information database and Internet traffic	5		1,295	(519)	776
Non-compete agreements	2 3		439	(301)	138
Total intangible assets			\$ 17,701	\$ (10,658)	\$ 7,043

Intangible assets are amortized over their estimated useful lives, which range from one to ten 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 2.59 years. Amortization expense was \$0.5 million and \$0.9 million for the three months ended June 30, 2013 and 2012, respectively, and \$1.3 million and \$1.8 million for the six months ended June 30, 2013 and 2012, respectively. Amortization expense is recorded within operating expenses as the intangible assets consist of customer-related assets and website traffic that the Company considers to be in support of selling and marketing activities. The Company wrote off \$1.9 million of fully amortized intangible assets in the first half of 2012.

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

Years Ending December 31:	Amortization Expense
2013 (July 1st - December 31st)	\$ 924
2014	1,727
2015	1,432
2016	892
2017	194
Thereafter	551
	\$ 5,720

7. Net (Loss) Income Per Common Share

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
	(Unaudited)			
Numerator:				
Net (loss) income	\$ (871)	\$ 1,965	\$ (2,413)	\$ 2,330
Denominator:				
Basic:				
Weighted average shares of common stock outstanding	39,110,378	40,185,062	39,566,714	40,023,696
Diluted:				
Weighted average shares of common stock outstanding	39,110,378	40,185,062	39,566,714	40,023,696

Edgar Filing: TechTarget Inc - Form 10-Q

Effect of potentially dilutive shares(1)		767,262		878,885
--	--	---------	--	---------

Total weighted average shares of common stock outstanding	39,110,378	40,952,324	39,566,714	40,902,581
---	------------	------------	------------	------------

Net Income Per Common Share:

Basic net (loss) income per common share	\$ (0.02)	\$ 0.05	\$ (0.06)	\$ 0.06
--	-----------	---------	-----------	---------

Net Income Per Common Share:

Diluted net (loss) income per common share	\$ (0.02)	\$ 0.05	\$ (0.06)	\$ 0.06
--	-----------	---------	-----------	---------

Table of Contents

- (1) Shares used to calculate diluted earnings per share exclude 406,634 and 473,220 shares related to outstanding stock options and unvested restricted stock awards for the three and six months ended June 30, 2013, respectively, that would have been dilutive if the Company had net income during those periods. Additionally, in calculating diluted earnings per share, 5,906,734 and 3,912,783 shares related to outstanding stock options and unvested restricted stock awards were excluded for the three months ended June 30, 2013 and 2012, respectively, and 5,628,894 and 3,989,333 shares related to outstanding stock options and unvested restricted stock awards were excluded for the six months ended June 30, 2013 and 2012, respectively, because they were anti-dilutive.

8. Bank Term Loan Payable

The Company's \$5.0 million revolving credit facility was amended in August 2011, extending its term and adjusting certain other financial terms and covenants. Unless earlier payment is required by an event of default, all principal and unpaid interest will be due and payable on August 31, 2016. At the Company's option, the Revolving Credit Facility (the Credit Agreement) bears interest at either the prime rate less 1.00% or the London Interbank Offered Rate (LIBOR) plus the applicable LIBOR margin. The applicable LIBOR margin is based on the ratio of total funded debt to earnings before interest, other income and expense, income taxes, depreciation, and amortization (EBITDA) for the preceding four fiscal quarters. As of June 30, 2013, the applicable LIBOR margin was 1.25%.

The Company is also required to pay an unused line fee on the daily unused amount of its Credit Agreement at a per annum rate based on the ratio of total funded debt to EBITDA for the preceding four fiscal quarters. As of June 30, 2013, the per annum unused line fee rate was 0.20%.

At June 30, 2013 and December 31, 2012 there were no amounts outstanding under the Credit Agreement. There was a \$1.0 million standby letter of credit related to the Company's corporate headquarters lease that was outstanding at June 30, 2013, bringing the Company's available borrowings on the \$5.0 million facility to \$4.0 million.

Borrowings under the Credit Agreement are collateralized by a security interest in substantially all assets of the Company. Covenants governing the Credit Agreement include the maintenance of certain financial ratios. At June 30, 2013 the Company was in compliance with all covenants under the Credit Agreement.

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

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

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

Future minimum lease payments under the Company's noncancelable operating leases at June 30, 2013 are as follows:

Years Ending December 31:	Minimum Lease Payments (Unaudited)
2013 (July 1st - December 31st)	\$ 2,200
2014	4,222
2015	3,487
2016	3,515
2017	3,287
Thereafter	7,401

Table of Contents

The Company has an irrevocable standby letter of credit outstanding in the aggregate amount of \$1.0 million. This letter of credit supports the lease the Company entered into in 2009 for its corporate headquarters. This letter of credit extends, subject to certain reductions, annually through February 28, 2020 unless notification of termination is received.

Net Worth Tax Contingency

In late March 2010, the Company received a letter from the Department of Revenue of the Commonwealth of Massachusetts (the MA DOR) requesting documentation demonstrating that TSC has been classified by the MA DOR as a Massachusetts security corporation. Following subsequent correspondence with the MA DOR and a settlement conference on March 22, 2011, the Company received on July 16, 2011 a Notice of Assessment from the MA DOR for 2006 and 2007 in the amount of approximately \$198 (which amount included all interest and penalties to date) with respect to additional excise taxes on net worth related to TSC. Based on the Company's previous assessment that it was probable that 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) a different rate structure (1.32% on gross investment income vs. 9.5% on net income) and (ii) exemption from the 0.26% excise tax on net worth. On August 17, 2011, the Company filed Applications for Abatement with the MA DOR. On January 6, 2012, the Company filed Petitions for Formal Procedure with the Massachusetts Appellate Tax Board. A trial date has been set for October 22, 2013. The Company intends to continue to dispute the assessment and believes it has meritorious defenses which, both directly and via claims against third parties, it intends to assert. The Company increased the reserve assessment to reflect additional interest accrued through June 30, 2013.

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, 2013 and December 31, 2012, 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.

10. Comprehensive (Loss) Income

Comprehensive (loss) income includes all changes in equity during a period, except those resulting from investments by stockholders and distributions to stockholders. For the three and six months ended June 30, 2013 and 2012 the Company's comprehensive (loss) income is as follows:

	For the Three		For the Six Months	
	Months	Months	Months	Months
	Ended June 30,	Ended June 30,	Ended June 30,	Ended June 30,
	2013	2012	2013	2012
	(Unaudited)			
Net (loss) income	\$ (871)	\$ 1,965	\$ (2,413)	\$ 2,330
Other comprehensive (loss) income:				
Unrealized (loss) gain on investments (net of tax effect of \$2, (\$3), \$4 and \$7, respectively)	(22)	(6)	(19)	1
Unrealized gain (loss) on foreign currency exchange	107	(78)	295	44
Other comprehensive income (loss)	85	(84)	276	45
Total comprehensive (loss) income	\$ (786)	\$ 1,881	\$ (2,137)	\$ 2,375

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

Edgar Filing: TechTarget Inc - Form 10-Q

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.

Table of Contents

Under the 2007 Plan, stock options may not be granted at less than fair market value on the date of grant, and grants generally vest over a four year period. Stock options granted under the 2007 Plan expire no later than ten years after the grant date. The Company has reserved for issuance an aggregate of 2,911,667 shares of common stock under the 2007 Plan plus an additional annual increase to be added automatically on January 1 of each year, beginning on January 1, 2008, equal to the lesser of (a) 2% of the outstanding number of shares of common stock (on a fully-diluted basis) on the immediately preceding December 31 and (b) such lower number of shares as may be determined by the Company's compensation committee. The number of shares available for issuance under the 2007 Plan is subject to adjustment in the event of a stock split, stock dividend or other change in capitalization. Generally, shares that are forfeited or canceled from awards under the 2007 Plan also will be available for future awards. To date, approximately 5.9 million shares have been added to the plan in accordance with the automatic annual increase. In addition, shares subject to stock options returned to the 1999 Plan, as a result of their expiration, cancellation or termination, are automatically made available for issuance under the 2007 Plan. As of June 30, 2013 a total of 1,718,629 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.

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 has determined the volatility for options granted 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. There were no stock options granted in the three or six months ended June 30, 2013 or 2012.

A summary of the stock option activity under the Company's stock option plan for the six months ended June 30, 2013 is presented below:

Year-to-Date Activity	Options Outstanding	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term in Years	Aggregate Intrinsic Value
			(Unaudited)	
Options outstanding at December 31, 2012	5,486,687	\$ 6.88		
Granted				
Exercised	(429,016)	2.18		
Forfeited	(21,875)	6.26		
Cancelled	(121,800)	7.67		
Options outstanding at June 30, 2013	4,913,996	\$ 7.27	3.9	\$ 151
Options exercisable at June 30, 2013	4,791,496	\$ 7.29	3.9	\$ 151
Options vested or expected to vest at June 30, 2013				
(1)	4,899,984	\$ 7.27	3.9	\$ 188

(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, 2013 and 2012, 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 \$1.2 million and \$0.2 million, respectively, and the total amount of cash received from exercise of these options was \$0.9 million and \$0.3 million, respectively. The total grant date fair value of stock options

Edgar Filing: TechTarget Inc - Form 10-Q

granted after January 1, 2006 that vested during the six months ended June 30, 2013 and 2012 was \$0.4 million and \$0.7 million, respectively.

Table of Contents**Restricted Stock Awards**

Restricted stock awards are valued at the market price of a share of the Company's common stock on the date of grant. A summary of the restricted stock award activity under the 2007 Plan for the six months ended June 30, 2013 is presented below:

Year-to-Date Activity	Shares	Weighted-Average Grant Date Fair Value Per Share (Unaudited)	Aggregate Intrinsic Value
Nonvested outstanding at December 31, 2012	2,992,187	\$ 5.16	
Granted	116,373	4.73	
Vested	(374,810)	5.47	
Forfeited	(90,000)	5.31	
Nonvested outstanding at June 30, 2013	2,643,750	\$ 4.89	\$ 14,511

The total grant-date fair value of restricted stock awards that vested during the six months ended June 30, 2013 and 2012 was \$2.0 million and \$1.8 million, respectively. As of June 30, 2013, there was \$11.4 million of total unrecognized compensation expense related to stock options and restricted stock awards which is expected to be recognized over a weighted average period of 2.7 years.

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

In April 2007, the Board of Directors authorized 5,000,000 shares of undesignated preferred stock, par value \$0.001 per share. No preferred shares have been issued as of June 30, 2013.

Reserved Common Stock

As of June 30, 2013, the Company has reserved 9,878,876 shares of common stock for options and restricted stock awards outstanding and available for grant under stock award plans.

Common Stock Repurchase Program

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

During the six months ended June 30, 2013 the Company repurchased 2,456,539 shares of common stock for \$11.7 million pursuant to the Program. During the year ended December 31, 2012 the Company repurchased 95,940 shares of common stock for \$467 pursuant to the Program. All repurchased shares are funded with cash on hand.

13. Income Taxes

The Company's effective income tax rate was 17.1% and 42.9% for the six months ended June 30, 2013 and 2012, respectively. The effective income tax rate is based upon the estimated annual effective tax rate in compliance with ASC 740, *Income Taxes*, and other related guidance. The Company updates the estimate of its annual effective tax rate at the end of each quarterly period. The Company's estimate takes into account

Edgar Filing: TechTarget Inc - Form 10-Q

estimations of annual pre-tax income, the geographic mix of pre-tax income and its interpretations of tax laws.

The Company's practice is to recognize interest and/or penalties related to income tax matters in income tax expense. The Company recognized interest and penalties totaling \$26 in income tax expense in the six months ended June 30, 2013.

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 16, 2011, the Company received a Notice of Assessment from the MA DOR for 2006 and 2007 in the amount of approximately \$345 (which amount included all interest and penalties to date) with respect to additional

Table of Contents

income taxes related to TechTarget, Inc. The Company increased the reserve assessment to reflect additional interest accrued through the second quarter of 2013. The balance of the reserve assessment as of June 30, 2013 was \$451. On August 17, 2011, the Company filed Applications for Abatement with the MA DOR. On January 6, 2012, the Company filed Petitions under Formal Procedure with the Massachusetts Appellate Tax Board. A trial date has been set for October 22, 2013. The Company intends to continue to dispute the assessment and believes it has meritorious defenses which, both directly and via claims against third parties, it intends to assert.

The Company's 2009 and 2010 federal tax returns are currently under audit by the IRS. The Company's 2008 through 2010 returns are currently under audit by the State of New York.

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 executive management team reviews results and makes 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 June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(Unaudited)			
United States	\$ 18,166	\$ 22,902	\$ 34,204	\$ 43,384
International	4,932	3,467	8,442	6,699
Total	\$ 23,098	\$ 26,369	\$ 42,646	\$ 50,083

Long-lived assets by geographic area were as follows:

	June 30, 2013	December 31, 2012
United States	\$ 101,966	\$ 101,858
International	7,360	7,794
Total	\$ 109,326	\$ 109,652

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 included elsewhere in this Annual Report on Form 10-K. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this Quarterly Report on Form 10-Q, particularly under the heading Risk Factors.

Overview

Background

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

Our integrated content platform consists of a network of over 130 websites that we complement with targeted in-person events. Throughout the critical stages of the purchase decision process, our content offerings meet IT professionals' needs for expert, peer and IT vendor information, and provide a platform on which IT vendors can launch targeted marketing campaigns that generate measurable, high Return on Investment (ROI). As IT professionals have become increasingly specialized, they have come to rely on our sector-specific websites for purchasing decision support. Our content enables IT professionals to navigate the complex and rapidly changing IT landscape where purchasing decisions can have significant financial and operational consequences. Based upon the logical clustering of our users' respective job responsibilities and the marketing focus of the products that our customers are advertising, we currently categorize our content offerings across nine distinct media groups: Application Architecture and Development; Channel; CIO/IT Strategy; Data Center and Virtualization Technologies; Business Applications and Analytics; Networking; Security; Storage; and TechnologyGuide.com.

Executive Summary

During 2012 and the six-month period ended June 30, 2013, we made progress on our strategy to grow our business and increase the reach of our offerings. It continues to be the case that, central to these efforts, is the progress that we are making with our new product platform, Activity Intelligence , and the continued expansion of our direct international capabilities.

Key strategic activities during the period ended June 30, 2013 included:

International Update Our international business continues to grow at a healthy rate. Online geo-targeted revenue in EMEA was up approximately 33% in the quarter versus the prior year quarter. The overall international geo-targeted online revenue increase was approximately 39% in the quarter versus the same period a year ago. Online geo-targeted revenues represented 30% of online revenue in the second quarter. We believe that our integrated product offering across regions continues to resonate with international marketers and is contributing to our successful results. We plan on continuing to invest in these capabilities as we seek opportunities to increase our global reach. As noted previously, we acquired our French partner, LeMagIT, in late 2012 and now operate directly in France.

Site launches: In the three-month period ended June 30, 2013, we launched the following six (6) new German Language websites:

SearchDataCenter.de, SearchNetworking.de, SearchSecurity.de, SearchStorage.de and SearchEnterpriseSoftware.de, which are websites that contain, in the German language, assets similar to those in our .com website of a similar domain name, as well as de.Bitpipe.com, an extensive German-language white paper, webcast and video IT library with more than 200 German language assets.

IT Deal Alert Based on feedback from the early adopters of IT Deal Alert, we recently rolled out our second IT Deal Alert product called Qualified Sales Opportunities. Our customers have informed us that while they value the intelligence and predictive analytics that we are providing it would be even more valuable if we could also conduct the first level of follow up. As a result, we began offering Qualified Sales Opportunities as an additional product in the second quarter. We are currently in the midst of rolling this quarterly subscription service out in approximately 60 different market segments. While some of our customers will continue with the original IT Deal Alert service, we expect many will migrate to Qualified Sales Opportunities and it will be our primary offering to get new customers to test IT Deal Alert.

Table of Contents

Business Trends

The following discussion highlights key trends affecting our business.

Macro-economic Conditions and Industry Trends. Because all of our customers are IT vendors, the success of our business is intrinsically linked to the health, and subject to market conditions, of the IT industry. In the three-month period ended June 30, 2013, we saw continued weakness in the IT market. As a result, we have continued to see evidence that some IT vendors' North American advertising budgets are being cut, which is negatively affecting our growth rate. Additionally this deceleration has affected all segments of our customer base. As a result, until management is able to better determine if the pullback in spending by our customers is a temporary condition or a new level of spending, although we will continue to invest in growth areas, management will carefully control discretionary spending such as travel and entertainment, and the filling of new and replacement positions, in an effort to maintain profit margins and cash flow.

Customer Segments. In the three-month period ended June 30, 2013, revenue from our top 12 global customers declined by approximately 20%, our mid-sized customers (our next largest 100 customers) declined by approximately 1% and our smaller customers declined by approximately 17%. All three of our customer segments continue to report seeing a weak environment with lower demand and customers delaying IT purchases, which is resulting in elongated purchase cycles. This translates into our customers being very cautious with their marketing expenditures.

Sources of Revenues

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

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

Online. Online revenue represented 88% and 87% of total revenues for the three months ended June 30, 2013 and 2012, respectively and 91% and 90% of total revenues for the six months ended June 30, 2013 and 2012, respectively. Our network of websites forms the core of our content platform. Our websites provide IT professionals with comprehensive decision support information tailored to their specific areas of responsibility and purchasing decisions. Through our websites, we offer a variety of online media offerings to connect IT vendors to IT professionals. Our lead generation offerings allow IT vendors to maximize ROI by capturing qualified sales leads from the distribution and promotion of content to our audience of IT professionals. In August of 2011, TechTarget released a major upgrade to its Activity Intelligence platform. Beginning in 2012, all of our lead generation campaigns offer the Activity Intelligence Dashboard.

Our lead generation offerings include the Activity Intelligence Dashboard, a technology platform that gives TechTarget's customers' marketers and sales representatives a real-time view of their prospects, which includes insights on the research activities of technology buying teams, including at an account level. Lead generation offerings may also include an additional service, Nurture & Qualify (formerly called Nurture & Notify), which helps both technology marketers and their sales teams to identify highly active prospects, detect emerging projects, retarget interested buying teams, and accelerate engagement with specific accounts.

Table of Contents

Our lead generation offerings may also include the syndication of the following:

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

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

Our branding offerings provide IT vendors exposure to targeted audiences of IT professionals actively researching information related to their products and services and include display advertising and custom offerings. Display advertising can be purchased on specific websites within our network and against specific technology segments. These offerings give IT vendors the ability to increase their brand awareness to highly specialized IT sectors.

Our other offerings include the following:

Custom Content Creation. In support of our advertisers' lead generation programs, we will sometimes create white papers, case studies, webcasts, or videos to our customers' specifications through our Custom Media team. These content assets are then promoted to our audience in the context of the advertisers' lead generation programs. Our custom offerings allow customers to have content or entire microsites created that focus on topics related to their marketing objectives and include promotion of these vehicles to our users.

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

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

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

IT Deal Alert. A service designed to grow sales pipelines by providing our customers with alerts on active technology deals.

Events. Events revenue represented 12% and 13% of total revenues for the three months ended June 30, 2013 and 2012, respectively and 9% and 10% of total revenues for the six months ended June 30, 2013 and 2012, respectively. Most of our media groups operate revenue generating events. The majority of our events are free to IT professionals and are sponsored by IT vendors. Attendees are pre-screened based on event-specific criteria such as sector-specific budget size, company size, or job title. We offer three types of events: multi-day conferences, single-day seminars and custom events. Multi-day conferences provide independent expert content for our attendees and allow vendors to

Edgar Filing: TechTarget Inc - Form 10-Q

purchase exhibit space and other sponsorship offerings that enable interaction with the attendees. We also hold single-day seminars on various topics in major cities. These seminars provide independent content on key sub-topics in the sectors we serve, are free to qualified attendees, and offer multiple vendors the ability to interact with specific, targeted audiences actively focused on buying decisions. Our custom events differ from our seminars in that they are exclusively sponsored by a single IT vendor, and the content is driven primarily by the sole sponsor.

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; facilities expenses; accounting, legal and other professional fees; and stock-based compensation expenses.

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

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 ten 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, goodwill, the allowance for doubtful accounts, stock-based compensation, earnouts, self-insurance accruals and income taxes. We based our estimates of the carrying value of certain assets and liabilities on historical experience and on various other assumptions that we believe to be reasonable. In many cases, we could reasonably have used different accounting policies and estimates. In some cases, changes in the accounting estimates are reasonably likely to occur from period to period. Our actual results may differ from these estimates under different assumptions or conditions.

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

Revenue Recognition

Edgar Filing: TechTarget Inc - Form 10-Q

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

Table of Contents

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

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

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

Beginning in the period ended March 31, 2012, our lead generation campaigns all offer the Activity Intelligence Dashboard. In order to manage the lead generation component of the campaigns (such as white papers, webcasts, podcasts, videocasts and virtual trade shows), we have changed our operational approach and the contractual terms and conditions under which we sell our products. Instead of contracting to sell individual elements of such campaigns, we sell various lead generation campaigns through the Dashboard. Accordingly, revenue is recognized ratably over the duration of the campaigns, which is typically less than six months. Lead generation offerings may also include an additional service, Nurture & Qualify, in which case revenue is recognized ratably over the period of the campaign as a combined unit of accounting. As part of these offerings, we guarantee a minimum number of qualified leads to be delivered over the course of the advertising campaign. We determine the content necessary to achieve performance guarantees. Scheduled end dates of advertising campaigns sometimes need to be extended, pursuant to the terms of the arrangement, to satisfy lead guarantee obligations. We estimate a revenue reserve necessary to adjust revenue recognition for extended advertising campaigns. These estimates are based on our experience in managing and fulfilling these offerings. The customer has cancellation privileges which generally require advance notice by the customer and require proportional payment by the customer for the portion of the campaign period that has been provided. Additionally, we offer sales incentives to certain customers, primarily in the form of volume rebates, which are classified as a reduction of revenues and are calculated based on the terms of the specific customer's contract. We accrue for these sales incentives based on contractual terms and historical experience.

Revenue for other significant online media offerings is recognized as follows:

Custom Content Creation. Custom content revenue is recognized when the creation is completed and delivered to the customer, with the exception of microsites which are recognized over the period during which they are live.

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

List Rentals and IT Deal Alert. List rental and IT Deal Alert revenue is recognized in the period in which delivery is made to our customers.

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

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

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

Edgar Filing: TechTarget Inc - Form 10-Q

Event Sponsorships. We 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.

Table of Contents

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, capitalized software, 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 determine 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 ten 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, using a discounted cash flow approach to fair value determinations.

Fair Value of Financial Instruments

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

Allowance for Doubtful Accounts

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

The allowance for doubtful accounts was \$0.8 million at June 30, 2013 and \$0.9 million at December 31, 2012.

Stock-Based Compensation

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

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 determine the volatility for options granted 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. There were no options granted during the three or six months ended June 30, 2013 or 2012.

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 state at which costs may be capitalized, in assessing the ongoing value of the capitalized costs and in determining the estimated useful lives over

Table of Contents

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 \$1.0 million and \$0.7 million for the three months ended June 30, 2013 and 2012, respectively, and \$2.0 million and \$1.6 million for the six months ended June 30, 2013 and 2012, respectively.

Income Taxes

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

Our deferred tax assets are comprised primarily of book to tax differences on stock-based compensation, timing of deductions for deferred rent and accrued expenses, and net operating loss (NOL) carryforwards. As of December 31, 2012, we had state NOL carryforwards of approximately \$17.6 million, which may be used to offset future taxable income. The NOL carryforwards expire through 2029. We also have foreign NOL carryforwards of \$0.7 million, which may be used to offset future taxable income in foreign jurisdictions until they expire, through 2017.

Net Income (Loss) Per Share

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

Results of Operations

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2013		2012		2013		2012	
	(\$ in thousands)							
Revenues:								
Online	\$ 20,371	88%	\$ 23,038	87%	\$ 38,846	91%	\$ 45,109	90%
Events	2,727	12	3,331	13	3,800	9	4,974	10
Total revenues	23,098	100	26,369	100	42,646	100	50,083	100
Cost of revenues:								
Online	6,138	27	5,949	23	12,066	28	11,990	24
Events	1,087	5	1,154	4	1,763	4	1,917	4
Total cost of revenues	7,225	31	7,103	27	13,829	32	13,907	28
Gross profit	15,873	69	19,266	73	28,817	68	36,176	72
Operating expenses:								

Edgar Filing: TechTarget Inc - Form 10-Q

Selling and marketing	9,093	39	9,227	35	18,213	43	18,390	37
Product development	1,676	7	1,881	7	3,417	8	3,736	7
General and administrative	3,645	16	2,979	11	6,952	16	6,627	13
Depreciation	985	4	811	3	1,857	4	1,578	3
Amortization of intangible assets	548	2	874	3	1,282	3	1,812	4

Table of Contents

Total operating expenses	15,947	69	15,772	60	31,721	74	32,143	64
Operating (loss) income	(74)	*	3,494	13	(2,904)	(7)	4,033	8
Interest (expense) income, net	(9)	*	23	*	(6)	*	47	*
(Loss) income before provision for (benefit from) income taxes	(83)	*	3,517	13	(2,910)	(7)	4,080	8
Provision for (benefit from) income taxes	788	3	1,552	6	(497)	(1)	1,750	3
Net (loss) income	\$ (871)	(4)%	\$ 1,965	7%	\$ (2,413)	(6)%	\$ 2,330	5%

* Not meaningful

Comparison of Three Months Ended June 30, 2013 and 2012**Revenues**

	Three Months Ended June 30,			
	2013	2012	Increase (Decrease) (Unaudited)	Percent Change
(\$ in thousands)				
Revenues:				
Online	\$ 20,371	\$ 23,038	\$ (2,667)	(12)%
Events	2,727	3,331	(604)	(18)
Total revenues	\$ 23,098	\$ 26,369	\$ (3,271)	(12)%

Online. The decrease in online revenue was attributable to a \$3.1 million decrease in lead generation offerings as well as a \$0.7 million decrease in branding revenues, primarily due to lower banner sales volume. The decrease is primarily in North American sales, caused by continued delays in IT purchases due to uncertainty in the macro environment, and was offset in part by increases in international and third party revenues as well as revenues from new product offerings.

Events. The decrease in events revenue is primarily due to a reduction in custom events and seminars.

Cost of Revenues and Gross Profit

	Three Months Ended June 30,			
	2013	2012	Increase (Decrease) (Unaudited)	Percent Change
(\$ in thousands)				
Cost of revenues:				
Online	\$ 6,138	\$ 5,949	\$ 189	3%
Events	1,087	1,154	(67)	(6)
Total cost of revenues	\$ 7,225	\$ 7,103	\$ 122	2%

Edgar Filing: TechTarget Inc - Form 10-Q

Gross profit	\$ 15,873	\$ 19,266	\$ (3,393)	(18)%
--------------	-----------	-----------	------------	-------

Gross profit percentage 69% 73%

Cost of Online Revenues. The increase in cost of online revenues was primarily attributable to product mix and international expansion.

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

Gross Profit. Our gross profit is equal to the difference between our revenues and our cost of revenues for the period. Gross profit for the second quarter of 2013 was 69% as compared to 73% in the second quarter of 2012. The decrease in online gross profit was \$2.9 million, attributable to the decrease in online revenue and an increase in fixed costs due to product mix and international expansion, offset in part by a decrease in related variable costs as compared to

Table of Contents

the second quarter of 2012. Events gross profit decreased by \$0.5 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

	Three Months Ended June 30,			Percent Change
	2013	2012 (Unaudited)	Increase (Decrease)	
	(\$ in thousands)			
Operating expenses:				
Selling and marketing	\$ 9,093	\$ 9,227	\$ (134)	(1)%
Product development	1,676	1,881	(205)	(11)
General and administrative	3,645	2,979	666	22
Depreciation	985	811	174	21
Amortization of intangible assets	548	874	(326)	(37)
Total operating expenses	\$ 15,947	\$ 15,772	\$ 175	1%
Interest (expense) income, net	\$ (9)	\$ 23	\$ (32)	(139)%
Provision for income taxes	\$ 788	\$ 1,552	\$ (764)	(49)%

Selling and Marketing. Selling and marketing expenses decreased slightly year over year primarily due to a decrease in travel costs, for which there has been a focused reduction effort, offset in part by an increase in international employee-related expenses, including tax equalization, due to international expansion.

Product Development. The decrease in product development expense was primarily caused by a reduction in payroll and allocated costs due to these costs being capitalized at higher levels resulting from our ongoing internal development projects.

General and Administrative. The increase in general and administrative expense was attributable to increases in stock-based compensation, primarily due to grants made late in 2012, bad debt expense, legal fees and foreign currency-related charges due to our increased international activity.

Depreciation and Amortization of Intangible Assets. The increase in depreciation expense is related to our increased fixed asset base, primarily as a result of our continued investment in internal-use software development costs and computer equipment. The decrease in amortization of intangible assets expense was primarily attributable to certain intangible assets becoming fully amortized during 2012, partially offset by amortization on newly acquired intangible assets.

Interest Income, Net. The decrease in interest income, net, is due to the amortization of a discount on installment payments related to the purchase of LeMagIT in the fourth quarter of 2012.

Provision for Income Taxes. Our effective income tax rate was 949.4% and 44.1% for the three months ended June 30, 2013 and 2012, respectively. The effective income tax rate is based upon the estimated annual effective tax rate in compliance with ASC 740, *Income Taxes*, and other related guidance. We update the estimate of our annual effective tax rate at the end of each quarterly period. Our estimate takes into account estimations of annual pre-tax income, the geographic mix of pre-tax income and interpretations of tax laws. The second quarter 2013 income tax rate was based on revised projections for the year.

Comparison of Six Months Ended June 30, 2013 and 2012**Revenues**

Edgar Filing: TechTarget Inc - Form 10-Q

	Six Months Ended June 30,			
	2013	2012	Increase (Decrease) (Unaudited)	Percent Change
	(\$ in thousands)			
Revenues:				
Online	\$ 38,846	\$ 45,109	\$ (6,263)	(14)%
Events	3,800	4,974	(1,174)	(24)
Total revenues	\$ 42,646	\$ 50,083	\$ (7,437)	(15)%

Table of Contents

Online. The decrease in online revenue was primarily attributable to a \$5.3 million decrease in lead generation offerings as well as a \$2.0 million decrease in branding revenues, primarily due to lower banner sales volume and a slight decrease in third party revenues. The decrease is primarily in North American sales, caused by continued delays in IT purchases due to uncertainty in the macro environment, offset in part by an increase in international revenues as well as revenues from new product offerings.

Events. The decrease in events revenue is primarily due to a reduction in custom events and seminars.

Cost of Revenues and Gross Profit

	Six Months Ended June 30,			Percent Change
	2013	2012 (Unaudited)	Increase (Decrease)	
(\$ in thousands)				
Cost of revenues:				
Online	\$ 12,066	\$ 11,990	\$ 76	1%
Events	1,763	1,917	(154)	(8)
Total cost of revenues	\$ 13,829	\$ 13,907	\$ (78)	(1)%
Gross profit	\$ 28,817	\$ 36,176	\$ (7,359)	(20)%

Gross profit percentage 68% 72%

Cost of Online Revenues. The slight increase in cost of online revenues was primarily attributable to international expansion, offset in part by a reduction in variable direct and third party costs due to the decrease in online revenues year over year.

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

Gross Profit. Our gross profit is equal to the difference between our revenues and our cost of revenues for the period. Gross profit for the first half of 2013 was 68% as compared to 72% in the first half of 2012. The decrease in online gross profit was \$6.3 million, primarily attributable to the decrease in online revenue as compared to the second quarter of 2012. Events gross profit decreased by \$1.0 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

	Six Months Ended June 30,			Percent Change
	2013	2012 (Unaudited)	Increase (Decrease)	
(\$ in thousands)				
Operating expenses:				
Selling and marketing	\$ 18,213	\$ 18,390	\$ (177)	(1)%
Product development	3,417	3,736	(319)	(9)
General and administrative	6,952	6,627	325	5
Depreciation	1,857	1,578	279	18
Amortization of intangible assets	1,282	1,812	(530)	(29)

Edgar Filing: TechTarget Inc - Form 10-Q

Total operating expenses	\$ 31,721	\$ 32,143	\$ (422)	(1)%
Interest (expense) income, net	\$ (6)	\$ 47	\$ (53)	(113)%
(Benefit from) provision for income taxes	\$ (497)	\$ 1,750	\$ (2,247)	(128)%

Selling and Marketing. Selling and marketing expenses decreased slightly year over year primarily due to a decrease in travel costs, for which there has been a focused reduction effort, offset in part by an increase in international employee-related expenses, including tax equalization, due to international expansion.

Product Development. The decrease in product development expense was primarily caused by a reduction in payroll and allocated costs due to these costs being capitalized at higher levels resulting from our ongoing internal development projects.

Table of Contents

General and Administrative. The increase in general and administrative expense was primarily attributable to increases in stock-based compensation, primarily due to grants made late in 2012, bad debt expense, legal fees and foreign currency-related charges due to our increased international activity, offset in part by a reduction in employee-related and corporate expenses.

Depreciation and Amortization of Intangible Assets. The increase in depreciation expense is related to our increased fixed asset base, primarily as a result of our continued investment in internal-use software development costs and computer equipment. The decrease in amortization of intangible assets expense was primarily attributable to certain intangible assets becoming fully amortized during 2012, partially offset by amortization on newly acquired intangible assets.

Interest Income, Net. The decrease in interest income, net, is due to the amortization of a discount on installment payments related to the purchase of LeMagIT in the fourth quarter of 2012.

Provision for Income Taxes. Our effective income tax rate was 17.1% and 42.9% for the six months ended June 30, 2013 and 2012, respectively. The effective income tax rate is based upon the estimated annual effective tax rate in compliance with ASC 740, *Income Taxes*, and other related guidance. We update the estimate of our annual effective tax rate at the end of each quarterly period. Our estimate takes into account estimations of annual pre-tax income, the geographic mix of pre-tax income and interpretations of tax laws.

Seasonality

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

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

Liquidity and Capital Resources

Resources

At June 30, 2013, we had \$48.4 million of working capital, and our cash and cash equivalents totaled \$23.6 million. Our cash, cash equivalents and investments decreased \$13.8 million during the first half of fiscal 2013, primarily from cash used by our operations, by our investing activities, primarily for purchases of property and equipment, and financing activities, for the purchase of treasury shares through our stock repurchase program. We believe that our existing cash, cash equivalents, and investments, our cash flow from operating activities and available bank borrowings will be sufficient to meet our anticipated cash needs for at least the next 12 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, investments 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.

	June 30, 2013 (Unaudited)	December 31, 2012
	(\$ in thousands)	
Cash, cash equivalents and investments	\$ 62,531	\$ 76,340
Accounts receivable, net	\$ 27,780	\$ 24,185

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

Our cash, cash equivalents and investments at June 30, 2013 were held for working capital purposes and were invested primarily in money market accounts, municipal bonds and government agency bonds. We do not enter into investments for trading or speculative purposes.

Accounts Receivable, Net

Our accounts receivable balance fluctuates from period to period, which affects our cash flow from operating activities. The fluctuations vary depending on the timing of our service delivery and billing activity, cash collections, and changes to our allowance for doubtful accounts. We use days sales outstanding, (DSO), as a measurement of the quality and status of our receivables. We define DSO as net accounts receivable at period end divided by total revenue for the applicable period, multiplied by the number of days in the applicable period. DSO was 109 days for the quarter ended June 30, 2013 and 88 days at December 31, 2012. The increase in DSO is primarily due to the timing of payments from customers.

Cash Flows

	Six Months Ended	
	June 30,	
	2013	2012
	(Unaudited)	
	(\$ in thousands)	
Net cash (used in) provided by operating activities	\$ (598)	\$ 5,295
Net cash used in investing activities(1)	\$ (2,608)	\$ (2,377)
Net cash (used in) provided by financing activities	\$ (10,280)	\$ 1,023

- (1) Cash used in investing activities is shown net of investment activity of (\$11.3) million and (\$1.4) million for the six months ended June 30, 2013 and 2012, respectively.

Operating Activities

Cash (used in) provided by operating activities primarily consists of net (loss) 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 used in operating activities for the first half of 2013 was \$0.6 million compared to cash provided by operating activities of \$5.3 million in the first half of 2012. The increase in cash used in operating activities was primarily due to a \$2.4 million net loss during the period compared to \$2.3 million in net income during the first half of 2012. To a lesser extent, the increase in cash used in operating activities is a result of changes in operating assets and liabilities of \$(4.0) million in the first half of 2013 compared to \$(3.5) million in the first half of 2012. Significant components of the changes in assets and liabilities included an increase in prepaids and other current assets of \$3.3 million in 2013 as compared with an increase of \$1.1 million in 2012, primarily caused by tax and benefits-related receivables, offset in part by an increase in accrued expenses of \$0.2 million in 2013 compared to a decrease of \$1.0 million in 2012, primarily due to a \$1.4 million earnout payment made in the first quarter of 2012.

Investing Activities

Cash used in investing activities in the six months ended June 30, 2013, net of investment activity, was \$2.6 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.

Table of Contents

Equity Financing Activities

We received proceeds from the exercise of stock options in the amounts of \$0.9 million and \$0.8 million in the six months ended June 30, 2013 and 2012, respectively.

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

During the six months ended June 30, 2013 we repurchased 2,456,539 shares of common stock for approximately \$11.7 million pursuant to the Program. All repurchased shares are funded with cash on hand.

Term Loan and Credit Facility Borrowings

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

The Revolving Credit Facility matures on August 31, 2016. Unless earlier payment is required by an event of default, all principal and unpaid interest will be due and payable on August 31, 2016. At our option, the Revolving Credit Facility bears interest at either the prime rate less 1.00% or the London Interbank Offered Rate (LIBOR) plus the applicable LIBOR margin. The applicable LIBOR margin is based on the ratio of total funded debt to EBITDA for the preceding four fiscal quarters. As of June 30, 2013, the applicable LIBOR margin was 1.25%.

We are also required to pay an unused line fee on the daily unused amount of our Revolving Credit Facility at a per annum rate based on the ratio of total funded debt to EBITDA for the preceding four fiscal quarters. As of December 31, 2012, unused availability under the Revolving Credit Facility totaled \$3.2 million and the per annum unused line fee rate was 0.20%.

At June 30, 2013 and 2012 there were no amounts outstanding under this revolving loan agreement. There is a \$1.0 million standby letter of credit related to our corporate headquarters lease that is outstanding at June 30, 2013, bringing our available borrowings on the \$5.0 million facility to \$4.0 million.

Borrowings under the Credit Agreement are collateralized by a security interest in substantially all of our assets. Covenants governing the Credit Agreement include the maintenance of certain financial ratios. At June 30, 2013 we were in compliance with all covenants under the Credit Agreement.

Capital Expenditures

We have made capital expenditures primarily for computer equipment and related software needed to host our websites, internal-use software development costs, as well as for leasehold improvements and other general purposes to support our growth. Our capital expenditures totaled \$2.6 million and \$2.4 million for the six month periods ended June 30, 2013 and 2012, respectively. A majority of our capital expenditures in the first half of 2013 were internal-use development costs and, to a lesser extent, computer equipment and related software. We are not currently party to any purchase contracts related to future capital expenditures.

Contractual Obligations and Commitments

As of June 30, 2013, our principal commitments consist of obligations under leases for office space. The offices are leased under non-cancelable operating lease agreements that expire through 2020. The following table sets forth our commitments to settle contractual obligations in cash as of June 30, 2013:

Table of Contents

	Payments Due By Period				
	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
Operating leases	\$ 24,112	\$ 2,200	\$ 7,708	\$ 6,803	\$ 7,401

At June 30, 2013, we had an irrevocable standby letter of credit outstanding in the aggregate amount of \$1.0 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.

See Note 5 to the Consolidated Financial Statements for information regarding future payments related to the LeMagIT acquisition.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Recent Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily a result of fluctuations in foreign exchange rates and interest rates. We do not hold or issue financial instruments for trading purposes.

Foreign Currency Exchange Risk

We currently have subsidiaries in London, England; Hong Kong; Australia; Singapore; and Paris, France. Additionally, we have a wholly foreign-owned enterprise formed under the laws of the People's Republic of China, a VIE in Beijing, PRC and an office in India. Approximately 20% of our revenues for the six months ended June 30, 2013 were derived from advertisers located outside of North America and our foreign exchange gains/losses were not significant. We currently believe our exposure to foreign currency exchange rate fluctuations is financially immaterial and therefore have not entered into foreign currency hedging transactions. We continue to review this issue and may consider hedging certain foreign exchange risks through the use of currency futures or options in the future.

Interest Rate Risk

At June 30, 2013, we had cash, cash equivalents and investments totaling \$62.5 million. These amounts were invested primarily in money market accounts, municipal bonds and government agency 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, 2013, there were no amounts outstanding under our revolving credit facility.

Item 4. Controls and Procedures Disclosure Controls and Procedures

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

Edgar Filing: TechTarget Inc - Form 10-Q

SEC'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

As of June 30, 2013, management, under the supervision of the Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer), conducted an evaluation of disclosure controls and procedures. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There were no changes to our internal control over financial reporting that occurred during the quarter ended June 30, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

We are not currently a party to any material legal proceedings and we are not aware of any pending or threatened litigation against us that could have a material adverse effect on our business, operating results or financial condition. On January 6, 2012, the Company filed Petitions under Formal Procedure with the Massachusetts Appellate Tax Board in connection with the classification of the Company's wholly-owned subsidiary, TechTarget Securities Corporation, and assessments made by the Massachusetts Department of Revenue, as described in Note 13 in the accompanying consolidated financial statements. A trial date has been set for October 22, 2013. The Company intends to continue to dispute the assessment and believes it has meritorious claims which it intends to assert.

Item 1A. Risk Factors

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

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 the majority of our total revenues for the six months ended June 30, 2013. 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

Edgar Filing: TechTarget Inc - Form 10-Q

the occurrence of extraordinary events, such as natural disasters and international or domestic political and economic unrest. ***Because all of our customers are in the IT industry, our revenues are subject to characteristics of the IT industry that can affect advertising spending by IT vendors.***

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

weakness in corporate IT spending, resulting in a decline in IT advertising spending the Company has, in fact, seen continued weakness in corporate IT spending and that trend may continue;

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;

Table of Contents

reduced spending by combined entities following such consolidations;

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

economic conditions specific to the IT industry.

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

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. Any recent growth the Company has experienced internationally would be negatively affected by any upcoming downturn.

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

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

Table of Contents

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

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

the spending priorities and advertising budget cycles of specific advertisers;

the addition or loss of advertisers;

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

seasonal fluctuations in advertising spending.

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

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

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

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

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

Edgar Filing: TechTarget Inc - Form 10-Q

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 effect on our revenues.

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

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

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

We compete for potential advertisers with a number of different types of offerings and companies, including: broad-based media outlets, such as television, newspapers and business periodicals that are designed to reach a wide audience; general purpose portals and search engines; and offline and online offerings of media companies that produce content specifically for IT professionals, including International Data Group, United Business Media, QuinStreet and CNet. Advertisers may choose our competitors over us not only because they prefer our competitors online and events offerings to ours but also because advertisers prefer to utilize other forms of advertising offered by our competitors that are not offered by us and/or to diversify their advertising expenditures. Although approximately 20% of our revenues for

Table of Contents

the six months ended June 30, 2013 were derived from advertisers located outside of North America, as we continue to expand internationally, as we have in the last several years by commencing operations of our own websites in the United Kingdom, India, Spain, China and Australia, by acquiring the Computer Weekly and MicroScope properties from Reed Business Information Limited in the United Kingdom, by commencing operations in Singapore in February 2012 and, most recently, by acquiring LeMagIT in France, also in 2012, we expect to compete with many of the competitors mentioned above, as well as with established media companies based in particular countries or geographical regions. Many of these foreign-based media companies will be larger than we are and will have established relationships with local advertisers. Many of our current and potential competitors have longer operating histories, larger customer bases, greater brand recognition and significantly greater financial, marketing and other resources than we have. As a result, we could lose market share to our competitors in one or more of our businesses and our revenues could decline.

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

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

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

Our industry is rapidly adopting new technologies and standards to create and satisfy the demands of users and advertisers. It is critical that we continue to innovate by anticipating and adapting to these changes to ensure that our content-delivery and lead generation platforms and services remain effective and interesting to our users, advertisers and partners. In addition, we may discover that we must make significant expenditures to achieve these goals. If we fail to accomplish these goals, we may lose users and the advertisers that seek to reach those users, which could harm our operating results. Existing and planned efforts to develop new products, including any subscription-based offerings, may be costly and ultimately not successful.

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

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

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

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

Table of Contents

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

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

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

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

competition from other companies in hiring and retaining sales personnel.

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

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

difficulty in assimilating the operations and personnel of acquired businesses;

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

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

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

Table of Contents

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, or, if identified, stop them from continuing to infringe our intellectual property. We cannot be certain that third party licensees of our content will always take actions to protect the value of our proprietary rights and reputation. Intellectual property laws and our agreements may not be sufficient to prevent others from copying or otherwise obtaining and using our content or technologies. In addition, others may develop non-infringing technologies that are similar or superior to ours. In seeking to protect our marks, copyrights, domain names and other proprietary rights, or in defending ourselves against claims of infringement that may be with or without merit, we could face costly litigation and the diversion of our management's attention and resources. These claims could result in the need to develop alternative trademarks, content or technology or to enter into costly royalty or licensing agreements, which could have a material adverse effect on our business, results of operations and financial condition. We may not have, in all cases, conducted formal evaluations to confirm that our technology and services do not or will not infringe upon the intellectual property rights of third parties. As a result, we cannot be certain that our technology, offerings, services or online content do not or will not infringe upon the intellectual property rights of third parties. If we were found to have infringed on a third party's intellectual property rights, the value of our brands and our business reputation could be impaired, and our business could suffer.

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

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

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

We collect information from our users who register on our websites or for services or respond to surveys. Subject to each user's permission (or right to decline, which we refer to as an opt-out), a practice that may differ across our various websites, depending on the applicable regulatory requirements of different countries' laws), we may use this information to inform our users of services that they have indicated may be of interest to them. We may also share this information with our advertising clients for registered members who have elected to receive additional promotional materials and have granted us permission to share their information with third parties. We also collect information on our registered members and users based on their activity on our sites. The U.S. federal and various state governments have adopted or proposed limitations on the collection, distribution and use of personal information of Internet users. Additionally, several foreign jurisdictions, including the European Union, the United Kingdom and Canada, have adopted legislation (including directives or regulations) that may increase the requirements for collecting, or limit our collection and use of, information from Internet users in these jurisdictions. In addition, growing public concern about privacy, data security and the collection, distribution and use of personal information has led to self-regulation of these practices by the Internet advertising and direct marketing industry, and to increased federal and state regulation. In addition, on January 23, 2012, the Obama administration released a report that proposes a framework to address online consumer privacy. The administration's framework consists of four key elements including a Consumer Privacy Bill of Rights, a multi-stakeholder process to specify how the principles in the Consumer Privacy Bill of Rights apply in particular business contexts, effective FTC enforcement, and a commitment to increase interoperability with international privacy frameworks. The proposed Consumer Bill of Rights would notably allow consumers the right to exercise control over the collection and use of personal data, including the ability to access and correct personal data, for such personal data to be collected and used in accordance with easily understandable privacy and security policies and expect the secure and responsible handling of personal data. The Obama administration has asked the U.S. Department of Commerce to work with industry, privacy advocates and other stakeholders to create and implement enforceable codes of conduct based on the White House report. Because many of the proposed laws or regulations are in their early stages, we cannot yet determine the impact these regulations may have on our business over time. Although, to date, our efforts to comply with applicable federal and state laws and regulations have not hurt our business, additional, more burdensome laws or regulations, including more restrictive consumer privacy and data security laws, could be enacted or applied to us or our customers. Such laws or regulations could impair our ability to collect user information that helps us to provide more targeted advertising to our users and detailed lead data to our advertising clients, thereby impairing our ability to maintain and grow our audience and maximize advertising revenue from our clients. Additionally, the FTC and many

Table of Contents

state attorneys general are applying federal and state consumer protection laws to require that the online collection, use and dissemination of data, and the presentation of Web site content, comply with certain standards for notice, choice, security and access. Courts may also adopt these developing standards. In many cases, the specific limitations imposed by these standards are subject to interpretation by courts and other governmental authorities. A few states have also introduced legislation that, if enacted, would restrict or prohibit behavioral advertising within the state. In the absence of a federal law pre-empting their enforcement, such state legislation would likely have the practical effect of regulating behavioral advertising nationwide because of the difficulties behind implementing state-specific policies or identifying the location of a particular user. In the event of additional legislation in this area, our ability to effectively target our users may be limited. We believe that we are in compliance with applicable consumer protection laws that apply to us, but a determination by a state or federal agency or court that any of our practices do not meet these regulations could create liability to us, result in adverse publicity and affect negatively our businesses. New interpretations of these standards could also require us to incur additional costs and restrict our business operations. In addition, several foreign governmental bodies, including the European Union, the United Kingdom and Canada have regulations dealing with the collection and use of personal information obtained from their citizens. 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 e-mail address or a name. Further, within the European Union, certain member state data protection authorities regard IP addresses as personal information, and legislation adopted recently in the European Union requires informed consent for the placement of a cookie on a user device. We believe that we are in material compliance with such regulations as applicable to us; however, such regulations and laws may be modified and new laws may be enacted in the future. Any such developments (or developments stemming from enactment or modification of other laws) or the failure to anticipate accurately the application or interpretation of these laws could create liability to us, result in adverse publicity and negatively affect our businesses.

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

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, France and Australia, as well as operations in China, sales operations in Singapore, and Spanish, French and German language websites. In addition to facing many of the same challenges we face domestically, there are additional risks and costs inherent in expanding our business in international markets, including:

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

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

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

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

more extensive labor regulation, which may vary by country;

difficulties in staffing and managing multinational operations;

Table of Contents

difficulties in finding appropriate foreign licensees or joint venture partners;

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

foreign political and economic uncertainty;

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

currency exchange-rate fluctuations; and

potential adverse tax requirements.

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

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

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

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

privacy, data security and use of personally identifiable information;

copyrights, trademarks and domain names; and

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

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

decrease the growth rate of the Internet;

reduce our revenues;

increase our operating expenses; or

expose us to significant liabilities.

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

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

Due to the nature of content published on our online network, including content placed on our online network by third parties, and as a creator and distributor of original content and research, we face potential liability based on a variety of theories, including defamation, negligence, copyright or trademark infringement, or other legal theories based on the nature, creation or distribution of this information. Such claims may also include, among others, claims that by

Table of Contents

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 comments and opinions that are not moderated. Some of this user-generated content may infringe on third party intellectual property rights or privacy rights or may otherwise be subject to challenge under copyright laws. Such claims, whether brought in the United States or abroad, could divert management time and attention away from our business and result in significant cost to investigate and defend, regardless of the merit of these claims. In addition, if we become subject to these types of claims and are not successful in our defense, we may be forced to pay substantial damages. Our insurance may not adequately protect us against these claims. The filing of these claims may also damage our reputation as a high quality provider of unbiased, timely analysis and result in client cancellations or overall decreased demand for our services.

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

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

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

Our operations are dependent on our communications systems and computer hardware, all of which are located in data centers operated by third parties. These systems could be damaged by fire, floods, earthquakes, power loss, telecommunication failures and similar events. Our insurance policies have limited coverage levels for loss or damages in these events and may not adequately compensate us for any losses that may occur. In addition, terrorist acts or acts of war may cause harm to our employees or damage our facilities, our clients, our 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 depends on the satisfactory performance, reliability and availability of our Internet infrastructure. Our Internet advertising revenues relate directly to the number of advertisements and other marketing opportunities delivered to our users. System interruptions or delays that result in the unavailability of Internet sites or slower response times for users would reduce the number of advertising impressions and leads delivered. This could reduce our revenues as the attractiveness of our sites to users and advertisers decreases. Our insurance policies provide only limited coverage for service interruptions and may not adequately compensate us for any losses that may occur due to any failures or interruptions in our systems. Further, we do not have multiple site capacity for all of our services in the event of any such occurrence.

We may experience service disruptions for the following reasons:

occasional scheduled maintenance;

equipment failure;

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

Edgar Filing: TechTarget Inc - Form 10-Q

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,

Table of Contents

and may experience outages or delays in the future. Moreover, our Internet infrastructure might not be able to support continued growth of our online networks or websites. Any of these problems could result in less traffic to our networks or websites or harm the perception of our networks or websites as reliable sources of information. Less traffic on our networks and websites or periodic interruptions in service could have the effect of reducing demand for advertising on our networks or websites, thereby reducing our advertising revenues.

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

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

If we do not maintain proper and effective disclosure controls and procedures and internal controls over financial reporting, our ability to produce accurate financial statements could be impaired, which could adversely affect our operating results, our ability to operate our business and investors' views of us.

Ensuring that we have adequate disclosure controls and procedures, including internal financial and accounting controls and procedures, in place to help ensure that we can produce accurate financial statements on a timely basis is a costly and time-consuming effort that needs to be re-evaluated frequently. On an ongoing basis, both we and our independent auditors document and test our internal controls and procedures in connection with the requirements of Section 404 of the Sarbanes-Oxley Act and, as part of that documentation and testing, identify areas for further attention and improvement. Implementing any appropriate changes to our internal controls may entail substantial costs in order to modify our existing accounting systems, take a significant period of time to complete and distract our officers, directors and employees from the operation of our business. These changes may not, however, be effective in maintaining the adequacy of our internal controls, and any failure to maintain that adequacy, or consequent inability to produce accurate financial statements on a timely basis, could increase our operating costs and could materially impair our ability to operate our business. In addition, investors' perceptions that our internal controls are inadequate or that we are unable to produce accurate financial statements may seriously affect our stock price.

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.

Table of Contents

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

In the course of our operating history, we have acquired assets and businesses. Some of our acquisitions have resulted in the recording of a significant amount of goodwill and/or intangible assets on our financial statements. We had approximately \$99.8 million of goodwill and net intangible assets as of June 30, 2013. The goodwill and/or intangible assets were recorded because the fair value of the net tangible assets acquired was less than the purchase price. We may not realize the full value of the goodwill and/or intangible assets. As such, we evaluate goodwill and other intangible assets with indefinite useful lives for impairment on an annual basis or more frequently if events or circumstances suggest that the asset may be impaired. We did not have any intangible assets with indefinite lives as of June 30, 2013 or December 31, 2012. We evaluate other intangible assets subject to amortization whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable. If goodwill or other intangible assets are determined to be impaired, we will write off the unrecoverable portion as a charge to our earnings. If we acquire new assets and businesses in the future, as we intend to do, we may record additional goodwill and/or intangible assets. The possible write-off of the goodwill and/or intangible assets could negatively impact our future earnings and, as a result, the market price of our common stock could decline.

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

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

our operating performance and the operating performance of similar companies;

the overall performance of the equity markets;

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

threatened or actual litigation;

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

any change in our board of directors or management;

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

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

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

general political and economic conditions.

Edgar Filing: TechTarget Inc - Form 10-Q

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

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

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

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

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

permit directors to be removed only for cause;

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

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

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

If our existing stockholders sell, or indicate the intent to sell, substantial amounts of our common stock in the public market, the trading price of our common stock could decline significantly. A large portion of our outstanding shares of common stock is held by our officers, directors and significant stockholders. Two of the largest percentages of our shares are owned by venture capital funds, which are typically structured to have a finite life. As these venture capital

Table of Contents

funds approach or pass the respective terms of the fund, the decision to sell or hold our stock may be based not only on the underlying investment merits of our stock but also on the requirements of their internal fund structure. Our directors, executive officers and significant stockholders beneficially own approximately 24 million shares of our common stock, which represents 63% of our shares outstanding as of June 30, 2013. If these additional shares are sold, or if it is perceived that they will be sold in the public market, the trading price of our common stock could decline substantially.

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

Our directors, executive officers and significant stockholders beneficially own approximately 63% of our outstanding common stock. These stockholders, if they act together, could exert substantial influence over matters requiring approval by our stockholders, including the election of directors, the amendment of our certificate of incorporation and bylaws and the approval of mergers or other business combination transactions. This concentration of ownership may discourage, delay or prevent a change in control of our company, which could deprive our stockholders of an opportunity to receive a premium for their stock as part of a sale of our company and might reduce our stock price. These actions may be taken even if they are opposed by other stockholders.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds*(a) Sales of Unregistered Securities*

None.

(b) Use of Proceeds from Registered Securities

None.

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

The following table provides information about purchases by the Company during the quarter ended June 30, 2013 of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act.

Issuer Purchases of Equity Securities

Period		Total Number of Shares Purchased	Average Price Paid Per Share *	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
April 1, 2013	April 30, 2013	146,937	\$ 4.52	146,937	\$ 19,501,348
May 1, 2013	May 31, 2013	105,708	\$ 4.44	105,708	\$ 9,041,448
June 1, 2013	June 30, 2013	110,343	\$ 4.32	110,343	\$ 8,570,098
Total (2)		362,988	\$ 4.44	362,988	\$ 8,091,276

⁽¹⁾ On August 7, 2012, the Board of Directors announced the approval of a Stock Repurchase Program (the Program), which authorized the Company to purchase up to \$20 million of shares of its common stock from time to time on the open market or in privately negotiated transactions. The expiration date of this Program is December 31, 2013.

- (2) All shares were repurchased under the Program.
* Price excludes commission of approximately \$0.02 per share.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

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

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TECHTARGET, INC

(Registrant)

Date: August 9, 2013

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

Date: August 9, 2013

By: */s/ JANICE KELLIHER*
Janice Kelliher, *Chief Financial Officer and*
Treasurer
(Principal Accounting and Financial Officer)

Table of Contents

Exhibit Index

Exhibit No.	Description of Exhibit
31.1	Certification of Greg Strakosch, Chief Executive Officer of TechTarget, Inc., pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, dated August 9, 2013.
31.2	Certification of Janice Kelliher, Chief Financial Officer and Treasurer of TechTarget, Inc., pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, dated August 9, 2013.
32.1*	Certifications of Greg Strakosch, Chief Executive Officer of TechTarget, Inc. and Janice Kelliher, Chief Financial Officer and Treasurer of TechTarget, Inc. pursuant to 18 U.S.C. Section 1350, dated August 9, 2013.
101 **	The following materials from TechTarget Inc. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Cash Flows, and (iv) Condensed Notes to Consolidated Financial Statements (unaudited).

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

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