

TechTarget Inc  
Form 10-Q  
November 09, 2010

**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 September 30, 2010**

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

**For the transition period from**

**to**

**Commission File Number: 1-33472  
TECHTARGET, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**04-3483216**

(I.R.S. Employer  
Identification No.)

**275 Grove Street**

**Newton, Massachusetts 02466**

(Address of principal executive offices) (zip code)

**(617) 431-9200**

(Registrant's telephone number, including area code)

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

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

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

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer   
(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 42,652,132 shares of Common Stock, \$0.001 par value per share, outstanding as of October 29, 2010.



**TABLE OF CONTENTS**

<b>Item</b>	<b>Page</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<b><u>Item 1. Financial Statements</u></b>	
<u>Consolidated Balance Sheets as of September 30, 2010 (unaudited) and December 31, 2009</u>	3
<u>Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2010 and 2009 (unaudited)</u>	4
<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2010 and 2009 (unaudited)</u>	5
<u>Notes to Consolidated Financial Statements</u>	6
<b><u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	20
<b><u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u></b>	34
<b><u>Item 4. Controls and Procedures</u></b>	35
<b><u>PART II. OTHER INFORMATION</u></b>	
<b><u>Item 1. Legal Proceedings</u></b>	38
<b><u>Item 1A. Risk Factors</u></b>	38
<b><u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	50
<b><u>Item 3. Defaults upon Senior Securities</u></b>	50
<b><u>Item 4. [Removed and reserved]</u></b>	51
<b><u>Item 5. Other Information</u></b>	51
<b><u>Item 6. Exhibits</u></b>	51
<b><u>Signatures</u></b>	52
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	

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

## Item 1. Financial Statements

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

	<b>September 30, 2010 (Unaudited)</b>	<b>December 31, 2009</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 23,810	\$ 20,884
Short-term investments	42,877	50,496
Accounts receivable, net of allowance for doubtful accounts of \$515 and \$483 as of September 30, 2010 and December 31, 2009, respectively	23,593	16,623
Prepaid expenses and other current assets	1,423	1,929
Deferred tax assets	945	2,399
Total current assets	92,648	92,331
Property and equipment, net	6,087	3,760
Long-term investments	18,177	11,177
Goodwill	90,222	88,958
Intangible assets, net of accumulated amortization	10,841	12,528
Deferred tax assets	7,987	5,182
Other assets	119	127
Total assets	\$ 226,081	\$ 214,063
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Accounts payable	\$ 2,986	\$ 3,106
Accrued expenses and other current liabilities	2,438	2,910
Accrued compensation expenses	1,347	808
Income taxes payable	812	398
Deferred revenue	9,083	8,402
Total current liabilities	16,666	15,624
Long-term liabilities:		
Other liabilities	3,955	575
Total liabilities	20,621	16,199
Commitments and contingencies (Note 9)		
Stockholders equity:		
Preferred stock, 5,000,000 shares authorized; no shares issued or outstanding		
Common stock, \$0.001 par value per share, 100,000,000 shares authorized, 42,647,623 and 42,109,965 shares issued and outstanding at September 30, 2010 and December 31, 2009, respectively	43	42

Edgar Filing: TechTarget Inc - Form 10-Q

Additional paid-in capital	243,733	233,555
Warrants		2
Accumulated other comprehensive (loss) income	(67)	8
Accumulated deficit	(38,249)	(35,743)
Total stockholders' equity	205,460	197,864
Total liabilities and stockholders' equity	\$ 226,081	\$ 214,063

See accompanying notes.

3

---

**Table of Contents**

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>(Unaudited)</b>			
Revenues:				
Online	\$ 18,878	\$ 18,191	\$ 58,065	\$ 52,274
Events	3,123	4,865	10,052	10,991
Total revenues	22,001	23,056	68,117	63,265
Cost of revenues:				
Online(1)	4,574	4,789	13,902	14,445
Events(1)	1,084	1,741	3,250	4,277
Total cost of revenues	5,658	6,530	17,152	18,722
Gross profit	16,343	16,526	50,965	44,543
Operating expenses:				
Selling and marketing(1)	8,568	9,157	26,472	24,696
Product development(1)	1,947	2,276	6,153	6,551
General and administrative(1)	4,535	4,973	14,834	12,956
Depreciation	592	510	1,759	1,544
Amortization of intangible assets	1,126	1,166	3,401	3,562
Total operating expenses	16,768	18,082	52,619	49,309
Operating loss	(425)	(1,556)	(1,654)	(4,766)
Interest income, net	79	130	270	194
Loss before provision for (benefit from) income taxes	(346)	(1,426)	(1,384)	(4,572)
Provision for (benefit from) income taxes	266	12	1,122	(283)
Net loss	\$ (612)	\$ (1,438)	\$ (2,506)	\$ (4,289)
Net loss per common share:				
Basic and Diluted	\$ (0.01)	\$ (0.03)	\$ (0.06)	\$ (0.10)
Weighted average common shares outstanding:				
Basic and Diluted	43,209	41,812	42,878	41,775
(1) Amounts include stock-based compensation expense as follows:				
Cost of online revenues	\$ (38)	\$ 95	\$ 136	\$ 407
Cost of events revenues	23	64	69	117
Selling and marketing	1,708	1,992	5,172	4,798
Product development	104	89	420	352
General and administrative	785	2,008	3,369	3,818

See accompanying notes.





**Table of Contents**

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

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(Unaudited)</b>	
<b>Operating Activities:</b>		
Net loss	\$ (2,506)	\$ (4,289)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	5,160	5,106
Provision for bad debt	74	105
Amortization of investment premiums	1,214	1,247
Stock-based compensation expense	9,166	9,492
Non-cash interest expense		7
Deferred tax benefit	(1,805)	(1,013)
Excess tax benefit stock options	(211)	
Changes in operating assets and liabilities, net of businesses acquired:		
Accounts receivable	(6,266)	1,901
Prepaid expenses and other current assets	506	1,285
Other assets	8	39
Accounts payable	(120)	(79)
Income taxes payable	1,260	59
Accrued expenses and other current liabilities	(472)	(1,058)
Accrued compensation expenses	539	(65)
Deferred revenue	111	525
Other liabilities	1,936	283
 Net cash provided by operating activities	 8,594	 13,545
<b>Investing activities:</b>		
Purchases of property and equipment, and other assets	(4,041)	(1,141)
Purchases of investments	(38,256)	(39,575)
Proceeds from sales and maturities of investments	37,545	27,050
Acquisition of businesses	(1,790)	
 Net cash used in investing activities	 (6,542)	 (13,666)
<b>Financing activities:</b>		
Payments on bank term loan payable		(2,250)
Excess tax benefit stock options	211	
Proceeds from exercise of stock options	663	125
 Net cash provided by (used in) financing activities	 874	 (2,125)
Net increase (decrease) in cash and cash equivalents	2,926	(2,246)
Cash and cash equivalents at beginning of period	20,884	24,130
 Cash and cash equivalents at end of period	 \$ 23,810	 \$ 21,884

**Supplemental disclosure of cash flow information:**

Edgar Filing: TechTarget Inc - Form 10-Q

Cash paid for interest	\$	\$	102
Cash paid (refunded) for taxes	\$	1,341	\$ (959)

See accompanying notes.

5

---

**Table of Contents**

**TECHTARGET, INC.**  
**Notes to Consolidated Financial Statements**  
**(In thousands, except share and per share data)**

**1. Organization and Operations**

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

The Company's integrated content platform consists of a network of more than 80 websites that are complemented with targeted in-person events. During the critical stages of the purchase decision process, these content offerings meet IT professionals' needs for expert, peer and IT vendor information, and provide a platform on which IT vendors can launch targeted marketing campaigns that generate measurable, high return on investment (ROI). As IT professionals have become increasingly specialized, they have come to rely on the Company's sector-specific websites for purchasing decision support. The Company's content enables IT professionals to navigate the complex and rapidly changing IT landscape where purchasing decisions can have significant financial and operational consequences. Based upon the logical clustering of users' respective job responsibilities and the marketing focus of the products that the Company's customers are advertising, content offerings are currently categorized across ten distinct media groups: Application Development; Channel; CIO/IT Strategy; Data Center and Virtualization Technologies; Enterprise Applications; Networking; Security; Storage; TechnologyGuide.com; and Vertical Software.

**2. Summary of Significant Accounting Policies**

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

***Principles of Consolidation***

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, which include KnowledgeStorm, Inc., Bitpipe, Inc., TechTarget Securities Corporation, TechTarget Limited and TechTarget (HK) Limited. KnowledgeStorm, Inc. and Bitpipe, Inc. are leading websites providing in-depth vendor generated content targeted toward corporate IT professionals. TechTarget Securities Corporation is a Massachusetts Securities Corporation incorporated in 2004. TechTarget Limited is a subsidiary doing business principally in the United Kingdom. TechTarget (HK) Limited is a subsidiary incorporated in Hong Kong in August 2010 in order to facilitate the Company's activities in Asia-Pac. All significant intercompany accounts and transactions 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 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, 2009.

***Reclassifications***

Certain amounts in the prior years' financial statements have been reclassified to conform with the current year presentation.

**Table of Contents**

***Use of Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Revenue Recognition***

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

Although each of the Company's online media offerings can be sold separately, the majority of the Company's online media sales involve multiple online offerings. Because objective evidence of fair value does not exist for all elements in the Company's bundled advertising campaigns, no allocation can be made among the various elements, and the Company recognizes revenue on all items ratably over the term of the arrangement.

*Event Sponsorships.* Sponsorship revenue from events is recognized upon completion of the event in the period the event occurs. The majority of the Company's events are free to qualified attendees; however, certain events are based on a paid attendee model. The Company recognizes revenue for paid attendee events upon completion of the event and receipt of payment from the attendee. Amounts collected or billed prior to satisfying the above revenue recognition criteria are recorded as deferred revenue.

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

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

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

*Software Package Comparisons.* Software package comparison revenue is recognized ratably over the period in which the software information is available on the Company's websites or in the period in which leads are delivered, depending on the pricing model.

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

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

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

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

*Third Party Revenue Sharing Arrangements.* Revenue from third party revenue sharing arrangements is recognized on a net basis in the period in which the services are performed.

The Company offers customers the ability to purchase integrated ROI program offerings, which can include any of its online media offerings packaged together to address the particular customer's specific advertising requirements.

As part of these offerings, the Company will guarantee a minimum number of qualified sales leads to be delivered over the course of the advertising campaign. Scheduled end dates of advertising campaigns are sometimes extended to satisfy lead guarantees or fulfill all elements of the advertising campaign based on various factors, including delayed receipt of advertising media collateral from the customer. The Company estimates the revenue reserve necessary to properly defer revenue recognition for extended advertising campaigns. These estimates are based on the Company's experience in

**Table of Contents**

managing and fulfilling these integrated ROI program offerings. Historically, shortfalls in fulfilling lead guarantees before the scheduled completion date of an advertising campaign are satisfied within an average of 35 days of such scheduled completion date. These integrated ROI program offerings represented approximately 46% and 51% of online revenues, and 40% of total revenues for each of the three month periods ended September 30, 2010 and 2009, respectively, and approximately 46% and 47% of online revenues, and 39% of total revenues for each of the nine month periods ended September 30, 2010 and 2009.

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

***Fair Value of Financial Instruments***

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

***Long-lived Assets***

Long-lived assets consist primarily of property and equipment, goodwill and other intangible assets. A specifically identified intangible asset must be recorded as a separate asset from goodwill if either of the following two criteria is met: (1) the intangible asset acquired arises from contractual or other legal rights; or (2) the intangible asset is separable. Accordingly, intangible assets consist of specifically identified intangible assets. Goodwill is the excess of any purchase price over the estimated fair market value of net tangible assets acquired not allocated to specific intangible assets.

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

***Internal Use Software and Website Development Costs***

The Company capitalizes costs incurred during the development of its website applications and infrastructure as well as certain costs relating to internal use software. The estimated useful life of costs capitalized is evaluated for each specific project. Capitalized internal use software and website development costs are reviewed for recoverability whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. An impairment loss shall be recognized only if the carrying amount of the asset is not recoverable and exceeds its fair value. The Company capitalized internal-use software and website development costs of \$0.6 million and \$0.5 million for the three months ended September 30, 2010 and 2009, respectively, and \$1.6 million and \$0.8 million for the nine months ended September 30, 2010 and 2009, respectively.

***Deferred Rent***

Certain of the Company's operating leases provide for an initial period of free rent as an inducement to enter into the lease agreement (rent holidays). The Company recognizes rent expense for rent holidays on a straight-line basis over the terms of the underlying leases, without regard to when rent payments are made. The difference between the rent paid and the amounts expensed for operating leases is recorded as deferred rent.

***Income Taxes***

The Company's deferred tax assets and liabilities are recognized based on temporary differences between the financial reporting and income tax bases of assets and liabilities using statutory rates. If required, a valuation allowance is established against net deferred tax assets if, based upon available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. The Company recognizes any interest and penalties related to uncertain tax positions in income tax expense.

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

At September 30, 2010, the Company had two stock-based employee compensation plans which are more fully described in Note 11. Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized in the Statement of Operations using the straight-line method over the vesting period of the award or using the accelerated method if the award is contingent upon performance goals. The Company uses the Black-Scholes option-pricing model to determine the fair value of stock option awards.

***Net Income (Loss) Per Share***

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

***Recent Accounting Pronouncements***

In September 2009, the Financial Accounting Standards Board (FASB) ratified Accounting Standards Update (ASU) 2009-13 (ASU 2009-13) (previously Emerging Issues Task Force (EITF) Issue No. 08-1, *Revenue Arrangements with Multiple Deliverables* (EITF 08-1)), which updates the existing multiple-element revenue arrangements guidance currently included in Accounting Standards Codification (ASC) 605-25. ASU 2009-13 will require companies to allocate the overall consideration to each deliverable by using a best estimate of the selling price of individual deliverables in the arrangement in the absence of vendor-specific objective evidence or other third-party evidence of the selling price. ASU 2009-13 will be effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010 and early adoption is permitted. The Company will be adopting the new standard on January 1, 2011 and is currently evaluating the potential impact of the adoption of ASU 2009-13 on its consolidated results of operations and financial condition.

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

In December 2009, the FASB issued Accounting Standards Update 2009-17, *Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities* (ASU 2009-17). ASU 2009-17 changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a reporting entity is required to consolidate another entity is based on, among other things, the other entity's purpose and design and the reporting entity's ability to direct the activities of the other entity that most significantly impact the other entity's economic performance. The new standard requires a number of new disclosures, including additional disclosures about the reporting entity's involvement with variable interest entities and any significant changes in risk exposure due to that involvement. A reporting entity is required to disclose how its involvement with a variable interest entity affects the reporting entity's financial statements. ASU 2009-17 is effective at the start of a reporting entity's first fiscal year beginning after November 15, 2009, or January 1, 2010, for a calendar year-end entity. The Company is currently evaluating the impact of adopting the provisions of ASU 2009-17.

Accounting Standards Update 2009-05, *Fair Value Measurements and Disclosures (Topic 820) Measuring Liabilities at Fair Value* allows entities determining the fair value of a liability to use the perspective of an investor that holds the related obligation as an asset. The ASU is effective for interim and annual periods beginning after August 27, 2009, and applies to all fair value measurements of liabilities required by GAAP. Additionally, effective January 1, 2010, the Company adopted ASU 2010-06, *Improving Disclosures about Fair Value Measurements*, which requires additional



**Table of Contents**

disclosures regarding assets and liabilities measured at fair value. The adoption of these requirements did not have a material impact on the Company's consolidated financial statements.

In February 2010, the FASB issued ASU 2010-09, which amends the Subsequent Events Topic of the ASC to eliminate the requirement for public companies to disclose the date through which subsequent events have been evaluated. The Company will continue to evaluate subsequent events through the date of the issuance of the financial statements; however, consistent with the guidance, this date will no longer be disclosed. This change did not affect the Company's consolidated financial statements.

**3. Fair Value Measurements**

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

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

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

*Level 3.* Unobservable inputs.

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

	September 30, 2010	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1) (Unaudited)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds(1)	\$ 13,761	\$ 13,761	\$	\$
Short-term investments	42,877		42,877	
Long-term investments	18,177		18,177	
Total	\$ 74,815	\$ 13,761	\$ 61,054	\$

	September 30, 2010	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1) (Unaudited)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds(1)	\$ 13,761	\$ 13,761	\$	\$
Short-term investments	42,877		42,877	
Long-term investments	18,177		18,177	
Total	\$ 74,815	\$ 13,761	\$ 61,054	\$

	<b>December 31, 2009</b>	<b>Assets (Level 1)</b>	<b>Inputs (Level 2)</b>	<b>Inputs (Level 3)</b>
Money market funds(1)	\$ 6,271	\$ 6,271	\$	\$
Short-term investments	50,496		50,496	
Long-term investments	11,177		11,177	
<b>Total</b>	<b>\$ 67,944</b>	<b>\$ 6,271</b>	<b>\$ 61,673</b>	<b>\$</b>

(1) Included in cash and cash equivalents on the accompanying consolidated balance sheet.

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

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

	<b>September 30, 2010 (Unaudited)</b>	<b>December 31, 2009</b>
Cash	\$ 10,049	\$ 14,613
Money market funds	13,761	6,271
Total cash and cash equivalents	\$ 23,810	\$ 20,884

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 \$(66) and \$6 as of September 30, 2010 and December 31, 2009, respectively. Realized gains and losses on the sale of these investments are determined using the specific identification method. There were no realized gains during the three and nine months ended September 30, 2010 or during the three months ended September 30, 2009. Realized gains totaled \$17 in the nine months ended September 30, 2009.

Short and long-term investments consisted of the following:

	<b>Cost</b>	<b>September 30, 2010</b>		<b>Estimated Fair Value</b>
		<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	
Short and long-term investments:				
Government agency bonds	\$ 15,055	\$ 9	\$ (3)	\$ 15,061
Municipal bonds	46,105	7	(119)	45,993
Total short and long-term investments	\$ 61,160	\$ 16	\$ (122)	\$ 61,054

	<b>Cost</b>	<b>December 31, 2009</b>		<b>Estimated Fair Value</b>
		<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	
Short and long-term investments:				
Government agency bonds	\$ 8,168	\$	\$ (9)	\$ 8,159
Municipal bonds	53,495	42	(23)	53,514
Total short and long-term investments	\$ 61,663	\$ 42	\$ (32)	\$ 61,673

The Company had 24 debt securities in an unrealized loss position at September 30, 2010. All of these securities have been in such a position for less than 12 months. The unrealized loss on those securities was approximately

\$0.1 million and the fair value was \$31.6 million. As of September 30, 2010, the Company does not consider these investments to be other-than-temporarily impaired.

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

**5. Acquisitions**

On April 12, 2010, the Company acquired certain assets of Powell Media LLC for \$1.3 million in cash plus a potential future earnout valued at \$0.9 million. Powell Media LLC operates the BeyeNETWORK, a group of online technology sites that provide news, expert information and exclusive resources on the business information management lifecycle, including business intelligence (BI) best practices, business analytics, data integration, and data governance. All of the sites' content is written by industry experts who share their experiences and research in a collection of articles, podcasts, and blogs focused on specific vertical industries.

**Table of Contents**

In connection with this acquisition, the Company purchased \$0.2 million of net tangible assets and recorded \$0.9 million of goodwill and \$1.0 million of intangible assets related to customer relationships, a member database, a non-compete agreement and trade names with estimated useful lives ranging from three to six years.

The estimated fair value of the \$1.0 million of acquired intangible assets is assigned as follows:

	<b>Useful Life</b>	<b>Estimated Fair Value</b>
Customer relationship intangible asset	72 months	\$ 460
Member database intangible asset	60 months	350
Non-compete agreement intangible asset	36 months	110
Trade name intangible asset	60 months	100
Total intangible assets		\$ 1,020

The Company engaged a third party valuation specialist to assist management in determining the fair value of the earnout and the intangible assets of Powell Media LLC. The potential future earnout was valued using a probability approach under which the earnout was calculated based on the weighted probability of several forecasted outcomes. The estimated earnout was then discounted using a rate of 5.75%. To value the customer relationship assets, an income approach was used, specifically a variation of the discounted cash-flow method known as the multi-period excess earnings method. The projected net cash flows for Powell Media LLC were tax affected using an effective rate of 41% and then discounted using a discount rate of 23% to calculate the value of the customer relationship asset. Additionally, the present value of the sum of projected tax benefits was added to arrive at the total fair value of the customer relationship asset. To value the member database, a replacement cost approach was used, specifically a calculation of costs to acquire new members based on TechTarget's cost history over the past two years divided by new members acquired. The calculated cost per new member acquired was used to calculate the cost to acquire the members in the Powell Media LLC member database. Additionally, the present value of the sum of projected tax benefits was added to the calculated replacement cost to calculate the total fair value of the member database asset. To value the non-compete agreement a comparative business valuation method was used. Based on a non-compete term of 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 23%. To value the trade name intangible asset a relief from royalty method was used to estimate the pre-tax royalty savings to the Company related to the Powell Media LLC trade names. The projected net cash flows from the pre-tax royalty savings were tax affected using an effective rate of 41% and then discounted using a discount rate of 23% to calculate the value of the trade name intangible asset.

On March 1, 2010, the Company acquired ebizQ.net and certain other assets from IT Quadrant, Inc. for \$0.5 million in cash plus a potential future earnout valued at \$0.6 million. ebizQ.net is a leading website for business and information technology (IT) decision makers focused on Business Process Management (BPM) and Service-Oriented Architecture (SOA). ebizQ.net maintains an online community with more than 100,000 members that provides original editorial and independent content from leading industry analysts and experts via blogs, webinars, podcasts, white papers, and virtual events.

In connection with this acquisition, the Company purchased \$0.1 million of tangible assets and recorded \$0.3 million of goodwill and \$0.7 million of intangible assets related to customer relationships, a member database, a non-compete agreement and trade names with estimated useful lives ranging from three to six years.

The estimated fair value of \$0.7 million of acquired intangible assets is assigned as follows:

**Estimated  
Fair  
Value**

	<b>Useful Life</b>	<b>Value</b>
Customer relationship intangible asset	72 months	\$ 280
Member database intangible asset	60 months	240
Non-compete agreement intangible asset	36 months	80
Trade name intangible asset	60 months	60
<b>Total intangible assets</b>		<b>\$ 660</b>

The Company engaged a third party valuation specialist to assist management in determining the fair value of the earnout and the intangible assets of IT Quadrant, Inc. The potential future earnout was valued using a probability approach under which the earnout was calculated based on the weighted probability of several forecasted outcomes. The estimated earnout was then discounted using a rate of 5.75%. To value the customer relationship assets, an income approach was used, specifically a variation of the discounted cash-flow method known as the multi-period excess earnings method. The projected net cash flows for IT Quadrant, Inc. were tax affected using an effective rate of 41% and then discounted using a discount rate of 23% to calculate the value of the customer relationship asset. Additionally, the

**Table of Contents**

present value of the sum of projected tax benefits was added to arrive at the total fair value of the customer relationship asset. To value the member database, a replacement cost approach was used, specifically a calculation of costs to acquire new members based on TechTarget's cost history over the past two years divided by new members acquired. The calculated cost per new member acquired was used to calculate the cost to acquire the members in the IT Quadrant, Inc. member database. Additionally, the present value of the sum of projected tax benefits was added to the calculated replacement cost to calculate the total fair value of the member database asset. To value the non-compete agreement a comparative business valuation method was used. Based on a non-compete term of 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 23%. To value the trade name intangible asset a relief from royalty method was used to estimate the pre-tax royalty savings to the Company related to the IT Quadrant, Inc. trade names. The projected net cash flows from the pre-tax royalty savings were tax affected using an effective rate of 41% and then discounted using a discount rate of 23% to calculate the value of the trade name intangible asset.

**6. Intangible Assets**

Intangible assets subject to amortization as of September 30, 2010 and December 31, 2009 consist of the following:

	<b>As of September 30, 2010</b>			
	<b>Estimated Useful Lives (Years)</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization (Unaudited)</b>	<b>Net</b>
Customer, affiliate and advertiser relationships	1 9	\$ 12,249	\$ (7,119)	\$ 5,130
Developed websites, technology and patents	3 6	5,400	(3,075)	2,325
Trademark, trade name and domain name	1 7	2,373	(1,457)	916
Proprietary user information database and Internet traffic	3 5	5,340	(3,099)	2,241
Non-compete agreements	1 3	1,513	(1,284)	229
Total intangible assets		\$ 26,875	\$ (16,034)	\$ 10,841

	<b>As of December 31, 2009</b>			
	<b>Estimated Useful Lives (Years)</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net</b>
Customer, affiliate and advertiser relationships	1 9	\$ 11,508	\$ (5,619)	\$ 5,889
Developed websites, technology and patents	3 6	5,400	(2,400)	3,000
Trademark, trade name and domain name	1 7	2,179	(1,261)	918
Proprietary user information database and Internet traffic	3 5	4,750	(2,257)	2,493
Non-compete agreements	1 3	1,323	(1,095)	228
Total intangible assets		\$ 25,160	\$ (12,632)	\$ 12,528

Intangible assets are amortized over their estimated useful lives, which range from one to nine years, using methods of amortization that are expected to reflect the estimated pattern of economic use. The remaining amortization expense will be recognized over a weighted-average period of approximately 2.4 years. Amortization expense was \$1.1 million and \$1.2 million for the three months ended September 30, 2010 and 2009, respectively, and

\$3.4 million and \$3.6 million for the nine months ended September 30, 2010 and 2009, respectively.



**Table of Contents**

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

<b>Years Ending December 31:</b>	<b>Amortization Expense</b>
2010 (October 1st - December 31st)	\$ 1,088
2011	3,562
2012	2,798
2013	1,298
2014	934
Thereafter	1,161
	\$ 10,841

**7. Net Loss Per Common Share**

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

	<b>For the Three Months Ended September 30,</b>		<b>For the Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>(Unaudited)</b>			
<b>Numerator:</b>				
Net loss	\$ (612)	\$ (1,438)	\$ (2,506)	\$ (4,289)
<b>Denominator:</b>				
<b>Basic:</b>				
Weighted average shares of common stock outstanding	43,209,433	41,811,821	42,877,631	41,775,152
<b>Diluted:</b>				
Weighted average shares of common stock outstanding	42,209,433	41,811,821	42,877,631	41,775,152
Effect of potentially dilutive shares <sup>(1)</sup>				
Total weighted average shares of common stock outstanding	43,209,433	41,811,821	42,877,631	41,775,152
<b>Net Loss Per Common Share:</b>				
Basic and diluted net loss per common share	\$ (0.01)	\$ (0.03)	\$ (0.06)	\$ (0.10)

<sup>(1)</sup> In calculating diluted earnings per share, shares related to outstanding stock options, unvested restricted stock awards and warrants were excluded for the three months ended September 30, 2010 and 2009 and the nine months ended September 30, 2010 and 2009 because they were anti-dilutive.

**8. Bank Term Loan Payable**

In August 2006, the Company entered into a credit agreement (the Credit Agreement) with a commercial bank, which included a \$10.0 million term loan (the Term Loan) and a \$20.0 million revolving credit facility (the Revolving Credit Facility). The Credit Agreement was amended in August 2007, in December 2008 and again in

December 2009. The amendment in 2009 reduced the Revolving Credit Facility to \$5.0 million. The Company paid off the remaining balance of the Term Loan in December 2009.

The Revolving Credit Facility matures on August 30, 2011. Unless earlier payment is required by an event of default, all principal and unpaid interest will be due and payable on August 30, 2011. At the Company's option, the Revolving Credit Facility bears interest at either the Prime Rate less 1.00% or the London Interbank Offered Rate (LIBOR) plus the applicable LIBOR margin. The applicable LIBOR margin is based on the ratio of total funded debt to EBITDA for the preceding four fiscal quarters. As of September 30, 2010, the applicable LIBOR margin, which was the operative rate during the quarter ended September 30, 2010, was 1.25%.

The Company is also required to pay an unused line fee on the daily unused amount of its Revolving Credit

**Table of Contents**

Facility at a per annum rate based on the ratio of total funded debt to EBITDA for the preceding four fiscal quarters. As of September 30, 2010, unused availability under the Revolving Credit Facility totaled \$3.5 million and the per annum unused line fee rate was 0.20%.

Borrowings under the Credit Agreement are collateralized by a security interest in substantially all assets of the Company. Covenants governing the Credit Agreement include the maintenance of certain financial ratios. At September 30, 2010 the Company was in compliance with all covenants under the Credit Agreement.

At September 30, 2010 and December 31, 2009 there were no amounts outstanding under this revolving loan agreement. There was a \$1.5 million standby letter of credit related to the Company's corporate headquarters lease that was outstanding at September 30, 2010, bringing our available borrowings on the \$5.0 million facility to \$3.5 million.

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

The Company conducts its operations in leased office facilities under various non-cancelable operating lease agreements that expire through March 2020. Future minimum lease payments under the Company's non-cancelable operating leases at September 30, 2010, net of minimum sublease rental payments of \$0.1 million, are as follows:

<b>Years Ending December 31:</b>	<b>Minimum Lease Payments (Unaudited)</b>
2010 (October 1st - December 31st)	\$ 234
2011	3,050
2012	3,450
2013	2,874
2014	2,890
Thereafter	15,623
	\$ 28,121

The Company has an irrevocable standby letter of credit outstanding in the aggregate amount of \$1.5 million. This letter of credit supports the lease the Company entered into in 2009 for its corporate headquarters. This letter of credit extends annually through February 28, 2020 unless notification of termination is received.

**Net Worth Tax Contingency**

In late March 2010, the Company received a letter from the Department of Revenue of the Commonwealth of Massachusetts (the MA DOR) requesting documentation demonstrating that TechTarget Securities Corporation (TSC), a wholly-owned subsidiary of the Company, has been classified by the MA DOR as a Massachusetts security corporation. Based on recent correspondence with the MA DOR, it is the Company's current expectation that it is probable that the MA DOR will require an adjustment to correct TSC's tax filings such that it will be treated as a Massachusetts business corporation for the applicable years. The tax benefits available to a Massachusetts security corporation are comprised of (i) lower income tax rate (1.32% vs. 9.5%) and (ii) exemption from the 0.26% excise tax on net worth. The Company believes that if this matter is not settled, it has meritorious defenses which it intends to vigorously assert. See note 13 for further discussion.

**Litigation**

From time to time and in the ordinary course of business, the Company may be subject to various claims, charges, and litigation. At September 30, 2010 and December 31, 2009, the Company did not have any pending claims, charges, or litigation that it expects would have a material adverse effect on its consolidated financial position, results of operations, or cash flows.

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

Comprehensive loss includes all changes in equity during a period, except those resulting from investments by stockholders and distributions to stockholders. For the three and nine months ended September 30, 2010 and 2009 the Company's comprehensive income (loss) is as follows:

	<b>For the Three Months Ended September 30, 2010</b>		<b>For the Nine Months Ended September 30, 2009</b>	
	<b>2010</b>		<b>2010</b>	
	<b>2009</b>		<b>2009</b>	
	<b>(Unaudited)</b>			
Net loss	\$ (612)	\$ (1,438)	\$ (2,506)	\$ (4,289)
Other comprehensive loss:				
Change in fair value of cash flow hedge (net of tax effect of \$0 for all periods)		16		70
Unrealized gain (loss) on investments (net of tax effect of \$(13), \$(26), \$(44) and \$19, respectively)	(27)	(40)	(72)	31
Unrealized gain (loss) on foreign currency exchange (net of tax effect of \$0 for all periods)	3	(6)	(3)	12
Total other comprehensive loss	\$ (636)	\$ (1,468)	\$ (2,581)	\$ (4,176)

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

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

In April 2007, the Board approved the 2007 Stock Option and Incentive Plan (the 2007 Plan), which was approved by the stockholders and became effective upon the consummation of the Company's IPO in May 2007. Effective upon the consummation of the IPO, no further awards were made pursuant to the 1999 Plan, but any outstanding awards under the 1999 Plan will remain in effect and will continue to be subject to the terms of the 1999 Plan. The 2007 Plan allows the Company to grant ISOs, NSOs, stock appreciation rights, deferred stock awards, restricted stock and other awards. Under the 2007 Plan, stock options may not be granted at less than fair market value on the date of grant, and grants generally vest over a four year period. Stock options granted under the 2007 Plan expire no later than ten years after the grant date. The Company has reserved 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. 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 September 30, 2010 a total of 1,272,068 shares were available for grant under the 2007 Plan.



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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(Unaudited)			
Expected volatility	*	79%	78%	75% 79%
Expected term	*	6.25 years	6.25 years	6.25 years
Risk-free interest rate	*	2.89%	2.85%	2.21 2.89%
Expected dividend yield	*	0.00%	0.00%	0.00%
Weighted-average grant date fair value per share	*	\$4.49	\$3.89	\$2.23

\* The Company did not grant any stock option awards during the three months ended September 30, 2010.

As there was no public market for the Company's common stock prior to the Company's IPO in May 2007, and limited historical information on the volatility of its common stock since the date of the Company's IPO, the Company determined the volatility for options granted in the nine months ended September 30, 2010 and 2009 based on an analysis of the historical volatility of the Company's stock and reported data for a peer group of companies that issued options with substantially similar terms. The expected volatility of options granted has been determined using a weighted average of the historical volatility of the Company's stock and the peer group of companies for a period equal to the expected life of the option. The expected life of options has been determined utilizing the simplified method. The risk-free interest rate is based on a zero coupon United States treasury instrument whose term is consistent with the expected life of the stock options. The Company has not paid and does not anticipate paying cash dividends on its shares of common stock; therefore, the expected dividend yield is assumed to be zero. The Company applied an estimated annual forfeiture rate based on its historical forfeiture experience of 2.00% in determining the expense recorded in the nine months ended September 30, 2010 and 2009.

A summary of the stock option activity under the Company's stock option plan for the nine months ended September 30, 2010 is presented below:

Year-to-Date Activity	Options Outstanding	Weighted- Average Exercise Price Per Share	Weighted- Average Remaining Contractual Term in Years (Unaudited)	Aggregate Intrinsic Value	
Options outstanding at December 31, 2009	7,916,879	\$ 6.40			
Granted	20,000	5.57			
Exercised	(233,143)	2.84			
Forfeited	(181,731)	6.79			
Cancelled	(427,887)	7.78			
Options outstanding at September 30, 2010	7,094,118	\$ 6.42	5.7	\$	4,460
Options exercisable at September 30, 2010	5,720,545	\$ 6.40	5.0	\$	4,251
	7,023,419	\$ 6.43	5.8	\$	4,451

Options vested or expected to vest at  
September 30, 2010 (1)

(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 nine months ended September 30, 2010 and 2009, 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 \$631 and \$1.5 million, respectively, and the total amount of cash received from exercise of these options was \$663 and \$125, respectively. The total grant date fair value of stock options granted after January 1, 2006 that vested during the nine months ended September 30, 2010 and 2009 was \$4.2 million and \$4.0 million, respectively.

Unrecognized stock-based compensation expense of non-vested stock options of \$5.8 million is expected to be recognized using the straight-line method over a weighted-average period of 1.3 years.

**Table of Contents****Restricted Stock Awards**

Restricted stock awards are valued at the market price of a share of the Company's common stock on the date of grant. A summary of the restricted stock award activity under the 2007 Stock Plan for the nine months ended September 30, 2010 is presented below:

<b>Year-to-Date Activity</b>	<b>Shares</b>	<b>Weighted-Average Grant Date Fair Value Per Share (Unaudited)</b>	<b>Aggregate Intrinsic Value</b>
Nonvested outstanding at December 31, 2009	2,216,900	\$ 5.37	
Granted	706,783	5.82	
Vested	(824,283)	4.22	
Forfeited	(22,499)	14.16	
Nonvested outstanding at September 30, 2010	2,076,901	\$ 5.89	\$ 10,904

The total grant-date fair value of restricted stock awards that vested during the nine months ended September 30, 2010 and 2009 was \$3.5 million and \$25, respectively.

Unrecognized stock-based compensation expense of non-vested restricted stock awards of \$6.9 million is expected to be recognized over a weighted-average period of 1.2 years.

**12. Stockholders' Equity****Warrants**

In connection with an acquisition in May 2000, the Company issued to the seller a warrant to purchase 40,625 shares of common stock at a price of \$2.36 per share. The balance of the unexercised portion of the warrant expired in the second quarter of 2010.

**Reserved Common Stock**

As of September 30, 2010, the Company has reserved 11,098,087 shares of common stock for options outstanding and available for grant under stock option plans.

**13. Income Taxes**

In late March 2010, the Company received a letter from the Department of Revenue of the Commonwealth of Massachusetts (the MA DOR) requesting documentation demonstrating that TechTarget Securities Corporation (TSC), a wholly-owned subsidiary of the Company, has been classified by the MA DOR as a Massachusetts security corporation. Based on recent correspondence with the MA DOR, it is the Company's current expectation that it is more likely than not that the MA DOR will require an adjustment to correct TSC's tax filings such that it will be treated as a Massachusetts business corporation for the applicable years. The tax benefits available to a Massachusetts security corporation are comprised of (i) lower income tax rate (1.32% vs. 9.5%) and (ii) exemption from the 0.26% excise tax on net worth. In the quarters ended March 31, 2010 and September 30, 2010, the Company recorded tax reserves for approximately \$0.3 million and \$0.1 million, respectively, for the potential state income tax liability arising from the difference between the tax rates applicable to security corporations and business corporations in Massachusetts. Based on recent discussions with representatives of the MA DOR, management has concluded that it is now probable that the Company has a liability for some portion of the net worth tax due if the Company were to be taxed as a business corporation. As such, in the quarter ended September 30, 2010, the Company recorded a liability of approximately \$0.2 million representing their best estimate of the potential net worth tax exposure. The Company believes that if this matter is not settled, it has meritorious defenses which it intends to vigorously assert.



The Company may from time to time be assessed interest or penalties by major tax jurisdictions. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. The Company recognized interest and penalties totaling \$19 and \$5 in the nine months ended September 30, 2010 and September 30, 2009, respectively.

Tax years 2006 through 2009 are subject to examination by the federal and state taxing authorities. The Internal Revenue Service completed an audit of the Company's 2006 tax return without identifying any material adjustments.

**Table of Contents**

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

The Company's effective tax rate was (81)% and 6% for the nine months ended September 30, 2010 and 2009, respectively. The Company's effective tax rate excluding the \$0.4 million adjustment related to the uncertain income tax position was (54)% and 6% for the nine months ended September 30, 2010 and 2009, respectively. The change in the Company's effective tax rate excluding the adjustment for the uncertain tax positions is primarily due to nondeductible stock-based compensation of \$3.3 million and \$3.2 million for the nine months ended September 30, 2010 and 2009, respectively.

**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:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>(Unaudited)</b>			
North America	\$ 20,913	\$ 22,202	\$ 64,675	\$ 60,890
International	1,088	854	3,442	2,375
Total	\$ 22,001	\$ 23,056	\$ 68,117	\$ 63,265

**15. Subsequent Event****Definitive Agreement to Obtain Operating Control of Keji Wangtuo Information Technology Co., Ltd.**

Pursuant to a definitive agreement dated October 1, 2010 the Company completed a transaction as a result of which it obtained operating control of Beijing-based Keji Wangtuo Information Technology Co. Ltd., an existing TechTarget partner that runs Chinese-language versions of some of the Company's websites. The Company does not believe that this transaction will have a material impact on the Company's consolidated financial statements.

**Tender Offer to Purchase Shares**

On November 9, 2010, the Company commenced a tender offer to purchase up to 10 million shares of its common stock at a price of \$6.00 per share. The number of shares proposed to be purchased in the tender offer represents approximately 23.5% of the approximately 42.6 million shares of TechTarget's common stock currently issued and outstanding. On November 5, 2010, the last full trading day prior to the announcement of the Company's intention to make the tender offer, the last reported sale price of the Company's common stock was \$5.13 per share.

The Company will pay for the shares tendered in the tender offer from cash and cash equivalents on hand. If the Company purchases more than approximately 6.7 million shares in the tender offer, then, following the closing of the tender offer and payment for the shares tendered in the offer, the Company expects to evaluate a possible debt financing. The Company believes that, if it pursues such a debt financing, it would be able to obtain up to \$20 million of debt on commercially reasonable terms, though there can be no guarantee that the Company will be able to consummate a debt financing.

**Table of Contents**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

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

**Overview**

**Background**

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

Our integrated content platform consists of a network of more than 80 websites that we complement with targeted in-person events. During the critical stages of the purchase decision process, these content offerings meet IT professionals' needs for expert, peer and IT vendor information, and provide a platform on which IT vendors can launch targeted marketing campaigns that generate measurable, high 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 ten distinct media groups: Application Development; Channel; CIO/IT Strategy; Data Center and Virtualization Technologies; Enterprise Applications; Networking; Security; Storage; TechnologyGuide.com; and Vertical Software.

On March 1, 2010, we acquired ebizQ.net and certain other assets from IT Quadrant, Inc. for \$0.5 million in cash plus a potential future earnout valued at \$0.6 million. ebizQ.net is a leading website for business and IT decision makers focused on Business Process Management (BPM) and Service-Oriented Architecture (SOA). ebizQ.net maintains an online community with more than 100,000 members that provides original editorial and independent content from leading industry analysts and experts via blogs, webinars, podcasts, white papers, and virtual events.

On April 12, 2010, we acquired certain assets of Powell Media LLC for \$1.3 million in cash plus a potential future earnout valued at \$0.9 million. Powell Media LLC operated the BeyeNETWORK, a group of online technology sites that provide news, expert information and exclusive resources on the business information management lifecycle, including business intelligence (BI) best practices, business analytics, data integration, and data governance. All of the sites' content is written by industry experts who share their experiences and research in a collection of articles, podcasts, and blogs focused on specific vertical industries.

On November 9, 2009, we filed a Form 8-K disclosing that we were delaying the filing of our Quarterly Report on Form 10-Q for the third quarter of 2009. We further disclosed that we had identified an improper accounting practice relating to certain customer credits that were improperly eliminated as liabilities on our balance sheet. As a result, the Audit Committee conducted an investigation and concluded that there were certain errors in our previously reported financial statements.

To correct the customer credit errors, we recorded a net adjustment which increased accounts payable by \$1.0 million and decreased income before provision for income taxes by \$1.0 million during the quarter ended September 30, 2009. The aggregate net adjustment accumulated over several years and included \$57,000 from 2004 to 2006, \$0.4 million from 2007, \$0.6 million from 2008 and (\$13,000) from the nine months ended September 30, 2009.

We also corrected an error totaling \$1.1 million during the third quarter of 2009 related to stock-based compensation expense that should have been recorded in the first and second quarters of 2009. The additional stock-based compensation expense related to 1,925,000 restricted stock awards granted during the first quarter of 2009. The vesting for the restricted stock awards was contingent upon us achieving an annual financial performance

goal. The stock-based compensation expense related to the restricted stock awards was initially recognized on a straight-line basis over the vesting period but should have been recognized using the accelerated attribution method.

**Table of Contents**

We assessed the materiality of these errors, both quantitatively and qualitatively, and concluded that the adjustments were not material to the prior annual financial statements or to the interim financial statements for 2009. As a result, we recorded the correction of the errors in the quarter ended September 30, 2009.

***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 6 months in length.

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

*Online.* The majority of our revenue is derived from the delivery of our online offerings. Online revenue represented approximately 86% and 79% of total revenues for the three months ended September 30, 2010 and 2009, respectively, and approximately 85% and 83% of total revenues for the nine months ended September 30, 2010 and 2009, respectively. We expect the majority of our revenues to be derived through the delivery of online offerings for the foreseeable future. As a result of our customers' advertising objectives and preferences, the specific allocation of online advertising offerings sold and delivered by us, on a period by period basis, can fluctuate.

Through our websites we sell a variety of online media offerings to connect IT vendors to IT professionals. Our lead generation offerings allow IT vendors to capture qualified sales leads from the distribution and promotion of content to our audience of IT professionals. Our branding offerings provide IT vendors exposure to targeted audiences of IT professionals actively researching information related to their products and services.

Our branding offerings include banners and e-newsletters. Banner advertising can be purchased on specific websites within our network. We also offer the ability to advertise in e-newsletters focused on key site sub-topics across our portfolio of websites. These offerings give IT vendors the ability to increase their brand awareness to highly specialized IT sectors.

Our lead generation offerings include the following:

*White Papers.* White papers are technical documents created by IT vendors to describe business or technical problems that are addressed by the vendors' products or services. IT vendors pay us to have their white papers distributed to our users and receive targeted promotions on our relevant websites. Prior to viewing white papers, our registered members and visitors supply their corporate contact and qualification information and agree to receive further information from the vendor. The corporate contact and other qualification information for these leads are supplied to the vendor in real time through our proprietary lead management software.

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

*Software Package Comparisons.* Through our *2020software.com* website, IT vendors pay us to post information and specifications about their software packages, typically organized by application category. Users can request further information, which may include downloadable trial software from multiple software providers in sectors such as Customer Relationship Management (CRM) accounting and business analytics. IT vendors, in turn, receive qualified leads based upon the users who request their information.

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

**Table of Contents**

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

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

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

*Events.* Events revenue represented approximately 14% and 21% of total revenues for the three months ended September 30, 2010 and 2009, respectively, and approximately 15% and 17% of total revenues for the nine months ended September 30, 2010 and 2009, respectively. Most of our media groups operate revenue generating events. The majority of our events are free to IT professionals and are sponsored by IT vendors. Attendees are pre-screened based on event-specific criteria such as sector-specific budget size, company size, or job title. We offer three types of events: multi-day conferences, single-day seminars and custom events. Multi-day conferences provide independent expert content for our attendees and allow vendors to purchase exhibit space and other sponsorship offerings that enable interaction with the attendees. We also hold single-day seminars on various topics in major cities. These seminars provide independent content on key sub-topics in the sectors we serve, are free to qualified attendees, and offer multiple vendors the ability to interact with specific, targeted audiences actively focused on buying decisions. Our custom events differ from our conferences and seminars in that they are exclusively sponsored by a single IT vendor, and the content is driven primarily by the sole sponsor.

***Cost of Revenues, Operating Expenses and Other***

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

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

*Cost of Events Revenue.* Cost of events revenue consists primarily of: facility expenses, including food and beverages for the event attendees; salaries and related personnel costs; event speaker expenses; stock-based compensation expenses; and 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; and related overhead. Sales commissions are recorded as expense when earned by the employee.

*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; and 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; stock-based compensation expenses; and related overhead.

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

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

that are expected to reflect the estimated pattern of economic use.



**Table of Contents**

*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 interest expense incurred on bank term loan balances. We paid off the remaining balance of the term loan in December 2009. We historically have invested our cash in money market accounts, municipal bonds and government agency bonds.

**Application of Critical Accounting Policies and Use of Estimates**

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

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

***Revenue Recognition***

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

Although each of our online media offerings can be sold separately, most of our online media sales involve multiple online offerings. Because objective evidence of fair value does not exist for all elements in our bundled advertising campaigns, no allocation can be made, and we recognize revenue on all services over the term of the arrangement.

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

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

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

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

*Software Package Comparisons.* We recognize software package comparison revenue ratably over the period in which the software information is available on our websites or in the period in which leads are delivered, depending on the pricing model used.

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



## **Table of Contents**

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

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

*Third Party Revenue Sharing Arrangements.* Revenue from third party revenue sharing arrangements is recognized on a net basis in the period in which the services are performed.

We offer customers the ability to purchase integrated ROI program offerings, which can include any of our online media offerings packaged together to address the particular customer's specific advertising requirements. As part of these offerings, we will guarantee a minimum number of qualified sales leads to be delivered over the course of the advertising campaign. We sometimes extend the scheduled end date of advertising campaigns to satisfy lead guarantees or to fulfill all elements of the campaign based on various factors, including delayed receipt of advertising media collateral from the customer. We estimate the revenue reserve necessary to properly defer revenue recognition for extended advertising campaigns. These estimates are based on our experience in managing and fulfilling these integrated ROI program offerings. Historically, shortfalls in fulfilling lead guarantees before the scheduled completion date of an advertising campaign are satisfied within an average of 35 days of such scheduled completion date. These integrated ROI program offerings represented approximately 46% and 51% of online revenues, and 40% of total revenues for each of the three month periods ended September 30, 2010 and 2009, respectively, and approximately 46% and 47% of online revenues and 39% of total revenues for each of the nine month periods ended September 30, 2010 and 2009, respectively.

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

### ***Long-Lived Assets***

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

### ***Fair Value of Financial Instruments***

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

### ***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 allowance for doubtful accounts are recorded in general and administrative expense. If our historical collection experience does not reflect our future ability to collect outstanding accounts receivable, our future provision for doubtful accounts could be materially affected. To date, we have not incurred any write-offs of accounts receivable significantly different than the amounts reserved. The allowance for doubtful accounts was \$0.5 million at September 30, 2010 and December 31, 2009.

### ***Stock-Based Compensation***

We measure stock-based compensation at the grant date based on the fair value of the award and recognize stock-based compensation expense in the Statement of Operations using the straight-line method over the vesting

period of the award or using the accelerated method if the award is contingent upon performance goals. We use the Black-Scholes option-pricing model to determine the fair-value of stock option awards. We calculated the fair values of the options granted using the following estimated weighted-average assumptions:

**Table of Contents**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
			(Unaudited)	
Expected volatility	*	79%	78%	75% 79%
	*	6.25 years	6.25	6.25 years
Expected term			years	
Risk-free interest rate	*	2.89%	2.85%	2.21% 2.89%
Expected dividend yield	*	0.00%	0.00%	0.00%
Weighted-average grant date fair value per share	*	\$4.49	\$3.89	\$2.23

\* We did not grant any stock option awards during the three months ended September 30, 2010.

As there was no public market for our common stock prior to our initial public offering in May 2007, and there has been limited historical information on the volatility of our common stock since the date of our initial public offering, we determined the volatility for options granted in the nine months ended September 30, 2010 and 2009 based on an analysis of the historical volatility of our stock and reported data for a peer group of companies that issued options with substantially similar terms. The expected volatility of options granted has been determined using a weighted average of the historical volatility of our stock and the peer group of companies for a period equal to the expected life of the option. The risk-free interest rate is based on a zero coupon United States treasury instrument whose term is consistent with the expected life of the stock options. We have not paid and do not anticipate paying cash dividends on our shares of common stock; therefore, the expected dividend yield is assumed to be zero. We applied an estimated annual forfeiture rate based on our historical forfeiture experience of 2.0% in determining the expense recorded in the nine months ended September 30, 2010 and 2009.

**Internal-Use Software and Website Development Costs**

We capitalize costs of materials, consultants and compensation and related expenses of employees who devote time to the development of internal-use software and website applications and infrastructure involving developing software to operate our websites. However, we expense as incurred website development costs for new features and functionalities since it is not probable that they will result in additional functionality until they are both developed and tested with confirmation that they are more effective than the current set of features and functionalities on our websites. Our judgment is required in determining the point at which various projects enter the states at which costs may be capitalized, in assessing the ongoing value of the capitalized costs and in determining the estimated useful lives over which the costs are amortized, which is generally three years. To the extent that we change the manner in which we develop and test new features and functionalities related to our websites, assess the ongoing value of capitalized assets or determine the estimated useful lives over which the costs are amortized, the amount of website development costs we capitalize and amortize in future periods would be impacted. We review capitalized internal use software and website development costs for recoverability whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. We would recognize an impairment loss only if the carrying amount of the asset is not recoverable and exceeds its fair value. We capitalized internal-use software and website development costs of \$0.6 million and \$0.5 million for the three months ended September 30, 2010 and 2009, respectively, and \$1.6 million and \$0.8 million for the nine months ended September 30, 2010 and 2009, respectively.

**Deferred Rent**

Certain of our operating leases provide for an initial period of free rent as an inducement to enter into the lease agreement (rent holidays). We recognize rent expense for rent holidays on a straight-line basis over the terms of the underlying leases, without regard to when rent payments are made. The difference between the rent paid and the amounts expensed for operating leases is recorded as deferred rent .

**Income Taxes**

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

Our deferred tax assets are comprised primarily of Net Operating Loss (NOL) carryforwards. As of December 31, 2009, we had U.S. federal and state NOL carryforwards of approximately \$7.0 million and \$17.3 million, respectively, which may be used to offset future taxable income. The NOL carryforwards expire through 2027, and are subject to review and possible adjustment by the Internal Revenue Service. The Internal Revenue Code contains provisions that limit the NOL and tax credit carryforwards available to be used in any given year in the event of certain

**Table of Contents**

changes in the ownership interests of significant stockholders. The federal NOL carryforwards of \$7.0 million available at December 31, 2009 were acquired from KnowledgeStorm and are subject to limitations on their use in future years.

**Net Income (Loss) Per Share**

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

**Results of Operations**

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2010		2009		2010		2009	
	(Unaudited) (\$ in thousands)							
Revenues:								
Online	\$ 18,878	86%	\$ 18,191	79%	\$ 58,065	85%	\$ 52,274	83%
Events	3,123	14	4,865	21	10,052	15	10,991	17
Total revenues	22,001	100	23,056	100	68,117	100	63,265	100
Cost of revenues:								
Online	4,574	21	4,789	21	13,902	20	14,445	23
Events	1,084	5	1,741	7	3,250	5	4,277	7
Total cost of revenues	5,658	26	6,530	28	17,152	25	18,722	30
Gross profit	16,343	74	16,526	72	50,965	75	44,543	70
Operating expenses:								
Selling and marketing	8,568	39	9,157	40	26,472	39	24,696	39
Product development	1,947	9	2,276	10	6,153	9	6,551	10
General and administrative	4,535	21	4,973	22	14,834	22	12,956	20
Depreciation	592	3	510	2	1,759	2	1,544	3
Amortization of intangible assets	1,126	5	1,166	5	3,401	5	3,562	6
Total operating expenses	16,768	77	18,082	78	52,619	77	49,309	78

Edgar Filing: TechTarget Inc - Form 10-Q

Operating loss	(425)	(2)	(1,556)	(7)	(1,654)	(2)	(4,766)	(8)
Interest income, net	79	*	130	1	270	*	194	1
Loss before provision for (benefit from) income taxes	(346)	(2)	(1,426)	(6)	(1,384)	(2)	(4,572)	(7)
Provision for (benefit from) income taxes	266	1	12		1,122	2	(283)	
Net loss	\$ (612)	(3)%	\$ (1,438)	(6)%	\$ (2,506)	(4)%	\$ (4,289)	(7)%



**Table of Contents****Comparison of Three Months Ended September 30, 2010 and 2009****Revenues**

	<b>Three Months Ended September 30,</b>			
	<b>2010</b>	<b>2009</b>	<b>Increase (Decrease)</b>	<b>Percent Change</b>
	<b>(Unaudited)</b>			
	<b>(\$ in thousands)</b>			
Revenues:				
Online	\$ 18,878	\$ 18,191	\$ 687	4%
Events	3,123	4,865	(1,742)	(36)
Total revenues	\$ 22,001	\$ 23,056	\$ (1,055)	(5)%

*Online.* The increase in online revenue was primarily attributable to a \$0.5 million increase in branding revenue due primarily to an increase in banner sales volume. Lead generation offerings increased by \$0.2 million, primarily due to sponsorship and white paper sales volumes, offset in part by a decrease in webcast revenues. These increases were partially offset by a \$0.4 million decrease in third party revenue. The change in online revenues also includes an increase of \$0.2 million related to a 2009 adjustment to correct accounts payable related to customer credit errors by reducing revenue in the third quarter of 2009.

*Events.* The decrease in events revenue was primarily attributable to a \$1.2 million decrease in conference and attendee revenues, caused in part by the timing of the BriForum event, which was held in the third quarter of 2009 and the second quarter of 2010. Seminar series events revenue is also down by \$0.4 million. These decreases are offset in part by an increase in our custom events due to the formation of our custom events group, which has increased our custom events volume.

**Cost of Revenues and Gross Profit**

	<b>Three Months Ended September 30,</b>			
	<b>2010</b>	<b>2009</b>	<b>Increase (Decrease)</b>	<b>Percent Change</b>
	<b>(Unaudited)</b>			
	<b>(\$ in thousands)</b>			
Cost of revenues:				
Online	\$ 4,574	\$ 4,789	\$ (215)	(4)%
Events	1,084	1,741	(657)	(38)
Total cost of revenues	\$ 5,658	\$ 6,530	\$ (872)	(13)%
Gross profit	\$ 16,343	\$ 16,526	\$ (183)	(1)%
Gross profit percentage	74%	72%		

*Cost of Online Revenues.* The decrease in cost of online revenues was primarily attributable to a \$0.4 million decrease in member acquisition expenses, primarily related to keyword purchases, and \$0.1 million decreases in both payroll-related and stock-based compensation expense, partially offset by a \$0.4 million increase in hosting and production costs.

*Cost of Events Revenues.* The decrease in cost of events revenues was primarily attributable to the decreased conference and seminar revenues and a \$0.2 million decrease in payroll-related costs.

*Gross Profit.* Our gross profit is equal to the difference between our revenues and our cost of revenues for the period. Gross margin for the third quarter of 2010 was 74% as compared to 72% for the same period of 2009. The

increase in online gross profit was \$0.9 million, primarily attributable to the increase in online revenue as well as a decrease in member acquisition expenses as compared to the third quarter of 2009. Events gross profit decreased by \$1.1 million, primarily as a result of the lower events revenues. Because the majority of our costs are labor-related, we expect our gross profit to fluctuate from period to period depending on the total revenues for the period as well as the relative contribution of online and events revenues to our total revenues.

**Table of Contents****Operating Expenses and Other**

	<b>Three Months Ended September 30,</b>			
	<b>2010</b>	<b>2009</b>	<b>Increase (Decrease)</b>	<b>Percent Change</b>
	<b>(Unaudited)</b>			
	<b>(\$ in thousands)</b>			
Operating expenses:				
Selling and marketing	\$ 8,568	\$ 9,157	\$ (589)	(6)%
Product development	1,947	2,276	(329)	(14)
General and administrative	4,535	4,973	(438)	(9)
Depreciation	592	510	82	16
Amortization of intangible assets	1,126	1,166	(40)	(3)
Total operating expenses	\$ 16,768	\$ 18,082	\$ (1,314)	(7)%
Interest income, net	\$ 79	\$ 130	\$ (51)	(39)%
Provision for income taxes	\$ 266	\$ 12	\$ 254	2117%

*Selling and Marketing.* The decrease in selling and marketing expense was primarily attributable to correcting entries that were recorded in the third quarter of 2009. These corrections consisted of a \$0.5 million increase in stock-based compensation recorded in the third quarter of 2009 that should have been recorded in the first and second quarters of 2009 and a \$0.4 million increase as a result of customer credit errors recorded in accounts payable. After taking out the effects of these accounting adjustments in 2009, the run rate selling and marketing expenses actually increased \$0.4 million due to a \$0.2 million increase in stock-based compensation and a \$0.2 million increase in payroll related costs as a result of increased headcount, primarily due to international expansion.

*Product Development.* The decrease in product development expense was primarily due to a reduction in payroll related costs. Additionally, 2009 results included an adjustment that increased product development expense by \$0.1 million as a result of a correction of accounts payable related to customer credit errors.

*General and Administrative.* The decrease in general and administrative expense was primarily attributable to accounting corrections made in the third quarter of 2009 that consisted of a \$0.6 million increase in stock-based compensation and a \$0.2 million increase as a result of customer credit errors recorded in accounts payable. After taking out the effects of these accounting adjustments in 2009 the run rate general and administrative expenses increased by \$0.3 million. This increase was due to a \$0.2 million accrual recorded for potential net worth tax liabilities, a \$0.2 million increase in variable compensation, a \$0.1 million increase in legal expenses related to acquisitions, a \$0.2 million increase in payroll related expenses due to the hiring of certain key finance personnel and \$0.1 million in facilities charges primarily related to the move into our new corporate headquarters on March 1, 2010. These increased expenses are offset in part by a \$0.6 million decrease in stock-based compensation.

*Depreciation and Amortization of Intangible Assets.* The increase was primarily due to additional quarterly depreciation required on our increased fixed asset base, primarily as a result of our move to a new corporate headquarters on March 1, 2010, as well as continued investment in internal-use software development costs and computer equipment. The decrease in amortization of intangible assets expense was primarily attributable to certain intangible assets becoming fully amortized during 2009. These decreases were partially offset by amortization on newly acquired intangible assets.

*Interest Income, Net.* The decrease in interest income, net reflects a decrease in yield rates from the third quarter of 2009.

*Provision for Income Taxes.* The provision for income taxes for the three months ended September 30, 2010 includes an adjustment of \$0.1 million for an uncertain income tax position related to the classification of TechTarget

Securities Corporation as a Massachusetts security corporation. Our effective tax rate excluding the adjustment was (47)% and (1)% for the three months ended September 30, 2010 and 2009, respectively. The change in our effective tax rate excluding the adjustment for the uncertain tax position is primarily due to nondeductible stock-based compensation of \$0.9 million and \$1.0 million for the three months ended September 30, 2010 and 2009, respectively.

**Table of Contents****Comparison of Nine Months Ended September 30, 2010 and 2009****Revenues**

	<b>Nine Months Ended September 30,</b>			
	<b>2010</b>	<b>2009</b>	<b>Increase (Decrease)</b>	<b>Percent Change</b>
			<b>(Unaudited)</b>	
			<b>(\$ in thousands)</b>	
Revenues:				
Online	\$ 58,065	\$ 52,274	\$ 5,791	11%
Events	10,052	10,991	(939)	(9)
Total revenues	\$ 68,117	\$ 63,265	\$ 4,852	8%

*Online.* The increase in online revenue was primarily attributable to a \$4.3 million increase in revenue from lead generation offerings due primarily to an increase in white paper and sponsorship sales volumes. Additionally, branding revenue increased \$2.7 million primarily due to an increase in banner sales volume. These increases were partially offset by a \$1.0 million decrease in third party revenue. The change in online revenues also includes an increase of \$0.2 million related to a 2009 adjustment to correct accounts payable related to customer credit errors.

*Events.* The decrease in events revenue was primarily attributable to a \$1.2 million decrease in conference revenues and a \$0.5 million decrease in seminar revenues, partially offset by a \$1.4 million increase in our custom events revenues due to the continued efforts of our newly formed custom events group, which has increased our custom events volume.

**Cost of Revenues and Gross Profit**

	<b>Nine Months Ended September 30,</b>			
	<b>2010</b>	<b>2009</b>	<b>Increase (Decrease)</b>	<b>Percent Change</b>
			<b>(Unaudited)</b>	
			<b>(\$ in thousands)</b>	
Cost of revenues:				
Online	\$ 13,902	\$ 14,445	\$ (543)	(4)%
Events	3,250	4,277	(1,027)	(24)
Total cost of revenues	\$ 17,152	\$ 18,722	\$ (1,570)	(8)%
Gross profit	\$ 50,965	\$ 44,543	\$ 6,422	14%
Gross profit percentage	75%	70%		

*Cost of Online Revenues.* The decrease in cost of online revenue was primarily attributable to a \$1.0 million decrease in member acquisition expenses, primarily related to keyword purchases, and a \$0.3 million decrease in stock-based compensation expense, partially offset by a \$0.7 million increase in hosting and production costs.

*Cost of Events Revenues.* The decrease in cost of events revenue was primarily attributable to a decrease in conference and seminar series costs due to the decreased revenues and a \$0.5 million decrease in payroll-related costs, offset in part by an increase in custom event costs.

*Gross Profit.* Our gross profit is equal to the difference between our revenues and our cost of revenues for the period. Gross margin for the first nine months of 2010 was 75% as compared to 70% for the same period of 2009. The increase in online gross profit was \$6.3 million, primarily attributable to the increase in online revenue as well as a decrease in member acquisition expenses. Events gross profit was flat, primarily as a result of a higher proportion of

our events revenues coming from higher margin custom events in the first nine months of 2010 and a reduction in costs due to reduced headcount, offset in part by lower overall 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 revenue to our total revenues.

**Table of Contents****Operating Expenses and Other**

	<b>Nine Months Ended September 30,</b>			
	<b>2010</b>	<b>2009</b>	<b>Increase (Decrease)</b>	<b>Percent Change</b>
	<b>(Unaudited)</b>			
	<b>(\$ in thousands)</b>			
Operating expenses:				
Selling and marketing	\$ 26,472	\$ 24,696	\$ 1,776	7%
Product development	6,153	6,551	(398)	(6)
General and administrative	14,834	12,956	1,878	14
Depreciation	1,759	1,544	215	14
Amortization of intangible assets	3,401	3,562	(161)	(5)
Total operating expenses	\$ 52,619	\$ 49,309	\$ 3,310	7%
Interest income, net	\$ 270	\$ 194	\$ 76	39%
Provision for (benefit from) income taxes	\$ 1,122	\$ (283)	\$ 1,405	(496)%

*Selling and Marketing.* The increase in selling and marketing expense was primarily attributable to a \$1.1 million increase in payroll related costs due to an increase in headcount, primarily due to international expansion, a \$0.9 million increase in incentive compensation related to the increase in online revenue, and a \$0.4 million increase in stock-based compensation. The effects of these increases were offset in part by an adjustment that increased sales and marketing expense in 2009 by \$0.4 million as a result of a correction of accounts payable related to customer credit errors.

*Product Development.* The decrease in product development expense was primarily due to a reduction in payroll related costs. Additionally, 2009 results included an adjustment that increased product development expense by \$0.1 million as a result of a correction of accounts payable related to customer credit errors.

*General and Administrative.* The increase in general and administrative expense was primarily attributable to an increase in payroll related costs of \$0.7 million, primarily as a result of severance charges recorded and the hiring of certain key finance personnel in the second and third quarters of 2010. Also contributing were increases of \$0.5 million in facilities related expenses primarily related to the move into a new corporate headquarters on March 1, 2010, a \$0.2 million accrual recorded for potential net worth liabilities, \$0.4 million in incentive compensation, and \$0.1 million in legal fees related to acquisitions. These increases were offset in part by a \$0.4 million reduction in stock-based compensation, a \$0.2 million decrease in audit and tax fees and the \$0.2 million effect of a correcting entry recorded in the third quarter of 2009 as a result of customer credit errors recorded in accounts payable.

*Depreciation and Amortization of Intangible Assets.* The increase was primarily due to additional depreciation required on our increased fixed asset base as a result of our move to a new corporate headquarters on March 1, 2010 as well as continued investment in internal-use software development costs and computer equipment as well as accelerated depreciation related to asset retirements. The decrease in amortization of intangible assets expense was primarily attributable to certain intangible assets becoming fully amortized during 2009. These decreases were partially offset by amortization on newly acquired intangible assets.

*Interest Income, Net.* The increase in interest income, net reflects an adjustment to interest income of (\$0.3) million in the first quarter of 2009 related to interest income recognized in error in the fourth quarter of 2008 as well as a decrease in interest expense due to payment of our outstanding debt balance in the fourth quarter of 2009.

*Provision for (Benefit from) Income Taxes.* The provision for income taxes for the nine months ended September 30, 2010 includes an adjustment of \$0.4 million for an uncertain income tax position related to the classification of TechTarget Securities Corporation as a Massachusetts security corporation. Our effective tax rate

excluding the adjustment was (54)% and 6% for the nine months ended September 30, 2010 and 2009, respectively. The change in our effective tax rate excluding the adjustment for the uncertain tax position is primarily due to nondeductible stock-based compensation of \$3.3 million and \$3.2 million for the nine months ended September 30, 2010 and 2009, respectively.



**Table of Contents****Seasonality**

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

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

**Liquidity and Capital Resources****Resources**

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

We will pay for the shares tendered in the tender offer from cash, cash equivalents and investments on hand. If we purchase more than approximately 6.7 million shares in the tender offer, then, following the closing of the tender offer and payment for the shares tendered in the offer, we expect to evaluate a possible debt financing. We believe that, if we pursue such a debt financing, we would be able to obtain up to \$20 million of debt on commercially reasonable terms, though there can be no guarantee that we will be able to consummate a debt financing. We believe that even in the event that we were not able to obtain debt financing, our cash and cash equivalents, investments and cash flow from operating activities will be sufficient to fund our anticipated cash needs for the next twelve months.

	<b>September 30, 2010 (Unaudited)</b>	<b>December 31, 2009</b>
	<b>(\$ in thousands)</b>	
Cash, cash equivalents and investments	\$ 84,864	\$ 82,557
Accounts receivable, net	\$ 23,593	\$ 16,623

**Cash, Cash Equivalents and Investments**

Our cash, cash equivalents and investments at September 30, 2010 were held for working capital purposes and were invested primarily in money market accounts and municipal bonds. We do not enter into investments for trading or speculative purposes.

**Accounts Receivable, Net**

Our accounts receivable balance fluctuates from period to period, which affects our cash flow from operating activities. The fluctuations vary depending on the timing of our service delivery and billing activity, cash collections, and changes to our allowance for doubtful accounts. We use days sales outstanding, or DSO, as a measurement of the quality and status of our receivables. We define DSO as net accounts receivable divided by total revenue for the applicable period, multiplied by the number of days in the applicable period. DSO was 99 days for the quarter ended September 30, 2010 and 70 days at December 31, 2009.

The increase in accounts receivable is largely due to delays in billing associated with the implementation of a new revenue system in the second quarter of fiscal 2010. While this new system provides enhancements to revenue accounting, it has caused some operational delays with respect to billing and collection activities. We have dedicated

**Table of Contents**

additional resources to collection efforts during the third quarter, which has resulted in a reduction in accounts receivable from the previous quarter and an improved cash position. We expect to continue these efforts into the fourth quarter as these operational issues are addressed.

**Operating Activities**

	<b>Nine Months Ended September 30, 2010            2009 (Unaudited) (\$ in thousands)</b>	
Net cash provided by operating activities	\$ 8,594	\$ 13,545
Net cash used in investing activities(1)	\$ (5,831)	\$ (1,141)
Net cash provided by (used in) financing activities	\$ 874	\$ (2,125)

(1) Cash used in investing activities is shown net of investment activity of \$(0.7) million and \$(12.5) million for the nine months ended September 30, 2010 and 2009, respectively.

Cash provided by operating activities primarily consists of a net loss adjusted for certain non-cash items including depreciation and amortization, the provision for bad debt, stock-based compensation, deferred income taxes, and the effect of changes in working capital and other activities. Cash provided by operating activities for the nine months ended September 30, 2010 was \$8.6 million compared to \$13.5 million in the nine months ended September 30, 2009. The decrease in cash provided by operating activities was a result of changes in operating assets and liabilities of \$(2.5) million in the first nine months of 2010 compared to \$2.9 million in 2009. Significant components of the changes in assets and liabilities included a \$6.3 million increase in accounts receivable during the first nine months of 2010 compared to a decrease of \$1.9 million in the first nine months of 2009 and a \$1.9 million increase in other liabilities in the first nine months of 2010 compared to an increase of \$0.3 million in the first nine months of 2009. The change in accounts receivable is the result of an increase in revenues in the second quarter of 2010 and an increase in unbilled receivables as a result of the timing of annual billing cycles with some of our larger customers; the change in other liabilities is primarily due to an increase in deferred rent. The decrease in changes in operating assets and liabilities was partially offset by a decrease in the net loss year to date of \$1.8 million.

**Investing Activities**

Cash used in investing activities in the nine months ended September 30, 2010, net of investment activity, was \$4.0 million for the purchase of property and equipment, primarily leasehold improvements related to our new corporate headquarters, occupancy of which commenced on March 1, 2010, as well as website development costs, computer equipment and related software and internal-use development costs. Cash investments of \$0.5 million and \$1.3 million were also made for the purchase of certain tangible and intangible assets from IT Quadrant, Inc. and Powell Media LLC, respectively. Cash used in investing activities in the nine months ended September 30, 2009, net of investment activity, was \$1.1 million for the purchase of property and equipment.

**Equity Financing Activities**

We received proceeds from the exercise of stock options in the amounts of \$0.7 million and \$0.1 million in the nine months ended September 30, 2010 and 2009, respectively.

**Term Loan and Credit Facility Borrowings**

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

The Revolving Credit Facility matures on August 30, 2011. Unless earlier payment is required by an event of default, all principal and unpaid interest will be due and payable on August 30, 2011. At our option, the Revolving Credit Facility bears interest at either the Prime Rate less 1.00% or the London Interbank Offered Rate (LIBOR) plus the applicable LIBOR margin. The applicable LIBOR margin is based on the ratio of total funded debt to EBITDA for the preceding four fiscal quarters. As of September 30, 2010, the applicable LIBOR margin, which was the operative rate

**Table of Contents**

during the quarter ended September 30, 2010, 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 September 30, 2010, unused availability under the Revolving Credit Facility totaled \$3.5 million and the per annum unused line fee rate was 0.20%.

Borrowings under the Credit Agreement are collateralized by a security interest in substantially all of our assets. Covenants governing the Credit Agreement include the maintenance of certain financial ratios. At September 30, 2010 we were in compliance with all covenants under the Credit Agreement.

At September 30, 2010 and December 31, 2009 there was no amount outstanding under this revolving loan agreement. There is a \$1.5 million standby letter of credit related to our corporate headquarters lease that is outstanding at September 30, 2010, bringing our available borrowings on the \$5.0 million facility to \$3.5 million.

**Capital Expenditures**

We have made capital expenditures primarily for computer equipment and related software needed to host our websites, internal-use software development costs, as well as for leasehold improvements and other general purposes to support our growth. Our capital expenditures totaled \$4.0 million and \$1.1 million for the nine months ended September 30, 2010 and 2009, respectively. A majority of our capital expenditures in the first nine months of 2010 were leasehold improvements for our new corporate headquarters, which we occupied beginning on March 1, 2010, as well as website development costs, computer equipment and related software, and internal-use development costs. We are not currently party to any purchase contracts related to future capital expenditures.

**Contractual Obligations and Commitments**

As of September 30, 2010, our principal commitments consist of obligations under leases for office space. The offices are leased under noncancelable operating lease agreements that expire through March 2020. The following table sets forth our commitments to settle contractual obligations in cash as of September 30, 2010:

	Total	Payments Due By Period			More than 5 Years
		Less than 1 Year	1 - 3 Years (Unaudited) (\$ in thousands)	3 - 5 Years	
Operating leases (1)	\$ 28,121	\$ 2,414	\$ 6,489	\$ 5,773	\$ 13,445

(1) Operating lease obligations are net of minimum sublease payments of \$0.1 million due under a sublease agreement that expires in November 2010.

At September 30, 2010, we had an irrevocable standby letter of credit outstanding in the aggregate amount of \$1.5 million. This letter of credit supports the lease we entered into in 2009 for our new corporate headquarters. This letter of credit extends annually through February 28, 2020 unless notification of termination is received.

**Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements.

***Recent Accounting Pronouncements***

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

**Table of Contents**

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

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

***Foreign Currency Exchange Risk***

Our subsidiary, TechTarget Limited, was established in July 2006 and is located in London, England. As of September 30, 2010, most of our international agreements have been denominated in U.S. dollars and aggregate foreign currency payments made by us through this subsidiary approximate less than \$0.4 million per fiscal quarter. 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 September 30, 2010, we had cash, cash equivalents and investments totaling \$84.9 million. These amounts were invested primarily in money market accounts, government agency bonds and municipal bonds. The cash, cash equivalents and investments were held for working capital purposes. We do not enter into investments for trading or speculative purposes. Due to the short-term nature of these investments, we believe that we do not have any material exposure to changes in the fair value of our investment portfolio as a result of changes in interest rates. Declines in interest rates, however, would reduce future investment income.

Our exposure to market risk also relates to the amount of interest expense we must pay under our revolving credit facility. The advances under this credit facility bear a variable rate of interest determined as a function of the lender's prime rate or LIBOR. At September 30, 2010, there were no amounts outstanding under our revolving credit facility.

**Table of Contents**

**Item 4. Controls and Procedures**

***Evaluation of 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 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.

In connection with the preparation of the Form 10-K for the period ended December 31, 2009, management, under the supervision of the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were not effective as of December 31, 2009 due to the material weaknesses described in the Company's *Management Report on Internal Control over Financial Reporting* included in Item 9A of its 2009 Form 10-K (the 2009 Form 10K) and outlined below. To date the material weaknesses identified in the 2009 Form 10-K have not been fully remediated. As a result, the Chief Executive Officer and Chief Financial Officer continue to conclude that the Company's disclosure controls and procedures are not effective as of the filing date of this Form 10-Q.

As disclosed in the 2009 Form 10-K, management identified the following material weaknesses in connection with its assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2009:

1. Inadequate and ineffective controls over the accounting for certain complex transactions.
2. Inadequate and ineffective controls over adequacy of staffing of accounting group.
3. Insufficient and ineffective review and supervision by management of certain accounting policies and procedures.
4. Inadequate and ineffective accounting and reporting system for processing and reporting of certain complex service revenue transactions.
5. Inadequate and ineffective controls over the use of debit memorandums to reclassify aged customer credits from the accounts receivable subsidiary ledger to an unallocated general accrual account.
6. Inadequate education, training, and awareness of the process for reporting concerns with regard to accounting practices to finance management, management and/or the Audit Committee.

***Remediation Plans***

Management has identified the following measures to strengthen our internal control over financial reporting and to address the material weaknesses described above. We began implementing certain of these measures prior to the filing of this Form 10-Q but changes made to our internal controls have not yet been in place for a sufficient time to have had a significant effect. Management expects to continue to develop remediation plans and implement additional changes to our internal control over financial reporting during fiscal year 2010, described in detail hereafter. We believe that the actions taken to date, as well as our planned future actions, will adequately address the material weaknesses. :

1. *In order to improve controls over the accounting for certain complex transactions, we have initiated and intend to continue to:*

Assess the expertise of our staff responsible for recording complex transactions and address any identified deficiencies in order to enhance and augment the depth of knowledge of our staff and reduce the risk of future accounting errors and financial statement misstatements.

Communicate revised accounting policies and procedures to appropriate accounting staff, and train them on their usage and application.



## Edgar Filing: TechTarget Inc - Form 10-Q

Ensure that finance management is routinely involved in oversight and monitoring of the recording and reporting of complex service revenue recognition transactions during current and future reporting periods.

Implement additional automation, trending analyses, and management reporting over potential complex transactions.

**Table of Contents**

Review the controls over revenue recognition to ensure procedures exist to properly account for any changes in operations.

2. *In order to improve controls over ensuring the adequacy of staffing of the accounting group, we have initiated and intend to continue to:*

Assess the depth and expertise of our staff responsible for complex transactions and revenue recognition and address any identified deficiencies.

Work with our Human Resources department in aggressively identifying and recruiting future capable executive leadership and technical accounting staff candidates. To date we have hired a new Chief Financial Officer, Vice President of Finance, Credit and Collection Manager and Assistant Controller, as well as created and filled the following additional roles in our Finance department: Manager of Financial Reporting, Manager of Internal Audit and Business Systems Analyst.

Provide training to address relevant technical accounting matters including updating the appropriate personnel on recent accounting pronouncements and other relevant accounting literature.

3. *In order to improve controls to ensure sufficient and effective review and supervision by management of certain accounting policies and procedures, we have initiated and intend to continue to:*

Ensure that financial management is routinely reviewing and monitoring the application of and any changes to the accounting policies and procedures underlying complex transactions during future reporting periods.

Ensure the proper evidence of this review is consistently documented during future reporting periods.

Ensure that financial management is involved in oversight and monitoring of the recording and reporting of complex transactions during future reporting periods.

Implement a process, either formal or informal, whereby senior finance personnel are informed of all significant judgments made during the close process.

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

Purchased and implemented in the first half of 2010 a software application which will enhance our revenue accounting and reporting systems. This system is expected to provide the additional controls needed over revenue recognition until we are able to implement a fully integrated platform supporting enterprise resource planning and data analysis.

5. *In order to improve controls over the use of debit memorandum to reclassify aged customer credits from the accounts receivable subsidiary ledger to the general accrual account we have initiated and intend to continue to:*

Established clearly defined policies and procedures relating to the disposition of customer credits.

Established a policy whereby we disburse payment to customers or apply credits to customer invoices if an aged customer credit is not used by the customer within a reasonable time after the credit has been issued. If the Company determines that the customer is inactive for some reason, the Company will determine the applicable jurisdiction to which the credit is subject, and, if applicable and no exemption is available, the Company will escheat a payment in the amount of the credit to the appropriate state authority.

Establish clearly defined policies and procedures related to the general accrual account to ensure account activity is proper, the liability fairly states incurred but not reported liabilities and the period end reconciliation is prepared on a timely and consistent basis and is adequately reviewed by the appropriate finance management personnel.

**Table of Contents**

6. *In order to improve education, training, and awareness of the process for reporting concerns with regard to accounting practices to finance management, management and/or the Audit Committee, we have initiated and intend to continue to:*

Provide additional training and education to all employees of the reporting processes and protocols for communicating any concerns relating to accounting practices within the Company. The training will emphasize awareness of the process for reporting concerns, the confidential nature of the process, as well as the importance of timely reporting concerns to finance management, management and/or the Audit Committee. In addition separate training and education will be provided to address relevant technical accounting matters including updating the appropriate personnel on recent accounting pronouncements and other relevant accounting literature.

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

Except for changes in connection with the remediation subsequent to December 31, 2009 of the material weaknesses described above, there were no changes in the Company's internal control over financial reporting that occurred during the nine months ended September 30, 2010 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

**Table of Contents**

**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

We are not currently a party to any material litigation, and we are not aware of any pending or threatened litigation against us that could have a material adverse effect on our business, operating results or financial condition.

**Item 1A. Risk Factors**

*In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed under the heading, Risk Factors in our Annual Report filed on Form 10-K for the year ended December 31, 2009. These are risks and uncertainties that could cause actual results to differ materially from the results contemplated by the forward-looking statements contained in this Quarterly Report on Form 10-Q. Because of these factors, as well as other variables affecting our operating results, past financial performance should not be considered as a reliable indicator of future performance and investors should not use historical trends to anticipate results or trends in future periods. These risks are not the only ones facing us.*

**Risks Relating to Our Business**

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

The primary source of our revenues is the sale of advertising to our customers. Our advertising revenues accounted for approximately 99% of our total revenues for the nine months ended September 30, 2010. We believe that advertising spending on the Internet, as in traditional media, fluctuates significantly as a result of a variety of factors, many of which are outside of our control. These factors include:

variations in expenditures by advertisers due to budgetary constraints;

the cancellation or delay of projects by advertisers;

the cyclical and discretionary nature of advertising spending;

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

the occurrence of extraordinary events, such as natural disasters, international or domestic terrorist attacks or armed conflict.

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

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

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

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

reduced spending by combined entities following such consolidations;

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

economic conditions specific to the IT industry.

**Table of Contents**

***General economic, business, or industry conditions may continue to adversely affect the business of the Company, as well as our ability to forecast financial results.***

The domestic and international economies continue to experience volatility and diminished 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 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 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 these current conditions. Additional adverse changes may occur as a result of soft global, domestic or regional economic conditions, wavering consumer confidence, unemployment, declines in stock markets, or other factors affecting economic conditions generally. These changes may negatively affect the sales of our offerings, increase exposure to losses from bad debts, increase the cost and decrease the availability of financing, or increase the risk of loss on investments.

***Lingering effects of 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 continuing to affect the business climate within the United States and/or other geographic regions in which we do business have had, and could continue to have, a negative impact on our revenue and operating results. Because all of our clients are in the IT industry, the success of our business is intrinsically linked to the health, and subject to market conditions, of the IT industry. Regional, domestic and global economic weakness and uncertainty have resulted in some companies continuing to inhibit their spending, including for technology projects. 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, the decline in the growth of existing IT companies, and the consolidation that the industry continues to experience, may continue to cause a decline in demand for our offerings.

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

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

the spending priorities and advertising budget cycles of specific advertisers;

the addition or loss of advertisers;

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

seasonal fluctuations in advertising spending.

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.

**Table of Contents**

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

The primary source of our revenues is the sale of advertising to our customers, and we expect that this will continue to be the case for the foreseeable future. Our advertising contracts are primarily short-term, typically less than 6 months, and are generally subject to termination without substantial penalty by the customer at any time, generally with minimal notice requirements. We cannot assure you that our current customers will fulfill their obligations under their existing contracts, continue to participate in our existing programs beyond the terms of their existing contracts or enter into any additional contracts for new programs that we offer. If a significant number of advertisers or a few large advertisers decided not to continue advertising on our websites or conducting or sponsoring events, we could experience a rapid decline in our revenues over a relatively short period of time.

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

Our future success depends on our continued ability to deliver original and compelling content and services to attract and retain users. Our user base is comprised of corporate IT professionals who demand specialized websites and events tailored to the sectors of the IT products for which they are responsible and that they purchase. Our content and services may not be attractive to a sufficient number of users to attract advertisers and generate revenues consistent with our estimates. We also may not develop new content or services in a timely or cost-effective manner. Our ability to develop and produce this specialized content successfully is subject to numerous uncertainties, including our ability to:

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

attract and retain qualified editors, writers and technical personnel;

fund new development for our programs and other offerings;

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

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

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

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

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

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

We compete for potential advertisers with a number of different types of offerings and companies, including: broad-based media outlets, such as television, newspapers and business periodicals that are designed to reach a wide audience; general purpose portals and search engines; and offline and online offerings of media companies that produce content specifically for IT professionals, including International Data Group, United Business Media, CNet, QuinStreet and Ziff Davis Enterprise. Advertisers may choose our competitors over us not only because they prefer our competitors' online and events offerings to ours, but also because advertisers prefer to utilize other forms of advertising offered by our competitors that are not offered by us and/or to diversify their advertising expenditures. Although less than 5% of our revenues for the quarter ended September 30, 2010 were derived from advertisers located outside of North America, as we continue to expand internationally, as we did by initiating operation of our own websites in the United Kingdom in 2008, in India and Spain in 2009, in Australia earlier in 2010 and, subsequent to the quarter ended September 30, 2010, in China, we expect to compete with many of the competitors mentioned above, as well as with established media companies based in particular countries or geographical regions. Many of these foreign-based media companies will be larger than we are and will have established relationships with local advertisers. Many of our current and potential competitors have longer operating histories, larger customer bases,

greater brand recognition and significantly greater financial, marketing and other resources than we have. As a result, we could lose market share to our competitors in one or more of our businesses and our revenues could decline.



**Table of Contents**

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

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

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

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

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

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

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

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

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

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

sales force. This dependence involves a number of challenges, including:

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

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

**Table of Contents**

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 many of our marks in countries outside of the United States where we do business, we have not been able to obtain registration of all of our key marks in such jurisdictions, in some cases due to prior registration or use by third parties employing similar marks. In addition to U.S. and foreign laws, we rely on confidentiality agreements with our employees and third parties and protective contractual provisions to safeguard our intellectual property. Policing our intellectual property rights worldwide is a difficult task, and we may not be able to identify infringing users. We cannot be certain that third party licensees of our content will always take actions to

protect the value of our proprietary rights and reputation. Intellectual property laws and our agreements may not be sufficient to prevent others from copying or otherwise obtaining and using our content or technologies. In addition, others may develop non-infringing technologies that are similar or superior to ours. In seeking to protect our marks, copyrights, domain names and other

**Table of Contents**

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"), we may use this information to inform our users of offerings 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 allowed us to share their information with third parties. We also collect information on our registered members 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. Several foreign jurisdictions, including the European Union, the United Kingdom and Canada, have adopted legislation (including directives or regulations) that may increase the requirements for collecting, or limit our collection and use of, information from Internet users in these jurisdictions. In addition, growing public concern about privacy, data security and the collection, distribution and use of personal information has led to self-regulation of these practices by the Internet advertising and direct marketing industry, and to increased federal and state regulation. Because many of the proposed laws or regulations remain 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 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, thereby impairing our ability to maintain and grow our audience and maximize advertising revenue from our advertising clients. Additionally, the US Federal Trade Commission (the "FTC") and many state attorneys general are applying federal and state consumer protection laws to require that the online collection, use and dissemination of data, and the presentation of Web site content, comply with certain standards for notice, choice, security and access. Courts may also adopt these developing standards. In many cases, the specific limitations imposed by these standards are subject to interpretation by courts and other governmental authorities. In addition, on December 20, 2007, the FTC published for public comment proposed principles to address consumer privacy issues that may arise from so-called "behavioral targeting" (i.e. the tracking of a user's online activities in order to deliver advertising tailored to his or her interests) and to encourage

industry self-regulation. On February 12, 2009, following public comment, the FTC released a Staff Report with its revised principles for self-regulation of behavioral targeting. Although the FTC currently appears to be less concerned with first-party behavioral and contextual advertising than other types of behavioral targeting that include the storage of more potentially sensitive data or that collects information outside of the traditional Web site context (such as through a mobile device or by an ISP), the FTC has stated that it will continue to evaluate self-regulatory programs. In the event of additional legislation in this area, our ability to effectively target advertising to our users may be limited. We believe that we are in compliance with the consumer protection standards that apply to us, but a determination by a state or federal agency or court that any of our practices do not meet these standards 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

**Table of Contents**

regulations dealing with the collection and use of personal information obtained from their citizens, some of which we have become subject to as a result of the expansion of our business internationally. We believe that we are in material compliance with the regulations that apply to us, however, such laws may be modified and new laws may be enacted in the future. Any such developments (or developments stemming from enactment or modification of other laws) or the failure to anticipate accurately the application or interpretation of these laws could create liability to us, result in adverse publicity and affect negatively our businesses.

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

We have license and other arrangements in various countries and maintain direct presences in the United Kingdom, India, Australia and China. 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;

difficulties in building brand awareness and attracting or migrating users;

difficulties in staffing and managing multinational operations;

difficulties in finding appropriate foreign licensees or joint venture partners;

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

foreign political and economic uncertainty;

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

currency exchange-rate fluctuations; and

potential adverse tax requirements.

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.

With respect to the People's Republic of China ( PRC ), there are substantial uncertainties regarding the interpretation and application of PRC laws and regulations, including, but not limited to, the laws and regulations governing our business in the PRC, and the enforcement and performance of the contractual arrangements between our wholly-owned subsidiary, TechTarget (HK) Limited ( TTGT HK ), and our affiliated Chinese entity, Keji Wangtuo (Beijing) Information Technology Co., Ltd ( Keji Wangtuo ), and its shareholders. We and TTGT HK are considered foreign persons under PRC law. As a result, we and TTGT HK are subject to PRC law limitations on foreign ownership of companies engaged in value-added telecommunications services, including internet-related services, and advertising. Accordingly, we operate our websites and our online advertising business in China through Keji Wangtuo, a company wholly-owned by two PRC citizens; we have no equity ownership interest in Keji Wangtuo.

Keji Wangtuo holds the licenses and approvals necessary to operate our websites and online advertising business in China. Through our wholly-owned subsidiary, TTGT HK, we have contractual arrangements with Keji Wangtuo and its shareholders, including a Management and Consulting Services Agreement, a Voting Proxy Agreement, an Equity Pledge Agreement and an Option Agreement, that allow us to substantially control and operate Keji Wangtuo, and give us the economic benefit of those operations. We cannot assure you, however, that we will be able to enforce these contracts. These contractual arrangements may not be as effective in providing control over Keji Wangtuo as direct ownership. For example, Keji Wangtuo could fail to take actions required for our business or fail to maintain our websites in China despite its contractual obligation to do so. If Keji Wangtuo fails to perform under their agreements with us, we may have to rely on



## **Table of Contents**

legal remedies under PRC law, which may not be effective. In addition, we cannot assure you that either of Keji Wangtuo's shareholders will always act in accordance with their contractual obligation to us.

Although we believe we comply with current PRC regulations, we cannot assure you that the PRC Government would agree that these operating and equity arrangements comply with PRC licensing, registration or other regulatory requirements, with existing policies or with requirements or policies that may be adopted in the future. If the PRC government determines that we do not comply with applicable law, it could revoke our business and operating licenses, require us to discontinue or restrict our operations, restrict our right to collect revenues, block our websites in China, require us to restructure our Chinese operations, impose additional conditions or requirements with which we may not be able to comply, impose restrictions on our business operations or on our customers, or take other regulatory or enforcement actions against us that could be harmful to our business in China.

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

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

privacy, data security and use of personally identifiable information;

copyrights, trademarks and domain names; and

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

Increased government regulation, or the application of existing laws to online activities, could:  
decrease the growth rate of the Internet;

reduce our revenues;

increase our operating expenses; or

expose us to significant liabilities.

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

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

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

provider of unbiased, timely analysis and result in client cancellations or overall decreased demand for our services.

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

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

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

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

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

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

We may experience service disruptions for the following reasons:

occasional scheduled maintenance;

equipment failure;

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

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

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

advertising on our networks or websites, thereby reducing our advertising revenues.

**Table of Contents**

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

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

***Future deficiencies in our internal controls over financial reporting could cause our stock price to decline and subject us to sanctions or investigations by Nasdaq, the SEC or other regulatory authorities.***

The Sarbanes-Oxley Act of 2002, as well as rules subsequently implemented by the SEC and the Nasdaq Stock Market, or Nasdaq, has imposed various additional requirements on public companies, including, among other things, that we maintain effective internal controls for financial reporting and disclosure controls and procedures. In particular, although we have completed our system and process evaluation and testing of our internal controls over financial reporting to allow management and our independent registered public accounting firm to report on the effectiveness of our internal controls over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act, and have recently hired an internal audit resource, we continue to engage outside accounting and advisory services with appropriate public company experience and technical accounting knowledge to assist with these ongoing compliance efforts. If we or our independent registered public accounting firm identifies future deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses, as was the case for the year-end audits of 2008 and 2009, the market price of our stock could decline and we could be subject to sanctions or investigations by Nasdaq, the SEC or other regulatory authorities, which would require additional financial and management resources.

***We received two deficiency letters from The Nasdaq Stock Market in 2009 relating to our failure to maintain compliance with Nasdaq's Listing Rule 5520(c)(1) as a result of our failure to timely file Securities and Exchange Commission reports. Nasdaq granted us an exception from the rule in each of these cases, but if we fail to comply with Nasdaq's listing rules in the future, Nasdaq may decide not to grant an additional exception. If we are unable to comply with Nasdaq's listing rules in the future and they do not grant an exception, we may be delisted by Nasdaq, which would have a material adverse effect on the trading volume of our stock and, likely, our stock price.***

On May 14, 2009, we received a Nasdaq Staff Deficiency letter indicating that we were not in compliance with the filing requirement under Nasdaq Marketplace Rule 4310(c)(14) due to our failure to timely file our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2009. On November 13, 2009, we received a second Nasdaq Staff Deficiency letter indicating that we were not in compliance with the filing requirement under Nasdaq Marketplace Rule 5250(c)(1) due to our failure to timely file our Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2009. Nasdaq granted us an exception from the rule in each of these cases and gave us the opportunity to become current with our compliance. We are now current with our SEC reporting requirements, and are in compliance with the relevant listing rule.

However, if we fail to comply with Nasdaq's listing rules in the future, Nasdaq may decide not to grant us additional exceptions to listing rules. If we are unable to comply with Nasdaq's listing rules in the future and they do not grant us an exception, we may be delisted by Nasdaq, which would have a material adverse effect on the trading

volume of our stock and, likely, our stock price. A limited public market for our common shares may limit your ability to sell your shares, and may also result in other negative implications, including the potential loss of confidence by customers, strategic partners and employees, and loss of institutional investor interest in our common stock.

**Table of Contents**

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

We have identified material weaknesses in our internal control over financial reporting relating to accounting for aging customer credits and unallocated general accrual accounting, and accounting for certain complex transactions involving revenue and stock-based compensation. These material weaknesses and our remediation plans are described further in Item 4 in this Quarterly Report on Form 10-Q. Material weaknesses in our internal control over financial reporting could result in material misstatements in our financial statements not being prevented or detected. Although we have implemented a Sarbanes-Oxley Remediation Plan, we may experience difficulties or delays in achieving goals under this plan and completing remediation, or may not be able to successfully remediate material weaknesses at all. Any material weakness or unsuccessful remediation could harm investor confidence in the accuracy and completeness of our financial statements, which in turn could harm our business and have an adverse effect on our stock price and our ability to raise additional funds.

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

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

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

In the course of our operating history, we have acquired assets and businesses. Some of our acquisitions have resulted in the recording of a significant amount of goodwill and/or intangible assets on our financial statements. We had approximately \$101 million of goodwill and net intangible assets as of September 30, 2010. The goodwill and/or intangible assets were recorded because the fair value of the net tangible assets acquired was less than the purchase price. We may not realize the full value of the goodwill and/or intangible assets. As such, we evaluate goodwill and other intangible assets with indefinite useful lives for impairment on an annual basis or more frequently if events or circumstances suggest that the asset may be impaired. We evaluate other intangible assets subject to amortization whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable. If goodwill or other intangible assets are determined to be impaired, we will write off the unrecoverable portion as a charge to our earnings. If we acquire new assets and businesses in the future, as we intend to do, we may record additional goodwill and/or intangible assets. The possible write-off of the goodwill and/or intangible assets could negatively impact our future earnings and, as a result, the market price of our common stock could decline.

***We will record substantial expenses related to our issuance of stock-based compensation which may have a material negative impact on our operating results for the foreseeable future.***

Our stock-based compensation expenses are expected to be significant in future periods, which will have an adverse impact on our operating income and net income. We use highly subjective assumptions, including the option's expected life and the price volatility of the underlying stock. Changes in the subjective input assumptions can materially affect the amount of our stock-based compensation expense. In addition, an increase in the competitiveness of the market for qualified employees could result in an increased use of stock-based compensation awards, which in

turn would result in increased stock-based compensation expense in future periods.



**Table of Contents**

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

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

our operating performance and the operating performance of similar companies;

the overall performance of the equity markets;

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

threatened or actual litigation;

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

any major change in our board of directors or management;

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

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

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

general political and economic conditions.

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

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

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

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

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

permit directors to be removed only for cause;

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

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



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

If our existing stockholders sell, or indicate an intent to sell, substantial amounts of our common stock in the public market, the trading price of our common stock could decline significantly. A large portion of our outstanding shares of common stock are held by our officers, directors and affiliates. Two of our affiliates are venture capital funds, which are typically structured to have a finite life. As these venture capital funds approach or pass the life of the fund, their 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 affiliates beneficially own approximately 28 million shares of our common stock, which represents 65% of our shares outstanding as of September 30, 2010. 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 affiliates beneficially own approximately 65% of our outstanding common stock. These stockholders, if they act together, could exert substantial influence over matters requiring approval by our stockholders, including the election of directors, the amendment of our certificate of incorporation and bylaws and the approval of mergers or other business combination transactions. This concentration of ownership may discourage, delay or prevent a change in control of our company, which could deprive our stockholders of an opportunity to receive a premium for their stock as part of a sale of our company and might reduce our stock price. These actions may be taken even if they are opposed by other stockholders.

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

None.

***(b) Use of Proceeds from Public Offering of Common Stock***

In May 2007, we completed our initial public offering (IPO) pursuant to a registration statement on Form S-1 (File No. 333-140503) that was declared effective by the SEC on May 16, 2007. Under the registration statement, we registered the offering and sale of an aggregate of 7,700,000 shares of our common stock, \$0.001 par value, of which 6,427,152 shares were sold by the Company and 1,272,848 were sold by certain selling stockholders. All of the shares of common stock issued pursuant to the registration statement, including the shares sold by the selling stockholders, were sold at a price to the public of \$13.00 per share. As a result of the IPO, we raised a total of \$83.2 million in net proceeds after deducting underwriting discounts and commissions of approximately \$6.4 million and offering expenses of approximately \$2.3 million. In May 2007 we repaid \$12.0 million that we had borrowed against our revolving credit facility in conjunction with the acquisition of TechnologyGuide.com in April 2007. In November 2007 we acquired KnowledgeStorm, Inc. for approximately \$58 million, consisting of approximately \$52 million in cash and 359,820 shares of unregistered common stock of the Company valued at \$6.0 million. In November 2008 we acquired The Brian Madden Company LLC for approximately \$1.3 million in cash. On March 1, 2010, we acquired ebizQ.net and certain other assets of IT Quadrant, Inc. for \$0.5 million in cash plus a potential future earnout valued at \$0.6 million. On April 12, 2010, we acquired certain assets of Powell Media LLC for \$1.3 million in cash, with a potential future earnout valued at \$0.9 million.

We have applied the remaining net proceeds from the IPO to our working capital for general corporate purposes. We have no current agreements or commitments with respect to any material acquisitions. We have invested the remaining net proceeds in cash, cash equivalents and short-term investments, in accordance with our investment policy. None of the remaining net proceeds were paid, directly or indirectly, to directors, officers, persons owning ten percent or more of our equity securities, or any of our other affiliates.

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

None.

**Item 3. Defaults Upon Senior Securities**

None.

50

---

**Table of Contents**

**Item 4. Removed and reserved**

**Item 5. Other Information**

None.

**Item 6. Exhibits**

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

51

---

**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: November 9, 2010

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

Date: November 9, 2010

By: /s/ JEFFREY WAKELY  
Jeffrey Wakely,  
*Chief Financial Officer and Treasurer*  
*(Principal Accounting and Financial Officer)*

52

---

**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 November 9, 2010.
31.2	Certification of Jeffrey Wakely, Chief Financial Officer and Treasurer of TechTarget, Inc., pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, dated November 9, 2010.
32.1	Certifications of Greg Strakosch, Chief Executive Officer of TechTarget, Inc. and Jeffrey Wakely, Chief Financial Officer and Treasurer of TechTarget, Inc. pursuant to 18 U.S.C. Section 1350, dated November 9, 2010.