

TechTarget Inc  
Form 10-K  
March 18, 2013  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-K**

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

For the fiscal year ended December 31, 2012

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 1-33472

**TechTarget, Inc.**

(Exact name of Registrant as Specified in Its Charter)

Edgar Filing: TechTarget Inc - Form 10-K

**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

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

**275 Grove Street**

**Newton, Massachusetts**  
(Address of Principal Executive Offices)

**02466**  
(Zip Code)

**Registrant's telephone number, including area code: (617) 431-9200**

**Securities registered pursuant to Section 12(b) of the Exchange Act:**

**None.**

**Securities registered pursuant to Section 12(g) of the Exchange Act:**

**Common Stock, \$0.001 Par Value**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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. (Check One):

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

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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately \$120.1 million as of June 30, 2012 (based on a closing price of \$5.04 per share as quoted by the Nasdaq Global Market as of such date). In determining the market value of non-affiliate common stock, shares of the registrant's common stock beneficially owned by officers, directors and affiliates have been excluded. The determination of affiliate status is not necessarily a conclusive determination for other purposes.

The registrant had 39,088,666 shares of Common Stock, \$0.001 par value per share, outstanding as of February 22, 2013.

### **DOCUMENTS INCORPORATED BY REFERENCE**

Part III of this Annual Report incorporates by reference certain information from the registrant's definitive proxy statement for the 2013 annual meeting of shareholders, which the registrant intends to file pursuant to Regulation 14A with the Securities and Exchange Commission not later than 120 days after the registrant's fiscal year end of December 31, 2012.

**Table of Contents**

**TABLE OF CONTENTS**

**PART I**

Item 1.	<u>Business</u>	3
Item 1A.	<u>Risk Factors</u>	15
Item 1B.	<u>Unresolved Staff Comments</u>	27
Item 2.	<u>Properties</u>	27
Item 3.	<u>Legal Proceedings</u>	27
Item 4.	<u>Mine Safety Disclosures</u>	27

**PART II**

Item 5.	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	27
Item 6.	<u>Selected Financial Data</u>	29
Item 7.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	32
Item 7A.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	48
Item 8.	<u>Financial Statements and Supplementary Data</u>	49
Item 9.	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	75
Item 9A.	<u>Controls and Procedures</u>	76
Item 9B.	<u>Other Information</u>	78

**PART III**

Item 10.	<u>Directors, Executive Officers and Corporate Governance</u>	78
Item 11.	<u>Executive Compensation</u>	78
Item 12.	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	78
Item 13.	<u>Certain Relationships and Related Transactions, and Director Independence</u>	78
Item 14.	<u>Principal Accountant Fees and Services</u>	78

**PART IV**

Item 15.	<u>Exhibits and Financial Statement Schedules</u>	78
	<u>Signatures</u>	
	<u>Exhibit Index</u>	

---

## **Table of Contents**

*This Annual Report on Form 10-K contains forward-looking statements that are based on the beliefs of management and assumptions made by and information currently available to them. The words expect, anticipate, believe, may, estimate, intend and similar expressions are intended to identify such forward-looking statements. Forward-looking statements involve risks, uncertainties and assumptions including those described in Risk Factors, which could cause our actual results to be materially different from results expressed or implied by such forward-looking statements.*

### **PART I**

#### **Item 1. Business**

##### **Overview**

TechTarget, Inc. ( we or the Company ) is a Delaware corporation incorporated on September 14, 1999. We are a leading provider of specialized online content and brand advertising that brings together buyers and sellers of corporate information technology ( IT ) products. We sell customized marketing programs that enable IT vendors to reach corporate IT decision makers who are actively researching specific IT purchases. We operate a network of over 130 websites, each of which focuses on a specific IT sector, such as storage, security or networking.

IT professionals rely on our websites for key decision support information tailored to their specific areas of responsibility. We complement our online offerings with targeted in-person events that enable advertisers to engage buyers directly at critical stages of their decision-making process for IT purchases. We work with our advertising customers to develop customized marketing programs, often providing them with multiple offerings in order to target their desired audience more effectively. Our service offerings address both lead generation and branding objectives of our advertising customers. The majority of our 2012 revenue is associated with lead generation advertising campaigns.

As IT professionals have become increasingly specialized, they have come to rely on our sector-specific websites to support purchasing decisions. Our content strategy enables IT professionals to navigate the complex and rapidly changing IT landscape where purchasing decisions can have significant financial and operational consequences. Our content strategy includes three primary sources which IT professionals use to assist them in their pre-purchase research: independent content provided by our professionals, vendor-generated content provided by our customers and user-generated (or peer-to-peer) content. As of December 31, 2012, we employed over 120 full-time editors who create original content tailored for specific audiences, which we complement with content through our association with outside industry experts. In addition to utilizing our independent content, registered members are able to conduct their pre-purchase research by accessing vendor content such as white papers, webcasts, videocasts, virtual events and podcasts, across our network of websites. Our network of websites also allows users to seamlessly interact and contribute content, which is highly valued by IT professionals during their research process.

We have a large and growing base of registered members, which totaled over 11 million as of December 31, 2012. The targeted nature of our user base enables IT vendors to reach a specialized audience efficiently because our content is highly segmented and aligned with the IT vendors specific products. Since our founding in 1999, we have developed a broad customer base. During 2012 we delivered advertising campaigns for approximately 1,200 customers. One customer represented 12% of revenues during 2012; no other customer represented 10% or more of total revenues during that period. The quarterly renewal rate of our top 100 customers in 2012 has consistently met or exceeded 90%. We generated revenues of approximately \$100 million in 2012, down from approximately \$105.5 million in 2011. Over the same period, our Adjusted EBITDA decreased from approximately \$25.3 million in 2011 to approximately \$20 million in 2012. Adjusted EBITDA represents net income (loss) before interest and other income (expense) net, provision for (benefit from) income taxes, depreciation and amortization, as further adjusted to exclude stock-based compensation and restructuring charges.

##### **Business Trends**

The following discussion highlights key trends affecting our business.

**Macro-economic Conditions and Industry Trends.** Because all of our customers are IT vendors, the success of our business is intrinsically linked to the health, and subject to market conditions, of the IT industry. In the twelve month period ended December 31, 2012, we saw continued weakness in the IT market as evidenced by the lacklustre financial results announced by several large IT vendors. As our customers deal with declining revenues, we continue to see cuts in their marketing budgets. We don't expect a change in this environment until certainty and confidence improves, which should result in an increase in CAPEX spending. As a result, until management is able to better determine if these trends



---

## **Table of Contents**

by our customers are a temporary condition or a new level of spending, although we will continue to invest in growth areas, management will continue to carefully control discretionary spending including travel and entertainment, and the filling of new and replacement positions, in an effort to maintain profit margins and cash flow.

**Customer Segments.** In the three-month period ended December 31, 2012 all three of our customer segments report being negatively affected by the challenging macro-economic conditions. We saw double-digit revenue declines from the 12 largest IT vendors and our smaller customers, who tend to be venture capital-backed start-ups. Our mid-market customers were roughly flat. Although we expect the short term pressure from the weak macro-economic conditions to continue, from a more long-term perspective we are optimistic about our business because we are gaining market share and continue to perform well against our competitors due to our targeted content strategy and engaged audience.

### **Available Information**

Our website address is [www.techtarget.com](http://www.techtarget.com). We make our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and amendments to these reports, available free of charge through our website as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the Securities and Exchange Commission ( SEC ). The SEC maintains an Internet website, at [www.sec.gov](http://www.sec.gov), that contains reports, proxy and information statements and other information regarding issuers that are filed electronically. Our Code of Business Conduct and Ethics, and any amendments to our Code of Business Conduct and Ethics Corporate Governance Guidelines and Board Committee Charters, are also available on our website. We are not including the information contained on our website as part of, or incorporating it by reference into, this Annual Report on Form 10-K. The public may read and copy any materials that we file with the SEC at the SEC's Public Reading Reference Room at 100 F Street NE, Washington, DC 20549, and the public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

### **Industry Background**

The ongoing shift in the media business from traditional print and broad-based advertising (i.e. television, radio, etc.) to targeted online advertising continues to grow. We believe the three major trends driving this shift continue to be:

***Targeted Content Channels Lead to Greater Efficiency for Advertisers.*** The desire of advertisers to reach customers efficiently has led to the development and proliferation of market-specific content channels throughout all forms of media. Targeted content channels increase advertising efficiency by enabling advertisers to market specifically to the audience they are trying to reach. Content providers are finding new ways, such as specialized cable television channels, magazines and events, to offer increasingly targeted content to their audience and advertisers. The Internet has enabled even more market-specific content offerings, and the proliferation of market-specific websites provides advertisers with efficient and targeted media to reach their customers.

***The Internet Improves Advertisers' Ability to Increase and Measure Return on Investment.*** Advertisers are increasingly focused on measuring and improving their return on investment, or ROI. Before the advent of Internet-based marketing, there were limited tools for accurately measuring the results of marketing campaigns in a timely fashion. The Internet has enabled advertisers to track individual users and their responses to their marketing programs. With the appropriate technology, vendors now have the ability to assess and benchmark the efficacy of their online advertising campaigns cost-effectively and in real-time. As a result, advertisers are now increasingly demanding a measurable ROI across all forms of media.

***The Internet Is Increasingly Critical in Researching Large, Complex and Costly Purchases.*** The Internet has improved the efficiency and effectiveness of researching purchases. The vast quantity of information available on the Internet, together with search engines and directories that facilitate information discovery, enables potential purchasers to draw information from many sources, including independent experts, peers and vendors, in an efficient manner. These benefits are most apparent in the research of complex and costly purchases which require information from a variety of sources. By improving the efficiency of product research, the Internet enables potential purchasers to save significant time and review a wider range of product selections most effectively.

---

## **Table of Contents**

### **Corporate IT Purchasing**

The trends toward targeted content channels, increased focus on ROI by advertisers and Internet-based product research are evident in the corporate IT market. Over the past two decades, corporate IT purchases have grown in size and complexity. The corporate IT market is comprised of multiple, large sectors, such as storage, security and networking. Each of these sectors can, in turn, be further divided into sub-sectors that contain products addressing the areas of specialization within an enterprise's IT environment. For example, within the multi-billion dollar storage sector, there are numerous sub-sectors such as storage area networks, storage management software and backup software. Furthermore, the products in each sub-sector may service entirely independent markets. For example, backup software for use in Windows® environments can be distinct from that designed for use in Linux environments.

In view of the complexities, high cost and importance of IT decision-making, corporate IT purchasing decisions are increasingly being researched by teams of functional experts with specialized knowledge in their particular areas, rather than by one central IT professional, such as a chief information officer. The corporate IT purchasing process typically requires a lengthy sales cycle. The sales cycle is the sequence of stages that a typical customer goes through when deciding to purchase a product or service from a particular vendor. Key stages of a sales cycle typically consist of a customer recognizing or identifying a need; identifying possible solutions and vendors through research and evaluation; and finally, making a decision to purchase the product or service. Through various stages of this sales cycle, IT professionals rely upon multiple inputs from independent experts, peers and IT vendors. Although there is a vast amount of information available, the aggregation and validation of these inputs from various sources can be difficult and time-consuming.

The long sales cycle for corporate IT purchases, as well as the need for information support, requires substantial investment on the part of IT vendors, which drives the significant marketing expenditures in the corporate IT market. In addition, technology changes at an accelerated pace and there are often multiple solutions to a particular IT need. With each new product or product enhancement, IT vendors implement new advertising campaigns and IT professionals must research new technologies.

### **The Opportunity**

Corporate IT professionals increasingly are demanding specialized websites and events tailored to the sub-sectors of IT solutions that they purchase. Prior to widespread Internet adoption, corporate IT buyers researching purchases relied largely on traditional IT media, consisting of broad print publications and large industry trade shows. As technology, vendors and IT professionals have all become much more specialized, the Internet has emerged as a preferred purchase research medium, a fact which has drastically reduced and improved research time.

IT advertisers seek high-ROI marketing platforms that provide access to the specific sectors of IT buyers that are aligned with the solutions the advertisers seek to sell. Traditional IT media companies with historically print-based revenue models service a large audience with broad content. This general approach minimizes the likelihood of a vendor reaching a buyer while he or she is actively researching the purchase of a solution that falls within the vendor's particular market sector. Although the Internet now offers advertisers a superior means to reach IT buyers while they are conducting research, the web properties operated by these traditional IT media companies offer online content and audiences that are in many cases derivative of their existing print efforts. Without a more targeted marketing platform oriented to IT professionals' need for decision support for specialized IT purchases, traditional IT media companies have faced difficulty meeting the ROI needs of IT marketers.

### **Our Solution**

Our specialized content strategy enables IT vendors to reach corporate IT professionals who are actively researching purchases in specific IT sectors. Our online network of websites is complemented by conferences, seminars and other in-person events. IT professionals rely on our platform for decision support information tailored to their specific purchasing needs. Our solution benefits from the following competitive advantages:

*Large and Growing Community of Registered Members.* We have built a registered member database that contained detailed business information on over 11 million IT professionals as of December 31, 2012. We have collected detailed business and technology profiles with respect to our registered members, which allows us to provide these registered members with more specialized content and our advertisers with highly targeted audiences and sales leads.



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

*Strong Advertiser Relationships.* Since our founding in 1999, we have developed a broad base of customers comprised of some of the largest global enterprise IT vendors by providing hundreds of technology solutions for specific IT sectors. In 2012, we had approximately 1,200 technology vendor customers, and the quarterly renewal rate of our top 100 online customers met or exceeded 90% in every fiscal quarter.

## **Table of Contents**

*Substantial Experience in Online Media.* We have over thirteen years of experience in developing our online media content, with a focus on providing targeted information to IT professionals and a targeted audience to vendors. Our experience enables us to develop new online properties rapidly and to acquire and efficiently integrate select properties that further serve IT professionals. We have also developed an expertise in implementing integrated, targeted marketing campaigns designed to maximize the measurability of, and improvement in, ROI.

*Proprietary Data on the Research Behavior of our Registered Members and Site Visitors.* Through our Activity Intelligence product platform, we collect information on millions of interactions that our members and visitors, and the companies that they are associated with, have with the content on our websites and in our e-mails. Collection and analysis of this information allows us to increase the relevance of our informational offerings to our members, and improves our advertisers' ROI by allowing us to deliver more qualified prospects.

*Significant Brand Recognition Among Advertisers and IT Professionals.* Our brand is well-recognized by advertisers who value our integrated marketing capabilities and high-ROI advertising programs. At the same time, our sector-specific websites command brand recognition among IT professionals, who rely on these websites because of their specificity and depth of content.

*Favorable Search Engine Rankings.* Due to our long history of using a targeted approach toward online publishing, our network of websites has produced a large repository of archived content that allows us to appear on search result pages when users perform targeted searches on search engines such as Google. We are successful in attracting traffic from search engines, which, in turn, increases our registered membership.

*Proprietary Lead Management Technology.* Our proprietary lead management technology enables IT vendors to prioritize and efficiently manage the leads we provide, improving the efficacy of their sales teams and optimizing the ROI on their marketing expenditures with us.

Our solution increases efficiency for both IT professionals and IT vendors. It facilitates the ability of IT professionals to find specific information related to their purchase decisions, while enabling IT vendors to reach IT buyers who are actively researching specific solutions related to vendors' products and services. Set forth below are several ways our solution benefits IT professionals and IT vendors:

### ***Benefits to IT Professionals***

*Provides Access to Integrated, Sector-Specific Content.* Our websites provide IT professionals with sector-specific content from the three fundamental sources they value in researching IT purchasing decisions: industry experts, peers and vendors. Our independent staff of editors creates content specific to the sectors we serve and the key sub-sectors within them. This content is integrated with other content generated by our network of third-party industry experts, member-generated content and content from IT vendors. The reliability, breadth and depth, and accessibility of our content offering enable IT professionals to make more informed purchases.

*Increases Efficiency of Purchasing Decisions.* By accessing targeted and specialized information, IT professionals are able to research important purchasing decisions more effectively. Our integrated content offering minimizes the time spent searching for and evaluating content, and maximizes the time available for consuming quality information. Furthermore, we provide this specialized, targeted content through a variety of media that together address critical stages of the purchase decision process.

### ***Benefits to IT Vendors***

*Targets Active Buyers Efficiently.* Our highly targeted content attracts specific, targeted audiences that are actively researching purchasing decisions. Using our registered member database and information we collect about their product interests, we are able to target further those registered members most likely to be of value to IT vendors. Advertising to a targeted audience already engaged in a potential buying decision minimizes advertiser expenditures on irrelevant audiences, increasing advertising efficiency.

*Generates Measurable, High ROI.* Our targeted online content offerings enable us to generate and collect valuable business information about each user and his or her technology preferences. As registered users access content, we are able to build a profile of their technology interests, and that of their company. When users access sponsored content, we are able to deliver both actionable leads and contextual intelligence to our advertisers. As a result, our advertisers are able to better prioritize and follow up with the qualified sales leads we send them, which improves the ROI on their advertising expenditures with us.

## **Table of Contents**

*Generates and Prioritizes Qualified Sales Leads.* Our IT vendors also use our detailed member database and integrated advertising campaigns to identify and market to the audience members they consider to have the highest potential value. Once the leads have been delivered, our proprietary lead management technology enables customers to categorize, prioritize and market more effectively to these leads.

*Maximizes Awareness and Shortens the Sales Cycle.* As a leading distributor of vendor-provided IT white papers, webcasts, videocasts, virtual events and podcasts, we offer IT vendors the opportunity to educate IT professionals during the research process, prior to any direct interaction with vendor salespeople. By distributing proprietary content and reaching their target audiences via our platform, IT vendors can educate audiences, demonstrate much of their product capabilities and proactively brand themselves as specific product leaders. As a result, an IT professional is more knowledgeable about the vendor's specifications and product by the time he or she engages with the vendor. This reduces sales time and cost that would have been otherwise expended by the vendor's direct sales force.

*Reaches IT Professionals at Critical Stages of the Purchase Decision Process.* Because our content platform includes both online and event offerings, IT vendors can market to IT professionals at critical stages of the purchase decision process through multiple touch points. In addition to targeting IT professionals as they conduct purchase research on our website, IT vendors can have face-to-face interactions with qualified buyers seeking to finalize purchase decisions at our in-person events.

## **Our Strategy**

Our goal is to deliver superior performance by enhancing our position as a leading provider of specialized content that connects IT professionals with IT vendors in the sectors and sub-sectors that we serve. In order to achieve this goal, we intend to:

*Continue to Develop Our Content Platform and Service Offerings.* We intend to continue to launch additional websites and develop our platform in order to capitalize on the ongoing shift from traditional broad-based media toward more focused online content that increases the efficiency of advertising spending. We intend to capture additional revenues from existing and new customers by continuing to develop our content and further segment it to deliver an increasingly specialized audience to the IT vendors who advertise across our media. We also intend to continue to deliver a highly engaged and growing audience to advertisers and to develop innovative marketing programs.

*Expand into Complementary Sectors.* We intend to complement our current offerings by continuing to expand our business in order to capitalize on strategic opportunities in existing, adjacent, or new sectors that we believe to be well-suited to our business model and core competencies. Based on our experience, we believe we are able to capitalize rapidly and cost-effectively on new market opportunities.

*Continue to Expand Our International Presence.* We intend to continue to expand our reach into our addressable market by increasing our presence in countries outside the United States. We have pursued this strategy by launching our own websites in the United Kingdom in 2008, in India and Spain in 2009, and in Singapore in 2012, as well as by acquiring control of our partners' businesses in China and Australia in 2010, by acquiring the Computer Weekly and MicroScope online properties in the United Kingdom in 2011 and E-Magine Médias SAS, which we call LeMagIT, in France in 2012. We expect to further penetrate foreign markets by directly launching additional sector specific websites in these foreign locales and in additional international markets and, if deemed appropriate, making strategic acquisitions and investments in overseas entities. During 2012, approximately 21% of our revenues were derived from international geo-targeted campaigns. We believe many of the current trends contributing to our domestic online revenue opportunity also are occurring in international markets and, therefore, present a future revenue opportunity.

*Selectively Acquire or Partner with Complementary Businesses.* We have used acquisitions in the past as a means of expanding our content and service offerings, web traffic and registered members. Historically, our acquisitions can be classified into three categories: content-rich blogs or other individually published sites, typically generating less than one million dollars in revenues; early stage revenue sites, typically generating between one and five million dollars in annual revenues; and later stage revenue sites,

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

typically generating greater than five million dollars in annual revenues. We intend to continue to pursue selected acquisition or partnership opportunities in our core markets and in adjacent markets for products with similar characteristics.

**Table of Contents**

**Platform & Content**

Our integrated content platform consists of a network of websites that we complement with targeted in-person events. At 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.

The diagram below provides a representation of the media services provided by our platform and our content offerings:

***Media Groups***

Based upon the logical clustering of our users' respective job responsibilities and the marketing focus of the products being advertised by our customers, we currently categorize our content offerings across nine distinct media groups. Each of these media groups services a wide range of IT vendor sectors and sub-sectors and is driven by the key areas of IT professionals' interests described below:

*Security.* Every aspect of enterprise computing now depends on secure connectivity, data and applications. The security sector is constantly growing to adapt to new forms of threats and to secure new technologies such as mobile devices, wireless networks and virtualized systems ( cloud ). Compliance regulations, cloud computing adoption, and highly publicized identity and intellectual property thefts are driving interest and investment in increasingly sophisticated security solutions that

## Table of Contents

supplement common perimeter security solutions such as firewalls and antivirus software. Our online properties in this sector, SearchSecurity.com, SearchCloudSecurity.com, SearchFinancialSecurity.com, and SearchMidMarketSecurity.com offer navigable and structured guides on IT vendor and technology solutions in key sub-sectors such as network security, intrusion defense, identity management and authentication, data and application security, security-as-a-service, cloud security and security information management software. Our annual Information Security Decisions conference is supplemented by topically-focused regional seminars.

*Networking.* Broadly defined, the networking market includes the hardware, software and services involved in the infrastructure and management of both Enterprise and Carrier voice and data networks. As new sub-sectors of networking have emerged and grown in importance, IT networking professionals have increasingly focused their investments in such technologies as VoIP, wireless and mobile computing, social networking and collaboration, application performance, data center fabrics, convergence, and providing cloud services. Our online properties in this sector, SearchNetworking.com, SearchEnterpriseWAN.com, SearchUnifiedCommunications.com, and SearchMobileComputing.com, aim to address the specialized needs of these IT networking professionals by offering content targeted specifically to these emerging growth areas. We also offer in-person events on emerging topics such as software defined networking.

*Storage.* The storage sector consists of the market for disk storage systems and tape hardware and software that store and manage data. Growth is fueled by trends inherent in the industry, such as the ongoing need to maintain and supplement data stores, and by external factors, such as expanded compliance regulations and increased focus on disaster recovery solutions. Recent trends reflect an increased emphasis on solid state storage and cloud storage. At the same time, established storage sub-sectors, such as backup and Storage Area Networks ( SAN s) have been invigorated by new technologies such as disk-based backup, continuous data protection and storage virtualization. Our online properties in this sector, SearchStorage.com, SearchDataBackup.com, SearchSMBStorage.com, SearchDisasterRecovery.com, SearchVirtualStorage.com, SearchCloudStorage.com, and SearchSolidStateStorage.com address IT professionals seeking solutions in key sub-sectors such as fibre channel SANs, solid state storage, virtualization IP & iSCSI SANs, Network Attached Storage ( NAS ), backup hardware and software, and storage management software. The audiences at our in-person Storage Decision conferences are comprised almost exclusively of storage decision makers from within IT organizations. These events are supplemented by regional seminars on topics such as backup, virtual storage and cloud storage.

*Data Center and Virtualization Technologies.* Data centers house the systems and components, such as servers, storage devices, routers and switches, utilized in large-scale, mission-critical computing environments. A variety of trends and new technologies have reinvigorated the data center as a priority among IT professionals. Technologies, such as blade servers, server virtualization and cloud computing, have driven renewed investment in data center-class computing solutions. Server consolidation is now a focus, driven by the decline in large-scale computing prices relative to distributed computing models. These trends have put pressure on existing data center infrastructure and are driving demand for solutions that address this. For example, the deployment of high-density servers has led to increased heat output and energy consumption in data centers. Power and cooling have thus become a significant cost in IT budgets, making data center energy efficiency a priority. Our key online properties in this sector provide targeted information on the IT vendors, technologies and solutions that serve these sub-sectors. Our properties in this sector include SearchDataCenter.com, covering disaster recovery, power and cooling, mainframe and UNIX servers, systems management, and server consolidation; SearchEnterpriseLinux.com, focused on Linux migration and infrastructures; Search400.com, covering mid-range computing and SearchCloudComputing.com which covers private and public cloud infrastructure. SearchServerVirtualization.com covers the decision points and alternatives for implementing server virtualization, while SearchVMware.com focuses on managing and building out virtual environments on the most widely-installed server virtualization platform.

We also cover servers, application and desktop solutions deployed in distributed computing environments. The dominant platform, Windows, no longer represents an offering of discrete operating systems but rather a diverse computing environment with its own areas of specialization around IT. As Windows servers have become more stable and scalable, they have taken share in data centers, and currently represent one of the largest server sub-sectors. Given the breadth of the Windows market, we have segmented our Windows-focused media based on IT professionals infrastructure responsibilities and purchasing focus. Our online properties in this sector include SearchWindowsServer.com, covering servers, storage, and systems management; SearchDomino.com, SearchExchange.com and SearchWinIT.com, each targeted toward senior management for distributed computing environments. This network of sites provides resources and advice to IT professionals pursuing solutions related to such topics as Windows backup and storage, server consolidation, and upgrade planning. SearchEnterpriseDesktop.com, SearchVirtualDesktop.com and LabMice.net all focus on the deployment and management of





---

## Table of Contents

end-user computing environments. SearchConsumerization.com covers the IT management issues surrounding the increasing deployment of personal technologies such as tablets and smartphones in the workplace. Combined with our two properties that focus on server virtualization, SearchDesktopVirtualization.com and BrianMadden.com, each focusing on desktop virtualization, gives us a comprehensive offering addressing the fast-growing area of virtualization technologies. Our online offerings in this sector are supplemented by in-person regional seminars. Our two BriForum conferences focus on desktop virtualization and related technologies.

*CIO/IT Strategy.* Our CIO/IT Strategy media group provides content targeted at Chief Information Officers, or CIOs, and senior IT executives, enabling them to make informed IT purchases throughout the critical stages of the purchase decision process. CIOs' areas of interest generally align with the major sectors of the IT market; however, CIOs increasingly are focused on the alignment between IT and their businesses' operations. Because businesses' IT strategies vary significantly based upon company size, we have segmented the CIO market by providing specific guidance to CIOs of large enterprises, mid-market enterprises and small to mid-sized businesses (SMBs). Data center consolidation, compliance, ITIL/IT service management, disaster recovery/business continuity, risk management and outsourcing (including software-as-a-service and cloud computing) have all drawn the attention of IT executives who need to understand the operational and strategic implications of these issues and technologies on their businesses. Accordingly, our targeted information resources for senior IT executives focus on ROI, implementation strategies, best practices and comparative assessment of vendor solutions related to these initiatives. Our online properties in this sector include SearchCIO.com, which provides CIOs in large enterprises with strategic information focused on critical purchasing decisions; SearchCIO-Midmarket.com, which targets IT managers at small to medium-sized businesses; and SearchCompliance.com, which provides advice on IT-focused regulations and standards to IT and business executives and other senior IT managers. The CIO/IT Strategy media group also includes online resources and events targeted to IT decision makers in prominent vertical industries. SearchHealthIT.com provides strategic IT purchasing information and advice to senior IT and clinical professionals in hospitals, medical centers, university health centers and other care delivery organizations, as well as organizations in the life sciences sector.

*Business Applications and Analytics.* Our Business Applications and Analytics media group focuses on mission critical software such as ERP, databases and business intelligence, content management enterprise resource planning, and customer facing applications such as CRM software for mid-sized and large companies. Because these applications are critical to the overall success of the businesses that use them, there is a high demand for specialized information by IT and business professionals involved in their purchase, implementation, and ongoing support. Our applications-focused properties in this sector include SearchCRM.com, SearchOracle.com, SearchSAP.com, SearchFinancialApplications.com and SearchManufacturingERP.com. These sites are leading online resources that provide this specialized information to support mission critical business applications such as customer relationship management (CRM), sales force automation, databases and ERP software. The information produced by these applications is seen as a corporate asset that is essential for gaining competitive advantage through informed, data-driven decisions that can help improve operational efficiency, enable business agility, and improve sales effectiveness and customer service. As a result, business intelligence and analytics have become pervasive as various organizations increasingly rely on mission critical information to optimize their businesses. Our sites BeyeNETWORK.com, SearchBusinessAnalytics.com, SearchDataManagement.com and SearchContentManagement.com, cover the business intelligence, data management, content management, and collaboration disciplines associated with such initiatives. SearchCloudApplications.com focuses on cloud-based or Software As A Service (SAAS) deployments of key business applications. Our in-person events in this segment cover topics such as big data analytics and business intelligence.

*Application Architecture and Development.* The application architecture and development sector is comprised of a broad landscape of tools and languages that enable developers, architects and project managers to build, customize and integrate software for their businesses. Our application architecture and development online properties focus on development in enterprise environments, the underlying languages such as .NET, Java and XML as well as related application development tools and integrated development environments or IDEs. Several trends have had a profound impact on this sector and are driving growth. The desire for business agility with more flexible and interoperable applications architecture continues to propel interest in Service-Oriented Architecture (SOA), Business Process Management (BPM) and web services technologies. Application integration, application testing and security, as well as AJAX and rich Internet applications are also key areas of continuing focus for vendors and developers. Our online properties in this sector include TheServerSide.com and TheServerSide.NET which host independent communities of developers and architects using Java and .NET respectively. Ajaxian.com serves web developers of rich internet applications and SearchWinDevelopment.com serves Windows developers who use the .Net platform. SearchSoftwareQuality.com offers content focused on application testing and quality assurance while SearchSOA.com and eBizQ.net serve Architects, IT Managers and Line of Business Executives who are interested in building out service oriented architectures, BPM and working with related technologies.



---

## **Table of Contents**

*Channel.* Our Channel properties address the information needs of channel professionals which we have classified as resellers, value added resellers, solution providers, systems integrators, service providers, managed service providers, and consultants in the IT market. As IT professionals have become more specialized, IT vendors have actively sought resellers with specific expertise in the vendors' sub-sectors. Like IT professionals, channel professionals require more focused technical content in order to operate successful businesses in the markets in which they compete. The resulting dynamics in the IT channel are well-suited to our integrated, targeted content strategy. Our online properties in this sector include SearchITChannel.com, SearchStorageChannel.com, SearchSecurityChannel.com, SearchNetworkingChannel.com, SearchSystemsChannel.com and SearchCloudProvider.com. In addition to these websites, TechTarget channel media is able to profile channel professionals accessing information on any website within the TechTarget Network. As channel professionals resell, service and support hardware, software and services from vendors in a particular IT sector, the key areas of focus tend to parallel those for the sub-sectors addressed by our IT-focused properties: for storage, backup, storage virtualization and network storage solutions such as fibre channel SANs, NAS, IP SANs; for security, intrusion defense, compliance and identity management; for networking, wireless, network security and VoIP; for systems, blade servers, consolidation and server virtualization.

*TechnologyGuide.com.* We operate a portfolio of Internet content sites that provide product reviews, price comparisons and user forums for technology products such as laptops, desktops and smartphones. Sites include NotebookReview.com, Brighthand.com (covering smartphones), TabletPCReview.com, PrinterComparison.com, DesktopReview.com, DigitalCameraReview.com and TechnologyGuide.com, which covers the personal technology segment as a whole. These sites represent an ideal complement to our enterprise-IT-focused TechTarget sites because IT professionals purchase a large volume of laptops, desktops, smartphones and mobile computing devices. Thus, these sites offer additional, complementary, in-depth content for our IT audience, as well as access for our advertisers to the broader audiences that visit these sites for information.

### ***User Generated Content and Vendor Content***

ITKnowledgeExchange.com is a site devoted entirely to user generated content, and represents our most concerted effort to date to facilitate peer-to-peer interaction amongst our users via blogs and a Q&A section. The site incorporates a number of important social media features, such as the use of tag-based navigation that allows users to self-classify content, and wiki-based Q&A functionality that allows them to collaborate with one another to respond to technical questions and product recommendations submitted by other users.

Bitpipe.com and KnowledgeStorm.com are sites that we operate and that host vendor-provided content such as white papers, software downloads, videocasts and webcasts. Maintaining centralized collections of this vendor content helps our users conduct pre-purchase research more easily, and allows us to maximize the ability of this content to be found by search engines. We provide contextually relevant inclusion of vendor content from Bitpipe.com and KnowledgeStorm.com on the other sites in our network.

### ***Media Offerings***

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

*Online.* Our network of websites forms the core of our content platform. Our websites provide IT professionals with comprehensive decision support information tailored to their specific areas of responsibility and purchasing decisions. Through our websites, we offer a variety of online media offerings to connect IT vendors to IT professionals. Our lead generation offerings allow IT vendors to maximize ROI by capturing qualified sales leads from the distribution and promotion of content to our audience of IT professionals. In August of 2011, we released a major upgrade to our Activity Intelligence platform. Beginning in 2012, all of our lead generation campaigns offer the Activity Intelligence Dashboard.

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

---

## Table of Contents

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

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

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

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

Our other offerings include the following:

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

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

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

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

*Events.* Our in-person events bring together IT professionals to hear from industry experts and to talk to IT vendors about key topics of interest in the sectors we serve. The majority of our events are free to IT professionals and sponsored by IT vendors. Attendees are pre-screened based on event-specific criteria such as sector-specific budget size, company size, or job title. Our sponsors value the ability to meet with an audience of qualified IT decision makers who all have been pre-screened to determine a high level of buying interest and the ability to execute a purchase decision. We offer three types of events: multi-day conferences, single-day seminars and custom events. Multi-day conferences provide independent expert content for our attendees and allow vendors to purchase exhibit space and other sponsorship offerings that enable interaction with the attendees. We also hold single-day seminars on various topics in major cities. These seminars provide independent content on key sub-topics in the sectors we serve, are free to qualified attendees and offer multiple vendors the ability to interact with specific, targeted audiences actively focused on buying decisions. Our custom events differ from our seminars in that they are exclusively sponsored by a single

IT vendor, and the content is driven primarily by the sole sponsor.

---

## **Table of Contents**

### **Customers**

We market to IT vendors targeting a specific audience within an IT sector or sub-sector. We maintain multiple points of contact with our customers in order to provide support throughout a given organization and during critical stages of the sales cycle. As a result, individual customers often run multiple advertising programs with us in order to reach discrete portions of our targeted audience. Our services are generally delivered under short-term contracts that run for the length of a given advertising program, typically less than six months. Since our founding in 1999, we have developed a broad customer base that now comprises approximately 1,200 active advertisers. During 2012, one customer represented 12% of total revenue. No other customer represented more than 10% of revenues and the quarterly renewal rate of our top 100 customers has consistently met or exceeded 90%.

### **Sales and Marketing**

Since our inception in 1999, we have maintained an internal direct sales department that works closely with existing and potential customers to develop customized marketing programs that provide highly targeted access to IT professionals. We organize the sales force by the sector-specific media groups that we operate, and have a global accounts team that works with our largest advertisers. We believe that our sector-specific sales organization and integrated approach to our service offerings allows our sales personnel to develop a high level of expertise in the specific sectors they cover and to create effective marketing programs tailored to the customer's specific objectives. As of December 31, 2012, our sales and marketing staff consisted of approximately 285 people. The majority of our sales staff is located in our Newton, Massachusetts headquarters and our office in San Francisco, California.

We pursue a variety of marketing initiatives designed to support our sales activities by building awareness of our brand to IT vendors and positioning ourselves as a thought leader in ROI-based marketing. These initiatives include purchasing online and event sponsorships in media vehicles that target the technology advertising market, as well as engaging in direct communications with the database of advertising contacts we have built since inception. Examples of our direct communications include selected e-mail updates on new product launches and initiatives. We also produce in-person events, videocasts and white papers for technology marketers where we provide information on the latest best practices in the field of online marketing. Additionally, we publish a blog for marketers which we use as a thought leadership vehicle to promote our ideas and viewpoints on a myriad of online subjects.

### ***Online User Acquisition***

Our primary source of traffic to our websites is through non-paid traffic sources, such as our existing registered member base and organic search engine traffic. Organic search engine traffic is also the primary source of new registered members for our sites. Because our sites focus on specific sectors of the IT market, our content is highly targeted and is an effective means for attracting search engine traffic and resulting members. We also make user-focused marketing expenditures designed to supplement our non-paid traffic and registered members. We employ a variety of online marketing vehicles such as keyword advertising on the major search engines and targeted list rentals of opt-in e-mail subscribers from a variety of targeted media sources.

### **Technological Infrastructure**

We have developed an expandable operations infrastructure using hardware and software systems from established IT vendors to maintain our websites and online offerings. Our system hardware is co-located at an offsite data center. All of the critical components of the system are redundant, allowing us to withstand unexpected component failure and to undergo maintenance and upgrades. Our infrastructure is scalable, enabling us to make additions that fit into the existing environment as our system requirements grow based on traffic and member growth. Our critical data is copied daily to backup tapes, which are sent to an off-site storage facility. We maintain a quality assurance process to monitor constantly our servers, processes and network connectivity. We have implemented these various redundancies and backup systems in order to minimize the risk associated with damage from fire, power loss, telecommunications failure, break-ins, computer viruses and other events beyond our control. We believe that continued development of our technological infrastructure is critical to our success. We have made, and expect to continue to make, technological improvements in this infrastructure to improve our ability to service our users and customers.

### **Competition**

We compete for potential advertisers with a number of different types of 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. The market for advertisers is highly competitive, and in each of the sectors we serve as well as across the services we offer, our primary competitors



---

## **Table of Contents**

are the media companies that produce content specifically for IT professionals. Our primary competitors for advertisers, each of which possess substantial resources to compete, are United Business Media, QuinStreet, International Data Group, and CBS Interactive/ CNet. In the online market we generally compete on the basis of target audience, quality and uniqueness of information content, ease of use of our websites for IT professionals, and the quality and quantity of sales leads generated for advertisers. Our events generally compete on the basis of the quality and integrity of our content offerings, the quality of our attendees, and the ability to provide events that meet the needs of particular sector segments. As with the competition for advertisers, we compete for the users who comprise our target audiences primarily with the media companies that produce content specifically for IT professionals such as United Business Media, QuinStreet, International Data Group, and CBS Interactive/CNet.

Although only approximately 15% of our revenues for the twelve months ended December 31, 2012 were derived from advertisers located outside of North America, as we continue to expand internationally 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. This international expansion has included commencing operations of our own websites in the United Kingdom in 2008, India and Spain in 2009, China in 2010, Australia in 2011 and Singapore in 2012; by acquiring the Computer Weekly and MicroScope properties from Reed Business Information Limited in the United Kingdom in April 2011; and, in December 2012, by acquiring LeMagIT, a strategic partner in France.

### **User Privacy**

We gather in-depth business information about our registered members who consent to provide us such information through one or more of the online registration forms displayed on our websites, as well as through tracking certain behavioral activity of users on our sites. We post applicable privacy policies on our websites so that our users can access and understand the terms and conditions applicable to the collection and use of information we collect from them. Our privacy policies also disclose the types of information we gather, how we use it, and how a user can correct or change this information. Further, our privacy policies explain the circumstances under which we share this information and with whom. Users who register for our websites have the option of indicating specific areas of interest in which they are willing to receive offers via e-mail or postal mail; these offers contain content created either by us or our third-party IT vendor customers. To protect our disclosures and obligations to our users, we impose constraints that are generally consistent with our privacy policies on the customers to whom we provide user data. Additionally, when we provide lists to third parties, including to our advertiser customers, it is under contractual terms that are generally consistent with our obligations to our privacy policies and with applicable laws and regulations.

### **Consumer Protection Regulation**

*General.* Advertising and promotional activities presented to visitors on our websites are subject to federal and state consumer protection laws that regulate unfair and deceptive practices. We are also subject to various other federal and state consumer protection laws, including the ones described below.

*CAN-SPAM Act.* The Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003, or the CAN-SPAM Act, became effective on January 1, 2004. The CAN-SPAM Act regulates commercial e-mails and provides a right on the part of the recipient to request the sender to stop sending messages, and establishes penalties for the sending of e-mail messages that are intended to deceive the recipient as to source or content. Under the CAN-SPAM Act, senders of commercial e-mails (and other persons who initiate those e-mails) are required to make sure that those e-mails do not contain false or misleading transmission information. Commercial e-mails are required to include a valid return e-mail address and other subject heading information so that the sender and the Internet location from which the message has been sent are accurately identified. Recipients must be furnished with an electronic method of informing the sender of the recipient's decision not to receive further commercial e-mails. In addition, the e-mail must include a postal address of the sender and notice that the e-mail is an advertisement. The CAN-SPAM Act may apply to the e-newsletters that our websites distribute to registered members and to some of our other commercial e-mail communications. However, on May 12, 2008, the U.S. Federal Trade Commission (the "FTC") issued additional regulations related to the CAN-SPAM Act, including interpretations of such act that indicate that e-newsletters, such as those we distribute to our registered members, will be exempt from most of the provisions of the CAN-SPAM Act. At this time, we are applying the applicable CAN-SPAM requirements to e-newsletters and all other e-mail communications, and believe that our e-mail practices comply with the requirements of the CAN-SPAM Act.

*Other Consumer Protection Regulation.* 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



---

## **Table of Contents**

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 for public content. 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 excluded from the principles both first-party behavioral advertising and contextual advertising (each being the types of behavioral targeting activities in which we are currently primarily engaged), with respect to other types of behavioral targeting that include the storage of more, and potentially sensitive, data or that collects information outside of the traditional Web site context (such as through a mobile device or by an ISP), the FTC has stated that it will continue to evaluate self-regulatory programs. Further, through a preliminary Staff Report published on December 1, 2010, the FTC indicated that it is considering regulations regarding behavioral targeting which may include implementation of a more rigorous opt-in regime. An opt-in policy would prohibit businesses from collecting and using information obtained through behavioral targeting activities from individuals who have not voluntarily consented. A few states have also introduced legislation that, if enacted, would restrict or prohibit behavioral advertising within the state. In the absence of a federal law pre-empting their enforcement, such state legislation would likely have the practical effect of regulating behavioral advertising nationwide because of the difficulties behind implementing state-specific policies or identifying the location of a particular consumer.

We believe that we are in compliance with applicable consumer protection laws, 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 negatively affect our businesses. Further, changes to existing regulations or laws or the passage of new regulations or laws such as the federal and state proposed legislation described above could also require us to incur additional costs and restrict our business operations.

In addition, several foreign governmental bodies, including the European Union, the United Kingdom and Canada have regulations dealing with the collection and use of personal information obtained from their citizens, some of which we may be subject to as a result of the expansion of our business internationally. Regulations in these territories have focused on the collection, use, disclosure and security of information that may be used to identify or that actually identifies an individual, such as an e-mail address or a name. Further, within the European Union, certain member state data protection authorities regard IP addresses as personal information, and legislation adopted recently in the European Union requires informed consent for the placement of a cookie on a user device. We believe that we are in compliance with the regulations that apply to us; however, such laws may be modified and new laws may be enacted in the future.

## **Intellectual Property**

We regard our copyrights, domain names, trademarks, trade secrets and similar intellectual property as important to our success, and we rely upon copyright, trademark and trade secrets laws, as well as confidentiality agreements with our employees and others, and protective contractual provisions to protect the proprietary technologies and content that we have developed. We pursue the registration of our material trademarks in the United States and elsewhere. Currently, our TechTarget trademark and logo, as well as the KnowledgeStorm and certain other marks and logos are registered federally in the United States and selected foreign jurisdictions and we have applied for U.S. and foreign registrations for various other marks. In addition, we have registered over 1,200 domain names that are or may be relevant to our business, including [www.techtarget.com](http://www.techtarget.com), [www.knowledgestorm.com](http://www.knowledgestorm.com), [www.bitpipe.com](http://www.bitpipe.com), [www.technologyguide.com](http://www.technologyguide.com) and those leveraging the search prefix used in the branding of many of our websites. We also incorporate a number of third-party software products into our technology platform pursuant to relevant licenses. Some of this software is proprietary and some is open source. We use third-party software to maintain and enhance, among other things, the content generation, delivery, and support our technology infrastructure. We are not substantially dependent upon these third-party software licenses, and we believe the licensed software is generally replaceable, by either licensing or purchasing similar software from another vendor or building the software functions ourselves.

## **Employees**

As of December 31, 2012, we had 661 employees. Other than a small number of employees in the United Kingdom and France, none of our current employees is represented by a labor union or is the subject of a collective bargaining agreement.

## **Item 1A. Risk Factors**

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



## **Table of Contents**

### **Risks Relating to Our Business**

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

The primary source of our revenues is the sale of advertising to our customers. Our advertising revenues accounted for the majority of our total revenues for the twelve months ended December 31, 2012. We believe that advertising spending on the Internet, as in traditional media, fluctuates significantly as a result of a variety of factors, many of which are outside of our control. These factors include:

variations in expenditures by advertisers due to budgetary constraints;

the cancellation or delay of projects by advertisers;

the cyclical and discretionary nature of advertising spending;

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

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

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

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

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

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

reduced spending by combined entities following such consolidations;

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

economic conditions specific to the IT industry.

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

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

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

---

## **Table of Contents**

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

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

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

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

the spending priorities and advertising budget cycles of specific advertisers;

the addition or loss of advertisers;

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

seasonal fluctuations in advertising spending.

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

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

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

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

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

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

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:

---

**Table of Contents**

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 effect on our revenues.

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

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

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

We compete for potential advertisers with a number of different types of offerings and companies, including: broad-based media outlets, such as television, newspapers and business periodicals that are designed to reach a wide audience; general purpose portals and search engines; and offline and online offerings of media companies that produce content specifically for IT professionals, including International Data Group, United Business Media, QuinStreet and CNet. Advertisers may choose our competitors over us not only because they prefer our competitors online and events offerings to ours but also because advertisers prefer to utilize other forms of advertising offered by our competitors that are not offered by us and/or to diversify their advertising expenditures. Although approximately 15% of our revenues for the twelve months ended December 31, 2012 were derived from advertisers located outside of North America, as we continue to expand internationally, as we have in the last several years by commencing operations of our own websites in the United Kingdom, India, Spain, China and Australia, by acquiring the Computer Weekly and MicroScope properties from Reed Business Information Limited in the United Kingdom, by commencing operations in Singapore in February 2012 and, most recently, by acquiring LeMagIT in France, also in 2012, we expect to compete with many of the competitors mentioned above, as well as with established media companies based in particular countries or geographical regions. Many of these foreign-based media companies will be larger than we are and will have established relationships with local advertisers. Many of our current and potential competitors have longer operating histories, larger customer bases, greater brand recognition and significantly greater financial, marketing and other resources than we have. As a result, we could lose market share to our competitors in one or more of our businesses and our revenues could decline.

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

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





---

## **Table of Contents**

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

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

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

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

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

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

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

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

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

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

competition from other companies in hiring and retaining sales personnel.

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

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

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

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.

---

**Table of Contents**

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

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

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

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

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

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

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

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

**Table of Contents**

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

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

## **Table of Contents**

contain tracking protection features and options that allow users to opt-out of ad-tracking cookies and in certain cases block behavioral tracking from specified websites. In the event users implement these tracking features and options, they have the potential to affect our business negatively.

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

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

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

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

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

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

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

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

more extensive labor regulation, which may vary by country;

difficulties in staffing and managing multinational operations;

difficulties in finding appropriate foreign licensees or joint venture partners;

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

foreign political and economic uncertainty;

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

currency exchange-rate fluctuations; and

potential adverse tax requirements.

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

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

## **Table of Contents**

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

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

privacy, data security and use of personally identifiable information;

copyrights, trademarks and domain names; and

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

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

decrease the growth rate of the Internet;

reduce our revenues;

increase our operating expenses; or

expose us to significant liabilities.

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

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

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

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

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

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.*



---

## **Table of Contents**

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

We may experience service disruptions for the following reasons:

occasional scheduled maintenance;

equipment failure;

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

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

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

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

Internet usage could decline if any well-publicized compromise of security occurs. Hacking involves efforts to gain unauthorized access to information or systems or to cause intentional malfunctions or loss or corruption of data, software, hardware or other computer equipment. Hackers, if successful, could misappropriate proprietary information or cause disruptions in our service. We may be required to expend capital and other resources to protect our websites against hackers. Our online networks could also be affected by computer viruses or other similar disruptive problems, and we could inadvertently transmit viruses across our networks to our users or other third parties. Any of these occurrences could harm our business or give rise to a cause of action against us. Providing unimpeded access to our online networks is critical to

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

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.

---

## **Table of Contents**

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

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

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

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

***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 \$100.8 million of goodwill and net intangible assets as of December 31, 2012. The goodwill and/or intangible assets were recorded because the fair value of the net tangible assets acquired was less than the purchase price. We may not realize the full value of the goodwill and/or intangible assets. As such, we evaluate goodwill and other intangible assets with indefinite useful lives for impairment on an annual basis or more frequently if events or circumstances suggest that the asset may be impaired. We did not have any intangible assets with indefinite lives as of December 31, 2012 or 2011. We evaluate other intangible assets subject to amortization whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable. If goodwill or other intangible assets are determined to be impaired, we will write off the unrecoverable portion as a charge to our earnings. If we acquire new assets and businesses in the future, as we intend to do, we may record additional goodwill and/or intangible assets. The possible write-off of the goodwill and/or intangible assets could negatively impact our future earnings and, as a result, the market price of our common stock could decline.

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

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

our operating performance and the operating performance of similar companies;

the overall performance of the equity markets;

Edgar Filing: TechTarget Inc - Form 10-K

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

**Table of Contents**

threatened or actual litigation;

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

any change in our board of directors or management;

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

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

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

general political and economic conditions.

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

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

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

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

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

permit directors to be removed only for cause;

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

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

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

If our existing stockholders sell, or indicate an intent to sell, substantial amounts of our common stock in the public market, the trading price of our common stock could decline significantly. A large portion of our outstanding shares of common stock is held by our officers, directors and significant stockholders. Two of the largest percentages of our shares are owned by venture capital funds, which are typically structured to have a finite life. As these venture capital funds approach or pass the respective terms of the fund, the decision to sell or hold our stock may be based not only on the underlying investment merits of our stock but also on the requirements of their internal fund structure. Our directors, executive officers and significant stockholders beneficially own approximately 24 million shares of our common stock, which represents 61% of our shares outstanding as of December 31, 2012. If these additional shares are sold, or if it is perceived that they will be sold in the public market, the trading price of our common stock could decline substantially.

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

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

**Table of Contents****Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

In August 2009, we entered into an agreement to lease approximately 87,875 square feet of office space in Newton, Massachusetts. The lease commenced in February 2010 and has a term of 10 years. In November 2010, we signed an amendment to the Newton lease for approximately 8,400 square feet of additional space beginning in late March 2011. We also have leases for several sales offices located in other parts of the United States and internationally. We do not own any real property. We believe that our leased facilities are, in general, in good operating condition and adequate for our current operations and that additional leased space can be obtained if needed.

**Item 3. Legal Proceedings**

We are not currently a party to any material legal proceedings and we are not aware of any pending or threatened litigation against us that could have a material adverse effect on our business, operating results or financial condition. On January 6, 2012, the Company filed Petitions under Formal Procedure with the Massachusetts Appellate Tax Board in connection with the classification of the Company's wholly-owned subsidiary, TechTarget Securities Corporation, and assessments made by the Massachusetts Department of Revenue, as described in Note 9 in the accompanying consolidated financial statements. A trial date has been set for October 22, 2013. The Company intends to continue to dispute the assessment and believes it has meritorious claims which it intends to vigorously assert.

**Item 4. Mine Safety Disclosures**

Not applicable.

**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Our common stock is listed on the Nasdaq Global Market under the trading symbol "TTGT". The following table sets forth the high and low sales prices of our common stock, as reported by the Nasdaq Global Market, for each quarterly period in 2012 and 2011:

	High	Low
<b>Fiscal 2012</b>		
Quarter ended March 31, 2012	\$ 7.88	\$ 5.93
Quarter ended June 30, 2012	\$ 7.66	\$ 4.76
Quarter ended September 30, 2012	\$ 6.04	\$ 3.99
Quarter ended December 31, 2012	\$ 5.99	\$ 4.00
<b>Fiscal 2011</b>		
Quarter ended March 31, 2011	\$ 9.77	\$ 6.62
Quarter ended June 30, 2011	\$ 9.01	\$ 6.23
Quarter ended September 30, 2011	\$ 7.87	\$ 5.27
Quarter ended December 31, 2011	\$ 7.52	\$ 4.85

The closing sale price of our common stock, as reported by the Nasdaq Global Market, was \$4.69 on February 22, 2013.

 **Holders**

As of February 22, 2013 there were approximately 148 stockholders of record of our common stock based on the records of our transfer agent.

**Table of Contents**

**Dividends**

We did not declare or pay any cash dividends on our common stock during the two most recent fiscal years. We currently intend to retain earnings, if any, to fund the development and growth of our business and do not anticipate paying other cash dividends on our common stock in the foreseeable future. Our payment of any future dividends will be at the sole discretion of our board of directors after taking into account various factors, including our financial condition, operating results, cash needs and growth plans.

**Equity Compensation Plan Information**

Information relating to compensation plans under which our equity securities are authorized for issuance is set forth under Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters in Item 12 below.

**Stock Performance Graph**

The following graph compares the cumulative total return to stockholders of our common stock for the period from December 31, 2007 to December 31, 2012, to the cumulative total return of the Russell 2000 Index and the S&P 500 Media Industry Index for the same period. This graph assumes the investment of \$100.00 on December 31, 2007 in our common stock, the Russell 2000 Index and the S&P 500 Media Industry Index and assumes any dividends are reinvested.

**COMPARATIVE STOCK PERFORMANCE**

**Among TechTarget Inc.,**

**the Russell 2000 Index and**

**S&P 500 Media Industry Index**

Copyright© 2013 Russell Investment Group. All rights reserved.

Copyright© 2013 S&P, a division of The McGraw-Hill Companies Inc. All rights reserved.

	12/07	12/08	12/09	12/10	12/11	12/12
<b>TechTarget Inc.</b>	<b>100.00</b>	<b>29.23</b>	<b>38.09</b>	<b>53.65</b>	<b>39.51</b>	<b>37.55</b>
<b>Russell 2000</b>	<b>100.00</b>	<b>66.21</b>	<b>84.20</b>	<b>106.82</b>	<b>102.36</b>	<b>119.09</b>
<b>S&amp;P 500 Media Industry</b>	<b>100.00</b>	<b>64.10</b>	<b>91.79</b>	<b>113.65</b>	<b>122.82</b>	<b>168.85</b>

The information included under the heading Stock Performance Graph in Item 5 of this Annual Report on Form 10-K is furnished and not filed and shall not be deemed to be soliciting material or subject to Regulation 14A, shall not be deemed filed for purposes of Section 18 of the Securities Act of 1934, as amended, or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Securities Act of 1934, as amended.



**Table of Contents****Issuer Purchases of Equity Securities**

The following table provides information about purchases by the Company during the quarter ended December 31, 2012 of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act.

**Issuer Purchases of Equity Securities**

Period	Total Number of Shares Purchased	Average Price Paid Per Share*	Total Number of Shares Purchased as		Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
			Part of Publicly Announced Plans or Programs(1)		
October 1, 2012 – October 31, 2012		\$			\$ 19,820,109
November 1, 2012 – November 30, 2012	39,123	\$ 4.72	39,123		\$ 19,634,832
December 1, 2012 – December 31, 2012	20,670	\$ 4.97	20,670		\$ 19,531,755
Total (2)	59,793	\$ 4.80	59,793		\$ 19,531,755

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

(2) All shares were repurchased under the Program.

\* Price excludes commission of approximately \$0.02 per share.

**Item 6. Selected Financial Data**

The information set forth below is not necessarily indicative of results of future operations, and should be read in conjunction with Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and related notes thereto included in Item 8 of this Form 10-K to fully understand factors that may affect the comparability of the information presented below.

	Years Ended December 31,				
	2012	2011	2010	2009	2008
(in thousands, except per share data)					
<b>Consolidated Results of Operations Data:</b>					
Revenues:					
Online	\$ 88,192	\$ 92,303	\$ 82,330	\$ 72,345	\$ 77,373
Events	11,799	13,195	12,679	14,152	22,786
Print(1)					4,385
Total revenues	99,991	105,498	95,009	86,497	104,544
Cost of revenues:					
Online(2)	23,513	22,373	20,402	20,661	22,807
Events(2)	4,301	4,765	4,313	5,856	9,963
Print(1)(2)					2,156
Total cost of revenues	27,814	27,138	24,715	26,517	34,926
Gross profit	72,177	78,360	70,294	59,980	69,618

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

Operating expenses:					
Selling and marketing(2)	36,718	39,586	37,291	34,125	35,158
Product development(2)	7,521	7,688	8,661	9,213	11,609
General and administrative(2)	13,206	13,680	15,530	15,316	10,537
Depreciation	3,279	2,759	2,389	2,219	2,406
Amortization of intangible assets	3,351	3,976	4,523	4,714	5,306
Restructuring charge		384			1,494
<b>Total operating expenses</b>	<b>64,075</b>	<b>68,073</b>	<b>68,394</b>	<b>65,587</b>	<b>66,510</b>

**Table of Contents**

Operating income (loss)	8,102	10,287	1,900	(5,607)	3,108
Interest and other income, net	107	57	176	267	1,440
Income (loss) before provision for (benefit from) income taxes	8,209	10,344	2,076	(5,340)	4,548
Provision for (benefit from) income taxes	4,185	5,655	3,258	(224)	2,784
Net income (loss)	\$ 4,024	\$ 4,689	\$ (1,182)	\$ (5,116)	\$ 1,764
Net income (loss) per common share(3):					
Basic	\$ 0.10	\$ 0.12	\$ (0.03)	\$ (0.12)	\$ 0.04
Diluted	\$ 0.10	\$ 0.12	\$ (0.03)	\$ (0.12)	\$ 0.04
Weighted average common shares outstanding:					
Basic	40,211	38,532	42,771	41,865	41,425
Diluted	40,910	40,567	42,771	41,865	43,440
<b>Other Data:</b>					
Adjusted EBITDA (unaudited)(4)	\$ 19,999	\$ 25,273	\$ 19,813	\$ 13,949	\$ 20,985

	2012	2011	As of December 31, 2010		2009	2008
			(in thousands)			
<b>Consolidated Balance Sheet Data:</b>						
Cash, cash equivalents and investments	\$ 76,340	\$ 63,221	\$ 50,134	\$ 82,557	\$ 69,568	
Total assets	\$ 220,192	\$ 209,187	\$ 193,758	\$ 214,063	\$ 210,012	
Total liabilities	\$ 20,878	\$ 19,512	\$ 19,898	\$ 16,199	\$ 19,075	
Treasury stock	\$ (35,810)	\$ (35,343)	\$ (35,343)	\$	\$	
Total stockholders' equity	\$ 199,314	\$ 189,675	\$ 173,860	\$ 197,864	\$ 190,937	

- (1) During 2008, we published monthly a controlled-circulation magazine that was free to subscribers and generated revenue solely based on advertising fees. We discontinued publishing this magazine in December 2008.
- (2) Amounts include stock-based compensation expense as follows:

	2012	2011	Years Ended December 31, 2010		2009	2008
			(in thousands)			
Cost of online revenue	\$ 202	\$ 273	\$ 173	\$ 454	\$ 407	
Cost of events revenue	18	91	87	94	91	
Cost of print revenue					6	
Selling and marketing	2,888	4,713	6,380	6,025	4,813	
Product development	265	443	520	535	473	
General and administrative	1,894	1,949	3,841	5,515	2,881	
Total	\$ 5,267	\$ 7,469	\$ 11,001	\$ 12,623	\$ 8,671	

- (3) Basic and diluted net income (loss) per common share is computed by dividing the net income (loss) applicable to common stockholders by the basic and diluted weighted-average number of common shares outstanding for the fiscal period. See Note 2 of our Notes to

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

Consolidated Financial Statements.

- (4) The following table reconciles net income (loss) to adjusted EBITDA for the periods presented and is unaudited:

**Table of Contents**

	Years Ended December 31,				
	2012	2011	2010	2009	2008
	(in thousands)				
Net income (loss)	\$ 4,024	\$ 4,689	\$ (1,182)	\$ (5,116)	\$ 1,764
Interest and other income, net	(107)	(57)	(176)	(267)	(1,440)
Provision for (benefit from) income taxes	4,185	5,655	3,258	(224)	2,784
Depreciation	3,279	2,759	2,389	2,219	2,406
Amortization of intangible assets	3,351	3,976	4,523	4,714	5,306
Amortization of purchase price adjustment for earnouts		398			
<b>EBITDA</b>	<b>14,732</b>	<b>17,420</b>	<b>8,812</b>	<b>1,326</b>	<b>10,820</b>
Stock-based compensation	5,267	7,469	11,001	12,623	8,671
Restructuring charge		384			1,494
<b>Adjusted EBITDA</b>	<b>\$ 19,999</b>	<b>\$ 25,273</b>	<b>\$ 19,813</b>	<b>\$ 13,949</b>	<b>\$ 20,985</b>

Adjusted EBITDA is a metric used by management when reviewing our performance. EBITDA represents net income (loss) before interest and other income (expense) net, provision for (benefit from) income taxes, depreciation and amortization. Adjusted EBITDA represents EBITDA as further adjusted to exclude stock-based compensation and restructuring charges. We present Adjusted EBITDA as a supplemental performance measure because we believe it facilitates operating performance comparisons from period to period and company to company by backing out potential differences caused by variations in capital structures (affecting interest expense), tax positions (such as the impact on periods or companies of changes in effective tax rates or net operating losses), the age and book depreciation of fixed assets (affecting relative depreciation expense), acquisition-related charges (such as amortization of intangible assets and earnouts) and the impact of non-cash stock-based compensation expense costs. Because Adjusted EBITDA facilitates internal comparisons of operating performance on a more consistent basis, we also use Adjusted EBITDA in measuring our performance relative to that of our competitors. We also use Adjusted EBITDA in connection with our compensation of our executive officers and senior management. Adjusted EBITDA is not a measurement of our financial performance under GAAP and should not be considered as an alternative to net income (loss), operating income (loss) or any other performance measures derived in accordance with GAAP or as an alternative to cash flow from operating activities as a measure of our profitability or liquidity. We understand that although Adjusted EBITDA is frequently used by securities analysts, lenders and others in their evaluation of companies, Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

Adjusted EBITDA does not reflect our cash expenditures, or future requirements for capital expenditures or contractual commitments;

Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;

Adjusted EBITDA does not reflect the interest expense, or the cash requirements necessary to service interest or principal payments, on our debts;

Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements; and

Other companies in our industry may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

---

## **Table of Contents**

### **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and accompanying notes included elsewhere in this Annual Report on Form 10-K. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this Annual Report on Form 10-K, particularly under the heading "Risk Factors."*

#### **Overview**

##### **Background**

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

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

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 at the time of the acquisition. 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. The earnout was paid in the first quarter of 2012.

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 at the time of the acquisition. 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. The earnout was paid in the first quarter of 2012.

As of October 1, 2010, through our wholly-owned subsidiary, TechTarget (HK) Limited ( TTGT HK ), we obtained effective control of a variable interest entity ( VIE ), Keji Wangtuo Information Technology Co., Ltd. ( KWIT ), which was incorporated under the laws of the People's Republic of China ( PRC ) on November 27, 2007, for \$3.2 million in cash. KWIT was an existing TechTarget partner which operated and continues to operate Chinese-language versions of some of our websites.

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

## Table of Contents

Based on these contractual arrangements, we consolidate the financial results of KWIT as required by Accounting Standards Codification ( ASC ) subtopic 810-10 ( ASC 810-10 ), *Consolidation: Overall* (Pre-Codification: Financial Accounting Standards Board ( FASB ) Interpretation No. 46R, *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51*), because we hold all the variable interests of KWIT through TTGT HK and the WFOE, the latter of which is the primary beneficiary of the financial results of KWIT. Despite the lack of technical majority ownership, there exists a parent-subsidiary relationship between us and KWIT through certain of the VIE Agreements, whereby the shareholders of KWIT assigned all of their voting rights underlying their equity interest in KWIT to the WFOE. In addition, through the other aforementioned agreements, we demonstrate our ability and intention to continue to exercise the ability to obtain substantially all of the profits and absorb all of the expected losses of KWIT.

On April 26, 2011 we announced that we had completed the acquisition of the websites, product offerings, and events associated with Computer Weekly and its sister channel-targeted brand, MicroScope, from Reed Business Information Limited for \$2.0 million in cash. Computer Weekly, through its websites and events (and print properties, which were not continued), has served United Kingdom-based managers, directors and CIOs monitoring the technology landscape, and the advertisers looking to reach them. Computer Weekly and MicroScope also serve United Kingdom IT decision makers by bringing technology news and IT management focused content. These two websites complement our established offerings in the region, including SearchDataManagement.co.uk, SearchNetworking.co.uk, SearchSecurity.co.uk, SearchStorage.co.uk, and SearchVirtualDataCentre.co.uk, by giving advertisers new ways to reach key UK and European IT decision makers.

On December 17, 2012 we announced that we had acquired E-Magine Médias SAS, which we call LeMagIT, a strategic partner with TechTarget since 2010, for \$2.2 million in cash plus a potential future earnout valued at \$0.7 million at the time of the acquisition. Approximately \$1.2 million of the cash payment was made at closing, with the remainder due in two equal installments in fiscal years 2013 and 2014. The third installment is subject to certain revenue growth targets and may be reduced based on actual results. Since its launch in 2008, LeMagIT's network of sites has offered French-language news and analysis for IT decision makers on core enterprise IT topics such as cloud computing, virtualization, security, and storage and attracts over 250,000 visits per month. The acquisition strengthens our value proposition to deliver focused content, targeted audiences and innovative capabilities to enterprise IT providers trying to make progress in Europe. The second installment, to be paid in 2013, is included in accrued liabilities in our consolidated balance sheet; the earnout and final installment payment are included in long-term liabilities on our consolidated balance sheet.

## **Executive Summary**

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

Key strategic activities during the period ended December 31, 2012 included:

**Activity Intelligence** Approximately 520 of our customers now have access to the Activity Intelligence dashboard and we continue to see growth in purchases of our Nurture & Notify offering, an add-on service that has been sold onto over 125 lead generation campaigns. We also have other product initiatives designed to leverage this platform in the development pipeline that we currently anticipate will increase our penetration of our accounts, as well as potentially leverage our core capabilities in complementary offerings. The first such offering, IT Deal Alert, went through a successful paid beta test in the fourth quarter of 2012 and was launched into the market in January of 2013. We are encouraged by the feedback we are receiving in the market.

**International Update** International geo-targeted revenue increased by more than 50% in the year ended December 31, 2012 as compared to the same period a year ago. We believe that our integrated product offering across regions continues to resonate with international marketers and is contributing to our successful results. We plan on continuing to invest in these capabilities as we seek opportunities to increase our global reach. As noted previously, we established an office in Singapore to help better manage Southeast Asia sales operations and work more closely with Asia-Pacific (APAC) regional marketers, and our results from our new direct operations in both Singapore and Australia are contributing to our international growth. As of December 31, 2012, we had approximately 435,000 registered members from Southeast Asia and served more than 8 million Southeast Asian advertising impressions each quarter across our network of sites that focus on enterprise information technology topics such as data centers, virtualization, cloud computing, storage, networking and business applications. In addition to our offices in Singapore and Australia, we have an APAC operational base in China. We also

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

acquired our French partner, LeMagIT, in late 2012 and will now operate directly in France.



---

## **Table of Contents**

**Site launches:** In the twelve month period ended December 31, 2012, we launched the following new websites:

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

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

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

SearchDataCenter en Español , our first fully-functional Spanish-language search website designed to service the needs of the Latin American market by providing high-quality, unbiased advice, best practices, and technical how-to information on core enterprise IT topics. This site delivers targeted content focused on critical issues and solutions for Latin American IT buyers across key enterprise IT segments, including: business applications and business intelligence; data center hardware and storage; networking; enterprise security; as well as cross-IT trends such as cloud computing, mobility, and big data. It launched with more than 500 original Spanish-language articles, numerous Spanish-language e-books, and a resource library for Spanish-language white papers and webcasts and will help better serve the 400,000 registered members that we already serve in the region.

### ***Sources of Revenues***

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

The majority of our revenue is derived from the delivery of our online offerings from our media groups. Online revenue represented 88%, 87% and 87% of total revenues for the years ended December 31, 2012, 2011 and 2010, respectively.

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

*Online.* Our network of websites forms the core of our content platform. Our websites provide IT professionals with comprehensive decision support information tailored to their specific areas of responsibility and purchasing decisions. Through our websites, we offer a variety of online media offerings to connect IT vendors to IT professionals. Our lead generation offerings allow

## **Table of Contents**

IT vendors to maximize ROI by capturing qualified sales leads from the distribution and promotion of content to our audience of IT professionals. In August of 2011, we released a major upgrade to our Activity Intelligence platform. Beginning in 2012, all of our lead generation campaigns offer the Activity Intelligence Dashboard.

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

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

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

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

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

Our other offerings include the following:

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

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

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

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

*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 12%, 13% and 13% of total revenues for the years ended December 31, 2012, 2011 and 2010, 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

---

## **Table of Contents**

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

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

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

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

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

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

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

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

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

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

*Restructuring Charges.* Restructuring charges consist of employee severance and associated termination costs.

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

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

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



---

## **Table of Contents**

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

### ***Revenue Recognition***

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

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

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

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

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

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

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

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

Revenue for other online media offerings is recognized as follows for 2011 as well as 2012:

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

---

## **Table of Contents**

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

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

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

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

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

During fiscal 2010 and prior, because objective evidence of fair value did not exist for all elements in our bundled advertising campaigns, no allocation could be made among the various elements, so we recognized revenue as one unit of accounting ratably over the term of the arrangement.

*Event Sponsorships.* We recognize sponsorship revenue from events in the period in which the event occurs. The majority of our events are free to qualified attendees; however, certain events are based on a paid attendee model. We recognize revenue for paid attendee events upon completion of the event.

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

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

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

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

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

### ***Allowance for Doubtful Accounts***

We offset gross trade accounts receivable with an allowance for doubtful accounts. The allowance for doubtful accounts is our best estimate of the amount of probable credit losses in our existing accounts receivable. We review our allowance for doubtful accounts on a regular basis, and all past due balances are reviewed individually for collectability. Account balances are charged against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Provisions for doubtful accounts are recorded in general and administrative expense. If our historical collection experience does not reflect our future ability to collect outstanding accounts receivable, our future provision for doubtful accounts could be materially affected. To date, we have not incurred any write-offs of accounts receivable significantly different than the amounts reserved. The allowance for doubtful accounts was \$0.9 million and \$1.1 million at December 31, 2012 and 2011, respectively.





**Table of Contents****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 in our results 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:

	Years Ended December 31,			
	2012	2011		2010
Expected volatility	88%	79%	81.4%	78% 79%
Expected term	5 years	6.25 years		6.25 years
Risk-free interest rate	0.36%	0.9%	2.3%	2.3% 2.85%
Expected dividend yield	%	%		%
Weighted-average grant date fair value per share	\$ 3.63	\$ 4.72	\$ 4.92	

As there was no public market for our common stock prior to our initial public offering in May 2007, and there has been limited historical information on the volatility of our common stock since the date of our initial public offering, we determine the volatility for options granted based on an analysis of the historical volatility of our stock and reported data for a peer group of companies that issued options with substantially similar terms. The expected volatility of options granted has been determined using a weighted average of the historical volatility of our stock and the peer group of companies for a period equal to the expected life of the option. The risk-free interest rate is based on a zero coupon United States treasury instrument whose term is consistent with the expected life of the stock options. We have not paid and do not anticipate paying cash dividends on our shares of common stock; therefore, the expected dividend yield is assumed to be zero. We applied an estimated annual forfeiture rate based on our historical forfeiture experience of 4.17%, 3.6% and 2% in determining the expense recorded in the years ended December 31, 2012, 2011 and 2010, respectively.

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

We capitalize costs of materials, consultants and compensation and related expenses of employees who devote time to the development of internal-use software and website applications and infrastructure involving developing software to operate our websites. However, we expense as incurred website development costs for new features and functionalities since it is not probable that they will result in additional functionality until they are both developed and tested with confirmation that they are more effective than the current set of features and functionalities on our websites. Our judgment is required in determining the point at which various projects enter the state 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 \$3.0 million, \$3.2 million and \$2.1 million for the years ended December 31, 2012, 2011 and 2010, respectively.

**Income Taxes**

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

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



**Table of Contents****Net Income (Loss) Per Share**

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

**Results of Operations**

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

	Years Ended December 31,					
	2012		2011		2010	
	(\$ in thousands)					
<b>Revenues:</b>						
Online	\$ 88,192	88%	\$ 92,303	87%	\$ 82,330	87%
Events	11,799	12	13,195	13	12,679	13
Total revenues	99,991	100	105,498	100	95,009	100
<b>Cost of revenues:</b>						
Online	23,513	24	22,373	21	20,402	21
Events	4,301	4	4,765	5	4,313	5
Total cost of revenues	27,814	28	27,138	26	24,715	26
Gross profit	72,177	72	78,360	74	70,294	74
<b>Operating expenses:</b>						
Selling and marketing	36,718	37	39,586	38	37,291	39
Product development	7,521	8	7,688	7	8,661	9
General and administrative	13,206	13	13,680	13	15,530	16
Depreciation	3,279	3	2,759	3	2,389	3
Amortization of intangible assets	3,351	3	3,976	4	4,523	5
Restructuring charge			384			
Total operating expenses	64,075	64	68,073	65	68,394	72
Operating income	8,102	8	10,287	9	1,900	2
Interest and other income, net	107		57		176	
Income before provision for income taxes	8,209	8	10,344	9	2,076	2
Provision for income taxes	4,185	4	5,655	5	3,258	3
Net income (loss)	\$ 4,024	4%	\$ 4,689	4%	\$ (1,182)	(1)%



**Table of Contents****Comparison of Fiscal Years Ended December 31, 2012 and 2011****Revenues**

	Years Ended December 31,			Percent Change
	2012	2011	Increase (Decrease)	
	(\$ in thousands)			
Revenues:				
Online	\$ 88,192	\$ 92,303	\$ (4,111)	(4)%
Events	11,799	13,195	(1,396)	(11)
Total revenues	\$ 99,991	\$ 105,498	\$ (5,507)	(5)%

*Online.* The decrease in online revenue in fiscal 2012 from the fiscal year ended December 31, 2011 ( fiscal 2011 ) was primarily attributable to a \$4.7 million decrease in branding revenues, primarily due to decreases in banner sales volume, as well as a \$0.6 million decrease in third party revenues. The decrease was offset in part by a \$1.2 million increase in lead generation offerings. The decrease is primarily in North American sales, caused by delays in IT purchases due to uncertainty in the macro environment, offset in part by an increase in international revenues.

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

**Cost of Revenues and Gross Profit**

	Years Ended December 31,			Percent Change
	2012	2011	Increase (Decrease)	
	(\$ in thousands)			
Cost of revenues:				
Online	\$ 23,513	\$ 22,373	\$ 1,140	5%
Events	4,301	4,765	(464)	(10)
Total cost of revenues	\$ 27,814	\$ 27,138	\$ 676	2%
Gross profit	\$ 72,177	\$ 78,360	\$ (6,183)	(8)%
Gross profit percentage	72%	74%		

*Cost of Online Revenue.* The increase in cost of online revenues in fiscal 2012 compared to fiscal 2011 was primarily attributable to a \$1.8 million increase in payroll-related expenses due primarily to international expansion and a \$0.1 million increase in member acquisition costs. These increases are offset in part by a \$0.8 million reduction in variable direct and third party costs due to the decrease in online revenues year over year.

*Cost of Events Revenue.* The decrease in cost of events revenues in fiscal 2012 compared to fiscal 2011 was primarily due to a \$0.3 million reduction in payroll-related costs due primarily to a decrease in headcount, \$0.1 million in lower variable direct costs as a result of the decrease in the number of events that we conducted and a \$0.1 million reduction in stock-based compensation, primarily due to the completion of vesting of certain equity awards.

*Gross Profit.* Our gross profit is equal to the difference between our revenues and our cost of revenues for the period. Gross margin for fiscal 2012 was 72% and for fiscal 2011 was 74%. Online gross profit decreased \$5.3 million in fiscal 2012 as compared to the same period in 2011, attributable to the decrease in online revenue in combination with an overall increase in online cost of revenues, due primarily to the fixed nature of some of these costs, as compared to the same period a year ago. Events gross profit decreased by \$0.9 million, primarily as a result of the lower events revenues, which were offset in part by a reduction in related variable direct costs. Because the majority of our costs are labor-related, we expect our gross profit to fluctuate from period to period depending on the total revenues for the period, as well as the relative

contribution of online and events revenues to our total revenues.

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

	Years Ended December 31,			Percent Change
	2012	2011	Increase (Decrease)	
	(\$ in thousands)			
Operating expenses:				
Selling and marketing	\$ 36,718	\$ 39,586	\$ (2,868)	(7)%
Product development	7,521	7,688	(167)	(2)
General and administrative	13,206	13,680	(474)	(3)
Restructuring		384	(384)	(100)
Depreciation	3,279	2,759	520	19
Amortization of intangible assets	3,351	3,976	(625)	(16)
Total operating expenses	\$ 64,075	\$ 68,073	\$ (3,998)	(6)%
Interest and other income, net	\$ 107	\$ 57	\$ 50	88%
Provision for income taxes	\$ 4,185	\$ 5,655	\$ (1,470)	(26)%

*Selling and Marketing.* Selling and marketing expenses decreased \$2.9 million in fiscal 2012, primarily due to a \$1.8 million decrease in stock-based compensation due to the completion of vesting of certain equity awards, a \$0.8 million decrease in incentive compensation due to lower revenues, a \$0.6 million decrease in employee related expenses including travel costs, for which there was a focused reduction effort during the second half of the year and, to a lesser extent, a reduction in direct marketing costs year over year. These reductions were offset in part by a \$0.5 million increase in international employee-related expenses, including tax equalization, due to international expansion.

*Product Development.* The decrease in product development expense in fiscal 2012 was primarily caused by a reduction in stock-based compensation, primarily due to the completion of vesting of certain equity awards.

*General and Administrative.* The decrease in general and administrative expense was primarily attributable to a \$0.4 million reduction in incentive compensation related directly to our financial results, a \$0.4 million change in the fair value adjustments recorded in 2011 that were related to the earnout provisions of our two 2010 acquisitions, a \$0.3 million decrease in legal fees, primarily related to acquisitions, and a \$0.2 million decrease in employee-related expenses. These reductions were offset in part by a \$0.6 million increase in our bad debt reserve based on a review of our aging at the end of fiscal 2012 and \$0.2 million in additional audit and tax expenses, primarily as a result of international expansion.

*Restructuring Charge.* In fiscal 2011, we took a one-time restructuring charge for redundancy costs related to the Computer Weekly acquisition.

*Depreciation and Amortization of Intangible Assets.* The increase in depreciation expense in fiscal 2012 is related to our increased fixed asset base, primarily as a result of our continued investment in internal-use software development costs and computer equipment. The decrease in amortization of intangible assets expense in fiscal 2012 is primarily attributable to certain intangible assets becoming fully amortized during 2011, offset in part by amortization related to intangible assets added in recent acquisitions.

*Interest and Other Income, Net.* The increase in interest income, net, reflects our higher cash balances as well as longer maturities of investments in the year ended December 31, 2012 as compared to the same period in 2011.

*Provision for Income Taxes.* Our effective tax rate was 51% and 55% for the year ended December 31, 2012 and 2011, respectively. The effective tax rate differs from the statutory rate primarily due to the permanent difference of nondeductible stock-based compensation expense of \$1.2 million and \$2.2 million for the years ended December 31, 2012 and 2011, respectively.





**Table of Contents****Comparison of Fiscal Years Ended December 31, 2011 and 2010****Revenues**

	Years Ended December 31,			Percent Change
	2011	2010	Increase (Decrease) (\$ in thousands)	
Revenues:				
Online	\$ 92,303	\$ 82,330	\$ 9,973	12%
Events	13,195	12,679	516	4
Total revenues	\$ 105,498	\$ 95,009	\$ 10,489	11%

*Online.* The increase in online revenue in fiscal 2011 was primarily attributable to a \$7.5 million increase in lead generation offerings, primarily due to an increase in sponsorship and white paper sales volumes. Branding revenues also increased by \$2.2 million for fiscal 2011, due primarily to an increase in banner sales volume, and third party revenue increased by \$0.3 million.

*Events.* The increase in events revenue in fiscal 2011 was due to the addition of a new multi-day conference in 2011 that was not held in the fiscal year ended December 31, 2010 ( fiscal 2010 ), offset in part by an overall reduction in custom events and seminars.

**Cost of Revenues and Gross Profit**

	Years Ended December 31,			Percent Change
	2011	2010	Increase (Decrease) (\$ in thousands)	
Cost of revenues:				
Online	\$ 22,373	\$ 20,402	\$ 1,971	10%
Events	4,765	4,313	452	10
Total cost of revenues	\$ 27,138	\$ 24,715	\$ 2,423	10%
Gross profit	\$ 78,360	\$ 70,294	\$ 8,066	11%
Gross profit percentage	74%	74%		

*Cost of Online Revenue.* The increase in cost of online revenues in fiscal 2011 was a result of the 12% increase in online revenue and was primarily attributable to a \$1.0 million increase in hosting and production costs, primarily related to increased international partner activity and freelancer costs, and a \$1.0 million increase in payroll-related expenses due to increased headcount.

*Cost of Events Revenue.* Cost of events revenues increased in fiscal 2011 as compared to fiscal 2010, primarily due to costs related to the new multi-day conference added in 2011 as well as an overall increase in the number of single-day events and change in the overall mix of event types.

*Gross Profit.* Our gross profit is equal to the difference between our revenues and our cost of revenues for the period. Gross margin for each of 2011 and 2010 was 74%. Online gross profit increased \$8.0 million in fiscal 2011, attributable to the increase in online revenue offset by increases in hosting and production and compensation costs, as compared to 2010. Events gross profit was flat. Because the majority of our costs are labor-related, we expect our gross profit to fluctuate from period to period depending on the total revenues for the period, as well as the relative contribution of online and events revenues to our total revenues.

**Operating Expenses and Other**

Edgar Filing: TechTarget Inc - Form 10-K

	Years Ended December 31,			Percent Change
	2011	2010	Increase (Decrease) (\$ in thousands)	
Operating expenses:				
Selling and marketing	\$ 39,586	\$ 37,291	\$ 2,295	6%
Product development	7,688	8,661	(973)	(11)
General and administrative	13,680	15,530	(1,850)	(12)
Restructuring	384		384	
Depreciation	2,759	2,389	370	15
Amortization of intangible assets	3,976	4,523	(547)	(12)
Total operating expenses	\$ 68,073	\$ 68,394	\$ (321)	%
Interest and other income, net	\$ 57	\$ 176	\$ (119)	(68)%
Provision for income taxes	\$ 5,655	\$ 3,258	\$ 2,397	74%

---

## **Table of Contents**

*Selling and Marketing.* The increase in selling and marketing expenses in fiscal 2011 was primarily due to a \$2.3 million increase in compensation and related benefits costs due to increased headcount, including hiring expenses and the use of temporary labor during the recruitment process, and a \$1.6 million increase in facilities, travel and employee-related costs due primarily to increased headcount and the costs associated with international expansion. In April 2011 we acquired the operations of Computer Weekly and MicroScope from Reed Business Information Limited and inherited as a result of this acquisition additional headcount and ongoing expenses that have mainly been composed of sales and marketing expenses. These increases were offset in part by a \$1.7 million decrease in stock-based compensation due to the accelerated vesting of performance-based awards in 2010.

*Product Development.* The decrease in product development expense in fiscal 2011 was primarily caused by a \$0.7 million reduction in payroll and allocated costs due to these costs being capitalized at higher levels resulting from our ongoing internal development projects, specifically Activity Intelligence and J2EE upgrade, a \$0.1 million reduction in consulting costs and a \$0.1 million reduction in stock-based compensation, primarily due to the accelerated vesting of performance-based awards in 2010.

*General and Administrative.* The decrease in general and administrative expense in fiscal 2011 was primarily attributable to a \$1.9 million reduction in stock-based compensation, primarily due to the accelerated vesting of performance-based awards in 2010, a \$0.4 million decrease in audit and compliance fees and a \$0.1 million decrease in corporate taxes due to a potential net worth tax liability recorded in 2010. These decreases were offset in part by a \$0.5 million change in the fair value adjustments related to the earnout provisions of two 2010 acquisitions and a \$0.2 million increase in legal fees, primarily related to acquisitions.

*Restructuring Charge.* In fiscal 2011, we took a restructuring charge for redundancy costs related to the Computer Weekly acquisition.

*Depreciation and Amortization of Intangible Assets.* The increase in depreciation expense in fiscal 2011 was related to our increased fixed asset base, primarily as a result of our continued investment in internal-use software development costs and computer equipment as well as leasehold improvements associated with our move to our corporate headquarters on March 1, 2010. The decrease in amortization of intangible assets expense was primarily attributable to certain intangible assets becoming fully amortized during 2010, partially offset by amortization on newly acquired intangible assets.

*Interest and Other Income, Net.* The decrease in interest and other income, net, was primarily caused by our lower cash balances in the year ended December 31, 2011 as compared to the same period in 2010 resulting from the tender offer completed in the fourth quarter of 2010.

*Provision for (Benefit from) Income Taxes.* Our effective tax rate was 55% and 157% for the years ended December 31, 2011 and 2010, respectively. The provision for income taxes for the year ended December 31, 2010 included an accrual 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 139%. The effective tax rate differs from the statutory rate primarily due to the permanent difference of nondeductible stock-based compensation expense of \$2.2 million and \$3.8 million for the years ended December 31, 2011 and 2010, respectively.

*Reclassifications.* In 2011, the Company changed the manner in which it allocates real estate facilities costs to align with actual departmental headcount. Previously, such costs were all included as a part of general and administrative expenses. Amounts in the prior years' financial statements have been reclassified to conform to the current year presentation. In the year ended December 31, 2010 the reclassification resulted in additional online cost of sales, events cost of sales, sales and marketing and product development expense of \$1.4 million, \$0.2 million, \$1.6 million and \$0.6 million, respectively, offset by a decrease in general and administrative expense of \$3.8 million.

### **Selected Quarterly Results of Operations**

The following table presents our unaudited quarterly consolidated results of operations for the eight quarters ended December 31, 2012. The unaudited quarterly consolidated information has been prepared on the same basis as our audited consolidated financial statements. You should read the following table presenting our quarterly consolidated results of operations in conjunction with our audited consolidated financial statements and the related notes included elsewhere in this Annual Report. The operating results for any quarter are not necessarily indicative of the operating results for any future period.

**Table of Contents**

	For the Three Months Ended							
	Mar. 31	2012			2011			
	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Mar. 31	Jun. 30	Sep. 30	Dec. 31
	(in thousands, except per share data)							
<b>Revenues:</b>								
Online	\$ 22,071	\$ 23,038	\$ 20,447	\$ 22,636	\$ 20,380	\$ 24,151	\$ 21,763	\$ 26,009
Events	1,643	3,331	4,102	2,723	2,186	3,951	4,129	2,929
Total revenues	23,714	26,369	24,549	25,359	22,566	28,102	25,892	28,938
<b>Cost of revenues:</b>								
Online	6,041	5,949	5,828	5,695	5,606	5,720	5,547	5,500
Events	764	1,154	1,371	1,012	877	1,242	1,488	1,158
Total cost of revenues	6,805	7,103	7,199	6,707	6,483	6,962	7,035	6,658
Gross profit	16,909	19,266	17,350	18,652	16,083	21,140	18,857	22,280
<b>Operating expenses:</b>								
Selling and marketing	9,163	9,227	9,082	9,246	8,631	10,184	10,182	10,589
Product development	1,855	1,881	1,919	1,866	1,946	1,870	1,874	1,998
General and administrative	3,649	2,979	3,433	3,145	3,799	3,458	3,105	3,319
Restructuring						384		
Depreciation	767	811	850	851	641	668	692	758
Amortization of intangible assets	937	874	843	697	1,086	989	955	946
Total operating expenses	16,371	15,772	16,127	15,805	16,103	17,553	16,808	17,610
Operating income (loss)	538	3,494	1,223	2,847	(20)	3,587	2,049	4,670
Interest and other income, net	25	23	37	22	6	6	20	25
Income (loss) before provision for income taxes	563	3,517	1,260	2,869	(14)	3,593	2,069	4,695
Provision for income taxes	198	1,552	588	1,847	61	1,775	1,106	2,713
Net income (loss)	\$ 365	\$ 1,965	\$ 672	\$ 1,022	\$ (75)	\$ 1,818	\$ 963	\$ 1,982
Net income per share - basic	\$ 0.01	\$ 0.05	\$ 0.02	\$ 0.03	\$ 0.00	\$ 0.05	\$ 0.03	\$ 0.05
Net income per share - diluted	\$ 0.01	\$ 0.05	\$ 0.02	\$ 0.02	\$ 0.00	\$ 0.04	\$ 0.02	\$ 0.05

**Seasonality**

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

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

## Table of Contents

### Liquidity and Capital Resources

#### *Resources*

At December 31, 2012, we had \$66.6 million of working capital, and our cash and cash equivalents totaled \$48.4 million. Our cash, cash equivalents and investments increased \$13.1 million during fiscal 2012, primarily from cash generated from our operations and proceeds from the exercise of stock options. These cash sources were partially offset by our investing activities, primarily for purchases of property and equipment and for the acquisition of a business. We believe that our existing cash, cash equivalents, and investments, our cash flow from operating activities and available bank borrowings will be sufficient to meet our anticipated cash needs for at least the next 12 months. Our future working capital requirements will depend on many factors, including the operations of our existing business, our potential strategic expansion internationally, future acquisitions we might undertake, and the expansion into complementary businesses. To the extent that our cash and cash equivalents, investments and cash flow from operating activities are insufficient to fund our future activities, we may need to raise additional funds through bank credit arrangements or public or private equity or debt financings. We also may need to raise additional funds in the event we determine in the future to effect one or more additional acquisitions of businesses.

	As of December 31,		
	2012	2011	2010
	(in thousands)		
Cash, cash equivalents and investments	\$ 76,340	\$ 63,221	\$ 50,134
Accounts receivable, net	\$ 24,185	\$ 26,272	\$ 24,678

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

Our cash, cash equivalents and investments at December 31, 2012 were held for working capital purposes and were invested primarily in money market accounts, municipal bonds and government agency bonds. We do not enter into investments for trading or speculative purposes.

#### *Accounts Receivable, Net*

Our accounts receivable balance fluctuates from period to period, which affects our cash flow from operating activities. The fluctuations vary depending on the timing of our service delivery and billing activity, cash collections, and changes to our allowance for doubtful accounts. We use days sales outstanding, ( DSO ), as a measurement of the quality and status of our receivables. We define DSO as net accounts receivable at period end divided by total revenue for the applicable period, multiplied by the number of days in the applicable period. DSO was 88 days at December 31, 2012, and 84 days at both December 31, 2011 and 2010. Certain categories of our customers may pay at a slower rate and, therefore, cause our DSO to increase. The increase in DSO year over year is primarily the result of a larger percentage of annual billings being made in the fourth quarter to this group of customers.

#### *Operating Activities*

	Years Ended December 31,		
	2012	2011	2010
	(in thousands)		
Cash provided by operating activities	\$ 18,636	\$ 15,858	\$ 12,879
Cash used in investing activities(1)	\$ (5,267)	\$ (6,530)	\$ (9,756)
Cash provided by (used in) financing activities	\$ 652	\$ 4,871	\$ (33,991)

(1) Cash used in investing activities shown net of investment activity of \$8.6 million, \$(20.8) million and \$42.6 million for the years ended December 31, 2012, 2011 and 2010, respectively.

Cash provided by operating activities primarily consists of net income adjusted for certain non-cash items including depreciation and amortization, the provision for bad debt, stock-based compensation, deferred income taxes, and the effect of changes in working capital and other activities. Cash provided by operating activities for the year ended December 31, 2012 was \$18.6 million compared to \$15.9 million and \$12.9 million in the years ended December 31, 2011 and 2010, respectively. The increase in cash provided by operations in fiscal 2012 compared to fiscal 2011 was primarily a result of net cash provided by changes in operating assets and liabilities of \$1.2 million as compared to

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

net cash used by changes in operating assets and liabilities of \$0.9 million in 2011. Significant components of the changes in assets and liabilities included a \$1.9 million decrease in accounts receivable in 2012 compared to an increase of \$1.7 million in 2011, primarily due to strong collections in 2012, the timing of annual billing cycles with

---

## **Table of Contents**

some of our larger customers and the decrease in revenues from 2011 to 2012; an increase in deferred revenue of \$0.4 million in 2012 as compared with a decrease of \$1.2 million in 2011 caused by the timing of billings associated with campaigns; a \$0.4 million decrease in prepaids and other current assets in 2012 as compared to an increase of \$0.8 million in 2011 primarily related to high interest and income tax receivable balances at December 31, 2011; a slight increase in accrued compensation in 2012 compared to a \$0.8 million decrease in 2011 (primarily related to incentive compensation); a \$0.1 million decrease in accounts payable in 2012 compared to a \$0.9 million decrease in 2011 and a \$0.2 million decrease in other liabilities in 2012, primarily related to deferred rent, compared to a \$0.7 million decrease in 2011, related to contingent compensation paid in 2011 offset by an increase in deferred rent in that year. These changes were offset in part by a \$1.4 million decrease in accrued expenses during 2012 compared to an increase of \$1.9 million in 2011, caused primarily by the payment of contingent compensation in 2012 that had been accrued in 2011; and an increase in income taxes payable of \$0.3 million in 2012 as compared with an increase of \$3.2 million in 2011. Additionally, there was a \$0.7 million increase in net income adjusted for non-cash related items, which was primarily related to tax benefits offset by reductions in stock-based compensation and, to a lesser extent, lower net income in 2012 than in 2011.

### ***Investing Activities***

Cash used in investing activities in the year ended December 31, 2012, net of investment activity, was \$4.1 million for the purchase of property and equipment, primarily website development costs, computer equipment and related software and internal-use development costs. Additionally, cash investment of \$1.2 million was made for the purchase of LeMagIT in December 2012.

Cash used in investing activities in the year ended December 31, 2011, net of investment activity, was \$4.5 million for the purchase of property and equipment, primarily leasehold improvements related to our 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 investment of \$2.0 million was also made for the websites, product offerings and events associated with Computer Weekly and its sister channel-targeted brand, MicroScope, from Reed Business Information Limited.

We expect to spend approximately \$3.7 million in capital expenditures in 2013, primarily for internal-use software development costs, computer equipment and related software. We are not currently party to any purchase contracts related to future capital expenditures.

### ***Equity Financing Activities***

We received proceeds from the exercise of common stock options totaling \$0.8 million, \$2.8 million and \$1.0 million for the years ended December 31, 2012, 2011 and 2010, respectively.

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

During the year ended December 31, 2012 we repurchased 95,940 shares of common stock for approximately \$467,000 pursuant to the Program. All repurchased shares are funded with cash on hand.

### ***Term Loan and Credit Facility Borrowings***

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

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





**Table of Contents**

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

At December 31, 2012 and 2011 there were no amounts outstanding under this revolving loan agreement. There is a \$1.2 million standby letter of credit related to our corporate headquarters lease that is outstanding at December 31, 2012, bringing our available borrowings on the \$5.0 million facility to \$3.8 million.

Borrowings under the Credit Agreement are collateralized by a security interest in substantially all of our assets. Covenants governing the Credit Agreement include the maintenance of certain financial ratios. At December 31, 2012 we were in compliance with all covenants under the Credit Agreement.

**Capital Expenditures**

We have made capital expenditures primarily for computer equipment and related software needed to host our websites, internal-use software development costs, as well as for leasehold improvements and other general purposes to support our growth. Our capital expenditures totaled \$4.1 million, \$4.5 million and \$4.8 million for the years ended December 31, 2012, 2011 and 2010, respectively. A majority of our capital expenditures in 2012 were internal-use development costs and, to a lesser extent, computer equipment and related software. We are not currently party to any purchase contracts related to future capital expenditures.

**Contractual Obligations and Commitments**

As of December 31, 2012, our principal commitments consist of obligations under leases for office space. The offices are leased under non-cancelable operating lease agreements that expire through 2020.

The following table sets forth our commitments to settle contractual obligations in cash as of December 31, 2012:

Contractual Obligations	Total	Payments Due By Period			
		Less than 1 Year	1 3 Years	3 5 Years	More than 5 Years
Operating leases (1)	\$ 25,926	\$ 4,228	\$ 7,516	\$ 6,781	\$ 7,401

- (1) At December 31, 2012, we had an irrevocable standby letter of credit outstanding in the aggregate amount of \$1.2 million. This letter of credit supports the lease we entered into in 2009 for our new corporate headquarters. This letter of credit extends annually through February 28, 2020 unless notification of termination is received.

See Note 9 to the Consolidated Financial Statements for further information with respect to our operating leases.

**Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements.

**Recent Accounting Pronouncements**

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

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. 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.



**Table of Contents*****Foreign Currency Exchange Risk***

We currently have subsidiaries in London, England; Hong Kong; Australia; Singapore; and Paris, France. Additionally, we have a wholly foreign-owned enterprise formed under the laws of the People's Republic of China, a VIE in Beijing, PRC and an office in India. Approximately 15% of our revenues for the year ended December 31, 2012 were derived from advertisers located outside of North America and our foreign exchange gains/losses were not significant. We currently believe our exposure to foreign currency exchange rate fluctuations is financially immaterial and therefore have not entered into foreign currency hedging transactions. We continue to review this issue and may consider hedging certain foreign exchange risks through the use of currency futures or options in the future.

***Interest Rate Risk***

At December 31, 2012, we had cash, cash equivalents and investments totaling \$76.3 million. These amounts were invested primarily in money market accounts, municipal bonds and government agency bonds. The cash, cash equivalents and investments were held for working capital purposes. We do not enter into investments for trading or speculative purposes. Due to the short-term nature of these investments, we believe that we do not have any material exposure to changes in the fair value of our investment portfolio as a result of changes in interest rates. Declines in interest rates, however, would reduce future investment income.

Our exposure to market risk also relates to the amount of interest expense we must pay under our revolving credit facility. The advances under this credit facility bear a variable rate of interest determined as a function of the lender's prime rate or LIBOR. At December 31, 2012, there were no amounts outstanding under our revolving credit facility.

**Item 8. Financial Statements and Supplementary Data****Index to Consolidated Financial Statements**

	<b>Page</b>
<u>Reports of Independent Registered Public Accounting Firms</u>	51
<u>Consolidated Balance Sheets as of December 31, 2012 and 2011</u>	52
<u>Consolidated Statements of Comprehensive Income (Loss) for the Years Ended December 31, 2012, 2011 and 2010</u>	53
<u>Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2012, 2011 and 2010</u>	54
<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2012, 2011 and 2010</u>	55
<u>Notes to Consolidated Financial Statements</u>	56

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

Board of Directors and Stockholders

TechTarget, Inc.

Newton, Massachusetts

We have audited the accompanying consolidated balance sheets of TechTarget, Inc. as of December 31, 2012 and 2011 and the related consolidated statements of comprehensive income, stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of TechTarget, Inc. at December 31, 2012 and 2011, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), TechTarget Inc.'s internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 18, 2013 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

Boston, Massachusetts

March 18, 2013

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders of

TechTarget, Inc.

We have audited the accompanying consolidated statements of comprehensive income (loss), stockholders' equity, and cash flows of TechTarget, Inc. for the year ended December 31, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated results of operations and cash flows of TechTarget, Inc. for the year ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Boston, Massachusetts

March 16, 2011

**Table of Contents****TechTarget, Inc.****Consolidated Balance Sheets****(in thousands, except share and per share data)**

	<b>December 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 48,409	\$ 25,786
Short-term investments	6,610	30,684
Accounts receivable, net of allowance for doubtful accounts of \$911 and \$1,062 as of December 31, 2012 and 2011, respectively	24,185	26,272
Prepaid expenses and other current assets	1,427	1,782
Deferred tax assets	862	1,287
<b>Total current assets</b>	<b>81,493</b>	<b>85,811</b>
Property and equipment, net	8,817	7,942
Long-term investments	21,321	6,751
Goodwill	93,792	92,519
Intangible assets, net of accumulated amortization	7,043	8,277
Deferred tax assets	7,457	7,683
Other assets	269	204
<b>Total assets</b>	<b>\$ 220,192</b>	<b>\$ 209,187</b>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 2,907	\$ 2,941
Accrued expenses and other current liabilities	3,535	2,698
Accrued compensation expenses	1,233	1,199
Income taxes payable	1,186	1,287
Contingent consideration		1,405
Deferred revenue	5,985	5,610
<b>Total current liabilities</b>	<b>14,846</b>	<b>15,140</b>
Long-term liabilities:		
Deferred rent	3,250	3,474
Deferred tax liabilities	702	
Contingent consideration	1,180	
Other liabilities	900	898
<b>Total liabilities</b>	<b>20,878</b>	<b>19,512</b>
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; 45,461,257 shares issued and 39,507,439 shares outstanding at December 31, 2012; 44,501,390 shares issued and 38,643,512 shares outstanding at December 31, 2011	46	45
Treasury stock, 5,953,818 and 5,857,878 shares at December 31, 2012 and 2011, respectively, at cost	(35,810)	(35,343)
Additional paid-in capital	263,426	257,459
Accumulated other comprehensive loss	(136)	(250)
Accumulated deficit	(28,212)	(32,236)

Edgar Filing: TechTarget Inc - Form 10-K

Total stockholders' equity	199,314	189,675
Total liabilities and stockholders' equity	\$ 220,192	\$ 209,187

See accompanying Notes to Consolidated Financial Statements.



**Table of Contents****TechTarget, Inc.****Consolidated Statements of Comprehensive Income (Loss)****(in thousands, except per share data)**

	<b>For the Years Ended December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Revenues:</b>			
Online	\$ 88,192	\$ 92,303	\$ 82,330
Events	11,799	13,195	12,679
<b>Total revenues</b>	<b>99,991</b>	<b>105,498</b>	<b>95,009</b>
<b>Cost of revenues:</b>			
Online(1)	23,513	22,373	20,402
Events(1)	4,301	4,765	4,313
<b>Total cost of revenues</b>	<b>27,814</b>	<b>27,138</b>	<b>24,715</b>
<b>Gross profit</b>	<b>72,177</b>	<b>78,360</b>	<b>70,294</b>
<b>Operating expenses:</b>			
Selling and marketing(1)	36,718	39,586	37,291
Product development(1)	7,521	7,688	8,661
General and administrative(1)	13,206	13,680	15,530
Depreciation	3,279	2,759	2,389
Amortization of intangible assets	3,351	3,976	4,523
Restructuring charge		384	
<b>Total operating expenses</b>	<b>64,075</b>	<b>68,073</b>	<b>68,394</b>
<b>Operating income</b>	<b>8,102</b>	<b>10,287</b>	<b>1,900</b>
<b>Interest and other income, net</b>	<b>107</b>	<b>57</b>	<b>176</b>
<b>Income before provision for income taxes</b>	<b>8,209</b>	<b>10,344</b>	<b>2,076</b>
<b>Provision for income taxes</b>	<b>4,185</b>	<b>5,655</b>	<b>3,258</b>
<b>Net income (loss)</b>	<b>\$ 4,024</b>	<b>\$ 4,689</b>	<b>\$ (1,182)</b>
<b>Net income (loss) per common share:</b>			
Basic	\$ 0.10	\$ 0.12	\$ (0.03)
Diluted	\$ 0.10	\$ 0.12	\$ (0.03)
<b>Weighted average common shares outstanding:</b>			
Basic	40,211	38,532	42,771
Diluted	40,910	40,567	42,771
<b>Other comprehensive income (loss), net of tax:</b>			
Unrealized gain (loss) on investments (net of tax provision (benefit) of \$1, \$10 and \$(8), respectively)	\$ 2	\$ 14	\$ (11)
Unrealized gain (loss) on foreign currency exchange	112	(269)	8

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

Other comprehensive income (loss)	114	(255)	(3)
<b>Comprehensive income (loss)</b>	<b>\$ 4,138</b>	<b>\$ 4,434</b>	<b>\$ (1,185)</b>

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

Cost of online revenue	\$ 202	\$ 273	\$ 173
Cost of events revenue	18	91	87
Selling and marketing	2,888	4,713	6,380
Product development	265	443	520
General and administrative	1,894	1,949	3,841

See accompanying Notes to Consolidated Financial Statements.

**Table of Contents****TechTarget, Inc.****Consolidated Statements of Stockholders' Equity**

(in thousands, except share and per share data)

	Common Stock		Treasury Stock		Additional Paid-In Capital	Warrants	Accumulated		Total Stockholders Equity
	Number of Shares	\$0.001 Par Value	Number of Shares	Cost			Other Comprehensive (Loss) Income	Accumulated Deficit	
Balance, December 31, 2009	42,109,965	\$ 42		\$	\$ 233,555	\$ 2	\$ 8	\$ (35,743)	\$ 197,864
Issuance of common stock from stock options and restricted stock awards	791,961	1			1,014				1,015
Purchase of common stock through tender offer			5,857,878	(35,343)					(35,343)
Excess tax benefit - stock options					508				508
Stock-based compensation expense					11,001				11,001
Expiration of warrants					2	(2)			
Unrealized loss on investments (net of tax benefit of \$8)							(11)		(11)
Unrealized gain on foreign currency translation							8		8
Net loss								(1,182)	(1,182)
Balance, December 31, 2010	42,901,926	\$ 43	5,857,878	\$ (35,343)	\$ 246,080	\$	\$ 5	\$ (36,925)	\$ 173,860
Issuance of common stock from stock options and restricted stock awards	1,599,464	2			2,815				2,817
Excess tax benefit - stock options					1,095				1,095
Stock-based compensation expense					7,469				7,469
Unrealized gain on investments (net of tax provision of \$10)							14		14
Unrealized loss on foreign currency translation							(269)		(269)
Net income								4,689	4,689

Edgar Filing: TechTarget Inc - Form 10-K

Balance, December 31, 2011	44,501,390	\$ 45	5,857,878	\$(35,343)	\$ 257,459	\$	\$ (250)	\$ (32,236)	\$ 189,675
Issuance of common stock from stock options and restricted stock awards	959,867	1			765				766
Purchase of common stock through stock repurchase program			95,940	(467)					(467)
Shelf registration fees					(69)				(69)
Excess tax benefit stock options					4				4
Stock-based compensation expense					5,267				5,267
Unrealized gain on investments (net of tax provision of \$1)							2		2
Unrealized gain on foreign currency translation							112		112
Net income								4,024	4,024
Balance, December 31, 2012	45,461,257	\$ 46	5,953,818	\$(35,810)	\$ 263,426	\$	\$ (136)	\$ (28,212)	\$ 199,314

See accompanying Notes to Consolidated Financial Statements.

**Table of Contents****TechTarget, Inc.****Consolidated Statements of Cash Flows**

(in thousands)

	<b>For the Years Ended December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Operating Activities:</b>			
Net income (loss)	\$ 4,024	\$ 4,689	\$ (1,182)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	6,630	6,735	6,912
Provision for bad debt	827	316	348
Amortization of investment premiums	927	983	1,538
Stock-based compensation	5,267	7,469	11,001
Deferred tax benefit	231	(1,374)	(1,748)
Excess tax benefit stock options	(422)	(2,054)	(337)
Changes in operating assets and liabilities, net of businesses acquired:			
Accounts receivable	1,860	(1,661)	(7,523)
Prepaid expenses and other current assets	384	(760)	931
Other assets	(54)	(81)	2
Accounts payable	(144)	(853)	648
Income taxes payable	321	3,174	1,819
Accrued expenses and other current liabilities	(1,421)	1,921	(737)
Accrued compensation expenses	57	(779)	1,171
Deferred revenue	374	(1,210)	(2,379)
Other liabilities	(225)	(657)	2,415
Net cash provided by operating activities	18,636	15,858	12,879
<b>Investing activities:</b>			
Purchases of property and equipment, and other assets	(4,150)	(4,481)	(4,805)
Purchases of investments	(21,373)	(38,211)	(43,486)
Proceeds from sales and maturities of investments	29,954	17,370	86,054
Acquisition of businesses, net of cash acquired	(1,117)	(2,049)	(4,951)
Net cash provided by (used in) investing activities	3,314	(27,371)	32,812
<b>Financing activities:</b>			
Purchase of treasury shares	(467)		(35,343)
Excess tax benefit stock options	422	2,054	337
Shelf registration fees	(69)		
Proceeds from exercise of stock options	766	2,817	1,015
Net cash provided by (used in) financing activities	652	4,871	(33,991)
Effect of exchange rate changes on cash and cash equivalents	21	(156)	
Net increase (decrease) in cash and cash equivalents	22,623	(6,798)	11,700
Cash and cash equivalents at beginning of period	25,786	32,584	20,884
Cash and cash equivalents at end of period	\$ 48,409	\$ 25,786	\$ 32,584
<b>Supplemental disclosure of cash flow information:</b>			
Cash paid for interest	\$	\$	\$

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

Cash paid for income taxes	\$ 3,662	\$ 4,153	\$ 3,157
----------------------------	----------	----------	----------

**Supplemental disclosure of non-cash investing activities:**

Accrual for contingent consideration and cash to be paid in connection with an acquisition	\$ 1,715	\$ 1,405	\$ 1,063
--	----------	----------	----------

See accompanying Notes to Consolidated Financial Statements.

**Table of Contents****TechTarget, Inc.****Notes to Consolidated Financial Statements****Years Ended December 31, 2012, 2011 and 2010****(In thousands, except share and per share data, where otherwise noted or instances where expressed in millions)****1. Organization and Operations**

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

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

**2. Summary of Significant Accounting Policies**

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

***Principles of Consolidation***

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

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





## **Table of Contents**

Based on these contractual arrangements, the Company consolidates the financial results of KWIT as required by Accounting Standards Codification ( ASC ) subtopic 810-10 ( ASC 810-10 ), *Consolidation: Overall* (Pre-Codification: Financial Accounting Standards Board ( FASB ) Interpretation No. 46R, *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51*), because the Company holds all the variable interests of KWIT through the WFOE, which is the primary beneficiary of KWIT. Despite the lack of technical majority ownership, there exists a parent-subsidary relationship between the Company and the VIE through the aforementioned agreements, whereby the equity holders of KWIT assigned all of their voting rights underlying their equity interest in KWIT to the WFOE. In addition, through the other aforementioned agreements, the Company demonstrates its ability and intention to continue to exercise the ability to obtain substantially all of the profits and absorb all of the expected losses of KWIT. All significant intercompany accounts and transactions between the Company, its subsidiaries, and KWIT have been eliminated in consolidation.

### ***Reclassifications***

In 2011, the Company changed the manner in which it allocates real estate facilities costs to align with actual departmental headcount. Previously, such costs were all included as a part of general and administrative expenses. Amounts in the prior years' financial statements have been reclassified to conform to the current year presentation. In the year ended December 31, 2010 the reclassification resulted in additional online cost of sales, events cost of sales, sales and marketing and product development expense of \$1.4 million, \$0.2 million, \$1.6 million and \$0.6 million, respectively, offset by a decrease in general and administrative expense of \$3.8 million. The Company has also reclassified \$2.1 million in noncurrent deferred tax liabilities to offset noncurrent deferred tax assets in their 2011 balance sheet to conform to current year presentation.

### ***Use of Estimates***

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

### ***Revenue Recognition***

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

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

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

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

Beginning in the period ended March 31, 2012, the Company's lead generation campaigns all offer the Activity Intelligence Dashboard (the Dashboard). In order to manage the lead generation component, the Company has changed its operational approach and the contractual terms and conditions under which it sells its products. Instead of contracting to sell individual elements, the



---

## **Table of Contents**

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

In fiscal 2011, the Company adopted Accounting Standards Update ( ASU ) 2009-13, *Revenue Arrangements with Multiple Deliverables*, which requires companies to allocate the overall consideration to each deliverable by using a best estimate of selling price of individual deliverables in the arrangement in the absence of vendor-specific objective evidence or other third party evidence of selling price.

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

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

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

Revenue for other online media offerings is recognized as follows for 2011 and 2012:

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

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

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

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

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

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

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

During fiscal 2010 and prior, because objective evidence of fair value did not exist for all elements in the Company's bundled advertising campaigns, no allocation could be made among the various elements, so the Company recognized revenue as one unit of accounting ratably over the term of the arrangement.

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

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

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

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

**Table of Contents****Long-Lived Assets, Goodwill and Indefinite-lived Intangible Assets**

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

Goodwill and indefinite-lived intangible assets are not amortized but are reviewed annually for impairment or more frequently if impairment indicators arise. Separable intangible assets that are not deemed to have an indefinite life are amortized over their estimated useful lives, which range from one to ten years, using methods of amortization that are expected to reflect the estimated pattern of economic use, and are reviewed for impairment when events or changes in circumstances suggest that the assets may not be recoverable. The Company performs its annual test of impairment of goodwill as of December 31st of each year, and whenever events or changes in circumstances suggest that the carrying amount may not be recoverable.

Based on the aforementioned evaluation, the Company believes that, as of each of the balance sheet dates presented, none of the Company's goodwill or other long-lived assets were impaired. The Company did not have any intangible assets with indefinite lives as of December 31, 2012 or 2011.

**Allowance for Doubtful Accounts**

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

Below is a summary of the changes in the Company's allowance for doubtful accounts for the years ended December 31, 2012, 2011 and 2010.

	Balance at Beginning of Period	Provision	Acquired in Business Combinations	Write-offs, Net of Recoveries	Balance at End of Period
Year ended December 31, 2010	\$ 483	\$ 348	\$ 238	\$ (43)	\$ 1,026
Year ended December 31, 2011	\$ 1,026	\$ 316	\$	\$ (280)	\$ 1,062
Year ended December 31, 2012	\$ 1,062	\$ 827		\$ (978)	\$ 911

**Property and Equipment**

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

	Estimated Useful Life
Furniture and fixtures	5 years
Computer equipment and software	2-3 years
Internal-use software and website development costs	3-4 years
Leasehold improvements	Shorter of useful life or remaining duration of lease



**Table of Contents**

Property and equipment consists of the following:

	<b>As of December 31,</b>	
	<b>2012</b>	<b>2011</b>
Furniture and fixtures	\$ 1,277	\$ 1,217
Computer equipment and software	4,014	3,766
Leasehold improvements	1,362	1,263
Internal-use software and website development costs	12,817	9,831
	19,470	16,077
Less: Accumulated depreciation and amortization	(10,653)	(8,135)
	<b>\$ 8,817</b>	<b>\$ 7,942</b>

Depreciation expense was \$3.3 million, \$2.8 million and \$2.4 million for the years ended December 31, 2012, 2011 and 2010, respectively. Repairs and maintenance charges that do not increase the useful life of the assets are charged to operations as incurred. The Company wrote off approximately \$0.8 million, \$1.3 million and \$3.6 million of fully depreciated assets that were no longer in service during 2012, 2011 and 2010, respectively.

Depreciation expense is classified as a component of operating expense in the Company's results of operations.

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

The Company capitalizes costs incurred during the development of its website applications and infrastructure as well as certain costs relating to internal-use software. The estimated useful life of costs capitalized is evaluated for each specific project. Capitalized internal-use software and website development costs are reviewed for recoverability whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. An impairment loss would be recognized only if the carrying amount of the asset is not recoverable and exceeds its fair value. The Company capitalized internal-use software and website development costs of \$3.0 million, \$3.2 million and \$2.1 million for the years ended December 31, 2012, 2011 and 2010, respectively.

***Concentrations of Credit Risk and Off-Balance Sheet Risk***

Financial instruments that potentially expose the Company to concentrations of credit risk consist mainly of cash and cash equivalents, investments and accounts receivable. The Company maintains its cash and cash equivalents and investments principally in accredited financial institutions of high credit standing. The Company routinely assesses the credit worthiness of its customers. The Company generally has not experienced any significant losses related to individual customers or groups of customers in any particular industry or area. The Company does not require collateral. Due to these factors, no additional credit risk beyond amounts provided for collection losses is believed by management to be probable in the Company's accounts receivable.

No single customer represented 10% or more of total accounts receivable at December 31, 2012 or 2011. One customer accounted for both 12.0% and 12.8% of total revenue for the years ended December 31, 2012 and 2011, respectively. No single customer accounted for 10% or more of total revenue for the year ended December 31, 2010.

***Income Taxes***

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

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

*Stock-Based Compensation*

The Company has two stock-based employee compensation plans which are more fully described in Note 10. Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized in the Company's results 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.



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

Comprehensive income (loss) includes all changes in equity during a period, except those resulting from investments by stockholders and distributions to stockholders. The Company's comprehensive income (loss) includes changes in the fair value of the Company's unrealized gains (losses) on available for sale securities and foreign currency translation.

**Foreign Currency**

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

**Net Income (Loss) Per Share**

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

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

	For the Years Ended December 31,		
	2012	2011	2010
<b>Numerator:</b>			
Net income (loss)	\$ 4,024	\$ 4,689	\$ (1,182)
	For the Years Ended December 31,		
	2012	2011	2010
<b>Denominator:</b>			
Basic:			
Weighted average shares of common stock and vested restricted stock awards outstanding	40,211,075	38,531,645	42,770,741
Diluted:			
Weighted average shares of common stock and vested restricted stock awards outstanding	40,211,075	38,531,645	42,770,741
Effect of potentially dilutive shares	698,668	2,035,806	
Total weighted average shares of common stock and vested restricted stock awards outstanding	40,909,743	40,567,451	42,770,741
<b>Calculation of Net Income (Loss) Per Common Share:</b>			
Basic:			
Net income (loss) applicable to common stockholders	\$ 4,024	\$ 4,689	\$ (1,182)

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

Weighted average shares of stock outstanding	40,211,075	38,531,645	42,770,741
Net income (loss) per common share	\$ 0.10	\$ 0.12	\$ (0.03)
<b>Diluted:</b>			
Net income (loss) applicable to common stockholders	\$ 4,024	\$ 4,689	\$ (1,182)
Weighted average shares of stock outstanding	40,909,743	40,567,451	42,770,741
Net income (loss) per common share(1)	\$ 0.10	\$ 0.12	\$ (0.03)

---

**Table of Contents**

- (1) In calculating diluted earnings per share, shares related to outstanding stock options and unvested restricted stock awards totaling 6.6 million were excluded for the year ended December 31, 2010, because the effect of including them would be anti-dilutive due to the Company's loss position for that period. Additionally, outstanding stock options and unvested restricted stock awards totaling 4.2 million and 2.7 million were excluded for the years ended December 31, 2012 and 2011, respectively, because they were anti-dilutive.

**Recent Accounting Pronouncements**

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

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

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

**3. Fair Value Measurements**

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

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

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

*Level 3.* Unobservable inputs.



**Table of Contents**

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

	December 31, 2012	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets:</b>				
Money market funds(1)	\$ 33,345	\$ 33,345	\$	\$
Short-term investments(2)	6,610		6,610	
Long-term investments(2)	21,321		21,321	
<b>Total assets</b>	<b>\$ 61,276</b>	<b>\$ 33,345</b>	<b>\$ 27,931</b>	<b>\$</b>
<b>Liabilities:</b>				
Contingent consideration(3)	\$ 1,180	\$	\$	\$ 1,180
<b>Total liabilities</b>	<b>\$ 1,180</b>	<b>\$</b>	<b>\$</b>	<b>\$ 1,180</b>

	December 31, 2011	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets:</b>				
Money market funds(1)	\$ 8,361	\$ 8,361	\$	\$
Short-term investments(2)	30,684		30,684	
Long-term investments(2)	6,751		6,751	
<b>Total assets</b>	<b>\$ 45,796</b>	<b>\$ 8,361</b>	<b>\$ 37,435</b>	<b>\$</b>
<b>Liabilities:</b>				
Contingent consideration(4)	\$ 1,405	\$	\$	\$ 1,405
<b>Total liabilities</b>	<b>\$ 1,405</b>	<b>\$</b>	<b>\$</b>	<b>\$ 1,405</b>

- (1) Included in cash and cash equivalents on the accompanying consolidated balance sheets; valued at quoted market prices in active markets.
- (2) Short- and long-term investments consist of municipal bonds and government agency bonds; their fair value is calculated using an interest rate yield curve for similar instruments.
- (3)

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

Our valuation techniques and Level 3 inputs used to estimate the fair value of contingent consideration payable in connection with our current year acquisition are described in Note 4.

- (4) The fair value of contingent consideration payable in connection with previous acquisitions was determined using a probability approach under which the contingent consideration was calculated based on the weighted probability of several forecasted outcomes and discounted using an applicable rate. This amount was paid in full during the first quarter of 2012.

The following table provides a roll-forward of the fair value of the contingent consideration categorized as Level 3 for the year ended December 31, 2012:

	<b>Fair Value</b>
Balance as of December 31, 2011	\$ 1,405
Payments on contingent liabilities	(1,405)
Contingent liabilities added from LeMag acquisition	1,180
Balance as of December 31, 2012	\$ 1,180

#### 4. Acquisitions

##### *LeMagIT*

On December 17, 2012 the Company purchased all of the outstanding shares of its French partner, LeMagIT, from E-Magine Médias SAS for approximately \$2.2 million in cash plus a potential future earnout valued at \$0.7 million at the time of the acquisition. Approximately \$1.2 million of the

**Table of Contents**

cash payment was made at closing, with the remainder due in two equal installments in fiscal years 2013 and 2014. The third installment is subject to certain revenue growth targets and may be reduced based on actual results. If all targets are met, the total purchase price, including the earnout, shall not exceed \$5.2 million. The installment payments have been recorded at present value using a discount rate of 10%; the discount will be amortized to interest through the payment dates. The second installment, to be paid in 2013, is included in accrued liabilities in the Company's consolidated balance sheet; the final installment payment and earnout are included in non-current liabilities.

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

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

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

The Company engaged a third party valuation specialist to assist management in determining the fair value of the intangible assets of LeMagIT as well as the contingent consideration related to the transaction. To value the developed websites assets an income approach was used, specifically a variation of the discounted cash-flow method known as the multi-period excess earnings method. The projected net cash flows were discounted using a discount rate of 28%. To value the customer relationship and trade name assets, a relief from royalty method was used to estimate the pre-tax royalty savings to the Company of owning the customer relationships and trade name related to LeMagIT directly rather than having to pay to use the asset. The projected net cash flows from the pre-tax royalty savings were tax affected using an effective rate of 33.3% and then discounted using a discount rate of 28% to calculate the value of the customer relationship and trade name intangible assets. To value the member database, a replacement cost approach was used, specifically a calculation of costs to acquire new members by taking the cost of a member list acquired by LeMagIT in 2012, applying a premium of 50% per member, and multiplying it times the total number of active members at the valuation date. This value was tax effected using an effective rate of 33.3%. Additionally, a tax benefit multiplier of 1.141 was applied to the value of the member database to arrive at the total fair value of the member database asset. To value the non-compete agreement, a comparative business valuation method was used. Based on a non-compete term of 36 months, management projected net cash flows for the Company with and without the non-compete agreement in place. The present value of the sum of the difference between the net cash flows with and without the non-compete agreement in place was calculated, based on a discount rate of 27%.

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

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

**Computer Weekly**

On April 26, 2011 the Company acquired the websites, product offerings, and events associated with Computer Weekly and its sister channel-targeted brand, MicroScope, from Reed Business Information Limited for approximately \$2.0 million in cash. Additionally, the

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

Company incurred approximately \$0.4 million in restructuring costs relating to redundancy costs of Computer Weekly employees not brought over as part of the acquisition.



**Table of Contents**

In connection with this acquisition, the Company's allocation of purchase price was approximately \$40 of net tangible assets, \$0.1 million of goodwill and \$1.9 million of intangible assets related to customer relationships, a member database, a non-compete agreement and trade names with estimated useful lives ranging from two to five years.

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

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

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

***Keji Wangtuo Information Technology Co., Ltd.***

On October 1, 2010, the Company obtained operating control of Beijing-based Keji Wangtuo Information Technology Co., Ltd. ( KWIT ), an existing TechTarget partner that operates Chinese-language versions of some of the Company's websites, for \$3.2 million in cash. The Chinese websites added to the Company's media across the Asia-Pacific region.

In connection with this acquisition, the Company recorded \$2.5 million of goodwill and \$0.7 million of intangible assets related to customer relationships, a non-compete agreement and a member database 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:

	Useful Life	Estimated Fair Value
Customer relationship intangible asset	72 months	\$ 630
Non-compete agreement intangible asset	36 months	60
Member database intangible asset	60 months	60
<b>Total intangible assets</b>		<b>\$ 750</b>

The Company engaged a third party valuation specialist to assist management in determining the fair value of the intangible assets related to the acquisition of operating control of KWIT. To value the customer relationship asset, an income approach was used, specifically a variation of the

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

discounted cash-flow method known as the multi-period excess earnings method. The projected net cash flows for KWIT were tax affected using an effective rate of 25% and then discounted using a discount rate of 28% to calculate the value of the customer relationship 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 28%. The member database intangible asset was valued using the replacement cost approach. The calculated cost per new member acquired was used to calculate the cost to acquire the members in the KWIT member database.

**Table of Contents*****BeyeNETWORK***

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 at the time of the acquisition. 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. The addition of the BeyeNETWORK complemented the Company's coverage of the business intelligence market.

In connection with this acquisition, the Company purchased \$0.3 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:

	Useful Life	Estimated Fair Value
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
<b>Total intangible assets</b>		<b>\$ 1,020</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 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 23%. Subsequent to the date of acquisition, the estimated fair value of the earnout decreased to \$0.8 million as of December 31, 2010 and increased to \$1.2 million in 2011 as a result of the passage of time and revised estimates. These balances were included in non-current liabilities and current liabilities on the Company's balance sheet at December 31, 2010 and 2011, respectively, and the earnout was paid in the first quarter of 2012. 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. The member database intangible asset was valued using the replacement cost approach. 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.

***ebizQ.net***

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 at the time of the acquisition. 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. The addition of ebizQ.net to the Company's network of technology complemented the Company's existing web properties, providing access to both IT and Line of Business professionals researching new products and technologies around these disciplines.



**Table of Contents**

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:

	Useful Life	Estimated Fair Value
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 23%. Subsequent to the date of acquisition, the estimated fair value of the earnout decreased to \$0.2 million as of December 31, 2010 as a result of the passage of time and revised estimates. That balance is included in current liabilities on the Company's balance sheet at December 31, 2011, and was paid in the first quarter of 2012. 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 present value of the sum of projected tax benefits was added to arrive at the total fair value of the customer relationship asset. The member database intangible asset was valued using the replacement cost approach. 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.

**5. 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:

	As of December 31,	
	2012	2011
Cash	\$ 15,064	\$ 17,425
Money market funds	33,345	8,361
<b>Total cash and cash equivalents</b>	<b>\$ 48,409</b>	<b>\$ 25,786</b>

The Company's short and long-term investments are accounted for as available for sale securities. These investments are recorded at fair value with the related unrealized gains and losses included in accumulated other comprehensive income (loss), a component of stockholders' equity, net of tax. The unrealized gain, net of taxes, was \$14 and \$12 as of December 31, 2012 and 2011, respectively. Realized gains and losses on the sale of these investments are determined using the specific identification method. There were no realized gains or losses in 2012 or 2011.



**Table of Contents**

Short and long-term investments consisted of the following:

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

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

The Company had six debt securities in an unrealized loss position at December 31, 2012. All of these securities have been in such a position for no more than eighteen months. The unrealized loss on those securities was approximately \$7 and the fair value was \$8.8 million. As of December 31, 2012, the Company does not consider these investments to be other-than-temporarily impaired.

Municipal and government agency bonds have contractual maturity dates that range from June 2013 to September 2015. All income generated from these investments is recorded as interest income.

**6. Goodwill**

The changes in the carrying amount of goodwill for the years ended December 31, 2012 and 2011 are as follows:

	As of December 31,	
	2012	2011
Balance as of beginning of period	\$ 92,519	\$ 92,382
Goodwill acquired during the period	1,267	147
Effect of exchange rate changes	6	(10)
Balance as of end of period	\$ 93,792	\$ 92,519

**7. Intangible Assets**

The following table summarizes the Company's intangible assets, net:

Estimated Useful	As of December 31, 2012		Net
	Gross Carrying	Accumulated Amortization	

Edgar Filing: TechTarget Inc - Form 10-K

	<b>Lives (Years)</b>	<b>Amount</b>		
Customer, affiliate and advertiser relationships	4-9	\$ 7,067	\$ (3,586)	\$ 3,481
Developed websites, technology and patents	3-10	6,874	(5,100)	1,774
Trademark, trade name and domain name	1-8	2,026	(1,152)	874
Proprietary user information database and internet traffic	5	1,295	(519)	776
Non-compete agreements	2-3	439	(301)	138
Total intangible assets		\$ 17,701	\$ (10,658)	\$ 7,043

	<b>Estimated Useful Lives (Years)</b>	<b>As of December 31, 2011</b>		
		<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net</b>
Customer, affiliate and advertiser relationships	4-9	\$ 8,928	\$ (4,509)	\$ 4,419
Developed websites, technology and patents	3	5,400	(4,200)	1,200
Trademark, trade name and domain name	1-7	1,942	(978)	964
Proprietary user information database and internet traffic	5	5,188	(3,669)	1,519
Non-compete agreements	2-3	343	(168)	175
Total intangible assets		\$ 21,801	\$ (13,524)	\$ 8,277



**Table of Contents**

Intangible assets are amortized over their estimated useful lives, which range from one to ten years, using methods of amortization that are expected to reflect the estimated pattern of economic use. The remaining amortization expense will be recognized over a weighted-average period of approximately 2.7 years. Amortization expense was \$3.4 million, \$4.0 million and \$4.5 million for the years ended December 31, 2012, 2011 and 2010, respectively. Amortization expense is recorded within operating expenses as the intangible assets consist of customer-related assets and website traffic that the Company considers to be in support of selling and marketing activities. The Company wrote off \$6.2 million and \$7.6 million of fully amortized intangible assets in 2012 and 2011, respectively.

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

Years Ending December 31:	Amortization Expense
2013	\$ 2,213
2014	1,740
2015	1,444
2016	894
2017	196
Thereafter	556
	\$ 7,043

**8. Credit Facility**

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

The Company is also required to pay an unused line fee on the daily unused amount of its Credit Agreement at a per annum rate based on the ratio of total funded debt to EBITDA for the preceding four fiscal quarters. As of December 31, 2012, the per annum unused line fee rate was 0.20%.

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

Borrowings under the Credit Agreement are collateralized by a security interest in substantially all assets of the Company. Covenants governing the Credit Agreement include the maintenance of certain financial ratios. At December 31, 2012 the Company was in compliance with all covenants under the Credit Agreement.

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

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

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

Certain of the Company's operating leases include lease incentives and escalating payment amounts and are renewable for varying periods. The Company is recognizing the related rent expense on a straight-line basis over the term of the lease taking into account the lease incentives and escalating lease payments. Total rent expense under the Company's leases was approximately \$4.0 million, \$4.0 million and \$3.7 million for the years ended December 31, 2012, 2011 and 2010, respectively.

**Table of Contents**

Future minimum lease payments under the Company's noncancelable operating leases at December 31, 2012 are as follows:

<b>Years Ending December 31:</b>	<b>Minimum Lease Payments</b>
2013	\$ 4,228
2014	4,099
2015	3,417
2016	3,494
2017	3,287
Thereafter	7,401
	<b>\$ 25,926</b>

At December 31, 2012, the Company had an irrevocable standby letter of credit outstanding in the aggregate amount of \$1.2 million. This letter of credit supports the lease the Company entered into in 2009 for its corporate headquarters. This letter of credit extends annually through February 28, 2020 unless notification of termination is received.

**Net Worth Tax Contingency**

In late March 2010, the Company received a letter from the Department of Revenue of the Commonwealth of Massachusetts (the MA DOR) requesting documentation demonstrating that TSC has been classified by the MA DOR as a Massachusetts security corporation. Following subsequent correspondence with the MA DOR and a settlement conference on March 22, 2011, the Company received on July 16, 2011 a Notice of Assessment from the MA DOR for 2006 and 2007 in the amount of approximately \$198 (which amount included all interest and penalties to date) with respect to additional excise taxes on net worth related to TSC. Based on the Company's previous assessment that it was probable that the MA DOR would require an adjustment to correct TSC's tax filings such that it will be treated as a Massachusetts business corporation for the applicable years, for the year ended December 31, 2010, the Company recorded a liability of approximately \$200, representing its best estimate at that time of the potential net worth tax exposure. The tax benefits available to a Massachusetts security corporation are comprised of (i) a different rate structure (1.32% on gross investment income vs. 9.5% on net income) and (ii) exemption from the 0.26% excise tax on net worth. On August 17, 2011, the Company filed Applications for Abatement with the MA DOR. On January 6, 2012, the Company filed Petitions for Formal Procedure with the Massachusetts Appellate Tax Board. A trial date has been set for October 22, 2013. The Company intends to continue to dispute the assessment and believes it has meritorious defenses which it intends to vigorously assert. The Company increased the reserve assessment to reflect additional interest accrued through December 31, 2012.

**Litigation**

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

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

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

In April 2007, the Board approved the 2007 Stock Option and Incentive Plan (the 2007 Plan), which was approved by the stockholders and became effective upon the consummation of the Company's initial public offering (IPO) in May 2007. Effective upon the consummation of the

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

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

**Table of Contents**

January 1 of each year, beginning on January 1, 2008, equal to the lesser of (a) 2% of the outstanding number of shares of common stock (on a fully-diluted basis) on the immediately preceding December 31 and (b) such lower number of shares as may be determined by the Company's compensation committee. The number of shares available for issuance under the 2007 Plan is subject to adjustment in the event of a stock split, stock dividend or other change in capitalization. Generally, shares that are forfeited or canceled from awards under the 2007 Plan also will be available for future awards. To date, approximately 4.9 million shares have been added to the 2007 Plan in accordance with the automatic annual increase. In addition, shares subject to stock options returned to the 1999 Plan, as a result of their expiration, cancellation or termination, are automatically made available for issuance under the 2007 Plan. As of December 31, 2012 a total of 619,888 shares were available for grant under the 2007 Plan.

**Accounting for Stock-Based Compensation**

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

	Years Ended December 31,		
	2012	2011	2010
Expected volatility	88%	79% 81.4%	78%-79%
Expected term	5 years	6.25 years	6.25 years
Risk-free interest rate	0.36%	0.9% 2.3%	2.3%-2.85%
Expected dividend yield	%	%	%
Weighted-average grant date fair value per share	\$3.63	\$4.72	\$4.92

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 determines the volatility for options granted based on an analysis 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 4.17%, 3.6% and 2.0% in determining the expense recorded in 2012, 2011, and 2010, respectively.

A summary of the stock option activity under the Company's stock option plan for the year ended December 31, 2012 is presented below:

	Options Outstanding	Weighted-Average Exercise Price Per Share	Weighted-Average	
			Remaining Contractual Term in Years	Aggregate Intrinsic Value
Options outstanding at December 31, 2011	6,010,000	\$ 6.90		
Granted	7,500	5.35		
Exercised	(146,684)	5.22		
Forfeited	(92,657)	5.83		
Canceled	(291,472)	8.39		
Options outstanding at December 31, 2012	5,486,687	\$ 6.88	4.2	\$ 2,303
Options exercisable at December 31, 2012	5,244,583	\$ 6.90	4.0	\$ 2,299
Options vested or expected to vest at December 31, 2012(1)	5,461,438	\$ 6.88	4.1	\$ 2,302

- (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.

**Table of Contents**

During the years ended December 31, 2012, 2011 and 2010, the total intrinsic value of options exercised (i.e. the difference between the market price at exercise and the price paid by the employee to exercise the options) was \$0.2 million, \$3.8 million and \$0.8 million, respectively, and the total amount of cash received by the Company from exercise of these options was \$0.8 million, \$2.8 million and \$1.0 million, respectively. The total grant date fair value of stock options granted after January 1, 2006 that vested during the years ended December 31, 2012, 2011 and 2010 was \$1.5 million, \$2.5 million and \$5.4 million, respectively.

**Restricted Stock Awards**

Restricted stock awards are valued at the market price of a share of the Company's common stock on the date of the grant. A summary of the restricted stock award activity under the 2007 Plan for the year ended December 31, 2012 is presented below:

	Shares	Weighted-Average Grant Date Fair Value Per Share	Aggregate Intrinsic Value
Nonvested outstanding at December 31, 2011	1,663,751	\$ 5.66	
Granted	2,400,212	4.85	
Vested	(814,276)	5.12	
Forfeited	(257,500)	6.17	
Nonvested outstanding at December 31, 2012	2,992,187	\$ 5.16	\$ 6,025

The total grant-date fair value of restricted stock awards that vested during the years ended December 31, 2012, 2011 and 2010 was \$4.2 million, \$6.0 million and \$5.4 million, respectively. As of December 31, 2012, there was \$14.0 million of total unrecognized compensation expense related to stock options and restricted stock awards which is expected to be recognized over a weighted average period of 2.9 years.

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

In April 2007, the Board of Directors authorized 5,000,000 shares of undesignated preferred stock, par value \$0.001 per share. No preferred shares have been issued as of December 31, 2012.

**Reserved Common Stock**

As of December 31, 2012, the Company has reserved 10,184,388 shares of common stock for options outstanding and available for grant under the stock option plans.

**Common Stock Repurchase Program**

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

During the year ended December 31, 2012 the Company repurchased 95,940 shares of common stock for \$467 pursuant to the Program. All repurchased shares are funded with cash on hand.

**Tender Offer**

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

On November 9, 2010, the Company commenced a tender offer to purchase up to 10 million shares of its common stock, representing approximately 23% of the shares of the Company's common stock issued and outstanding at that time, at a price of \$6.00 per share. 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.



**Table of Contents**

The tender offer expired on December 9, 2010. Based on the final tabulation by Computershare Trust Company, N.A., the Depository for the tender offer, the Company accepted for purchase 5,857,878 shares of its common stock at a purchase price of \$6.00 per share, for a total cost of \$35.1 million. Repurchased shares are recorded under the cost method and are reflected as treasury stock in the accompanying Consolidated Balance Sheets. The total cost of the tender offer was \$35.3 million, which includes \$0.2 million of costs directly attributable to the purchase.

**Warrants**

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

**12. Income Taxes**

The income tax provision for the years ended December 31, 2012, 2011 and 2010 consisted of the following:

	Years Ended December 31,		
	2012	2011	2010
Current:			
Federal	\$ 3,265	\$ 5,094	\$ 2,794
State	516	1,747	2,180
Foreign	171	188	32
Total current	3,952	7,029	5,006
Deferred:			
Federal	(172)	(1,025)	(984)
State	258	(349)	(719)
Foreign	147		(45)
Total deferred	233	(1,374)	(1,748)
	\$ 4,185	\$ 5,655	\$ 3,258

The income tax provision for the years ended December 31, 2012, 2011 and 2010 differs from the amounts computed by applying the statutory federal income tax rate to the consolidated income (loss) before income taxes as follows:

	Years Ended December 31,		
	2012	2011	2010
Provision computed at statutory rate	\$ 2,873	\$ 3,620	\$ 726
Increase (reduction) resulting from:			
Tax exempt interest income	(23)	(15)	(105)
Stock-based compensation	526	992	1,336
Other non-deductible expenses	151	169	132
Non-deductible transaction costs			42
State income tax provision	391	596	1,055
Valuation allowance	231	149	
Other	36	144	72

Edgar Filing: TechTarget Inc - Form 10-K

Provision for income taxes	\$ 4,185	\$ 5,655	\$ 3,258
----------------------------	----------	----------	----------

**Table of Contents**

Significant components of the Company's net deferred tax assets and liabilities are as follows:

	As of December 31,	
	2012	2011
Deferred tax assets:		
Net operating loss carryforwards	\$ 953	\$ 843
Deferred revenue	525	609
Accruals and allowances	475	810
Intangible asset amortization	660	411
Stock-based compensation	6,988	7,731
Deferred rent expense	1,300	1,453
Gross deferred tax assets	10,901	11,857
Less valuation allowance	(1,058)	(827)
Total deferred tax assets	9,843	11,030
Deferred tax liabilities:		
Intangible asset amortization	(701)	
Depreciation	(1,525)	(2,060)
Total deferred tax liabilities	(2,226)	(2,060)
Net deferred tax assets	\$ 7,617	\$ 8,970
As reported:		
Current deferred tax assets	\$ 862	\$ 1,287
Non-current deferred tax assets	\$ 7,457	\$ 7,683
Non-current deferred tax liabilities	\$ (702)	\$

In evaluating the ability to realize the net deferred tax asset, the Company considers all available evidence, both positive and negative, including past operating results, the existence of cumulative losses in the most recent fiscal years, tax planning strategies that are prudent and feasible, and forecasts of future taxable income. In considering sources of future taxable income, the Company makes certain assumptions and judgments which are based on the plans and estimates used to manage the underlying business of the Company. Changes in the Company's assumptions and estimates may materially impact income tax expense for the period. The valuation allowance of \$1,058 and \$827 at December 31, 2012 and 2011, respectively, relates to foreign net operating losses (NOLs) and state NOLs acquired from KnowledgeStorm that the Company determined were not more likely than not to be realized based on projections of future taxable income in California and Georgia. The valuation allowance increased by \$231 during the year. To the extent realization of the deferred tax assets for foreign and the state net operating losses becomes more likely than not, recognition of these acquired tax benefits would reduce income tax expense.

The Company considers the excess of its financial reporting over its tax basis in its investment in foreign subsidiaries essentially permanent in duration and as such has not recognized a deferred tax liability related to this difference.

The amount of unrecognized tax benefits at December 31, 2012 was approximately \$0.6 million. The amount of unrecognized tax benefits that impact the effective tax rate, if recognized, is approximately \$0.5 million.

A reconciliation of the beginning and ending amounts of unrecognized tax benefits for the years ended December 31, 2012 and 2011 is as follows:

2012      2011

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

Balance at beginning of year	\$ 628	\$ 569
Gross increases related to positions taken in prior periods	14	59
Balance at end of year	\$ 642	\$ 628

In 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 subsequent correspondence with the MA DOR, the Company determined that it was more likely than not that the MA DOR would require an adjustment to correct TSC 's tax filings such that it will be treated as a Massachusetts business corporation for the applicable years. The tax benefit available to a Massachusetts security corporation is a lower income tax rate. For the year ended December 31, 2010, the Company recorded a tax reserve for approximately \$0.4 million for the potential state income tax liability arising from the difference between the income tax rates applicable to security corporations and business corporations in Massachusetts. On August 17, 2011, the Company filed Applications for Abatement with the MA DOR. On January 6, 2012, the Company filed Petitions under Formal Procedure with the Massachusetts Appellate Tax Board. A trial date has been set for October 22, 2013. The Company intends to continue to dispute the assessment and believes it has meritorious defenses which it intends to vigorously assert.

The Company recognized interest and penalties totaling \$14 on its uncertain tax positions in income tax expense in 2012. Tax years 2009 through 2012 are subject to examination by the federal and state taxing authorities. The Company 's 2009 and 2010 federal tax returns are currently under audit by the IRS.

The Company 's 2008 through 2010 returns are currently under audit by the State of New York. The Company has recorded a tax reserve of \$4 for the estimated potential state income tax liability related to this audit.

**Table of Contents**

As of December 31, 2012, the Company had state NOL carryforwards of approximately \$17.6 million, which may be used to offset future taxable income. The NOL carryforwards expire at various dates through 2029. The Company has Foreign NOL carryforwards of \$0.7 million, which may be used to offset future taxable income in foreign jurisdictions until they expire, through 2017.

**13. Segment Information**

The Company views its operations and manages its business as one operating segment based on factors such as how the Company manages its operations and how its 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:

	Years Ended December 31,		
	2012	2011	2010
United States	\$ 85,406	\$ 96,132	\$ 89,767
International	14,585	9,366	5,242
<b>Total</b>	<b>\$ 99,991</b>	<b>\$ 105,498</b>	<b>\$ 95,009</b>

Long-lived assets by geographic area were as follows:

	Years Ended December 31,	
	2012	2011
United States	\$ 101,858	\$ 103,913
International	7,794	4,825
<b>Total</b>	<b>\$ 109,652</b>	<b>\$ 108,738</b>

**14. 401(k) Plan**

The Company maintains a 401(k) retirement savings plan (the Plan) whereby employees may elect to defer a portion of their salary and contribute the deferred portion to the Plan. The Company contributes an amount equal to 50% of the employee's contribution to the Plan, up to an annual limit of two thousand dollars. The Company contributed \$0.8 million, \$0.7 million and \$0.8 million to the Plan for the years ended December 31, 2012, 2011 and 2010, respectively. Employee contributions and the Company's matching contributions are invested in one or more collective investment funds at the participant's direction. The Company's matching contributions vest 25% annually and are 100% vested after four consecutive years of service.

**15. Quarterly Financial Data (unaudited)**

	For the Three Months Ended							
	2012				2011			
	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Mar. 31	Jun. 30	Sep. 30	Dec. 31
Total revenues	\$ 23,714	\$ 26,369	\$ 24,549	\$ 25,359	\$ 22,566	\$ 28,102	\$ 25,892	\$ 28,938
Total cost of revenues	6,805	7,103	7,199	6,707	6,483	6,962	7,035	6,658
Total gross profit	16,909	19,266	17,350	18,652	16,083	21,140	18,857	22,280
Total operating expenses	16,371	15,772	16,127	15,805	16,103	17,553	16,808	17,610
Operating income (loss)	538	3,494	1,223	2,847	(20)	3,587	2,049	4,670

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

Net income (loss)	\$ 365	\$ 1,965	\$ 672	\$ 1,022	\$ (75)	\$ 1,818	\$ 963	\$ 1,982
Net income (loss) per common share:								
Basic	\$ 0.01	\$ 0.05	\$ 0.02	\$ 0.03	\$ (0.00)	\$ 0.05	\$ 0.03	\$ 0.05
Diluted	\$ 0.01	\$ 0.05	\$ 0.02	\$ 0.02	\$ (0.00)	\$ 0.04	\$ 0.02	\$ 0.05

### 16. Subsequent Events

Subsequent events have been evaluated through the date the financial statements were issued and no events or transactions have occurred that require disclosure or adjustment to these consolidated financial statements.

### Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

---

## **Table of Contents**

### **Item 9A. Controls and Procedures**

#### ***Disclosure Controls and Procedures***

The Company is required to maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in its reports under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the 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, 2012, management, under the supervision of the Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer), conducted an evaluation of disclosure controls and procedures. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level.

#### ***Management's Annual Report on Internal Control over Financial Reporting***

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) and 15d-15(f) promulgated under the Securities Exchange Act, as a process designed by, or under the supervision of, a company's principal executive and principal financial officers and effected by the company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

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

Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the criteria for effective control over financial reporting described in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commissions.

Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2012, our internal control over financial reporting was effective. Management has reviewed its assessment with the Audit Committee.

The independent registered public accounting firm, BDO USA, LLP, has audited our consolidated financial statements and has issued an attestation report on our internal controls over financial reporting as of December 31, 2012, which is included herein.

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

There have been changes in the Company's internal control over financial reporting in connection with the evaluation required by paragraph (d) of Securities Exchange Act Rules 13a-15 or 15d-15 that occurred during the year ended December 31, 2012 to remediate the material weakness identified and communicated in the Company's Annual Report on Form 10-K for fiscal years 2011 and 2010.

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

The Company implemented the following measures to strengthen our internal control over financial reporting and to address a material weakness that was previously identified in our internal control over financial reporting:

*In order to improve controls over the accounting for certain complex transactions, we:*

Assessed the expertise of our staff responsible for recording complex transactions and addressed 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.

Ensured that finance management is routinely involved in oversight and monitoring of the recording and reporting of complex service revenue recognition transactions.

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

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

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

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



---

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

Board of Directors and Stockholders

TechTarget, Inc.

Newton, Massachusetts

We have audited TechTarget, Inc.'s (TechTarget or the Company) internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). TechTarget's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, TechTarget, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of TechTarget, Inc. as of December 31, 2012 and 2011, and the related consolidated statements of comprehensive income, stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2012 and our report dated March 18, 2013 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

Boston, Massachusetts

March 18, 2013

**Table of Contents**

**Item 9B. Other Information**

None.

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance.**

Incorporated by reference from the information in the Company's proxy statement for the 2013 annual meeting of stockholders, which the Company intends to file with the SEC within 120 days of the end of the fiscal year to which this report relates.

**Item 11. Executive Compensation.**

Incorporated by reference from the information in the Company's proxy statement for the 2013 annual meeting of stockholders, which the Company intends to file with the SEC within 120 days of the end of the fiscal year to which this report relates.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

Incorporated by reference from the information in the Company's proxy statement for the 2013 annual meeting of stockholders, which the Company intends to file with the SEC within 120 days of the end of the fiscal year to which this report relates.

**Item 13. Certain Relationships and Related Transactions, and Director Independence.**

Incorporated by reference from the information in the Company's proxy statement for the 2013 annual meeting of stockholders, which the Company intends to file with the SEC within 120 days of the end of the fiscal year to which this report relates.

**Item 14. Principal Accountant Fees and Services.**

Incorporated by reference from the information in the Company's proxy statement for the 2013 annual meeting of stockholders, which the Company intends to file with the SEC within 120 days of the end of the fiscal year to which this report relates.

**PART IV**

**Item 15. Exhibits, Financial Statement Schedules**

(a)(1) Financial Statements are filed as part of this Annual Report on Form 10-K. The following consolidated financial statements are included in Item 8:

Consolidated Balance Sheets as of December 31, 2012 and 2011

Consolidated Statements of Consolidated Income (Loss) for the Years Ended December 31, 2012, 2011 and 2010

Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2012, 2011 and 2010

Consolidated Statements of Cash Flows for the Years Ended December 31, 2012, 2011 and 2010

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

### Notes to Consolidated Financial Statements

(a)(2) Financial statement schedules have been omitted because they are not required or because the required information is given in the Consolidated Financial Statements or Notes thereto.

(a)(3) Exhibit Index.

(b) The exhibits listed in the Exhibit Index immediately preceding the exhibits are filed as part of this Annual Report on Form 10-K and are incorporated into this item by reference.

**Table of Contents**

**SIGNATURES**

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

TECHTARGET, INC.

Date: March 18, 2013

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

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

<b>Signature</b>	<b>Title</b>	<b>Date</b>
s/ GREG STRAKOSCH Greg Strakosch	Chief Executive Officer and Director (Principal executive officer)	March 18, 2013
/s/ JANICE KELLIHER Janice Kelliher	Chief Financial Officer and Treasurer (Principal financial and accounting officer)	March 18, 2013
/s/ ROBERT D. BURKE Robert D. Burke	Director	March 18, 2013
/s/ LEONARD FORMAN Leonard Forman	Director	March 18, 2013
/s/ JAY C. HOAG Jay C. Hoag	Director	March 18, 2013
/s/ ROGER M. MARINO Roger M. Marino	Director	March 18, 2013

**Table of Contents****EXHIBIT INDEX**

Exhibit Number	Description	Form or Schedule	Exhibit No.	Incorporated by Reference to Filing	
				Date with SEC	SEC File Number
<i>Articles of Incorporation and By-Laws</i>					
3.1	Fourth Amended and Restated Certificate of Incorporation of the Registrant	10-Q	3.1	11/13/2007	001-33472
3.2	Amended and Restated Bylaws of the Registrant	S-1/A	3.3	3/20/2007	333-140503
<i>Instruments Defining the Rights of Security Holders</i>					
4.1	Specimen Stock Certificate for shares of the Registrant's Common Stock	S-1/A	4.1	4/10/2007	333-140503
<i>Material Contracts</i>					
10.1	Second Amended and Restated Investors' Rights Agreement by and among the Registrant, the Investors named therein and SG Cowen Securities Corporation, dated as of December 17, 2004	S-1	10.1	2/07/2007	333-140503
10.2	Form of Indemnification Agreement between the Registrant and its Directors and Officers	S-1/A	10.2	5/15/2007	333-140503
10.3#	2007 Stock Option and Incentive Plan	S-1/A	10.3	4/20/2007	333-140503
10.4#	Form of Incentive Stock Option Agreement under the 2007 Stock Option and Incentive Plan	S-1/A	10.4	4/20/2007	333-140503
10.5#	Form of Non-Qualified Stock Option Agreement under the 2007 Stock Option and Incentive Plan	S-1/A	10.5	4/20/2007	333-140503
10.6#	Form of Non-Qualified Stock Option Agreement for Non-Employee Directors	S-1/A	10.5.1	4/27/2007	333-140503
10.7#	Form of Restricted Stock Agreement under the 2007 Stock Option and Incentive Plan	S-1/A	10.6	4/20/2007	333-140503
10.8#	Form of Restricted Stock Unit Agreement under the 2007 Stock Option and Incentive Plan	10-K	10.8	3/31/2008	001-33472
10.9#	Restricted Stock Unit Agreement, dated December 18, 2007, by and between the Registrant and Kevin Beam	10-K	10.9	3/31/2008	001-33472
10.10#	Restricted Stock Unit Agreement, dated December 18, 2007, by and between the Registrant and Don Hawk	10-K	10.10	3/31/2008	001-33472

**Table of Contents**

10.11#	Restricted Stock Unit Agreement, dated December 18, 2007, by and between the Registrant and Rick Olin	10-K	10.11	3/31/2008	001-33472
10.12#	Restricted Stock Unit Agreement, dated December 18, 2007, by and between the Registrant and Greg Strakosch	10-K	10.13	3/31/2008	001-33472
10.13#	Executive Incentive Bonus Plan	S-1/A	10.7	4/20/2007	333-140503
10.14#	1999 Stock Option Plan	S-1	10.8	2/07/2007	333-140503
10.15#	Form of Incentive Stock Option Grant Agreement under the 1999 Stock Option Plan (for grants prior to September 27, 2006)	S-1	10.9	2/07/2007	333-140503
10.16#	Form of Incentive Stock Option Grant Agreement under the 1999 Stock Option Plan (for grants on or after September 27, 2006)	S-1	10.10	2/07/2007	333-140503
10.17#	Form of Incentive Stock Option Grant Agreement under the 1999 Stock Option Plan (for grants to executives)	S-1/A	10.10.1	5/01/2007	333-140503
10.18#	Form of Nonqualified Stock Option Grant Agreement under the 1999 Stock Option Plan	S-1	10.11	2/07/2007	333-140503
10.19	Credit Facility Agreement between the Registrant and Citizens Bank of Massachusetts, dated August 30, 2006	S-1	10.16	2/07/2007	333-140503
10.20#	Amended and Restated Employment Agreement, dated January 17, 2008, by and between the Registrant and Greg Strakosch	10-K	10.25	3/31/2008	001-33472
10.21#	Amended and Restated Employment Agreement, dated January 17, 2008, by and between the Registrant and Don Hawk	10-K	10.26	3/31/2008	001-33472
10.22#	Amended and Restated Employment Agreement, dated January 17, 2008, by and between the Registrant and Kevin Beam	10-K	10.28	3/31/2008	001-33472
10.23#	Amended and Restated Employment Agreement, dated January 17, 2008, by and between the Registrant and Rick Olin	10-K	10.29	3/31/2008	001-33472
10.24#	Employment Agreement, by and between the Registrant and Jeffrey Wakely	8-K	10.1	5/3/2010	001-33472
10.25	Lease Agreement by and between MA-Riverside Project L.L.C., as landlord and TechTarget, Inc., as tenant	8-K	10.1	8/7/2009	001-33472

**Table of Contents**

10.26	First Amendment to Lease Agreement, by and between the Registrant and MA-Riverside Project L.L.C. for the premises located at One Riverside Center, 275 Grove Street, Newton, Massachusetts, dated November 18, 2010	8-K	10.1	11/22/10	001-33472
10.27	First Amendment (dated August 30, 2007) to Credit Facility Agreement dated August 30, 2006 between the Registrant and Citizens Bank of Massachusetts	10-Q	10.1	2/8/2010	001-33472
10.28	Second Amendment (dated December 18, 2008) to Credit Facility Agreement between the Registrant and Citizens Bank of Massachusetts, dated August 30, 2006	10-Q	10.2	2/8/2010	001-33472
10.29	Third Amendment (dated December 17, 2009) to Credit Facility Agreement dated August 30, 2006 between the Registrant and Citizens Bank of Massachusetts	10-Q	10.3	2/8/2010	001-33472
10.30	First Amendment (dated December 17, 2009) to Revolving Promissory Note dated August 30, 2006 between the Registrant and Citizens Bank of Massachusetts	10-Q	10.4	2/8/2010	001-33472
10.31	Waiver of Specified Covenants (dated December 17, 2009) for Credit Facility Agreement dated August 30, 2006 between the Registrant and Citizens Bank of Massachusetts, now known as RBS Citizens, National Association	10-Q	10.5	2/8/2010	001-33472
10.32	Waiver of Specified Covenants (dated January 28, 2010) for Credit Facility Agreement dated August 30, 2006 between the Registrant and Citizens Bank of Massachusetts, now known as RBS Citizens, National Association	10-Q	10.6	2/8/2010	001-33472
10.33	Fourth Amendment (dated August 30, 2011) to Credit Facility Agreement dated August 30, 2006 between the Registrant and Citizens Bank of Massachusetts	8-K	10.1	9/2/2011	001-33472
10.34#	Amended and Restated Restricted Stock Unit Agreement, dated August 10, 2009, by and between the Registrant and Michael Cotoia	10-K	10.33	3/16/2011	001-33472
10.35#	Employment Agreement dated as of January 1, 2012 between the Registrant and Michael Cotoia	8-K	10.1	1/10/2012	001-33472
10.36#	Amendment and Waiver to Amended and Restated Employment Agreement between the Registrant and Kevin Beam (dated January 10, 2012)	10-K	10.36	3/15/2012	001-33472

**Table of Contents**

10.37#	Amendment and Waiver to Amended and Restated Employment Agreement between the Registrant and Don Hawk (dated January 10, 2012)	10-K	10.37	3/15/2012	001-33472
10.38#	Employment Agreement between the Registrant and Janice Kelliher (dated May 4, 2012)	8-K	10.1	5/8/2012	001-33472
*21.1	List of Subsidiaries				
*23.1	Consent of BDO USA, LLP				
*23.2	Consent of Ernst & Young LLP				
*31.1	Certification by Chief Executive Officer Pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.				



**Table of Contents**

*31.2	Certification by Chief Financial Officer Pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.				
*32.1	Certification by Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				
99.1	Agreement and Plan of Merger by and among the Registrant, Catapult Acquisition Corp. and KnowledgeStorm, Inc. dated November 1, 2007	8-K	99.1	11/07/2007	001-33472
101.INS	XBRL Instance Document				
101.SCH	XBRL Taxonomy Extension Schema Document				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document				
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document				
101.LAB	XBRL Taxonomy Extension Label Linkbase Document				
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document				

\* Filed herewith.

# Management contract or compensatory plan or arrangement filed as an Exhibit to this report pursuant to 15(a) and 15(c) of Form 10-K. Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability under those sections.