

TechTarget Inc
Form 10-Q
August 09, 2016
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2016

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

For the transition period from _____ to _____

Commission File Number: 1-33472

TECHTARGET, INC.

(Exact name of registrant as specified in its charter)

Delaware **04-3483216**
(State or other jurisdiction of **(I.R.S. Employer**
incorporation or organization) **Identification No.)**

275 Grove Street

Newton, Massachusetts 02466

(Address of principal executive offices) (zip code)

(617) 431-9200

(Registrant's telephone number, including area code)

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

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

Edgar Filing: TechTarget Inc - Form 10-Q

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

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

Large Accelerated Filer Accelerated Filer

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

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

The registrant had 27,219,741 shares of Common Stock, \$0.001 par value per share, outstanding as of July 29, 2016.

Table of Contents**TABLE OF CONTENTS**

Item	Page
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1.	
<u>Financial Statements</u>	
<u>Consolidated Balance Sheets as of June 30, 2016 (unaudited) and December 31, 2015</u>	3
<u>Consolidated Statements of Operations and Comprehensive Income for the Three and Six Months Ended June 30, 2016 and 2015 (unaudited)</u>	4
<u>Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2016 and 2015 (unaudited)</u>	5
<u>Notes to Consolidated Financial Statements</u>	6
Item 2.	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	23
Item 3.	
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	41
Item 4.	
<u>Controls and Procedures</u>	41
<u>PART II. OTHER INFORMATION</u>	
Item 1.	
<u>Legal Proceedings</u>	42
Item 1A.	
<u>Risk Factors</u>	42
Item 2.	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	45
Item 3.	
<u>Defaults upon Senior Securities</u>	45
Item 4.	
<u>Mine Safety Disclosures</u>	45
Item 5.	
<u>Other Information</u>	45
Item 6.	
<u>Exhibits</u>	45
<u>Signatures</u>	46

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

Item 1. Financial Statements

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

	June 30, 2016 (Unaudited)	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 28,654	\$ 14,783
Short-term investments	14,115	10,646
Accounts receivable, net of allowance for doubtful accounts of \$1,941 and \$1,715 as of June 30, 2016 and December 31, 2015, respectively	30,029	26,549
Prepaid taxes	3,739	5,306
Prepaid expenses and other current assets	2,584	2,192
Total current assets	79,121	59,476
Property and equipment, net of accumulated depreciation	9,525	8,922
Long-term investments	5,698	9,262
Goodwill	93,649	93,701
Intangible assets, net of accumulated amortization	910	1,448
Deferred tax assets	3,057	4,210
Other assets	839	840
Total assets	\$ 192,799	\$ 177,859
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 1,770	\$ 1,807
Current portion of term loan	4,907	
Accrued expenses and other current liabilities	3,269	3,112
Accrued compensation expenses	794	675
Contingent consideration		1,326
Income taxes payable	88	516
Deferred revenue	11,226	7,595
Total current liabilities	22,054	15,031
Long-term liabilities:		
Long-term portion of term loan	44,739	
Deferred rent	2,349	2,245

Edgar Filing: TechTarget Inc - Form 10-Q

Deferred tax liabilities	578	582
Total liabilities	69,720	17,858
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, 51,418,783 shares issued and 27,245,270 shares outstanding at June 30, 2016 and 50,927,426 shares issued and 32,039,853 shares outstanding at December 31, 2015	51	51
Treasury stock, 24,173,513 shares at June 30, 2016 and 18,887,573 shares at December 31, 2015, at cost	(155,130)	(113,949)
Additional paid-in capital	294,785	293,003
Accumulated other comprehensive loss	(196)	(322)
Accumulated deficit	(16,431)	(18,782)
Total stockholders' equity	123,079	160,001
Total liabilities and stockholders' equity	\$ 192,799	\$ 177,859

See accompanying Notes to Consolidated Financial Statements.

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

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
	(Unaudited)		(Unaudited)	
Revenues:				
Online	\$ 27,726	\$ 27,736	\$ 51,995	\$ 50,784
Events	1,448	2,021	2,210	2,631
Total revenues	29,174	29,757	54,205	53,415
Cost of revenues:				
Online(1)	6,813	6,719	13,471	13,248
Events	791	877	1,326	1,332
Total cost of revenues	7,604	7,596	14,797	14,580
Gross profit	21,570	22,161	39,408	38,835
Operating expenses:				
Selling and marketing(1)	11,028	10,958	22,088	21,299
Product development(1)	1,945	2,032	3,953	3,808
General and administrative(1)	3,044	3,591	6,254	6,611
Depreciation	1,016	1,016	2,036	2,024
Amortization of intangible assets	233	344	535	717
Total operating expenses	17,266	17,941	34,866	34,459
Operating income	4,304	4,220	4,542	4,376
Interest and other (expense) income, net	(508)	250	(566)	87
Income before provision for income taxes	3,796	4,470	3,976	4,463
Provision for income taxes	1,397	1,641	1,625	1,287
Net income	\$ 2,399	\$ 2,829	\$ 2,351	\$ 3,176
Other comprehensive (loss) income, net of tax:				
Unrealized gain (loss) on investments (net of tax effect of \$3, \$(2), \$15 and \$9, respectively)	\$ 5	\$ (5)	\$ 27	\$ 15
Foreign currency translation (losses) gains	(67)	(4)	99	(156)
Other comprehensive (loss) income	(62)	(9)	126	(141)

Edgar Filing: TechTarget Inc - Form 10-Q

Comprehensive income	\$ 2,337	\$ 2,820	\$ 2,477	\$ 3,035
Net income per common share:				
Basic	\$ 0.08	\$ 0.09	\$ 0.07	\$ 0.10
Diluted	\$ 0.07	\$ 0.08	\$ 0.07	\$ 0.09
Weighted average common shares outstanding:				
Basic	31,817	33,268	32,205	33,202
Diluted	32,938	34,989	33,249	34,956

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

Cost of online revenues	\$ 27	\$ 16	\$ 54	\$ 30
Selling and marketing	921	650	1,843	1,339
Product development	43	27	79	37
General and administrative	485	623	1,050	1,357

See accompanying Notes to Consolidated Financial Statements.

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

	For the Six Months Ended June 30,	
	2016	2015
	(Unaudited)	
Operating Activities:		
Net income	\$ 2,351	\$ 3,176
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,571	2,741
Provision for bad debt	409	405
Amortization of investment premiums	138	124
Stock-based compensation	3,026	2,763
Non-cash interest expense	13	4
Deferred tax provision	(251)	(159)
Excess tax benefit stock options	(178)	(1,983)
Changes in operating assets and liabilities:		
Accounts receivable	(3,886)	(6,130)
Prepaid taxes, prepaid expenses and other current assets	(470)	835
Other assets	33	54
Accounts payable	1	56
Income taxes payable	1,339	(1,807)
Accrued expenses and other current liabilities	(622)	1,280
Accrued compensation expenses	25	(846)
Deferred revenue	3,632	2,648
Other liabilities	105	(2,189)
Net cash provided by operating activities	8,236	972
Investing activities:		
Purchases of property and equipment and other capitalized assets	(2,648)	(1,917)
Purchases of investments		(2,622)
Proceeds from sales and maturities of investments		3,310
Net cash used in investing activities	(2,648)	(1,229)
Financing activities:		
Tax withholdings related to net share settlements	(1,149)	
Excess tax benefit stock options	178	1,983
Purchase of treasury shares and related costs	(41,181)	(3,794)
Registration fees		(22)
Payment of earnout liabilities	(459)	

Edgar Filing: TechTarget Inc - Form 10-Q

Proceeds from exercise of stock options	1,105	2,003
Term loan proceeds	50,000	
Debt issuance costs	(367)	
Net cash provided by financing activities	8,127	170
Effect of exchange rate changes on cash and cash equivalents	156	(25)
Net increase (decrease) in cash and cash equivalents	13,871	(112)
Cash and cash equivalents at beginning of period	14,783	19,275
Cash and cash equivalents at end of period	\$ 28,654	\$ 19,163
Supplemental disclosure of cash flow information:		
Cash paid for taxes, net	\$ 537	\$ 3,181

See accompanying Notes to Consolidated Financial Statements.

Table of Contents**TECHTARGET, INC.****Notes to Consolidated Financial Statements**

(In thousands, except share and per share data, where otherwise noted or instances where expressed in millions)

1. Organization and Operations

TechTarget, Inc. and its subsidiaries (the Company) is a leading provider of specialized online content for buyers of corporate information technology (IT) products and services, and a leading provider of marketing services for the sellers of those solutions. The Company's offerings enable IT vendors to identify, reach and influence corporate IT decision makers who are actively researching specific IT purchases through customized marketing programs that include data analytics-driven intelligence solutions, demand generation and brand advertising. The Company operates a network of over 140 websites, each of which focuses on a specific IT sector, such as storage, security or networking. 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, the Company's key marketing opportunities and audience extensions are currently addressed using 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, TechTarget Securities Corporation (TSC), TechTarget Limited, TechTarget (HK) Limited (TTGT HK), TechTarget (Beijing) Information Technology Consulting Co. Ltd. (TTGT Consulting), TechTarget (Australia) Pty Ltd., TechTarget (Singapore) Pte Ltd., E-Magine Médias SAS (LeMagIT) and TechTarget Germany GmbH. TSC is a Massachusetts corporation. TechTarget Limited is a subsidiary doing business principally in the United Kingdom. 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 TTGT Consulting, 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). TechTarget (Australia) Pty Ltd. and TechTarget (Singapore) Pte Ltd. are the entities through which the Company does business in Australia and Singapore, respectively; LeMagIT and TechTarget Germany GmbH, both wholly-owned subsidiaries of TechTarget Limited, are entities through which the Company does business in France and Germany, respectively. Bitpipe, Inc., a previously wholly-owned subsidiary, was merged into TechTarget, Inc. in the second quarter of 2016.

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. 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, *Consolidation: Overall*, 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.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted (Generally Accepted Accounting Principles, or GAAP) in the United States (U.S.) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the U.S. for complete financial statements. All adjustments, which, in the opinion of management, are considered necessary for a fair presentation of the results of operations for the periods shown, are of a normal recurring nature and have been reflected in the consolidated financial statements. The results of operations for the periods presented are not necessarily indicative of results to be expected for any other interim periods or for the full year. The information included in these consolidated financial statements should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations contained in this report and the consolidated financial statements and accompanying notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2015.

Reclassifications

Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications are not material and had no effect on the reported results of operations.

Use of Estimates

The preparation of consolidated 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 consolidated 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 revenues, 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 revenues from the sale of targeted advertising campaigns, which are delivered via its network of websites, data analytics solutions, and events. In all cases, 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.

Edgar Filing: TechTarget Inc - Form 10-Q

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

Table of Contents

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 Offerings

IT Deal Alert . This suite of products and services includes IT Deal Alert: Qualified Sales Opportunities , which profiles specific in-progress purchase projects, IT Deal Alert: Priority Engine , which is a subscription service powered by the Company's Activity Intelligence platform that integrates into salesforce.com and delivers information to allow marketers and sales personnel to identify those accounts who are actively researching new technology purchases, IT Deal Alert: Deal Data , which is a customized solution aimed at sales intelligence and data scientist functions that makes the Company's Activity Intelligence data directly consumable by the customer's internal applications, and IT Deal Alert: TechTarget Research , which is a newly launched subscription product that sources proprietary information about purchase transactions from IT professionals who are making and have recently completed these purchases. Qualified Sales Opportunities revenue is recognized when the Qualified Sales Opportunity is delivered to the Company's customer, Priority Engine revenue is recognized ratably over the duration of the service, Deal Data revenue is recognized upon delivery of the data to the Company's customer, and Research revenue is recognized when the product is delivered.

Core Online. The Company's core online offerings enable its customers to reach and influence prospective buyers through content marketing programs designed to generate demand for their solutions, and through display advertising and other brand programs that influence consideration by prospective buyers.

Demand Solutions. As part of its demand solutions campaign offerings, the Company may guarantee a minimum number of qualified leads to be delivered over the course of the campaign. The Company determines the content necessary to achieve performance guarantees. Scheduled end dates of 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 campaigns. These estimates are based on the Company's experience in managing and fulfilling these offerings. The customer generally has cancellation privileges which normally require advance notice by the customer and require proportional payment by the customer for the portion of the campaign 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. The Company recognizes revenue on contracts where pricing is based on cost per lead during the period in which leads are delivered to its customers and recognizes revenue on duration-based campaigns ratably over the duration of the campaign, which is usually less than six months.

Brand Solutions. Brand solutions consist mostly of banner revenue, which is recognized in the period in which the banner impressions, engagements or clicks occur and microsite revenue, which is recognized over the period during which the microsites are live.

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

Other. Includes list rental revenue, which is recognized in the period in which the Company delivers the customer's content to a list of the Company's registered members, and revenue from third party revenue sharing arrangements, which is primarily recognized on a net basis in the period in which the services are performed.

Table of Contents

Events

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

Amounts collected or billed prior to satisfying the above revenue recognition criteria are recorded as deferred revenue. The Company excludes from its deferred revenue and accounts receivable balances amounts for which it has billed in advance prior to the start of a campaign or the delivery of services.

Fair Value of Financial Instruments

Financial instruments consist of cash and cash equivalents, short-term and long-term investments, accounts receivable, accounts payable, long-term debt and contingent consideration. Due to their short-term nature and liquidity, the carrying value of these instruments, with the exception of contingent consideration and long-term debt, approximates their estimated fair values. See Note 3 for further information on the fair value of the Company's investments. Amounts outstanding under our long-term debt are subject to variable rates of interest based on current market rates, and as such, we believe the carrying amount of these obligations approximates fair value. The fair value of contingent consideration was estimated using a discounted cash flow method described in Note 5.

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

Long-lived assets consist primarily of property and equipment, capitalized software, goodwill and other intangible assets. The Company reviews long-lived assets, including property and equipment and finite 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 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 three 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. Consistent with the Company's determination that it has only one reporting segment, it has been determined that there is only one reporting unit and goodwill is tested for impairment at the entity level. 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 using the two step process required by ASC 350, *Intangibles - Goodwill and Other* (ASC 350). The first step of the impairment test is to identify potential impairment by comparing the reporting unit's fair value with its net book value (or carrying amount), including goodwill. The fair value is estimated based on a market value approach. If the fair value of the reporting unit exceeds its carrying amount, the reporting unit's goodwill is not considered to be impaired and the second step of the impairment test is not performed. Whenever indicators of impairment become present, the Company would perform the second step and compare the implied fair value of the

reporting unit's goodwill, as defined by ASC 350, to its carrying value to determine the amount of the impairment loss, if any. As of December 31, 2015, there were no indications of impairment based on the step one analysis, and the Company's estimated fair value exceeded its goodwill carrying value by a significant margin. There were no indications of impairment as of June 30, 2016.

Based on the aforementioned evaluation, the Company believes that, as of the balance sheet dates presented, none of the Company's goodwill or other long-lived assets were impaired. The Company did not have any intangible assets with indefinite lives as of June 30, 2016 or December 31, 2015.

Table of Contents

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 its existing accounts receivable. The allowance for doubtful accounts is reviewed on a regular basis, and all past due balances are reviewed individually for collectability. Account balances are charged against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Provisions for doubtful accounts are recorded in general and administrative expense.

Property and Equipment and Other Capitalized Assets

Property and equipment and other capitalized assets are 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.

Internal-Use Software and Website Development Costs

The Company capitalizes costs incurred during the development of its website applications and infrastructure as well as certain costs relating to internal-use software. The estimated useful life of costs capitalized is evaluated for each specific project. Capitalized internal-use software and website development costs are reviewed for recoverability whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. An impairment loss would be recognized only if the carrying amount of the asset is not recoverable and exceeds its fair value. The Company capitalized internal-use software and website development costs of \$0.8 million and \$0.7 million for the three months ended June 30, 2016 and 2015, respectively, and \$1.5 million for each of the six months ended June 30, 2016 and 2015.

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* (ASC 740).

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 Consolidated Statement of Operations and Comprehensive Income using the straight-line method over the vesting period of the award. The Company uses the Black-Scholes option-pricing model to determine the fair value of stock option awards.

Comprehensive Income

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

Table of Contents

There were no material reclassifications out of accumulated other comprehensive income in the periods ended June 30, 2016 or 2015.

Foreign Currency

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

Net Income 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, undelivered restricted stock awards outstanding during the period, plus the dilutive effect of potential future issuances of common stock relating to stock option and restricted stock award programs using the treasury stock method. In calculating diluted earnings per share, the dilutive effect of stock options and restricted stock awards is computed using the average market price for the respective period. In addition, the assumed proceeds under the treasury stock method include the average unrecognized compensation expense and assumed tax benefit of stock options and restricted stock awards that are in-the-money. This results in the assumed buyback of additional shares, thereby reducing the dilutive impact of stock options and restricted stock awards.

Recent Accounting Pronouncements***Accounting Guidance Adopted in 2016***

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-05, *Customer's Accounting for Fees Paid in a Cloud Computing Arrangement (Subtopic 350-40)* (ASU 2015-05), which provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If the arrangement does not include a software license, the customer should account for a cloud computing arrangement as a service contract. The guidance in ASU 2015-05 is required for annual reporting periods (including interim periods within the reporting period) beginning after December 15, 2015. The Company adopted the provisions of the new standard on January 1, 2016 and the adoption did not have a material impact on its consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, *Income Taxes (Topic 740) Balance Sheet Classification of Deferred Taxes* (ASU 2015-17). ASU 2015-17 requires entities to present deferred tax assets and deferred tax liabilities as noncurrent in a classified balance sheet. The ASU simplifies the previous guidance, which required entities to separately present deferred tax assets and deferred tax liabilities as current and noncurrent in a classified balance sheet. The guidance in ASU 2015-17 is required for annual reporting periods beginning after December 15, 2016, including interim periods within the reporting period. The Company early adopted the provisions of the new standard on January 1, 2016. Implementing the new pronouncement resulted in the Company retrospectively reclassifying approximately \$2.3 million in current deferred tax assets to noncurrent as of December 31, 2015.

Accounting Guidance Not Yet Adopted

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09), which supersedes the revenue recognition requirements in ASC 605, *Revenue Recognition*. ASU 2014-09 is based on the principle that

Table of Contents

revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. In July 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date* (ASU 2015-14). The amendments in ASU 2015-14 defer the effective date of ASU 2014-09 for all entities by one year. As a result, this guidance is now effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2017 (January 1, 2018 for the Company) and early adoption is permitted only as of annual reporting periods (including interim reporting periods within those reporting periods) beginning after December 15, 2016. Entities have the option of using either a full retrospective or a modified approach to adopt the guidance. In March 2016, the FASB issued ASU 2016-08, *Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, which further clarifies the implementation guidance on principal versus agent considerations contained in ASU 2014-09. In April and May 2016, the FASB issued ASU 2016-10, *Identifying Performance Obligations and Licensing*, and ASU 2016-12, *Narrow-Scope Improvements and Practical Expedients*, respectively, each of which provide further implementation guidance for ASU 2014-09. These standards will be effective for the Company in the first quarter of fiscal year 2019, although early adoption is permitted. The Company is currently evaluating the impact that this guidance will have on its consolidated financial statements and disclosure.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments-Overall (Subtopic 825-10) - Recognition and Measurement of Financial Assets and Financial Liabilities* (ASU 2016-01). ASU 2016-01 addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. ASU 2016-01 is effective for reporting periods beginning after December 15, 2017. Early adoption is not permitted. The Company is currently evaluating the impact that this guidance will have on its consolidated financial statements and disclosure.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* (ASU 2016-02). ASU 2016-02 establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently evaluating the impact that this guidance will have on its consolidated financial statements and disclosure.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* (ASU 2016-09). The updated guidance changes how companies account for certain aspects of share-based payment awards to employees, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years and early adoption is permitted. The Company is currently evaluating the impact that this guidance will have on its consolidated financial statements and disclosure.

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:

	Fair Value Measurements at Reporting Date Using Quoted Prices			
	June 30, 2016	in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds(1)	\$ 23,308	\$ 23,308	\$	\$
Short-term investments(2)	14,115		14,115	
Long-term investments(2)	5,698		5,698	
Total assets	\$ 43,121	\$ 23,308	\$ 19,813	\$

	Fair Value Measurements at Reporting Date Using Quoted Prices			
	December 31, 2015	in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds(1)	\$ 122	\$ 122	\$	\$
Short-term investments(2)	10,646		10,646	
Long-term investments(2)	9,262		9,262	
Total assets	\$ 20,030	\$ 122	\$ 19,908	\$
Liabilities:				
Contingent consideration current(3)	\$ 1,326	\$	\$	\$ 1,326
Total liabilities	\$ 1,326	\$	\$	\$ 1,326

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

- (3) The Company's valuation techniques and Level 3 inputs used to estimate the fair value of contingent consideration payable in connection with the LeMagIT acquisition are described in Note 5. The contingent consideration, net of a \$0.4 million holdback, was paid in January 2016. The holdback is fixed in value and is, therefore, no longer a contingent liability; it is included in current liabilities on the Company's Consolidated Balance Sheet as of June 30, 2016.

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

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

	June 30, 2016	December 31, 2015
Cash	\$ 5,346	\$ 14,661
Money market funds	23,308	122
Total cash and cash equivalents	\$ 28,654	\$ 14,783

The Company's short-term and long-term investments are accounted for as available for sale securities. These investments are recorded at fair value with the related unrealized gains and losses included in accumulated other comprehensive loss, a component of stockholders' equity, net of tax. The cumulative unrealized gain (loss), net of taxes, was \$8 and \$(19) as of June 30, 2016 and December 31, 2015, respectively. Realized gains and losses on the sale of these investments are determined using the specific identification method. There were no realized gains or losses during the three or six months ended June 30, 2016 or 2015.

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

	Cost	June 30, 2016		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
Short-term and long-term investments:				
Government agency bonds	\$ 7,608	\$ 3	\$	\$ 7,611
Municipal bonds	11,689	8	(2)	11,695
Corporate bonds	504	3		507
Total short-term and long-term investments	\$ 19,801	\$ 14	\$ (2)	\$ 19,813

	Cost	December 31, 2015		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
Short-term and long-term investments:				
Government agency bonds	\$ 7,615	\$	\$ (15)	\$ 7,600
Municipal bonds	11,818		(14)	11,804
Corporate bonds	505		(1)	504
Total short-term and long-term investments	\$ 19,938	\$	\$ (30)	\$ 19,908

The Company had three debt securities in an unrealized loss position at June 30, 2016. All of these securities have been in such a position for no more than seven months. The unrealized loss on those securities was approximately \$2 and the fair value was \$3.5 million. The Company uses specific identification when reviewing these investments for impairment. Because the Company does not intend to sell the investments that are in an unrealized loss position and it is not likely that the Company will be required to sell any investments before recovery of their cost basis, the Company does not consider those investments with an unrealized loss to be other-than-temporarily impaired at June 30, 2016.

Municipal, government agency, and corporate bonds have contractual maturity dates that range from July 2016 to April 2018. All income generated from these investments is recorded as interest income.

Table of Contents**5. Acquisition*****LeMagIT***

On December 17, 2012, the Company purchased all of the outstanding shares of its French partner, E-Magine Médias SAS, for approximately \$2.2 million in cash plus a potential future earnout valued at \$0.7 million at the time of the acquisition. Approximately \$1.2 million of the cash payment was made at closing, and the remainder was paid in two equal installments in 2013 and 2014. The earnout was subject to certain revenue growth targets and the payment was adjusted each period based on actual results. 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, a discount rate of 28% was used. The calculation of these fair values required the use of significant inputs that are not observable in the market and thus represented a Level 3 fair value measurement as defined in ASC 820, *Fair Value Measurements and Disclosures*. The significant inputs in the Level 3 measurements not supported by market activity included estimated future revenues as well as the rates used to discount them. The installment payments were recorded at present value using a discount rate of 10%.

The earnout payment of \$1.3 million, net of a \$0.4 million holdback, was paid in January 2016. The portion of the payment that related to the fair value of the earnout as of the acquisition date, amounting to approximately \$0.5 million, is reflected in financing activities in the Company's Consolidated Statement of Cash Flows for the six months ended June 30, 2016. The balance of the payment is reflected as an operating cash flow. The holdback is included in current liabilities in the Company's Consolidated Balance Sheet as of June 30, 2016.

6. Intangible Assets

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

	Estimated Useful Lives (Years)	As of June 30, 2016		
		Gross Carrying Amount	Accumulated Amortization	Net
Customer, affiliate and advertiser relationships	5-9	\$ 6,912	\$ (6,702)	\$ 210
Developed websites, technology and patents	10	1,244	(681)	563
Trademark, trade name and domain name	5-8	1,785	(1,685)	100
Proprietary user information database and Internet traffic	5	1,190	(1,153)	37
Total intangible assets		\$ 11,131	\$ (10,221)	\$ 910

	Estimated Useful Lives (Years)	As of December 31, 2015		
		Gross Carrying Amount	Accumulated Amortization	Net
Customer, affiliate and advertiser relationships	5-9	\$ 6,996	\$ (6,379)	\$ 617
Developed websites, technology and patents	10	1,222	(603)	619

Edgar Filing: TechTarget Inc - Form 10-Q

Trademark, trade name and domain name	5	8	1,819	(1,685)	134
Proprietary user information database and Internet traffic	5		1,232	(1,154)	78
Non-compete agreements	3		76	(76)	
Total intangible assets			\$ 11,345	\$ (9,897)	\$ 1,448

Intangible assets are amortized over their estimated useful lives, which range from three 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 2.78 years. Amortization expense was \$0.2 million and \$0.3 million for the three month periods ended June 30, 2016 and 2015, respectively, and \$0.5 million and \$0.7 million for the six months ended June 30, 2016 and 2015, respectively.

Table of Contents

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 \$0.1 million of fully amortized intangible assets in the first half of 2016. The Company did not write off any fully amortized intangible assets in the first half of 2015. The change in the gross carrying amount of intangible assets during the six months ended June 30, 2016, was due to foreign currency translation gains and losses.

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

Years Ending December 31:	Amortization Expense
2016 (July 1 st – December 31)	\$ 275
2017	166
2018	103
2019	87
2020	73
Thereafter	206
	\$ 910

7. Net Income Per Common Share

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
Numerator:				
Net income	\$ 2,399	\$ 2,829	\$ 2,351	\$ 3,176
Denominator:				
Basic:				
Weighted average shares of common stock and vested, undelivered restricted stock awards outstanding	31,816,772	33,268,089	32,205,418	33,201,859
Diluted:				
Weighted average shares of common stock and vested, undelivered restricted stock awards outstanding	31,816,772	33,268,089	32,205,418	33,201,859
Effect of potentially dilutive shares (1)	1,121,671	1,721,388	1,043,180	1,753,752

Total weighted average shares of common stock and vested, undelivered restricted stock awards outstanding and potentially dilutive shares	32,938,443	34,989,477	33,248,598	34,955,611
---	------------	------------	------------	------------

Net Income Per Share:

Basic net income per share	\$ 0.08	\$ 0.09	\$ 0.07	\$ 0.10
Diluted net income per share	\$ 0.07	\$ 0.08	\$ 0.07	\$ 0.09

- (1) In calculating diluted net income per share, 0.4 million shares related to outstanding stock options and unvested restricted stock awards were excluded for each of the three and six months ended June 30, 2016, and 0.5 million shares related to outstanding stock options and unvested restricted stock awards were excluded for each of the three and six months ended June 30, 2015, because including them would have been anti-dilutive.

Table of Contents**8. Term Loan Agreement and Credit Agreement**

On May 9, 2016, the Company entered into a Senior Secured Credit Facilities Credit Agreement for a term loan (the Term Loan Agreement). Under the Term Loan Agreement, the Company borrowed \$50 million in aggregate principal amount pursuant to a five-year term. The borrowings under the Term Loan Agreement are secured by a lien on substantially all of the assets of the Company, including a pledge of the stock of certain of its wholly-owned subsidiaries.

The borrowings under the Term Loan Agreement must be repaid quarterly in the following manner: 2.5% of the initial aggregate borrowings are due and payable each quarter for the first loan year and 5.0% of the initial aggregate borrowings are due and payable each quarter during each subsequent loan year. At maturity, all outstanding amounts under the Term Loan Agreement will be due and payable.

Installment payments on the principal by year and amounts included in the Company's Consolidated Balance Sheet as of June 30, 2016 related to the Term Loan Agreement are as follows:

Years Ending December 31:	
2016	\$ 1,250
2017	6,250
2018	10,000
2019	10,000
2020	10,000
2021	12,500
Total principal on term loan	50,000
Unamortized debt issuance costs	(354)
Carrying amount of term loan	49,646
Less: current portion of term loan, net of \$93 in unamortized debt issuance costs	(4,907)
Long-term portion of term loan, net of \$261 in unamortized debt issuance costs	\$ 44,739

Borrowings are subject to satisfaction of certain covenants, including leverage and fixed charge coverage ratio covenants. At June 30, 2016, the Company was in compliance with all covenants under the Term Loan Agreement.

At the Company's option, the Term Loan Agreement bears interest at either an annual rate of 1.50% plus the higher of (a) the Prime Rate in effect on such day and (b) the Federal Funds Effective Rate in effect for such day plus 0.50%, or the London Interbank Offered Rate (LIBOR) plus 2.50%. The applicable interest rate was 3.13% at June 30, 2016, representing LIBOR plus the applicable margin of 2.50%. Interest expense under the Term Loan Agreement was \$0.2 million for the three and six months ended June 30, 2016, which includes non-cash interest expense of \$13 related to the amortization of deferred issuance costs.

The borrowings under the Term Loan Agreement may be prepaid by the Company at its option without penalty and must be repaid upon the occurrence of certain events including certain events of default.

Edgar Filing: TechTarget Inc - Form 10-Q

The Company paid a one-time upfront administration and arrangement fee on the closing date. Thereafter, a non-refundable fee shall be due and payable on each anniversary of the effective date of the Term Loan Agreement. Total debt issuance costs paid in relation to the Term Loan Agreement was approximately \$0.4 million. The costs are recorded as a direct deduction from the carrying amount of the Term Loan and amortized as interest expense over the life of the Term Loan Agreement on a straight-line basis, which approximates the effective interest method.

The Company used a portion of the proceeds from the Term Loan Agreement to fund a tender offer (the Tender Offer) to purchase up to 8.0 million of its shares of common stock, which commenced on May 10, 2016 and was concluded on June 8, 2016 (see Note 11). The Company intends to use the remaining proceeds to fund stock repurchases pursuant to its Stock Repurchase Program (see Note 11), as well as for general corporate purposes.

Table of Contents

As of December 31, 2015, the Company had a \$5.0 million Revolving Credit Facility (the Credit Agreement), which was a discretionary \$5.0 million demand revolving line. There were no financial covenant requirements and no unused line fees under the Credit Agreement, and there were no outstanding balances under the Credit Agreement at December 31, 2015. The Credit Agreement was terminated concurrent with the establishment of the Term Loan Agreement.

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

The Company conducts its operations in leased office facilities under various noncancelable operating lease agreements that expire through March 2020. In August 2009, the Company entered into an agreement to lease approximately 87,875 square feet of office space in Newton, Massachusetts (the Newton Lease). The Newton Lease commenced in February 2010 and has a term of ten years. In November 2010, the Newton Lease was amended to include an additional 8,400 square feet of office space (the Amended Newton Lease). The Amended Newton Lease commenced in March 2011 and runs concurrently with the term of the Newton Lease. The Company is receiving certain rent concessions over the life of the Newton Lease as well as the Amended Newton Lease. In July 2015, the Newton Lease was again amended to include an additional 14,203 square feet of office space (the Second Amended Newton Lease). The Second Amended Newton Lease commenced in the first quarter of 2016 and runs concurrently with the term of the Newton Lease. There are no rent concessions related to the Second Amended Newton Lease, and all rent concessions which were part of the Newton Lease and Amended Newton Lease remain unchanged.

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

Future minimum lease payments under the Company's noncancelable operating leases at June 30, 2016 are as follows:

Years Ending December 31:	Minimum Lease Payments
2016 (July 1 st - December 31 st)	\$ 2,485
2017	4,451
2018	4,504
2019	4,492
2020	683
	\$ 16,615

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 had been classified by the MA DOR as a Massachusetts security corporation for the 2006 and 2007 tax years. Following subsequent correspondence with the MA DOR and a settlement conference on March 22, 2011, the Company received a Notice of Assessment from the MA DOR 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

would be treated as a Massachusetts business corporation for the applicable years, the Company recorded a liability representing its best estimate at that time of the potential net worth tax exposure. The tax benefits available to a Massachusetts security corporation are composed of (i) a different rate structure (1.32% on gross investment income vs. 9.5% on net income) (See Note 12) and (ii) exemption from the 0.26% excise tax on net worth. As of the date of the ruling, the Company had recorded a liability of approximately \$257 to account for the tax differential in all open years, including penalties and interest. On August 17, 2011, the Company filed Applications for Abatement with the MA DOR. In January 2012, the Company filed Petitions for Formal Procedure with the Massachusetts Appellate Tax Board (the ATB). A trial took place in April 2014, and in May 2015 the ATB ruled in favor of the MA DOR. During the second quarter of 2015, the Company accepted an amnesty offer from the MA DOR and paid all amounts due.

Table of Contents***Litigation***

From time to time and in the ordinary course of business, the Company may be subject to various claims, charges, and litigation. At June 30, 2016 and December 31, 2015, 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 provided for the issuance of shares of common stock incentives. The 1999 Plan provided for the granting of incentive stock options (ISOs), nonqualified stock options (NSOs), and stock grants. These incentives were offered to the Company's employees, officers, directors, consultants, and advisors. Each option is exercisable at such times and subject to such terms as determined by the Company's Board of Directors (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 of the Company and became effective upon the consummation of the Company's IPO in May 2007. Effective upon the consummation of the IPO, no further awards were made pursuant to the 1999 Plan, but any outstanding awards under the 1999 Plan remain in effect and 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 three to four year period. Stock options granted under the 2007 Plan expire no later than ten years after the grant date. Additionally, beginning with awards made in August 2015, the Company has the option to direct a net issuance of shares for satisfaction of tax liability with respect to vesting of awards and delivery of shares. Prior to August 2015, this choice of settlement method was solely at the discretion of the award recipient. The Company has reserved for issuance an aggregate of 2,911,667 shares of common stock under the 2007 Plan plus an additional annual increase to be added automatically on January 1 of each year, beginning on January 1, 2008, equal to the lesser of (a) 2% of the outstanding number of shares of common stock (on a fully-diluted basis) on the immediately preceding December 31 and (b) such lower number of shares as may be determined by the compensation committee of the Board of Directors of the Company. 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, 8,224,334 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 June 30, 2016, a total of 3,727,306 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 expected volatility of options granted has been determined using a weighted average of the historical volatility of the Company's stock 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 U.S. 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 in determining the expense recorded in each period.

Table of Contents

A summary of the stock option activity under the Company's stock option plans for the six months ended June 30, 2016 is presented below:

Year-to-Date Activity	Options Outstanding	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term in Years	Aggregate Intrinsic Value
Options outstanding at December 31, 2015	2,922,736	\$ 7.97		
Granted				
Exercised	(232,856)	7.36		\$ 1,099
Forfeited	(26,642)	7.36		
Cancelled	(952,860)	7.40		
Options outstanding at June 30, 2016	1,710,378	\$ 8.38	1.64	\$ 1,895
Options exercisable at June 30, 2016	1,710,378	\$ 8.38	1.64	\$ 1,895
Options vested or expected to vest at				
June 30, 2016	1,710,378	\$ 8.38	1.64	\$ 1,895

During the six months ended June 30, 2016, the total intrinsic value of options exercised (i.e. the difference between the market price at exercise and the price paid by the employee to exercise the options) was \$1.1 million, and the total amount of cash received from exercise of these options was \$1.1 million. During the six months ended June 30, 2015, the total intrinsic value of options exercised was \$1.4 million, and the total amount of cash received from exercise of these options was \$2.0 million.

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 six months ended June 30, 2016 is presented below:

Year-to-Date Activity	Shares	Weighted-Average Grant Date Fair Value Per Share	Aggregate Intrinsic Value
Nonvested outstanding at December 31, 2015	1,987,894	\$ 6.93	

Edgar Filing: TechTarget Inc - Form 10-Q

Granted				
Vested	(87,249)		6.48	
Forfeited	(159,125)		6.66	
Nonvested outstanding at June 30, 2016	1,741,520	\$	6.96	\$ 14,106

The total grant date fair value of restricted stock awards that vested during the six months ended June 30, 2016 and 2015 was \$1.3 million and \$2.6 million, respectively.

As of June 30, 2016, there was \$7.5 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 1.3 years.

Table of Contents**11. Stockholders Equity*****Tender Offer***

On May 10, 2016, the Company commenced a Tender Offer to purchase up to 8.0 million shares of its common stock, representing approximately 24.8% of the shares of TechTarget's common stock issued and outstanding at that time, at a price of \$7.75 per share.

The Tender Offer expired on June 8, 2016. In accordance with applicable SEC regulations and the terms of the tender offer and based on the final tabulation by Computershare Trust Company, N.A., the Depository for the Tender Offer, the Company accepted for purchase 5,237,843 shares of its common stock for a cost of \$7.75 per share, or a total cost of \$40.6 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 \$40.8 million, which includes approximately \$0.2 million in costs directly attributable to the purchase of shares pursuant to the Tender Offer.

Common Stock Repurchase Program

In June 2016, the Company announced that the Board had authorized a \$20 million stock repurchase program (the June 2016 Repurchase Program), whereby the Company was authorized to repurchase the Company's common stock from time to time on the open market or in privately negotiated transactions at prices and in the manner that may be determined by the Board. During the quarter ended June 30, 2016, the Company repurchased 48,097 shares of common stock for an aggregate purchase price of \$0.4 million pursuant to the June 2016 Repurchase Program.

In February 2016, the Company announced that the Board had authorized a \$20 million stock repurchase program (the February 2016 Repurchase Program), whereby the Company was authorized to repurchase the Company's common stock from time to time on the open market or in privately negotiated transactions at prices and in the manner that may be determined by the Board. The 2016 Repurchase plan was canceled on May 3, 2016 and replaced with the Tender Offer noted above. The Company did not repurchase any shares of common stock pursuant to the February 2016 Repurchase Program.

In August 2014, the Company announced that the Board had authorized a \$20 million stock repurchase program (the 2014 Repurchase Program), whereby the Company was authorized to repurchase the Company's common stock from time to time on the open market or in privately negotiated transactions. In May 2015, the Board amended the program to authorize an additional \$10 million to be used for such purchases. During the six months ended June 30, 2015, the Company repurchased 410,439 shares of common stock for \$3.8 million pursuant to the Repurchase Program. During the year ended December 31, 2015, the Company repurchased 1,671,687 shares of common stock for an aggregate purchase price of \$15 million pursuant to the 2014 Repurchase Program. The 2014 Repurchase Program expired on December 31, 2015.

Repurchased shares are recorded under the cost method and are reflected as treasury stock in the accompanying Consolidated Balance Sheets. All repurchased shares were funded with cash on hand or proceeds from the Term Loan Agreement (see Note 8).

Reserved Common Stock

As of June 30, 2016, the Company has reserved 7,504,205 shares of common stock for use in settling outstanding options and unvested restricted stock awards as well as for future awards under the 2007 Plan.

12. Income Taxes

The Company's effective income tax rate before discrete items was 39.9% and 40.9% for the six months ended June 30, 2016 and 2015, respectively. The lower rate in 2016 as compared to 2015 was primarily due to the impact of state income tax apportionment. The Company recognized income tax benefits for discrete items of \$0.1 million and \$0.4 million during the six months ended June 30, 2016 and 2015, respectively. Additionally, the Company recognized an adjustment to foreign tax expense in the amount of \$0.1 million during the six months ended June 30, 2016. The effective income tax rate is based upon the estimated annual effective tax rate

Table of Contents

in compliance with ASC 740 and other related guidance. The Company updates the estimate of its annual effective tax rate at the end of each quarterly period. The Company's estimate takes into account estimations of annual pre-tax income, the geographic mix of pre-tax income and its interpretations of tax laws. The Company's practice is to recognize interest and/or penalties related to income tax matters in income tax expense, which were not material for the six months ended June 30, 2016 and 2015.

In late March 2010, the Company received a letter from the MA DOR requesting documentation demonstrating that TSC, a wholly-owned subsidiary of the Company, had been classified by the MA DOR as a Massachusetts security corporation for the 2006 and 2007 tax years. Following 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 would be treated as a Massachusetts business corporation for the applicable years. The Company recorded a tax reserve of approximately \$0.4 million. The tax benefits available to a Massachusetts security corporation are composed 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 (see Note 9). On August 17, 2011, the Company filed Applications for Abatement with the MA DOR. In January 2012, the Company filed Petitions under Formal Procedure with the ATB. A trial took place in April 2014, and in May 2015 the ATB ruled in favor of the MA DOR. As of the date of the ruling, the Company had recorded a current liability of approximately \$677 to account for the tax differential in all open years, which included penalties and interest 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. During the second quarter of 2015, the Company accepted an amnesty offer from the MA DOR and paid all amounts due.

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:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
United States	\$ 21,523	\$ 22,296	\$ 40,424	\$ 40,180
International	7,651	7,461	13,781	\$ 13,235
Total	\$ 29,174	\$ 29,757	\$ 54,205	\$ 53,415

Based on current customer billing address; does not consider the geo-targeted (target audience) location of the campaign.

No single country outside of the U.S. accounted for 10% or more of revenue during any of these periods.

Long-lived assets by geographic area were as follows:

	June 30, 2016	December 31, 2015
United States	\$ 99,439	\$ 99,091
International	4,645	4,980
Total	\$ 104,084	\$ 104,071

Long-lived assets are comprised of property, plant and equipment, net; goodwill; and intangible assets, net.

Table of Contents

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and accompanying notes included elsewhere in this Quarterly Report on Form 10-Q. 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. Please refer to our Forward-Looking Statements section on page 40.

Overview

Background

We are a leading provider of specialized online content for buyers of corporate information technology (IT) products and services, and a leading provider of marketing services for the sellers of those solutions. Our offerings enable IT vendors to identify, reach and influence corporate IT decision makers who are actively researching specific IT purchases. We do this through customized marketing programs that include data analytics-driven intelligence solutions, demand generation and brand advertising.

IT professionals have become increasingly specialized, and rely on our network of over 140 websites, each of which focuses on a specific IT sector such as storage, security or networking, for key decision support information tailored to their specific areas of responsibility.

We enable 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. In addition to utilizing our independent content, registered members are able to conduct their pre-purchase research by accessing extensive vendor content 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 had approximately 17.5 million and 16.1 million registered members as of June 30, 2016 and 2015, respectively. The size of our registered user base does not provide direct insight into the number of our customers or our revenues but it does provide context as to the breadth and reach of our content footprint, which our customers leverage through customized marketing programs. 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. We have developed a broad customer base, and deliver advertising campaigns to approximately 1,400 customers.

Executive Summary

Our revenues for the three months ended June 30, 2016 declined approximately 2%, to \$29.2 million, when compared with the same period in 2015.

Online revenues were consistent with online revenues in the prior year period. Online international geo-targeted revenues, where our target audience is outside North America (International), declined 3% compared to the prior year, driven by a decrease in core-online sales, primarily from our largest customers, which was offset in part by IT Deal Alert growth. The weakness was distributed across Europe, Middle East and Africa (EMEA), Asia Pacific (APAC) and Latin America. Overall, IT Deal Alert sales grew 45% in the first half of 2016 as compared with the same period in 2015.

Gross margin was 74% for the three months ended June 30, 2016 and June 30, 2015. Online gross profit decreased by \$0.1 million, primarily attributable to the increase in online cost of sales related to new products, as compared to the same period a year ago. Events gross profit decreased by \$0.5 million, primarily as a result of the decreased events revenues as compared to the same period in the prior year.

Table of Contents**Business Trends**

The following discussion highlights key trends affecting our business.

Macro-economic Conditions and Industry Trends. Because most of our customers are IT vendors, the success of our business is intrinsically linked to the health, and subject to the market conditions, of the IT industry. In the three months ended June 30, 2016, we did not see any meaningful improvement in the IT market and many of our customers continue to be revenue-challenged. This fact, coupled with caution on the part of our largest clients because of foreign currency concerns, has continued to put pressure on marketing budgets. Our growth continues to be driven in large part by the return on the investments we made in our data analytics suite of products, IT Deal Alert, which continues to drive market share gains for us. While we will continue to invest in this growth area, management will continue to carefully control discretionary spending such as travel and entertainment, and the filling of new and replacement positions, in an effort to maintain profit margins and cash flow.

The announcement of the results of the United Kingdom (U.K.)'s referendum in which voters approved an exit of the U.K. from the European Union (E.U.), commonly referred to as Brexit , has resulted in significant general economic uncertainty as well as volatility in global stock markets and currency exchange rate fluctuations. The stock and currency market activity has resulted in the further strengthening of the U.S. dollar against certain foreign currencies. The announcement and impact of Brexit may create further global economic uncertainty, which may cause a subset of our customers to closely monitor their costs in the affected region. In addition, there could be further uncertainty as the U.K. determines the future terms of its relationship with the E.U. and its member states on a variety of levels. As a point of reference, for the twelve months ended December 31, 2015 and the six months ended June 30, 2016 our revenue denominated in Great British Pounds (GBP) was approximately 5% of our total revenues.

Customer Demographics. Due to the impact of the strong U.S. dollar on foreign currency, our large multi-national customers, who have a significant amount of their revenue outside the U.S., continue to be cautious. In the three months ended June 30, 2016, online revenues from our top 12 global customers, which have the most international exposure, decreased by approximately 8% compared to the same period a year ago. Online revenues from our mid-sized customers (our next largest 100 customers, who have less exposure internationally) increased by approximately 12% year over year. Revenues attributable to our smaller customers, which tend to be venture capital-backed start-ups that primarily operate in North America, decreased by approximately 5% over the prior year period. All three customer segments continued to report a challenging environment, and this translated into our customers remaining cautious with their marketing expenditures.

Our key strategic initiatives include:

Geographic During the three months ended June 30, 2016, approximately 32% of our online revenues were derived from International campaigns. International online revenues (which also includes IT Deal Alert revenues of \$1.4 million as discussed below) decreased by approximately 3% in the three months ended June 30, 2016 as compared to the same period a year ago. International marketing budgets continue to be challenged by the effects of the strong dollar and the uncertainty caused by Brexit. We intend to roll out Priority Engine in Europe in the third quarter of 2016 and in APAC by the end of the year.

Product IT Deal Alert revenues were approximately \$8.4 million in the three months ended June 30, 2016, up from approximately \$5.8 million in the same period in 2015. This includes International IT Deal Alert revenues of \$1.4 million, which is also included in International revenues as discussed above. In the second quarter of 2016, we had more than 350 active customers utilizing our IT Deal Alert products and services; this is up from 277 customers in the first quarter of 2016 and 260 in the second quarter of 2015. We expect IT Deal Alert to continue to be a meaningful growth driver through 2016.

Table of Contents**Sources of Revenues**

Revenue changes for the three and six month periods ended June 30, 2016 as compared to the same periods in 2015 were as follows:

	Three months ended			Six months ended		
	June 30, 2016	2015	Change	June 30, 2016	2015	Change
	(\$ in thousands)			(\$ in thousands)		
Total Online	\$ 27,726	\$ 27,736	0%	\$ 51,995	\$ 50,784	2%
Total Online by Geo-targeted Area:						
North America:						
North America Core Online	11,778	13,982	-16%	23,039	25,562	-10%
North America IT Deal Alert	7,041	4,552	55%	12,734	9,075	40%
Total North America Online	18,819	18,534	2%	35,773	34,637	3%
International:						
International Core Online	7,556	7,981	-5%	13,753	14,358	-4%
International IT Deal Alert	1,351	1,221	11%	2,469	1,789	38%
Total International Online	8,907	9,202	-3%	16,222	16,147	0%
Total Online by Product:						
Core Online:						
North America Core Online	11,778	13,982	-16%	23,039	25,562	-10%
International Core Online	7,556	7,981	-5%	13,753	14,358	-4%
Total Core Online	19,334	21,963	-12%	36,792	39,920	-8%
IT Deal Alert:						
North America IT Deal Alert	7,041	4,552	55%	12,734	9,075	40%
International IT Deal Alert	1,351	1,221	11%	2,469	1,789	38%
Total IT Deal Alert	8,392	5,773	45%	15,203	10,864	40%
Total Events	\$ 1,448	\$ 2,021	-28%	\$ 2,210	\$ 2,631	-16%
Total Revenues	\$ 29,174	\$ 29,757	-2%	\$ 54,205	\$ 53,415	1%

We sell customized marketing 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 their customers' IT sales cycles. As a result, our customers often run multiple advertising programs with us in order to target their desired audience of IT professionals more effectively. There are multiple factors that can impact our customers' advertising objectives and spending with us, including but not limited to, IT 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 products and services are generally delivered under short-term contracts that run for the

length of a given advertising program, typically less than six months. In the three months ended June 30, 2016, demand generation and brand advertising remained our primary sources of revenue, while data analytics-driven intelligence solutions, driven by growth in our IT Deal Alert products and services, contributed approximately 30% of online revenue as compared with approximately 21% for the same period in 2015.

The majority of our revenues are derived from the delivery of our online offerings. Online revenues represented 95% and 93% of total revenues for the three months ended June 30, 2016 and 2015, respectively, and 96% and 95% of total revenues for the six months ended June 30, 2016 and 2015, respectively.

Table of Contents

We use online and a select number of face-to-face event offerings to provide IT vendors with numerous touch points to identify, reach and influence key IT decision makers. The following is a description of the products and services we offer:

Online Offerings

IT Deal Alert. IT Deal Alert is a suite of products and services for IT vendors that leverages the detailed purchase intent data that we collect about end-user IT organizations. Through proprietary scoring methodologies, we use this data to help our customers identify and prioritize accounts whose content consumption around specific IT topics indicates that they are in-market for a particular product or service. We also use the data directly to identify and further profile accounts' upcoming purchase plans.

IT Deal Alert: Qualified Sales Opportunities . Qualified Sales Opportunities is a product that profiles specific in-progress purchase projects, including information on scope and purchase considerations, in over 100 technology-specific segments.

IT Deal Alert: Priority Engine . Priority Engine is a subscription service powered by our Activity Intelligence platform, which integrates with salesforce.com. The service delivers information to allow marketers and sales personnel to identify accounts actively researching new technology purchases, and to reach active prospects within those organizations that are relevant to the purchase. We sell this service in approximately 300 technology-specific segments.

IT Deal Alert: Deal Data . Deal Data is a customized solution aimed at sales intelligence and data scientist functions within our customers that makes our Activity Intelligence data directly consumable by the customer's internal applications.

IT Deal Alert: TechTarget Research . TechTarget Research is a newly launched subscription product that sources proprietary information about purchase transactions from IT professionals who are making and have recently completed these purchases. The offering provides data on market trends, pricing dynamics and vendor win/loss and displacement trends.

Core Online. Our core online offerings enable our customers to reach and influence prospective buyers through content marketing programs designed to generate demand for their solutions, and through display advertising and other brand programs that influence consideration by prospective buyers.

Demand Solutions. Our suite of demand solutions offerings allows IT vendors to maximize ROI by capturing qualified sales leads from the distribution and promotion of content to our audience of IT professionals. All of our demand solutions campaigns offer the Activity Intelligence Dashboard, a technology platform that gives our customers' marketers and sales representatives a real-time view of their prospects, which includes insights on the research activities of technology buying teams, including at an account level. Demand solutions offerings may also include an additional service, TechTarget Re-Engage , 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 demand solutions offerings may also include the following program components:

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. In a program that includes demand solutions, 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.

Table of Contents

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

Content Sponsorships. IT vendors, or groups of vendors, pay us to sponsor independent editorially created content vehicles on specific technology topics where the registrant information is then provided to all participating sponsors. 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, our customers get the benefit of association with independently created content as well as access to qualified sales leads that are researching the topic.

Brand Solutions. Our suite of brand solutions offerings provides IT vendors exposure to targeted audiences of IT professionals actively researching information related to their products and services. We leverage our Activity Intelligence product framework to allow for significant segmentation and targeting of audiences that are accessed through these programs. Components of brand programs may include:

On-Network Branding. These offerings enable our customers to influence prospective buyers through display advertising purchased on the websites we operate. Programs may include specific sites, or audience segments across our sites.

Off-Network Branding. Our Off-Network offerings allow our customers to influence prospective buyers through display advertising when they are visiting other websites on the Internet. We identify audience segments that can be targeted based on their activity and demonstrated interests against our content and websites, and offer an array of audience extension and retargeting solutions that leverage Activity Intelligence.

Microsites. We have a range of solutions that create stand-alone websites for IT vendors, or embedded websites that exist within the context of our existing websites, to enable a more immersive experience for IT professionals with the content and brand messaging of the vendor.

Custom Content Creation. We will sometimes create white papers, case studies, webcasts or videos to our customers specifications through our Custom Content team. These customized content assets are then promoted to our audience within a demand solutions program.

Events

Events revenues represented 5% and 7% of total revenues for the three months ended June 30, 2016 and 2015, respectively, and 4% and 5% of total revenues for the six months ended June 30, 2016 and 2015, respectively. We operate a select number of face-to-face events, the majority of which are free to IT professionals and are sponsored by IT vendors. Attendees are pre-screened based on event-specific criteria such as sector-specific budget size, company size, or job title. We offer three types of events: multi-day conferences, single-day seminars and custom events. Multi-day conferences provide independent content provided by our professionals to 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 provided by our professionals 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 online and event revenues, selling and marketing, product development, general and administrative, depreciation, amortization and interest and other (expense) income net. Personnel-related costs are a significant component of each of these expense categories except for depreciation, amortization and interest and other (expense) income, net.

Table of Contents

Cost of Online Revenues. Cost of online revenues consist 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 other offerings; stock-based compensation expenses; facility expenses and other related overhead.

Cost of Events Revenues. Cost of events revenues consist primarily of: direct expenses, including site, food and beverages for the event attendees and event speaker expenses; salaries and related personnel costs; travel-related expenses; facilities expenses and other related overhead.

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

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

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

Depreciation. Depreciation expense consists of the depreciation of our property and equipment and other capitalized assets. Depreciation 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 three to ten years, using methods that are expected to reflect the estimated pattern of economic use.

Interest and Other (Expense) Income, Net. Interest (expense) income, net consists primarily of cash interest costs and the related amortization of deferred issuance costs on amounts borrowed under our Term Loan Agreement and amortization of premiums on our investments, less any interest income earned on cash, cash equivalents and short-term and long-term investments. We historically have invested our cash in money market accounts, municipal bonds, government agency bonds and corporate bonds. Other (expense) income, net consists of non-operating gains or losses, primarily related to foreign currency exchange.

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 U.S. The preparation of these consolidated 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, allowance for doubtful accounts, stock-based compensation, contingent liabilities, 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 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 revenues from the sale of targeted advertising campaigns, which we deliver via our network of websites, data analytics solutions, and events. In all cases, we recognize revenue only when the price is fixed or determinable, persuasive evidence of an arrangement exists, the service is performed and collectability of the resulting receivable is reasonably assured.

Although each of our online media offerings can be sold separately, most of our online media sales involve multiple online offerings. Because objective evidence of fair value does not exist for all elements in our bundled 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 Offerings

IT Deal Alert. IT Deal Alert is a suite of products and services for IT vendors which includes Qualified Sales Opportunities, Priority Engine, Deal Data and TechTarget Research. Qualified Sales Opportunities revenue is recognized when the Qualified Sales Opportunity is delivered to the customer, Priority Engine revenue is recognized ratably over the duration of the service, Deal Data revenue is recognized upon delivery of the data to the customer and Research revenue is recognized when the product is delivered.

Core Online. Our core online offerings enable our customers to reach and influence prospective buyers through content marketing programs designed to generate demand for their solutions, and through display advertising and other brand programs that influence consideration by prospective buyers.

Demand Solutions. As part of our demand solutions campaign offerings, we may guarantee a minimum number of qualified leads to be delivered over the course of the campaign. We determine the content necessary to achieve performance guarantees. Scheduled end dates of 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 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. We recognize revenue from cost per lead advertising during the period in which leads are delivered to our customers and from duration-based

campaigns over the duration of the campaign, which is typically less than six months.

Brand Solutions. Brand solutions consist mostly of banner revenue, which is recognized in the period in which the banner impressions, engagements or clicks occur and microsite revenue, which is recognized over the period during which the microsites are live.

Table of Contents

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

Events

We recognize 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 three to ten years, using methods of amortization that are expected to reflect the estimated pattern of economic use. Consistent with our determination that we have only one reporting segment, we have determined that there is only one reporting unit and test goodwill for impairment at the entity level. 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 using the two step process required by Accounting Standards Codification (ASC) 350, *Intangibles – Goodwill and Other* (ASC 350). The first step of the impairment test is to identify potential impairment by comparing the reporting unit's fair value with its net book value (or carrying amount), including goodwill. The fair value is estimated based on a market value approach. If the fair value of the reporting unit exceeds its carrying amount, the reporting unit's goodwill is not considered to be impaired and the second step of the impairment test is not performed. Whenever indicators of impairment are present, we would perform the second step and compare the implied fair value of the reporting unit's goodwill, as defined by ASC 350, to its carrying value to determine the amount of the impairment loss, if any. As of December 31, 2015, the date of our last goodwill impairment review, there were no indications of impairment based on our step one analysis, and our estimated fair value exceeded our carrying value by a significant margin. There was no indication of impairment in our goodwill or intangible assets at June 30, 2016.

Fair Value of Financial Instruments

Financial instruments consist of cash and cash equivalents, short-term and long-term investments, accounts receivable, accounts payable, contingent consideration and long-term debt. Due to their short-term nature and liquidity, the carrying value of these instruments with the exception of contingent consideration and long-term debt approximates their estimated fair values. The fair value of contingent consideration was estimated using a discounted cash flow method. Amounts outstanding under our long-term debt are subject to variable rates of interest based on current market rates, and as such, we believe the carrying amount of these obligations approximates fair value.

Allowance for Doubtful Accounts

We offset gross trade accounts receivable with an allowance for doubtful accounts. The allowance for doubtful accounts is our best estimate of the amount of probable credit losses in our existing accounts receivable. We review our allowance for doubtful accounts on a regular basis, and all past due balances are reviewed individually for

collectability. Account balances are charged against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Provisions for 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.

Table of Contents

The allowance for doubtful accounts was \$1.9 million at June 30, 2016 and \$1.7 million at December 31, 2015.

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. We use the Black-Scholes option pricing model to determine the fair value of stock option awards.

The expected volatility of options granted was determined using a weighted average of the historical volatility of our stock for a period equal to the expected life of the option. The risk-free interest rate is based on a zero coupon U.S. 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 in determining the expense recorded in each period.

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 \$0.8 million and \$0.7 million for the three months ended June 30, 2016 and 2015, respectively, and \$1.5 million for each of the six months ended June 30, 2016 and 2015.

Income Taxes

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

Our deferred tax assets are comprised primarily of book to tax differences on stock-based compensation and timing of deductions for deferred rent, accrued expenses, depreciation and amortization. As of June 30, 2016, we had a California net operating loss (NOL) carryforward acquired from Bitpipe of approximately \$0.2 million which expires in 2018. We also had foreign NOL carryforwards of \$1.4 million, which may be used to offset future taxable income in foreign jurisdictions until they expire, through 2020. The deferred tax assets related to the California and foreign NOL carryforwards have been fully offset by a valuation allowance.

Table of Contents**Net Income 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 outstanding during the period. 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 outstanding during the period, plus the dilutive effect of potential future issuances of common stock relating to stock option and restricted stock award programs 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 and restricted stock awards.

Results of Operations

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2016		2015		2016		2015	
	(\$ in thousands)							
Revenues:								
Online	\$ 27,726	95%	\$ 27,736	93%	\$ 51,995	96%	\$ 50,784	95%
Events	1,448	5	2,021	7	2,210	4	2,631	5
Total revenues	29,174	100	29,757	100	54,205	100	53,415	100
Cost of revenues:								
Online	6,813	23	6,719	23	13,471	25	13,248	25
Events	791	3	877	3	1,326	2	1,332	2
Total cost of revenues	7,604	26	7,596	26	14,797	27	14,580	27
Gross profit	21,570	74	22,161	74	39,408	73	38,835	73
Operating expenses:								
Selling and marketing	11,028	38	10,958	37	22,088	41	21,299	40
Product development	1,945	7	2,032	7	3,953	7	3,808	7
General and administrative	3,044	10	3,591	12	6,254	11	6,611	12
Depreciation	1,016	3	1,016	3	2,036	4	2,024	4
Amortization of intangible assets	233	1	344	1	535	1	717	1
Total operating expenses	17,266	59	17,941	60	34,866	64	34,459	65

Edgar Filing: TechTarget Inc - Form 10-Q

Operating income	4,304	15	4,220	14	4,542	8	4,376	8
Interest and other (expense) income, net	(508)	(2)	250	1	(566)	(1)	87	*
Income before provision for income taxes	3,796	13	4,470	15	3,976	7	4,463	8
Provision for income taxes	1,397	5	1,641	6	1,625	3	1,287	2
Net income	\$ 2,399	8%	\$ 2,829	10%	\$ 2,351	4%	\$ 3,176	6%

* Not meaningful

Table of Contents**Comparison of Three Months Ended June 30, 2016 and 2015****Revenues**

	Three Months Ended June 30,			
	2016	2015	Increase (Decrease)	Percent Change
	(\$ in thousands)			
Revenues:				
Online	\$ 27,726	\$ 27,736	\$ (10)	%
Events	1,448	2,021	(573)	(28)
Total revenues	\$ 29,174	\$ 29,757	\$ (583)	(2)%

Online. Online revenues for the quarter were flat as compared to the same quarter in the prior year. IT Deal Alert offerings increased by \$2.6 million, with offsetting reductions in demand solution and branding offerings.

Events. The decrease in events revenues was primarily due to a decrease in the number of custom events and seminars that we conducted as compared to the same period in the prior year.

Cost of Revenues and Gross Profit

	Three Months Ended June 30,			
	2016	2015	Increase (Decrease)	Percent Change
	(\$ in thousands)			
Cost of revenues:				
Online	\$ 6,813	\$ 6,719	\$ 94	1%
Events	791	877	(86)	(10)
Total cost of revenues	\$ 7,604	\$ 7,596	\$ 8	%
Gross profit	\$ 21,570	\$ 22,161	\$ (591)	(3)%

Gross profit percentage 74% 74%

Cost of Online Revenues. The increase in cost of online revenues was primarily attributable to costs related to new product offerings.

Cost of Events Revenues. The decrease in cost of events revenues was primarily due to decreases in variable direct and employee-related costs as a result of the decrease in the number of events that we conducted as compared to the prior year period.

Gross Profit. Our gross profit is equal to the difference between our revenues and our cost of revenues for the period. Gross profit percentage was 74% in the second quarter of both 2016 and 2015. Online gross profit decreased by \$0.1

million, primarily attributable to the increase in online cost of sales related to new products, as compared to the same period a year ago. Events gross profit decreased by \$0.5 million, primarily as a result of the lower events revenues as compared to the same period in the prior year. 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 and product mix.

Table of Contents**Operating Expenses and Other**

	Three Months Ended June 30,			
	2016	2015	Increase (Decrease)	Percent Change
	(\$ in thousands)			
Operating expenses:				
Selling and marketing	\$ 11,028	\$ 10,958	\$ 70	1%
Product development	1,945	2,032	(87)	(4)
General and administrative	3,044	3,591	(547)	(15)
Depreciation	1,016	1,016		
Amortization of intangible assets	233	344	(111)	(32)
Total operating expenses	\$ 17,266	\$ 17,941	\$ (675)	(4)%
Interest and other (expense) income, net	\$ (508)	\$ 250	\$ (758)	(303)%
Provision for income taxes	\$ 1,397	\$ 1,641	\$ (244)	(15)%

Selling and Marketing. Selling and marketing expenses increased slightly for the three months ended June 30, 2016 as compared to the three months ended June 30, 2015 primarily due to increased investment in product innovation, variable compensation-related expenses and stock-based compensation.

Product Development. The decrease in product development expense was primarily caused by an increase in the amount of internal development software costs that were capitalized year over year.

General and Administrative. The decrease in general and administrative expense for the three months ended June 30, 2016 was primarily caused by decreases in corporate taxes, stock-based compensation and other incentive compensation related to our results, and the amortization of a purchase price variance from contingent consideration related to LeMagIT.

Depreciation and Amortization of Intangible Assets. Depreciation expense was flat year over year. The decrease in amortization of intangible assets expense was attributable to certain intangible assets becoming fully amortized during 2015 and the first half of 2016.

Interest and Other (Expense) Income, Net. Interest and other (expense) income, net in the three months ended June 30, 2016 and 2015 was comprised of \$0.2 million of interest expense and \$0.3 million of other expense and \$12,000 of interest income and \$0.2 million of other income, respectively. Interest expense, net increased to \$0.2 million in the second quarter of 2016 as compared to \$12,000 of interest income in the second quarter of 2015, due primarily to interest expense and debt issuance cost amortization on the term loan that we entered into during the second quarter of 2016. Other expense in the second quarter of 2016 was \$0.3 million compared to \$0.2 million in other income in the second quarter of 2015. The increase in other expense, net, was due to an increase in foreign currency-related charges due to changes in exchange rates in countries where we record accounts receivable and accounts payable in the normal course of business.

Provision for Income Taxes. Our effective income tax rate before discrete items was 39.8% and 40.9% for the three months ended June 30, 2016 and 2015, respectively. The lower rate in 2016 as compared to 2015 was primarily due to the impact of state income tax apportionment. We recognized income tax benefits for discrete items of \$0.1 million during the three months ended June 30, 2016 and for an immaterial amount during the three months ended June 30, 2015. Additionally, we recognized a benefit to foreign tax expense in the amount of \$52,000 during the three months ended June 30, 2016. Our effective income tax rate is based upon the estimated annual effective tax rate in compliance with ASC 740, *Accounting for Uncertainty in Income Taxes* (ASC 740), and other related guidance. We update the estimate of our annual effective tax rate at the end of each quarterly period. Our estimate takes into account estimations of annual pre-tax income, the geographic mix of pre-tax income and interpretations of tax laws.

Table of Contents**Comparison of Six Months Ended June 30, 2016 and 2015****Revenues**

	Six Months Ended June 30,			Percent Change
	2016	2015	Increase (Decrease) (\$ in thousands)	
Revenues:				
Online	\$ 51,995	\$ 50,784	\$ 1,211	2%
Events	2,210	2,631	(421)	(16)
Total revenues	\$ 54,205	\$ 53,415	\$ 790	1%

Online. Online revenues for the first half of the year increased \$1.2 million as compared to the same period in the prior year. This growth was driven by a \$4.3 million increase in IT Deal Alert offerings, offset by a \$3.1 million reduction in demand solution and branding offerings.

Events. The decrease in events revenues was primarily due to a decrease in the number of seminars that we conducted as compared to the same period in the prior year.

Cost of Revenues and Gross Profit

	Six Months Ended June 30,			Percent Change
	2016	2015	Increase (Decrease) (\$ in thousands)	
Cost of revenues:				
Online	\$ 13,471	\$ 13,248	\$ 223	2%
Events	1,326	1,332	(6)	
Total cost of revenues	\$ 14,797	\$ 14,580	\$ 217	2%
Gross profit	\$ 39,408	\$ 38,835	\$ 573	1%

Gross profit percentage 73% 73%

Cost of Online Revenues. The increase in cost of online revenues was primarily attributable to costs related to new product offerings.

Cost of Events Revenues. Cost of events revenues was flat year over year.

Gross Profit. Our gross profit is equal to the difference between our revenues and our cost of revenues for the period. Gross profit percentage was 73% for both the first half of 2016 and the first half of 2015. Online gross profit increased by \$1.0 million, primarily attributable to the increase in online revenues, as compared to the same period a year

ago. Events gross profit decreased by \$0.4 million, primarily as a result of the lower events revenues as compared to the same period in the prior year. 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 and product mix.

Table of Contents**Operating Expenses and Other**

	Six Months Ended June 30,			Percent Change
	2016	2015	Increase (Decrease)	
	(\$ in thousands)			
Operating expenses:				
Selling and marketing	\$ 22,088	\$ 21,299	\$ 789	4%
Product development	3,953	3,808	145	4
General and administrative	6,254	6,611	(357)	(5)
Depreciation	2,036	2,024	12	1
Amortization of intangible assets	535	717	(182)	(25)
Total operating expenses	\$ 34,866	\$ 34,459	\$ 407	1%
Interest and other (expense) income, net	\$ (566)	\$ 87	\$ (653)	(751)%
Provision for income taxes	\$ 1,625	\$ 1,287	\$ 338	26%

Selling and Marketing. Selling and marketing expenses increased for the six months ended June 30, 2016 as compared to the six months ended June 30, 2015 primarily due to increased investment in product innovation, increased costs due to international expansion, variable compensation-related expenses caused by the increase in revenues and stock-based compensation.

Product Development. The increase in product development expense was primarily caused by development efforts towards new products.

General and Administrative. The decrease in general and administrative expense for the six months ended June 30, 2016 was primarily caused by decreases in stock-based compensation, corporate taxes and the amortization of a purchase price variance from contingent consideration related to LeMagIT, offset in part by an increase in legal fees.

Depreciation and Amortization of Intangible Assets. Depreciation expense was relatively flat year over year. The decrease in amortization of intangible assets expense was primarily attributable to certain intangible assets becoming fully amortized during 2015 and the first half of 2016.

Interest and Other (Expense) Income, Net. Interest and other (expense) income, net in the six months ended June 30, 2016 and 2015 was comprised of \$0.2 million of interest expense and \$0.4 million of other expense and \$21,000 of interest income and \$0.1 million of other income, respectively. Interest expense, net increased to \$0.2 million in the first half of 2016 as compared to \$21,000 of interest income in the first half of 2015 due primarily to interest expense and debt issuance cost amortization on the term loan that we entered into during the second quarter of 2016. Other expense in the first half of 2016 was \$0.4 million compared to \$0.1 million in other income in the first half of 2015. The increase in other expense, net, was due to an increase in foreign currency-related charges due to changes in exchange rates in countries where we record accounts receivable and accounts payable in the normal course of business.

Provision for Income Taxes. Our effective income tax rate before discrete items was 39.9% and 40.9% for the six months ended June 30, 2016 and 2015, respectively. The lower rate in 2016 as compared to 2015 was primarily due to the impact of state income tax apportionment. We recognized income tax benefits for discrete items of \$0.1 million and \$0.4 million during the six months ended June 30, 2016 and 2015, respectively. Additionally, we recognized an adjustment to foreign tax expense in the amount of \$0.1 million during the six months ended June 30, 2016. Our effective income tax rate is based upon the estimated annual effective tax rate in compliance with ASC 740 and other related guidance. We update the estimate of our annual effective tax rate at the end of each quarterly period. Our estimate takes into account estimations of annual pre-tax income, the geographic mix of pre-tax income and interpretations of tax laws.

Table of Contents***Seasonality***

The timing of our revenues is affected by seasonal factors. Our revenues are seasonal primarily as a result of the annual budget approval process of many of our customers, the normal timing at which our customers introduce new products, and the historical decrease in advertising and events activity in summer months. Events revenues also 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 do not vary directly with revenues, has an impact on the cost of online revenues, selling and marketing, product development, and general and administrative expenses as a percentage of revenues in each calendar quarter during the year.

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

Liquidity and Capital Resources***Resources***

At June 30, 2016, our cash, cash equivalents and investments totaled \$48.5 million, a \$13.6 million increase over the prior quarter. We believe that our existing cash, cash equivalents, and investments as well as our cash flow from operating activities will be sufficient to meet our anticipated cash needs for at least the next 12 months. Our future working capital requirements will depend on many factors, including the operations of our existing business, our potential strategic expansion internationally, future acquisitions we might undertake, and the expansion into complementary businesses. To the extent that our cash and cash equivalents, investments and cash flow from operating activities are insufficient to fund our future activities, we may need to raise additional funds through bank credit arrangements or public or private equity or debt financings. We also may need to raise additional funds in the event we determine in the future to effect one or more additional acquisitions of businesses.

	June 30, 2016	December 31, 2015
	(in thousands)	
Cash, cash equivalents and investments	\$ 48,467	\$ 34,691
Accounts receivable, net	\$ 30,029	\$ 26,549

Cash, Cash Equivalents and Investments

Our cash, cash equivalents and investments at June 30, 2016 were held to support our operating and financing needs and were invested primarily in money market accounts, municipal bonds and government agency bonds and, to a lesser extent, corporate 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 quarter end divided by total revenues for the applicable period, multiplied by the number of days in the applicable period. DSO was 94 days for the three months ended June 30, 2016 and 83 days at December 31, 2015. The increase in DSO was primarily due to the timing of payments from customers. We typically see an increase in DSO from December 31 to June 30 due to the reduction of revenue and historically strong collections in the fourth quarter.

Table of Contents**Cash Flows**

	Six Months Ended June 30, 2016 2015 (in thousands)	
Net cash provided by operating activities	\$ 8,236	\$ 972
Net cash used in investing activities	\$ (2,648)	\$ (1,229)
Net cash provided by financing activities	\$ 8,127	\$ 170

Operating Activities

Cash provided by operating activities primarily consists of net income adjusted for certain non-cash items including; depreciation and amortization, the provision for bad debt, stock-based compensation, deferred income taxes, and the effect of changes in working capital and other activities. Cash provided by operating activities for the six months ended June 30, 2016 was \$8.2 million, compared to \$1.0 million for the six months ended June 30, 2015.

The increase in cash provided by operating activities was primarily a result of changes in operating assets and liabilities of \$0.2 million compared to \$(6.1) million in the first half of 2016 and 2015, respectively. The impact from changes in operating assets and liabilities was accompanied by an increase in net income adjusted for non-cash items to \$8.1 million in the first half of 2016 from \$7.1 million in the first half of 2015. Significant components of the changes in assets and liabilities in the first six months of 2016 included a \$3.6 million increase in deferred revenue; an increase in income taxes payable of \$1.3 million; and an increase in other liabilities of \$0.1 million. These changes were offset in part by an increase in accounts receivable of \$3.9 million; a decrease in accrued expenses of \$0.6 million; and an increase in prepaids and other current assets of \$0.5 million. Additionally, tax benefits relating to excess stock-based compensation deductions are presented as financing cash flows. Cash flows from tax benefits related to stock-based compensation deductions were \$(0.2) million and \$(2.0) million in the first half of 2016 and 2015, respectively.

Investing Activities

Cash used in investing activities in the six months ended June 30, 2016 was \$2.6 million and was related to the purchase of property and equipment, made up primarily of website development costs, computer equipment and related software and internal-use development costs. Cash used in investing activities in the six months ended June 30, 2015 was \$1.2 million; \$1.9 million relates to the purchase of property and equipment, made up primarily of website development costs, computer equipment and related software and internal-use development costs, offset in part by \$0.7 million related to the conversion of long-term investments into cash equivalents.

Capital Expenditures

We have made capital expenditures primarily for computer equipment and related software needed to host our websites, internal-use software development costs, as well as for leasehold improvements and other general purposes to support our growth. Our capital expenditures totaled \$2.6 million and \$1.9 million for the six month periods ended June 30, 2016 and 2015, respectively. A majority of our capital expenditures in the first half of 2016 were internal-use

development costs and, to a lesser extent, office equipment and leasehold improvements related to our new office space as well as computer equipment and related software. We are not currently party to any purchase contracts related to future capital expenditures.

Financing Activities

In the first half of 2016, we received \$50.0 million in proceeds related to a term loan entered into during the second quarter. We used \$40.8 million of these proceeds, including \$0.2 million in related fees, to purchase shares through a tender offer that commenced in May. During the first half of the year, we also used \$1.1 million for tax withholdings related to net share settlements, \$0.5 million

Table of Contents

for an earnout payment, \$0.4 million for the repurchase of shares under our stock repurchase program and \$0.4 million in debt issuance costs. We received proceeds from the exercise of stock options in the amount of \$1.1 million in the first half of 2016, as compared to \$2.0 million in the six months ended June 30, 2015. Additionally, cash flow from tax benefits related to stock-based compensation deductions was \$0.2 million in the first half of 2016. In the first half of 2015, tax benefits related to stock-based compensation deductions amounted to \$2.0 million, which were offset by \$3.8 million used for the repurchase of shares under our stock repurchase program during that period.

Common Stock Repurchase Programs

In June 2016, we announced that our Board had authorized a \$20 million stock repurchase program (the June 2016 Repurchase Program), whereby we are authorized to repurchase our common stock from time to time on the open market or in privately negotiated transactions at prices and in the manner that may be determined by our Board. During the quarter ended June 30, 2016, we repurchased 48,097 shares of common stock for an aggregate purchase price of \$0.4 million pursuant to the June 2016 Repurchase Program.

In February 2016, we announced that our Board had authorized a \$20 million stock repurchase program (the February 2016 Repurchase Program), whereby we are authorized to repurchase our common stock from time to time on the open market or in privately negotiated transactions at prices and in the manner that may be determined by our Board. During the three months ended June 30, 2016, we did not repurchase any shares of common stock pursuant to the February 2016 Repurchase Program. This program was terminated concurrently with the approval of a Tender Offer in May 2016 (see Note 11 to our Consolidated Financial Statements).

In August 2014, we announced that our Board had authorized a \$20 million stock repurchase program (the 2014 Repurchase Program), whereby we were authorized to repurchase our common stock from time to time on the open market or in privately negotiated transactions. In May 2015, our Board amended the program to authorize an additional \$10 million to be used for such purchases. During the six months ended June 30, 2015, we repurchased 410,439 shares of common stock for \$3.8 million pursuant to the 2014 Repurchase Program. During the year ended December 31, 2015, we repurchased 1,671,687 shares of common stock for an aggregate purchase price of \$15 million pursuant to the 2014 Repurchase Program. The 2014 Repurchase Program expired on December 31, 2015.

Repurchased shares are recorded under the cost method and are reflected as treasury stock in the accompanying Consolidated Balance Sheets. All repurchased shares were funded with cash on hand as well as proceeds from a term loan entered into this quarter (see Note 8 to our Consolidated Financial Statements).

Tender Offer

On May 10, 2016, we commenced a tender offer to purchase up to 8.0 million shares of our common stock at a price of \$7.75 per share.

The tender offer expired on June 8, 2016. In accordance with applicable SEC regulations and the terms of the tender offer, we accepted for purchase 5,237,843 shares of our common stock for a total cost of \$40.8 million, which includes approximately \$0.2 million in costs directly attributable to the purchase.

Term Loan and Credit Agreement Borrowings

On May 9, 2016, we entered into a Senior Secured Credit Facilities Credit Agreement for a term loan (the Term Loan Agreement). Under the Term Loan Agreement, we borrowed \$50 million in aggregate principal amount pursuant to a five-year term loan. The borrowings under the Term Loan Agreement are secured by a lien on substantially all of our

assets, including a pledge of the stock of certain of our wholly-owned subsidiaries.

The borrowings under the Term Loan Agreement must be repaid quarterly in the following manner: 2.5% of the initial aggregate borrowings are due and payable each quarter for the first loan year and 5.0% of the initial aggregate borrowings are due and payable each quarter during each subsequent loan year. At maturity, all outstanding amounts under the Term Loan Agreement will be due and payable. See Note 8 to our Consolidated Financial Statements for a schedule of the timing of our installment payment commitments on this debt.

Table of Contents

Borrowings are subject to satisfaction of certain covenants, including leverage and fixed charge coverage ratio covenants. At June 30, 2016, we were in compliance with all covenants under the Term Loan Agreement.

At our option, the Term Loan Agreement bears interest at either an annual rate of 1.50% plus the higher of (a) the Prime Rate in effect on such day and (b) the Federal Funds Effective Rate in effect for such day plus 0.50%, or the London Interbank Offered Rate (LIBOR) plus 2.50%. As of June 30, 2016, the applicable rate was 3.13%, representing LIBOR plus the applicable margin of 2.50%. Interest expense under the Term Loan Agreement was \$0.2 million for the three and six months ended June 30, 2016, which includes non-cash interest expense of \$13,000 related to the amortization of the deferred issuance costs.

The borrowings under the Term Loan Agreement may be prepaid at our option without penalty and must be repaid upon the occurrence of certain events including certain events of default.

We were required to pay a one-time upfront administration and arrangement fee on the closing date. Thereafter, a non-refundable fee shall be due and payable on each anniversary of the effective date of the Term Loan Agreement. Total debt issuance costs paid in relation to the Term Loan Agreement was approximately \$0.4 million. The costs are recorded as a direct deduction from the carrying amount of the Term Loan and amortized as interest expense over the life of the Term Loan Agreement.

We used the proceeds from the Term Loan Agreement to fund stock repurchases pursuant to a Tender Offer, which commenced on May 10, 2016 and expired on June 8, 2016, and we also intend to use it to fund our June 2016 Repurchase Program (see Note 11 to our Consolidated Financial Statements), as well as for general corporate purposes.

As of December 31, 2015, we had a \$5.0 million Revolving Credit Facility (the Credit Agreement), which was a discretionary \$5.0 million demand revolving line. There were no financial covenant requirements and no unused line fees under the Credit Agreement, and there were no outstanding balances under the Credit Agreement at December 31, 2015. The Credit Agreement was terminated concurrent with the establishment of the Term Loan Agreement (see Note 8 to our Consolidated Financial Statements).

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Recent Accounting Pronouncements

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

Forward Looking Statements

Certain information included in this Quarterly Report on Form 10-Q may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements, other than statements of historical facts, included or referenced in this Quarterly Report on Form 10-Q that address activities, events or developments which we expect will or may occur in the future are forward-looking statements, including statements regarding the intent, belief or current expectations of the Company and members of our management team. The words will, believe, intend, expect, anticipate, project, estimate, predict and other expressions are also intended to identify forward-looking statements. Such statements may include those regarding

guidance on our future financial results and other projections or measures of our future performance; our expectations concerning market opportunities and our ability to capitalize on them; and the amount and timing of the benefits expected from acquisitions, new products or services and other potential sources of additional revenues. Such forward-looking statements are not guarantees of future performance and involve risks and uncertainties. These statements speak only as of the date of this Quarterly Report on Form 10-Q and are based on our current plans and expectations, and they involve risks and

Table of Contents

uncertainties that could cause actual future events or results to be different than those described in or implied by such forward-looking statements. These risks and uncertainties include, but are not limited to, those relating to: market acceptance of our products and services, including continued increased sales of our IT Deal Alert offerings and continued increased international growth; relationships with customers, strategic partners and employees; difficulties in integrating acquired businesses; changes in economic or regulatory conditions or other trends affecting the Internet, Internet advertising and information technology industries; and other matters included in our filings with the Securities and Exchange Commission, including those detailed under Part II, Item 1A, *Risk Factors* of this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2015. Actual results may differ materially from those contemplated by the forward-looking statements. We undertake no obligation to update our forward-looking statements to reflect future events or circumstances.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Foreign Currency Exchange Risk

We currently have subsidiaries in the United Kingdom, Hong Kong, Australia, Singapore, Germany and France. Additionally, we have a wholly foreign-owned enterprise formed under the laws of the People's Republic of China (PRC), and a variable interest entity in Beijing, PRC. Approximately 26% of our revenues for the three months ended June 30, 2016 were derived from customers with billing addresses outside of the United States and our foreign exchange gains/losses were not significant. We currently believe our exposure to foreign currency exchange rate fluctuations, including any impact of Brexit, 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. The volatility of exchange rates depends on many factors that we cannot forecast with reliable accuracy. Our continued international expansion increases our exposure to exchange rate fluctuations and as a result such fluctuations could have a significant impact on our future results of operations.

Interest Rate Risk

At June 30, 2016, we had cash, cash equivalents and investments totaling \$48.5 million. These amounts were invested primarily in money market accounts, municipal bonds and government agency bonds and, to a lesser extent, corporate 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 interest expense on borrowings under a five-year term loan we entered into in May 2016 (the *Term Loan Agreement*). The borrowings under the *Term Loan Agreement* bear interest at either an annual rate of 1.50% plus the higher of (a) the Prime Rate in effect on such day and (b) the Federal Funds Effective Rate in effect for such day plus 0.50%, or the London Interbank Offered Rate (LIBOR) plus 2.50% (see Note 8 to the Consolidated Financial Statements). At June 30, 2016, there was \$49.6 million of aggregate principal outstanding under the *Term Loan Agreement*.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

The Company is required to maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in its reports under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including the Company's Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer) as appropriate, to allow timely decisions regarding required disclosure.

Table of Contents

In connection with the preparation of the Quarterly Report on Form 10-Q for the period ended June 30, 2016, 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 as of June 30, 2016. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting, identified in connection with the evaluation of such internal control, that occurred during the second quarter of 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

Our business is subject to a number of risks, including those identified in Item 1A – Risk Factors of our 2015 Annual Report on Form 10-K, that could have a material effect on our business, results of operations, financial condition and/or liquidity and that could cause our operating results to vary significantly from period to period. As of June 30, 2016, there have been no material changes to the risk factors disclosed in our 2015 Annual Report on Form 10-K, other than as disclosed below. We may disclose changes to any risk factors presented or disclose additional factors from time to time in our future filings with the Securities and Exchange Commission. Due to the recent vote relating to the Referendum of the United Kingdom's Membership of the European Union and the recent adoption of the Privacy Shield, we are providing updates to the following risk factors.

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

Approximately 24% of our revenues for the year ended December 31, 2015 and 25% of our revenues for the six months ended June 30, 2016 were derived from customers with billing addresses outside of the U.S. Approximately 32% of our revenues for the year ended December 31, 2015 and 30% of our revenues for the six months ended June 30, 2016 were derived from international geo-targeted campaigns, which are campaigns that are targeted at users who reside outside of North America. We have offices in the United Kingdom, France, Germany, Singapore and Australia, as well as operations in China. We also publish websites in Spanish, French, German, Portuguese and Chinese, targeting users worldwide who speak those languages.

In addition to many of the same challenges we face domestically, there are additional risks and costs to doing business in international markets, including:

Edgar Filing: TechTarget Inc - Form 10-Q

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

the degree to which our foreign-based customers transition from print to online advertising;

the adaptation of our websites and advertising programs to meet local needs;

our foreign-based competitors having greater resources and more established relationships with local advertisers;

more restrictive data protection regulation, which may vary by country and for which there may be little or no guidance;

more extensive labor regulation, which may vary by country;

Table of Contents

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.

Additionally, on June 23, 2016, the U.K. held a referendum in which voters approved withdrawal from the E.U., commonly referred to as *Brexit*. As a result of the *Brexit* vote, the U.K. is expected to initiate a process to leave the E.U. and begin negotiating the terms of the U.K.'s future relationship with the E.U. The proposed withdrawal could, among other potential outcomes, adversely affect the tax, tax treaty, currency, operational, legal and regulatory regimes to which our business in the U.K. is subject. In addition, *Brexit* could lead to legal uncertainty and potentially divergent national laws and regulations as the U.K. determines which E.U. laws to replace or replicate. It is not possible at this time to anticipate all of the potential consequences of *Brexit*. As a point of reference, revenues denominated in GBP for both the year ended December 31, 2015 and the six month period ended June 30, 2016, were approximately 5%.

Changes in laws and standards relating to marketing, data collection and use, and the privacy of Internet users could impact our ability to conduct our business and thereby decrease our advertising revenues.

We use e-mail as a significant means of communicating with our users. The laws and regulations governing the use of e-mail for marketing purposes continues 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.

We collect information from our users who register on our websites or for services, respond to surveys or, in some cases, view our content. 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 needs and 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 users who have elected to receive additional promotional materials and have expressly or implicitly granted us permission to share their information with third parties. We also collect information on our users based on their activity on our sites. The U.S. federal government and certain states have adopted or proposed limitations on the collection, distribution and use of personal information of Internet users.

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 website content, comply with certain standards for notice, choice, security and access. Courts may also adopt

Table of Contents

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, but a determination by a state or federal agency or court that any of our practices do not meet these laws and 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, the E.U. and its member states and Canada have regulations dealing with the collection and use of personal information obtained from their citizens. Regulations in these jurisdictions have focused on the collection, transfer, 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 E.U., certain member state data protection authorities regard IP addresses as personal information, and legislation in the E.U. requires informed consent for the placement of a cookie on a user device.

U.S. companies have, since 2000, relied on the Department of Commerce Safe Harbor Principles and self-certification process in order to transfer and process the personal data of people in the E.U. in a manner that the E.U., until recently, deemed adequate to protect the security of such information. The European Court of Justice in late 2015 declared that the Safe Harbor was no longer valid. U.S. and E.U. lawmakers in February 2016 announced a replacement for the Safe Harbor, called the E.U.-U.S. Privacy Shield Framework Principles, or Privacy Shield. On July 12, 2016, the E.U. and the U.S. announced that the Privacy Shield is final and has been deemed adequate by the European Commission to protect the transfer of personal data from the E.U. to the U.S. Companies may begin to self-certify with the U.S. Department of Commerce starting on August 1, 2016. We intend to rely on the Privacy Shield and are in the process of evaluating what, if any, changes will be required to be made by us to allow reliance on the Privacy Shield and how, if at all, our business and operations will be impacted. There is no assurance that the Privacy Shield will not be challenged in the E.U. via legal process and what, if any, impact this could have on the adequacy determination and on our compliance efforts, among other things.

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 our research activities, including our efforts to understand our users' Internet usage. Such actions may have a chilling effect on businesses like ours that collect or use online usage information generally, or may 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 Microsoft Internet Explorer, Mozilla Firefox, Google Chrome and Apple Safari, 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 protection features and options, they have the potential to affect our business negatively.

We believe that we are in material compliance with all laws and regulations that are applicable to us. As referenced above, these regulations and laws may be modified and new laws may be enacted in the future that may apply to us and affect our business. Further, data protection authorities may interpret existing laws in new ways. We may deploy

new products and services from time to time, which may also require us to change our compliance practices. 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 materially affect our business and results of operations.

Table of Contents

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

(a) Sales of Unregistered Securities

None.

(b) Use of Proceeds from Registered Securities

None.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

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

Table of Contents

SIGNATURES

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

TECHTARGET, INC.

(Registrant)

Date: August 9, 2016

By: /s/ Michael Cotoia
Michael Cotoia, *Chief Executive Officer*

(Principal Executive Officer)

Date: August 9, 2016

By: /s/ Janice O Reilly
Janice O Reilly, *Chief Financial Officer and
Treasurer*

(Principal Accounting and Financial Officer)

Table of Contents**Exhibit Index**

Exhibit	
No.	Description of Exhibit
31.1	Certification of Michael Cotoia, Chief Executive Officer of TechTarget, Inc., pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, dated August 9, 2016.
31.2	Certification of Janice O Reilly, Chief Financial Officer and Treasurer of TechTarget, Inc., pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, dated August 9, 2016.
32.1	Certifications of Michael Cotoia, Chief Executive Officer of TechTarget, Inc. and Janice O Reilly, Chief Financial Officer and Treasurer of TechTarget, Inc. pursuant to 18 U.S.C. Section 1350, dated August 9, 2016.
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*

* Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets as of June 30, 2016 and December 31, 2015, (ii) Consolidated Statements of Operations and Comprehensive Income for the three and six months ended June 30, 2016 and June 30, 2015, (iii) Consolidated Statements of Cash Flows for the six months ended June 30, 2016 and June 30, 2015 and (iv) Notes to Consolidated Financial Statements.