

TechTarget Inc
Form 10-K
March 15, 2012
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2011

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

For the transition period from to

Commission file number: 1-33472

TechTarget, Inc.

(Exact name of Registrant as Specified in Its Charter)

Delaware

04-3483216

Edgar Filing: TechTarget Inc - Form 10-K

(State or Other Jurisdiction of

(I.R.S. Employer

Incorporation or Organization)

Identification No.)

275 Grove Street

Newton, Massachusetts
(Address of Principal Executive Offices)

02466
(Zip Code)

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

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

None.

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

Common Stock, \$0.001 Par Value

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

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

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

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

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

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

Large Accelerated Filer

Accelerated Filer

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

Smaller Reporting Company

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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately \$111.1 million as of June 30, 2011 (based on a closing price of \$7.57 per share as quoted by the Nasdaq Global Market as of such date). In determining the market value of non-affiliate common stock, shares of the registrant's common stock beneficially owned by officers, directors and affiliates have been excluded. The determination of affiliate status is not necessarily a conclusive determination for other purposes.

The registrant had 38,821,224 shares of Common Stock, \$0.001 par value per share, outstanding as of February 24, 2012.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Annual Report incorporates by reference certain information from the registrant's definitive proxy statement for the 2012 annual meeting of shareholders.

Table of Contents

TABLE OF CONTENTS

PART I

<u>Item 1. Business</u>	3
<u>Item 1A. Risk Factors</u>	16
<u>Item 1B. Unresolved Staff Comments</u>	27
<u>Item 2. Properties</u>	27
<u>Item 3. Legal Proceedings</u>	27
<u>Item 4. Mine Safety Disclosures</u>	27

PART II

<u>Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	27
<u>Item 6. Selected Consolidated Financial Data</u>	29
<u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	31
<u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u>	46
<u>Item 8. Financial Statements and Supplementary Data</u>	46
<u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	72
<u>Item 9A. Controls and Procedures</u>	72
<u>Item 9B. Other Information</u>	75

PART III

<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	75
<u>Item 11. Executive Compensation</u>	75
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	75
<u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u>	75
<u>Item 14. Principal Accounting Fees and Services</u>	75

PART IV

<u>Item 15. Exhibits and Financial Statement Schedules</u>	75
<u>Signatures</u>	76
<u>Exhibit Index</u>	77

Table of Contents

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

PART I

Item 1. Business Overview

TechTarget, Inc. (we or the Company) is a Delaware corporation incorporated on September 14, 1999. We are a leading provider of specialized online content and brand advertising that brings together buyers and sellers of corporate information technology (IT) products. We sell customized marketing programs that enable IT vendors to reach corporate IT decision makers who are actively researching specific IT purchases. We operate a network of approximately 115 websites, each of which focuses on a specific IT sector, such as storage, security or networking.

IT professionals rely on our websites for key decision support information tailored to their specific areas of responsibility. We complement our online offerings with targeted in-person events that enable advertisers to engage buyers directly at critical stages of their decision-making process for IT purchases. We work with our advertiser customers to develop customized marketing programs, often providing them with multiple offerings in order to target their desired audience more effectively. Our service offerings address both lead generation and branding objectives of our advertising customers. The majority of our 2011 revenues is associated with lead generation advertising campaigns.

As IT professionals have become increasingly specialized, they have come to rely on our sector-specific websites for purchasing decision support. Our content strategy enables IT professionals to navigate the complex and rapidly changing IT landscape where purchasing decisions can have significant financial and operational consequences. Our content strategy includes three primary sources which IT professionals use to assist them in their pre-purchase research: independent content provided by our professionals, vendor-generated content provided by our customers and user-generated (or peer-to-peer) content. As of December 31, 2011, we employed over 125 full-time editors who create original content tailored for specific audiences, which we complement with content through our association with outside industry experts. In addition to utilizing our independent content, registered members are able to conduct their pre-purchase research by accessing vendor content such as white papers, webcasts, videocasts, virtual events and podcasts, across our network of websites. Our network of websites also allows users to seamlessly interact and contribute content, which is highly valued by IT professionals during their research process.

We have a large and growing base of registered members, which totaled over 10 million as of December 31, 2011. The targeted nature of our user base enables IT vendors to reach a specialized audience efficiently because our content is highly segmented and aligned with the IT vendors specific products. Since our founding in 1999, we have developed a broad customer base. During 2011 we delivered advertising campaigns for approximately 1,300 customers. One customer represented 12.8% of revenues during 2011; no other customer represented 10% or more of total revenues during that period. The quarterly renewal rate of our top 100 customers in 2011 has consistently met or exceeded 95%. We generated revenues of approximately \$105.5 million in 2011, up from approximately \$95.0 million in 2010. Over the same period, our Adjusted EBITDA increased from approximately \$19.8 million in 2010 to approximately \$25.3 million in 2011. Adjusted EBITDA represents net income (loss) before interest and other income (expense) net, provision for (benefit from) income taxes, depreciation and amortization, as further adjusted to exclude stock-based compensation and restructuring charges.

Available Information

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

Table of Contents

Industry Background

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

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

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

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

Corporate IT Purchasing

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

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

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

Table of Contents

The Opportunity

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

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

Our Solution

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

Large and Growing Community of Registered Members. We have built a registered member database with detailed business information on over 10 million IT professionals as of December 31, 2011. We have collected detailed business and technology profiles with respect to our registered members, a fact which allows us to provide these registered members with more specialized content and our advertisers with highly targeted audiences and sales leads.

Strong Advertiser Relationships. Since our founding in 1999, we have developed a broad customer base that now comprises approximately 1,300 active advertisers and the quarterly renewal rate of our top 100 customers has consistently met or exceeded 95%.

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

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

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

Favorable Search Engine Rankings. Due to our long history of using a targeted approach toward online publishing, our network of websites has produced a large repository of archived content that allows us to appear on search result pages when users perform

Edgar Filing: TechTarget Inc - Form 10-K

targeted searches on search engines such as Google. We are successful in attracting traffic from search engines, which, in turn, increases our registered membership.

Table of Contents

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

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

Benefits to IT Professionals

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

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

Benefits to IT Vendors

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

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

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

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

Edgar Filing: TechTarget Inc - Form 10-K

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

Table of Contents

Our Strategy

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

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

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

Continue to Expand Our International Presence. We intend to continue to expand our reach into our addressable market by increasing our presence in countries outside the United States. We have pursued this strategy by launching our own websites in the United Kingdom in 2008 and in India and Spain in 2009, as well as by acquiring control of our partners' businesses in China and Australia in 2010 and by acquiring the Computer Weekly and MicroScope online properties in the United Kingdom in 2011. We expect to further penetrate foreign markets by directly launching additional sector specific websites in these foreign locales and in additional international markets and, if deemed appropriate, making strategic acquisitions and investments in overseas entities. During 2011, approximately 14% of our revenues were derived from international geo-targeted campaigns. We believe many of the current trends contributing to our domestic online revenue opportunity also are occurring in international markets and, therefore, present a future revenue opportunity.

Selectively Acquire or Partner with Complementary Businesses. We have used acquisitions in the past as a means of expanding our content and service offerings, web traffic and registered members. Historically, our acquisitions can be classified into three categories: content-rich blogs or other individually published sites, typically generating less than one million dollars in revenues; early stage revenue sites, typically generating between one and five million dollars in annual revenues; and later stage revenue sites, typically generating greater than five million dollars in annual revenues. We intend to continue to pursue selected acquisition or partnership opportunities in our core markets and in adjacent markets for products with similar characteristics.

Table of Contents

Platform & Content

Our integrated content platform consists of a network of websites that we complement with targeted in-person events. At critical stages of the purchase decision process, these content offerings meet IT professionals' needs for expert, peer and IT vendor information and provide a platform on which IT vendors can launch targeted marketing campaigns that generate measurable, high ROI.

The diagram below provides a representation of the media services provided by our platform and the media groups we currently use to categorize our content offerings:

Table of Contents

Media Groups

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

Security. Every aspect of enterprise computing now depends on secure connectivity, data and applications. The security sector is constantly growing to adapt to new forms of threats and to secure new technologies such as mobile devices, wireless networks and virtualized systems (cloud). Compliance regulations, cloud computing adoption, and highly publicized identity and intellectual property thefts are driving interest and investment in increasingly sophisticated security solutions that supplement common perimeter security solutions such as firewalls and antivirus software. Our online properties in this sector, SearchSecurity.com, SearchCloudSecurity.com, SearchFinancialSecurity.com, SearchMidMarketSecurity.com and SearchSecurity.co.uk offer navigable and structured guides on IT vendor and technology solutions in key sub-sectors such as network security, intrusion defense, identity management and authentication, data and application security, security-as-a-service, cloud security and security information management software. Our annual Information Security Decisions conference anchors a calendar of topically-focused regional seminars on issues such as compliance monitoring, data protection, and advanced threat management.

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

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

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

Edgar Filing: TechTarget Inc - Form 10-K

decision points and alternatives for implementing server virtualization, while SearchVMware.com and RTFM-ed.co.uk focus on managing and building out virtual environments on the most widely-installed server virtualization platform.

Table of Contents

We also cover servers, application and desktop solutions deployed in distributed computing environments. The dominant platform, Windows®, no longer represents an offering of discrete operating systems, but rather a diverse computing environment with its own areas of specialization around IT functions such as database administration and security. As Windows servers have become more stable and scalable, they have taken share in data centers, and currently represent one of the largest server sub-sectors. Given the breadth of the Windows market, we have segmented our Windows-focused media based on IT professionals' infrastructure responsibilities and purchasing focus. Our online properties in this sector include SearchWindowsServer.com, covering servers, storage, and systems management; SearchDomino.com, SearchExchange.com and SearchWinIT.com, each targeted toward senior management for distributed computing environments. This network of sites provides resources and advice to IT professionals pursuing solutions related to such topics as Windows backup and storage, server consolidation, and upgrade planning. SearchEnterpriseDesktop.com, SearchVirtualDesktop.com, BrianMadden.com and LabMice.net all focus on the deployment and management of end-user computing environments. Combined with our two properties that focus on server virtualization, SearchDesktopVirtualization.com and BrianMadden.com, each focusing on desktop virtualization, gives us a comprehensive offering addressing the fast-growing area of virtualization technologies. Our online offerings in this sector are supplemented by in-person regional seminars. Our two *BriForum* conferences focus on desktop virtualization and related technologies.

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

Business Applications and Analytics. Our Business Applications and Analytics media group focuses on mission critical software such as databases and business intelligence, content management enterprise resource planning, and customer facing applications such as CRM software for mid-sized and large companies. Because these applications are critical to the overall success of the businesses that use them, there is a high demand for specialized information by IT and business professionals involved in their purchase, implementation, and ongoing support. Our properties in this sector include SearchCRM.com, BeyeNETWORK.com, SearchBusinessAnalytics.com, SearchDataManagement.com, SearchContentManagement.com, SearchOracle.com, SearchSAP.com and SearchManufacturingERP.com. These sites are leading online resources that provide this specialized information to support mission critical business applications such as customer relationship management (CRM), business intelligence, data management, content management, collaboration, sales force automation, databases and ERP software.

The SMB market supports a high degree of specialization by software vendors, as applications are offered that address the business requirements of specific industry verticals such as construction, manufacturing, and many others. The purchase of these applications requires extensive up-front research by companies that, in many cases, may not have large or highly specialized IT staffs. Our website 2020software.com helps decision-makers from small to mid-sized companies evaluate specialized business applications by providing side-by-side comparisons of the leading software providers in categories such as manufacturing, human resources, financial and accounting, and construction software. Users of the site can request further information and trial software downloads from multiple vendors in a single transaction, simplifying their research process.

Table of Contents

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

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

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

User Generated Content and Vendor Content

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

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

Media Offerings

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

Table of Contents

Online. Our network of websites forms the core of our content platform. Our websites provide IT professionals with comprehensive decision support information tailored to their specific areas of responsibility and purchasing decisions. Through our websites, we offer a variety of online media offerings to connect IT vendors to IT professionals. Our lead generation offerings allow IT vendors to maximize ROI by capturing qualified sales leads from the distribution and promotion of content to our audience of IT professionals. Our branding offerings provide IT vendors exposure to targeted audiences of IT professionals actively researching information related to their products and services. Our branding offerings include display advertising and custom offerings. Display advertising can be purchased on specific websites within our network, and against specific technology segments. Our custom offerings allow customers to have content or entire micro-sites created that focus on topics related to their marketing objectives and include promotion of these vehicles to our users. These offerings give IT vendors the ability to increase their brand awareness to highly specialized IT sectors.

Our lead generation offerings include the following:

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

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

Custom Content Creation. In support of our advertisers' lead generation programs, we will sometimes create white papers, case studies, webcasts, or videos to our customers' specifications through our Custom Media team. These content assets are then promoted to our audience in the context of the advertisers' lead generation programs.

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

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

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

Events. Our in-person events bring together IT professionals to hear from industry experts and to talk to IT vendors about key topics of interest in the sectors we serve. The majority of our events are free to IT professionals and sponsored by IT vendors. Attendees are pre-screened based on event-specific criteria such as sector-specific budget size, company size, or job title. Our sponsors value the ability to meet with an audience of qualified IT decision makers who all have been pre-screened to determine a high level of buying interest and the ability to execute a purchase decision. We offer three types of events: multi-day conferences, single-day seminars and custom events. Multi-day conferences provide independent expert content for our attendees and allow vendors to purchase

Edgar Filing: TechTarget Inc - Form 10-K

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

Table of Contents

Customers

We market to IT vendors targeting a specific audience within an IT sector or sub-sector. We maintain multiple points of contact with our customers in order to provide support throughout a given organization and during critical stages of the sales cycle. As a result, individual customers often run multiple advertising programs with us in order to reach discrete portions of our targeted audience. Our services are generally delivered under short-term contracts that run for the length of a given advertising program, typically less than six months. Since our founding in 1999, we have developed a broad customer base that now comprises approximately 1,300 active advertisers. During 2011, one customer represented 12.8% of total revenue. No other customer represented more than 10% of revenues and the quarterly renewal rate of our top 100 customers has consistently met or exceeded 95%.

Sales and Marketing

Since our inception in 1999, we have maintained an internal direct sales department that works closely with existing and potential customers to develop customized marketing programs that provide highly targeted access to IT professionals. We organize the sales force by the sector-specific media groups that we operate, as well as a global accounts team that works with our largest advertisers. We believe that our sector-specific sales organization and integrated approach to our service offerings allows our sales personnel to develop a high level of expertise in the specific sectors they cover and to create effective marketing programs tailored to the customer's specific objectives. As of December 31, 2011, our sales and marketing staff consisted of approximately 270 people. The majority of our sales staff is located in our Newton, Massachusetts headquarters and our office in San Francisco, California.

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

Online User Acquisition

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

Technological Infrastructure

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

Table of Contents

Competition

We compete for potential advertisers with a number of different types of companies, including: broad-based media outlets, such as television, newspapers and business periodicals that are designed to reach a wide audience; general purpose portals and search engines; and offline and online offerings of media companies that produce content specifically for IT professionals. The market for advertisers is highly competitive, and in each of the sectors we serve as well as across the services we offer, our primary competitors are the media companies that produce content specifically for IT professionals. Our primary competitors for advertisers, each of which possess substantial resources to compete, are United Business Media, QuinStreet, International Data Group, and CBS Interactive/ CNet. In the online market we generally compete on the basis of target audience, quality and uniqueness of information content, ease of use of our websites for IT professionals, and the quality and quantity of sales leads generated for advertisers. Our events generally compete on the basis of the quality and integrity of our content offerings, the quality of our attendees, and the ability to provide events that meet the needs of particular sector segments. As with the competition for advertisers, we compete for the users who comprise our target audiences primarily with the media companies that produce content specifically for IT professionals such as United Business Media, QuinStreet, International Data Group, and CBS Interactive/CNet.

Although less than 10% of our revenues for the twelve months ended December 31, 2011 were derived from advertisers located outside of North America, as we continue to expand internationally, as we did in 2008 by commencing operations of our own websites in the United Kingdom, in 2009 in India and Spain, in 2010 operating in both China and Australia and, most recently by acquiring the Computer Weekly and MicroScope properties from Reed Business Information Limited in the United Kingdom in April 2011, we expect to compete with many of the competitors mentioned above, as well as with established media companies based in particular countries or geographical regions.

User Privacy

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

Consumer Protection Regulation

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

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

Table of Contents

Other Consumer Protection Regulation. The FTC and many state attorneys general are applying federal and state consumer protection laws to require that the online collection, use and dissemination of data, and the presentation of Web site content, comply with certain standards for notice, choice, security and access. Courts may also adopt these developing standards. In many cases, the specific limitations imposed by these standards are subject to interpretation by courts and other governmental authorities. In addition, on December 20, 2007, the FTC published for public comment proposed principles to address consumer privacy issues that may arise from so-called behavioral targeting (i.e. the tracking of a user's online activities in order to deliver advertising tailored to his or her interests) and to encourage industry self-regulation for public content. On February 12, 2009, following public comment, the FTC released a Staff Report with its revised principles for self-regulation of behavioral targeting. Although the FTC excluded from the principles both first-party behavioral advertising and contextual advertising (each being types of behavioral targeting activities in which we are currently primarily engaged), with respect to other types of behavioral targeting that include the storage of more, and potentially sensitive, data or that collects information outside of the traditional Web site context (such as through a mobile device or by an ISP), the FTC has stated that it will continue to evaluate self-regulatory programs. Further, through a preliminary Staff Report published on December 1, 2010, the FTC indicated that it is considering regulations regarding behavioral targeting which may include implementation of a more rigorous opt-in regime. An opt-in policy would prohibit businesses from collecting and using information obtained through behavioral targeting activities from individuals who have not voluntarily consented. A few states have also introduced legislation that, if enacted, would restrict or prohibit behavioral advertising within the state. In the absence of a federal law pre-empting their enforcement, such state legislation would likely have the practical effect of regulating behavioral advertising nationwide because of the difficulties behind implementing state-specific policies or identifying the location of a particular consumer.

We believe that we are in compliance with applicable consumer protection laws, but a determination by a state or federal agency or court that any of our practices do not meet these standards could create liability to us, result in adverse publicity and negatively affect our businesses. Further, changes to existing regulations or laws or the passage of new regulations or laws such as the federal and state proposed legislation described above could also require us to incur additional costs and restrict our business operations.

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

Intellectual Property

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

Employees

As of December 31, 2011, we had 647 employees. Other than a small number of editorial staff in the UK, none of our current employees is represented by a labor union or are the subject of a collective bargaining agreement.

Table of Contents

Item 1A. Risk Factors

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

Risks Relating to Our Business

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

The primary source of our revenues is the sale of advertising to our customers. Our advertising revenues accounted for approximately 99% of our total revenues for the year ended December 31, 2011. We believe that advertising spending on the Internet, as in traditional media, fluctuates significantly as a result of a variety of factors, many of which are outside of our control. These factors include:

variations in expenditures by advertisers due to budgetary constraints;

the cancellation or delay of projects by advertisers;

the cyclical and discretionary nature of advertising spending;

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

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

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

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

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

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

reduced spending by combined entities following such consolidations;

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

economic conditions specific to the IT industry.

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

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

Table of Contents

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

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

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

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

the spending priorities and advertising budget cycles of specific advertisers;

the addition or loss of advertisers;

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

seasonal fluctuations in advertising spending.

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

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

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

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

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

Edgar Filing: TechTarget Inc - Form 10-K

they are responsible and that they purchase. Our content and services may not be attractive to a sufficient number of users to attract advertisers and generate revenues consistent with our estimates. We also may not develop new content or services in a timely or cost-effective manner. Our ability to develop and produce this specialized content successfully is subject to numerous uncertainties, including our ability to:

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

Table of Contents

attract and retain qualified editors, writers and technical personnel;

fund new development for our programs and other offerings;

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

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

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

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

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

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

We compete for potential advertisers with a number of different types of offerings and companies, including: broad-based media outlets, such as television, newspapers and business periodicals that are designed to reach a wide audience; general purpose portals and search engines; and offline and online offerings of media companies that produce content specifically for IT professionals, including International Data Group, United Business Media, QuinStreet and CNet. Advertisers may choose our competitors over us not only because they prefer our competitors online and events offerings to ours but also because advertisers prefer to utilize other forms of advertising offered by our competitors that are not offered by us and/or to diversify their advertising expenditures. Although less than 10% of our revenues for the year ended December 31, 2011 were derived from advertisers located outside of North America, as we continue to expand internationally, as we did in 2008 by commencing operations of our own websites in the United Kingdom, in 2009 in India and Spain, in 2010 in both China and Australia and, most recently by acquiring the Computer Weekly and MicroScope properties from Reed Business Information Limited in the United Kingdom in April 2011, we expect to compete with many of the competitors mentioned above, as well as with established media companies based in particular countries or geographical regions. Many of these foreign-based media companies will be larger than we are and will have established relationships with local advertisers. Many of our current and potential competitors have longer operating histories, larger customer bases, greater brand recognition and significantly greater financial, marketing and other resources than we have. As a result, we could lose market share to our competitors in one or more of our businesses and our revenues could decline.

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

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

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

Our industry is rapidly adopting new technologies and standards to create and satisfy the demands of users and advertisers. It is critical that we continue to innovate by anticipating and adapting to these changes to ensure that our content-delivery and lead generation platforms and services

Edgar Filing: TechTarget Inc - Form 10-K

remain effective and interesting to our users, advertisers and partners. In addition, we may discover that we must make significant expenditures to achieve these goals. If we fail to accomplish these goals, we may lose users and the advertisers that seek to reach those users, which could harm our operating results.

Table of Contents

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

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

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

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

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

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

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

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

competition from other companies in hiring and retaining sales personnel.

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

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

difficulty in assimilating the operations and personnel of acquired businesses;

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

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

Edgar Filing: TechTarget Inc - Form 10-K

unanticipated expenses related to technology and other integration;

potential failure to achieve additional sales and enhance our customer bases through cross marketing of the combined company's services to new and existing customers;

potential detrimental impact to our pricing based on the historical pricing of any acquired business with common clients and the market generally;

potential litigation resulting from our business combinations or acquisition activities; and

potential unknown liabilities associated with the acquired businesses.

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

Table of Contents

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

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

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

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

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

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

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

We collect information from our users who register on our websites or for services or respond to surveys. Subject to each user's permission (or right to decline, which we refer to as an opt-out), a practice that may differ across our various websites, depending on the applicable regulatory requirements of different countries' laws), we may use this information to inform our users of services that they have indicated may be of interest to them. We may also share this information with our advertising clients for registered members who have elected to receive additional promotional materials and have granted us permission to share their information with third parties.

Table of Contents

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

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

Table of Contents

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

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

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

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

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

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

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

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

more extensive labor regulation, which may vary by country;

difficulties in staffing and managing multinational operations;

difficulties in finding appropriate foreign licensees or joint venture partners;

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

foreign political and economic uncertainty;

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

currency exchange-rate fluctuations; and

potential adverse tax requirements.

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

Edgar Filing: TechTarget Inc - Form 10-K

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

Table of Contents

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

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

privacy, data security and use of personally identifiable information;

copyrights, trademarks and domain names; and

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

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

decrease the growth rate of the Internet;

reduce our revenues;

increase our operating expenses; or

expose us to significant liabilities.

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

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

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

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

Edgar Filing: TechTarget Inc - Form 10-K

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

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

Our operations are dependent on our communications systems and computer hardware, all of which are located in data centers operated by third parties. These systems could be damaged by fire, floods, earthquakes, power loss, telecommunication failures and similar events. Our insurance policies have limited coverage levels for loss or damages in these events and may not adequately compensate us for any losses that may occur. In addition, terrorist acts or acts of war may cause harm to our employees or

Table of Contents

damage our facilities, our clients, our clients' customers and vendors, or cause us to postpone or cancel, or result in dramatically reduced attendance at, our events, which could adversely impact our revenues, costs and expenses and financial position. We are predominantly uninsured for losses and interruptions to our systems or cancellations of events caused by terrorist acts and acts of war.

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

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

We may experience service disruptions for the following reasons:

occasional scheduled maintenance;

equipment failure;

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

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

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

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

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

Edgar Filing: TechTarget Inc - Form 10-K

attempting to limit our liability in these areas will be successful or enforceable, or that other parties will accept such contractual provisions as part of our agreements.

Table of Contents

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

We have identified a material weakness in our internal control over financial reporting. Our current accounting and financial reporting system and related internal controls are inadequate to carry out the volume and level of complexities associated with our online service revenue transactions. There exists a reasonable possibility that a material error related to revenue and revenue-related accounts would not be detected on a timely basis. This material weakness and our remediation plans are described further in Item 9A in this Annual Report on Form 10-K. Material weaknesses in our internal control over financial reporting could result in material misstatements in our financial statements not being prevented or detected. Although we have implemented a Sarbanes-Oxley Remediation Plan, we may experience difficulties or delays in achieving goals under this plan and completing remediation, or may not be able to successfully remediate material weaknesses at all. Any material weakness or unsuccessful remediation could harm investor confidence in the accuracy and completeness of our financial statements, which in turn could harm our business and have an adverse effect on our stock price and our ability to raise additional funds.

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

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

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

In the course of our operating history, we have acquired assets and businesses. Some of our acquisitions have resulted in the recording of a significant amount of goodwill and/or intangible assets on our financial statements. We had approximately \$100.8 million of goodwill and net intangible assets as of December 31, 2011. The goodwill and/or intangible assets were recorded because the fair value of the net tangible assets acquired was less than the purchase price. We may not realize the full value of the goodwill and/or intangible assets. As such, we evaluate goodwill and other intangible assets with indefinite useful lives for impairment on an annual basis or more frequently if events or circumstances suggest that the asset may be impaired. We did not have any intangible assets with indefinite lives as of December 31, 2011 or 2010. We evaluate other intangible assets subject to amortization whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable. If goodwill or other intangible assets are determined to be impaired, we will write off the unrecoverable portion as a charge to our earnings. If we acquire new assets and businesses in the future, as we intend to do, we may record additional goodwill and/or intangible assets. The possible write-off of the goodwill and/or intangible assets could negatively impact our future earnings and, as a result, the market price of our common stock could decline.

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

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

our operating performance and the operating performance of similar companies;

the overall performance of the equity markets;

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

Table of Contents

threatened or actual litigation;

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

any change in our board of directors or management;

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

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

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

general political and economic conditions.

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

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

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

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

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

permit directors to be removed only for cause;

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

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

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

If our existing stockholders sell, or indicate an intent to sell, substantial amounts of our common stock in the public market, the trading price of our common stock could decline significantly. A large portion of our outstanding shares of common stock is held by our officers, directors and significant stockholders. Two of the largest percentages of our shares are owned by venture capital funds, which are typically structured to have a finite life. As these venture capital funds approach or pass the respective terms of the fund, the decision to sell or hold our stock may be based not only on the underlying investment merits of our stock but also on the requirements of their internal fund structure. Our directors, executive officers and significant stockholders beneficially own approximately 24 million shares of our common stock, which represents 62% of our shares outstanding as of December 31, 2011. If these additional shares are sold, or if it is perceived that they will be sold in the public market, the trading price of our common stock could decline substantially.

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

Our directors, executive officers and significant stockholders beneficially own approximately 62% of our outstanding common stock. These stockholders, if they act together, could exert substantial influence over matters requiring approval by our stockholders, including the election of directors, the amendment of our certificate of incorporation and bylaws and the approval of mergers or other business combination transactions. This concentration of ownership may discourage, delay or prevent a change in control of our company, which could deprive our stockholders of an opportunity to receive a premium for their stock as part of a sale of our company and might reduce our stock price. These actions may be taken even if they are opposed by other stockholders.

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

None.

Item 2. Properties

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

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

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

Our common stock is listed on the Nasdaq Global Market under the trading symbol TTGT. The following table sets forth the high and low sales prices of our common stock, as reported by the Nasdaq Global Market, for each quarterly period in 2011 and 2010:

	September 30, High	September 30, Low
Fiscal 2011		
Quarter ended March 31, 2011	\$ 9.77	\$ 6.62
Quarter ended June 30, 2011	\$ 9.01	\$ 6.23
Quarter ended September 30, 2011	\$ 7.87	\$ 5.27
Quarter ended December 31, 2011	\$ 7.52	\$ 4.85
Fiscal 2010		
Quarter ended March 31, 2010	\$ 6.48	\$ 5.01
Quarter ended June 30, 2010	\$ 6.36	\$ 4.35
Quarter ended September 30, 2010	\$ 6.48	\$ 4.26
Quarter ended December 31, 2010	\$ 8.10	\$ 5.03

The closing sale price of our common stock, as reported by the Nasdaq Global Market, was \$7.07 on February 24, 2012.

 Holders

As of February 24, 2012 there were approximately 144 stockholders of record of our common stock based on the records of our transfer agent.

Table of Contents

Dividends

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

Equity Compensation Plan Information

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

Stock Performance Graph

The following graph compares the cumulative total return to stockholders of our common stock for the period from May 16, 2007, the date of our initial public offering, to December 31, 2011, to the cumulative total return of the Russell 2000 Index and the S&P 500 Media Industry Index for the same period. This graph assumes the investment of \$100.00 on May 16, 2007 in our common stock, the Russell 2000 Index and the S&P 500 Media Industry Index and assumes any dividends are reinvested.

COMPARATIVE STOCK PERFORMANCE

Among TechTarget, Inc.

The Russell 2000 Index and

The S&P 500 Media Industry Index

XX 5/07	XX 6/07	XX 9/07	XX 12/07	XX 3/08	XX 6/08	XX 9/08	XX 12/08	XX 3/09	XX 6/09	XX 9/09	XX 12/09	XX 3/10	XX 6/10	XX 9/10	XX 12/10	XX 3/11	XX 6/11	XX 9/11
100.00	98.85	130.00	113.69	109.00	81.23	53.85	33.23	18.46	30.77	43.85	43.31	40.23	41.38	40.38	61.00	68.54	58.23	43.92
100.00	101.82	98.67	94.15	84.83	85.33	84.38	62.34	53.02	63.99	76.32	79.28	86.30	77.73	86.51	100.57	108.56	106.81	83.46
100.00	99.03	91.94	83.02	77.01	74.61	68.36	53.14	45.54	56.66	68.39	76.11	82.85	76.11	84.09	94.30	107.19	109.01	87.73

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

Issuer Purchases of Equity Securities

For the quarter ended December 31, 2011, we made no purchases of shares of our common stock.

Table of Contents**Item 6. Selected Consolidated Financial Data**

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

	September 30, 2011	September 30, 2010	September 30, 2009	September 30, 2008	September 30, 2007
	Years Ended December 31, (in thousands, except per share data)				
Consolidated Statement of Operations Data:					
Revenues:					
Online	\$ 92,303	\$ 82,330	\$ 72,345	\$ 77,373	\$ 61,353
Events	13,195	12,679	14,152	22,786	24,254
Print(1)				4,385	6,643
Total revenues	105,498	95,009	86,497	104,544	92,250
Cost of revenues:					
Online(2)	22,373	20,402	20,661	22,807	16,168
Events(2)	4,765	4,313	5,856	9,963	8,851
Print(1)(2)				2,156	3,788
Total cost of revenues	27,138	24,715	26,517	34,926	28,807
Gross profit	78,360	70,294	59,980	69,618	63,443
Operating expenses:					
Selling and marketing(2)	39,586	37,291	34,125	35,158	29,304
Product development(2)	7,688	8,661	9,213	11,609	7,621
General and administrative(2)	13,680	15,530	15,316	10,537	10,202
Depreciation	2,759	2,389	2,219	2,406	1,610
Amortization of intangible assets	3,976	4,523	4,714	5,306	4,740
Restructuring charge	384			1,494	
Total operating expenses	68,073	68,394	65,587	66,510	53,477
Operating income (loss)	10,287	1,900	(5,607)	3,108	9,966
Interest and other income, net	57	176	267	1,440	1,831
Income (loss) before provision for (benefit from) income taxes	10,344	2,076	(5,340)	4,548	11,797
Provision for (benefit from) income taxes	5,655	3,258	(224)	2,784	5,252
Net income (loss)	\$ 4,689	\$ (1,182)	\$ (5,116)	\$ 1,764	\$ 6,545

Net income (loss) per common share(3):

Edgar Filing: TechTarget Inc - Form 10-K

Basic	\$	0.12	\$	(0.03)	\$	(0.12)	\$	0.04	\$	0.09
Diluted	\$	0.12	\$	(0.03)	\$	(0.12)	\$	0.04	\$	0.08

Weighted average common shares outstanding:

Basic	38,532	42,771	41,865	41,425	28,384
Diluted	40,567	42,771	41,865	43,440	31,347

Other Data:

Adjusted EBITDA (unaudited)(4)	\$	25,273	\$	19,813	\$	13,949	\$	20,985	\$	22,150
--------------------------------	----	--------	----	--------	----	--------	----	--------	----	--------

	September 30, 2011	September 30, 2010	September 30, As of December 31, 2009 (in thousands)	September 30, 2008	September 30, 2007
--	-----------------------	-----------------------	---	-----------------------	-----------------------

Consolidated Balance Sheet Data:

Cash, cash equivalents and investments	\$	63,221	\$	50,134	\$	82,557	\$	69,568	\$	62,001
Total assets	\$	211,247	\$	193,758	\$	214,063	\$	210,012	\$	202,488
Total liabilities	\$	21,572	\$	19,898	\$	16,199	\$	19,075	\$	25,155
Treasury stock	\$	(35,343)	\$	(35,343)	\$		\$		\$	
Total stockholders equity	\$	189,675	\$	173,860	\$	197,864	\$	190,937	\$	177,334

- (1) During 2007 and certain portions of 2008, we published monthly two controlled-circulation magazines that were free to subscribers and generated revenue solely based on advertising fees. We discontinued publishing these magazines in November 2007 and December 2008.

Table of Contents

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

	September 30, 2011	September 30, 2010	September 30, Years Ended December 31, 2009 (in thousands)	September 30, 2008	September 30, 2007
Cost of online revenue	\$ 273	\$ 173	\$ 454	\$ 407	\$ 189
Cost of events revenue	91	87	94	91	53
Cost of print revenue				6	15
Selling and marketing	4,713	6,380	6,025	4,813	2,999
Product development	443	520	535	473	334
General and administrative	1,949	3,841	5,515	2,881	2,244
Total	\$ 7,469	\$ 11,001	\$ 12,623	\$ 8,671	\$ 5,834

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

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

	September 30, 2011	September 30, 2010	September 30, Years Ended December 31, 2009 (in thousands)	September 30, 2008	September 30, 2007
Net income (loss)	\$ 4,689	\$ (1,182)	\$ (5,116)	\$ 1,764	\$ 6,545
Interest and other income, net	(57)	(176)	(267)	(1,440)	(1,831)
Provision for (benefit from) income taxes	5,655	3,258	(224)	2,784	5,252
Depreciation	2,759	2,389	2,219	2,406	1,610
Amortization of intangible assets	3,976	4,523	4,714	5,306	4,740
Amortization of purchase price adjustment for earnouts	398				
EBITDA	17,420	8,812	1,326	10,820	16,316
Stock-based compensation	7,469	11,001	12,623	8,671	5,834
Restructuring charge	384			1,494	
Adjusted EBITDA	\$ 25,273	\$ 19,813	\$ 13,949	\$ 20,985	\$ 22,150

Adjusted EBITDA is a metric used by management when reviewing our performance. EBITDA represents net income (loss) before interest and other income (expense) net, provision for (benefit from) income taxes, depreciation and amortization. Adjusted EBITDA represents EBITDA as further adjusted to exclude stock-based compensation and restructuring charges. We present Adjusted EBITDA as a supplemental performance measure because we believe it facilitates operating performance comparisons from period to period and company to company by backing out potential differences caused by variations in capital structures (affecting interest expense), tax positions (such as the impact on periods or companies of changes in effective tax rates or net operating losses), the age and book depreciation of fixed assets (affecting relative depreciation expense), acquisition-related charges (such as amortization of intangible assets and earnouts) and the impact of non-cash stock-based compensation expense costs. Because Adjusted EBITDA facilitates internal comparisons of operating performance on a more consistent basis, we also use Adjusted EBITDA in measuring our performance relative to that of our competitors. We also use Adjusted EBITDA in connection with our compensation of our executive officers and senior management. Adjusted EBITDA is not a measurement of our financial performance under GAAP and should not be considered as an alternative to net income (loss), operating income (loss) or any other performance measures.

Edgar Filing: TechTarget Inc - Form 10-K

derived in accordance with GAAP or as an alternative to cash flow from operating activities as a measure of our profitability or liquidity. We understand that although Adjusted EBITDA is frequently used by securities analysts, lenders and others in their evaluation of companies, Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

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

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

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

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

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

Table of Contents

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

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

Overview

Background

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

Our integrated content platform consists of a network of approximately 115 websites that we complement with targeted in-person events. Throughout the critical stages of the purchase decision process, our content offerings meet IT professionals' needs for expert, peer and IT vendor information, and provide a platform on which IT vendors can launch targeted marketing campaigns that generate measurable, high Return on Investment (ROI). As IT professionals have become increasingly specialized, they have come to rely on our sector-specific websites for purchasing decision support. Our content enables IT professionals to navigate the complex and rapidly changing IT landscape where purchasing decisions can have significant financial and operational consequences. Based upon the logical clustering of our users' respective job responsibilities and the marketing focus of the products that our customers are advertising, we currently categorize our content offerings across nine distinct media groups: Application Architecture and Development; Channel; CIO/IT Strategy; Data Center and Virtualization Technologies; Business Applications and Analytics; Networking; Security; Storage; and TechnologyGuide.com.

On March 1, 2010, we acquired ebizQ.net and certain other assets from IT Quadrant, Inc. for \$0.5 million in cash plus a potential future earnout valued at \$0.6 million at the time of the acquisition. ebizQ.net is a leading website for business and IT decision makers focused on Business Process Management (BPM) and Service-Oriented Architecture (SOA). ebizQ.net maintains an online community with more than 100,000 members that provides original editorial and independent content from leading industry analysts and experts via blogs, webinars, podcasts, white papers, and virtual events. The earnout is expected to be paid in the first quarter of 2012; its current value is included in current liabilities on our balance sheet.

On April 12, 2010, we acquired certain assets of Powell Media LLC for \$1.3 million in cash plus a potential future earnout valued at \$0.9 million at the time of the acquisition. Powell Media LLC operated the BeyeNETWORK, a group of online technology sites that provide news, expert information and exclusive resources on the business information management lifecycle, including business intelligence (BI) best practices, business analytics, data integration, and data governance. All of the sites' content is written by industry experts who share their experiences and research in a collection of articles, podcasts, and blogs focused on specific vertical industries. The earnout is expected to be paid in the first quarter of 2012; its current value is included in current liabilities on our balance sheet.

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

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

Table of Contents

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

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

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

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

In addition to the customer credit matter mentioned above, we disclosed in our Quarterly Report on Form 10-Q for the first quarter of 2009 that we corrected in the first quarter of 2009 an error in the amount of \$0.3 million related to interest income which should have been recorded in the fourth quarter of 2008. Whereas the error was previously corrected in Q1 2009, the \$0.3 million adjustment is not included in the adjustments described above.

We assessed the materiality of these errors, both quantitatively and qualitatively, and concluded that the adjustments were not material to the prior annual financial statements or to the interim financial statements for 2009.

Sources of Revenues

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

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

Online. The majority of our revenue is derived from the delivery of our online offerings from our media groups. Online revenue represented 87%, 87% and 84% of total revenues for the years ended December 31, 2011, 2010 and 2009, respectively. We expect the majority of our revenues to be derived through the delivery of online offerings for the foreseeable future. As a result of our customers' advertising objectives and preferences, the specific allocation of online advertising offerings sold and delivered by us, on a period by period basis, can fluctuate.

Table of Contents

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

Our branding offerings include display advertising and custom offerings. Display advertising can be purchased on specific websites within our network and against specific technology segments. Our custom offerings allow customers to have content or entire micro-sites created that focus on topics related to their marketing objectives and include promotion of these vehicles to the TechTarget audience. These offerings give IT vendors the ability to increase their brand awareness to highly specialized IT sectors.

Our lead generation offerings include the following:

White Papers. White papers are technical documents created by IT vendors to describe business or technical problems that are addressed by the vendors' products or services. IT vendors pay us to have their white papers distributed to our users and receive targeted promotions on our relevant websites. Prior to viewing white papers, our registered members and visitors supply their corporate contact 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 solution.

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

Custom Content Creation. In support of our advertisers' lead generation programs, we will sometimes create white papers, case studies, webcasts, or videos to our customers' specifications through our Custom Media team. These content assets are then promoted to our audience in the context of the advertisers' lead generation programs.

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

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

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

Events. Events revenue represented 13%, 13% and 16% of total revenues for the years ended December 31, 2011, 2010 and 2009, respectively. Most of our media groups operate revenue generating events. The majority of our events are free to IT professionals and are sponsored by IT vendors. Attendees are pre-screened based on event-specific criteria such as sector-specific budget size, company size, or job title. We offer three types of events: multi-day conferences, single-day seminars and custom events. Multi-day conferences provide independent expert content for our attendees and allow vendors to purchase exhibit space and other sponsorship offerings that enable interaction with the attendees. We also hold single-day seminars on various topics in major cities. These seminars provide independent content on key sub-topics in the sectors we serve, are free to qualified attendees, and offer multiple vendors the ability to interact with specific, targeted audiences actively focused on buying decisions. Our custom events differ from our seminars in that they are exclusively sponsored by a single IT vendor, and the content is driven primarily by the sole sponsor.

Table of Contents

Cost of Revenues, Operating Expenses and Other

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

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

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

Selling and Marketing. Selling and marketing expense consists primarily of: salaries and related personnel costs; sales commissions; travel, lodging and other out-of-pocket expenses; stock-based compensation expenses; facilities and 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; and facilities and other related overhead.

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

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

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

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

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

Application of Critical Accounting Policies and Use of Estimates

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

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

Table of Contents

Revenue Recognition

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

During fiscal 2010 and prior, because objective evidence of fair value did not exist for all elements in our bundled advertising campaigns, no allocation could be made among the various elements, so we recognized revenue as one unit of accounting ratably over the term of the arrangement. In September 2009, the Financial Accounting Standards Board (FASB) ratified Accounting Standards Update (ASU) 2009-13, *Revenue Arrangements with Multiple Deliverables*, which updates the existing multiple-element revenue arrangements guidance included in ASC 605-25. ASU 2009-13 requires companies to allocate the overall consideration to each deliverable by using a best estimate of selling price of individual deliverables in the arrangement in the absence of vendor-specific objective evidence or other third party evidence of selling price. We adopted the new standard, beginning on January 1, 2011, on a prospective basis. Although each of our online media offerings can be sold separately, most of our online media sales involve multiple online offerings. Because objective evidence of fair value does not exist for all elements in our bundled advertising campaigns, we use a best estimate of selling price of individual deliverables in the arrangement in the absence of vendor-specific objective evidence or other third party evidence of selling price. We 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. For content assets posted on websites, revenue recognition is generally over the period the content asset is available.

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, once we have determined that elements for lead generation, branding and events have separate stand alone value, the arrangement consideration is measured and allocated to each of these elements.

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

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

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

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

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

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

List Rentals. We recognize list rental revenue in the period in which the list is sent to our customers.

Banners. We recognize banner revenue in the period in which the banner impressions or clicks occur.

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

We recognize revenue from cost per lead advertising in the period during which the leads are delivered.

Edgar Filing: TechTarget Inc - Form 10-K

We offer customers the ability to purchase integrated ROI program offerings, which can include any of our online media offerings described above packaged together to address the particular customer's specific advertising requirements. As part of these offerings, we will guarantee a minimum number of qualified sales leads to be delivered over the course of the advertising campaign. We sometimes need to extend the scheduled end date of advertising campaigns to satisfy lead guarantees or to fulfill all elements of the campaign based on various factors, including delayed receipt of advertising media collateral from the customer. We estimate the revenue reserve necessary to properly defer revenue recognition for extended advertising campaigns. These estimates are based on our experience in managing and fulfilling these integrated ROI program offerings. Our services are generally delivered under short-term contracts that run for the length of a given advertising program, typically less than six months. Our standard terms and conditions do not provide for a general right of return on any items that have been delivered.

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

Table of Contents

Long-Lived Assets

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

Fair Value of Financial Instruments

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

Allowance for Doubtful Accounts

We offset gross trade accounts receivable with an allowance for doubtful accounts. The allowance for doubtful accounts is our best estimate of the amount of probable credit losses in our existing accounts receivable. We review our allowance for doubtful accounts on a regular basis, and all past due balances are reviewed individually for collectability. Account balances are charged against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Provisions for allowance for doubtful accounts are recorded in general and administrative expense. If our historical collection experience does not reflect our future ability to collect outstanding accounts receivable, our future provision for doubtful accounts could be materially affected. To date, we have not incurred any write-offs of accounts receivable significantly different than the amounts reserved. The allowance for doubtful accounts was \$1.1 million and \$1.0 million at December 31, 2011 and 2010, respectively.

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

	Years Ended December 31,					
	2011		2010		2009	
Expected volatility	79%	81.4%	78%	79%	75%	79%
Expected term	6.25 years		6.25 years		6.25 years	
Risk-free interest rate	0.9%	2.3%	2.3%	2.85%	2.21%	2.89%
Expected dividend yield	%		%		%	
Weighted-average grant date fair value per share	\$4.72		\$4.92		\$4.06	

As there was no public market for our common stock prior to our initial public offering in May 2007, and there has been limited historical information on the volatility of our common stock since the date of our initial public offering, we determined the volatility for options granted in 2011, 2010 and 2009 based on an analysis of the historical volatility of our stock and reported data for a peer group of companies that issued options with substantially similar terms. The expected volatility of options granted has been determined using a weighted average of the historical volatility of our stock and the peer group of companies for a period equal to the expected life of the option. The risk-free interest rate is based on a zero coupon United States treasury instrument whose term is consistent with the expected life of the stock options. We have not paid and do not anticipate paying cash dividends on our shares of common stock; therefore, the expected dividend yield is assumed to be zero. We applied an estimated annual forfeiture rate based on our historical forfeiture experience of 3.6%, 2% and 2% in determining the expense recorded in the years ended December 31, 2011, 2010 and 2009, respectively.

Table of Contents

Internal-Use Software and Website Development Costs

We capitalize costs of materials, consultants and compensation and related expenses of employees who devote time to the development of internal-use software and website applications and infrastructure involving developing software to operate our websites. However, we expense as incurred website development costs for new features and functionalities since it is not probable that they will result in additional functionality until they are both developed and tested with confirmation that they are more effective than the current set of features and functionalities on our websites. Our judgment is required in determining the point at which various projects enter the states at which costs may be capitalized, in assessing the ongoing value of the capitalized costs and in determining the estimated useful lives over which the costs are amortized, which is generally three years. To the extent that we change the manner in which we develop and test new features and functionalities related to our websites, assess the ongoing value of capitalized assets or determine the estimated useful lives over which the costs are amortized, the amount of website development costs we capitalize and amortize in future periods would be impacted. We review capitalized internal-use software and website development costs for recoverability whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. We would recognize an impairment loss only if the carrying amount of the asset is not recoverable and exceeds its fair value. We capitalized internal-use software and website development costs of \$3.2 million, \$2.1 million and \$1.5 million for the years ended December 31, 2011, 2010 and 2009, respectively.

Income Taxes

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

Our deferred tax assets are comprised primarily of book to tax differences on stock-based compensation and net operating loss (NOL) carryforwards. As of December 31, 2011, we had state NOL carryforwards of approximately \$17.6 million, which may be used to offset future taxable income. The NOL carryforwards expire through 2029.

Net Income (Loss) Per Share

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

Results of Operations

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

	September 30, 2011	September 30, 2011	September 30, Years Ended December 31, 2010	September 30, Years Ended December 31, 2010	September 30, 2009	September 30, 2009
			(\$ in thousands)			
Revenues:						
Online	\$ 92,303	87%	\$ 82,330	87%	\$ 72,345	84%
Events	13,195	13	12,679	13	14,152	16
Total revenues	105,498	100	95,009	100	86,497	100

Edgar Filing: TechTarget Inc - Form 10-K

Cost of revenues:						
Online	22,373	21	20,402	21	20,661	24
Events	4,765	5	4,313	5	5,856	7
Total cost of revenues	27,138	26	24,715	26	26,517	31
Gross profit	78,360	74	70,294	74	59,980	69

Table of Contents

	September 30, 2011	September 30, 2011	September 30, Years Ended December 31, 2010 (\$ in thousands)	September 30, 2010	September 30, 2009	September 30, 2009
Operating expenses:						
Selling and marketing	39,586	38	37,291	39	34,125	39
Product development	7,688	7	8,661	9	9,213	11
General and administrative	13,680	13	15,530	16	15,316	18
Depreciation	2,759	3	2,389	3	2,219	3
Amortization of intangible assets	3,976	4	4,523	5	4,714	5
Restructuring charge	384					
Total operating expenses	68,073	65	68,394	72	65,587	76
Operating income (loss)	10,287	9	1,900	2	(5,607)	(7)
Interest and other income, net	57		176		267	
Income (loss) before provision for (benefit from) income taxes	10,344	9	2,076	2	(5,340)	(7)
Provision for (benefit from) income taxes	5,655	5	3,258	3	(224)	
Net income (loss)	\$ 4,689	4%	\$ (1,182)	(1)%	\$ (5,116)	(7)%

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

	September 30, 2011	September 30, 2010	September 30, Years Ended December 31, Increase (Decrease)	September 30, Percent Change
	(\$ in thousands)			
Revenues:				
Online	\$ 92,303	\$ 82,330	\$ 9,973	12%
Events	13,195	12,679	516	4
Total revenues	\$ 105,498	\$ 95,009	\$ 10,489	11%

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

Events. The increase in events revenue is due to the addition of a new multi-day conference in 2011 that was not held in 2010, offset in part by an overall reduction in custom events and seminars.

Cost of Revenues and Gross Profit

Edgar Filing: TechTarget Inc - Form 10-K

	September 30, 2011	September 30, 2010	September 30, Years Ended December 31, Increase (Decrease) (\$ in thousands)	September 30, Percent Change
Cost of revenues:				
Online	\$ 22,373	\$ 20,402	\$ 1,971	10%
Events	4,765	4,313	452	10
Total cost of revenues	\$ 27,138	\$ 24,715	\$ 2,423	10%
Gross profit	\$ 78,360	\$ 70,294	\$ 8,066	11%
Gross profit percentage	74%	74%		

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

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

Table of Contents

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

Operating Expenses and Other

	September 30, 2011	September 30, 2010	September 30, Years Ended December 31, Increase (Decrease)	September 30, Percent Change
	(\$ in thousands)			
Operating expenses:				
Selling and marketing	\$ 39,586	\$ 37,291	\$ 2,295	6%
Product development	7,688	8,661	(973)	(11)
General and administrative	13,680	15,530	(1,850)	(12)
Restructuring	384		384	
Depreciation	2,759	2,389	370	15
Amortization of intangible assets	3,976	4,523	(547)	(12)
Total operating expenses	\$ 68,073	\$ 68,394	\$ (321)	%
Interest and other income, net	\$ 57	\$ 176	\$ (119)	(68)%
Provision for income taxes	\$ 5,655	\$ 3,258	\$ 2,397	74%

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

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

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

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

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

intangible assets.

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

Provision for (Benefit from) Income Taxes. Our effective tax rate was 55% and 157% for the year ended December 31, 2011 and 2010, respectively. The provision for income taxes for the year ended December 31, 2010 includes an accrual of \$0.4 million for an uncertain income tax position related to the classification of TechTarget Securities Corporation as a Massachusetts security corporation. Our effective tax rate excluding the adjustment was 139%. The effective tax rate differs from the statutory rate primarily due to the permanent difference of nondeductible stock-based compensation expense of \$2.2 million and \$3.8 million for the years ended December 31, 2011 and 2010, respectively.

Table of Contents

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

Comparison of Fiscal Years Ended December 31, 2010 and 2009**Revenues**

	September 30, 2010	September 30, 2009	September 30, Increase (Decrease)	September 30, Percent Change
	Years Ended December 31, (\$ in thousands)			
Revenues:				
Online	\$ 82,330	\$ 72,345	\$ 9,985	14%
Events	12,679	14,152	(1,473)	(10)
Total revenues	\$ 95,009	\$ 86,497	\$ 8,512	10%

Online. The increase in online revenue was primarily attributable to a \$7.4 million increase in revenue from lead generation offerings, due principally to an increase in white paper and sponsorship sales volumes. Additionally, branding revenue increased by approximately \$3.6 million, due primarily to an increase in banner sales volume. These increases were partially offset by a \$1.0 million decrease in third party revenue. The change in online revenues also includes an increase of \$0.2 million related to a 2009 adjustment to correct accounts payable related to customer credit errors.

Events. The decrease in events revenue was primarily attributable to a \$1.8 million decrease in conference revenues and a \$0.8 million decrease in seminar revenues, partially offset by a \$1.6 million increase in our custom events revenues due to the continued efforts of our newly formed custom events group, which has increased our custom events volume. In 2010, in response to market conditions, we proactively reduced the number of multi-day conference events to focus on higher margin, single-day and custom events. This reduction resulted in the 10% decrease in events revenue in 2010.

Cost of Revenues and Gross Profit

	September 30, 2010	September 30, 2009	September 30, Increase (Decrease)	September 30, Percent Change
	Years Ended December 31, (\$ in thousands)			
Cost of revenues:				
Online	\$ 20,402	\$ 20,661	\$ (259)	(1)%
Events	4,313	5,856	(1,543)	(26)
Total cost of revenues	\$ 24,715	\$ 26,517	\$ (1,802)	(7)%
Gross profit	\$ 70,294	\$ 59,980	\$ 10,314	17%
Gross profit percentage	74%	69%		

Cost of Online Revenue. The decrease in cost of online revenue was primarily attributable to a \$1.2 million decrease in member acquisition expenses, primarily related to keyword purchases, a \$0.3 million decrease in stock-based compensation expense and a \$0.2 million decrease in consulting and payroll-related expenses, partially offset by a \$1.3 million increase in hosting and production costs.

Edgar Filing: TechTarget Inc - Form 10-K

Cost of Events Revenue. The decrease in cost of events revenue was primarily attributable to a \$1.0 million decrease in conference and seminar series costs due to the decreased number of events and a \$0.7 million decrease in payroll-related costs, offset in part by a \$0.1 million increase in custom event costs.

Table of Contents

Gross Profit. Our gross profit is equal to the difference between our revenues and our cost of revenues for the period. Gross margin for 2010 was 74% as compared to 69% for 2009. The increase in online gross profit was \$10.2 million, primarily attributable to the increase in online revenue as well as a decrease in member acquisition expenses. Online gross profit percentage was 75% in 2010 as compared to 71% in 2009. This 4% increase was due to the increased revenue resulting in additional leverage when combined with the expense savings from member acquisition costs. Events gross profit was flat, primarily as a result of a higher proportion of our events revenues coming from higher margin custom events in 2010 and a reduction in costs due to reduced headcount, offset in part by lower overall events revenues. Events gross profit percentage increased 7 points to 66% in 2010 as compared to 59% in 2009. This was again a result of reducing the number of multi-day events and focusing on our higher margin event offerings. Because the majority of our costs are labor-related, we typically expect our gross profit to fluctuate from period to period depending on the total revenues for the period and the relative contribution of online and events revenue to our total revenues.

Operating Expenses and Other

	September 30, 2010	September 30, 2009	September 30, September 30, Years Ended December 31, Increase (Decrease)	September 30, Percent Change
			(\$ in thousands)	
Operating expenses:				
Selling and marketing	\$ 37,291	\$ 34,125	\$ 3,166	9%
Product development	8,661	9,213	(552)	(6)
General and administrative	15,530	15,316	214	1
Depreciation	2,389	2,219	170	8
Amortization of intangible assets	4,523	4,714	(191)	(4)
Total operating expenses	\$ 68,394	\$ 65,587	\$ 2,807	4%
Interest and other income, net	\$ 176	\$ 267	\$ (91)	(34)%
Provision for (benefit from) income taxes	\$ 3,258	\$ (224)	\$ 3,482	*%

* Percentage is not meaningful

Selling and Marketing. The increase in selling and marketing expense was primarily attributable to a \$1.6 million increase in payroll-related costs due to an increase in headcount, primarily due to international expansion, a \$1.3 million increase in incentive compensation related to the increase in online revenue, and a \$0.4 million increase in stock-based compensation. The effects of these increases were offset in part by an adjustment that increased sales and marketing expense in 2009 by \$0.4 million as a result of a correction of accounts payable related to customer credit errors.

Product Development. The decrease in product development expense was primarily due to a reduction in payroll-related costs. Additionally, 2009 results included an adjustment that increased product development expense by \$0.1 million as a result of a correction of accounts payable related to customer credit errors, which we did not experience in 2010.

General and Administrative. Included in the prior year's results are \$1.4 million of professional fees related to a forensic audit that took place during that year as well as a one-time correcting accounting entry that increased expense by \$0.2 million as a result of customer credit errors in accounts payable. After taking out the effects of these accounting entries and adjustments in 2009, the run rate general and administrative expenses increased by \$1.8 million. This increase was primarily attributable to an increase in personnel-related costs, including incentive compensation, hiring expenses and use of outside services during the recruitment process of \$2.0 million. The increased costs were primarily as a result of improved operating results that drive incentive compensation calculations, severance charges recorded, temporary help and the hiring of certain key finance personnel in 2010. Also contributing were increases of \$0.5 million in facilities related expenses primarily related to the move into a new corporate headquarters on March 1, 2010, a \$0.6 million accrual recorded for potential tax and net worth-related liabilities, a \$0.3 million increase in legal fees, primarily related to acquisitions, and \$0.3 million in expenses related to international expansion. These increases were offset in part by a \$1.7 million reduction in stock-based compensation, primarily caused by the accelerated vesting in 2009 of some performance-based equity awards.

Edgar Filing: TechTarget Inc - Form 10-K

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

Table of Contents

Interest and Other Income, Net. The increase in interest income, net reflects an adjustment to interest income of (\$0.3) million in the first quarter of 2009 related to interest income recognized in error in the fourth quarter of 2008 as well as a decrease in interest expense due to payment of our outstanding debt balance in the fourth quarter of 2009. Other income (expense), net consists of \$0.1 million in realized losses on the sale of short and long-term investments in order to cover expenses related to the approximately \$35 million needed to complete the tender offer in the fourth quarter of 2010.

Provision for (Benefit from) Income Taxes. The provision for income taxes for the year ended December 31, 2010 includes an accrual of \$0.4 million for an uncertain income tax position related to the classification of TechTarget Securities Corporation as a Massachusetts security corporation. Our effective tax rate excluding the adjustment was 139% and 4% for years ended December 31, 2010 and 2009, respectively. The change in our effective tax rate excluding the adjustment for the uncertain tax position is primarily due to the large increase to pre-tax income in 2010 from a pre-tax loss in 2009 as well as the permanent difference of nondeductible stock-based compensation expense of \$3.8 million and \$4.1 million for the years ended December 31, 2010 and 2009, respectively.

Reclassifications. In 2011, the Company changed the manner in which it allocates real estate facilities costs to align with actual departmental headcount. Previously, such costs were all included as a part of general and administrative expenses. Amounts in the prior years' financial statements have been reclassified to conform to the current year presentation. In the year ended December 31, 2010 the reclassification resulted in additional online cost of sales, events cost of sales, sales and marketing and product development expense of \$1.4 million, \$0.2 million, \$1.6 million and \$0.6 million, respectively, offset by a decrease in general and administrative expense of \$3.8 million. In the year ended December 31, 2009 the reclassification resulted in additional online cost of sales, events cost of sales, sales and marketing and product development expense of \$1.3 million, \$0.3 million, \$1.4 million and \$0.5 million, respectively, offset by a decrease in general and administrative expense of \$3.5 million.

Selected Quarterly Results of Operations

The following table presents our unaudited quarterly consolidated results of operations for the eight quarters ended December 31, 2011. The unaudited quarterly consolidated information has been prepared on the same basis as our audited consolidated financial statements. You should read the following table presenting our quarterly consolidated results of operations in conjunction with our audited consolidated financial statements and the related notes included elsewhere in this Annual Report. The operating results for any quarter are not necessarily indicative of the operating results for any future period.

	For the Three Months Ended							
	2011				2010			
	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Mar. 31	Jun. 30	Sep. 30	Dec. 31
	(in thousands, except per share data)							
Revenues:								
Online	\$ 20,380	\$ 24,151	\$ 21,763	\$ 26,009	\$ 18,561	\$ 20,626	\$ 18,878	\$ 24,265
Events	2,186	3,951	4,129	2,929	2,482	4,447	3,123	2,627
Total revenues	22,566	28,102	25,892	28,938	21,043	25,073	22,001	26,892
Cost of revenues:								
Online	5,606	5,720	5,547	5,500	4,942	5,180	4,921	5,359
Events	877	1,242	1,488	1,158	938	1,373	1,149	854
Total cost of revenues	6,483	6,962	7,035	6,658	5,880	6,553	6,070	6,213
Gross profit	16,083	21,140	18,857	22,280	15,163	18,520	15,931	20,679
Operating expenses:								
Selling and marketing	8,631	10,184	10,182	10,589	9,411	9,420	8,984	9,476
Product development	1,946	1,870	1,874	1,998	2,355	2,180	2,087	2,038
General and administrative	3,799	3,458	3,105	3,319	4,347	3,757	3,567	3,859

Edgar Filing: TechTarget Inc - Form 10-K

Restructuring		384						
Depreciation	641	668	692	758	525	642	592	630
Amortization of intangible assets	1,086	989	955	946	1,135	1,140	1,126	1,122
Total operating expenses	16,103	17,553	16,808	17,610	17,773	17,139	16,356	17,125

Table of Contents

	For the Three Months Ended							
	2011				2010			
	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Mar. 31	Jun. 30	Sep. 30	Dec. 31
	(in thousands, except per share data)							
Operating (loss) income	(20)	3,587	2,049	4,670	(2,610)	1,381	(425)	3,554
Interest and other income (loss), net	6	6	20	25	107	84	79	(94)
(Loss) income before provision for (benefit from) income taxes	(14)	3,593	2,069	4,695	(2,503)	1,465	(346)	3,460
Provision for (benefit from) income taxes	61	1,775	1,106	2,713	(163)	1,019	266	2,136
Net (loss) income	\$ (75)	\$ 1,818	\$ 963	\$ 1,982	\$ (2,340)	\$ 446	\$ (612)	\$ 1,324
Net (loss) income per share basic	\$ (0.00)	\$ 0.05	\$ 0.03	\$ 0.05	\$ (0.06)	\$ 0.01	\$ (0.01)	\$ 0.03
Net (loss) income per share diluted	\$ (0.00)	\$ 0.04	\$ 0.02	\$ 0.05	\$ (0.06)	\$ 0.01	\$ (0.01)	\$ 0.03

Seasonality

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

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

Liquidity and Capital Resources**Resources**

At December 31, 2011, we had \$70.7 million of working capital, and our cash and cash equivalents totaled \$25.8 million. Our cash, cash equivalents and investments increased \$13.1 million during fiscal 2011, primarily from cash generated from our operations and proceeds from the exercise of stock options. These cash sources were partially offset by our investing activities, primarily for purchases of property and equipment and for the acquisition of businesses. We believe that our existing cash, cash equivalents, and investments, our cash flow from operating activities and available bank borrowings will be sufficient to meet our anticipated cash needs for at least the next 12 months. Our future working capital requirements will depend on many factors, including the operations of our existing business, our potential strategic expansion internationally, future acquisitions we might undertake, and the expansion into complementary businesses. To the extent that our cash and cash equivalents, investments and cash flow from operating activities are insufficient to fund our future activities, we may need to raise additional funds through bank credit arrangements or public or private equity or debt financings. We also may need to raise additional funds in the event we determine in the future to effect one or more additional acquisitions of businesses.

	September 30, 2011	September 30, As of December 31, 2010 (in thousands)	September 30, 2009
Cash, cash equivalents and investments	\$ 63,221	\$ 50,134	\$ 82,557
Accounts receivable, net	\$ 26,272	\$ 24,678	\$ 16,623

Cash, Cash Equivalents and Investments

Edgar Filing: TechTarget Inc - Form 10-K

Our cash, cash equivalents and investments at December 31, 2011 were held for working capital purposes and were invested primarily in money market accounts and municipal bonds. We do not enter into investments for trading or speculative purposes.

Table of Contents***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 status of our receivables. We define DSO as net accounts receivable at period end divided by total revenue for the applicable period, multiplied by the number of days in the applicable period. DSO was 84 days at December 31, 2011 and 2010, and 70 days at December 31, 2009.

Operating Activities

	September 30, 2011	September 30, 2010 (in thousands)	September 30, 2009
Cash provided by operating activities	\$ 15,858	\$ 12,879	\$ 19,733
Cash used in investing activities(1)	\$ (6,530)	\$ (9,756)	\$ (2,075)
Cash provided by (used in) financing activities	\$ 4,871	\$ (33,991)	\$ (2,997)

(1) Cash used in investing activities shown net of investment activity of \$(20.8) million, \$42.6 million and \$(17.9) million for the years ended December 31, 2011, 2010 and 2009, respectively.

Cash provided by operating activities primarily consists of net income (loss) adjusted for certain non-cash items including depreciation and amortization, the provision for bad debt, stock-based compensation, deferred income taxes, and the effect of changes in working capital and other activities. Cash provided by operating activities for the year ended December 31, 2011 was \$15.9 million compared to \$12.9 million and \$19.7 million in the years ended December 31, 2010 and 2009, respectively. The increase in cash provided by operations in 2011 compared to 2010 was primarily a result of net cash used by changes in operating assets and liabilities of \$1.0 million as compared to net cash used by changes in operating assets and liabilities of \$3.7 million in 2010. Significant components of the changes in assets and liabilities included an increase in accounts receivable of \$1.7 million in 2011 compared to an increase of \$7.5 million in 2010, an increase in accrued liabilities, including compensation and income taxes, of \$4.3 million in 2011 as compared with an increase of \$2.3 million in 2010, and a decrease in deferred revenue of \$1.2 million in 2011 as compared with a decrease of \$2.4 million in 2010. These changes were offset in part by an increase in prepaid expenses and other current assets of \$0.8 million in 2011 compared to a decrease of \$0.9 million in 2010, a decrease in accounts payable of \$0.9 million in 2011 compared to an increase of \$0.6 million in 2010, and a decrease in other liabilities, primarily comprised of deferred rent and contingent compensation, of \$0.7 million in 2011 compared to an increase of \$2.4 million in 2010. Additionally, there was a \$0.2 million increase in net income (loss) adjusted for non-cash related items.

Investing Ac