

TechTarget Inc  
Form 10-Q  
February 08, 2010

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

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2009

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number: 1-33472

**TECHTARGET, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

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

**117 Kendrick Street, Suite 800**  
**Needham, Massachusetts 02494**  
(Address of principal executive offices) (zip code)

**(781) 657-1000**  
(Registrant's telephone number, including area code)

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

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

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

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

Large Accelerated Filer <input type="checkbox"/>	Accelerated Filer <input checked="" type="checkbox"/>	Non-Accelerated Filer <input type="checkbox"/>	Smaller Reporting Company <input type="checkbox"/>
(Do not check if a smaller reporting company)			

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

The registrant had 42,039,208 shares of Common Stock, \$0.001 par value per share, outstanding as of September 30, 2009.

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**EXPLANATORY NOTE**

On November 9, 2009, TechTarget, Inc. filed a Form 8-K disclosing that it was delaying the filing of its Quarterly Report on Form 10-Q for the Quarter ended September 30, 2009. The Company further disclosed that it had identified an improper accounting practice relating to certain customer credits that were improperly eliminated as liabilities on the Company's balance sheet. As a result, the Audit Committee of the Company's Board of Directors conducted an investigation into this matter with the assistance of counsel and forensic accounting experts. The Audit Committee has now completed its investigation and the Company is, this day, filing this Quarterly Report on Form 10-Q for the Quarter ended September 30, 2009. Consistent with the Company's November 9, 2009 press release, the Audit Committee concluded that the improper conduct associated with the accounting practice was limited to a single individual who was promptly terminated from his position upon discovery of the practice. The Audit Committee's investigation found no other improper conduct in connection with any other accounting practice. To correct the improper accounting related to the customer credits, the Company has recorded a net adjustment for the quarter ended September 30, 2009.

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****TECHTARGET, INC.****Consolidated Balance Sheets****(In thousands, except share and per share data)**

	<b>September 30, 2009</b>	<b>December 31, 2008</b>
	<b>(Unaudited)</b>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 21,884	\$ 24,130
Short-term investments	47,519	42,863
Accounts receivable, net of allowance for doubtful accounts of \$482 and \$642 as of September 30, 2009 (unaudited) and December 31, 2008, respectively	15,623	17,622
Prepaid expenses and other current assets	4,604	6,251
Deferred tax assets	2,979	2,959
<b>Total current assets</b>	<b>92,609</b>	<b>93,825</b>
Property and equipment, net	3,502	3,904
Long-term investments	9,247	2,575
Goodwill	88,957	88,958
Intangible assets, net of accumulated amortization	13,680	17,242
Deferred tax assets	4,346	3,369
Other assets	93	139
<b>Total assets</b>	<b>\$ 212,434</b>	<b>\$ 210,012</b>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Current portion of bank term loan payable	\$ 750	\$ 3,000
Accounts payable	3,322	3,404
Income taxes payable	59	
Accrued expenses and other current liabilities	1,850	2,908
Accrued compensation expenses	638	702
Deferred revenue	9,273	8,749
<b>Total current liabilities</b>	<b>15,892</b>	<b>18,763</b>
Long-term liabilities:		
Other liabilities	527	312
<b>Total liabilities</b>	<b>16,419</b>	<b>19,075</b>
Commitments (Note 10)		
Stockholders' equity:		
Preferred stock, 5,000,000 shares authorized; no shares issued or outstanding		
Common stock, \$0.001 par value per share, 100,000,000 shares authorized, 42,039,208 and 41,616,963 shares issued and outstanding at September 30, 2009 (unaudited) and December 31, 2008, respectively	42	42
Additional paid-in capital	230,850	221,597

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Warrants	2	2
Accumulated other comprehensive loss	37	(77)
Accumulated deficit	(34,916)	(30,627)
Total stockholders' equity	196,015	190,937
Total liabilities and stockholders' equity	\$ 212,434	\$ 210,012

See accompanying notes.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(Unaudited)			
<b>Revenues:</b>				
Online	\$ 18,191	\$ 20,420	\$ 52,274	\$ 57,701
Events	4,865	5,496	10,991	16,743
Print		1,080		3,430
<b>Total revenues</b>	<b>23,056</b>	<b>26,996</b>	<b>63,265</b>	<b>77,874</b>
<b>Cost of revenues:</b>				
Online(1)	4,789	5,462	14,445	16,113
Events(1)	1,741	2,328	4,277	7,078
Print		580		1,758
<b>Total cost of revenues</b>	<b>6,530</b>	<b>8,370</b>	<b>18,722</b>	<b>24,949</b>
<b>Gross profit</b>	<b>16,526</b>	<b>18,626</b>	<b>44,543</b>	<b>52,925</b>
<b>Operating expenses:</b>				
Selling and marketing(1)	8,644	8,161	24,183	25,490
Product development(1)	2,276	2,788	6,551	8,440
General and administrative(1)	5,486	3,662	13,469	10,915
Depreciation	510	579	1,544	1,884
Amortization of intangible assets	1,166	1,259	3,562	4,071
<b>Total operating expenses</b>	<b>18,082</b>	<b>16,449</b>	<b>49,309</b>	<b>50,800</b>
<b>Operating income (loss)</b>	<b>(1,556)</b>	<b>2,177</b>	<b>(4,766)</b>	<b>2,125</b>
Interest income (expense), net	130	248	194	934
<b>Income (loss) before provision for income taxes</b>	<b>(1,426)</b>	<b>2,425</b>	<b>(4,572)</b>	<b>3,059</b>
Provision for (benefit from) income taxes	12	1,718	(283)	1,736
<b>Net income (loss)</b>	<b>\$ (1,438)</b>	<b>\$ 707</b>	<b>\$ (4,289)</b>	<b>\$ 1,323</b>
<b>Net income (loss) per common share:</b>				
Basic	\$ (0.03)	\$ 0.02	\$ (0.10)	\$ 0.03
Diluted	\$ (0.03)	\$ 0.02	\$ (0.10)	\$ 0.03
<b>Weighted average common shares outstanding:</b>				
Basic	41,811,821	41,533,020	41,775,152	41,355,812
Diluted	41,811,821	43,116,678	41,775,152	43,393,429

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

Cost of online revenue	\$ 95	\$ 265	\$ 407	\$ 406
Cost of events revenue	64	53	117	100
Selling and marketing	1,479	1,057	4,285	3,796
Product development	89	140	352	420
General and administrative	2,521	648	4,331	2,107

See accompanying notes.



Table of Contents**TECHTARGET, INC.****Consolidated Statements of Cash Flows****(In thousands)****Nine Months Ended  
September 30,****2009                      2008****(Unaudited)**

<b>Operating Activities:</b>		
Net income (loss)	\$ (4,289)	\$ 1,323
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	5,106	5,955
Provision for bad debt	105	378
Amortization of investment premiums	1,247	
Stock-based compensation expense	9,492	6,829
Non-cash interest expense	7	5
Deferred tax benefit	(1,013)	1,326
Excess tax benefit - stock options		(1,015)
Changes in operating assets and liabilities, net of businesses acquired:		
Accounts receivable	1,901	(2,709)
Prepaid expenses and other current assets	1,285	(5,293)
Other assets	39	18
Accounts payable	(79)	(125)
Income taxes payable	59	(1,330)
Accrued expenses and other current liabilities	(1,058)	(366)
Accrued compensation expenses	(65)	(1,674)
Deferred revenue	525	2,528
Other liabilities	283	(84)
<b>Net cash provided by operating activities</b>	<b>13,545</b>	<b>5,766</b>
<b>Investing activities:</b>		
Purchases of property and equipment, and other assets	(1,141)	(1,527)
Purchases of short-term investments	(20,899)	(50,407)
Purchases of long-term investments	(18,676)	(7,885)
Proceeds from sales and maturities of short-term investments	27,050	80,618
Proceeds from sales and maturities of long-term investments		41
Acquisition of assets		(50)
<b>Net cash provided by (used in) investing activities</b>	<b>(13,666)</b>	<b>20,790</b>
<b>Financing activities:</b>		
Payments on bank term loan payable	(2,250)	(2,250)
Excess tax benefit - stock options		1,015
Proceeds from exercise of warrants and stock options	125	2,198
<b>Net cash provided by (used in) financing activities</b>	<b>(2,125)</b>	<b>963</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(2,246)</b>	<b>27,519</b>
Cash and cash equivalents at beginning of period	24,130	10,693
<b>Cash and cash equivalents at end of period</b>	<b>\$ 21,884</b>	<b>\$ 38,212</b>

**Supplemental disclosure of cash flow information:**

Cash paid for interest	\$	102	\$	258
Cash paid (refunded) for taxes	\$	(959)	\$	4,484

See accompanying notes.

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**TECHTARGET, INC.**

**Notes to Consolidated Financial Statements**

**(In thousands, except share and per share data)**

**1. Organization and Operations**

TechTarget, Inc. (the Company) is a leading provider of specialized online content that brings together buyers and sellers of corporate information technology, or IT, products. The Company sells customized marketing programs that enable IT vendors to reach corporate IT decision makers who are actively researching specific IT purchases.

The Company's integrated content platform consists of a network of more than 60 websites that are complemented with targeted in-person events and specialized IT magazines. The Company discontinued publishing its specialized IT magazines in December 2008. During the critical stages of the purchase decision process, these content offerings meet IT professionals' needs for expert, peer and IT vendor information, and provide a platform on which IT vendors can launch targeted marketing campaigns that generate measurable, high return on investment (ROI). As IT professionals have become increasingly specialized, they have come to rely on our sector-specific websites for purchasing decision support. The Company's content enables IT professionals to navigate the complex and rapidly changing IT landscape where purchasing decisions can have significant financial and operational consequences. Based upon the logical clustering of users' respective job responsibilities and the marketing focus of the products that the Company's customers are advertising, content offerings are currently categorized across ten distinct media groups: Application Development; Channel; CIO/IT Strategy; Data Center and Virtualization Technologies; Enterprise Applications; Networking; Security; Storage; TechnologyGuide.com; and Vertical Software.

On November 9, 2009, the Company filed a Form 8-K disclosing that it was delaying the filing of its Quarterly Report on Form 10-Q for the third quarter of 2009. The Company further disclosed that it had identified an improper accounting practice relating to certain customer credits that were improperly eliminated as liabilities on the Company's balance sheet. As a result, the Company's Audit Committee conducted an investigation into this matter. The Audit Committee has completed its investigation and the Company has concluded that there were certain errors in its previously reported financial statements. In addition to the customer credit matter mentioned above, the Company disclosed in its Quarterly Report on Form 10-Q for the first quarter of 2009 that it corrected in the first quarter of 2009 an error in the amount of \$284 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 \$284 adjustment is not included in the adjustments described below.

To correct the customer credit errors, the Company recorded a net adjustment which increased accounts payable by \$967 and decreased income before provision for income taxes by \$967 during the quarter ended September 30, 2009. The aggregate net adjustment accumulated over several years and includes \$57 from 2004 to 2006, \$362 from 2007, \$561 from 2008 and (\$13) from the nine months ended September 30, 2009.

The Company corrected an error totaling \$1.1 million during the third quarter of 2009 related to stock-based compensation expense that should have been recorded in the first and second quarters of 2009. The additional stock-based compensation expense relates to 1,925,000 restricted stock awards granted during the first quarter of 2009. The vesting for the restricted stock awards is contingent upon the Company achieving an annual financial performance goal. The stock-based compensation expense related to the restricted stock awards was initially recognized on a straight-line basis over the vesting period but should have been recognized using the accelerated attribution method.

The Company assessed the materiality of these errors, both quantitatively and qualitatively, and concluded that the adjustments are not material to the prior annual financial statements or to the

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**TECHTARGET, INC.**

**Notes to Consolidated Financial Statements (Continued)**

**(In thousands, except share and per share data)**

**1. Organization and Operations (Continued)**

interim financial statements for 2009. As a result, the Company recorded the correction of the errors in the quarter ended September 30, 2009.

**2. Summary of Significant Accounting Policies**

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

***Principles of Consolidation***

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, which include KnowledgeStorm, Inc., Bitpipe, Inc., TechTarget Securities Corporation and TechTarget Limited. KnowledgeStorm, Inc. and Bitpipe, Inc. are leading websites providing in-depth vendor generated content targeted toward corporate IT professionals. TechTarget Securities Corporation is a Massachusetts Securities Corporation incorporated in 2004. TechTarget Limited is a subsidiary doing business principally in the United Kingdom. All significant intercompany accounts and transactions have been eliminated in consolidation.

***Basis of Presentation***

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. All adjustments, which, in the opinion of management, are considered necessary for a fair presentation of the results of operations for the periods shown, are of a normal recurring nature and have been reflected in the consolidated financial statements. The results of operations for the periods presented are not necessarily indicative of results to be expected for any other interim periods or for the full year. The information included in these consolidated financial statements should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in this report and the consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K/A for the year ended December 31, 2008. The Company has evaluated subsequent events through the date of this filing.

***Use of Estimates***

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

***Revenue Recognition***

The Company generates substantially all of its revenue from the sale of targeted advertising campaigns that are delivered via its network of websites, events and print publications. The Company

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**TECHTARGET, INC.**

**Notes to Consolidated Financial Statements (Continued)**

**(In thousands, except share and per share data)**

**2. Summary of Significant Accounting Policies (Continued)**

discontinued publishing print magazines in December 2008. Revenue is recognized only when the price is fixed or determinable, persuasive evidence of an arrangement exists, the service is performed and collectability of the resulting receivable is reasonably assured.

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

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

*Print Publications.* When sold separately, advertising revenues from print publications are recognized at the time the applicable publication is distributed. When print advertising campaigns are sold with other services, revenue is recognized for all services in the advertising campaign over the term of the arrangement. Amounts collected or billed prior to satisfying the above revenue recognition criteria are recorded as deferred revenue.

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

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

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

*Software Package Comparisons.* Software package comparison revenue is recognized ratably over the period in which the software information is available on the Company's websites.

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

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

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

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

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

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**TECHTARGET, INC.**

**Notes to Consolidated Financial Statements (Continued)**

**(In thousands, except share and per share data)**

**2. Summary of Significant Accounting Policies (Continued)**

number of qualified sales leads to be delivered over the course of the advertising campaign. Scheduled end dates of advertising campaigns are sometimes extended to satisfy lead guarantees or fulfill all elements of the advertising campaign based on delayed receipt of advertising media collateral from the customer. The Company estimates the revenue reserve necessary to properly defer revenue recognition for extended advertising campaigns. These estimates are based on the Company's experience in managing and fulfilling these integrated ROI program offerings. Historically, shortfalls in fulfilling lead guarantees before the scheduled completion date of an advertising campaign are satisfied within an average of 44 days of such scheduled completion date. These integrated ROI program offerings represented approximately 51% and 44% of online revenues, and 40% and 33% of total revenues for the three months ended September 30, 2009 and 2008, respectively, and approximately 47% and 41% of online revenues, and 39% and 30% of total revenues for the nine months ended September 30, 2009 and 2008, respectively.

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

***Fair Value of Financial Instruments***

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

***Long-lived Assets***

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

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

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

The Company capitalizes costs incurred during the development of its website applications and infrastructure as well as certain costs relating to internal use software. The estimated useful life of costs capitalized is evaluated for each specific project. Capitalized internal use software and website development costs are reviewed for recoverability whenever events or changes in circumstances indicate

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**TECHTARGET, INC.**

**Notes to Consolidated Financial Statements (Continued)**

**(In thousands, except share and per share data)**

**2. Summary of Significant Accounting Policies (Continued)**

that the carrying amount of the asset may not be recoverable. An impairment loss shall be recognized only if the carrying amount of the asset is not recoverable and exceeds its fair value. The Company capitalized internal-use software and website development costs of \$503 and \$320 for the three months ended September 30, 2009 and 2008, respectively, and \$844 and \$342 for the nine months ended September 30, 2009 and 2008, respectively.

***Income Taxes***

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

***Stock-Based Compensation***

At September 30, 2009, the Company had two stock-based employee compensation plans which are more fully described in Note 12. Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized in the statement of operations using the straight line method over the vesting period of the award or using the accelerated method if the award is contingent upon performance goals. The Company uses the Black-Scholes option-pricing model to determine the fair-value of stock-based awards.

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

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

***Recent Accounting Pronouncements***

Effective January 1, 2009, the Company adopted SFAS No. 141 (revised 2007), *Business Combinations* (SFAS 141(R)) which was primarily codified into FASB Accounting Standards Codification (ASC) 805, *Business Combinations* (ASC 805). Under current guidance, an entity is required to recognize the assets acquired, liabilities assumed, contractual contingencies, and contingent consideration at their fair value on the acquisition date. It further requires that acquisition-related costs be recognized separately from the acquisition and expensed as incurred; that restructuring costs



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**TECHTARGET, INC.**

**Notes to Consolidated Financial Statements (Continued)**

**(In thousands, except share and per share data)**

**2. Summary of Significant Accounting Policies (Continued)**

generally be expensed in periods subsequent to the acquisition date; and that changes in accounting for deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period be recognized as a component of provision for taxes. In addition, acquired in-process research and development is capitalized as an intangible asset and amortized over its estimated useful life. The current guidance is effective on a prospective basis for all business combinations for which the acquisition date is on or after January 1, 2009, with the exception of the accounting for valuation allowances on deferred taxes and acquired contingencies. With the adoption of the current guidance, any tax related adjustments associated with acquisitions that closed prior to January 1, 2009 will be recorded through income tax expense, whereas the previous accounting treatment would require any adjustment to be recognized through goodwill. The adoption of the current guidance had no impact on the Company's consolidated financial statements as of, and for the three and nine months ended September 30, 2009.

Effective January 1, 2009, the Company implemented Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment to ARB No. 51* (SFAS 160) which was primarily codified into FASB ASC 810 *Consolidation* (ASC 810). This standard changed the accounting for and reporting of noncontrolling interest (previously called minority interest) in the consolidated financial statements. The adoption on January 1, 2009 did not have a material effect on the Company's consolidated financial position or results of operations.

Effective January 1, 2009, the Company adopted FASB Staff Position (FSP) No. 142-3, *Determination of the Useful Life of Intangible Assets* (FSP No. 142-3) which was primarily codified into FASB ASC 350, *Intangibles Goodwill and Other* (ASC 350). The current guidance amends the factors considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The current guidance also requires enhanced disclosures when an intangible asset's expected future cash flows are affected by an entity's intent and/or ability to renew or extend the arrangement. The adoption did not have a material impact on the Company's consolidated results of operations or financial condition as of, and for the three and nine months ended September 30, 2009.

Effective April 1, 2009, the Company adopted SFAS No. 165, *Subsequent Events* (SFAS 165) which was primarily codified into FASB ASC 855 *Subsequent Events* (ASC 855). The current guidance is intended to establish general standards of accounting for, and disclosure of, events that occur after the balance sheet date but before financial statements are issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. The Company has evaluated subsequent events through the date of this filing.

Effective April 1, 2009, the Company adopted FSP No. 115-2 and 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (FSP 115-2 and 124-2) which was primarily codified into FASB ASC 320 *Investments Debt and Equity Securities* (ASC 320). The current guidance provides new guidance on the recognition and presentation of an other-than-temporary impairments, as well as extends certain annual disclosure requirements to interim periods. The adoption did not have a material impact on the Company's financial position or results of operations.

Effective September 30, 2009, the Company adopted SFAS No. 168, *The FASB Accounting Standards Codification (Codification) and the Hierarchy of Generally Accepted Accounting Principles a replacement of Financial Statement No. 162* (SFAS 168) which was primarily codified into FASB ASC 105 *Generally Accepted Accounting Principles*. Current guidance establishes the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to

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## TECHTARGET, INC.

## Notes to Consolidated Financial Statements (Continued)

(In thousands, except share and per share data)

**2. Summary of Significant Accounting Policies (Continued)**

be applied by nongovernmental entities in preparation of financial statements in conformity with generally accepted accounting principles in the United States. All other accounting literature not included in the Codification is non-authoritative. The adoption did not have a material impact on the Company's consolidated results of operations or financial condition for all periods presented.

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

**3. Fair Value Measurements**

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

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

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

*Level 3.* Unobservable inputs.

The fair value hierarchy of the Company's financial assets and liabilities carried at fair value and measured on a recurring basis is as follows as of September 30, 2009:

	September 30, 2009	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(Unaudited)		
Money market funds(1)	\$ 11,155	\$ 11,155	\$	\$
Short-term investments	47,519		47,519	
Long-term investments	9,247		9,247	
Interest rate swap(2)	7		7	
<b>Total</b>	<b>\$ 67,928</b>	<b>\$ 11,155</b>	<b>\$ 56,773</b>	<b>\$</b>

- (1) Included in cash equivalents on the accompanying consolidated balance sheet.
- (2) Included in other liabilities on the accompanying consolidated balance sheet.

Table of Contents**TECHTARGET, INC.****Notes to Consolidated Financial Statements (Continued)****(In thousands, except share and per share data)****4. Acquisitions**

On November 19, 2008, the Company acquired substantially all of the assets of The Brian Madden Company LLC (BMC), for \$1,315 in cash, of which \$1,184 was paid on November 19, 2008 and the remaining balance of \$131 was paid on September 11, 2009. BMC operated a website (*BrianMadden.com*) and an event addressing the topics of desktop virtualization, terminal services, and application virtualization. The acquisition provides the Company with an opportunity for growth within segments and in other markets in which it currently does not have a presence, primarily desktop and application virtualization.

In connection with this acquisition, the Company purchased \$79 of property and equipment, \$40 of prepaid expenses, recorded \$636 of goodwill and recorded \$560 of intangible assets related to customer relationships, a non-compete agreement and trade names with estimated useful lives ranging from three to five years.

The estimated fair value of \$560 of acquired intangible assets is assigned as follows:

	Useful Life	Estimated Fair Value
Customer relationship intangible asset	48 months	\$ 227
Non-compete agreement intangible asset	36 months	198
Trade name intangible asset	60 months	135
Total intangible assets		\$ 560

The Company engaged a third party valuation specialist to assist management in determining the fair value of the acquired assets of BMC. To value the customer relationship asset, an income approach was used, specifically a variation of the discounted cash-flow method. The projected net cash flows for BMC were tax affected using an effective rate of 41% and then discounted using a discount rate of 25% to calculate the value of the customer relationship asset. Additionally, the present value of the sum of projected tax benefits was added to arrive at the total fair value of the customer relationship asset. To value the non-compete agreement a comparative business valuation method was used. Based on a non-compete term of 36 months, management projected net cash flows for the Company with and without the non-compete agreement in place. The present value of the sum of the difference between the net cash flows with and without the non-compete agreement in place was calculated, based on a discount rate of 25%. To value the trade name intangible asset a relief from royalty method was used to estimate the pre-tax royalty savings to the Company related to the BMC trade names. The projected net cash flows from the pre-tax royalty savings were tax affected using an effective rate of 41% and then discounted using a discount rate of 25% to calculate the value of the trade name intangible asset.

**5. Restructuring Charge**

In December 2008 the Company implemented an expense reduction program that included (i) a reduction in workforce, (ii) a reduction in certain office leases, (iii) the elimination of its two print publications, and (iv) a continuation of strict controls on discretionary spending. The Company has implemented the cost reductions to lower its current and future operating expenses in order to align its costs with the current business conditions with the goal of maintaining its profitability and investing as appropriate to gain market share. The Company's restructuring charge was comprised principally of employee severance and associated termination costs, costs associated with a reduction in certain office

Table of Contents**TECHTARGET, INC.****Notes to Consolidated Financial Statements (Continued)****(In thousands, except share and per share data)****5. Restructuring Charge (Continued)**

leases, contract termination costs in connection with the elimination of its two print publications and write-offs of leasehold improvements associated with the exit of facilities.

The Company's restructuring charge recorded in 2008 was comprised of the following:

	<b>Restructuring Charge</b>
Employee severance pay and related costs	\$ 886
Non-cancelable lease, contract termination, and other charges	559
Write-off of tenant improvements, furniture, and fixed assets	49
Restructuring charge	\$ 1,494

The activity in the Company's restructuring accrual for the nine months ended September 30, 2009 is as follows:

	<b>Restructuring Charge</b>
Balance as of December 31, 2008	\$ 1,114
Cash paid related to employee severance and other costs	(980)
Balance as of September 30, 2009 (unaudited)	\$ 134

The Company's restructuring accrual balance of \$134 and \$1,114 was included in the consolidated balance sheets in accrued expenses and other liabilities as of September 30, 2009 and December 31, 2008, respectively.

**6. Cash, Cash Equivalents and Investments**

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

	<b>September 30, 2009</b>	<b>December 31, 2008</b>
	<b>(Unaudited)</b>	
Cash	\$ 10,729	\$ 9,850
Money market funds	11,155	14,280
Total cash and cash equivalents	\$ 21,884	\$ 24,130

The Company's short and long-term investments are accounted for as available for sale securities. These investments are recorded at fair value with the related unrealized gains and losses included in accumulated other comprehensive income (loss), a component of stockholders' equity, net of tax. The unrealized gain, net of taxes, was \$41 and \$10 as of September 30, 2009 and December 31, 2008, respectively. Realized gains and losses on the sale of these investments are determined using the specific identification method. Realized gains totaled \$17 in the nine months ended September 30,



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## TECHTARGET, INC.

## Notes to Consolidated Financial Statements (Continued)

(In thousands, except share and per share data)

## 6. Cash, Cash Equivalents and Investments (Continued)

2009. There were no realized gains or losses in the three months ended September 30, 2009 and in the three and nine months ended September 30, 2008.

Short and long-term investments consisted of the following:

	Cost	September 30, 2009		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
(Unaudited)				
Short and long-term investments:				
Municipal bonds	\$ 56,697	\$ 72	\$ (3)	\$ 56,766
Total short and long-term investments	\$ 56,697	\$ 72	\$ (3)	\$ 56,766

	Cost	December 31, 2008		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
Short and long-term investments:				
Municipal bonds	\$ 45,419	\$ 22	\$ (3)	\$ 45,438
Total short and long-term investments	\$ 45,419	\$ 22	\$ (3)	\$ 45,438

The Company had six debt securities in an unrealized loss position at September 30, 2009. All of these securities have been in such a position for less than 12 months. The unrealized loss on those securities was \$3 and the fair value was \$9,274. As of September 30, 2009, the Company does not consider these investments to be other-than temporarily impaired.

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

## 7. Intangible Assets

Intangible assets subject to amortization as of September 30, 2009 and December 31, 2008 consist of the following:

Estimated Useful Lives (Years)	As of September 30, 2009			Net
	Gross Carrying Amount	Accumulated Amortization		

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		(Unaudited)		
Customer, affiliate and advertiser relationships	1 - 9	\$ 11,509	\$ (5,140)	\$ 6,369
Developed websites, technology and patents	3 - 6	5,400	(2,175)	3,225
Trademark, trade name and domain name	1 - 7	2,179	(1,184)	995
Proprietary user information database and Internet traffic	3 - 5	4,750	(1,997)	2,753
Non-compete agreements	1 - 3	1,323	(985)	338
Total intangible assets		\$ 25,161	\$ (11,481)	\$ 13,680



Table of Contents**TECHTARGET, INC.****Notes to Consolidated Financial Statements (Continued)****(In thousands, except share and per share data)****7. Intangible Assets (Continued)**

	Estimated Useful Lives (Years)	As of December 31, 2008		
		Gross Carrying Amount	Accumulated Amortization	Net
Customer, affiliate and advertiser relationships	1 - 9	\$ 12,449	\$ (4,641)	\$ 7,808
Developed websites, technology and patents	3 - 6	5,400	(1,500)	3,900
Trademark, trade name and domain name	1 - 7	2,179	(912)	1,267
Proprietary user information database and Internet traffic	3 - 5	4,750	(1,216)	3,534
Non-compete agreements	1 - 3	1,933	(1,200)	733
Total intangible assets		\$ 26,711	\$ (9,469)	\$ 17,242

Intangible assets are amortized over their estimated useful lives, which range from one to nine years, using methods of amortization that are expected to reflect the estimated pattern of economic use. The remaining amortization expense will be recognized over a weighted-average period of approximately 2.6 years. Amortization expense was \$1,166 and \$1,259 for the three months ended September 30, 2009 and 2008 respectively, and \$3,562 and \$4,071 for the nine months ended September 30, 2009 and 2008, respectively.

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

Years Ending December 31:	Amortization Expense
2009 (October 1st - December 31st)	\$ 1,152
2010	4,202
2011	3,222
2012	2,462
2013	1,010
Thereafter	1,632
	\$ 13,680

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## TECHTARGET, INC.

## Notes to Consolidated Financial Statements (Continued)

(In thousands, except share and per share data)

**8. Net Income (Loss) Per Common Share**

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	2008	2009	2008
	(Unaudited)			
<b>Numerator:</b>				
Net income (loss)	\$ (1,438)	\$ 707	\$ (4,289)	\$ 1,323
<b>Denominator:</b>				
Basic:				
Weighted average shares of common stock outstanding	41,811,821	41,533,020	41,775,152	41,355,812
Diluted:				
Weighted average shares of common stock outstanding	41,811,821	41,533,020	41,775,152	41,355,812
Effect of potentially dilutive shares(1)		1,583,658		2,037,617
Total weighted average shares of common stock outstanding	41,811,821	43,116,678	41,775,152	43,393,429
<b>Net Loss Per Common Share:</b>				
Basic net income (loss) per common share	\$ (0.03)	\$ 0.02	\$ (0.10)	\$ 0.03
Diluted net income (loss) per common share	\$ (0.03)	\$ 0.02	\$ (0.10)	\$ 0.03

(1)

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

**9. Bank Term Loan Payable**

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

The Revolving Credit Facility matures on August 30, 2011. Unless earlier payment is required by an event of default, all principal and unpaid interest will be due and payable on August 30, 2011. At the Company's option, the Revolving Credit Facility bears interest at either the Prime Rate less 1.00% or the LIBOR rate plus the applicable LIBOR margin. The applicable LIBOR margin is based on the ratio of total funded debt to EBITDA for the preceding four fiscal quarters. As of September 30, 2009, the applicable LIBOR margin was 1.25%.

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**TECHTARGET, INC.**

**Notes to Consolidated Financial Statements (Continued)**

**(In thousands, except share and per share data)**

**9. Bank Term Loan Payable (Continued)**

The Company is also required to pay an unused line fee on the daily unused amount of its Revolving Credit Facility at a per annum rate based on the ratio of total funded debt to EBITDA for the preceding four fiscal quarters. As of September 30, 2009, unused availability under the Revolving Credit Facility totaled \$20.0 million and the per annum unused line fee rate was 0.20%.

The Term Loan requires 39 consecutive monthly principal payments of \$250, plus interest, beginning on September 30, 2006 through December 30, 2009. As of September 30, 2009, the outstanding balance due under the Term Loan was \$750. There was no accrued interest on the Term Loan at September 30, 2009. The Company paid off the remaining balance of this Term Loan in December 2009.

In September 2006, the Company entered into an interest rate swap agreement with a commercial bank to mitigate the interest rate fluctuations on the Term Loan. With this interest rate swap agreement in place, the Company has fixed the annual interest rate at 6.98% for the Term Loan. The interest rate swap agreement terminated in December 2009. The interest rate swap agreement is deemed to be a cash flow hedge and qualifies for special accounting using the shortcut method. Accordingly, changes in the fair value of the interest rate swap agreement are recorded in "accumulated other comprehensive income (loss)" on the consolidated statements of redeemable convertible preferred stock and stockholders' equity (deficit). The fair value of the cash flow hedge was \$7 and \$77 as of September 30, 2009 and December 31, 2008, respectively, and is recorded in other liabilities.

Borrowings under the Credit Agreement are collateralized by a security interest in substantially all assets of the Company. Covenants governing the Credit Agreement require the maintenance of certain financial ratios. At September 30, 2009 the Company was in compliance with all financial covenants under the Credit Agreement. The Company was in violation of one loan covenant under the credit agreement with Citizens Bank. The Company received a waiver from the bank agreeing to extend delivery date of September 30, 2009 financial statements to February 26, 2010.

**10. Commitments and Contingencies**

*Operating Leases*

The Company conducts its operations in leased office facilities under various noncancelable operating lease agreements that expire through March 2020. In August 2009 the Company entered into an agreement to lease approximately 87,875 square feet of office space in Newton, Massachusetts. The lease is expected to commence in February 2010 and has a term of 10 years. The Company is receiving certain rent concessions over the life of the lease. Future minimum lease payments under the

Table of Contents**TECHTARGET, INC.****Notes to Consolidated Financial Statements (Continued)****(In thousands, except share and per share data)****10. Commitments and Contingencies (Continued)**

Company's noncancelable operating leases at September 30, 2009, net of minimum sublease rental payments of \$369 are as follows:

Years Ending December 31:	Minimum Lease Payments (Unaudited)
2009 (October 1st - December 31st)	\$ 702
2010	902
2011	2,863
2012	3,423
2013	2,863
Thereafter	18,014
	\$ 28,767

***Litigation***

From time to time and in the ordinary course of business, the Company may be subject to various claims, charges, and litigation. At September 30, 2009 and December 31, 2008, the Company did not have any pending claims, charges, or litigation that it expects would have a material adverse effect on its consolidated financial position, results of operations, or cash flows.

**11. Comprehensive Income (Loss)**

Comprehensive income (loss) includes all changes in equity during a period, except those resulting from investments by stockholders and distributions to stockholders. For the three and nine months ended September 30, 2009 and 2008 the Company's comprehensive income (loss) is as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	2008	2009	2008
	(Unaudited)			
Net income (loss)	\$ (1,438)	\$ 707	\$ (4,289)	\$ 1,323
Other comprehensive income (loss):				
Change in fair value of cash flow hedge (net of tax effect of \$0 for all period)	16	36	70	47
Unrealized gain (loss) on investments (net of tax effect of \$26, \$0, \$(19) and \$0, respectively)	(40)	(74)	31	(74)
Unrealized gain (loss) on foreign currency exchange (net of tax effect of \$0 for all period)	(6)		12	
Total other comprehensive income (loss)	\$ (1,468)	\$ 669	\$ (4,176)	\$ 1,296

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**TECHTARGET, INC.**

**Notes to Consolidated Financial Statements (Continued)**

**(In thousands, except share and per share data)**

**12. Stock-Based Compensation**

*Stock Option Plans*

In September 1999, the Company approved a stock option plan (the 1999 Plan) that provides for the issuance of up to 12,384,646 shares of common stock incentives. The 1999 Plan provides for the granting of incentive stock options (ISOs), nonqualified stock options (NSOs), and stock grants. These incentives may be offered to the Company's employees, officers, directors, consultants, and advisors, as defined. ISOs may be granted at no less than fair market value on the date of grant, as determined by the Company's Board of Directors (the Board) (no less than 110% of fair market value on the date of grant for 10% or greater stockholders), subject to limitations, as defined. Each option shall be exercisable at such times and subject to such terms as determined by the Board, generally four years, and shall expire within ten years of issuance.

In April 2007, the Board approved the 2007 Stock Option and Incentive Plan (the 2007 Plan), which was approved by the stockholders and became effective upon the consummation of the Company's IPO in May 2007. Effective upon the consummation of the IPO, no further awards were made pursuant to the 1999 Plan, but any outstanding awards under the 1999 Plan will remain in effect and will continue to be subject to the terms of the 1999 Plan. The 2007 Plan allows the Company to grant ISOs, NSOs, stock appreciation rights, deferred stock awards, restricted stock and other awards. Under the 2007 Plan, stock options may not be granted at less than fair market value on the date of grant, and grants generally vest over a four year period. Stock options granted under the 2007 Plan expire no later than ten years after the grant date. The Company has reserved for issuance an aggregate of 2,911,667 shares of common stock under the 2007 Plan plus an additional annual increase to be added automatically on January 1 of each year, beginning on January 1, 2008, equal to the lesser of (a) 2% of the outstanding number of shares of common stock (on a fully-diluted basis) on the immediately preceding December 31 and (b) such lower number of shares as may be determined by our compensation committee. The number of shares available for issuance under the 2007 Plan is subject to adjustment in the event of a stock split, stock dividend or other change in capitalization. Generally, shares that are forfeited or canceled from awards under the 2007 Plan also will be available for future awards. In addition, shares subject to stock options returned to the 1999 Plan, as a result of their expiration, cancellation or termination, are automatically made available for issuance under the 2007 Plan. As of September 30, 2009 a total of 938,979 shares were available for grant under the 2007 Plan.

Table of Contents**TECHTARGET, INC.****Notes to Consolidated Financial Statements (Continued)****(In thousands, except share and per share data)****12. Stock-Based Compensation (Continued)***Accounting for Stock-Based Compensation*

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(Unaudited)			
Expected volatility	79%	41%	75% - 79%	41% - 46%
Expected term	6.25 years	6.25 years	6.25 years	6.25 years
Risk-free interest rate	2.89%	3.07%	2.21% - 2.89%	3.07% - 3.15%
Expected dividend yield	%	%	%	%
Weighted-average grant date fair value per share	\$4.49	\$3.43	\$2.23	\$4.68

As there was no public market for the Company's common stock prior to the Company's IPO in May 2007, and limited historical information on the volatility of its common stock since the date of the Company's IPO, the Company determined the volatility for options granted in the three and nine months ended September 30, 2009 and 2008 based on an analysis of the historical volatility of the Company's stock and reported data for a peer group of companies that issued options with substantially similar terms. The expected volatility of options granted has been determined using a weighted average of the historical volatility of the Company's stock and the peer group of companies for a period equal to the expected life of the option. The expected life of options has been determined utilizing the "simplified" method. The risk-free interest rate is based on a zero coupon United States treasury instrument whose term is consistent with the expected life of the stock options. The Company has not paid and does not anticipate paying cash dividends on its shares of common stock; therefore, the expected dividend yield is assumed to be zero. The Company applied an estimated annual forfeiture rate based on its historical forfeiture experience of 2.00% in determining the expense recorded in the three and nine months ended September 30, 2009 and 2008.

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**TECHTARGET, INC.**

**Notes to Consolidated Financial Statements (Continued)**

**(In thousands, except share and per share data)**

**12. Stock-Based Compensation (Continued)**

A summary of the stock option activity under the Company's stock option plan for the three and nine months ended September 30, 2009 is presented below:

Quarter-to-Date Activity	Options Outstanding	Weighted- Average Exercise Price Per Share	Weighted- Average Remaining Contractual Term in Years	Aggregate Intrinsic Value
				<b>(Unaudited)</b>
Options outstanding at June 30, 2009	7,628,085	\$ 6.25		
Granted	10,000	6.36		
Exercised	(294,015)	0.39		
Forfeited	(26,942)	9.69		
Cancelled	(4,311)	9.08		
Options outstanding at September 30, 2009	7,312,817	\$ 6.47	6.4	\$ 6,493
Options exercisable at September 30, 2009	4,955,193	\$ 6.10	5.5	\$ 5,610
Options vested or expected to vest at September 30, 2009(1)	7,208,622	\$ 6.47	6.4	\$ 6,436

(1) In addition to the vested options, the Company expects a portion of the unvested options to vest at some point in the future. Options expected to vest is calculated by applying an estimated forfeiture rate to the unvested options.

Year-to-Date Activity	Options Outstanding	Weighted- Average Exercise Price Per Share
		<b>(Unaudited)</b>
Options outstanding at December 31, 2008	7,765,578	\$ 6.30
Granted	45,000	3.23
Exercised	(301,640)	0.42
Forfeited	(66,478)	9.24
Cancelled	(129,643)	7.43
Options outstanding at September 30, 2009	7,312,817	\$ 6.47

During the three months ended September 30, 2009 and 2008, the total intrinsic value of options exercised (i.e. the difference between the market price at exercise and the price paid by the employee to exercise the options) was \$1,540 and \$94, respectively, and the total amount of cash received from exercise of these options was \$113 and \$112, respectively. The total grant date fair value of stock options granted after January 1, 2006 that vested during the three months ended September 30, 2009 and 2008 was \$1,351 and \$1,172, respectively.

During the nine months ended September 30, 2009 and 2008, the total intrinsic value of options exercised was \$1,548 and \$3,660, respectively, and the total amount of cash received from exercise of





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## TECHTARGET, INC.

## Notes to Consolidated Financial Statements (Continued)

(In thousands, except share and per share data)

## 12. Stock-Based Compensation (Continued)

these options was \$125 and \$2,196, respectively. The total grant date fair value of stock options granted after the January 1, 2006 that vested during the nine months ended September 30, 2009 and 2008 was \$4,006 and \$4,153, respectively.

Unrecognized stock-based compensation expense of non-vested stock options of \$10.1 million is expected to be recognized using the straight line method over a weighted-average period of 1.1 years.

*Restricted Stock Awards*

Restricted stock awards are valued at the market price of a share of the Company's common stock on the date of grant. A summary of the restricted stock award activity under the Company's stock option plan for the three and nine months ended September 30, 2009 is presented below:

Quarter-to-Date Activity	Shares	Weighted-Average Grant Date Fair Value Per Share (Unaudited)	Aggregate Intrinsic Value
Nonvested outstanding at June 30, 2009	2,389,476	\$ 6.04	
Granted			
Vested			
Forfeited			
Nonvested outstanding at September 30, 2009	2,389,476	\$ 6.04	\$ 9,558

Year-to-Date Activity	Shares	Weighted-Average Grant Date Fair Value Per Share (Unaudited)
Nonvested outstanding at December 31, 2008	464,476	\$ 14.48
Granted	1,931,250	4.00
Vested	(6,250)	4.00
Forfeited		
Nonvested outstanding at September 30, 2009	2,389,476	\$ 6.04

The vesting schedule for 1,925,000 of the restricted stock awards granted during the nine months ended September 30, 2009 is contingent upon the Company achieving an annual financial performance goal. Once the Company achieves the annual performance goal, the restricted stock awards vest over four years. If the Company does not achieve the annual performance goal by the year ended December 31, 2011, the restricted stock awards expire and terminate. The fair value of the restricted stock awards was based on the market price of a share of the Company's common stock on the date of the grant and assumes the annual performance goal will be achieved in the year ended December 31, 2009. If the Company does not achieve the performance goal, recognized compensation expense will be reversed. The Company corrected an error during the third quarter of 2009 related to stock based



Table of Contents**TECHTARGET, INC.****Notes to Consolidated Financial Statements (Continued)****(In thousands, except share and per share data)****12. Stock-Based Compensation (Continued)**

compensation expense that should have been recorded in the first and second quarters of 2009 (see Note 1).

Unrecognized stock-based compensation expense of non-vested restricted stock awards of \$9.0 million is expected to be recognized over a weighted-average period of 1.5 years.

**13. Stockholders' Equity (Deficit)***Warrants*

In connection with an acquisition in May 2000, the Company issued to the seller a warrant to purchase 40,625 shares of common stock at a price of \$2.36 per share. The warrant is exercisable immediately and expires on May 10, 2010. The seller exercised warrants to purchase 8,375 shares of common stock using the conversion rights in the warrants in the nine months ended September 30, 2008. As result of the exercise using the conversion rights, the Company issued 6,886 shares of common stock to the seller and cancelled the 1,489 shares received in lieu of payment of the exercise price. The seller did not exercise any warrants in the nine months ended September 30, 2009. At September 30, 2009 and December 31, 2008, there were 1,269 shares of the Company's common stock reserved for the exercise of all warrants.

*Reserved Common Stock*

As of September 30, 2009, the Company has reserved common stock for the following:

	<b>Number of Shares (Unaudited)</b>
Options outstanding and available for grant under stock option plans	10,658,897
Warrants	1,269
<b>Total common stock reserved</b>	<b>10,660,166</b>

**14. Income Taxes**

The Company may from time to time be assessed interest or penalties by major tax jurisdictions. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. The Company recognized interest and penalties totaling \$5 in the nine months ended September 30, 2009. The Company did not recognize any interest and penalties in the nine months ended September 30, 2008.

Tax years 2005 through 2008 are subject to examination by the federal and state taxing authorities. The Internal Revenue Service completed an audit of our 2006 tax return without identifying any material adjustments. There are no other income tax examinations currently in process.

The Company's effective tax rate was 6% and 57% for the nine months ended September 30, 2009 and 2008, respectively.

Table of Contents**TECHTARGET, INC.****Notes to Consolidated Financial Statements (Continued)****(In thousands, except share and per share data)****15. Segment Information**

The Company views its operations and manages its business as one operating segment based on factors such as how the Company manages its operations and how its chief operating decision making group, which consists of the Company's chief executive officer, president and executive vice president, reviews results and makes decisions on how to allocate resources and assess performance.

***Geographic Data***

Net sales to unaffiliated customers by geographic area were as follows:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>(Unaudited)</b>			
United States and Canada	\$ 22,202	\$ 26,222	\$ 60,890	\$ 75,579
International	854	774	2,375	2,295
<b>Total</b>	<b>\$ 23,056</b>	<b>\$ 26,996</b>	<b>\$ 63,265</b>	<b>\$ 77,874</b>

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

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

**Overview**

***Background***

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

Our integrated content platform consists of a network of more than 60 websites that we complement with targeted in-person events and two specialized IT magazines. We discontinued publishing our specialized IT magazines in December 2008. Throughout the critical stages of the purchase decision process, these content offerings meet IT professionals' needs for expert, peer and IT vendor information, and provide a platform on which IT vendors can launch targeted marketing campaigns that generate measurable, high ROI. As IT professionals have become increasingly specialized, they have come to rely on our sector-specific websites for purchasing decision support. Our content enables IT professionals to navigate the complex and rapidly changing IT landscape where purchasing decisions can have significant financial and operational consequences. Based upon the logical clustering of our users' respective job responsibilities and the marketing focus of the products that our customers are advertising, we currently categorize our content offerings across ten distinct media groups: Application Development; Channel; CIO/IT Strategy; Data Center and Virtualization Technologies; Enterprise Applications; Networking; Security; Storage; TechnologyGuide.com; and Vertical Software.

On 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. The Audit Committee has completed its investigation and we have concluded that there were certain errors in our previously reported financial statements. 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 \$284,000 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 \$284,000 adjustment is not included in the adjustments described below.

To correct the customer credit errors, we recorded a net adjustment which increased accounts payable by \$967,000 and decreased income before provision for income taxes by \$967,000 during the quarter ended September 30, 2009. The aggregate net adjustment accumulated over several years and includes \$57,000 from 2004 to 2006, \$362,000 from 2007, \$561,000 from 2008 and (\$13,000) from the nine months ended September 30, 2009.

We corrected an error totaling \$1.1 million during the third quarter of 2009 related to stock-based compensation expense that should have been recorded in the first and second quarters of 2009. The additional stock-based compensation expense relates to 1,925,000 restricted stock awards granted during

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the first quarter of 2009. The vesting for the restricted stock awards is contingent upon us achieving an annual financial performance goal. The stock-based compensation expense related to the restricted stock awards was initially recognized on a straight-line basis over the vesting period but should have been recognized using the accelerated attribution method.

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

***Sources of Revenues***

We sell advertising programs to IT vendors targeting a specific audience within a particular IT sector or sub-sector. We maintain multiple points of contact with our customers to provide support throughout their organizations and the sales cycle. As a result, our customers often run multiple advertising programs with us in order to reach discrete portions of our targeted audience. There are multiple factors that can impact our customers' advertising objectives and spending with us, including but not limited to, product launches, increases or decreases to their advertising budgets, the timing of key industry marketing events, responses to competitor activities and efforts to address specific marketing objectives such as creating brand awareness or generating sales leads. Our services are generally delivered under short-term contracts that run for the length of a given advertising program, typically less than 6 months in length.

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

*Online.* The majority of our revenue is derived from the delivery of our online offerings from our media groups. Online revenue represented approximately 79% and 76% of total revenues for the three months ended September 30, 2009 and 2008, respectively, and approximately 83% and 74% of total revenues for the nine months ended September 30, 2009 and 2008, respectively. We expect the majority of our revenues to be derived through the delivery of online offerings for the foreseeable future. As a result of our customers' advertising objectives and preferences, the specific allocation of online advertising offerings sold and delivered by us, on a period by period basis, can fluctuate.

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

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

Our lead generation offerings include the following:

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

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*Webcasts, Podcasts and Videocasts.* IT vendors pay us to sponsor and host webcasts, podcasts and videocasts 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.

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

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

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

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

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

*Events.* Events revenue represented approximately 21% and 20% of total revenues for the three months ended September 30, 2009 and 2008, respectively, and approximately 17% and 22% of total revenues for the nine months ended September 30, 2009 and 2008, respectively. Most of our media groups operate revenue generating events. The majority of our events are free to IT professionals and are sponsored by IT vendors. Attendees are pre-screened based on event-specific criteria such as sector-specific budget size, company size, or job title. We offer three types of events: multi-day conferences, single-day seminars and custom events. Multi-day conferences provide independent expert content for our attendees and allow vendors to purchase exhibit space and other sponsorship offerings that enable interaction with the attendees. We also hold single-day seminars on various topics in major cities. These seminars provide independent content on key sub-topics in the sectors we serve, are free to qualified attendees, and offer multiple vendors the ability to interact with specific, targeted audiences actively focused on buying decisions. Our custom events differ from our conferences and seminars in that they are exclusively sponsored by a single IT vendor, and the content is driven primarily by the sole sponsor.

*Print.* Print revenue represented approximately 0% and 4% of total revenues for the three months ended September 30, 2009 and 2008, respectively, and approximately 0% and 4% of total revenues for the nine months ended September 30, 2009 and 2008, respectively. During the nine months ended September 30, 2008, we published monthly two controlled-circulation magazines that

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were free to subscribers and generated revenue solely based on advertising fees. We discontinued publishing both *Storage* and *Information Security* magazines in December 2008.

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

Expenses consist of cost of revenues, selling and marketing, product development, general and administrative, depreciation, and amortization expenses. Personnel-related costs are a significant component of most of these expense categories. We had 545 employees at September 30, 2009.

***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 list rental offerings; stock-based compensation expenses; and related overhead.

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

***Cost of Print Revenue.*** Cost of print revenue consists primarily of: printing and graphics expenses; mailing costs; salaries and related personnel costs; freelance writer expenses; subscriber acquisition expenses (primarily telemarketing); stock-based compensation expenses; and related overhead.

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

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

***General and Administrative.*** General and administrative expense consists primarily of: salaries and related personnel costs; facilities expenses; accounting, legal and other professional fees; stock-based compensation expenses; and related overhead. General and administrative expense may continue to increase as a percentage of total revenue for the foreseeable future as we invest in infrastructure to support continued growth and incur additional expenses related to being a publicly traded company, including increased audit and legal fees, costs of compliance with securities and other regulations, investor relations expense, and insurance premiums.

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

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

***Interest Income (Expense), Net.*** Interest income (expense) net consists primarily of interest income earned on cash and cash equivalent balances less interest expense incurred on bank term loan balances. We historically have invested our cash in money market accounts, municipal bonds and auction rate securities.



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**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 financial statements for information about these critical accounting policies as well as a description of our other accounting policies.

***Revenue Recognition***

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

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

*Event Sponsorships.* We sell our events separately from our other service offerings, and recognize sponsorship revenue from events in the period 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.

*Print Publications.* When sold separately, we recognize advertising revenue from print publications at the time the applicable publication is distributed. When print advertising campaigns are sold with online media offerings, we recognize revenue for all services in the advertising campaign over the term of the arrangement. 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 and Videocasts.* We recognize webcast, podcast and videocast revenue ratably over the period in which the webcast, podcast or videocast is available on our websites.

*Software Package Comparisons.* We recognize software package comparison revenue ratably over the period in which the software information is available on our websites.

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

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

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

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

We offer customers the ability to purchase integrated ROI program offerings, which can include any of our online media offerings packaged together to address the particular customer's specific advertising requirements. As part of these offerings, we will guarantee a minimum number of qualified sales leads to be delivered over the course of the advertising campaign. We sometimes extend the scheduled end date of advertising campaigns to satisfy lead guarantees or to fulfill all elements of the campaign based on 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 the Company's experience in managing and fulfilling these integrated ROI program offerings. Historically, shortfalls in fulfilling lead guarantees before the scheduled completion date of an advertising campaign are satisfied within an average of 44 days of such scheduled completion date. These integrated ROI program offerings represented approximately 51% and 44% of online revenues, and 40% and 33% of total revenues for the three months ended September 30, 2009 and 2008, respectively, and approximately 47% and 41% of online revenues, and 39% and 30% of total revenues for the nine months ended September 30, 2009 and 2008, respectively.

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

***Long-Lived Assets***

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

***Fair Value of Financial Instruments***

Financial instruments consist of cash and cash equivalents, short-term and long-term investments, accounts receivable, accounts payable, a term loan payable and an interest rate swap. 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

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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 receivables, 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 \$482,000 and \$642,000 at September 30, 2009 and December 31, 2008, 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 expense in the statement of operations using the straight line method over the vesting period of the award or using the accelerated method if the award is contingent upon performance goals. We use the Black-Scholes option-pricing model to determine the fair-value of stock-based awards. We calculated the fair values of the options granted using the following estimated weighted-average assumptions:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(Unaudited)			
Expected volatility	79%	41%	75% - 79%	41% - 46%
Expected term	6.25 years	6.25 years	6.25 years	6.25 years
Risk-free interest rate	2.89%	3.07%	2.21% - 2.89%	3.07% - 3.15%
Expected dividend yield	%	%	%	%
Weighted-average grant date fair value per share	\$4.49	\$3.43	\$2.23	\$4.68

As there was no public market for our common stock prior to our initial public offering in May 2007, and there has been limited historical information on the volatility of our common stock since the date of our initial public offering, we determined the volatility for options granted in the three and nine months ended September 30, 2009 and 2008 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 its historical forfeiture experience of 2.00% in determining the expense recorded in three and nine months ended September 30, 2009 and 2008.

The vesting schedule for 1,925,000 of the restricted stock awards granted during the nine months ended September 30, 2009 is contingent upon our achieving an annual financial performance goal. Once we achieve the annual performance goal, the restricted stock awards vest over four years. If we do not achieve the annual performance goal by the year ended December 31, 2011, the restricted stock awards expire and terminate. The fair value of the restricted stock awards was based on the market price of a share of our common stock on the date of the grant and assumes the annual performance goal will be achieved in the year ended December 31, 2009. If we do not achieve the performance goal, recognized compensation expense will be reversed.

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***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 \$503,000 and \$320,000 for the three months ended September 30, 2009 and 2008, respectively, and \$844,000 and \$342,000 for the nine months ended September 30, 2009 and 2008, 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 net operating loss, or NOL, carryforwards. As of December 31, 2008, we had U.S. federal and state net operating loss (NOL) carryforwards of approximately \$11.4 million and \$17.3 million, respectively, which may be used to offset future taxable income. The NOL carryforwards expire through 2027, and are subject to review and possible adjustment by the Internal Revenue Service. The Internal Revenue Code contains provisions that limit the NOL and tax credit carryforwards available to be used in any given year in the event of certain changes in the ownership interests of significant stockholders. The federal NOL carry forwards of \$11.4 million available at December 31, 2008 were acquired from KnowledgeStorm and are subject to limitations on their use in future years.

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

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

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### Results of Operations

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2009		2008		2009		2008	
	(Unaudited)							
	(\$ in thousands)							
<b>Revenues:</b>								
Online	\$ 18,191	79%	\$ 20,420	76%	\$ 52,274	83%	\$ 57,701	74%
Events	4,865	21	5,496	20	10,991	17	16,743	22
Print			1,080	4			3,430	4
<b>Total revenues</b>	<b>23,056</b>	<b>100</b>	<b>26,996</b>	<b>100</b>	<b>63,265</b>	<b>100</b>	<b>77,874</b>	<b>100</b>
<b>Cost of revenues:</b>								
Online	4,789	21	5,462	20	14,445	23	16,113	21
Events	1,741	7	2,328	9	4,277	7	7,078	9
Print			580	2			1,758	2
<b>Total cost of revenues</b>	<b>6,530</b>	<b>28</b>	<b>8,370</b>	<b>31</b>	<b>18,722</b>	<b>30</b>	<b>24,949</b>	<b>32</b>
<b>Gross profit</b>	<b>16,526</b>	<b>72</b>	<b>18,626</b>	<b>69</b>	<b>44,543</b>	<b>70</b>	<b>52,925</b>	<b>68</b>
<b>Operating expenses:</b>								
Selling and marketing	8,644	37	8,161	30	24,183	38	25,490	33
Product development	2,276	10	2,788	10	6,551	10	8,440	11
General and administrative	5,486	24	3,662	14	13,469	21	10,915	14
Depreciation	510	2	579	2	1,544	3	1,884	2
Amortization of intangible assets	1,166	5	1,259	5	3,562	6	4,071	5
<b>Total operating expenses</b>	<b>18,082</b>	<b>78</b>	<b>16,449</b>	<b>61</b>	<b>49,309</b>	<b>78</b>	<b>50,800</b>	<b>65</b>
<b>Operating income (loss)</b>	<b>(1,556)</b>	<b>7</b>	<b>2,177</b>	<b>8</b>	<b>(4,766)</b>	<b>8</b>	<b>2,125</b>	<b>3</b>
Interest income (expense), net	130	1	248	1	194	1	934	1
<b>Income (loss) before provision for (benefit from) income taxes</b>	<b>(1,426)</b>	<b>6</b>	<b>2,425</b>	<b>9</b>	<b>(4,572)</b>	<b>7</b>	<b>3,059</b>	<b>4</b>
Provision for benefit from income taxes	12		1,718	6	(283)		1,736	2
<b>Net income (loss)</b>	<b>\$ (1,438)</b>	<b>6%</b>	<b>\$ 707</b>	<b>3%</b>	<b>\$ (4,289)</b>	<b>7%</b>	<b>\$ 1,323</b>	<b>2%</b>

### Comparison of Three Months Ended September 30, 2009 and 2008

#### *Revenues*

2009	Three Months Ended September 30,		
	2008	Increase (Decrease)	Percent Change
(Unaudited)			
(\$ in thousands)			

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Revenues:				
Online	\$ 18,191	\$ 20,420	\$ (2,229)	(11)%
Events	4,865	5,496	(631)	(11)
Print		1,080	(1,080)	(100)
Total revenues	\$ 23,056	\$ 26,996	\$ (3,940)	(15)%

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*Online.* The decrease in online revenue was primarily attributable to a \$3.1 million decrease in revenue from lead generation offerings due primarily to a decrease in white paper, webcast and contextual advertising sales volumes. Additionally, revenue from third party revenue sharing arrangements decreased by \$356,000 in the third quarter of 2009 as compared to the same period of 2008. The decrease was partially offset by a \$1.3 million increase in branding revenue due primarily to an increase in banner sales volume.

*Events.* The decrease in events revenue was attributable to a \$631,000 decrease in seminar series, custom event and multi-day conference event revenues due to a decrease in the average size of events held in the third quarter of 2009 as compared to the same period of 2008.

*Print.* We did not recognize any print revenue in the third quarter of 2009 because we discontinued publishing both of our print publications, *Storage* and *Information Security* magazines, in December 2008.

**Cost of Revenues and Gross Profit**

	Three Months Ended September 30,			
	2009	2008	Increase (Decrease)	Percent Change
(Unaudited)				
(\$ in thousands)				
Cost of revenues:				
Online	\$ 4,789	\$ 5,462	\$ (673)	(12)%
Events	1,741	2,328	(587)	(26)
Print		580	(580)	(100)
<b>Total cost of revenues</b>	<b>\$ 6,530</b>	<b>\$ 8,370</b>	<b>\$ (1,840)</b>	<b>(22)%</b>
<b>Gross profit</b>	<b>\$ 16,526</b>	<b>\$ 18,626</b>	<b>\$ (2,100)</b>	<b>(10)%</b>
<b>Gross profit percentage</b>	<b>72%</b>	<b>69%</b>		

*Cost of Online Revenue.* The decrease in cost of online revenue was primarily attributable to a \$546,000 decrease in member acquisition expenses, primarily related to keyword purchases. The decrease also reflects a \$170,000 decrease in stock-based compensation in the third quarter of 2009 as compared to the same period of 2008, as well as a \$31,000 decrease in production and hosting costs for online products. The decrease was partially offset by a \$142,000 increase in salaries, benefits and travel costs.

*Cost of Events Revenue.* The decrease in cost of events revenue was attributable in part to a \$146,000 decrease in seminar series, custom event and multi-day conference event costs due to a decrease in the average size of events held in the third quarter of 2009 as compared to the same period of 2008. The decrease also reflects a \$404,000 decrease in salaries, benefits and travel costs due to a decrease in headcount in our events organization resulting from the expense reduction program implemented in December 2008.

*Cost of Print Revenue.* We did not recognize any cost of print revenue in the third quarter of 2009 because we discontinued publishing both *Storage* and *Information Security* magazines in December 2008.

*Gross Profit.* Our gross profit is equal to the difference between our revenues and our cost of revenues for the period. The decrease in gross profit is attributable to a \$1.6 million decrease in online gross profit, a \$26,000 decrease in events gross profit, and a \$500,000 decrease in print gross profit. Gross margin for the third quarter of 2009 was 72% as compared to 69% for the same period of 2008, primarily due to an increase in our online and events gross margins and having discontinued publishing both *Storage* and *Information Security* magazines in December 2008. Because the majority of our costs

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are labor-related and therefore fixed in nature, we expect our gross profit to fluctuate from period to period depending on the total revenues for the period as well as the relative contribution of online and events revenue to our total revenues.

*Operating Expenses and Other*

	Three Months Ended September 30,			
	2009	2008	Increase (Decrease)	Percent Change
	(Unaudited)			
	(\$ in thousands)			
Operating expenses:				
Selling and marketing	\$ 8,644	\$ 8,161	\$ 483	6%
Product development	2,276	2,788	(512)	(18)
General and administrative	5,486	3,662	1,824	50%
Depreciation	510	579	(69)	(12)
Amortization of intangible assets	1,166	1,259	(93)	(7)
Total operating expenses	\$ 18,082	\$ 16,449	\$ 1,633	10%
Interest income (expense), net	\$ 130	\$ 248	\$ (118)	(48)%
Provision for income taxes	\$ 12	\$ 1,718	\$ (1,706)	(99)%

*Selling and Marketing.* The increase in selling and marketing expense was primarily attributable to a \$422,000 increase in stock-based compensation as well as a \$49,000 increase in various contracted services. In addition, we recorded additional selling and marketing expense of \$421,000 as a result of a correction of accounts payable related to customer credit errors. These increases were partially offset by a \$404,000 decrease in salaries, commissions, bonuses and benefits due to a decrease in headcount in our sales and marketing organizations resulting from the expense reduction program implemented in December 2008.

*Product Development.* The decrease in product development expense was primarily attributable to a \$614,000 decrease in salaries and benefits due to a decrease in headcount in our product development organization resulting from the expense reduction program implemented in December 2008, as well as a decrease of \$51,000 in stock-based compensation. The decrease in expense was partially offset by an adjustment to product development expense of \$138,000 as a result of a correction of accounts payable related to customer credit errors.

*General and Administrative.* The increase in general and administrative expense was primarily attributable to an increase of \$1.9 million in stock-based compensation primarily related to the correction of an error totaling \$1.1 million during the third quarter related to expense that should have been recorded in the first and second quarters of 2009. In addition there was a \$59,000 increase in other employee compensation and additional expense of \$184,000 as a result of a correction of accounts payable related to customer credit errors. The increase was partially offset by a decrease in bad debt expense of \$137,000, as well as a \$164,000 decrease in professional fees and various contracted services.

*Depreciation and Amortization of Intangible Assets.* The decrease in depreciation expense was primarily attributable to depreciation of assets acquired from KnowledgeStorm in November 2007. The decrease in amortization of intangible assets expense was primarily attributable to amortization of intangible assets related to our acquisitions of TechnologyGuide.com in May 2007 and KnowledgeStorm in November 2007.



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*Interest Income (Expense), Net.* The decrease in interest income (expense), net was due primarily to lower interest rates during the third quarter of 2009 compared to the same period of 2008, as well as a decrease in interest expense on our outstanding debt balance over that same period.

*Provision for (Benefit from) Income Taxes.* Our effective tax rate was (1)% for the three months ended September 30, 2009 and 71% for the three months ended September 30, 2008. The decrease in the effective tax rate was due to a change in the method used to calculate the provision for income taxes. For the three months ended September 30, 2009, we calculated the provision for income taxes using a period-to-date approach, while for the three months ended September 30, 2008, we calculated the provision for income taxes using a forecasted tax rate for the year.

### **Comparison of Nine Months Ended September 30, 2009 and 2008**

#### *Revenues*

	Nine Months Ended September 30,			
	2009	2008	Increase (Decrease)	Percent Change
	(Unaudited)			
	(\$ in thousands)			
<b>Revenues:</b>				
Online	\$ 52,274	\$ 57,701	\$ (5,427)	(9)%
Events	10,991	16,743	(5,752)	(34)
Print		3,430	(3,430)	(100)
<b>Total revenues</b>	<b>\$ 63,265</b>	<b>\$ 77,874</b>	<b>\$ (14,609)</b>	<b>(19)%</b>

*Online.* The decrease in online revenue was primarily attributable to a \$6.9 million decrease in revenue from lead generation offerings due primarily to a decrease in white paper, webcast and contextual advertising sales volumes. Additionally, revenue from third party revenue sharing arrangements decreased by \$1.4 million in the first nine months of 2009 as compared to the same period of 2008. The decrease was partially offset by a \$2.8 million increase in branding revenue due primarily to an increase in banner sales volume.

*Events.* The decrease was attributable in part to a \$3.0 million decrease in seminar series and custom event revenue due to a decrease of 43 events produced in the first nine months of 2009 as compared to the same period of 2008. The decrease was also attributable to a \$2.7 million decrease in revenue from multi-day conferences due to a decrease of two conferences produced in the first nine months of 2009 as compared to the same period of 2008.

*Print.* We did not recognize any print revenue in the first nine months of 2009 because we discontinued publishing both of our print publications, *Storage* and *Information Security* magazines, in December 2008.

#### *Cost of Revenues and Gross Profit*

	Nine Months Ended September 30,			
	2009	2008	Increase (Decrease)	Percent Change
	(Unaudited)			
	(\$ in thousands)			
<b>Cost of revenues:</b>				
Online	\$ 14,445	\$ 16,113	\$ (1,668)	(10)%
Events	4,277	7,078	(2,801)	(40)
Print		1,758	(1,758)	(100)
<b>Total cost of revenues</b>	<b>\$ 18,722</b>	<b>\$ 24,949</b>	<b>\$ (6,227)</b>	<b>(25)%</b>

Gross profit

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\$ 44,543 \$ 52,925 \$ (8,382) (16)%

Gross profit percentage	70%	68%	38
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**Cost of Online Revenue.** The decrease in cost of online revenue was primarily attributable to a \$1.8 million decrease in member acquisition expenses, primarily related to keyword purchases. The decrease also reflects a \$433,000 decrease in production and hosting costs for online products due to the decreased sales volume of online services in the first nine months of 2009 as compared to the same period of 2008, as well as a decrease in consulting costs of \$230,000. The decrease was partially offset by a \$849,000 increase in salaries and benefits.

**Cost of Events Revenue.** The decrease in cost of events revenue was attributable in part to a \$1.2 million decrease in seminar series and custom event costs due to a decrease of 43 events produced in the first nine months of 2009 compared to the same period of 2008. The decrease was also attributable to a \$424,000 decrease in multi-day conference costs due to a decrease of two conferences produced in the first nine months of 2009 compared to the same period of 2008. The decrease also reflects a \$810,000 decrease in salaries and benefits due to a decrease in headcount in our events organization resulting from the expense reduction program implemented in December 2008, as well as a decrease of \$314,000 in travel and temporary help costs.

**Cost of Print Revenue.** We did not recognize any cost of print revenue in the first nine months of 2009 because we discontinued publishing both *Storage* and *Information Security* magazines in December 2008.

**Gross Profit.** Our gross profit is equal to the difference between our revenues and our cost of revenues for the period. The decrease in gross profit is attributable to a \$3.8 million decrease in online gross profit, a \$2.9 million decrease in events gross profit, and a \$1.7 million decrease in print gross profit. Gross margin for the first nine months of 2009 was 70% as compared to 68% for the same period of 2008, primarily due to an increase in our online and events gross margins and having discontinued publishing both *Storage* and *Information Security* magazines in December 2008. Because the majority of our costs are labor-related and therefore fixed in nature, we expect our gross profit to fluctuate from period to period depending on the total revenues for the period as well as the relative contribution of online and events revenue to our total revenues.

### ***Operating Expenses and Other***

	<b>Nine Months Ended September 30,</b>			
	<b>2009</b>	<b>2008</b>	<b>Increase (Decrease)</b>	<b>Percent Change</b>
	<b>(Unaudited)</b>			
	<b>(\$ in thousands)</b>			
<b>Operating expenses:</b>				
Selling and marketing	\$ 24,183	\$ 25,490	\$ (1,307)	(5)%
Product development	6,551	8,440	(1,889)	(22)
General and administrative	13,469	10,915	2,554	19%
Depreciation	1,544	1,884	(340)	(18)
Amortization of intangible assets	3,562	4,071	(509)	(13)
<b>Total operating expenses</b>	<b>\$ 49,309</b>	<b>\$ 50,800</b>	<b>(1,491)</b>	<b>(3)%</b>
Interest income (expense), net	\$ 194	\$ 934	\$ (740)	(79)%
Provision for (benefit from) income taxes	\$ (283)	\$ 1,736	\$ (2,019)	(116)%

**Selling and Marketing.** The decrease in selling and marketing expense was attributable in part to a \$1.6 million decrease in salaries, commissions, bonuses and benefits due to a decrease in headcount in our sales and marketing organizations resulting from the expense reduction program implemented in

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December 2008. The decrease also reflects a \$514,000 decrease in travel costs. The decrease is partially offset by an increase of \$489,000 in stock-based compensation and additional expense of \$421,000 as a result of a correction of accounts payable related to customer credit errors.

*Product Development.* The decrease in product development expense was attributable to a \$1.9 million decrease in salaries and benefits due to a decrease in headcount in our product development organization resulting from the expense reduction program implemented in December 2008.

*General and Administrative.* The increase in general and administrative expense was attributable in part to a \$2.2 million increase in stock-based compensation due to expenses related to performance-based restricted stock awards issued in fiscal year 2009. In addition, there was a \$494,000 increase in other employee compensation. The increase also reflects a \$343,000 increase in professional fees and additional expense of \$184,000 as a result of a correction of accounts payable related to customer credit errors. The increase was partially offset by a \$304,000 decrease in various contracted services, a \$273,000 decrease in bad debt expense, and a \$112,000 decrease in corporate functions.

*Depreciation and Amortization of Intangible Assets.* The decrease in depreciation expense was primarily attributable to depreciation of assets acquired from KnowledgeStorm in November 2007. The decrease in amortization of intangible assets expense was primarily attributable to amortization of intangible assets related to our acquisitions of TechnologyGuide.com in May 2007 and KnowledgeStorm in November 2007.

*Interest Income (Expense), Net.* The decrease in interest income (expense), net reflects an adjustment to interest income of (\$284,000) in the first nine months of 2009 related to interest income recognized in error in the fourth quarter of 2008, as well as lower interest rates during the first nine months of 2009 compared to the same period of 2008 and a decrease in interest expense on our outstanding debt balance over that same period.

*Provision for Income Taxes.* Our effective tax rate was 6% for the nine months ended September 30, 2009 and 57% for the nine months ended September 30, 2008. The decrease in the effective tax rate was due to a change in the method used to calculate the provision for income taxes. For the nine months ended September 30, 2009, we calculated the provision for income taxes using a period-to-date approach, while for the nine months ended September 30, 2008, we calculated the provision for income taxes using a forecasted tax rate for the year.

***Seasonality***

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

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

Table of Contents**Liquidity and Capital Resources***Resources*

We believe that our existing cash and cash equivalents, our cash flow from operating activities and available bank borrowings will be sufficient to meet our anticipated cash needs for at least the next twelve months. Our future working capital requirements will depend on many factors, including the operations of our existing business, our potential strategic expansion internationally, future acquisitions we might undertake, and the expansion into complementary businesses. To the extent that our cash and cash equivalents and cash flow from operating activities are insufficient to fund our future activities, we may need to raise additional funds through bank credit arrangements or public or private equity or debt financings. We also may need to raise additional funds in the event we determine in the future to effect one or more additional acquisitions of businesses. In the event additional funding is required, we may not be able to obtain bank credit arrangements or affect an equity or debt financing on terms acceptable to us or at all.

	September 30, 2009	December 31, 2008
	(Unaudited)	
	(\$ in thousands)	
Cash, cash equivalents and investments	\$ 78,650	\$ 69,568
Accounts receivable, net	\$ 15,623	\$ 17,622

*Cash, Cash Equivalents and Investments*

Our cash, cash equivalents and investments at September 30, 2009 were held for working capital purposes and were invested primarily in money market accounts and municipal bonds. We do not enter into investments for trading or speculative purposes.

*Accounts Receivable, Net*

Our accounts receivable balance fluctuates from period to period, which affects our cash flow from operating activities. The fluctuations vary depending on the timing of our service delivery and billing activity, cash collections, and changes to our allowance for doubtful accounts. We use days' sales outstanding, or DSO, calculated on a monthly basis, as a measurement of the quality and status of our receivables. We define DSO as average accounts receivable divided by total revenue for the applicable period, multiplied by the number of days in the applicable period. DSO was 61 days for the three months ended September 30, 2009 and 2008, and 68 and 61 days for the nine months ended September 30, 2009 and 2008, respectively.

*Operating Activities*

	Nine Months Ended September 30,	
	2009	2008
	(Unaudited)	
	(\$ in thousands)	
Net cash provided by operating activities	\$ 13,545	\$ 5,766
Net cash used in investing activities(1)	\$ (1,141)	\$ (1,577)
Net cash provided by (used in) financing activities	\$ (2,125)	\$ 963

(1) Cash used in investing activities is shown net of investment activity of \$(12.5) million and \$22.3 million for the nine months ended September 30, 2009 and 2008, respectively.



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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 in the nine months ended September 30, 2009 was \$13.5 million and consisted of \$4.3 million of net loss, \$5.1 million of depreciation and amortization, \$9.5 million of stock-based compensation, and \$3.2 million provided by working capital and other activities.

Cash provided by operating activities in the nine months ended September 30, 2008 was \$5.8 million and consisted of \$1.3 million of net income, \$6.0 million of depreciation and amortization and \$6.8 million of stock-based compensation, offset by \$8.3 million used in working capital and other activities.

***Investing Activities***

Cash used in investing activities in the nine months ended September 30, 2009, net of investment activity, was \$1.1 million for the purchase of property and equipment. Cash used in investing activities in the nine months ended September 30, 2008, net of investment activity, was \$1.5 million for the purchase of property and equipment.

***Equity Financing Activities***

We received proceeds from the exercise of warrants and stock options in the amounts of \$125,000 and \$2.2 million in the nine months ended September 30, 2009 and 2008, respectively.

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

On August 30, 2006, we entered into a credit agreement with Citizens Bank of Massachusetts, which included a \$10.0 million term loan and a \$20.0 million revolving credit facility. As of September 30, 2009, outstanding borrowings under the credit agreements were \$750,000. We paid the remaining balance outstanding in December 2009.

Our revolving credit facility matures on August 30, 2011. Unless earlier payment is required by an event of default, all principal and any unpaid interest will be due and payable on August 30, 2011. At our option, the revolving credit facility bears interest at either the lender's prime rate less 1.00% or the London Interbank Offered Rate, or LIBOR, plus the applicable LIBOR margin. The applicable LIBOR margin is based on the ratio of total funded debt to EBITDA for the preceding four fiscal quarters. As of September 30, 2009, the applicable LIBOR margin was 1.25%.

We are also required to pay an unused line fee on the daily unused amount of our revolving credit facility at a per annum rate based on the ratio of total funded debt to EBITDA for the preceding four fiscal quarters. As of September 30, 2009, unused availability under our revolving credit facility totaled \$20.0 million and the per annum unused line fee rate was 0.20%.

Our term loan requires the payment of 39 consecutive monthly installments of \$250,000 each, plus interest, the first such installment was due on September 30, 2006, with a final payment of the entire unpaid principal balance due on December 30, 2009. In September 2006, we entered into an interest rate swap agreement to mitigate interest rate fluctuation, and fix the interest rate on the term loan at 6.98%.

Borrowings under the Credit Agreement are collateralized by a security interest in substantially all assets of the Company. Covenants governing the Credit Agreement require the maintenance of certain financial ratios. At September 30, 2009 we were in compliance with all financial covenants under the Credit Agreement. We were in violation of one loan covenant under the Credit Agreement with Citizens Bank. We received a waiver from the bank agreeing to extend the delivery date of September 30, 2009 financial statements to February 26, 2010.

Table of Contents**Capital Expenditures**

We have made capital expenditures primarily for computer equipment and related software needed to host our websites, internal-use software development costs, as well as for leasehold improvements and other general purposes to support our growth. Our capital expenditures totaled \$1.1 million and \$1.5 million for the nine months ended September 30, 2009 and 2008, respectively. We are not currently party to any purchase contracts related to future capital expenditures. We were in violation of one loan covenant under the credit agreement with Citizens Bank. We received a waiver from the bank agreeing to extend the delivery date of September 30, 2009 financial statements to February 26, 2010.

**Contractual Obligations and Commitments**

As of September 30, 2009, our principal commitments consist of obligations under leases for office space and principal and interest payments due under our bank term loan. The offices are leased under noncancelable operating lease agreements that expire through March 2020. In August 2009 we entered into an agreement to lease approximately 87,875 square feet of office space in Newton, Massachusetts. The lease is expected to commence in March 2010 and has a term of 10 years. We are receiving certain rent concessions during the first two years of the lease term. The following table sets forth our commitments to settle contractual obligations in cash as of September 30, 2009:

	Payments Due By Period				
	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
	(Unaudited)				
	(\$ in thousands)				
Bank term loan payable	\$ 750	\$ 750	\$	\$	\$
Operating leases(1)	28,767	1,456	8,594	8,744	9,973
<b>Total</b>	<b>\$ 29,517</b>	<b>\$ 2,206</b>	<b>\$ 8,594</b>	<b>\$ 8,744</b>	<b>\$ 9,973</b>

- (1) Operating lease obligations are net of minimum sublease payments of \$369,000 due under a sublease agreement that expires in November 2010.

**Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements.

**Recent Accounting Pronouncements**

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

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

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

**Foreign Currency Exchange Risk**

Our subsidiary, TechTarget Limited, was established in July 2006 and is located in London, England. We currently believe our exposure to foreign currency exchange rate fluctuations is financially immaterial and therefore have not entered into foreign currency hedging transactions. We continue to



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review this issue and may consider hedging certain foreign exchange risks through the use of currency futures or options in the future.

***Interest Rate Risk***

At September 30, 2009, we had cash, cash equivalents and investments totaling \$78.6 million. These amounts were invested primarily in money market accounts and municipal bonds. The cash, cash equivalents and investments were held for working capital purposes. We do not enter into investments for trading or speculative purposes. Due to the short-term nature of these investments, we believe that we do not have any material exposure to changes in the fair value of our investment portfolio as a result of changes in interest rates. Declines in interest rates, however, would reduce future investment income.

Our exposure to market risk also relates to the amount of interest expense we must pay under our revolving credit facility. The advances under this credit facility bear a variable rate of interest determined as a function of the lender's prime rate or LIBOR. At September 30, 2009, there were no amounts outstanding under our revolving credit facility.

**Item 4. Controls and Procedures**

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2009. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Securities Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Securities Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of September 30, 2009, and due to the material weaknesses in our internal control over financial reporting described in our accompanying *Management's Report on Internal Control over Financial Reporting* below, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were not effective at the reasonable assurance level. As further discussed below under "Remediation Plans", management is implementing measures that we believe will address these deficiencies in our controls and procedures.

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

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

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external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

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

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

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

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

Our management, including our chief executive officer and chief financial officer, assessed the effectiveness of our internal controls over financial reporting as of September 30, 2009. In connection with this assessment, we identified the following material weaknesses in internal control over financial reporting as of September 30, 2009. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control - Integrated Framework*. Because of the material weaknesses described below, management believes that, as of September 30, 2009, our internal control over financial reporting was not effective based on this criteria.

*Accounting for Certain Complex transactions involving revenue and stock based compensation*

*Online Service Revenue Transactions.* As a result of a review of our business processes pertaining to its online service revenue offerings and the related application of accounting policies and procedures to these business processes, management identified material weaknesses in internal control over financial reporting related to the misapplication of generally accepted accounting principles on revenue arrangements involving certain online service offerings, as well as our assessment of verifiable objective evidence of fair value for elements included in multiple element advertising campaigns. This misapplication of generally accepted accounting principles led to the restatement of previously issued financial statements and other financial information during 2009.

*Performance Based Stock Awards.* We corrected an error totaling \$1,061,000 during the third quarter of 2009 related to stock-based compensation expense that should have been recorded in the first and second quarters of 2009. The additional stock-based compensation expense relates to 1,925,000 restricted stock awards granted during the first quarter of 2009. The vesting for the restricted stock awards is contingent upon us achieving an annual financial performance goal. The stock-based compensation expense related to the restricted stock awards was initially recognized on a straight-line basis over the vesting period but should have been recognized using the accelerated attribution method.

*Accounting for Aging Customer Credits and Certain Unallocated Accruals.*

As a result of an investigation conducted by our Audit Committee from November 2009 to January 2010, management identified material weaknesses in internal control over financial reporting

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related to the misapplication of generally accepted accounting principles to customer credits that were improperly eliminated as liabilities. This misapplication of generally accepted accounting principles led us to record a net adjustment which increased accounts payable by \$967,000 and decreased income before provision for income taxes by \$967,000 during the quarter ended September 30, 2009.

Management identified the following material weaknesses surrounding our internal controls over financial reporting:

**1. *Inadequate and ineffective controls over the accounting for certain complex transactions.***

We did not have effective design or operational controls over the accounting for certain online service revenue transactions, specifically; our ability to apply generally accepted accounting principles as they relate to the recognition of revenue on transactions that include duration-based services and multiple element advertising campaigns. This material weakness resulted in the misstatement of revenue for certain service offerings and multiple element campaigns, which required previously reported consolidated financial statements to be restated. We also did not have effective design on organizational controls over the accounting for stock based compensation arrangements in accordance with generally accepted accounting principles which resulted in adjustments being recorded in the quarter ended September 30, 2009.

**2. *Inadequate and ineffective controls over adequacy of staffing of accounting group.***

Our controls related to ensuring the adequacy of staffing of our accounting and finance department were inadequate and ineffective. This material weakness resulted in the misstatement of revenue for certain service offerings and multiple element campaigns, which required previously reported consolidated financial statements to be restated. This material weakness also resulted in our errors in accounting for stock based compensation, aging customer credits and certain unallocated accruals which resulted in adjustments being recorded in the quarter ended September 30, 2009.

**3. *Insufficient and ineffective review and supervision by management of certain accounting policies and procedures.***

Management's monitoring and review controls over certain accounting policies and procedures as well as the business process controls surrounding certain complex online service revenue transactions were inadequate and ineffective. Management's oversight and related detective controls to ensure timely and proper identification and correction of errors for arrangements involving certain complex online service revenue transactions were inadequate and ineffective. This material weakness resulted in the misstatement of revenue for certain service offerings and multiple element campaigns, which required previously reported consolidated financial statements to be restated. This material weakness also resulted in our errors in accounting for stock based compensation, aging customer credits and certain unallocated accruals which resulted in adjustments being recorded in the quarter ended September 30, 2009.

**4. *Inadequate and ineffective accounting and reporting system for processing and reporting of certain complex service revenue transactions.***

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. This material weakness resulted in the misstatement of revenue for certain service offerings and multiple element campaigns, which required previously reported consolidated financial statements to be restated.

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**5. *Inadequate and ineffective controls over the use of debit memorandums to reclassify aged customer credits from the accounts receivable subsidiary ledger to an unallocated general accrual account.***

We did not have effective design or operational controls to prevent the reclassification of customer liabilities from the accounts receivable subsidiary ledger to an unallocated general accrual account. This material weakness resulted in the misstatement of customer liabilities, which required an adjustment in the quarter ended September 30, 2009.

**6. *Inadequate education, training, and awareness of the process for reporting concerns with regard to accounting practices to finance management, management and/or the Audit Committee.***

We did not have effective employee education and training to ensure communication of any concerns related to accounting practices are brought to the appropriate personal or governing body on a timely manner.

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

Set below are changes in internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act) which occurred during the quarter ended September 30, 2009 related to accounting for certain complex service revenue transactions that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Communicated revised revenue recognition policies and procedures to appropriate accounting staff, and trained them on their usage and application.

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

***Remediation Plans***

Management has identified the following measures to strengthen our internal control over financial reporting and to address the material weaknesses described above. We began implementing certain of these measures prior to the filing of this Form 10-Q but changes made to our internal controls have not yet been in place for a sufficient time to have had a significant effect. Management expects to continue to develop remediation plans and implement additional changes to our internal control over financial reporting during fiscal 2009 and into fiscal 2010, described in detail hereafter. We believe that the actions taken to date, as well as our planned future actions, will adequately address the material weaknesses.

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

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

Utilize specialized third party consultants to assist us in monitoring and ensuring the propriety of our revenue recognition policies, procedures, and activities on a quarterly basis, beginning with the quarter ended March 31, 2009.

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

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

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

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

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

Work with our Human Resources department in aggressively identifying and recruiting future capable technical accounting staff candidates. We are currently recruiting for the positions of a Director of Sarbanes Oxley and a Director of Financial Reporting. We expect to hire these positions in 2010.

Utilize specialized third party consultants to assist us in monitoring and ensuring the propriety of our revenue recognition policies, procedures, and activities on a quarterly basis, beginning with the quarter ended March 31, 2009.

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

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

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

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

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

Utilize specialized third party consultants to assist us in monitoring and ensuring the propriety of our revenue recognition policies, procedures, and activities on a quarterly basis, beginning with the quarter ended March 31, 2009.

Consider implementation of additional automation, trending analyses, and management reporting to highlight potential future issues surrounding complex transactions.

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

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

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We have purchased and intend to implement in Q1 2010 a software application which will assist in ensuring that the Company's revenue accounting and reporting systems adequately address the complexities associated with our service revenue transactions.

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

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

Establish a policy whereby we disburse payment to customers or apply credits to customer invoices if an aged customer credit is not used by the customer within a reasonable time after the credit has been issued to the customer's account.

Establish clearly defined policies and procedures related to the general accrual account to insure account activity is proper, the liability fairly states incurred but not reported liabilities and the period end reconciliation is adequately reviewed by the appropriate finance personnel.

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

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

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**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

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

**Item 1A. Risk Factors**

*In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed under the heading, "Risk Factors" in our Annual Report filed on Form 10-K/A for the year ended December 31, 2008. These are risks and uncertainties that could cause actual results to differ materially from the results contemplated by the forward-looking statements contained in this Quarterly Report on Form 10-Q. Because of these factors, as well as other variables affecting our operating results, past financial performance should not be considered as a reliable indicator of future performance and investors should not use historical trends to anticipate results or trends in future periods. These risks are not the only ones facing us.*

**Risks Relating to Our Business**

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

The primary source of our revenues is the sale of advertising to our customers. We believe that advertising spending on the Internet, as in traditional media, fluctuates significantly as a result of a variety of factors, many of which are outside of our control. These factors include:

variations in expenditures by advertisers due to budgetary constraints;

the cancellation or delay of projects by advertisers;

the cyclical and discretionary nature of advertising spending;

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

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

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

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

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

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



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.

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

The domestic and international economies continue to experience an ongoing recession. This recession 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 further, 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 this economic slowdown or the timing or strength of a subsequent 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.

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

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

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

the spending priorities and advertising budget cycles of specific advertisers;

the addition or loss of advertisers;

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

seasonal fluctuations in advertising spending.

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

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

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

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

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

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

attract and retain qualified editors, writers and technical personnel;

fund new development for our programs and other offerings;

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

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

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

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***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 and Ziff Davis Enterprise. Advertisers may choose our competitors over us not only because they prefer our competitors' online and events offerings to ours, but also because advertisers prefer to utilize other forms of advertising offered by our competitors that are not offered by us. Although less than 5% of our revenues for the nine month period ended September 30, 2009 were derived from advertisers located outside of North America, as we continue to expand internationally, as we did in 2008 by operating our own websites in the United Kingdom and in 2009 in India, 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 platforms and services remain effective and interesting to

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

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

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

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

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

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

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

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

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

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;

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

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

unanticipated expenses related to technology and other integration;

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

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

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

potential unknown liabilities associated with the acquired businesses.

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

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

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

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

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





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litigation and the diversion of our management's attention and resources. These claims could result in the need to develop alternative trademarks, content or technology or to enter into costly royalty or licensing agreements, which could have a material adverse effect on our business, results of operations and financial condition. We may not have, in all cases, conducted formal evaluations to confirm that our technology and services do not or will not infringe upon the intellectual property rights of third parties. As a result, we cannot be certain that our technology, offerings, services or online content do not or will not infringe upon the intellectual property rights of third parties. If we were found to have infringed on a third party's intellectual property rights, the value of our brands and our business reputation could be impaired, and our business could suffer.

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

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

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

We collect information from our users who register on our websites or for services, or respond to surveys. Subject to each user's permission (or right to decline, which we refer to as an "opt-out"), we may use this information to inform our users of services that 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. The U.S. federal and various state governments have adopted or proposed limitations on the collection, distribution and use of personal information of Internet users. Several foreign jurisdictions, including the European Union, the United Kingdom and Canada, have adopted legislation (including directives or regulations) that may increase the requirements for collecting, or limit our collection and use of, information from Internet users in these jurisdictions. In addition, growing public concern about privacy, data security and the collection, distribution and use of personal information has led to self-regulation of these practices by the Internet advertising and direct marketing industry, and to increased federal and state regulation. Because many of the proposed laws or regulations 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 consumer privacy and data security laws, could be enacted or applied to us or our customers. Such laws or regulations could impair our ability to collect user information that helps us to provide more targeted advertising to our users, thereby impairing our ability to maintain and grow our audience and maximize advertising revenue from our advertising clients. Additionally, the US Federal Trade Commission (the "FTC") and many state attorneys general are applying federal and state consumer protection laws to require that the online collection, use and dissemination of data, and the

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presentation of Web site content, comply with certain standards for notice, choice, security and access. Courts may also adopt these developing standards. In many cases, the specific limitations imposed by these standards are subject to interpretation by courts and other governmental authorities. In addition, on December 20, 2007, the FTC published for public comment proposed principles to address consumer privacy issues that may arise from so-called "behavioral targeting" (i.e. the tracking of a user's online activities in order to deliver advertising tailored to his or her interests) and to encourage industry self-regulation. On February 12, 2009, following public comment, the FTC released a Staff Report with its revised principles for self-regulation of behavioral targeting. Although the FTC currently appears to be less concerned with "first-party" behavioral and contextual advertising than other types of behavioral targeting that include the storage of more potentially sensitive, data or that collects information outside of the "traditional Web site context" (such as through a mobile device or by an ISP), the FTC has stated that it will continue to evaluate self-regulatory programs. In the event of additional legislation in this area, our ability to effectively target our users may be limited. We believe that we are in compliance with the consumer protection standards that apply to us, but a determination by a state or federal agency or court that any of our practices do not meet these standards could create liability to us, result in adverse publicity and affect negatively our businesses. New interpretations of these standards could also require us to incur additional costs and restrict our business operations. In addition, several foreign governmental bodies, including the European Union, the United Kingdom and Canada have 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. 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. Any such developments (or developments stemming from enactment or modification of other laws) or the failure to anticipate accurately the application or interpretation of these laws could create liability to us, result in adverse publicity and affect negatively our businesses.

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

We have over 11 license and other arrangements in various countries and maintain direct presences in the United Kingdom and India. In addition to facing many of the same challenges we face domestically, there are additional risks and costs inherent in expanding our business in international markets, including:

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

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

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

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

difficulties in 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;



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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.

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

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

privacy, data security and use of personally identifiable information;

copyrights, trademarks and domain names; and

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

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

decrease the growth rate of the Internet;

reduce our revenues;

increase our operating expenses; or

expose us to significant liabilities.

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

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

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

we may be forced to pay substantial damages. Our insurance may not adequately protect us against these claims. The filing of these claims

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may also damage our reputation as a high quality provider of unbiased, timely analysis and result in client cancellations or overall decreased demand for our services.

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

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

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

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

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

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

We may experience service disruptions for the following reasons:

occasional scheduled maintenance;

equipment failure;

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

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

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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 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.

***We will continue to incur significant costs as a result of operating as a public company, and our management will be required to devote substantial time to new compliance initiatives.***

We will continue to incur significant legal, accounting and other expenses as a public company. The Sarbanes-Oxley Act of 2002, as well as rules subsequently implemented by the SEC and the Nasdaq Stock Market, or Nasdaq, has imposed various new requirements on public companies, including requiring changes in corporate governance practices. Our management and other personnel will need to continue to devote a substantial amount of time to these compliance initiatives. Moreover, these rules and regulations have increased our legal and financial compliance costs and will make some activities more time-consuming and costly. For example, these rules and regulations may require us to incur substantial costs to maintain the same or similar director and officer liability insurance coverage.

In addition, the Sarbanes-Oxley Act requires, among other things, that we maintain effective internal controls for financial reporting and disclosure controls and procedures. In particular, although we have completed our system and process evaluation and testing of our internal controls over financial

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reporting to allow management and our independent registered public accounting firm to report on the effectiveness of our internal controls over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act, ongoing compliance with Section 404 requires that we continue to incur substantial accounting expense and expend significant management efforts. We currently do not have an internal audit group, and have engaged outside accounting and advisory services with appropriate public company experience and technical accounting knowledge to assist with these ongoing compliance efforts. If we or our independent registered public accounting firm identifies future deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses, as was the case for both the year-end audit of 2008 and for the current fiscal quarter, Q3 of 2009, the market price of our stock could decline and we could be subject to sanctions or investigations by Nasdaq, the SEC or other regulatory authorities, which would require additional financial and management resources.

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

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

However, if we fail to comply with Nasdaq's listing rules in the future, Nasdaq may decide not to grant us additional exceptions to listing rules. If we are unable to comply with Nasdaq's listing rules in the future and they do not grant us an exception, we may be delisted by Nasdaq, which would have a material adverse effect on the trading volume of our stock and, likely, our stock price. A limited public market for our common shares may limit your ability to sell your shares, and may also result in other negative implications, including the potential loss of confidence by customers, strategic partners and employees, and loss of institutional investor interest in our common stock.

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

We have identified material weaknesses in our internal control over financial reporting relating to accounting for aging customer credits and unallocated general accrual accounting, and accounting for certain complex online service revenue transactions. These material weaknesses and our remediation plans are described further in Item 4 in this Quarterly Report on Form 10-Q. Material weaknesses in



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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 prior restatements, and the delay in our filing of this Quarterly Report on Form 10-Q has had, and may continue to have, an adverse impact on us, including increased costs, and the possibility of legal or administrative proceedings.***

In June 2009, we restated a number of our previously filed financial statements as a result of an error in the manner in which we recognized certain online revenue. In November 2009, we identified an improper accounting practice related to certain customer credits being improperly removed as liabilities from our balance sheet, and as a result, delayed the filing of our this Quarterly Report on Form 10-Q for the quarter ended September 30, 2009. We incurred substantial unanticipated costs for accounting, legal and other advisory fees in 2009 and 2010 in connection with these matters, and although the these matters are now resolved, we may incur additional related costs. The Securities and Exchange Commission may have comments on, or may wish to review, matters relating to our restatements and our delay in filing of our Form 10-Q, which may divert more of our management's time and attention, and cause us to incur additional costs. Similarly, in the event litigation is pursued or other relief is sought by persons asserting claims for damages allegedly resulting from or based on these matters, or events related thereto, we may incur additional defense costs beyond our insurance coverage regardless of their outcome. Likewise, such events might cause a diversion of our management's time and attention. If we do not prevail in any such actions, we could be required to pay substantial damages or settlement costs.

***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 \$103 million of goodwill and net intangible assets as of September 30, 2009. The goodwill and/or intangible assets were recorded because the fair value of

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

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

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

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

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

our operating performance and the operating performance of similar companies;

the overall performance of the equity markets;

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

threatened or actual litigation;

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

any major change in our board of directors or management;

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

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

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

general political and economic conditions.

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

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***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 are held by our officers, directors and affiliates. Two of our affiliates are venture capital funds, which are typically structured to have a finite life. As these venture capital funds approach or pass the life of the fund, their decision to sell or hold our stock may be based not only on the underlying investment merits of our stock, but also on the requirements of their internal fund structure. Our directors, executive officers and affiliates beneficially own approximately 27 million shares of our common stock, which represents 65% of our shares outstanding as of September 30, 2009. If these additional shares are sold, or if it is perceived that they will be sold in the public market, the trading price of our common stock could decline substantially.

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

Our directors, executive officers and affiliates beneficially own approximately 65% of our outstanding common stock. These stockholders, if they act together, could exert substantial influence over matters requiring approval by our stockholders, including the election of directors, the amendment of our certificate of incorporation and bylaws and the approval of mergers or other business combination transactions. This concentration of ownership may discourage, delay or prevent a change in control of our company, which could deprive our stockholders of an opportunity to receive a premium for their stock as part of a sale of our company and might reduce our stock price. These actions may be taken even if they are opposed by other stockholders.

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

(a)

*Sales of Unregistered Securities*

None.

(b)

*Use of Proceeds from Public Offering of Common Stock*

In May 2007, we completed our initial public offering (IPO) pursuant to a registration statement on Form S-1 (File No. 333-140503) that was declared effective by the SEC on May 16, 2007. Under the registration statement, we registered the offering and sale of an aggregate of 7,700,000 shares of our common stock, \$0.001 par value, of which 6,427,152 shares were sold by the Company and 1,272,848 were sold by certain selling stockholders. All of the shares of common stock issued pursuant to the registration statement, including the shares sold by the selling stockholders, were sold at a price to the public of \$13.00 per share.

As a result of the IPO, we raised a total of \$83.2 million in net proceeds after deducting underwriting discounts and commissions of approximately \$6.4 million and offering expenses of approximately \$2.3 million. In May 2007 we repaid \$12.0 million that we had borrowed against our revolving credit facility in conjunction with the acquisition of TechnologyGuide.com in April 2007. In November 2007 we acquired KnowledgeStorm, Inc. for approximately \$58 million, consisting of approximately \$52 million in cash and 359,820 shares of unregistered common stock of TechTarget valued at \$6.0 million. In November 2008 we acquired The Brian Madden Company LLC for approximately \$1.3 million in cash.

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

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Submission of Matters to a Vote of Security Holders**

None.

**Item 5. Other Information**

None.

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**Item 6. Exhibits**

(a) Exhibits

- 10.1 First Amendment (dated August 30, 2007) to Credit Facility Agreement dated August 30, 2006 between the Registrant and Citizens Bank of Massachusetts.
- 10.2 Second Amendment (dated December 18, 2008) to Credit Facility Agreement between the Registrant and Citizens Bank of Massachusetts, dated August 30, 2006.
- 10.3 Third Amendment (dated December 17, 2009) to Credit Facility Agreement dated August 30, 2006 between the Registrant and Citizens Bank of Massachusetts.
- 10.4 First Amendment (dated December 17, 2009) to Revolving Promissory Note dated August 30, 2006 between the Registrant and Citizens Bank of Massachusetts.
- 10.5 Waiver of Specified Covenants (dated December 17, 2009) for Credit Facility Agreement dated August 30, 2006 between the Registrant and Citizens Bank of Massachusetts, now known as RBS Citizens, National Association.
- 10.6 Waiver of Specified Covenants (dated January 28, 2010) for Credit Facility Agreement dated August 30, 2006 between the Registrant and Citizens Bank of Massachusetts, now known as RBS Citizens, National Association.
- 31.1 Certification of Greg Strakosch, Chief Executive Officer of TechTarget, Inc., pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, dated February 8, 2010.
- 31.2 Certification of Eric Sockol, Chief Financial Officer and Treasurer of TechTarget, Inc., pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, dated February 8, 2010.
- 32.1 Certifications of Greg Strakosch, Chief Executive Officer of TechTarget, Inc. and Eric Sockol, Chief Financial Officer and Treasurer of TechTarget, Inc. pursuant to 18 U.S.C. Section 1350, dated February 8, 2010.

