

TechTarget Inc
Form 10-Q
November 09, 2016
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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, 2016

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

For the transition period from to

Commission File Number: 1-33472

TECHTARGET, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

275 Grove Street

Newton, Massachusetts 02466

(Address of principal executive offices) (zip code)

(617) 431-9200

(Registrant's telephone number, including area code)

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

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

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

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

Large Accelerated Filer

Accelerated Filer

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

Smaller Reporting Company

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

The registrant had 27,816,711 shares of Common Stock, \$0.001 par value per share, outstanding as of October 28, 2016.

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

Item 1. Financial Statements

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

	September 30, 2016 (Unaudited)	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 29,817	\$ 14,783
Short-term investments	12,349	10,646
Accounts receivable, net of allowance for doubtful accounts of \$1,897 and \$1,715 as of September 30, 2016 and December 31, 2015, respectively	25,813	26,549
Prepaid taxes	2,697	5,306
Prepaid expenses and other current assets	2,498	2,192
Total current assets	73,174	59,476
Property and equipment, net of accumulated depreciation and amortization	9,357	8,922
Long-term investments	5,959	9,262
Goodwill	93,646	93,701
Intangible assets, net of accumulated amortization	728	1,448
Deferred tax assets	2,871	4,210
Other assets	813	840
Total assets	\$ 186,548	\$ 177,859
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 1,812	\$ 1,807
Current portion of term loan	4,907	
Accrued expenses and other current liabilities	3,119	3,112
Accrued compensation expenses	583	675
Contingent consideration		1,326
Income taxes payable		516
Deferred revenue	8,925	7,595
Total current liabilities	19,346	15,031
Long-term liabilities:		
Long-term portion of term loan	44,762	
Deferred rent	2,215	2,245

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Deferred tax liabilities	574	582
Total liabilities	66,897	17,858
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Preferred stock, 5,000,000 shares authorized; no shares issued or outstanding		
Common stock, \$0.001 par value per share, 100,000,000 shares authorized, 52,483,717 shares issued and 27,819,434 shares outstanding at September 30, 2016 and 50,927,426 shares issued and 32,039,853 shares outstanding at December 31, 2015	52	51
Treasury stock, 24,664,283 shares at September 30, 2016 and 18,887,573 shares at December 31, 2015, at cost	(159,005)	(113,949)
Additional paid-in capital	295,264	293,003
Accumulated other comprehensive loss	(207)	(322)
Accumulated deficit	(16,453)	(18,782)
Total stockholders' equity	119,651	160,001
Total liabilities and stockholders' equity	\$ 186,548	\$ 177,859

See Accompanying notes to consolidated financial statements.

Table of Contents**TECHTARGET, INC.****Consolidated Statements of Operations and Comprehensive (Loss) Income**

(in thousands, except per share data)

	For the Three Months Ended September 30, 2016 2015 (Unaudited)		For the Nine Months Ended September 30, 2016 2015 (Unaudited)	
Revenues:				
Online	\$ 24,247	\$ 27,066	\$ 76,242	\$ 77,850
Events	1,503	1,941	3,713	4,572
Total revenues	25,750	29,007	79,955	82,422
Cost of revenues:				
Online(1)	6,889	6,802	20,360	20,050
Events	723	710	2,049	2,042
Total cost of revenues	7,612	7,512	22,409	22,092
Gross profit	18,138	21,495	57,546	60,330
Operating expenses:				
Selling and marketing(1)	11,243	11,526	33,331	32,825
Product development(1)	2,074	1,915	6,027	5,723
General and administrative(1)	3,138	3,265	9,392	9,876
Depreciation	951	999	2,987	3,023
Amortization of intangible assets	183	337	718	1,054
Total operating expenses	17,589	18,042	52,455	52,501
Operating income	549	3,453	5,091	7,829
Interest and other expense, net	(471)	(209)	(1,037)	(122)
Income before provision for income taxes	78	3,244	4,054	7,707
Provision for income taxes	100	1,203	1,725	2,490
Net (loss) income	\$ (22)	\$ 2,041	\$ 2,329	\$ 5,217
Other comprehensive (loss) income, net of tax:				
Unrealized (loss) gain on investments (net of tax effect of \$(13), \$7, \$3 and \$16, respectively)	\$ (22)	\$ 13	\$ 5	\$ 28
Foreign currency translation gains (losses)	11	(65)	110	(221)

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Other comprehensive (loss) income	(11)	(52)	115	(193)
Comprehensive (loss) income	\$ (33)	\$ 1,989	\$ 2,444	\$ 5,024
Net (loss) income per common share:				
Basic	\$ (0.00)	\$ 0.06	\$ 0.08	\$ 0.16
Diluted	\$ (0.00)	\$ 0.06	\$ 0.07	\$ 0.15
Weighted average common shares outstanding:				
Basic	27,540	32,790	30,650	33,065
Diluted	28,325	34,221	31,608	34,707

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

Cost of online revenues	\$ 36	\$ 27	\$ 90	\$ 57
Selling and marketing	1,260	1,106	3,103	2,445
Product development	45	37	124	74
General and administrative	703	858	1,753	2,215

See Accompanying notes to consolidated financial statements.

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

	For the Nine Months Ended September 30, 2016 2015 (Unaudited)	
Operating Activities:		
Net income	\$ 2,329	\$ 5,217
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,705	4,077
Provision for bad debt	289	611
Amortization of investment premiums	217	179
Stock-based compensation	5,070	4,791
Non-cash interest expense	128	
Deferred tax provision		5
Excess tax benefit stock options	378	(1,996)
Changes in operating assets and liabilities:		
Accounts receivable	452	(6,526)
Prepaid taxes, prepaid expenses and other current assets	(436)	73
Other assets	54	56
Accounts payable	19	(938)
Income taxes payable	1,094	(1,395)
Accrued expenses and other current liabilities	(786)	(397)
Accrued compensation expenses	(88)	(980)
Deferred revenue	1,331	1,998
Other liabilities	(29)	(2,275)
Net cash provided by operating activities	13,727	2,500
Investing activities:		
Purchases of property and equipment and other capitalized assets	(3,435)	(2,731)
Purchases of investments	(3,210)	(5,222)
Proceeds from sales and maturities of investments	4,600	5,657
Net cash used in investing activities	(2,045)	(2,296)
Financing activities:		
Tax withholdings related to net share settlements	(4,380)	
Excess tax benefit stock options	(378)	1,996
Purchase of treasury shares and related costs	(45,056)	(9,139)
Registration fees		(22)

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Payment of earnout liabilities	(459)	
Proceeds from exercise of stock options	3,963	2,592
Term loan proceeds	50,000	
Debt issuance costs	(367)	
Net cash provided by (used in) financing activities	3,323	(4,573)
Effect of exchange rate changes on cash and cash equivalents	29	(12)
Net increase (decrease) in cash and cash equivalents	15,034	(4,381)
Cash and cash equivalents at beginning of period	14,783	19,275
Cash and cash equivalents at end of period	\$ 29,817	\$ 14,894
Supplemental disclosure of cash flow information:		
Cash paid for taxes, net	\$ 685	\$ 4,541
Cash paid for interest, net	\$ 525	\$

See Accompanying notes to consolidated financial statements.

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

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

1. Organization and Operations

TechTarget, Inc. and its subsidiaries (the Company) is a leading provider of specialized online content for buyers of corporate information technology (IT) products and services, and a leading provider of marketing services for the sellers of those solutions. The Company's offerings enable IT vendors to identify, reach and influence corporate IT decision makers, who are actively researching specific IT purchases, through customized marketing programs that include data analytics-driven intelligence solutions, demand generation and brand advertising. The Company operates a network of over 140 websites, each of which focuses on a specific IT sector, such as storage, security or networking. During the critical stages of the purchase decision process, these content offerings meet IT professionals' needs for expert, peer and IT vendor information, and provide a platform on which IT vendors can launch targeted marketing campaigns which generate measurable, high return on investment (ROI). As IT professionals have become increasingly specialized, they have come to rely on the Company's sector-specific websites for purchasing decision support. The Company's content enables IT professionals to navigate the complex and rapidly changing IT landscape where purchasing decisions can have significant financial and operational consequences. Based upon the logical clustering of members' respective job responsibilities and the marketing focus of the products that the Company's customers are advertising, the Company's key marketing opportunities and audience extensions are currently addressed using nine distinct media groups: Application Architecture and Development; Channel; CIO/IT Strategy; Data Center and Virtualization Technologies; Business Applications and Analytics; Networking; Security; Storage; and TechnologyGuide.

2. Summary of Significant Accounting Policies

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

Principles of Consolidation

The accompanying Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiaries, TechTarget Securities Corporation (TSC), TechTarget Limited, TechTarget (HK) Limited (TTGT HK), TechTarget (Beijing) Information Technology Consulting Co. Ltd. (TTGT Consulting), TechTarget (Australia) Pty Ltd., TechTarget (Singapore) Pte Ltd., E-Magine Médias SAS (LeMagIT) and TechTarget Germany GmbH. TSC is a Massachusetts corporation. TechTarget Limited is a subsidiary doing business principally in the United Kingdom. TTGT HK is a subsidiary incorporated in Hong Kong in order to facilitate the Company's activities in the Asia-Pacific region. Additionally, through its wholly-owned subsidiaries, TTGT HK and TTGT Consulting, the Company effectively controls a variable interest entity (VIE), Keji Wangtuo Information Technology Co., Ltd., (KWIT), which was incorporated under the laws of the People's Republic of China (PRC). TechTarget (Australia) Pty Ltd. and TechTarget (Singapore) Pte Ltd. are the entities through which the Company does business in Australia and Singapore, respectively; LeMagIT and TechTarget Germany GmbH, both wholly-owned subsidiaries of TechTarget Limited, are entities through which the Company does business in France and Germany, respectively. Bitpipe, Inc., a previously wholly-owned subsidiary, was merged into TechTarget, Inc. in the second quarter of 2016.

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

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Based on these contractual arrangements, the Company consolidates the financial results of KWIT as required by Accounting Standards Codification (ASC) subtopic 810-10, *Consolidation: Overall*, because the Company holds all the variable interests of KWIT through TTGT Consulting, which is the primary beneficiary of KWIT. Despite the lack of technical majority ownership, there exists a parent-subsidary relationship between the Company and the VIE through the aforementioned agreements, whereby the equity holders of KWIT assigned all of their voting rights underlying their equity interest in KWIT to TTGT Consulting. In addition, through the other aforementioned agreements, the Company demonstrates its ability and intention to continue to exercise the ability to obtain substantially all of the profits and absorb all of the expected losses of KWIT. All significant intercompany accounts and transactions between the Company, its subsidiaries, and KWIT have been eliminated in consolidation.

Basis of Presentation

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

Reclassifications

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

Use of Estimates

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

Revenue Recognition

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

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The majority of the Company's online media sales involve multiple product offerings, which are described in more detail below. Because neither vendor-specific objective evidence of fair value nor third party evidence of fair value exists for all elements in the Company's bundled product offerings, the Company uses an estimated selling price which represents management's best estimate of the stand-alone selling price for each deliverable in an arrangement. The Company establishes best estimates considering multiple factors including, but not limited to, class of client, size of transaction, available media inventory, pricing strategies and market

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conditions. The Company believes the use of the best estimate of selling price allows revenue recognition in a manner consistent with the underlying economics of the transaction. The Company uses the relative selling price method to allocate consideration at the inception of the arrangement to each deliverable in a multiple element arrangement. The relative selling price method allocates any discount in the arrangement proportionately to each deliverable on the basis of the deliverable's best estimated selling price. Revenue is then recognized as delivery occurs.

The Company evaluates all deliverables of an arrangement at inception and each time an item is delivered, to determine whether they represent separate units of accounting. Based on this evaluation, the arrangement consideration is measured and allocated to each of these elements. Additionally, the Company offers sales incentives to certain customers, primarily in the form of volume rebates, which are classified as a reduction of revenues and are calculated based on the terms of the specific customer's contract. The Company accrues for these sales incentives based on contractual terms and historical experience.

Online Offerings

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

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

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

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

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

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

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Events

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

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

Fair Value of Financial Instruments

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

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

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

Goodwill and indefinite-lived intangible assets are not amortized but are reviewed annually for impairment or more frequently if impairment indicators arise. Separable intangible assets that are not deemed to have an indefinite life are amortized over their estimated useful lives, which range from three to ten years, using methods of amortization that are expected to reflect the estimated pattern of economic use, and are reviewed for impairment when events or changes in circumstances suggest that the assets may not be recoverable. Consistent with the Company's determination that it has a single reporting segment, it has been determined that there is a single reporting unit and goodwill is therefore tested for impairment at the entity level. The Company performs its annual test of impairment of goodwill as of December 31st of each year and whenever events or changes in circumstances suggest that the carrying amount may not be recoverable using the two step process required by ASC 350, *Intangibles - Goodwill and Other* (ASC 350). The first step of the impairment test is to identify potential impairment by comparing the reporting unit's fair value with its net book value (or carrying amount), including goodwill. The fair value is estimated based on a market value approach. If the fair value of the reporting unit exceeds its carrying amount, the reporting unit's goodwill is not considered to be impaired and the second step of the impairment test is not performed. Whenever indicators of impairment become present, the Company would perform the second step and compare the implied fair value of the

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

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

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Allowance for Doubtful Accounts

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

Property and Equipment and Other Capitalized Assets

Property and equipment and other capitalized assets are stated at cost. Property and equipment acquired through acquisitions of businesses are initially recorded at fair value. Depreciation is calculated on the straight-line method based on the month the asset is placed in service.

Internal-Use Software and Website Development Costs

The Company capitalizes costs incurred during the development of its website applications and infrastructure as well as certain costs relating to internal-use software. The estimated useful life of costs capitalized is evaluated for each specific project. Capitalized internal-use software and website development costs are reviewed for recoverability whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. An impairment loss would be recognized only if the carrying amount of the asset is not recoverable and exceeds its fair value. The Company capitalized internal-use software and website development costs of \$0.7 million for each of the three months ended September 30, 2016 and 2015 and \$2.2 million for each of the nine months ended September 30, 2016 and 2015.

Income Taxes

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

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

Stock-Based Compensation

The Company has two stock-based employee compensation plans which are more fully described in Note 10. Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized in the Consolidated Statement of Operations and Comprehensive (Loss) Income using the straight-line method over the vesting period of the award. The Company uses the Black-Scholes option-pricing model to determine the fair value of stock option awards.

Comprehensive (Loss) Income

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

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

Foreign Currency

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

Net (Loss) Income Per Share

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

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

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

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

Accounting Guidance Not Yet Adopted

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09), which supersedes the revenue recognition requirements in ASC 605, *Revenue Recognition*. ASU 2014-09 is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the

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

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

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

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

3. Fair Value Measurements

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

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

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

Level 3. Unobservable inputs.

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

	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1)				Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	September 30, 2016					
Assets:						
Money market funds(1)	\$ 4,777	\$ 4,777		\$		\$
Short-term investments(2)	12,349			12,349		
Long-term investments(2)	5,959			5,959		
Total assets	\$ 23,085	\$ 4,777		\$ 18,308		\$

	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)
	December 31, 2015					
Assets:						
Money market funds(1)	\$ 122	\$ 122		\$		\$
Short-term investments(2)	10,646			10,646		
Long-term investments(2)	9,262			9,262		
Total assets	\$ 20,030	\$ 122		\$ 19,908		\$
Liabilities:						
Contingent consideration current(3)	\$ 1,326	\$		\$		\$ 1,326
Total liabilities	\$ 1,326	\$		\$		\$ 1,326

(1) Included in cash and cash equivalents on the accompanying consolidated balance sheets; valued at quoted market prices in active markets.

- (2) Short-term and long-term investments consist of municipal bonds, corporate bonds and government agency bonds; their fair value is calculated using an interest rate yield curve for similar instruments.
- (3) The Company's valuation techniques and Level 3 inputs used to estimate the fair value of contingent consideration payable in connection with the LeMagIT acquisition are described in Note 5. The contingent consideration, net of a \$0.4 million holdback, was paid in January 2016. The holdback is fixed in value and is, therefore, no longer a contingent liability; it is included in current liabilities on the Company's Consolidated Balance Sheet as of September 30, 2016.

4. Cash, Cash Equivalents and Investments

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

	September 30, 2016	December 31, 2015
Cash	\$ 25,040	\$ 14,661
Money market funds	4,777	122
Total cash and cash equivalents	\$ 29,817	\$ 14,783

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The Company's short-term and long-term investments are accounted for as available for sale securities. These investments are recorded at fair value with the related unrealized gains and losses included in accumulated other comprehensive loss, a component of stockholders' equity, net of tax. The cumulative unrealized loss, net of taxes, was \$(15) and \$(19) as of September 30, 2016 and December 31, 2015, respectively. Realized gains and losses on the sale of these investments are determined using the specific identification method. There were no realized gains or losses during the three or nine months ended September 30, 2016 or 2015.

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

		September 30, 2016		
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Short-term and long-term investments:				
Government agency bonds	\$ 5,004	\$ 2	\$	\$ 5,006
Municipal bonds	12,823		(26)	12,797
Corporate bonds	503	2		505
Total short-term and long-term investments	\$ 18,330	\$ 4	\$ (26)	\$ 18,308

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

The Company had 16 debt securities in an unrealized loss position at September 30, 2016. All of these securities have been in such a position for no more than eleven months. The unrealized loss on those securities was approximately \$26 and the fair value was \$12.8 million. The Company uses specific identification when reviewing these investments for impairment. Because the Company does not intend to sell the investments that are in an unrealized loss position and it is not likely that the Company will be required to sell any investments before recovery of their cost basis, the Company does not consider those investments with an unrealized loss to be other-than-temporarily impaired at September 30, 2016.

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

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

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

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

6. Intangible Assets

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

	As of September 30, 2016			
	Estimated Useful Lives (Years)	Gross Carrying Amount	Accumulated Amortization	Net
Customer, affiliate and advertiser relationships	5-9	\$ 6,889	\$ (6,822)	\$ 67
Developed websites, technology and patents	10	1,256	(719)	537
Trademark, trade name and domain name	5-8	1,777	(1,681)	96
Proprietary user information database and Internet traffic	5	1,175	(1,147)	28
Total intangible assets		\$ 11,097	\$ (10,369)	\$ 728

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

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

Intangible assets are amortized over their estimated useful lives, which range from three to ten years, using methods of amortization that are expected to reflect the estimated pattern of economic use. The remaining amortization expense will be recognized over a weighted average period of approximately 3.12 years. Amortization expense was \$0.2 million and \$0.3 million for the three month periods ended September 30, 2016 and 2015, respectively, and \$0.7 million and \$1.1 million for the nine months

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ended September 30, 2016 and 2015, respectively. Amortization expense is recorded within operating expenses as the intangible assets consist of customer-related assets and website traffic that the Company considers to be in support of selling and marketing activities. The Company wrote off \$0.1 million of fully amortized intangible assets in the first nine months of 2016. The Company did not write off any fully amortized intangible assets in the first nine months of 2015. The change in the gross carrying amount of intangible assets during the nine months ended September 30, 2016, was due to foreign currency translation gains and losses.

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

Years Ending December 31:	Amortization Expense
2016 (October 1st - December 31st)	\$ 88
2017	167
2018	104
2019	88
2020	74
Thereafter	207
	\$ 728

7. Net (Loss) Income Per Common Share

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Numerator:				
Net (loss) income	\$ (22)	\$ 2,041	\$ 2,329	\$ 5,217
Denominator:				
Basic:				
Weighted average shares of common stock and vested, undelivered restricted stock awards outstanding	27,539,655	32,789,953	30,650,164	33,064,557
Diluted:				
Weighted average shares of common stock and vested, undelivered restricted stock awards outstanding	27,539,655	32,789,953	30,650,164	33,064,557

Effect of potentially dilutive shares(1)	785,406	1,430,838	958,059	1,641,965
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Total weighted average shares of common stock and vested, undelivered restricted stock awards outstanding and potentially dilutive shares	28,325,061	34,220,791	31,608,223	34,706,522
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Net (Loss) Income Per Share:

Basic net (loss) income per share	\$ (0.00)	\$ 0.06	\$ 0.08	\$ 0.16
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Diluted net (loss) income per share	\$ (0.00)	\$ 0.06	\$ 0.07	\$ 0.15
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- (1) In calculating diluted net (loss) income per share, 1.2 million shares related to outstanding stock options and unvested restricted stock awards were excluded for each of the three and nine months ended September 30, 2016, and 1.1 million shares related to outstanding stock options and unvested restricted stock awards were excluded for each of the three and nine months ended September 30, 2015, because including them would have been anti-dilutive.

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

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

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

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

Years Ending December 31:	
2016	\$ 1,250
2017	6,250
2018	10,000
2019	10,000
2020	10,000
2021	12,500
Total principal on term loan	50,000
Unamortized debt issuance costs	(331)
Carrying amount of term loan	49,669
Less: current portion of term loan, net of \$93 in unamortized debt issuance costs	(4,907)
Long-term portion of term loan, net of \$238 in unamortized debt issuance costs	\$ 44,762

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

At the Company's option, the Term Loan Agreement bears interest at either an annual rate of 1.50% plus the higher of (a) the Prime Rate in effect on such day and (b) the Federal Funds Effective Rate in effect for such day plus 0.50%, or the London Interbank Offered Rate (LIBOR) plus 2.50%. The applicable interest rate was 3.01% at September 30, 2016, representing LIBOR plus the applicable margin of 2.50%. Interest expense under the Term Loan Agreement was \$0.4 million and \$0.6 million for the three and nine months ended September 30, 2016, respectively, which includes non-cash interest expense of \$36 related to the amortization of deferred issuance costs.

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

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

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

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

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

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

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

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

Years Ending December 31:	Minimum Lease Payments
2016 (October 1st – December 31st)	\$ 1,240
2017	4,451
2018	4,505
2019	4,492
2020	683
	\$ 15,371

Net Worth Tax Contingency

In late March 2010, the Company received a letter from the Department of Revenue of the Commonwealth of Massachusetts (the MA DOR) requesting documentation demonstrating that TSC had been classified by the MA DOR as a Massachusetts security corporation for the 2006 and 2007 tax years. Following subsequent correspondence with the MA DOR and a settlement conference on March 22, 2011, the Company received a Notice of Assessment from the MA DOR with respect to additional excise taxes on net worth related to TSC. Based on the Company's previous assessment that it was probable that the MA DOR would require an adjustment to correct TSC's tax filings such that it would be treated as a Massachusetts business corporation for the applicable years, the Company recorded a liability representing its best estimate at that time of the potential net worth tax exposure. The tax benefits available to a Massachusetts security corporation are composed of (i) a different rate structure (1.32% on gross investment income vs. 9.5% on net income) (See Note 12) and (ii) exemption from the 0.26% excise tax on net worth. As of the date of the ruling, the

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Company had recorded a liability of approximately \$257 to account for the tax differential in all open years, including penalties and interest. On August 17, 2011, the Company filed Applications for Abatement with the MA DOR. In January 2012, the Company filed Petitions for Formal Procedure with the Massachusetts Appellate Tax Board (the ATB). A trial took place in April 2014, and in May 2015 the ATB ruled in favor of the MA DOR. During the second quarter of 2015, the Company accepted an amnesty offer from the MA DOR and paid all amounts due.

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, 2016 and December 31, 2015, the Company did not have any pending claims, charges, or litigation that it expects would have a material adverse effect on its consolidated financial position, results of operations, or cash flows.

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

In September 1999, the Company approved a stock option plan (the 1999 Plan) that provided for the issuance of shares of common stock incentives. The 1999 Plan provided for the granting of incentive stock options (ISOs), nonqualified stock options (NSOs), and stock grants. These incentives were offered to the Company's employees, officers, directors, consultants, and advisors. Each option is exercisable at such times and subject to such terms as determined by the Company's Board of Directors (the Board); grants generally vest over a four year period, and expire no later than ten years after the grant date.

In April 2007, the Board approved the 2007 Stock Option and Incentive Plan (the 2007 Plan), which was approved by the stockholders of the Company and became effective upon the consummation of the Company's IPO in May 2007. Effective upon the consummation of the IPO, no further awards were made pursuant to the 1999 Plan, but any outstanding awards under the 1999 Plan remain in effect and continue to be subject to the terms of the 1999 Plan. The 2007 Plan allows the Company to grant ISOs, NSOs, stock appreciation rights, deferred stock awards, restricted stock and other awards. Under the 2007 Plan, stock options may not be granted at less than fair market value on the date of grant, and grants generally vest over a three to four year period. Stock options granted under the 2007 Plan expire no later than ten years after the grant date. Additionally, beginning with awards made in August 2015, the Company has the option to direct a net issuance of shares for satisfaction of tax liability with respect to vesting of awards and delivery of shares. Prior to August 2015, this choice of settlement method was solely at the discretion of the award recipient. The Company has reserved for issuance an aggregate of 2,911,667 shares of common stock under the 2007 Plan plus an additional annual increase to be added automatically on January 1 of each year, beginning on January 1, 2008, equal to the lesser of (a) 2% of the outstanding number of shares of common stock (on a fully-diluted basis) on the immediately preceding December 31 and (b) such lower number of shares as may be determined by the compensation committee of the Board of Directors of the Company. The number of shares available for issuance under the 2007 Plan is subject to adjustment in the event of a stock split, stock dividend or other change in capitalization. Generally, shares that are forfeited or canceled from awards under the 2007 Plan also will be available for future awards. To date, 8,224,334 shares have been added to the 2007 Plan in accordance with the automatic annual increase. In addition, shares subject to stock options returned to the 1999 Plan, as a result of their expiration, cancellation or termination, are automatically made available for issuance under the 2007 Plan. As of September 30, 2016, a total of 3,712,046 shares were available for grant under the 2007 Plan.

Accounting for Stock-Based Compensation

The Company uses the Black-Scholes option pricing model to calculate the grant date fair value of an award.

The expected volatility of options granted has been determined using a weighted average of the historical volatility of the Company's stock for a period equal to the expected life of the option. The expected life of options has been determined utilizing the simplified method. The risk-free interest rate is based on a zero coupon U.S. treasury instrument whose term is consistent with the

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expected life of the stock options. The Company has not paid and does not anticipate paying cash dividends on its shares of common stock; therefore, the expected dividend yield is assumed to be zero. The Company applied an estimated annual forfeiture rate in determining the expense recorded in each period.

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

Year-to-Date Activity	Options Outstanding	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term in Years	Aggregate Intrinsic Value
Options outstanding at December 31, 2015	2,922,736	\$ 7.97		
Granted				
Exercised	(660,447)	7.22		\$ 1,778
Forfeited	(26,642)	7.36		
Cancelled	(1,334,463)	7.46		
Options outstanding at September 30, 2016	901,184	\$ 9.29	2.40	\$ 1,180
Options exercisable at September 30, 2016	901,184	\$ 9.29	2.40	\$ 1,180
Options vested or expected to vest at September 30, 2016	901,184	\$ 9.29	2.40	\$ 1,180

During the nine months ended September 30, 2016, the total intrinsic value of options exercised (i.e. the difference between the market price at exercise and the price paid by the employee to exercise the options) was \$1.8 million, and the total amount of cash received from exercise of these options was \$4.0 million. During the nine months ended September 30, 2015, the total intrinsic value of options exercised was \$1.7 million, and the total amount of cash received from exercise of these options was \$2.6 million.

Restricted Stock Awards

Restricted stock awards are valued at the market price of a share of the Company's common stock on the date of the grant. A summary of the restricted stock award activity under the 2007 Plan for the nine months ended September 30, 2016 is presented below:

Year-to-Date Activity	Shares	Weighted-Average Grant Date Fair	Aggregate Intrinsic Value
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		Value Per Share		
Nonvested outstanding at December 31, 2015	1,987,894	\$ 6.93		
Granted	789,928	9.13		
Vested	(474,592)	6.33		
Forfeited	(552,190)	5.88		
Nonvested outstanding at September 30, 2016	1,751,040	\$ 8.24	\$	14,113

The total grant date fair value of restricted stock awards that vested during the nine months ended September 30, 2016 and 2015 was \$6.2 million and \$5.8 million, respectively.

As of September 30, 2016, there was \$12.6 million of total unrecognized compensation expense related to stock options and restricted stock awards which is expected to be recognized over a weighted average period of 2.8 years.

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

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

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

Common Stock Repurchase Program

In June 2016, the Company announced that the Board had authorized a \$20 million stock repurchase program (the June 2016 Repurchase Program), whereby the Company was authorized to repurchase the Company's common stock from time to time on the open market or in privately negotiated transactions at prices and in the manner that may be determined by the Board. During the three and nine months ended September 30, 2016, the Company repurchased 490,770 and 538,867 shares of common stock, respectively, for an aggregate purchase price of \$3.9 million and \$4.3 million, respectively, pursuant to the June 2016 Repurchase Program.

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

In August 2014, the Company announced that the Board had authorized a \$20 million stock repurchase program (the 2014 Repurchase Program), whereby the Company was authorized to repurchase the Company's common stock from time to time on the open market or in privately negotiated transactions. In May 2015, the Board amended the program to authorize an additional \$10 million to be used for such purchases. During the nine months ended September 30, 2015, the Company repurchased 998,767 shares of common stock for \$9.1 million pursuant to the Repurchase Program. During the year ended December 31, 2015, the Company repurchased 1,671,687 shares of common stock for an aggregate purchase price of \$15 million pursuant to the 2014 Repurchase Program. The 2014 Repurchase Program expired on December 31, 2015.

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

Reserved Common Stock

As of September 30, 2016, the Company has reserved 6,439,271 shares of common stock for use in settling outstanding options and unvested restricted stock awards as well as for future awards under the 2007 Plan.

12. Income Taxes

The Company's effective income tax rate before discrete items was 42.0% and 40.4% for the nine months ended September 30, 2016 and 2015, respectively. The higher rate in 2016 as compared to 2015 was primarily due to the impact of non-deductible expenses

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and stock-based compensation. The Company recognized income tax benefits for discrete items of \$0.2 million and \$0.5 million during the nine months ended September 30, 2016 and 2015, respectively. Additionally, the Company recognized other discrete expense adjustments of approximately \$0.2 million related to foreign taxes during the nine months ended September 30, 2016. The effective income tax rate is based upon the estimated annual effective tax rate in compliance with ASC 740 and other related guidance. The Company updates the estimate of its annual effective tax rate at the end of each quarterly period. The Company's estimate takes into account estimations of annual pre-tax income, the geographic mix of pre-tax income and its interpretations of tax laws. The Company's practice is to recognize interest and/or penalties related to income tax matters in income tax expense, which were not material for the nine months ended September 30, 2016 and 2015.

In late March 2010, the Company received a letter from the Massachusetts Department of Revenue (the "MA DOR") requesting documentation demonstrating that TSC, a wholly-owned subsidiary of the Company, had been classified by the MA DOR as a Massachusetts security corporation for the 2006 and 2007 tax years. Following subsequent correspondence with the MA DOR, the Company determined that it was more likely than not that the MA DOR would require an adjustment to correct TSC's tax filings such that it would be treated as a Massachusetts business corporation for the applicable years. The Company recorded a tax reserve of approximately \$0.4 million. The tax benefits available to a Massachusetts security corporation are composed of (i) a different rate structure (1.32% on gross investment income vs. 9.5% on net income) and (ii) exemption from the 0.26% excise tax on net worth (see Note 9). On August 17, 2011, the Company filed Applications for Abatement with the MA DOR. In January 2012, the Company filed Petitions under Formal Procedure with the ATB. A trial took place in April 2014, and in May 2015 the ATB ruled in favor of the MA DOR. As of the date of the ruling, the Company had recorded a current liability of approximately \$677 to account for the tax differential in all open years, which included penalties and interest for the potential state income tax liability arising from the difference between the income tax rates applicable to security corporations and business corporations in Massachusetts. During the second quarter of 2015, the Company accepted an amnesty offer from the MA DOR and paid all amounts due.

13. Segment Information

The Company views its operations and manages its business as one operating segment based on factors such as how the Company manages its operations and how its executive management team reviews results and makes decisions on how to allocate resources and assess performance.

Table of Contents***Geographic Data***

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
United States	\$ 19,298	\$ 22,317	\$ 59,715	\$ 62,497
International	6,452	6,690	20,240	19,925
Total	\$ 25,750	\$ 29,007	\$ 79,955	\$ 82,422

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

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

Long-lived assets by geographic area were as follows:

	September 30, 2016	December 31, 2015
United States	\$ 98,452	\$ 99,091
International	5,279	4,980
Total	\$ 103,731	\$ 104,071

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

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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 included elsewhere in this Quarterly Report on Form 10-Q. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors. Please refer to our Forward-Looking Statements section on page 41.

Overview

Background

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

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

We enable IT professionals to navigate the complex and rapidly-changing IT landscape where purchasing decisions can have significant financial and operational consequences. Our content strategy includes three primary sources which IT professionals use to assist them in their pre-purchase research: independent content provided by our professionals, vendor-generated content provided by our customers and user-generated, or peer-to-peer, content. In addition to utilizing our independent content, registered members are able to conduct their pre-purchase research by accessing extensive vendor content across our network of websites. Our network of websites also allows users to seamlessly interact and contribute content, which is highly valued by IT professionals during their research process.

We had approximately 17.7 million and 16.7 million registered members as of September 30, 2016 and 2015, respectively. The size of our registered user base does not provide direct insight into the number of our customers or our revenues but it does provide context as to the breadth and reach of our content footprint, which our customers leverage through customized marketing programs. The targeted nature of our user base enables IT vendors to reach a specialized audience efficiently because our content is highly segmented and aligned with the IT vendors' specific products. We have developed a broad customer base, and deliver advertising campaigns to approximately 1,400 customers annually.

Executive Summary

Our revenues for the three months ended September 30, 2016 declined approximately 11%, to \$25.8 million, when compared with the same period in 2015.

Online revenues declined by 10% when compared to the prior year, driven by a contraction of our core-online offerings. In the three month period ended September 30, 2016, revenue from four large customers involved in corporate transactions was down approximately 50%, or approximately \$2.5 million compared with the prior year period. IT Deal Alert revenue in the three month period ended September 30, 2016, from those same four customers

was down 60%, or approximately \$1 million compared with the prior year period. International revenue in the three month period ended September 30, 2016, from the same four customers was down 32%, or approximately \$0.4 million compared with the prior year period. With respect to the customers involved in corporate transactions, we view these conditions as temporary. We expect that the corporate transactions will be consummated and the companies' marketing spend will return to normal levels.

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Online international geo-targeted revenues, where our target audience is outside North America (International), declined 14% compared with the prior year period, driven by a decrease in core-online sales, primarily from our largest customers as noted above, which was offset in part by international IT Deal Alert growth. The weakness in core-online was distributed across Europe, the Middle East and Africa (EMEA), Asia Pacific (APAC) and Latin America. Overall, international IT Deal Alert sales grew 32% in the first nine months of 2016 as compared with the same period in 2015.

Gross margin was 70% and 74% for the three months ended September 30, 2016 and 2015, respectively. Online gross profit decreased by \$2.9 million, primarily as a result of the decreased online revenues as compared to the same period a year ago. Events gross profit decreased by \$0.5 million, primarily as a result of the decreased events revenues as compared to the same period in the prior year.

Business Trends

The following discussion highlights key trends affecting our business.

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

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

Customer Demographics. Due to the impact of the strong U.S. dollar on foreign currency, our large multi-national customers, who generate a significant amount of their revenue outside the U.S., continue to be cautious. In the three months ended September 30, 2016, online revenues from our top 12 global customers, which have the most international exposure, decreased by approximately 23% compared to the same period a year ago, driven in part from the large corporate transactions noted above. Online revenues from our mid-sized customers (our next largest 100 customers, who have less exposure internationally) increased by approximately 5% year over year. Revenues attributable to our smaller customers, which tend to be venture capital-backed start-ups that primarily operate in North America, decreased by approximately 2% over the

prior year period. All three customer segments continued to report a challenging environment, and this translated into our customers remaining cautious with their marketing expenditures.

Our key strategic initiatives include:

Geographic During the three months ended September 30, 2016, approximately 32% of our online revenues were derived from International campaigns. International online revenues (which also includes IT Deal Alert revenues of \$1.4 million as discussed below) decreased by approximately 14% in the three months ended September 30, 2016 as compared to the same period a year ago. International marketing budgets continue to be challenged by the effects of the strong dollar and the uncertainty caused by Brexit. International results were also impacted by the large corporate transactions noted above. We rolled out Priority Engine in Europe in the third quarter of 2016 and we intend to launch Priority Engine in APAC by the end of the year.

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Product IT Deal Alert revenues were approximately \$7.3 million in the three months ended September 30, 2016, up from approximately \$6.4 million in the same period in 2015. This includes International IT Deal Alert revenues of \$1.4 million, which is also included in International revenues as discussed above. In the third quarter of 2016, we had more than 370 active customers utilizing our IT Deal Alert products and services, up from more than 350 customers in the second quarter of 2016 and 280 customers in the third quarter of 2015, respectively. We expect IT Deal Alert to continue to be a meaningful growth driver through 2016.

Sources of Revenues

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

	Three months ended			Nine months ended		
	September 30, 2016	2015	Change	September 30, 2016	2015	Change
	(\$ in thousands)			(\$ in thousands)		
Total Online	\$ 24,247	\$ 27,066	-10%	\$ 76,242	\$ 77,850	-2%
Total Online by Geographic Area:						
North America:						
North America Core Online	10,644	12,813	-17%	33,683	38,375	-12%
North America IT Deal Alert	5,895	5,322	11%	18,629	14,397	29%
Total North America Online	16,539	18,135	-9%	52,312	52,772	-1%
International:						
International Core Online	6,327	7,814	-19%	20,080	22,172	-9%
International IT Deal Alert	1,381	1,117	24%	3,850	2,906	32%
Total International Online	7,708	8,931	-14%	23,930	25,078	-5%
Total Online by Product:						
Core Online:						
North America Core Online	10,644	12,813	-17%	33,683	38,375	-12%
International Core Online	6,327	7,814	-19%	20,080	22,172	-9%
Total Core Online	16,971	20,627	-18%	53,763	60,547	-11%
IT Deal Alert:						
North America IT Deal Alert	5,895	5,322	11%	18,629	14,397	29%
International IT Deal Alert	1,381	1,117	24%	3,850	2,906	32%
Total IT Deal Alert	7,276	6,439	13%	22,479	17,303	30%
Total Events	\$ 1,503	\$ 1,941	-23%	\$ 3,713	\$ 4,572	-19%
Total Revenues	\$ 25,750	\$ 29,007	-11%	\$ 79,955	\$ 82,422	-3%

We sell customized marketing programs to IT vendors targeting a specific audience within a particular IT sector or sub-sector. We maintain multiple points of contact with our customers to provide support throughout their organizations and their customers IT

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sales cycles. As a result, our customers often run multiple advertising programs with us in order to target their desired audience of IT professionals more effectively. There are multiple factors that can impact our customers' advertising objectives and spending with us, including but not limited to, IT product launches, increases or decreases to their advertising budgets, the timing of key industry marketing events, responses to competitor activities and efforts to address specific marketing objectives such as creating brand awareness or generating sales leads. Our products and services are generally delivered under short-term contracts that run for the length of a given advertising program, typically less than six months. In the three months ended September 30, 2016, demand generation and brand advertising remained our primary sources of revenue, while data analytics-driven intelligence solutions, driven by growth in our IT Deal Alert products and services, contributed approximately 30% of online revenue as compared with approximately 24% for the same period in 2015.

The majority of our revenues are derived from the delivery of our online offerings. Online revenues represented 94% and 93% of total revenues for the three months ended September 30, 2016 and 2015, respectively, and 95% and 94% of total revenues for the nine months ended September 30, 2016 and 2015, respectively.

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

Online Offerings

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

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

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

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

IT Deal Alert: TechTarget Research . TechTarget Research is a newly launched subscription product that sources proprietary information about purchase transactions from IT professionals who are making and have

recently completed these purchases. The offering provides data on market trends, pricing dynamics and vendor win/loss and displacement trends.

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

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

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Demand solutions offerings may also include an additional service, TechTarget Re-Engage , which helps both technology marketers and their sales teams to identify highly active prospects, detect emerging projects, retarget interested buying teams, and accelerate engagement with specific accounts.

Our demand solutions offerings may also include the following program components:

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

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

Content Sponsorships. IT vendors, or groups of vendors, pay us to sponsor independent editorially created content vehicles on specific technology topics where the registrant information is then provided to all participating sponsors. In some cases, these vehicles are supported by multiple sponsors in a single segment, with the registrant information provided to all participating sponsors. Because these offerings are editorially driven, our customers get the benefit of association with independently created content as well as access to qualified sales leads that are researching the topic.

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

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

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

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

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

Events

Events revenues represented 6% and 7% of total revenues for the three months ended September 30, 2016 and 2015, respectively, and 5% and 6% of total revenues for the nine months ended September 30, 2016 and 2015, respectively. We operate a select number

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

Cost of Revenues, Operating Expenses and Other

Expenses consist of cost of online and event revenues, selling and marketing, product development, general and administrative, depreciation, amortization and interest and other expense, net. Personnel-related costs are a significant component of each of these expense categories except for depreciation, amortization and interest and other expense, net.

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

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

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

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

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

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

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

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

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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 U.S. The preparation of these consolidated financial statements requires us to make estimates, judgments and assumptions that affect the reported amount of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to revenue, long-lived assets, goodwill, allowance for doubtful accounts, stock-based compensation, contingent liabilities, self-insurance accruals and income taxes. We based our estimates of the carrying value of certain assets and liabilities on historical experience and on various other assumptions that we believe to be reasonable. In some cases, changes in the accounting estimates are reasonably likely to occur from period to period. Our actual results may differ from these estimates under different assumptions or conditions.

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

Revenue Recognition

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

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

We evaluate all deliverables of an arrangement at inception and each time an item is delivered, to determine whether they represent separate units of accounting. Based on this evaluation, the arrangement consideration is measured and allocated to each of these elements. Additionally, we offer sales incentives to certain customers, primarily in the form of volume rebates, which are classified as a reduction of revenues and are calculated based on the terms of the specific customer's contract. We accrue for these sales incentives based on contractual terms and historical experience.

Online Offerings

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

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

Demand Solutions. As part of our demand solutions campaign offerings, we may guarantee a minimum number of qualified leads to be delivered over the course of the campaign. We determine the content necessary to achieve performance guarantees. Scheduled end

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dates of campaigns sometimes need to be extended, pursuant to the terms of the arrangement, to satisfy lead guarantee obligations. We estimate a revenue reserve necessary to adjust revenue recognition for extended campaigns. These estimates are based on our experience in managing and fulfilling these offerings. The customer has cancellation privileges which generally require advance notice by the customer and require proportional payment by the customer for the portion of the campaign period that has been provided. We recognize revenue from duration-based campaigns over the duration of the campaign, which is typically less than six months, and recognize revenue from cost per lead advertising during the period in which leads are delivered to our customers.

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

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

Events

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

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

Long-Lived Assets

Our long-lived assets consist primarily of property and equipment, capitalized software, goodwill and other intangible assets. Goodwill and other intangible assets have arisen principally from our acquisitions. The amount assigned to intangible assets is subjective and based on our estimates of the future benefit of the intangible assets using accepted valuation techniques, such as discounted cash flow and replacement cost models. Our long-lived assets, other than goodwill, are amortized over their estimated useful lives, which we determine based on the consideration of several factors including the period of time the asset is expected to remain in service. Intangible assets are amortized over their estimated useful lives, which range from three to ten years, using methods of amortization that are expected to reflect the estimated pattern of economic use. Consistent with our determination that we have only one reporting segment, we have determined that there is only one reporting unit and test goodwill for impairment at the entity level. We evaluate the carrying value and remaining useful lives of long-lived assets, other than goodwill, whenever indicators of impairment are present. We evaluate the carrying value of goodwill annually using the two step process required by Accounting Standards Codification (ASC) 350, *Intangibles Goodwill and Other* (ASC 350). The first step of the impairment test is to identify potential impairment by comparing the reporting unit's fair value with its net book value (or carrying amount), including goodwill. The fair value is estimated based on a market value approach. If the fair value of the reporting unit exceeds its carrying amount, the reporting unit's goodwill is not considered to be impaired and the second step of the impairment test is not performed. Whenever indicators of impairment are present, we would perform the second step and compare the implied fair value of the reporting unit's goodwill, as defined by ASC 350, to its carrying value to determine the amount of the impairment loss, if any. As of December 31, 2015, the date of our last goodwill impairment review, there were no indications of impairment based on our step one analysis, and our estimated fair value exceeded our carrying value by a significant margin. There was no indication of impairment in our goodwill or intangible assets at September 30, 2016.

Fair Value of Financial Instruments

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

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Allowance for Doubtful Accounts

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

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

Stock-Based Compensation

We measure stock-based compensation at the grant date based on the fair value of the award and recognize stock-based compensation in our results of operations using the straight-line method over the vesting period of the award. We use the Black-Scholes option pricing model to determine the fair value of stock option awards.

The expected volatility of options granted was determined using a weighted average of the historical volatility of our stock for a period equal to the expected life of the option. The risk-free interest rate is based on a zero coupon U.S. treasury instrument whose term is consistent with the expected life of the stock options. We have not paid and do not anticipate paying cash dividends on our shares of common stock; therefore, the expected dividend yield is assumed to be zero. We applied an estimated annual forfeiture rate in determining the expense recorded in each period.

Internal-Use Software and Website Development Costs

We capitalize costs of materials, consultants and compensation and related expenses of employees who devote time to the development of internal-use software and website applications and infrastructure involving developing software to operate our websites. However, we expense as incurred website development costs for new features and functionalities since it is not probable that they will result in additional functionality until they are both developed and tested with confirmation that they are more effective than the current set of features and functionalities on our websites. Our judgment is required in determining the point at which various projects enter the state at which costs may be capitalized, in assessing the ongoing value of the capitalized costs and in determining the estimated useful lives over which the costs are amortized, which is generally three years. To the extent that we change the manner in which we develop and test new features and functionalities related to our websites, assess the ongoing value of capitalized assets or determine the estimated useful lives over which the costs are amortized, the amount of website development costs we capitalize and amortize in future periods would be impacted. We review capitalized internal-use software and website development costs for recoverability whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. We would recognize an impairment loss only if the carrying amount of the asset is not recoverable and exceeds its fair value. We capitalized internal-use software and website development costs of \$0.7 million for each of the three months ended September 30, 2016 and 2015 and \$2.2 million for each of the nine months ended September 30, 2016 and 2015.

Income Taxes

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

the financial reporting and income tax bases of assets and liabilities using statutory rates.

Our deferred tax assets are comprised primarily of book to tax differences on stock-based compensation and timing of deductions for

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

Net (Loss) Income Per Share

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

Results of Operations

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2016		2015		2016		2015	
	(\$ in thousands)							
Revenues:								
Online	\$ 24,247	94%	\$ 27,066	93%	\$ 76,242	95%	\$ 77,850	94%
Events	1,503	6	1,941	7	3,713	5	4,572	6
Total revenues	25,750	100	29,007	100	79,955	100	82,422	100
Cost of revenues:								
Online	6,889	27	6,802	23	20,360	25	20,050	25
Events	723	3	710	3	2,049	3	2,042	2
Total cost of revenues	7,612	30	7,512	26	22,409	28	22,092	27
Gross profit	18,138	70	21,495	74	57,546	72	60,330	73
Operating expenses:								
Selling and marketing	11,243	44	11,526	40	33,331	42	32,825	40
Product development	2,074	8	1,915	7	6,027	8	5,723	7
General and administrative	3,138	12	3,265	11	9,392	12	9,876	12
Depreciation	951	4	999	3	2,987	4	3,023	4

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Amortization of intangible assets	183	1	337	1	718	1	1,054	1
Total operating expenses	17,589	68	18,042	62	52,455	66	52,501	64
Operating income	549	2	3,453	12	5,091	6	7,829	9
Interest and other expense, net	(471)	(2)	(209)	(1)	(1,037)	(1)	(122)	*
Income before provision for income taxes	78	*	3,244	11	4,054	5	7,707	9
Provision for income taxes	100	*	1,203	4	1,725	2	2,490	3
Net (loss) income	\$ (22)	*%	\$ 2,041	7%	\$ 2,329	3%	\$ 5,217	6%

* Not meaningful

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

	Three Months Ended September 30,			
	2016	2015	Increase (Decrease)	Percent Change
	(\$ in thousands)			
Revenues:				
Online	\$ 24,247	\$ 27,066	\$ (2,819)	(10)%
Events	1,503	1,941	(438)	(23)
Total revenues	\$ 25,750	\$ 29,007	\$ (3,257)	(11)%

Online. The decrease in online was primarily attributable to a decrease of \$3.6 million in online revenues due to reduced revenue from demand and branding solutions offerings, offset by an increase of \$0.8 million in IT Deal Alert offerings. The decrease in online revenue as discussed above in our Executive Summary was driven by a decrease in revenue generated from four of our large customers.

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

Cost of Revenues and Gross Profit

	Three Months Ended September 30,			
	2016	2015	Increase (Decrease)	Percent Change
	(\$ in thousands)			
Cost of revenues:				
Online	\$ 6,889	\$ 6,802	\$ 87	1%
Events	723	710	13	2
Total cost of revenues	\$ 7,612	\$ 7,512	\$ 100	1%
Gross profit	\$ 18,138	\$ 21,495	\$ (3,357)	(16)%

Gross profit percentage 70% 74%

Cost of Online Revenues. The increase in cost of online revenues was primarily attributable to the slightly higher relative costs associated with servicing our new product offerings along with the increased percentage of revenue for these new product offerings, partially offset by a decrease in our labor-related costs.

Cost of Events Revenues. Cost of events revenues was flat when compared to the same period in the prior year.

Gross Profit. Our gross profit is equal to the difference between our revenues and our cost of revenues for the period. Gross profit percentage was 70% in the third quarter of 2016 and 74% in the third quarter of 2015. Total gross profit declined by \$3.4 million during the three months ended September 30, 2016, of which online gross profit decreased by \$2.9 million, primarily attributable to the decrease in online revenues related to new products, as compared to the same period a year ago. Events gross profit decreased by \$0.5 million, primarily as a result of the lower events revenues as compared to the same period in the prior year. Because the majority of our costs are labor-related, we expect our gross profit to fluctuate from period to period depending on the total revenues for the period, as well as the relative contribution of online and events revenues to our total revenues and product mix.

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

	Three Months Ended September 30,			
	2016	2015	Increase (Decrease)	Percent Change
	(\$ in thousands)			
Operating expenses:				
Selling and marketing	\$ 11,243	\$ 11,526	\$ (283)	(2)%
Product development	2,074	1,915	159	8
General and administrative	3,138	3,265	(127)	(4)
Depreciation	951	999	(48)	(5)
Amortization of intangible assets	183	337	(154)	(46)
Total operating expenses	\$ 17,589	\$ 18,042	\$ (453)	