TechTarget Inc
Form 10-Q
August 14, 2008

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

FORM 10-Q

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

For the quarterly period ended June 30, 2008

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

For the transition period from _____ to _____

Commission File Number: 1-33472

TECHTARGET, INC.
(Exact name of registrant as specified in its charter)

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

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

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

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

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

As of June 30, 2008, there were outstanding 41,524,852 shares of the registrant’s common stock, par value $0.001.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2008 (Unaudited)	December 31, 2007
Assets		
Current assets:		
Cash and cash equivalents	$ 49,369	$ 10,693
Short-term investments	18,348	51,308
Accounts receivable, net of allowance for doubtful accounts of $554 and $424 as of June 30, 2008 (unaudited) and December 31, 2007, respectively	17,131	15,198
Prepaid expenses and other current assets	4,837	1,962
Deferred tax assets	2,743	2,947
Total current assets	92,428	82,108
Property and equipment, net	3,780	4,401
Goodwill	88,326	88,326
Intangible assets, net of accumulated amortization	19,177	21,939
Deferred tax assets	3,354	2,910
Other assets	198	203
Total assets	$ 207,263	$ 199,887
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of bank term loan payable	$ 3,000	$ 3,000
Accounts payable	4,158	2,919
Income taxes payable	208	1,031
Accrued expenses and other current liabilities	1,803	2,473
Accrued compensation expenses	688	2,600
Deferred revenue	5,440	3,761
Total current liabilities	15,297	15,784
Long-term liabilities:		
Other liabilities	392	455
Bank term loan payable, net of current portion	1,500	3,000
Total liabilities	17,189	19,239
Commitments (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, 41,524,852 and 41,081,616 shares issued and outstanding at June 30, 2008 (unaudited) and December 31, 2007, respectively	42	41
Additional paid-in capital	217,577	209,773

Warrants	3	13
Accumulated other comprehensive loss	(91)	(102)
Accumulated deficit	(27,457)	(29,077)
Total stockholders' equity	190,074	180,648
Total liabilities and stockholders' equity	$ 207,263	$ 199,887

See accompanying notes.

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TECHTARGET, INC.

Consolidated Statements of Operations
(In thousands, except share and per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(Unaudited)			
Revenues:				
Online	$ 20,844	$ 16,330	$ 39,707	$ 30,039
Events	7,262	6,350	11,247	9,289
Print	1,274	1,924	2,296	3,621
Total revenues	29,380	24,604	53,250	42,949
Cost of revenues:				
Online (1)	5,481	3,900	10,650	7,425
Events (1)	2,923	2,410	4,750	3,782
Print (1)	632	999	1,178	2,128
Total cost of revenues	9,036	7,309	16,578	13,335
Gross profit	20,344	17,295	36,672	29,614
Operating expenses:				
Selling and marketing (1)	8,885	6,388	17,329	12,540
Product development (1)	2,890	1,596	5,652	3,344
General and administrative (1)	3,459	2,943	7,254	5,553
Depreciation	581	364	1,305	694
Amortization of intangible assets	1,332	1,041	2,812	1,800
Total operating expenses	17,147	12,332	34,352	23,931
Operating income	3,197	4,963	2,320	5,683
Interest income (expense):				
Interest income	368	655	900	1,015
Interest expense	(100)	(278)	(214)	(705)
Total interest income	268	377	686	310
Income before provision for income taxes	3,465	5,340	3,006	5,993
Provision for income taxes	1,733	2,092	1,386	2,428
Net income	$ 1,732	$ 3,248	$ 1,620	$ 3,565
Net income (loss) per common share:				
Basic	$ 0.04	$ 0.07	$ 0.04	$ (0.02)
Diluted	$ 0.04	$ 0.06	$ 0.04	$ (0.02)
Weighted average common shares outstanding:				
Basic	41,375,997	24,295,344	41,267,207	16,246,313
Diluted	43,598,364	27,243,822	43,531,804	16,246,313

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

Cost of online revenue	$	39	$	70	$	137	$	140
Cost of events revenue		25		11		47		23
Cost of print revenue		4		10		4		19
Selling and marketing		1,347		588		2,739		1,124
Product development		140		73		280		146
General and administrative		858		446		1,459		817

See accompanying notes.

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TECHTARGET, INC.
Consolidated Statements of Cash Flows
(In thousands)

	Six Months Ended June 30,	
	2008	2007
	(Unaudited)	
Operating Activities:		
Net income	$ 1,620	$ 3,565
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,117	2,494
Provision for bad debt	149	61
Stock-based compensation expense	4,666	2,269
Non-cash interest expense	-	310
Deferred tax benefit	(240)	(131)
Excess tax benefit - stock options	(999)	(2,295)
Changes in operating assets and liabilities, net of businesses acquired:		
Accounts receivable	(2,082)	(1,325)
Prepaid expenses and other current assets	(1,833)	(873)
Other assets	2	783
Accounts payable	1,241	541
Income taxes payable	(822)	(1,854)
Accrued expenses and other current liabilities	(669)	(580)
Accrued compensation expenses	(1,912)	(1,012)
Deferred revenue	1,679	3,072
Other liabilities	(51)	(74)
Net cash provided by operating activities	4,866	4,951
Investing activities:		
Purchases of property and equipment, and other assets	(684)	(1,689)
Purchases of short-term investments	(35,721)	(126,100)
Proceeds from sales and maturities of short-term investments	68,682	55,790
Acquisition of assets	(50)	(1,013)
Acquisition of businesses, net of cash acquired	-	(15,015)
Net cash provided by (used in) investing activities	32,227	(88,027)
Financing activities:		
Proceeds from revolving credit facility	-	12,000
Payments made on revolving credit facility	-	(12,000)
Payments on bank term loan payable	(1,500)	(1,500)
Proceeds from initial public offering, net of stock issuance costs	-	83,161
Excess tax benefit - stock options	999	2,295
Proceeds from exercise of warrants and stock options	2,084	773
Net cash provided by financing activities	1,583	84,729
Net increase in cash and cash equivalents	38,676	1,653
Cash and cash equivalents at beginning of period	10,693	30,830
Cash and cash equivalents at end of period	$ 49,369	$ 32,483

Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 185	$ 361
Cash paid for taxes	$ 2,151	$ 3,736

See accompanying notes.

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TECHTARGET, INC.
Notes to Consolidated Financial Statements
(In thousands, except share and per share data)

1. Organization and Operations

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

The Company's integrated content platform consists of a network of over 50 websites that are complemented with targeted in-person events and two specialized IT magazines. Throughout all stages of the purchase decision process, these content offerings meet IT professionals' needs for expert, peer and IT vendor information, and provide a platform on which IT vendors can launch targeted marketing campaigns that generate measurable, high return on investment (ROI). As IT professionals have become increasingly specialized, they have come to rely on our sector-specific websites for purchasing decision support. The Company's content enables IT professionals to navigate the complex and rapidly changing IT landscape where purchasing decisions can have significant financial and operational consequences. Based upon the logical clustering of users' respective job responsibilities and the marketing focus of the products that the Company's customers are advertising, content offerings are currently categorized across eleven distinct media groups: Application Development; Channel; CIO and IT Management; Data Center; Enterprise Applications; Laptops and Mobile Technology; Networking; Security; Storage; Vertical Software; and Windows and Distributed Computing.

2. Summary of Significant Accounting Policies

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

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, which include KnowledgeStorm, Inc., Bitpipe, Inc., TechTarget Securities Corporation and TechTarget, Ltd. KnowledgeStorm, Inc. was acquired by the Company on November 6, 2007 and is a leading online search resource providing vendor generated content targeted toward corporate IT professionals. Bitpipe, Inc. is a leading provider of in-depth IT content including white papers, product literature, and case studies from IT vendors. TechTarget Securities Corporation is a Massachusetts Securities Corporation incorporated in 2004. TechTarget, Ltd. is a subsidiary doing business principally in the United Kingdom. All significant intercompany accounts and transactions have been eliminated in consolidation.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. All adjustments, which, in the opinion of management, are considered necessary for a fair presentation of the results of operations for the periods shown, are of a normal recurring nature and have been reflected in the consolidated financial statements. The results of operations for the periods presented are not necessarily indicative of results to be expected for any other interim periods or for the full year. The information included in these consolidated financial statements should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and

Results of Operations" contained in this report and the consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

Use of Estimates

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

Revenue Recognition

The Company generates substantially all of its revenue from the sale of targeted advertising campaigns that are delivered via its network of websites, events and print publications. Revenue is recognized in accordance with Staff Accounting Bulletin (SAB) No. 104, Revenue Recognition, and Financial Accounting Standards Board's (FASB) Emerging Issues Task Force (EITF) Issue No. 00-21, Revenue Arrangements With Multiple Deliverables. Revenue is recognized only when the service has been provided and when there is persuasive evidence of an arrangement, the fee is fixed or determinable and collection of the receivable is reasonably assured.

Online media. Revenue for online media offerings is recognized for specific online media offerings as follows:

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

- Webcasts, Podcasts and Videocasts. Webcast and videocast revenue is recognized in the period in which the webcast or videocast occurs. Podcast revenue is recognized in the period in which it is first posted and becomes available on the Company's websites.

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

- Dedicated E-mails, E-mail Newsletters. Dedicated e-mail and e-newsletter revenue is recognized in the period in which the e-mail or e-newsletter is sent to registered members.

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

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

- Contextual Advertising. Our contextual advertising programs associate IT vendor white papers, webcasts, podcasts or other content on a particular topic with our related sector-specific content. Revenue on these program components is recognized in accordance with the specific component's policy as described above.

- Third Party Revenue Sharing Arrangements. The Company has arrangements with certain third parties, including for the licensing of its online content, for the renting of its database of opted-in email subscribers and for which advertising from customers of certain third parties is made available to the Company's website visitors. In each of these arrangements the Company is paid a share of the resulting revenue, and the revenue is recognized in the period in which the services are performed.

The Company offers customers the ability to purchase integrated ROI program offerings, which can include any of its online media offerings packaged together to address the particular customer's specific advertising requirements. As part of these offerings, the Company will guarantee a minimum number of qualified sales leads to be delivered over the course of the advertising campaign. Throughout the advertising campaign, revenue is recognized as individual offerings are delivered, and the lead guarantee commitments are closely monitored to assess campaign performance. If the minimum number of qualified sales leads is not met by the scheduled completion date of the advertising campaign, the campaign is extended and the Company will extend the period over which it recognizes revenue. In accordance with EITF Issue No. 00-21, revenue is deferred for any undelivered offerings equal to a pro-rata amount of the fair value of the additional media offerings as compared to the total combined value of the original contract and the fair value of the additional media offerings. The fair value of the additional media offerings is determined based on standard rate card pricing for each of the additional media offerings. The Company estimates the additional media offerings to be delivered during the extended period based on historical lead generation performance for each of the offerings. The Company has managed and completed over 1,000 integrated ROI program offerings since 2004, which it feels provides a reasonable basis to establish these estimates. During the twelve months ended June 30, 2008, lead shortfalls for integrated ROI program offerings were satisfied within an average extended period of 40 days.

As of June 30, 2008, substantially all of the integrated ROI program offerings that had a guaranteed minimum number of qualified sales leads had been delivered within the original contractual term. Standard contractual terms and conditions for integrated ROI program offerings allow for the Company to extend advertising campaigns in order to satisfy lead shortfalls. When lead shortfalls are unable to be satisfied within a mutually agreed-upon extended period, the Company recognizes revenue equal to, and the customer is only responsible for paying, a pro rata amount based on the actual number of leads delivered compared to the number of leads originally guaranteed. Historically, lead guarantees associated with integrated ROI program offerings have not required the Company to refund or extend payment terms to customers, nor have they resulted in deferral of a material amount of revenue outside of the original contractual term of the advertising campaign.

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

While each online media offering can be sold separately, most of the Company’s online media sales involve multiple online offerings. At inception of the arrangement, the Company evaluates the deliverables to determine whether they represent separate units of accounting under EITF Issue No. 00-21. Deliverables are deemed to be separate units of accounting if all of the following criteria are met: the delivered item has value to the customer on a standalone basis; there is objective and reliable evidence of the fair value of the item(s); and delivery or performance of the item(s) is considered probable and substantially in the Company's control. The Company allocates revenue to each unit of accounting in a transaction based upon its fair value as determined by vendor objective evidence. Vendor objective evidence of fair value for all elements of an arrangement is based upon the normal pricing and discounting practices for those online media offerings when sold to other similar customers. If vendor objective evidence of fair value has not been established for all items under the arrangement, no allocation can be made, and the Company recognizes revenue on all online media offerings over the term of the arrangement.

Event sponsorships. Sponsorship revenues from events are recognized upon completion of the event in the period that the event occurs. Amounts collected or billed prior to satisfying the above revenue recognition criteria are recorded as deferred revenue. The majority of the Company’s events are free to qualified attendees, however certain of the Company’s events are based on a paid attendee model. Revenue is recognized for paid attendee events upon completion of the event and receipt of payment from the attendee.   Deferred revenue relates to collection of the attendance fees in advance of the event.

Print publications. Advertising revenues from print publications are recognized at the time the applicable publication is distributed. Amounts collected or billed prior to satisfying the above revenue recognition criteria are recorded as deferred revenue.

Fair Value of Financial Instruments

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

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Long-lived Assets

Long-lived assets consist of property and equipment, goodwill and other intangible assets. Goodwill and other intangible assets arise from acquisitions and are recorded in accordance with Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets. In accordance with this statement, a specifically identified intangible asset must be recorded as a separate asset from goodwill if either of the following two criteria is met: (1) the intangible asset acquired arises from contractual or other legal rights; or (2) the intangible asset is separable. Accordingly, intangible assets consist of specifically identified intangible assets. Goodwill is the excess of any purchase price over the estimated fair market value of net tangible assets acquired not allocated to specific intangible assets.

As required by SFAS No. 142, goodwill and indefinite-lived intangible assets are not amortized, but are reviewed annually for impairment or more frequently if impairment indicators arise. Separable intangible assets that are not deemed to have an indefinite life are amortized over their estimated useful lives, which range from one to nine years, using methods of amortization that are expected to reflect the estimated pattern of economic use, and are reviewed for impairment when events or changes in circumstances suggest that the assets may not be recoverable under SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. The Company performs its annual test of impairment of goodwill on December 31st of each year, and whenever events or changes in circumstances suggest that the carrying amount may not be recoverable. Based on this evaluation, the Company believes that, as of each of the balance sheet dates presented, none of the Company’s goodwill or other long-lived assets was impaired.

Internal Use Software and Website Development Costs

The Company accounts for website development costs according to the guidance in the EITF Issue No. 00-2, Accounting for Web Site Development Costs, which requires that costs incurred during the development of website applications and infrastructure involving developing software to operate a website be capitalized. Additionally, all costs relating to internal use software are accounted for under Statement of Position (SOP) 98-1, Accounting for the Cost of Computer Software Developed or Obtained for Internal Use. 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 shall be recognized only if the carrying amount of the asset is not recoverable and exceeds its fair value. The Company capitalized internal-use software and website development costs of $8 and $402 for the three months ended June 30, 2008 and 2007, respectively, and $22 and $698 for the six months ended June 30, 2008 and 2007, respectively.

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, Accounting for Income Taxes, which is the asset and liability method for accounting and reporting for income taxes. Under SFAS No. 109, 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. In addition, SFAS No. 109 requires a valuation allowance against net deferred tax assets if, based upon available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

In July 2006, the FASB issued Financial Accounting Standards Interpretation No. 48, Accounting for Uncertainty in Income Taxes, (FIN 48), which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109. FIN 48 prescribes a recognition and measurement method of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transitions. The Company adopted the provisions of FIN 48 effective January 1, 2007. In accordance with FIN 48, the Company recognizes any interest and penalties related to unrecognized tax benefits in income tax expense.

Stock-Based Compensation

At June 30, 2008, the Company had two stock-based employee compensation plans which are more fully described in Note 11. Effective January 1, 2006, the Company adopted SFAS No. 123(R), Share-Based Payment, which requires companies to expense the fair value of employee stock options and other forms of stock-based compensation. SFAS No. 123(R) requires nonpublic companies that used the minimum value method under SFAS No. 123 for either recognition or pro forma disclosures to apply SFAS No. 123(R) using the prospective-transition method. As such, the Company will continue to apply APB Opinion No. 25 in future periods to equity awards outstanding at the date of adoption of SFAS No. 123(R) that were measured using the minimum value method. In accordance with SFAS No. 123(R), the Company recognizes the compensation cost of employee stock-based awards in the statement of operations using the straight line method over the vesting period of the award. Effective with the adoption of SFAS No. 123(R), the Company has elected to use the Black-Scholes option pricing model to determine the fair value of stock options granted.

Net Income (Loss) Per Share

The Company calculates net income (loss) per share in accordance with SFAS No. 128, Earnings Per Share (SFAS No. 128). Through May 16, 2007, the Company calculated net income per share in accordance with SFAS No. 128, as clarified by EITF Issue No. 03-6, Participating Securities and the Two-Class Method Under FASB Statement No. 128, Earnings Per Share. EITF Issue No. 03-6 clarifies the use of the "two-class" method of calculating earnings per share as originally prescribed in SFAS No. 128. Effective for periods beginning after March 31, 2004, EITF Issue No. 03-6 provides guidance on how to determine whether a security should be considered a "participating security" for purposes of computing earnings per share and how earnings should be allocated to a participating security when using the two-class method for computing basic earnings per share. The Company determined that its convertible preferred stock represented a participating security and therefore adopted the provisions of EITF Issue No. 03-6.

Under the two-class method, basic net income (loss) per share is computed by dividing the net income (loss) applicable to common stockholders by the weighted-average number of common shares outstanding for the fiscal period. Diluted net income (loss) per share is computed using the more dilutive of (a) the two-class method or (b) the if-converted method. The Company allocates net income first to preferred stockholders based on dividend rights under the Company's charter and then to preferred and common stockholders based on ownership interests. Net losses are not allocated to preferred stockholders.

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As of May 16, 2007, the effective date of the Company's initial public offering, the Company transitioned from having two classes of equity securities outstanding, common and preferred stock, to a single class of equity securities outstanding, common stock, upon automatic conversion of all shares of redeemable convertible preferred stock into shares of common stock. In calculating diluted earnings per share for the period January 1, 2007 to May 16, 2007 shares related to redeemable convertible preferred stock were excluded because they were anti-dilutive.

Subsequent to the Company's initial public offering, basic earnings per share is computed based only on the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of common shares outstanding during the period, plus the dilutive effect of potential future issuances of common stock relating to stock option programs and other potentially dilutive securities using the treasury stock method. In calculating diluted earnings per share, the dilutive effect of stock options is computed using the average market price for the respective period. In addition, under SFAS No. 123(R), the assumed proceeds under the treasury stock method include the average unrecognized compensation expense and assumed tax benefit of stock options that are in-the-money. This results in the "assumed" buyback of additional shares, thereby reducing the dilutive impact of stock options.

Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations ("SFAS 141R"), replacing SFAS No. 141, Business Combinations ("SFAS 141"). SFAS 141R retains the fundamental requirements of purchase method accounting for acquisitions as set forth previously in SFAS 141. However, this statement defines the acquirer as the entity that obtains control of a business in the business combination, thus broadening the scope of SFAS 141 which applied only to business combinations in which control was obtained through transfer of consideration. SFAS 141R also requires several changes in the way assets and liabilities are recognized and measured in purchase accounting including expensing acquisition-related costs as incurred, recognizing assets and liabilities arising from contractual contingencies at the acquisition date, and capitalizing in-process research and development. SFAS 141R also requires the acquirer to recognize a gain in earnings for bargain purchases, or the excess of the fair value of net assets over the consideration transferred plus any noncontrolling interest in the acquiree, a departure from the concept of "negative goodwill" previously recognized under SFAS 141. SFAS 141R is effective for the Company beginning January 1, 2009, and will apply prospectively to business combinations completed on or after that date.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133 ("SFAS 161"). SFAS 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. SFAS 161 encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The Company is currently evaluating the provisions of SFAS 161.

3. Fair Value Measurements

On January 1, 2008, the Company adopted SFAS No. 157, Fair Value Measurements, which, among other things, defines fair value, establishes a consistent framework for measuring fair value and expands disclosure for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis. SFAS No. 157 clarifies that fair value is an exit price, representing the amount that would either be received to sell an asset or be paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, SFAS No. 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1. Quoted prices in active markets for identical assets and liabilities;
- Level 2. Observable inputs other than quoted prices in active markets; and
- Level 3. Unobservable inputs.

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

		Fair Value Measurements at Reporting Date Using		
	June 30, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(Unaudited)			
Money market funds (1)	$ 40,638	$ 40,638	$ -	$ -
Short-term investments	18,348	-	18,348	-
Interest rate swap (2)	91	-	91	-
Total	$ 59,077	$ 40,638	$ 18,439	$ -

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

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At June 30, 2008, the Company held $1.8 million in one auction rate security classified as a short-term investment in the accompanying consolidated balance sheet. Auction rate securities are variable-rate bonds tied to short-term interest rates with maturities in excess of 90 days. The interest rate on this security resets through a modified Dutch auction every 35 days. These auctions have historically provided a liquid market for this security. Beginning in March 2008, the Company's investment in this security started failing at auction due to sell orders exceeding buy orders.

The Company considered multiple Level 2 inputs when determining the fair value of the auction rate security at June 30, 2008 as follows;

· The fair value assessment performed by the Company’s investment adviser; and
· Sales activity at par value prior and subsequent to June 30, 2008.

Based on the Level 2 inputs noted above, the Company concluded that the par value of the auction rate security represents its fair value at June 30, 2008.

Subsequent to June 30, 2008, the Company has sold $100 of the auction rate security at par value but continues to hold $1.7 million in the auction rate security. The Company believes this security is not impaired due to the fair value assessment performed by the Company’s investment adviser, the sales activity prior and subsequent to June 30, 2008, the AA stand alone rating, and the likelihood of the issuer’s ability to refinance if auctions continue to fail. However, the Company's ability to liquidate the auction rate security and fully recover the carrying value of the security in the near term may be limited or not exist and the Company may in the future be required to record an impairment charge on this investment. The Company believes it will be able to liquidate the remaining investment of $1.7 million in the security within the next year.

4. Acquisitions

KnowledgeStorm, Inc.

On November 6, 2007, the Company acquired KnowledgeStorm, Inc. (KnowledgeStorm), which was a privately held company based in Alpharetta, Georgia, for $51,730 in cash and 359,820 shares of common stock of TechTarget valued at $6,000, as well as $230 in transaction costs. KnowledgeStorm is a leading online search resource providing vendor generated content addressing corporate IT professionals. KnowledgeStorm offers IT marketers products with a lead generation and branding focus to reach these corporate IT professionals throughout the purchasing decision process. The acquisition of KnowledgeStorm strengthens the Company’s competitive position and increases its scale, customer penetration and product offerings for advertisers. Once KnowledgeStorm has been fully integrated, the Company expects that cost savings can be achieved as a result of sales and operating efficiencies from the combined operations. Additionally, the Company anticipates that integration of KnowledegeStorm employees into its workforce will increase its capabilities in support of product development, product management and search engine optimization and marketing.

The Company applied the guidance included in EITF Issue No. 98-3, Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or a Business, to conclude that the acquisition of KnowledgeStorm constituted the acquisition of a business. In connection with the acquisition, the Company recorded $45,101 of goodwill and $11,620 of other intangible assets related to customer relationships, technology, trade name, customer backlog and non-compete agreements with estimated useful lives ranging from 12 to 108 months. Of the goodwill recorded in conjunction with the acquisition, none is deductible for income tax purposes.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

		As of November 6, 2007
Cash and cash equivalents	$	2,813
Current assets		1,328
Property and equipment, net		782
Other assets		39
Deferred tax assets		1,797
Intangible assets		11,620
Goodwill		45,101
Total assets acquired		63,480
Total liabilities assumed		(5,520)
Net assets acquired	$	57,960

Within approximately thirty days from the acquisition date, the Company's management completed its reorganization plan to consolidate KnowledgeStorm's operations. Liabilities assumed in the acquisition include approximately $627 of involuntary termination benefits payable to terminated employees through May 2008, as well as approximately $111 of costs associated with exiting certain operating leases on office space leased by KnowledgeStorm under noncancelable leases that expire through December 2008. As of June 30, 2008 and December 31, 2007, approximately $7 and $616 remained payable under these obligations, respectively, all of which is expected to be paid by December 31, 2008.

The estimated fair value of $11,620 of acquired intangible assets is assigned as follows:

	Useful Life		Estimated Fair Value
Customer relationship intangible asset	108 months	$	4,770
Member database intangible asset	60 months		4,060
Trade name intangible asset	84 months		1,100
Customer order backlog intangible asset	12 months		940
SEO/SEM process intangible asset	36 months		690
Non-compete agreement intangible asset	12 months		60
Total intangible assets		$	11,620

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The Company engaged a third party valuation specialist to assist management in determining the fair value of the acquired assets of KnowledgeStorm. To value the customer relationship and backlog intangible assets, an income approach was used, specifically a variation of the discounted cash-flow method. The projected net cash flows for KnowledgeStorm were tax affected using an effective rate of 41% and then discounted using a discount rate of 20.6%. Additionally, the present value of the sum of projected tax benefits was added to arrive at the total fair value of the customer relationship and backlog intangible assets. To value the member database intangible asset, a replacement cost methodology approach was used. The replacement cost of the member database was determined by applying the actual costs incurred to register a new member to the total number of registered members in the acquired database. Additionally, opportunity costs and the present value of the sum of projected tax benefits were added to arrive at the total fair value of the member database intangible asset. To value the trade name intangible asset a relief from royalty method was used to estimate the pre-tax royalty savings to the Company related to the KnowledgeStorm trade name. The projected net cash flows from the pre-tax royalty savings were tax affected using an effective rate of 41% and then discounted using a discount rate of 20.6% to calculate the value of the trade name intangible asset. To value the Search Engine Optimization (SEO)/ Search Engine Marketing (SEM) process intangible asset, a comparative business valuation method was used. Based on an expected life of three years, management projected net cash flows for the Company with and without the SEO/SEM process in place. The present value of the sum of the difference between the net cash flows with and without the SEO/SEM process in place was calculated using a discount rate of 20.6%. Additionally, the present value of the sum of projected tax benefits was added to arrive at the total fair value of the SEO/SEM process intangible asset.

The following pro forma results of operations for the three and six months ended June 30, 2007 have been prepared as though the acquisition of KnowledgeStorm had occurred on January 1, 2007. This pro forma unaudited financial information is not indicative of the results of operations that may occur in the future.

		Three Months Ended June 30, 2007		Six Months Ended June 30, 2007
		(unaudited)		
Total revenues	$	29,572	$	51,747
Net income	$	2,338	$	1,030
Net income per common share:				
Basic and diluted	$	0.04	$	(0.18)

Results of operations for KnowledgeStorm have been included in the Company’s results of operations since the acquisition date of November 6, 2007.

TechnologyGuide.com

On April 26, 2007, the Company acquired substantially all of the assets of TechnologyGuide.com from TechnologyGuide, Inc., which was a privately-held company based in Cincinnati, OH, for $15,000 in cash, plus $15 in acquisition related transaction costs. TechnologyGuide.com is a website business consisting of a portfolio of five websites; Notebookreview.com, Brighthand.com, TabletPCReview.com, DigitalCameraReview.com and SpotStop.com. The websites offer independent product reviews, price comparisons, and forum-based discussions for selected technology products. The acquisition provides the Company with opportunities for growth within the laptop/notebook PC and "smart phone" markets in which it currently does not have a significant presence.

The Company applied the guidance included in EITF Issue No. 98-3, Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or a Business, to conclude that the acquisition of TechnologyGuide.com constituted the acquisition of a business. In connection with this acquisition, the Company recorded $7,035 of goodwill and $7,980 of intangible assets related to developed websites, customer relationships, and non-compete agreements with estimated useful lives ranging from 36 to 72 months.

The estimated fair value of $7,980 of acquired intangible assets is assigned as follows:

	Useful Life		Estimated Fair Value
Developed websites intangible asset	72 months	$	5,400
Customer relationship intangible asset	60 months		1,790
Non-compete agreements intangible asset	36 months		790
Total intangible assets		$	7,980

Management engaged a third party valuation specialist to assist in determining the fair value of the acquired assets of TechnologyGuide.com. To value the websites and customer relationship intangible assets, an income approach was used, specifically a variation of the discounted cash-flow method. For the websites intangible asset, expenses and income taxes were deducted from estimated revenues attributable to the existing websites. For the customer relationship intangible asset, expenses and income taxes were deducted from estimated revenues attributable to the existing customers. The projected net cash flows for each were then tax affected using an effective rate of 41% and then discounted using a discount rate of 22.3% to determine the value of the intangible assets, respectively. Additionally, the present value of the sum of projected tax benefits was added to arrive at the total fair value of the intangible assets, respectively. To value the non-compete agreements a comparative business valuation method was used. Based on non-compete terms of 36 months, management projected net cash flows for the Company with and without the non-compete agreements in place. The present value of the sum of the difference between the net cash flows with and without the non-compete agreements in place was calculated, based on a discount rate of 22.3%.

Results of operations for TechnologyGuide.com have been included in the Company's results of operations since the acquisition date of April 26, 2007.

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Ajaxian.com

On February 27, 2007, the Company acquired substantially all of the assets of Ajaxian, Inc. (Ajaxian) for a purchase price of $1,013 in cash. Ajaxian is a provider of a website and two events dedicated to providing information and support for the community of developers for “Ajax” (Asynchronous JavaScript and XML), a web development technique for creating interactive web applications.

The Company applied the guidance included in EITF Issue No. 98-3 to conclude that the acquisition of Ajaxian constituted the acquisition of assets. The Company did not acquire any tangible assets from Ajaxian. The following table summarizes the estimated fair value of the intangible assets acquired by the Company at the date of acquisition:

	Useful Life	Estimated Fair Value	
Customer relationship intangible asset	48 months	$	552
Non-compete agreement intangible asset	36 months		335
Trade name intangible asset	60 months		126
Total intangible assets		$	1,013

A contingent payment of $250 in May 2009 is due if certain event revenue and website traffic milestones are met as defined in the purchase agreement. Operating expense will be recorded in the period in which payment of these respective obligations becomes probable under the terms of the agreement.

5. Cash, Cash Equivalents and Short-Term 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: