TechTarget Inc
Form 10-Q
May 11, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2015

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

For the transition period from __________ to __________

Commission File Number: 1-33472

TECHTARGET, INC.

(Exact name of registrant as specified in its charter)

Delaware	**04-3483216**
(State or other jurisdiction of incorporation or organization)	**(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 x 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 x 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 x
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 x

The registrant had 33,084,563 shares of Common Stock, $0.001 par value per share, outstanding as of April 30, 2015.

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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)

	March 31, 2015 (Unaudited)	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 17,664	$ 19,275
Short-term investments	3,755	5,480
Accounts receivable, net of allowance for doubtful accounts of $1,151 and $1,014 as of March 31, 2015 and December 31, 2014, respectively	26,687	23,200
Prepaid expenses and other current assets	3,874	2,842
Deferred tax assets	2,710	2,674
Total current assets	54,690	53,471
Property and equipment, net	9,085	9,215
Long-term investments	16,038	13,428
Goodwill	93,849	93,979
Intangible assets, net of accumulated amortization	2,483	2,995
Deferred tax assets	3,230	3,230
Other assets	1,110	1,166
Total assets	$ 180,485	$ 177,484
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 2,448	$ 2,733
Accrued expenses and other current liabilities	2,881	2,719
Accrued compensation expenses	553	3,043
Contingent consideration	1,048	
Income taxes payable	1,201	1,088
Deferred revenue	8,244	6,940
Total current liabilities	16,375	16,523
Long-term liabilities:		
Deferred rent	2,527	2,598
Deferred tax liabilities	423	473

Contingent consideration		1,114
Other liabilities		930
Total liabilities	19,325	21,638
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, 50,300,449 shares issued and 33,084,563 shares outstanding at March 31, 2015 and 49,587,137 shares issued and 32,371,251 shares outstanding at December 31, 2014	51	50
Treasury stock, 17,215,886 shares, at cost	(98,851)	(98,851)
Additional paid-in capital	285,800	280,702
Accumulated other comprehensive loss	(219)	(87)
Accumulated deficit	(25,621)	(25,968)
Total stockholders equity	161,160	155,846
Total liabilities and stockholders equity	$ 180,485	$ 177,484

See accompanying notes.

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TECHTARGET, INC.

Consolidated Statements of Operations and Comprehensive Income

(In thousands, except per share data)

	For the Three Months Ended March 31, 2015	For the Three Months Ended March 31, 2014
	(Unaudited)	
Revenues:		
Online	$ 23,048	$ 22,080
Events	610	897
Total revenues	23,658	22,977
Cost of revenues:		
Online (1)	6,529	6,090
Events (1)	455	547
Total cost of revenues	6,984	6,637
Gross profit	16,674	16,340
Operating expenses:		
Selling and marketing (1)	10,341	9,746
Product development (1)	1,776	1,605
General and administrative (1)	3,020	3,352
Depreciation	1,008	989
Amortization of intangible assets	373	451
Total operating expenses	16,518	16,143
Operating income	156	197
Interest and other (expense) income, net	(163)	10
(Loss) income before (benefit from) provision for income taxes	(7)	207
(Benefit from) provision for income taxes	(354)	72
Net income	$ 347	$ 135
Net income per common share:		
Basic	$ 0.01	$ 0.00
Diluted	$ 0.01	$ 0.00

Weighted average common shares outstanding:				
Basic		33,136		32,684
Diluted		34,971		33,631
Comprehensive income	$	215	$	164
(1) Amounts include stock-based compensation expense as follows:				
Cost of online revenue	$	14	$	30
Cost of events revenue				4
Selling and marketing		689		688
Product development		10		31
General and administrative		734		654

See accompanying notes.

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TECHTARGET, INC.

Consolidated Statements of Cash Flows

(In thousands)

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
	(Unaudited)	
Operating activities:		
Net income	$ 347	$ 135
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	1,381	1,440
Provision for bad debt	222	133
Amortization of investment premiums	57	96
Stock-based compensation expense	1,447	1,407
Excess tax benefit stock options		(368)
Other non-cash	10	36
Changes in operating assets and liabilities:		
Accounts receivable	(3,735)	(3,412)
Prepaid expenses and other current assets	(533)	(1,744)
Other assets	43	(24)
Accounts payable	(280)	165
Income taxes payable	116	(167)
Accrued expenses and other current liabilities	1,242	104
Accrued compensation expenses	(1,093)	(614)
Deferred revenue	1,304	1,255
Other liabilities	(2,084)	406
Net cash used in operating activities	(1,556)	(1,152)
Investing activities:		
Purchases of property and equipment, and other assets	(886)	(1,164)
Purchases of investments	(2,622)	(1,605)
Sales of investments	1,710	
Net cash used in investing activities	(1,798)	(2,769)
Financing activities:		
Excess tax benefit stock options		368
Purchase of treasury shares and related costs		(16)
Registration fees	(4)	
Proceeds from exercise of stock options	1,765	640
Net cash provided by financing activities	1,761	992

Effect of exchange rate changes on cash and cash equivalents	(18)	(48)
Net decrease in cash and cash equivalents	(1,611)	(2,977)
Cash and cash equivalents at beginning of period	19,275	15,412
Cash and cash equivalents at end of period	$ 17,664	$ 12,435
Supplemental disclosure of cash flow information:		
Cash paid for taxes	$ 202	$ 187

See accompanying notes.

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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. (the Company) is a leading provider of specialized online content and brand advertising that brings together buyers and sellers of corporate information technology (IT) products. The Company sells customized marketing programs and services that enable IT vendors to reach corporate IT decision makers who are actively researching specific IT purchases. In addition, the Company offers a number of data analytics solutions that help their customers more efficiently target their sales efforts. The Company operates a network of over 150 websites, each of which focuses on a specific IT sector, such as storage, security or networking. During the critical stages of the purchase decision process, these content offerings meet IT professionals needs for expert, peer and IT vendor information, and provide a platform on which IT vendors can launch targeted marketing campaigns which generate measurable, high return on investment (ROI). As IT professionals have become increasingly specialized, they have come to rely on the Company s sector-specific websites for purchasing decision support. The Company s content enables IT professionals to navigate the complex and rapidly changing IT landscape where purchasing decisions can have significant financial and operational consequences. Based upon the logical clustering of users respective job responsibilities and the marketing focus of the products that the Company s customers are advertising, the Company s key marketing opportunities and audience extensions are currently addressed using nine distinct media groups: Application Architecture and Development; Channel; CIO/IT Strategy; Data Center and Virtualization Technologies; Business Applications and Analytics; Networking; Security; Storage; and TechnologyGuide.

2. Summary of Significant Accounting Policies

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

Principles of Consolidation

The accompanying Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiaries, which are comprised of KnowledgeStorm, Inc., Bitpipe, Inc., TechTarget Securities Corporation (TSC), TechTarget Limited, TechTarget (HK) Limited, TechTarget (Beijing) Information Technology Consulting Co., Ltd., TechTarget (Australia) Pty Ltd., TechTarget (Singapore) Pte Ltd., E-Magine Médias SAS and TechTarget Germany GmbH. KnowledgeStorm, Inc. and Bitpipe, Inc. feature websites that provide in-depth vendor generated content targeted to corporate IT professionals. TSC is a Massachusetts corporation incorporated in 2004. TechTarget Limited is a subsidiary doing business principally in the United Kingdom. TechTarget (HK) Limited (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 TechTarget (Beijing) Information Technology Consulting Co., Ltd. (TTGT Consulting , incorporated on December 16, 2011), 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) on November 27, 2007. TechTarget (Australia) Pty Ltd. (incorporated on December 15, 2011) and TechTarget (Singapore) Pte Ltd. (incorporated on February 12, 2012) are the entities through which the Company does business in Australia and Singapore, respectively; E-Magine Médias SAS (LeMagIT) and TechTarget Germany GmbH (incorporated on June 6, 2014), both wholly-owned subsidiaries of

TechTarget Limited, are entities through which the Company does business in France and Germany, respectively.

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. On December 31, 2011, TTGT HK assigned all of its rights and obligations to the newly formed wholly foreign-owned enterprise (WFOE), TTGT Consulting. The WFOE is established and existing under the laws of the PRC, and is wholly owned by TTGT HK.

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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 the WFOE, which is the primary beneficiary of KWIT. Despite the lack of technical majority ownership, there exists a parent-subsidiary relationship between the Company and the VIE through the aforementioned agreements, whereby the equity holders of KWIT assigned all of their voting rights underlying their equity interest in KWIT to the WFOE. In addition, through the other aforementioned agreements, the Company demonstrates its ability and intention to continue to exercise the ability to obtain substantially all of the profits and absorb all of the expected losses of KWIT. All significant intercompany accounts and transactions between the Company, its subsidiaries, and KWIT have been eliminated in consolidation.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (generally accepted accounting principles, or GAAP) 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, 2014.

Reclassifications

Beginning in the third quarter of 2014, the Company changed its presentation of transactional gains and losses arising from the impact of currency exchange rate fluctuations on transactions in foreign currency that is different from the local functional currency in order to better reflect the non-operating nature of these gains and losses, and is now including them in Other Income (Expense) on the Consolidated Statements of Operations and Comprehensive Income (Loss). Previously, these gains and losses were included in the Company s operating expenses as General and Administrative expense. Amounts in the prior periods financial statements have been reclassified to conform to the current presentation. In the three months ended March 31, 2014, this resulted in an increase to Other Income and an increase in General and Administrative expense equal to $20.

Use of Estimates

The preparation of 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 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 revenue, 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 revenue from the sale of targeted advertising campaigns, which are delivered via its network of websites, and events. 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.

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 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.

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The Company evaluates all deliverables of an arrangement at inception and each time an item is delivered, to determine whether they represent separate units of accounting. Based on this evaluation, the arrangement consideration is measured and allocated to each of these elements.

Online Offerings

Core Online

Lead Generation. As part of these lead generation campaign offerings, the Company will guarantee a minimum number of qualified leads to be delivered over the course of the advertising campaign. The Company determines the content necessary to achieve performance guarantees. Scheduled end dates of advertising 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 advertising campaigns. These estimates are based on the Company s experience in managing and fulfilling these offerings. The customer generally has cancellation privileges which normally require advance notice by the customer and require proportional payment by the customer for the portion of the campaign provided by the Company. Additionally, the Company offers sales incentives to certain customers, primarily in the form of volume rebates, which are classified as a reduction of revenues and are calculated based on the terms of the specific customer s contract. The Company accrues for these sales incentives based on contractual terms and historical experience.

The Company recognizes revenue on contracts where pricing is based on cost per lead or duration-based in the period during which the leads are delivered to its customers.

Branding. Branding consists mostly of banner revenue, which is recognized in the period in which the banner impressions, engagements or clicks occur.

Custom Content Creation. Custom content revenue is recognized when the creation is completed and delivered to the customer, with the exception of microsites which are recognized over the period during which they are live.

Content Sponsorships. Content sponsorship revenue is recognized ratably over the period in which the related content asset is available on the Company s websites.

List Rentals. List rental revenue is recognized in the period in which the delivery of the list is made to the Company s customer.

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

IT Deal Alert This suite of products includes IT Deal Alert: Qualified Sales Opportunities, IT Deal Alert: Priority Engine (formerly called Account Watch) and IT Deal Alert: Deal Data , which was introduced in 2015. Qualified Sales Opportunities revenue is recognized when the opportunity is delivered to the Company s customer, Priority Engine revenue is recognized ratably over the duration of the service and Deal Data revenue is recognized upon delivery.

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.

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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 and long-term investments, accounts receivable, accounts payable and contingent consideration. Due to their short-term nature and liquidity, the carrying value of these instruments, with the exception of contingent consideration, approximates their estimated fair values. See Note 3 for further information on the fair value of the Company s investments. The fair value of contingent consideration was estimated using a discounted cash flow method described in Note 5.

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

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

Goodwill and indefinite-lived intangible assets are not amortized but are reviewed annually for impairment or more frequently if impairment indicators arise. Separable intangible assets that are not deemed to have an indefinite life are amortized over their estimated useful lives, which range from three to ten years, using methods of amortization that are expected to reflect the estimated pattern of economic use, and are reviewed for impairment when events or changes in circumstances suggest that the assets may not be recoverable. Consistent with the Company s determination that it has only one reporting segment, it has been determined that there is only one reporting unit and goodwill is tested for impairment at the entity level. The Company performs its annual test of impairment of goodwill as of December 31st of each year and whenever events or changes in circumstances suggest that the carrying amount may not be recoverable using the two step process required by ASC 350, *Intangibles Goodwill and Other* (ASC 350). The first step of the impairment test is to identify potential impairment by comparing the reporting unit s fair value with its net book value (or carrying amount), including goodwill. The fair value is estimated based on a market value approach. If the fair value of the reporting unit exceeds its carrying amount, the reporting unit s goodwill is not considered to be impaired and the second step of the impairment test is not performed. Whenever indicators of impairment become present, the Company would perform the second step and compare the implied fair value of the reporting unit s goodwill, as defined by ASC 350, to its carrying value to determine the amount of the impairment loss, if any. As of December 31, 2014, there were no indications of impairment based on the step one analysis, and the Company s estimated fair value exceeded its goodwill carrying value by a significant margin. There were no indications of impairment as of March 31, 2015.

Based on the aforementioned evaluation, the Company believes that, as of the balance sheet date presented, none of the Company s goodwill or other long-lived assets were impaired. The Company did not have any intangible assets with indefinite lives as of March 31, 2015 or December 31, 2014.

Allowance for Doubtful Accounts

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

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Property and Equipment

Property and equipment is 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 over the estimated useful lives of the assets, based on the month the assets are placed in service.

Internal-Use Software and Website Development Costs

The Company capitalizes costs incurred during the development of its website applications and infrastructure as well as certain costs relating to internal-use software. The estimated useful life of costs capitalized is evaluated for each specific project. Capitalized internal-use software and website development costs are reviewed for recoverability whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. An impairment loss would be recognized only if the carrying amount of the asset is not recoverable and exceeds its fair value. The Company capitalized internal-use software and website development costs of $0.8 million and $0.9 million for the three months ended March 31, 2015 and 2014, respectively.

Income Taxes

The Company s deferred tax assets and liabilities are recognized based on temporary differences between the financial reporting and income tax bases of assets and liabilities using statutory rates. 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*.

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

Stock-Based Compensation

The Company has two stock-based employee compensation plans which are more fully described in Note 11. Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized in the Consolidated Statement of Operations and Comprehensive Income using the straight-line method over the vesting period of the award or using the accelerated method if the award is contingent upon performance goals. The Company uses the Black-Scholes option-pricing model to determine the fair value of stock option awards.

Comprehensive Income

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

There were no material reclassifications out of accumulated other comprehensive income in the periods ended March 31, 2015 or 2014.

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 income (loss).

Net Income Per Share

Basic earnings per share is computed based on the weighted average number of common shares and vested restricted stock awards outstanding during the period. Because the holders of unvested restricted stock awards do not have nonforfeitable rights to dividends or dividend equivalents, the Company does not consider these awards to be participating securities that should be included in its computation of earnings per share under the two-class method. Diluted earnings per share is computed using the weighted average number of common shares and vested restricted stock awards outstanding during the period, plus the dilutive effect of potential future issuances of common stock relating to stock option programs and other potentially dilutive securities using the treasury stock method. In calculating diluted earnings per share, the dilutive effect of stock options 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

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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

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 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 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. This new guidance is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2016 (January 1, 2017 for the Company); early adoption is not permitted. Entities have the option of using either a full retrospective or a modified approach to adopt the guidance. The Company is in the process of determining the potential effects on the consolidated financial statements.

3. Fair Value Measurements

The Company measures certain financial assets and liabilities at fair value on a recurring basis, including cash equivalents, short 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.

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		
	March 31, 2015	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets:				

Money market funds(1)	$	228	$	228	$		$	
Short-term investments(2)		3,755				3,755		
Long-term investments(2)		16,038				16,038		
Total assets	$	20,021	$	228	$	19,793	$	
Liabilities:								
Contingent consideration current(3)	$	1,048	$		$		$	1,048
Total liabilities	$	1,048	$		$		$	1,048

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	December 31, 2014	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)
Assets:				
Money market funds(1)	$ 1,071	$ 1,071	$	$
Short-term investments(2)	5,480		5,480	
Long-term investments(2)	13,428		13,428	
Total assets	$ 19,979	$ 1,071	$ 18,908	$
Liabilities:				
Contingent consideration non-current(3)	$ 1,114	$	$	$ 1,114
Total liabilities	$ 1,114	$	$	$ 1,114

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

(2) Short and long-term investments consist of municipal bonds and government agency bonds; their fair value is calculated using an interest rate yield curve for similar instruments.

(3) Our valuation techniques and Level 3 inputs used to estimate the fair value of contingent consideration payable in connection with the LeMag acquisition are described in Note 5. During the three months ended March 31, 2015 the contingent consideration was reclassified from non-current to current liabilities as the final payment is expected to be made in the first quarter of 2016. During the period, the balance increased by approximately $62 when it was remeasured to fair value; the remainder of the change in this balance was caused by foreign currency fluctuations.

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:

	March 31, 2015	December 31, 2014
Cash	$ 17,436	$ 18,204
Money market funds	228	1,071
Total cash and cash equivalents	$ 17,664	$ 19,275

The Company s short and long-term investments are accounted for as available for sale securities. These investments are recorded at fair value with the related unrealized gains and losses included in accumulated other comprehensive income, a component of stockholders equity, net of tax. The unrealized loss, net of taxes, was $1 and $20 as of March 31, 2015 and December 31, 2014, 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 months ended March 31, 2015 or 2014.

Short and long-term investments consisted of the following:

	March 31, 2015			
	Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
Short and long-term investments:				
Government agency bonds	$ 6,627	$ 6	$	$ 6,633
Municipal bonds	13,166	3	(9)	13,160
Total short and long-term investments	$ 19,793	$ 9	$ (9)	$ 19,793

	December 31, 2014			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Short and long-term investments:				
Government agency bonds	$ 6,632	$	$ (14)	$ 6,618
Municipal bonds	12,307	4	(21)	12,290
Total short and long-term investments	$ 18,939	$ 4	$ (35)	$ 18,908

The Company had nine debt securities in an unrealized loss position at March 31, 2015. All of these securities have been in such a position for no more than ten months. The unrealized loss on those securities was approximately $9 and the fair value was $11.5 million. The Company uses specific identification when reviewing these investments for impairment. Because the Company does not intend to sell the investments that are in an unrealized loss position and it is not likely that the Company will be required to sell any investments before recovery of their cost basis, the Company does not consider those investments with an unrealized loss to be other-than-temporarily impaired at March 31, 2015.

Municipal and government agency bonds have contractual maturity dates that range from June 2015 to February 2018. All income generated from these investments is recorded as interest income.

5. Acquisition

LeMagIT

On December 17, 2012 the Company purchased all of the outstanding shares of its French partner, E-Magine Médias SAS, for approximately $2.2 million in cash plus a potential future earnout valued at $0.7 million at the time of the acquisition. Approximately $1.2 million of the cash payment was made at closing, with the remainder being paid in two equal installments in fiscal years 2013 and 2014. The earnout is subject to certain revenue growth targets and the payment will be adjusted based on actual results. If all targets are met, the total purchase price, including the earnout, shall not exceed $5.2 million, depending on exchange rates at the time of calculation. The installment payments have been recorded at present value using a discount rate of 10%. At March 31, 2015, the earnout is included in current liabilities at net present value in the Company s consolidated balance sheet (see Note 3).

6. Intangible Assets

Intangible assets subject to amortization as of March 31, 2015 and December 31, 2014 consist of the following:

	As of March 31, 2015			
	Estimated Useful Lives (Years)	Gross Carrying Amount	Accumulated Amortization	Net
Customer, affiliate and advertiser relationships	5 9	$ 7,035	$ (5,684)	$ 1,351
Developed websites, technology and patents	10	1,215	(484)	731
Trademark, trade name and domain name	5 8	1,819	(1,611)	208
	3 5	1,235	(1,060)	175

Proprietary user information database and internet traffic				
Non-compete agreements	3	76	(58)	18
Total intangible assets		$ 11,380	$ (8,897)	$ 2,483

		As of December 31, 2014		
	Estimated Useful Lives (Years)	**Gross Carrying Amount**	**Accumulated Amortization**	**Net**
Customer, affiliate and advertiser relationships	5 9	$ 7,079	$ (5,480)	$ 1,599
Developed websites, technology and patents	10	1,361	(499)	862
Trademark, trade name and domain name	5 8	1,859	(1,598)	261
Proprietary user information database and internet traffic	3 5	1,270	(1,024)	246
Non-compete agreements	3	85	(58)	27
Total intangible assets		$ 11,654	$ (8,659)	$ 2,995

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

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will be recognized over a weighted-average period of approximately 2.2 years. Amortization expense was $0.4 million and $0.5 million for the three month periods ended March 31, 2015 and 2014. 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 change in the gross carrying amount of intangible assets during the three months ended March 31, 2015, was due to foreign currency translation.

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

Years Ending December 31:	**Amortization Expense**
2015 (April 1st December 31st)	$ 1,009
2016	854
2017	162
2018	101
2019	85
Thereafter	272
	$ 2,483

7. Net Income Per Common Share

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

	For the Three Months Ended March 31, 2015	**2014**
Numerator:		
Net income	$ 347	$ 135
Denominator:		
Basic:		
Weighted average shares of common stock outstanding	33,135,628	32,684,248
Diluted:		
Weighted average shares of common stock outstanding	33,135,628	32,684,248
Effect of potentially dilutive shares (1)	1,835,799	947,059
Total weighted average shares of common stock outstanding	34,971,427	33,631,307
Net Income Per Common Share:		
Basic net income per common share	$ 0.01	$ 0.00

Diluted net income per common share	$	0.01	$	0.00

(1) In calculating diluted earnings per share, 0.5 million and 3.0 million shares related to outstanding stock options were excluded for the three months ended March 31, 2015 and 2014, respectively, because they were anti-dilutive.

8. Bank Term Loan Payable

As of March 31, 2015, the Company has a $5.0 million revolving credit facility. Unless earlier payment is required by an event of default, all principal and unpaid interest will be due and payable on August 31, 2016. At the Company s option, the Revolving Credit Facility (the Credit Agreement) bears interest at either the prime rate less 1.00% or the London Interbank Offered Rate (LIBOR) plus the applicable LIBOR margin. The applicable LIBOR margin is based on the ratio of total funded debt to earnings before interest, other income and expense, income taxes, depreciation, and amortization (EBITDA) for the preceding four fiscal quarters. As of March 31, 2015, the applicable LIBOR margin was 1.25%.

The Company is also required to pay an unused line fee on the daily unused amount of the Credit Agreement at a per annum rate based on the ratio of total funded debt to EBITDA for the preceding four fiscal quarters. As of March 31, 2015, the per annum unused line fee rate was 0.20%.

At March 31, 2015 and December 31, 2014 there were no amounts outstanding under the Credit Agreement.

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Borrowings under the Credit Agreement are collateralized by a security interest in substantially all assets of the Company. Covenants governing the Credit Agreement include the maintenance of certain financial ratios. At March 31, 2015, the Company was in compliance with all covenants under the Credit 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 lease commenced in February 2010 and has a term of ten years. The Company is receiving certain rent concessions over the life of the lease. In November 2010, the Newton lease was amended to include an additional 8,400 square feet of office space. The amended lease commenced in March 2011 and runs concurrently with the term of the original lease. The Company is receiving certain rent concessions over the life of the amended lease.

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 March 31, 2015 are as follows:

Years Ending December 31:	**Minimum Lease Payments**	
2015 (April 1st December 31st)	$	3,015
2016		4,060
2017		3,712
2018		3,831
2019		3,833
Thereafter		572
	$	19,023

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 has been classified by the MA DOR as a Massachusetts security corporation. 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 will be treated as a Massachusetts business corporation for the applicable years, the Company has 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 comprised of (i) a different rate structure (1.32% on gross investment income vs. 9.5% on net income) (See Note 13) and (ii) exemption from the 0.26% excise tax on net worth. As of March 31, 2015 the Company has 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. Concurrently, the Company received an amnesty offer with respect to the tax years in dispute. The Company intends to accept the amnesty offer and pay all amounts due in the second quarter of 2015.

Litigation

From time to time and in the ordinary course of business, the Company may be subject to various claims, charges, and litigation. At March 31, 2015 and December 31, 2014, 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.

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10. Comprehensive Income

Comprehensive income includes all changes in equity during a period, except those resulting from investments by stockholders and distributions to stockholders. For the three months ended March 31, 2015 and 2014 the Company s comprehensive income is as follows:

	For the Three Months Ended March 31,	
	2015	2014
Net income	$ 347	$ 135
Other comprehensive (loss) income:		
Unrealized gain (loss) on investments (net of tax effect of $(11) and $(1), respectively)	20	(1)
Unrealized (loss) gain on foreign currency exchange	(152)	30
Other comprehensive (loss) income	(132)	29
Total comprehensive income	$ 215	$ 164

11. 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 four year period. Stock options granted under the 2007 Plan expire no later than ten years after the grant date. At the time of the establishment of the 2007 Plan, the Company reserved for issuance an aggregate of 2,911,667 shares of common stock 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, approximately 7.4 million 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 March 31, 2015, a total of 2,385,072 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 risk-free interest rate is based on a zero coupon United States treasury instrument whose term is consistent with the expected life of the stock options. The Company has not paid and does not anticipate paying cash dividends on its shares of common stock; therefore, the expected dividend yield is assumed to be zero. The Company applied an estimated annual forfeiture rate in determining the expense recorded in each period.

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A summary of the stock option activity under the Company s stock option plans for the three months ended March 31, 2015 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, 2014	3,347,657	$ 7.86		
Granted	2,500	11.28		
Exercised	(258,773)	6.82		
Forfeited				
Cancelled				
Options outstanding at March 31, 2015	3,091,384	$ 7.95	2.4	$ 12,148
Options exercisable at March 31, 2015	3,088,884	$ 7.95	2.4	$ 12,135
Options vested or expected to vest at March 31, 2015 (1)	3,091,112	$ 7.95	2.4	$ 12,146

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

During the three months ended March 31, 2015 and 2014, 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 $1.3 million and $0.3 million respectively, and the total amount of cash received from exercise of these options was $1.8 million and $0.6 million, respectively.

Restricted Stock Awards

Restricted stock awards are valued at the market price of a share of the Company s common stock on the date of grant. A summary of the restricted stock award activity under the 2007 Plan for the three months ended March 31, 2015 is presented below:

Year-to-Date Activity	Shares	Weighted-Average Grant Date Fair Value Per Share	Aggregate Intrinsic Value

Nonvested outstanding at December 31, 2014	2,279,167	$	5.83		
Granted	118,800		11.81		
Vested	(305,883)		8.23		
Forfeited	(5,000)		4.74		
Nonvested outstanding at March 31, 2015	2,087,084	$	5.82	$	24,064

The total grant date fair value of restricted stock awards that vested during the three months ended March 31, 2015 and 2014 was $2.5 million and $1.7 million, respectively.

As of March 31, 2015, there was $9.6 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 2.1 years.

Accrued Stock-Based Compensation

The Company had approximately $1.4 million included in accrued compensation expenses on its Consolidated Balance Sheet as of December 31, 2014 for stock-based compensation related to restricted stock awards that had been approved as of that date but were not granted until the first quarter of 2015. This non-cash compensation expense was recorded as part of stock compensation expense in the Company s Consolidated Statement of Comprehensive Income for the year ended December 31, 2014. There were no such accruals as of March 31, 2015.

12. Stockholders Equity

Reserved Common Stock

As of March 31, 2015, the Company has reserved 7,888,635 shares of common stock for options outstanding and restricted stock awards that have not been issued as well as those available for grant under the stock option plans.

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Common Stock Repurchase Program

On August 5, 2014, the Company announced that, on August 4, 2014, its Board of Directors authorized a $20 million stock repurchase program (the 2014 Program). The Company is authorized to repurchase the Company s common stock from time to time on the open market or in privately negotiated transactions. The timing and amount of any shares repurchased will be determined based on an evaluation of market conditions and other factors. The Company may elect to implement a Rule 10b5-1 trading plan to make such purchases, which would permit shares to be repurchased when the Company might otherwise be precluded from doing so under insider trading laws. The 2014 Program ma