TechTarget Inc
Form 10-Q
May 09, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018

OR

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	(I.R.S. Employer
incorporation or organization)	Identification No.)
275 Grove Street Newton, Massachusetts (Address of principal executive offices)	02466 (zip code)

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

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

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

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

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

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a small reporting company)	Smaller reporting company
Emerging growth company		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of April 27, 2018, the registrant had 27,497,254 shares of common stock, $0.001 par value per share, outstanding.

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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, 2018 (Unaudited)	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$25,422	$ 25,966
Short-term investments	5,617	7,650
Accounts receivable, net of allowance for doubtful accounts of $2,012 and $1,783 as of March 31, 2018 and December 31, 2017, respectively	26,608	29,601
Prepaid taxes	843	1,303
Prepaid expenses and other current assets	3,713	3,088
Total current assets	62,203	67,608
Property and equipment, net	10,869	9,786
Long-term investments	—	496
Goodwill	93,927	93,793
Intangible assets, net	492	506
Deferred tax assets	153	98
Other assets	891	882
Total assets	$168,535	$ 173,169
Liabilities and Stockholders’ Equity		
Current liabilities:		
Accounts payable	$1,601	$ 1,542
Current portion of term loan	9,888	9,888
Accrued expenses and other current liabilities	2,723	3,343
Accrued compensation expenses	993	1,397
Income taxes payable	160	218
Contract liabilities	4,585	7,598
Total current liabilities	19,950	23,986
Long-term liabilities:		
Long-term portion of term loan	19,867	22,339
Deferred rent	5,233	5,259
Deferred tax liabilities	735	838
Total liabilities	45,785	52,422
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, 53,450,852 shares issued and 27,483,367 shares outstanding at March 31, 2018 and 53,338,297 shares issued and 27,483,115 shares outstanding at December 31, 2017	53	53
Treasury stock, 25,967,485 shares at March 31, 2018 and 25,885,182 shares at December 31, 2017, at cost	(172,429)	(170,816)
Additional paid-in capital	302,148	300,763
Accumulated other comprehensive gain	202	65
Accumulated deficit	(7,224)	(9,318)
Total stockholders' equity	122,750	120,747
Total liabilities and stockholders' equity	$168,535	$ 173,169

See accompanying Notes to Consolidated Financial Statements.

TechTarget, Inc.

Consolidated Statements of Operations and Comprehensive Income

(in thousands, except per share data)

	For the Three Months Ended March 31,	
	2018	2017
	(Unaudited)	
Revenues:		
Online	$27,299	$23,409
Events	—	168
Total revenues	27,299	23,577
Cost of revenues:		
Online(1)	6,725	6,895
Events	—	41
Total cost of revenues	6,725	6,936
Gross profit	20,574	16,641
Operating expenses:		
Selling and marketing(1)	11,355	10,693
Product development(1)	2,118	1,943
General and administrative(1)	3,399	3,056
Depreciation	1,080	1,091
Amortization of intangible assets	28	40
Total operating expenses	17,980	16,823
Operating income (loss)	2,594	(182)
Interest and other expense, net	(200)	(163)
Income (loss) before provision for (benefit from) income taxes	2,394	(345)
Provision for (benefit from) income taxes	300	(316)
Net income (loss)	$2,094	$(29)
Other comprehensive income, net of tax:		
Unrealized gain on investments (net of tax provision of $1 and $2, respectively)	$4	$15
Foreign currency translation gain	134	22
Other comprehensive income	138	37
Comprehensive income	$2,232	$8
Net income (loss) per common share:		
Basic	$0.08	$(0.00)
Diluted	$0.07	$(0.00)
Weighted average common shares outstanding:		
Basic	27,513	27,532
Diluted	28,512	27,532

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

Cost of online revenues	$31	$12
Selling and marketing	827	950
Product development	20	34
General and administrative	624	598

See accompanying Notes to Consolidated Financial Statements.

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TechTarget, Inc.

Consolidated Statements of Cash Flows

(in thousands)

	For the Three Months Ended March 31,	
	2018	2017
	(Unaudited)	
Operating Activities:		
Net income (loss)	$2,094	$(29)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,108	1,131
Provision for bad debt	245	205
Amortization of investment premiums	34	77
Stock-based compensation	1,502	1,594
Amortization of debt issuance costs	28	23
Changes in operating assets and liabilities:		
Accounts receivable	(646)	(2,237)
Prepaid expenses and other current assets	(859)	(995)
Other assets	1	31
Accounts payable	306	(658)
Income taxes payable	490	(129)
Accrued expenses and other current liabilities	(446)	(486)
Accrued compensation expenses	(413)	91
Contract liabilities	382	870
Other liabilities	(31)	(99)
Net cash provided by (used in) operating activities	3,795	(611)
Investing activities:		
Purchases of property and equipment, and other capitalized assets	(2,598)	(1,088)
Purchases of investments	—	(500)
Proceeds from sales and maturities of investments	2,500	3,500
Net cash (used in) provided by investing activities	(98)	1,912
Financing activities:		
Tax withholdings related to net share settlements	(522)	(580)
Purchase of treasury shares and related costs	(1,613)	(1,374)
Proceeds from exercise of stock options	406	61
Term loan principal payment	(2,500)	(1,250)
Net cash used in financing activities	(4,229)	(3,143)
Effect of exchange rate changes on cash and cash equivalents	(12)	(24)
Net decrease in cash and cash equivalents	(544)	(1,866)
Cash and cash equivalents at beginning of period	25,966	18,485
Cash and cash equivalents at end of period	$25,422	$16,619

Supplemental disclosure of cash flow information:		
Cash paid for (refunded from) taxes, net	$62	$(185)
Property and equipment included in accounts payable and in accrued expenses and other liabilities	$429	$—

See accompanying Notes to Consolidated Financial Statements.

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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. and its subsidiaries (the “Company”) is a leading provider of specialized online content for buyers of enterprise information technology (“IT”) products and services, and a leading provider of purchase-intent marketing and sales services for enterprise technology vendors. The Company’s service offerings enable technology vendors to better identify, reach, and influence corporate IT decision makers actively researching specific IT purchases. The Company improves vendors’ ability to impact these audiences for business growth using advanced targeting, analytics, and data services complemented with customized marketing programs that integrate demand generation and brand advertising techniques. The Company operates a network of over 140 websites, each of which focuses on a specific IT sector such as storage, security, or networking. IT and business professionals have become increasingly specialized, and they have come to rely on the Company’s sector-specific websites for purchasing decision support. The Company’s content platform enables IT and business professionals to navigate the complex and rapidly changing IT landscape where purchasing decisions can have significant financial and operational consequences. At critical stages of the purchase decision process, these content offerings, through different channels, meet IT and business 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 return on investment. Based upon the logical clustering of members’ respective job responsibilities and the marketing focus of the products being promoted by the Company’s customers, the Company categorizes its content offerings to address the key market opportunities and audience extensions across a portfolio of distinct media groups: Security; Networking; Storage; Data Center and Virtualization Technologies; CIO/IT Strategy; Business Applications and Analytics; Application Architecture and Development; and Channel.

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. The Company’s critical accounting policies are those that affect its more significant judgments used in the preparation of its consolidated financial statements. A description of the Company’s critical accounting policies and estimates is contained in its Annual Report on Form 10-K for the fiscal year ended December 31, 2017, and in this note to the consolidated financial statements. There were no material changes to the Company’s critical accounting policies and use of estimates during the first three months of 2018, other than those related revenue recognition resulting from the adoption of a new accounting pronouncement, as described in this Note 2 under “Revenue Recognition”.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, TechTarget Securities Corporation (“TSC”), TechTarget Limited, TechTarget (HK) Limited (“TTGT HK”), TechTarget (Beijing) Information Technology Consulting Co. Ltd. (“TTGT Consulting”), TechTarget (Australia) Pty Ltd., TechTarget (Singapore) Pte Ltd., E-Magine Médias SAS (“LeMagIT”) and TechTarget Germany GmbH. TSC is a Massachusetts corporation. TechTarget Limited is a subsidiary doing business principally in the United Kingdom. TTGT HK is a subsidiary incorporated in Hong Kong in order to facilitate the Company’s activities in the Asia-Pacific region. Additionally, through its wholly-owned subsidiaries, TTGT HK and TTGT Consulting, the Company effectively controls a variable interest entity (“VIE”), Keji Wangtuo Information Technology Co., Ltd., (“KWIT”), which was incorporated under the laws of the People’s Republic of China (“PRC”). In 2018, TechTarget began modifying its

PRC operations and consolidating its activities with other TechTarget locations. TechTarget (Australia) Pty Ltd. and TechTarget (Singapore) Pte Ltd. are the entities through which the Company does business in Australia and Singapore, respectively; LeMagIT and TechTarget Germany GmbH, both wholly-owned subsidiaries of TechTarget Limited, are entities through which the Company does business in France and Germany, respectively.

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 its residual returns. In addition, the Company entered into certain agreements with the authorized parties through TTGT HK, including Management and Consulting Services, Voting Proxy, Equity Pledge and Option Agreements. TTGT HK assigned all of its rights and obligations to the newly formed wholly foreign-owned enterprise, TTGT Consulting. TTGT Consulting is established and existing under the laws of the PRC, and is wholly owned by TTGT HK.

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

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted (Generally Accepted Accounting Principles or “GAAP”) in the United States (“U.S.”) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the U.S. for complete financial statements. All adjustments, which, in the opinion of management, are considered necessary for a fair presentation of the results of operations for the periods shown, are of a normal, recurring nature and have been reflected in the consolidated financial statements. The results of operations for the periods presented are not necessarily indicative of results to be expected for any other interim periods or for the full year. The information included in these consolidated financial statements should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” contained in this report and the consolidated financial statements and accompanying notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

Use of Estimates

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

Revenue Recognition

The Company generates substantially all of its revenues from the sale of targeted marketing and advertising campaigns, which it delivers via its network of websites, data analytics solutions, and, historically, events. Revenue is recognized when performance obligations are satisfied by transferring promised goods or services to customers, as determined by applying a five-step process consisting of: a) identifying the contract, or contracts, with a customer, b) identifying the performance obligations in the contract, c) determining the transaction price, d) allocating the transaction price to the performance obligations in the contract, and e) recognizing revenue when, or as, performance obligations are satisfied.

Recent Accounting Pronouncements

Recently Adopted Accounting Guidance

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) (“Topic 606”), which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition (“Topic 605”). Topic 606 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. Topic 606 provides that an entity should apply a five-step approach for recognizing revenue, as described above in this Note 2 under “Revenue Recognition.” This guidance 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. The Company adopted the standard effective January 1, 2018, using the modified retrospective approach. Under this method, the Company evaluated contracts that were in effect at the beginning of fiscal 2018 as if those contracts had been accounted for under Topic 606. Under the modified retrospective approach, periods prior to the adoption date were not adjusted and continue to be reported in accordance with historical, pre-Topic 606 accounting. The adoption of the standard did not have a material effect on the Company’s consolidated financial statements, systems, processes, or internal controls.

Accounting Guidance Not Yet Adopted

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) (“ASU 2016-02”). ASU 2016-02 establishes a right-of-use (“ROU”) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the Consolidated Statements of Operations and Comprehensive Income. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently evaluating the impact that this guidance will have on its consolidated financial statements and disclosures. However, the Company anticipates that this standard will have a material impact on its financial position, primarily due to office space operating leases, for which the Company will be required to recognize lease assets and lease liabilities on its Consolidated Balance Sheets. The Company will continue to assess the potential impacts of this standard, including the impact the adoption of this guidance will have on its results of operations or cash flows, if any.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles-Goodwill and Other (Topic 350), Simplifying the Test for Goodwill Impairment ("ASU 2017-04"). ASU 2017-04 eliminates the requirement to calculate the implied fair value of goodwill to measure a goodwill impairment charge (step 2 of the goodwill impairment test) and instead requires only a one-step quantitative impairment test, performed by comparing the fair value of goodwill with its carrying amount. ASU 2017-04 is effective on a prospective basis effective for goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for goodwill impairment tests performed on testing dates after January 1, 2017. The Company is currently evaluating the impact that this guidance will have on its consolidated financial statements and disclosures.

3. Revenues

Revenue Recognition

On January 1, 2018, the Company adopted Topic 606 and, as such, recognizes revenue when performance obligations are satisfied by transferring promised goods or services to customers in an amount the Company expects to receive in exchange for those goods or services. The Company enters into contracts that can include various combinations of its offerings, which are generally capable of being distinct and accounted for as separate performance obligations.

The Company’s offerings consist of IT Deal Alert and Core Online categories.

IT Deal Alert provides a suite of products that leverages detailed purchase intent data that we collect about end-user IT organizations. Through proprietary scoring methodologies, we use this insight to help our customers identify and prioritize accounts. We provide this insight through Priority Engine™, TargetROI™, Qualified Sales Opportunites™, Deal Data™, and Research™. Revenue from Priority Engine allows customers access to purchase intent data through the life of the contract and is recognized ratably over the contract period. Target ROI contains Priority Engine as well as other duration based demand solutions, which are discussed below, and revenue from Target ROI is recognized ratably over the contract period using the same time-based measure of progress for each of the distinct performance obligations included within TargetROI. Revenue from Qualified Sales Opportunities, Deal Data and Research is recognized at the point in time when control is transferred to the customer, which occurs when the related reports are provided to the customer.

Core Online consists primarily of demand solutions, brand solutions, and custom content. Demand solutions offerings provide the Company’s customers the opportunity to maximize return on investment by capturing sales leads from the

distribution and promotion of content to its audience. Demand solutions may contain the following components: White Papers, Webcasts, Podcasts, Videocasts and Virtual Trade Shows, and Content Sponsorship, which the Company may utilize at its discretion. Brand Solutions provide the Company's customers to target audiences of IT and business professionals actively researching information related to their products and services. This can be accomplished through on-network or off-network branding as well as through the hosting of Microsites. The Company will at times create white papers, case studies, webcasts, or videos to our customers' specifications through its Custom Content team ("custom content").

Revenue from demand solutions is primarily recognized when the transfer of control occurs. For certain demand solutions, the Company generates revenue on a cost per lead basis and the transfer of control occurs at the point in time each lead is generated. Certain of the contracts within demand solutions are duration-based campaigns which, in the event of customer cancellation, provide the Company with an enforceable right to a proportional payment for the portion of the campaign based on services provided. Accordingly, revenue from duration-based campaigns are recognized using a time-based measure of progress, which the Company believes best depicts how it satisfies its performance obligations in these arrangements as control is continuously transferred throughout the contract period.

Revenue from brand solutions is primarily recognized when the placement of the branding impression appears. Revenue from Microsites is recognized ratably over the life of the contract. Revenue from custom content creation is recognized over the expected period of performance using a single measure of progress, typically based on hours incurred.

The Company's offerings can be sold separately but the Company's contracts often involve multiple offerings. The Company evaluates all contracts with customers at inception to determine whether they contain separate performance obligations. If the contract contains a single performance obligation, the entire transaction price is allocated to that performance obligation. If the contract contains multiple performance obligations, the transaction price is allocated to each performance obligation based on a relative standalone selling price. The Company has concluded that each of the performance obligations described above are distinct. As discussed above, certain demand generation solutions have different revenue recognition patterns. The Company evaluated the relevant contract terms associated with the individual solutions to determine the appropriate revenue recognition pattern.

To determine standalone selling price for the individual performance obligations in the arrangement, the Company uses an estimate of the observable selling prices in separate transactions. The Company establishes best estimates considering multiple factors including, but not limited to, class of client, size of transaction, available inventory, pricing strategies and market conditions. The Company uses a range of amounts to estimate stand-alone selling price when it sells the goods and services separately and needs to determine whether a discount is to be allocated based upon the relative stand-alone selling price to the various goods and services.

Disaggregation of Revenue

The following table depicts the disaggregation of revenue according to categories consistent with how the Company evaluates its financial performance:

	Three Months Ended March 31,		Percent Change	
	2018	2017		
	($ in thousands)			
Total Online	$27,299	$23,409	17	%
Total Online by Geographic Area:				
North America:				
North America IT Deal Alert	10,006	8,168	23	%
North America Core Online	8,844	8,078	9	%
Total North America Online	18,850	16,246	16	%
International:				
International IT Deal Alert	3,607	2,203	64	%
International Core Online	4,842	4,960	(2	)%
Total International Online	8,449	7,163	18	%
Total Online by Product:				
IT Deal Alert:				
North America IT Deal Alert	10,006	8,168	23	%
International IT Deal Alert	3,607	2,203	64	%
Total IT Deal Alert	13,613	10,371	31	%
Core Online:				
North America Core Online	8,844	8,078	9	%

International Core Online	4,842	4,960	(2)%
Total Core Online	13,686	13,038	5 %
Total Events	$—	$168	(100)%
Total Revenues	$27,299	$23,577	16 %

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Deferred Revenue and Contract Balances

Timing may differ between the satisfaction of performance obligations and the invoicing and collection of amounts related to the Company's contracts with customers. Liabilities are recorded for amounts that are collected in advance of the satisfaction of performance obligations. Deferred revenue is included in contract liabilities on the accompanying Consolidated Balance Sheets and was $1.8 million and $4.9 million at March 31, 2018 and December 31, 2017, respectively. The Company's adoption of ASC 606 reduced the Company's deferred revenue by $3.4 million as of March 31, 2018. Additionally, certain customers may receive credits, which are accounted for as a material right. The Company estimates these amounts based on the expected amount of future services to be provided to customers and allocates a portion of the transaction price to these material rights. The Company recognizes these material rights as the material rights are exercised. The resulting amounts included in contract liabilities on the accompanying Consolidated Balance Sheets were $2.8 million and $2.7 million at March 31, 2018 and December 31, 2017, respectively. During the first quarter of 2018, revenues of $4.7 million were recognized that had been included in the contract liabilities balance at December 31, 2017.

Year-to-Date Activity	Contract Liabilities (in thousands)
Balance at December 31, 2017	$ 4,088
Deferral of revenue	1,643
Recognition of previously unearned revenue	(1,146)
Balance at March 31, 2018	$ 4,585

The Company reduced its accounts receivable by $3.5 million from $29.6 million to $26.1 million as of January 1, 2018 as a result of the adoption of Topic 606. There was a corresponding reduction of $3.5 million to its deferred revenue balance from $7.6 million to $4.1 million as of January 1, 2018 as a result of the adoption of Topic 606.

Payment terms and conditions vary by contract type, although terms generally include requirement of payment within 30 to 90 days. In instances where the timing of revenue recognition differs from the timing of invoicing, the Company has determined its contracts do not contain a financing component as they are generally less than one year. The Company increased its allowance for doubtful accounts by $0.2 million and had direct write-offs of $17, net of recoveries, during the three months ended March 31, 2018.

The Company elected to apply the following practical expedients and exemptions:

- The Company does not disclose the value of unsatisfied performance obligations for contracts with an original expected duration of one year or less.
- The Company expenses, as incurred, contract costs consisting of sales commissions and sales bonuses because the amortization period of the contract asset that would have otherwise been recognized would have been one year or less.

4. Fair Value Measurements

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

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

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

		Fair Value Measurements at Reporting Date Using		
	March 31, 2018	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)	$ 9,721	$9,721	$ —	$ —
Short-term investments(2)	5,617	—	5,617	—
Total assets	$ 15,338	$9,721	$ 5,617	$ —

		Fair Value Measurements at Reporting Date Using		
	December 31, 2017	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)	$ 7,155	$7,155	$ —	$ —

Short-term investments(2)	7,650	—	7,650	—
Long-term investments(2)	496	—	496	—
Total assets	$ 15,301	$7,155	$ 8,146	$ —

(1) Included in cash and cash equivalents on the accompanying Consolidated Balance Sheets; valued at quoted market prices in active markets.
(2) Short-term and long-term investments consist of municipal bonds, corporate bonds, U.S. Treasury securities, and government agency bonds; their fair value is calculated using an interest rate yield curve for similar instruments.

5. 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, 2018	December 31, 2017
Cash	$ 15,701	$ 18,811
Money market funds	9,721	7,155
Total cash and cash equivalents	$ 25,422	$ 25,966

The Company's short-term and long-term investments are accounted for as available for sale securities. These investments are recorded at fair value with the related unrealized gains and losses included in accumulated other comprehensive gain, a component of stockholders' equity, net of tax. The cumulative unrealized loss, net of taxes, was $13 and $17 as of March 31, 2018 and December 31, 2017, 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, 2018 or 2017.

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

	March 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Short-term and long-term investments:				
U.S. Treasury securities	$999	$ —	$ (6)	$ 993
Government agency bonds	1,002	—	(4)	998
Municipal bonds	2,637	—	(8)	2,629
Corporate bonds	1,001	—	(4)	997
Total short-term and long-term investments	$5,639	$ —	$ (22)	$ 5,617

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Short-term and long-term investments:				
U.S. Treasury securities	$1,499	$ —	$ (6)	$ 1,493
Government agency bonds	1,003	—	(4)	999
Municipal bonds	4,169	—	(14)	4,155
Corporate bonds	1,502	—	(3)	1,499
Total short-term and long-term investments	$8,173	$ —	$ (27)	$ 8,146

The Company had ten debt securities in an unrealized loss position at March 31, 2018. All of these securities have been in such a position for no more than twenty months. The unrealized loss on those securities was approximately $22 and the fair value was $5.6 million. At December 31, 2017, the Company had fifteen debt securities in an unrealized loss position, and the unrealized loss on those securities was approximately $27, and the fair value was $8.1 million at that date. 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, 2018.

The Company’s investments have contractual maturity dates that range from April 2018 to January 2019. All income generated from these investments is recorded as interest income.

6. Goodwill and Intangible Assets

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

	March 31, 2018			
	Estimated Useful Lives (Years)	Gross Carrying Amount	Accumulated Amortization	Net
Customer, affiliate and advertiser relationships	5	$6,990	$ (6,990)	$—
Developed websites, technology and patents	10	1,380	(955)	425
Trademark, trade name and domain name	8	1,821	(1,754)	67
Proprietary user information database and internet traffic	5	1,224	(1,224)	$—
Total intangible assets		$11,415	$ (10,923)	$492

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	Estimated Useful Lives (Years)	December 31, 2017 Gross Carrying Amount	Accumulated Amortization	Net
Customer, affiliate and advertiser relationships	5	$6,938	$ (6,938)	$—
Developed websites, technology and patents	10	1,342	(907)	435
Trademark, trade name and domain name	8	1,802	(1,731)	71
Proprietary user information database and internet traffic	5	1,202	(1,202)	—
Total intangible assets		$11,284	$ (10,778)	$506

Intangible assets are amortized over their estimated useful lives, which range from five to ten years, using methods of amortization that are expected to reflect the estimated pattern of economic use. The remaining amortization expense will be recognized over a weighted-average period of approximately 2.94 years. Amortization expense was $28 and $40 for the three months ended March 31, 2018 and 2017, respectively. Amortization expense is recorded within operating expenses as the intangible assets consist of customer-related assets which generate website traffic that the Company considers to be in support of selling and marketing activities. The Company did not write off any fully amortized intangible assets in the first three months of 2018. The change in the gross carrying amount of intangible assets during the three months ended March 31, 2018 was due to foreign currency translation gains and losses.

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

Years Ending December 31:	Amortization Expense
2018 (April 1 – December 31)	$ 86
2019	96
2020	81
2021	99
2022	130
Total	$ 492

Goodwill and indefinite-lived intangible assets are not amortized but are reviewed annually for impairment or more frequently if impairment indicators arise. The Company did not have any intangible assets other than goodwill with indefinite lives as of March 31, 2018 or December 31, 2017. There were no indications of impairment as of March 31, 2018, and the Company believes that, as of the balance sheet dates presented, none of the Company’s goodwill or intangible assets was impaired.

7. Net Income (Loss) Per Common Share

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

	For the Three Months Ended March 31,	
	2018	2017
Numerator:		
Net income (loss)	$2,094	$(29)
Denominator:		
Basic:		
Weighted average shares of common stock and vested, undelivered restricted stock units outstanding	27,512,682	27,532,277
Diluted:		
Weighted average shares of common stock and vested, undelivered restricted stock units outstanding	27,512,682	27,532,277
Effect of potentially dilutive shares (1)	999,811	—
Total weighted average shares of common stock and vested, undelivered restricted stock units outstanding and potentially dilutive shares	28,512,493	27,532,277
Net Income (Loss) Per Share:		
Basic net income (loss) per share	$0.08	$(0.00)
Diluted net income (loss) per share	$0.07	$(0.00)

(1) In calculating diluted net income (loss) per share, 0.4 million shares related to outstanding stock options and unvested restricted stock units were excluded for the three months ended March 31, 2017 because including them would have been anti-dilutive. Additionally, shares used to calculate diluted net loss per share exclude the 0.6 million shares related to outstanding stock options and restricted stock units from the three months ended March 31, 2017 that would have been dilutive if the Company had reported net income during that period.

8. Term Loan Agreement

On May 9, 2016, the Company entered into a Senior Secured Credit Facilities Credit Agreement for a term loan (the “Term Loan Agreement”). Under the Term Loan Agreement, the Company borrowed and received $50.0 million in aggregate principal amount pursuant to a five-year term loan (the “Term Loan”). The borrowings under the Term Loan Agreement are secured by a lien on substantially all of the assets of the Company, including a pledge of the stock of certain of its wholly-owned subsidiaries. As of March 31, 2018, the carrying amount of the Term Loan was $29.8 million.

At the Company’s option, the Term Loan Agreement bears interest at either an annual rate of 1.50% plus the higher of (a) the Prime Rate in effect on such day and (b) the Federal Funds Effective Rate in effect on such day plus 0.50%, or

the London Interbank Offered Rate ("LIBOR") plus 2.50%. The applicable interest rate was 4.49% at March 31, 2018, representing LIBOR plus the applicable margin of 2.50%. Interest expense under the Term Loan Agreement was $0.3 million and during each of the three months ended March 31, 2018 and 2017. This includes non-cash interest expense of $28 and $23 for the three months ended March 31, 2018 and 2017, respectively, related to the amortization of deferred issuance costs. During the three months ended March 31, 2018, the Company made principal payments totaling $2.5 million.

The Term Loan Agreement requires the Company to maintain compliance with certain covenants, including leverage and fixed charge coverage ratio covenants. At March 31, 2018, the Company was in compliance with all covenants under the Term Loan Agreement.

9. Commitments and Contingencies

Operating Leases

The Company conducts its operations in leased office facilities under various noncancelable operating lease agreements that expire through December 2029.

The lease for the Company’s Newton office contains rent concessions, which the Company is receiving over the life of the 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 each lease, taking into account the lease incentives and escalating lease payments. Total rent expense under the Company’s leases was approximately $1.1 million for each of the three months ended March 31, 2018 and 2017.

Future minimum lease payments under the Company’s noncancelable operating leases at March 31, 2018 are as follows:

Years Ending December 31:	Minimum Lease Payments
2018 (April 1 – December 31)	$ 3,207
2019	4,183
2020	3,659
2021	3,761
2022	3,397
Thereafter	24,664
Total	$ 42,871

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, 2018 and December 31, 2017, the Company did not have any pending claims, charges, or litigation that it expects would have a material adverse effect on its consolidated financial position, results of operations, or cash flows.

10. Stock-Based Compensation

Stock Option and Incentive Plans

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. The 2007 Plan allowed the Company to grant ISOs, NSOs, stock appreciation rights, deferred stock awards, restricted stock units and other awards. Under the 2007 Plan, stock options could not be granted at less than fair market value on the date of grant, and grants generally vested over a three- to four-year period. Stock options granted under the 2007 Plan expire no later than ten years after the grant date. Additionally, beginning with awards made in August 2015, the Company had the option to direct a net issuance of shares for satisfaction of tax liability with respect to vesting of awards and delivery of shares. Prior to August 2015, this choice of settlement method was solely at the discretion of

the award recipient.

At the inception of the plan, the Company reserved for issuance an aggregate of 2,911,667 shares of common stock under the 2007 Plan, which expired in May 2017. The 2007 Plan was subject to an automatic annual increase of shares 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. The number of shares available for issuance under the 2007 Plan was subject to adjustment in the event of a stock split, stock dividend or other change in capitalization. Approximately 8,224,334 shares were added to the 2007 Plan in accordance with the automatic annual increase and other provisions. No new awards may be granted under the 2007 Plan; however, the shares of common stock remaining in the 2007 Plan are available for issuance in connection with previously awarded grants under the 2007 Plan. There are 1,028,715 shares of common stock, including 25,000 vested restricted stock units, that remain subject to outstanding stock grants under the 2007 Plan as of March 31, 2018.

In March 2017, the Board approved the 2017 Stock Option and Incentive Plan (the “2017 Plan”), which was approved by the stockholders of the Company at the 2017 Annual Meeting and became effective June 16, 2017. The 2017 Plan replaces the Company’s 2007 Plan. On that date, approximately 3,000,000 shares of Common Stock were reserved for issuance under the 2017 Plan and, generally, shares that are forfeited or canceled from awards under the 2017 Plan also will be available for future awards. Under the 2017 Plan, the Company may grant restricted stock and restricted stock units, non-qualified stock options, stock appreciation rights,

performance awards, and other stock-based and cash-based awards. Grants generally vest in equal tranches over a three-year period. Stock options granted under the 2017 Plan expire no later than ten years after the grant date. Shares of stock issued pursuant to restricted stock awards are restricted in that they are not transferable until they vest. Stock underlying awards of restricted stock units are not issued until the units vest. Non-qualified stock options cannot be exercised until they vest. Under the 2017 Plan, all stock options and stock appreciation rights must be granted with an exercise price that is at least equal to the fair market value of the stock on the date of grant. The 2017 Plan broadly prohibits the repricing of options and stock appreciation rights without stockholder approval and requires that no dividends or dividend equivalents be paid with respect to options or stock appreciation rights. The 2017 Plan further provides that, in the event any dividends or dividend equivalents are declared with respect to restricted stock, restricted stock units, other stock-based awards and performance awards (referred to as “full-value awards”), they would be subject to the same vesting and forfeiture provisions as the underlying award. There is a total of 680,000 shares of common stock that remain subject to outstanding stock grants under the 2017 Plan as of March 31, 2018.

Accounting for Stock-Based Compensation

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

The expected volatility of options granted has been determined using a weighted average of the historical volatility of the Company’s stock for a period equal to the expected life of the option. The expected life of options has been determined utilizing the “simplified” method. The risk-free interest rate is based on a zero coupon U.S. treasury instrument whose term is consistent with the expected life of the stock options. The Company has not paid and does not anticipate paying cash dividends on its shares of common stock; therefore, the expected dividend yield is assumed to be zero. The Company applied an estimated annual forfeiture rate based on historical averages in determining the expense recorded in each period.