TechTarget Inc
Form 10-Q
August 14, 2007

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 June 30, 2007

OR

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

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.)

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

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

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.
x Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer o Non-accelerated filer x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange

Act). o Yes x No

As of June 30, 2007, there were 40,310,364 shares of the registrant's common stock, par value $0.001, outstanding.

TECHTARGET, INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2007

Table of Contents

Item		Page
PART I. FINANCIAL INFORMATION		
Item 1.	Financial Statements (Unaudited)	
	Consolidated Balance Sheets as of June 30, 2007 and December 31, 2006	1
	Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2007 and 2006	2
	Consolidated Statements of Cash Flows for the Three and Six Months Ended June 30, 2007 and 2006	3
	Notes to Consolidated Financial Statements	4
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	18
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	32
Item 4.	Controls and Procedures	33
PART II. OTHER INFORMATION		
Item 1.	Legal Proceedings	34
Item 1A.	Risk Factors	34
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	41
Item 3.	Defaults upon Senior Securities	42
Item 4.	Submission of Matters to a Vote of Security Holders	42
Item 5.	Other Information	42
Item 6.	Exhibits	42
	Signatures	43

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

Assets	**June 30, 2007 (unaudited)**	**December 31, 2006**
Current assets:		
Cash and cash equivalents	$ 32,483	$ 30,830
Short-term investments	70,310	-
Accounts receivable, net of allowance for doubtful accounts of $577 and $580 as of June 30, 2007 and December 31, 2006, respectively.	13,359	12,096
Prepaid expenses and other current assets	4,243	952
Deferred tax assets	1,047	1,784
Total current assets	121,442	45,662
Property and equipment, net	3,515	2,520
Goodwill	43,225	36,190
Intangible assets, net of accumulated amortization	13,259	6,066
Other assets	68	854
Deferred tax assets	1,614	1,355
Total assets	$ 183,123	$ 92,647
Liabilities, Redeemable Convertible Preferred Stock and Stockholders' Equity (Deficit)		
Current liabilities:		
Current portion of bank term loan payable	3,000	3,000
Accounts payable	3,469	2,928
Income taxes payable	-	1,854
Accrued expenses and other current liabilities	1,324	1,904
Accrued compensation expenses	1,310	2,322
Deferred revenue	5,616	2,544
Total current liabilities	14,719	14,552
Long-term liabilities:		
Other liabilities	448	555
Bank term loan payable, net of current portion	4,500	6,000
Total liabilities	19,667	21,107
Commitments (Note 8)	-	-
Redeemable convertible preferred stock:		
Series A redeemable convertible preferred stock - $0.001 par value; 36,009,488 shares authorized; 35,879,971 shares issued and outstanding, liquidation preference of $30,656 at December 31, 2006	-	30,468

Series B redeemable convertible preferred stock - $0.001 par value; 51,470,588 shares authorized; 51,470,588 shares issued and outstanding, liquidation preference of $88,296 at December 31, 2006	-	88,260
Series C redeemable convertible preferred stock - $0.001 par value; 10,141,302 shares authorized; 10,141,302 shares issued and outstanding, liquidation preference of $18,058 at December 31, 2006	-	18,038
Total redeemable convertible preferred stock	-	136,766
Stockholders' equity (deficit):		
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; 40,310,364 and 7,969,830 shares issued and outstanding at June 30, 2007 and December 31, 2006, respectively	40	32
Additional paid-in capital	197,239	-
Warrants	411	105
Accumulated other comprehensive loss	(23)	(56)
Accumulated deficit	(34,211)	(65,307)
Total stockholders' equity (deficit)	163,456	(65,226)
Total liabilities, redeemable convertible preferred stock and stockholders' equity (deficit)	$ 183,123	$ 92,647

See accompanying notes.

- 1 -

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
		(unaudited)		
Revenues:				
Online	$ 16,330	$ 12,812	$ 30,039	$ 23,187
Events	6,350	5,742	9,289	8,069
Print	1,924	2,163	3,621	4,372
Total revenues	24,604	20,717	42,949	35,628
Cost of revenues:				
Online [1]	3,900	2,992	7,425	5,613
Events [1]	2,410	1,735	3,782	3,009
Print [1]	999	1,423	2,128	2,830
Total cost of revenues	7,309	6,150	13,335	11,452
Gross profit	17,295	14,567	29,614	24,176
Operating expenses:				
Selling and marketing [1]	6,388	5,191	12,540	9,623
Product development [1]	1,596	1,559	3,344	3,123
General and administrative [1]	2,943	2,084	5,553	3,875
Depreciation	364	238	694	456
Amortization of intangible assets	1,041	1,424	1,800	2,508
Total operating expenses	12,332	10,496	23,931	19,585
Operating income	4,963	4,071	5,683	4,591
Interest income (expense):				
Interest income	655	410	1,015	857
Interest expense	(278)	(368)	(705)	(719)
Total interest income (expense)	377	42	310	138
Income before provision for income taxes	5,340	4,113	5,993	4,729
Provision for income taxes	2,626	1,739	2,962	1,914
Net income	$ 2,714	$ 2,374	$ 3,031	$ 2,815
Net income (loss) per common share:				
Basic	$ 0.06	$ (0.03)	$ (0.06)	$ (0.32)
Diluted	$ 0.05	$ (0.03)	$ (0.06)	$ (0.32)
Weighted average common shares outstanding:				
Basic	24,295,344	7,857,985	16,246,313	7,735,303
Diluted	27,243,822	7,857,985	16,246,313	7,735,303

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

Cost of online revenue	$ 70	$ 5	$ 140	$ 5
Cost of events revenue	11	2	23	2
Cost of print revenue	10	1	19	1
Selling and marketing	588	20	1,124	20
Product development	73	6	146	6
General and administrative	446	2	817	30

See accompanying notes.

Table of Contents

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

	Six Months Ended June 30,	
	2007	**2006**
	(unaudited)	
Operating Activities		
Net income	$ 3,031	$ 2,815
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,494	2,964
Provision for bad debt	61	115
Stock-based compensation	2,269	64
Non-cash interest expense	310	(11)
Deferred tax benefit	478	427
Excess tax benefit - stock options	(2,295)	-
Changes in operating assets and liabilities, net of businesses acquired:		
Accounts receivable	(1,325)	(1,515)
Prepaid expenses and other current assets	(948)	(602)
Other assets	783	44
Accounts payable	541	(574)
Income taxes payable	(1,854)	96
Accrued expenses and other current liabilities	(580)	(284)
Accrued compensation expenses	(1,012)	(796)
Deferred revenue	3,072	2,550
Other liabilities	(74)	(27)
Net cash provided by operating activities	4,951	5,266
Investing activities		
Purchases of property and equipment, and other assets	(1,689)	(753)
Purchases of short-term investments	(126,100)	-
Sales of short-term investments	55,790	-
Acquisition of assets	(1,013)	-
Acquisition of businesses, net of cash acquired	(15,015)	(15,017)
Net cash used in investing activities	(88,027)	(15,770)
Financing activities		
Proceeds from revolving credit facility	12,000	-
Payments made on revolving credit facility	(12,000)	-
Payments on bank term loan payable	(1,500)	(1,500)
Proceeds from initial public offering, net of stock issuance costs	83,161	-
Excess tax benefit - stock options	2,295	-
Proceeds from exercise of warrants and stock options	773	731
Net cash provided by (used in) financing activities	84,729	(769)
Net increase (decrease) in cash and cash equivalents	1,653	(11,273)
Cash and cash equivalents at beginning of period	30,830	46,879
Cash and cash equivalents at end of period	$ 32,483	$ 35,606

Cash paid for interest	$	361	$	704
Cash paid for taxes	$	3,736	$	1,390

See accompanying notes.

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

1. Organization and Summary of Significant Accounting Policies

The Company

TechTarget, Inc. (the Company) is a leading provider of specialized online content that brings together buyers and sellers of corporate information technology, or IT, products. The Company sells customized marketing programs that enable IT vendors to reach corporate IT decision makers who are actively researching specific IT purchases. TechTarget, Inc. is a Delaware corporation that was incorporated on September 14, 1999.

The Company's integrated content platform consists of a network of 41 websites that are complemented with targeted in-person events and three specialized IT magazines. Throughout all stages of the purchase decision process, these content offerings meet IT professionals' needs for expert, peer and IT vendor information, and provide a platform on which IT vendors can launch targeted marketing campaigns that generate measurable, high return on investment, or ROI. Based upon the logical clustering of users' respective job responsibilities and the marketing focus of the products that the Company's customers are advertising, content offerings are currently categorized across eleven distinct media groups:
Application Development; Channel; CIO and IT Management; Data Center; Enterprise Applications; Laptops and Mobile Technology; Networking; Security; Storage; Vertical Software; and Windows and Distributed Computing.

Stock Offering

In May 2007, the Company completed its initial public offering (IPO) of 8,855,000 shares of its common stock, of which 7,072,097 shares were sold by the Company and 1,782,903 shares were sold by certain of the Company’s existing shareholders at a price to the public of $13.00 per share. The Company raised a total of $91,937 in gross proceeds from the offering, or $83,161 in net proceeds after deducting underwriting discounts and commissions of $6,436 and other offering costs of approximately $2,340. Upon the closing of the offering, all shares of the Company’s redeemable convertible preferred stock automatically converted into 24,372,953 shares of common stock.

Reverse Stock Split

On April 26, 2007, the Company's board of directors approved a 1-for-4 reverse stock split of the Company's outstanding common stock. The reverse stock split became effective immediately and all common share and per share amounts in the accompanying consolidated financial statements and notes to the consolidated financial statements have been retroactively adjusted for all periods presented to give effect to the reverse stock split.

Unaudited Interim Financial Information

The accompanying interim consolidated financial statements are unaudited. These financial statements and notes should be read in conjunction with the audited consolidated financial statements and related notes, together with management’s discussion and analysis of financial condition and results of operations, contained in the Company’s Registration Statement on Form S-1 (File No. 333-140503), which is on file with the Securities and Exchange Commission (SEC).

The accompanying unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations of the SEC. Certain information and footnote disclosures normally included in financial statements that have been prepared in accordance with accounting principles generally accepted in the United States have been

condensed or omitted pursuant to such SEC rules and regulations. In the opinion of management, the unaudited interim consolidated financial statements and notes have been prepared on the same basis as the audited consolidated financial statements in the Company's Registration Statement on Form S-1 (File No. 333-140503), and include all adjustments (consisting of normal, recurring adjustments) necessary for the fair presentation of the Company's financial position at June 30, 2007, results of operations for the three and six months ended June 30, 2007 and 2006, and cash flows for the six months ended June 30, 2007 and 2006. The interim periods are not necessarily indicative of results to be expected for any other interim periods or for the full year.

Principles of Consolidation

The accompanying unaudited consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Bitpipe, Inc., TechTarget Securities Corporation and TechTarget, Ltd. Bitpipe, Inc. is a leading provider of in-depth IT content including white papers, product literature, and case studies from IT vendors. TechTarget Securities Corporation is a Massachusetts Securities Corporation incorporated in 2004. TechTarget, Ltd. is a subsidiary doing business principally in the United Kingdom. All significant intercompany accounts and transactions have been eliminated in consolidation.

Table of Contents

Use of Estimates

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

Revenue Recognition

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

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

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

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

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

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

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

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

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

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

the course of the advertising campaign. Throughout the advertising campaign, revenue is recognized as individual offerings are delivered, and the lead guarantee commitments are closely monitored to assess campaign performance. If the minimum number of qualified sales leads is not met by the scheduled completion date of the advertising campaign, the campaign is extended and the Company will extend the period over which it recognizes revenue. In accordance with EITF Issue No. 00-21, revenue is deferred for any undelivered offerings equal to a pro-rata amount of the fair value of the additional media offerings as compared to the total combined value of the original contract and the fair value of the additional media offerings. The fair value of the additional media offerings is determined based on standard rate card pricing for each of the additional media offerings. The Company estimates the additional media offerings to be delivered during the extended period based on historical lead generation performance for each of the offerings. The Company has managed and completed over 1,000 integrated ROI program offerings since 2004, which it feels provides a reasonable basis to establish these estimates. During the twelve months ended June 30, 2007, lead shortfalls for integrated ROI program offerings were satisfied within an average extended period of forty-five days.

As of June 30, 2007, substantially all of the integrated ROI program offerings that had a guaranteed minimum number of qualified sales leads had been delivered within the original contractual term. Standard contractual terms and conditions for integrated ROI program offerings allow for the Company to extend advertising campaigns in order to satisfy lead shortfalls. When lead shortfalls are unable to be satisfied within a mutually agreed-upon extended period, the Company recognizes revenue equal to, and the customer is only responsible for paying, a pro rata amount based on the actual number of leads delivered compared to the number of leads originally guaranteed. Historically, lead guarantees associated with integrated ROI program offerings have not required the Company to refund or extend payment terms to customers, nor have they resulted in deferral of a material amount of revenue outside of the original contractual term of the advertising campaign.

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

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

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

Fair Value of Financial Instruments

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

Long-lived Assets

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

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

Internal Use Software and Website Development Costs

The Company accounts for website development costs according to the guidance in the EITF Issue No. 00-2, *Accounting for Web Site Development Costs,* which requires that costs incurred during the development of website applications and infrastructure involving developing software to operate a website be capitalized. Additionally, all costs relating to internal use software are accounted for under Statement of Position (SOP) 98-1, *Accounting for the Cost of Computer Software Developed or Obtained for Internal Use*. The estimated useful life of costs capitalized is evaluated for each specific project. Capitalized internal use software and website development costs are reviewed for recoverability whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. An impairment loss shall be recognized only if the carrying amount of the asset is not recoverable and exceeds its fair value. The Company capitalized internal-use software and website development costs of $402 and $74 for the three months ended June 30, 2007 and 2006, respectively, and $698 and $180 for the six months ended June 30, 2007 and 2006, respectively.

Income Taxes

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

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

Stock-Based Compensation

At June 30, 2007, the Company had two stock-based employee compensation plans which are more fully described in Note 9. Through December 31, 2005, the Company accounted for its stock-based awards to employees using the intrinsic value method prescribed in APB Opinion No. 25 and related interpretations. Under the intrinsic value method, compensation expense is measured on the date of the grant as the difference between the deemed fair value of our common stock and the exercise or purchase price multiplied by the number of shares subject to stock options or the number of shares of restricted stock awards granted.

Through December 31, 2005, the Company accounted for stock-based compensation expense for non-employees using the fair value method prescribed by SFAS, No. 123 and the Black-Scholes option-pricing model, and recorded the fair value of non-employee stock options as an expense over the vesting term of the option.

In December 2004, the FASB issued SFAS No. 123(R), *Share-Based Payment*, which requires companies to expense the fair value of employee stock options and other forms of stock-based compensation. The Company adopted SFAS No. 123(R) effective January 1, 2006. SFAS No. 123(R) requires nonpublic companies that used the minimum value method under SFAS No. 123 for either recognition or pro forma disclosures to apply SFAS No. 123(R) using the prospective-transition method. As such, the Company will continue to apply APB Opinion No. 25 in future periods to equity awards outstanding at the date of adoption of SFAS No. 123(R) that were measured using the minimum value method. In accordance with SFAS No. 123(R), the Company will recognize the compensation cost of employee stock-based awards in the statement of operations using the straight line method over the vesting period of the award. Effective with the adoption of SFAS No. 123(R), the Company has elected to use the Black-Scholes option pricing model to determine the fair value of stock options granted.

Net Income (Loss) Per Share

As of May 16, 2007, the effective date of the Company's IPO, the Company transitioned from having two classes of equity securities outstanding, common and preferred stock, to a single class of equity securities outstanding, common stock, upon automatic conversion of shares of redeemable convertible preferred stock into shares of common stock. For the period prior to May 16, 2007, the Company calculated net income (loss) per share in accordance with SFAS No. 128, *Earnings Per Share*, as clarified by EITF Issue No. 03-6, *Participating Securities and the Two-Class Method Under FASB Statement No. 128, Earnings Per Share*. EITF Issue No. 03-6 clarifies the use of the “two-class” method of calculating earnings per share as originally prescribed in SFAS No. 128. Under the two-class method,

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

For the period subsequent to May 16, 2007, the Company has followed SFAS No. 128, *Earnings Per Share*, which requires that basic EPS be calculated by dividing earnings available to common shareholders for the period by the weighted average number of common shares outstanding. Diluted EPS is computed using the weighted-average number of common shares outstanding during the period, plus the dilutive effect of potential future issuances of common stock relating to stock option programs and other potentially dilutive securities using the treasury stock method. In calculating diluted EPS, the dilutive effect of stock options is computed using the average market price for the respective period. In addition, under SFAS No. 123(R), the assumed proceeds under the treasury stock method include the average unrecognized compensation expense and assumed tax benefit of stock options that are in-the-money. This results in the "assumed" buyback of additional shares, thereby reducing the dilutive impact of stock options.

Table of Contents

Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company does not expect the adoption of SFAS No. 157 in 2008 will have a material impact on its results of operations or financial position.

In February 2007, the FASB released SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities,* and is effective for fiscal years beginning after November 15, 2007. This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The Company is currently analyzing the effect, if any, SFAS No. 159 will have on its consolidated financial position and results of operations.

2. Acquisitions

TechnologyGuide.com

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

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

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

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

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

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

2020Software.com

On May 3, 2006, the Company acquired substantially all of the assets associated with 2020Software.com from 20/20 Software, Inc., which was a privately-held company based in Los Angeles, California, for $15,000 in cash, plus $17 in acquisition related transaction costs. The acquisition provides the Company with an opportunity for growth within markets in which it currently does not have a significant presence, primarily vertical software applications and enterprise markets. At the time of acquisition, 2020Software.com was a website business focused on providing detailed feature-comparison information and access to trial software for businesses seeking trial versions of accounting, customer relationship management and other business software. Since the acquisition of 2020Software.com, the Company has expanded into additional vertical markets including the retail, manufacturing, construction and medical software markets.

The Company applied the guidance included in EITF Issue No. 98-3 to conclude that the acquisition of 2020Software.com constituted the acquisition of a business. In connection with this acquisition, the Company purchased $397 of accounts receivable, recorded $9,440 of goodwill and recorded $5,180 of intangible assets related to customer relationships, customer order backlog and a non-compete agreement, with estimated useful lives ranging from 12 to 60 months.

The estimated fair value of $5,180 of acquired intangible assets is assigned as follows:

	Useful Life	Estimated Fair Value
Customer relationship intangible asset	60 months	$ 4,170
Non-compete agreement intangible asset	36 months	550
Customer order backlog intangible asset	12 months	460
Total intangible assets		$ 5,180

The Company engaged a third party valuation specialist to assist management in determining the fair value of the acquired assets of 2020Software.com. To value the customer relationship and backlog intangible assets, an income approach was used, specifically a variation of the discounted cash-flow method. The projected net cash flows for 2020Software.com were tax affected using an effective rate of 40% and then discounted using a discount rate of 20.1% to calculate the value of the customer relationship and backlog intangible assets. Additionally, the present value of the sum of projected tax benefits was added to arrive at the total fair value of the customer relationship and backlog intangible assets. To value the non-compete agreement a comparative business valuation method was used. Based on a non-compete term of 36 months, management projected net cash flows for the Company with and without the non-compete agreement in place. The present value of the sum of the difference between the net cash flows with and without the non-compete agreement in place was calculated, based on a discount rate of 20.1%.

Results of operations for 2020Software.com have been included in the Company's results of operations since the acquisition date of May 3, 2006.

Pro Forma Results of Operations

The following pro forma results of operations for the three and six months ended June 30, 2007 and 2006 have been prepared as though the acquisitions of TechnologyGuide.com and 2020Software.com had occurred as of January 1, 2006. This pro forma financial information is not indicative of the results of operations that may occur in the future.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
	(unaudited)			
Pro forma revenues	$ 24,808	$ 21,627	$ 43,808	$ 37,917
Pro forma net income	$ 2,395	$ 2,008	$ 2,614	$ 1,920
Pro forma net income (loss) per common share:				
Basic	$ 0.05	$ (0.08)	$ (0.08)	$ (0.43)
Diluted	$ 0.04	$ (0.08)	$ (0.08)	$ (0.43)

Table of Contents

3. Cash, Cash Equivalents and Short-Term Investments

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

	June 30, 2007 (unaudited)	December 31, 2006
Cash	$ 2,272	$ 3,262
Money market funds	13,064	5,935
Commercial paper	17,147	21,633
Total cash and cash equivalents	$ 32,483	$ 30,830

As of June 30, 2007, short-term investments consist of commercial paper corporate debt securities, auction rate securities and variable rate demand notes. Auction rate securities are variable-rate bonds tied to short-term interest rates with maturities in excess of 90 days. Interest rates on these securities typically reset through a modified Dutch auction at predetermined short-term intervals, usually every 1, 7, 28 or 35 days. Variable rate demand notes are long-term, taxable, or tax-exempt bonds issued on a variable rate basis that can be tendered by the Company for purchase at par whenever interest rates reset, usually every 7 days. Despite the long-term nature of the stated contractual maturities of these variable rate demand notes, the Company has the intent and ability to quickly liquidate these securities. Auction rate securities and variable rate demand notes are recorded at fair market value, which approximates cost because of their short-term interest rates. Commercial paper corporate debt securities are securities issued by various highly rated municipalities that have maturities between three and twelve months at date of purchase.

The Company’s short-term investments are accounted for as available for sale securities under SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. These investments are recorded at their estimated fair values, therefore the Company has no unrealized gains or losses from these investments.

Short-term investments consisted of the following:

	June 30, 2007 (unaudited)	December 31, 2006
Commercial paper	$ 6,321	$ -
Auction rate securities	43,685	-
Variable rate demand notes	20,304	-
Total short-term investments	$ 70,310	$ -

All income generated from these short-term investments was recorded as interest income.

4. Goodwill and Intangible Assets

The changes in the carrying amount of goodwill for the six months ended June 30, 2007 and for the year ended December 31, 2006 are as follows:

		Total
Balance as of December 31, 2005	$	26,535
Acquisitions during the period		9,440
Other adjustments		215
Balance as of December 31, 2006		36,190
Acquisitions during the period		7,035
Other adjustments		-
Balance as of June 30, 2007 (unaudited)	$	43,225

Table of Contents

Intangible assets subject to amortization as of June 30, 2007 and December 31, 2006 consist of the following:

	As of June 30, 2007 (unaudited)		
	Gross Carrying Amount	Accumulated Amortization	Net
Customer, affiliate and advertiser relationships	$ 13,367	$ (7,312)	$ 6,055
Developed websites, technology and patents	5,976	(641)	5,335
Trademark, trade name and domain name	894	(406)	488
Non-compete agreements	1,675	(294)	1,381
Total intangible assets	$ 21,912	$ (8,653)	$ 13,259

	As of December 31, 2006		
	Gross Carrying Amount	Accumulated Amortization	Net
Customer, affiliate and advertiser relationships	$ 11,025	$ (6,010)	$ 5,015
Developed websites, technology and patents	576	(400)	176
Trademark, trade name and domain name	768	(321)	447
Non-compete agreements	550	(122)	428
Total intangible assets	$ 12,919	$ (6,853)	$ 6,066

Intangible assets are amortized over their estimated useful lives, which range from 12 to 72 months, using the straight-line method of amortization, which approximates the estimated pattern of economic use. Amortization expense was $1,041 and $1,424 for the three months ended June 30, 2007 and 2006 respectively, and $1,800 and $2,508 for the six months ended June 30, 2007 and 2006, respectively. At June 30, 2007, the remaining amortization expense will be recognized over a weighted-average period of approximately 2.7 years.

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

Year Ending December 31,	Total (unaudited)
2007 (July 1st - December 31st)	$ 2,192
2008	2,967
2009	2,831
2010	2,361
2011	1,584
2012	1,024
Thereafter	300
Total amortization expense	$ 13,259

5. Net Income (Loss) Per 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:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
	(unaudited)			
Numerator:				
Net income	$ 2,714	$ 2,374	$ 3,031	$ 2,815
Allocation of net income to periods [1]:				
Net income allocable to period during which two classes of equity securities were outstanding	1,372	2,374	1,689	2,815
Net income allocable to period during which one class of equity securities was outstanding	1,342	-	1,342	-
Net income	$ 2,714	$ 2,374	$ 3,031	$ 2,815
Net income allocable to two class period	$ 1,372	$ 2,374	$ 1,689	$ 2,815
Accretion of preferred stock dividends	1,336	2,648	3,948	5,267
Undistributed net income allocated to preferred stockholders [2]	27	-	-	-
Net income applicable to preferred stockholders for two class period	1,363	2,648	3,948	5,267
Net loss applicable to common stockholders for two class period	-	(274)	(2,259)	(2,452)
Undistributed net income allocated to common stockholders [2]	9	-	-	-
Net income allocable to one class period	1,342	-	1,342	-
Net income (loss) applicable to common stockholders	$ 1,351	$ (274)	$ (917)	$ (2,452)
Denominator:				
Basic:				
Weighted average shares of common stock outstanding	24,295,344	7,857,985	16,246,313	7,735,303
Diluted:				
Weighted average shares of common stock outstanding	24,295,344	7,857,985	16,246,313	7,735,303
Effect of potentially dilutive shares	2,948,478	-	-	-
Total weighted average shares of common stock outstanding	27,243,822	7,857,985	16,246,313	7,735,303
Calculation of Net Income (Loss) Per Common Share:				
Basic:				
Net income (loss) applicable to common stockholders	$ 1,351	$ (274)	$ (917)	$ (2,452)
Weighted average shares of stock outstanding	24,295,344	7,857,985	16,246,313	7,735,303
Net income (loss) per common share	$ 0.06	$ (0.03)	$ (0.06)	$ (0.32)
Diluted:				

Net income (loss) applicable to common stockholders	$	1,351	$	(274)	$	(917)	$	(2,452)
Weighted average shares of stock outstanding		27,243,822		7,857,985		16,246,313		7,735,303
Net income (loss) per common share	$	0.05	$	(0.03)	$	(0.06)	$	(0.32)

(1) As of May 16, 2007, the effective date of the Company's IPO, the Company transitioned from having two classes of equity securities outstanding, common and preferred stock, to a single class of equity securities outstanding, common stock, upon automatic conversion of shares of redeemable convertible preferred stock into shares of common stock.

(2) For the three months ended June 30, 2007 undistributed net income, which equals a pro-rata allocation of net income for the quarter to the period prior to May 16, 2007 less the accretion of preferred stock dividends for that period, is allocated to preferred and common stockholders based on the pro-rata percentage of weighted average preferred shares outstanding and weighted average common shares outstanding to the total weighted average shares outstanding for the period.

Table of Contents

6. Bank Term Loan Payable

In August 2006, the Company entered into a credit agreement (the "Credit Agreement") with Citizens Bank of Massachusetts, which included a $10,000 term loan (the "Term Loan") and a $20,000 revolving credit facility (the "Revolving Credit Facility"). The Revolving Credit Facility matures on August 30, 2011. Unless earlier payment is required by an event of default, all principal and unpaid interest will be due and payable on August 30, 2011. At the Company's option, the Revolving Credit Facility bears interest at either the Prime Rate less 1.00% or the LIBOR rate plus 1.50%. The Company is also required to pay an unused line fee on the daily unused amount of its Revolving Credit Facility at a per annum rate of 0.375%. The Company borrowed $12,000 against its Revolving Credit Facility in conjunction with the acquisition of TechnologyGuide.com in April 2007. The entire outstanding balance of $12,000 was repaid in May 2007 with proceeds from the Company's IPO. As of June 30, 2007, unused availability under the Revolving Credit Facility totaled $20,000.

The Term Loan requires 39 consecutive monthly principal payments of $250, plus interest, beginning on September 30, 2006 through December 30, 2009. As of June 30, 2007, the outstanding balance due under the Term Loan was $7,500. There was no accrued interest on the Term Loan at June 30, 2007.

In September 2006, the Company entered into an interest rate swap agreement with a commercial bank to mitigate the interest rate fluctuations on the Term Loan. With this interest rate swap agreement in place, the Company has fixed the annual interest rate at 6.98% for the Term Loan. The interest rate swap agreement terminates in December 2009. Under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* the interest rate swap agreement is deemed to be a cash flow hedge and qualifies for special accounting using the shortcut method. Accordingly, changes in the fair value of the interest rate swap agreement are recorded in "accumulated other comprehensive loss" on the consolidated statements of redeemable convertible preferred stock and stockholders' deficit. As of June 30, 2007, the fair value of the cash flow hedge was $23 and is recorded in other liabilities.

Borrowings under the Credit Agreement are collateralized by a security interest in substantially all assets of the Company. Covenants governing the Credit Agreement require the maintenance of certain financial ratios. The Company was in compliance with all financial covenants as of June 30, 2007.

The future maturities of the Term Loan agreement at June 30, 2007 are as follows:

Year Ending December 31,	**As of June 30, 2007 (unaudited)**
2007 (July 1st - December 31st)	$ 1,500
2008	3,000
2009	3,000
	7,500
Less current portion	(3,000)
	$ 4,500

7. Comprehensive Income (Loss)

SFAS No. 130, *Reporting Comprehensive Income*, establishes standards for reporting and displaying comprehensive income (loss) and its components in financial statements. Comprehensive income (loss) is defined to include all changes in equity during a period, except those resulting from investments by stockholders and distributions to stockholders. For the three and six months ended June 30, 2007 comprehensive income (loss) is the sum of net income

and the change in the fair value of the Company's cash flow hedge, as follows:

	Three Months Ended June 30, 2007	Six Months Ended June 30, 2007
	(unaudited)	
Net income	$ 2,714	$ 3,032
Other comprehensive income:		
Change in fair value of cash flow hedge	39	33
Total comprehensive income	$ 2,753	$ 3,065

8. Commitments and Contingencies

From time to time and in the ordinary course of business, the Company may be subject to various claims, charges, and litigation. At June 30, 2007 and December 31, 2006, 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.

9. Stock-Based Compensation

Stock Option Plans

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

In April 2007, the Board approved the 2007 Stock Option and Incentive Plan (the 2007 Plan), which was approved by the stockholders and became effective upon the consummation of the Company's IPO in May 2007. Effective upon the consummation of the IPO, no further awards will be made pursuant to the 1999 Plan, but any outstanding awards under the 1999 Plan will remain in effect and will continue to be subject to the terms of the 1999 Plan. The 2007 Plan allows the Company to grant ISOs, NSOs, stock appreciation rights, deferred stock awards, restricted stock and other awards. Under the 2007 Plan, stock options may not be granted at less than fair market value on the date of grant, and all options generally vest over a four year period. Stock options granted under the 2007 Plan expire no later than ten years after the grant date. The Company has reserved for issuance an aggregate of 2,911,667 shares of common stock under the 2007 Plan plus an additional annual increase to be added automatically on January 1 of each year, beginning on January 1, 2008, equal to the lesser of (a) 2% of the outstanding number of shares of common stock (on a fully-diluted basis) on the immediately preceding December 31 and (b) such lower number of shares as may be determined by our compensation committee. The number of shares available for issuance under the 2007 Plan is subject to adjustment in the event of a stock split, stock dividend or other change in capitalization. Generally, shares that are forfeited or canceled from awards under the 2007 Plan also will be available for future awards. In addition, shares subject to stock options returned to the 1999 Plan, as a result of their expiration, cancellation or termination, are automatically made available for issuance under the 2007 Plan. As of June 30, 2007 a total of 2,774,684 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 weighted-average fair values per share of the options granted during the three and six months ended June 30, 2007 and 2006 were $7.70 and $4.66, respectively, utilizing the following assumptions:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	**2006**	**2007**	**2006**
Risk-free interest rate	4.61%-5.04%	4.92%	4.61%-5.04%	4.92%
Expected volatility	49%-50%	63%	49%-50%	63%
Expected life	6.25 years	6.25 years	6.25 years	6.25 years

Dividend yield	-%	-%	-%	-%

As there was no public market for the Company’s common stock prior to the Company's IPO in May 2007, and limited historical information on the volatility of its common stock since the date of the Company’s IPO, the Company determined the volatility for options granted in the three and six months ended June 30, 2007 and 2006 based on an analysis of reported data for a peer group of companies that issued options with substantially similar terms. The expected volatility of options granted has been determined using an average of the historical volatility measures of this peer group of companies for a period equal to the expected life of the option. The expected life of options has been determined utilizing the "simplified" method as prescribed by the SEC's Staff Accounting Bulletin No. 107, *Share-Based Payment.* 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. In addition, SFAS No. 123(R) requires companies to utilize an estimated forfeiture rate when calculating the expense for the period, whereas SFAS No. 123 permitted companies to record forfeitures based on actual forfeitures, which was the Company’s historical policy under SFAS No. 123. As a result, the Company applied an estimated forfeiture rate, based on its historical forfeiture experience during the previous six years, of 8.40% in the three and six months ended June 30, 2007 and 2006 in determining the expense recorded in our consolidated statement of operations.

Table of Contents

A summary of the activity under the Company's stock option plan as of June 30, 2007 and changes during the three and six month periods then ended is presented below:

Quarter-to-Date Activity	**Options Outstanding**	**Weighted-Average Exercise Price Per Share**	**Weighted-Average Remaining Contractual Term in Years**	**Aggregate Intrinsic Value**
		(unaudited)		
Options outstanding at March 31, 2007 (unaudited)	7,612,910	$ 5.13		
Options granted	219,500	14.15		
Options exercised	(605,882)	1.08		
Options forfeited	(17,360)	7.21		
Options canceled	-	-		
Options outstanding at June 30, 2007 (unaudited)	7,209,168	$ 5.74	7.6	$ 51,293
Options exercisable at June 30, 2007 (unaudited)	2,545,174	$ 2.48	4.9	$ 26,404
Options vested or expected to vest at June 30, 2007 [(1)] (unaudited)	6,817,392	$ 5.63	7.6	$ 49,203

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

Year-to-Date Activity	**Options Outstanding**	**Weighted-Average Exercise Price Per Share**
	(unaudited)	
Options outstanding at December 31, 2006	7,922,323	$ 4.96
Options granted	219,500	14.15
Options exercised	(884,599)	0.88
Options forfeited	(47,431)	5.44
Options canceled	(625)	3.65
Options outstanding at June 30, 2007 (unaudited)	7,209,168	$ 5.74

During the three and six months ended June 30, 2007, 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 $8,285 and $10,747, respectively, and the total amount of cash received from exercise of these options was $652 and $780, respectively. The total grant-date fair value of stock options granted after the adoption of SFAS No. 123(R) on January 1, 2006 that vested during the three and six months ended June 30, 2007 was $171 and $172, respectively.

During the three and six months ended June 30, 2006, the total intrinsic value of options exercised was $353 and $1,835, respectively, and the total amount of cash received from exercise of these options was $68 and $392, respectively. None of the options granted after the adoption of SFAS No. 123(R) on January 1, 2006 vested during

the three and six months ended June 30, 2006.

Unrecognized stock-based compensation expense of non-vested stock options of $13.7 million is expected to be recognized using the straight line method over a weighted-average period of 1.62 years.

10. Stockholders' Equity

In April 2007, the Board of Directors approved an amendment and restatement of the Company's Certificate of Incorporation to increase the authorized number of shares of common stock from 44,344,656 to 100,000,000, to authorize 5,000,000 shares of undesignated preferred stock, par value $0.001 per share, and to eliminate all reference to the designated Series Preferred Stock.

Warrants

In connection with the Company's original Bank Term Loan agreement, in July 2001 the Company issued to the lender for the Bank Term Loan a warrant to purchase up to 74,074 shares of series A redeemable convertible preferred stock at $0.5411 per share. The warrant is exercisable immediately and expires on July 13, 2008. In connection with an amendment to the Bank Term Loan agreement in April 2002 the Company issued to the lender for the Bank Term Loan a warrant to purchase 55,443 shares of series A redeemable convertible preferred stock at a price of $0.5411 per share. The warrant is exercisable immediately and expires on April 26, 2009. Upon the closing of the Company's IPO in May 2007, these warrants outstanding converted into warrants to purchase 32,378 shares of the Company's common stock at an exercise price of $2.1644 per share. In connection with an acquisition in May 2000, the Company issued to the seller a warrant to purchase 40,625 shares of common stock at a price of $2.36 per share. The warrant is exercisable immediately and expires on May 10, 2010. At June 30, 2007 and December 31, 2006, there were 73,003 shares of the Company's common stock reserved for the exercise of all warrants.

Reserved Common Stock

As of June 30, 2007 the Company has reserved common stock for the following:

	Number of Shares (unaudited)
Options outstanding and available for grant under stock option plans	9,983,852
Warrants	73,003
	10,056,855

11. Income Taxes

The Company adopted the provisions of FIN 48, an interpretation of SFAS No. 109, *Accounting for Income Taxes*, on January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109 and prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. At the adoption date and as of June 30, 2007, the Company had no material unrecognized tax benefits and no adjustments to liabilities or operations were required.

The Company may from time to time be assessed interest or penalties by major tax jurisdictions. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. No interest and penalties have been recognized by the Company to date.

Tax years 2003 through 2006 are subject to examination by the federal and state taxing authorities. There are no income tax examinations currently in process.

The Company recorded a provision for income taxes in 2007 based upon a 49% effective tax rate. The Company's effective tax rate increased after the adoption of SFAS No. 123(R) due to the impact of stock-based compensation which is a nondeductible expense in its tax provision.

Table of Contents

12. Segment Information

SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, establishes standards for reporting information about operating segments in annual financial statements and requires selected information of these segments be presented in interim financial reports to stockholders. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in making decisions on how to allocate resources and assess performance. The Company's chief operating decision making group, as defined under SFAS No. 131, consists of the Company's chief executive officer, president and executive vice president. The Company views its operations and manages its business as one operating segment.

Geographic Data

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
		(unaudited)		
United States and Canada	$ 24,076	$ 20,529	$ 42,081	$ 35,214
International	528	188	868	414
Total	$ 24,604	$ 20,717	$ 42,949	