QUINSTREET, INC
Form 10-Q
February 09, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2016

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 No. 001-34628

QuinStreet, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	77-0512121
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

950 Tower Lane, 6th Floor Foster City, California	94404
(Address of principal executive offices)	(Zip Code)

650-578-7700

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. Yes No

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

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

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

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

Number of shares of common stock outstanding as of January 31, 2017: 45,419,451

QUINSTREET, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

QUINSTREET, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

(Unaudited)

	December 31, 2016	June 30, 2016
Assets		
Current assets:		
Cash and cash equivalents	$37,496	$53,710
Accounts receivable, net	41,118	47,218
Prepaid expenses and other assets	6,823	7,055
Total current assets	85,437	107,983
Property and equipment, net	6,930	7,678
Goodwill	56,118	56,118
Other intangible assets, net	6,674	10,081
Other assets, noncurrent	10,813	11,242
Total assets	$165,972	$193,102
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$20,422	$19,814
Accrued liabilities	23,306	27,705
Deferred revenue	1,249	1,200
Debt	—	15,000
Total current liabilities	44,977	63,719
Other liabilities, noncurrent	4,381	4,631
Total liabilities	49,358	68,350
Commitments and contingencies (See Note 9)		
Stockholders' equity:		
Common stock: $0.001 par value; 100,000,000 shares authorized; 45,606,272 and 45,557,295 shares issued and outstanding at December 31, 2016 and June 30, 2016	46	45
Additional paid-in capital	261,224	257,950
Accumulated other comprehensive loss	(412)	(418)
Accumulated deficit	(144,244)	(132,825)
Total stockholders' equity	116,614	124,752
Total liabilities and stockholders' equity	$165,972	$193,102

See notes to condensed consolidated financial statements

QUINSTREET, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2016	2015	2016	2015
Net revenue	$65,610	$64,961	$139,048	$137,350
Cost of revenue [1]	61,657	60,346	129,465	126,264
Gross profit	3,953	4,615	9,583	11,086
Operating expenses: [1]				
Product development	3,314	3,843	7,268	8,287
Sales and marketing	2,168	2,982	4,758	6,604
General and administrative	3,794	4,138	7,825	8,358
Restructuring charges	2,403	—	2,403	—
Operating loss	(7,726)	(6,348)	(12,671)	(12,163)
Interest income	36	10	57	16
Interest expense	(135)	(145)	(291)	(278)
Other (expense) income, net	(25)	65	110	8
Loss before income taxes	(7,850)	(6,418)	(12,795)	(12,417)
(Provision for) benefit from taxes	—	(40)	1,376	(405)
Net loss	$(7,850)	$(6,458)	$(11,419)	$(12,822)
Net loss per share:				
Basic	$(0.17)	$(0.14)	$(0.25)	$(0.29)
Diluted	$(0.17)	$(0.14)	$(0.25)	$(0.29)
Weighted-average shares used in computing net loss per share:				
Basic	45,731	45,127	45,700	44,982
Diluted	45,731	45,127	45,700	44,982

[1] Cost of revenue and operating expenses include stock-based compensation expense as follows:

Cost of revenue	$728	$930	$1,699	$1,857
Product development	471	527	1,007	1,185
Sales and marketing	220	509	577	981
General and administrative	681	768	1,424	1,500
Restructuring charges	42	—	42	—

See notes to condensed consolidated financial statements

QUINSTREET, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

(Unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2016	2015	2016	2015
Net loss	$(7,850)	$(6,458)	$(11,419)	$(12,822)
Other comprehensive income (loss):				
Foreign currency translation adjustment	12	—	6	(7)
Total other comprehensive income (loss)	12	—	6	(7)
Comprehensive loss	$(7,838)	$(6,458)	$(11,413)	$(12,829)

See notes to condensed consolidated financial statements

QUINSTREET, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended December 31, 2016	2015
Cash Flows from Operating Activities		
Net loss	$(11,419)	$(12,822)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	6,323	7,716
Provision for sales returns and doubtful accounts receivable	211	634
Stock-based compensation	4,749	5,523
Gain on sales of domain names	(143)	(116)
Other adjustments, net	(4)	—
Changes in assets and liabilities:		
Accounts receivable	5,889	5,062
Prepaid expenses and other assets	560	(3,945)
Deferred taxes	—	(8)
Accounts payable	627	(2,945)
Accrued liabilities	(4,502)	(3,883)
Deferred revenue	49	31
Other liabilities, noncurrent	(250)	(210)
Net cash provided by (used in) operating activities	2,090	(4,963)
Cash Flows from Investing Activities		
Capital expenditures	(604)	(1,143)
Internal software development costs	(1,182)	(1,931)
Proceeds from sales of domain names	143	91
Other investing activities	(97)	—
Net cash used in investing activities	(1,740)	(2,983)
Cash Flows from Financing Activities		
Proceeds from exercise of common stock options	—	26
Withholding taxes related to restricted stock, net of share settlement	(536)	(1,748)
Repurchases of common stock	(1,043)	—
Repayment of revolving loan facility	(15,000)	—
Net cash used in financing activities	(16,579)	(1,722)
Effect of exchange rate changes on cash and cash equivalents	15	(50)
Net decrease in cash and cash equivalents	(16,214)	(9,718)
Cash and cash equivalents at beginning of period	53,710	60,468
Cash and cash equivalents at end of period	$37,496	$50,750
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	272	365
Cash paid for income taxes	68	283

See notes to condensed consolidated financial statements

QUINSTREET, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. The Company

QuinStreet, Inc. (the “Company”) is a leader in performance marketing products and technologies. The Company was incorporated in California in April 1999 and reincorporated in Delaware in December 2009. The Company specializes in customer acquisition for clients in high value, information-intensive markets or “verticals,” including financial services, education, home services and business-to-business technology. The corporate headquarters are located in Foster City, California, with additional offices throughout the United States, Brazil and India. While the majority of the Company’s operations and revenue are in North America, the Company has emerging businesses in Brazil and India.

2. Summary of Significant Accounting Policies

Basis of Presentation

Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company and its subsidiaries. The Company also evaluates its ownership in entities to determine if they are variable interest entities (“VIEs”), if the Company has a variable interest in those entities, and if the nature and extent of those interests result in consolidation. Refer to Note 4 for more information on VIEs. The Company applies the cost method of accounting for investments in entities if the Company does not have the ability to exercise significant influence over the entities. The interests held at cost are periodically evaluated for other-than-temporary declines in value. Intercompany balances and transactions have been eliminated in consolidation.

Revision of Previously Issued Financial Statements

During the quarter ended June 30, 2016, the Company identified errors related to its stock-based compensation expense included in the unaudited condensed consolidated financial statements for the quarterly periods ended September 30, 2015, December 31, 2015 and March 31, 2016. The stock-based compensation expense related to market-based restricted stock units was understated by $1.1 million through the nine months ended March 31, 2016. The Company assessed the materiality of the above errors individually and in the aggregate on prior periods’ financial statements in accordance with the Securities and Exchange Commission’s Staff Accounting Bulletin No. 99 and 108 and, based on an analysis of quantitative and qualitative factors, concluded that such amounts were not material to the September 30, 2015, December 31, 2015 and March 31, 2016 quarterly condensed consolidated financial statements. Therefore, these previously issued financial statements can continue to be relied upon and amendments of the previously filed Quarterly Reports on Form 10-Q were not required. In the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2016, the Company has revised the previously issued quarterly condensed consolidated financial statements to correct the error for the quarterly period ended September 30, 2015 of $0.3 million. The Company has reflected the correction of the error of $0.4 million and $0.7 million in the condensed consolidated statement of operations and condensed consolidated statement of comprehensive loss for the three and six months ended December 31, 2015 and $0.7 million in the condensed consolidated statement of cash flows for the six months ended December 31, 2015 included herein. The Company will revise the previously issued quarterly condensed consolidated financial statements to correct the error of $0.4 million for the quarterly period ended March 31, 2016 in the future Quarterly Report on Form 10-Q when the quarterly condensed consolidated financial statements for such period is included.

Unaudited Interim Financial Information

The accompanying condensed consolidated financial statements and the notes to the condensed consolidated financial statements as of December 31, 2016 and for the three and six months ended December 31, 2016 and 2015 are unaudited. These unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) and applicable rules and regulations of the Securities and Exchange Commission (“SEC”) regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Accordingly, these interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2016, as filed with the SEC on August 19, 2016. The condensed consolidated balance sheet at June 30, 2016 included herein was derived from the audited financial statements as of that date, but does not include all disclosures, including notes, required by GAAP.

The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and, in the opinion of management, include all adjustments (consisting only of normal recurring adjustments) necessary for the fair statement of the Company’s condensed consolidated balance sheet at December 31, 2016, its condensed consolidated statements of operations for the three and six months ended December 31, 2016 and 2015, its condensed consolidated statements of comprehensive loss for the three and six months ended December 31, 2016 and 2015, and its condensed consolidated statements of cash flows for the six months ended December 31, 2016 and 2015. The results of operations for the three and six months ended December 31, 2016 are not necessarily indicative of the results to be expected for the fiscal year ending June 30, 2017, or any other future period.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the period. On an ongoing basis, management evaluates these estimates, judgments and assumptions, including those related to revenue recognition, stock-based compensation, goodwill, long-lived assets, contingencies, and income taxes. The Company bases these estimates on historical and anticipated results and trends and on various other assumptions that the Company believes are reasonable under the circumstances, including assumptions as to future events. These estimates form the basis for making judgments about the carrying values of assets and liabilities and recorded revenue and expenses that are not readily apparent from other sources. Actual results could differ from those estimates, and such differences could affect the results of operations reported in future periods.

Accounting Policies

The significant accounting policies are described in Note 2, Summary of Significant Accounting Policies, to the consolidated financial statements included in the Annual Report on Form 10-K for the fiscal year ended June 30, 2016. There have been no significant changes in the accounting policies subsequent to June 30, 2016.

Concentrations of Credit Risk

The Company had one client that accounted for 10% and 11% of net revenue for the three and six months ended December 31, 2016. No other client accounted for 10% or more of net revenue for the three and six months ended December 31, 2016 and no client accounted for 10% or more of net revenue for the three and six months ended December 31, 2015. No client accounted for 10% or more of net accounts receivable as of December 31, 2016 or June 30, 2016.

Fair Value of Financial Instruments

The Company's financial instruments consist principally of cash equivalents, accounts receivable and accounts payable. The fair value of the Company's cash equivalents is determined based on quoted prices in active markets for identical assets for its money market funds. The recorded values of the Company's accounts receivable and accounts payable approximate their current fair values due to the relatively short-term nature of these accounts.

Recent Accounting Pronouncements

In May 2014, the FASB issued a new accounting standard update on revenue from contracts with clients. The new guidance provides that an entity should recognize revenue to depict the transfer of promised 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. In March and April 2016, the FASB amended this standard to clarify implementation guidance on principal versus agent considerations and the identification of performance obligations and licensing. In May 2016, the FASB amended this standard to address improvements to the guidance on collectability, noncash consideration, and completed contracts at transition as well as provide a practical expedient for contract modifications at transition and an accounting policy election related to the presentation of sales taxes and other similar taxes collected from customers. The new standards become effective for fiscal years beginning after December 15, 2017, and interim periods within those years with early adoption permitted. Entities have the option of using either a full retrospective or a modified retrospective approach to adopt the new standards. The Company is currently assessing the impact of this new guidance.

In June 2014, the FASB issued a new accounting standard update on accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period, which amends ASC 718, “Compensation - Stock Compensation.” The amendment provides guidance on the treatment of share-based payment awards with a specific performance target, requiring that a performance target that affects vesting and that could be achieved after the requisite service period

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

be treated as a performance condition. The new guidance became effective in the current fiscal year and did not have an impact on the Company’s condensed consolidated financial statements.

In February 2015, the FASB issued a new accounting standard update on consolidating legal entities in which a reporting entity holds a variable interest. The amended guidance modifies the evaluation of whether limited partnerships and similar legal entities are VIEs and affects the consolidation analysis of reporting entities that are involved with VIEs that have fee arrangements and related party relationships. The new guidance became effective in the current fiscal year and did not have an impact on the Company’s condensed consolidated financial statements.

In February 2016, the FASB issued a new accounting standard update which replaces ASC 840, “Leases.” The new guidance requires a lessee to recognize on its balance sheet a right-of-use asset representing its right to use the underlying asset for the lease term and a lease liability representing its lease payment obligations. The guidance also requires a lessee to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, on a generally straight-line basis. The guidance becomes effective for fiscal years beginning after December 15, 2018, and interim periods within those years, with early adoption permitted. The Company is currently assessing the impact of this new guidance.

In March 2016, the FASB issued a new accounting standard update on the accounting for share-based payments. The new guidance simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statement of cash flows. The guidance becomes effective for fiscal years beginning after December 15, 2016, and interim periods within those years, with early adoption permitted. The Company is currently assessing the impact of this new guidance.

In January 2017, the FASB issued a new accounting standard update to simplify the measurement of goodwill by eliminating the Step 2 impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit’s goodwill with the carrying amount of that goodwill. The new guidance requires an entity to compare the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The new guidance becomes effective for goodwill impairment tests in fiscal years beginning after December 15, 2019, with early adoption permitted. The Company is currently assessing the impact of this new guidance.

3. Net Loss per Share

Basic net loss per share is computed by dividing net loss by the weighted-average number of shares of common stock outstanding during the period. Diluted net loss per share is computed by using the weighted-average number of shares of common stock outstanding, including potential dilutive shares of common stock assuming the dilutive effect of outstanding stock options and restricted stock units using the treasury stock method.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents the calculation of basic and diluted net loss per share:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2016	2015	2016	2015
	(In thousands, except per share data)		(In thousands, except per share data)	
Numerator:				
Basic and Diluted:				
Net loss	$ (7,850)	$ (6,458)	$ (11,419)	$ (12,822)
Denominator:				
Basic and Diluted:				
Weighted-average shares of common stock used in computing basic and diluted net loss per share	45,731	45,127	45,700	44,982
Net loss per share:				
Basic and Diluted [1]	$ (0.17)	$ (0.14)	$ (0.25)	$ (0.29)
Securities excluded from weighted-average shares used in computing diluted net loss per share because the effect would have been anti-dilutive: [2]	7,040	5,207	7,075	5,328

(1) Diluted net loss per share does not reflect any potential common stock relating to stock options or restricted stock units due to net losses incurred for the three and six months ended December 31, 2016 and 2015. The assumed issuance of any additional shares would be anti-dilutive.

(2) These weighted-shares relate to anti-dilutive stock options and restricted stock units as calculated using the treasury stock method and could be dilutive in the future.

4. Fair Value Measurements, Cash Equivalents and Variable Interest Entities

Fair value is defined as the price that would be received on sale of an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. The FASB has established a fair value hierarchy that distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity’s own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

The three levels of the fair value hierarchy under the guidance for fair value measurement are described below:

Level 1 —	Inputs are unadjusted quoted prices in active markets for identical assets or liabilities. Pricing inputs are based upon quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The valuations are based on quoted prices of the underlying security that are readily and regularly available in an active market, and accordingly, a significant degree of judgment is not required. As of December 31, 2016, the Company used Level 1 assumptions for its money market funds.
Level 2 —	Pricing inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities. As of December 31, 2016, the Company did not have any Level 2 financial assets or liabilities.
Level 3 —	Pricing inputs are generally unobservable for the assets or liabilities and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require management's judgment or estimation of assumptions that market participants would use in pricing the assets or liabilities. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques. As of December 31, 2016, the Company did not have any Level 3 financial assets or liabilities.

QUINSTREET, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The Company’s financial instruments as of December 31, 2016 and June 30, 2016 were categorized as follows in the fair value hierarchy (in thousands):

	Fair Value Measurements as of December 31, 2016 Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Assets:			
Money market funds	$ 20,709	$ —	$ 20,709

	Fair Value Measurements as of June 30, 2016 Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Assets:			
Money market funds	$ 20,203	$ —	$ 20,203
Liabilities:			
Revolving loan facility (1)	$ —	$ 15,000	$ 15,000

(1) Carried at historical cost on the Company's condensed consolidated balance sheet.

Cash Equivalents

All liquid investments with maturities of three months or less at the date of purchase are classified as cash equivalents on the Company’s condensed consolidated balance sheets. The Company holds money market funds of $20.7 million as of December 31, 2016 and $20.2 million as of June 30, 2016 which are classified as cash equivalents.

Variable Interest Entities

A VIE is consolidated by its primary beneficiary. The primary beneficiary has both the power to direct the activities that most significantly impact the entity’s economic performance and the obligation to absorb losses or the right to receive benefits from the entity that could potentially be significant to the VIE. The assessment of whether the

Company is the primary beneficiary of the VIE requires significant assumptions and judgments, including the identification of significant activities and an assessment of the Company's ability to direct those activities. The Company has an equity interest in a privately held entity that is a VIE, of which the Company is not the primary beneficiary. Accordingly, the interest of $2.5 million as of December 31, 2016 and June 30, 2016 is recognized at cost within other assets, noncurrent on the Company's condensed consolidated balance sheets. The Company's interest was evaluated for impairment as of December 31, 2016 and June 30, 2016 which did not result in any indications of impairment. The Company's maximum exposure to loss as a result of the unconsolidated VIE is $2.5 million at December 31, 2016, which represents the carrying value of the Company's investment in the VIE.

5. Prepaid Expenses and Other Assets

During the three months ended December 31, 2015, the Company entered into a 10-year partnership agreement with a large online customer acquisition marketing company focused on the U.S. insurance industry to be their exclusive click monetization partner for the majority of their insurance categories. The agreement included a one-time upfront cash payment of $10.0 million. The payment is being amortized on a straight-line basis over the life of the contract. As of December 31, 2016, the Company has recorded $1.0 million within prepaid expenses and other assets and $7.7 million within other assets, noncurrent on the condensed consolidated balance sheet. As of June 30, 2016, the Company had recorded $1.0 million within prepaid expenses and other assets and $8.3 million within other assets, noncurrent on the condensed consolidated balance sheet. Amortization expense was $0.3 million and $0.6 million for the three and six months ended December 31, 2016 and $0.2 million in both the three and six months ended December 31, 2015.

QUINSTREET, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

6. Intangible Assets

Intangible assets, net, consisted of the following (in thousands):

	December 31, 2016			June 30, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer/publisher/advertiser relationships	$36,901	$(36,384)	$517	$36,669	$(35,648)	$1,021
Content	61,486	(59,122)	2,364	61,717	(57,778)	3,939
Website/trade/domain names	31,274	(28,149)	3,125	31,470	(27,288)	4,182
Acquired technology and others	36,733	(36,065)	668	36,733	(35,794)	939
Total	$166,394	$(159,720)	$6,674	$166,589	$(156,508)	$10,081

Amortization of intangible assets was $1.7 million and $3.6 million for the three and six months ended December 31, 2016 and $2.3 million and $4.7 million for the three and six months ended December 31, 2015.

Future amortization expense for the Company’s intangible assets as of December 31, 2016 was as follows (in thousands):

Fiscal Year Ending June 30,	Amortization
2017 (remaining six months)	$ 2,551
2018	2,330
2019	862
2020	761
2021	170
Thereafter	—
Total	$ 6,674

7. Income Taxes

The Company recorded a valuation allowance against the majority of the Company’s deferred tax assets at the end of fiscal year 2014 and continues to maintain that full valuation allowance as of December 31, 2016 as the Company believes it is not more likely than not that the net deferred tax assets will be fully realizable.

The Company did not record a benefit from or provision for income taxes for the three months ended December 31, 2016. The Company recorded a benefit from income taxes of $1.4 million for the six months ended December 31, 2016 as a result of a tax refund from an amended state tax return filing.

The Company recorded an immaterial provision for income taxes for the three months ended December 31, 2015. The Company recorded a provision for income taxes of $0.4 million for the six months ended December 31, 2015, primarily due to the outcome of a state tax examination.

8. Debt

Loan Facility

The Company’s credit agreement with Comerica Bank (the “Bank”) on November 4, 2011 (as amended on February 15, 2013, July 17, 2014 and June 11, 2015, the “Credit Agreement”) consists of a $25.0 million revolving loan facility with a maturity date of June 11, 2017. Borrowings under the revolving loan facility bear interest at a Eurodollar rate plus 3.00% and is secured by substantially all of the Company’s assets. The Company must pay an annual facility fee of $62,500 and an annual unused fee of 0.25% of the undrawn revolving loan facility commitment. The Company has the right to prepay the revolving loan facility or permanently reduce the revolving loan facility commitment without premium or penalty, in whole or in part at any time. Borrowings under the revolving loan facility are subject to a borrowing base consisting of eligible receivables and certain other customary conditions.

The Credit Agreement, as amended, contains limitations on the Company’s ability to sell assets, make acquisitions, pay dividends, incur capital expenditures, and also requires the Company to comply with certain additional covenants. In addition, the Company is

QUINSTREET, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

required to maintain financial covenants as follows when there are amounts outstanding under the revolving loan facility and at the time the Company draws down amounts under the revolving loan facility:

1. Minimum EBITDA as of the end of each fiscal quarter for the trailing twelve month period of not less than:

(a) $1 for the quarter ended June 30, 2015;

(b) $2,000,000 for the quarter ended September 30, 2015;

(c) $3,000,000 for the quarter ended December 31, 2015;

(d) $4,000,000 for the quarter ended March 31, 2016; and

(e) $5,000,000 for the quarter ended June 30, 2016.

Thereafter, minimum EBITDA increases each quarter in $1,000,000 increments; provided that there shall be no loss in EBITDA greater than $2,000,000 in any fiscal quarter during such trailing four quarter period.

2. Minimum adjusted quick ratio as of the end of each month of not less than 1.25 to 1.00.

EBITDA under the Credit Agreement is defined as net loss less (provision for) benefit from taxes, depreciation expense, amortization expense, stock-based compensation expense, interest and other expense, net, acquisition costs for business combinations, extraordinary or non-recurring non-cash expenses or losses including, without limitation, goodwill impairments, and any extraordinary or non-recurring cash expenses in an aggregate amount not to exceed $5.0 million for the life of the Credit Agreement, as amended from time to time.

The Company was in compliance with the covenants of the Credit Agreement, as amended, as of December 31, 2016 and June 30, 2016.

As of December 31, 2016, there were no amounts outstanding under the revolving loan facility. As of June 30, 2016, $15.0 million was outstanding under the revolving loan facility.

Letters of Credit

The Company has a $0.4 million letter of credit agreement with a financial institution that is used as collateral for fidelity bonds placed with an insurance company and a $0.5 million letter of credit agreement with a financial institution that is used as collateral for the Company’s corporate headquarters’ operating lease. The letters of credit automatically renew annually without amendment unless cancelled by the financial institutions within 30 days of the annual expiration date.

9. Commitments and Contingencies

Leases

The Company leases office space under non-cancelable operating leases with various expiration dates through fiscal year 2021. Rent expense was $0.8 million and $1.7 million for the three and six months ended December 31, 2016 and $0.9 million and $1.7 million for the three and six months ended December 31, 2015. The Company recognizes rent expense on a straight-line basis over the lease period and accrues for rent expense incurred but not paid.

Future annual minimum lease payments under noncancelable operating leases as of December 31, 2016 were as follows (in thousands):

Fiscal Year Ending June 30,	Operating Leases
2017 (remaining six months)	$ 1,871
2018	3,638
2019	1,666
2020	376
2021	46
Thereafter	—
Total	$ 7,597

QUINSTREET, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Guarantor Arrangements

The Company has agreements whereby it indemnifies its officers and directors for certain events or occurrences while the officer or director is, or was, serving at the Company's request in such capacity. The term of the indemnification period is for the officer or director's lifetime. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, the Company has a director and officer insurance policy that limits its exposure and enables the Company to recover a portion of any future amounts under certain circumstances and subject to deductibles and exclusions. As a result of its insurance policy coverage, the Company believes the estimated fair value of these indemnification agreements is not material. Accordingly, the Company had no liabilities recorded for these agreements as of December 31, 2016 and June 30, 2016.

In the ordinary course of its business, the Company from time to time enters into standard indemnification provisions in its agreements with its clients. Pursuant to these provisions, the Company may be obligated to indemnify its clients for certain losses suffered or incurred, including losses arising from violations of applicable law by the Company or by its third-party publishers, losses arising from actions or omissions of the Company or its third-party publishers, and for third-party claims that a Company product infringed upon any United States patent, copyright or other intellectual property rights. Where practicable, the Company limits its liabilities under such indemnities. Subject to these limitations, the term of such indemnification provisions is generally coterminous with the corresponding agreements and survives for the duration of the applicable statute of limitations after termination of the agreement. The potential amount of future payments to defend lawsuits or settle indemnified claims under these indemnification provisions is generally limited and the Company believes the estimated fair value of these indemnity provisions is not material. Accordingly, the Company had no liabilities recorded for these agreements as of December 31, 2016 and June 30, 2016.

10. Stockholders' Equity

Stock Repurchases

In November 2016, the Board of Directors authorized a stock repurchase program allowing the Company to repurchase up to 750,000 outstanding shares of its common stock with an expiration date of November 2017. During the three months ended December 31, 2016, the Company repurchased and retired 344,023 shares of its common stock at a weighted average price of $3.00 per share, excluding a broker commission of $0.03 per share, at a total cost of $1.0 million. Repurchases under this program took place in the open market and were made under a Rule 10b5-1 plan. The Company's accounting policy upon the retirement of treasury stock is to deduct its par value from common stock and reduce additional paid-in capital by the amount recorded in additional paid-in capital when the stock was originally issued.

11. Stock Benefit Plans

Stock Incentive Plans

The Company may grant incentive stock options (“ISOs”), nonstatutory stock options (“NQSOs”), restricted stock, restricted stock units, stock appreciation rights, performance-based stock awards, and other forms of equity compensation, as well as performance cash awards, under its 2010 Equity Incentive Plan (the “2010 Incentive Plan”). The Company may grant NQSOs and restricted stock units to non-employee directors under the 2010 Non-Employee Directors’ Stock Award Plan (the “Directors’ Plan”). In fiscal year 2016, the Company began granting to employees restricted stock units with a market condition that requires that the Company’s stock price achieve a specified price above the grant date stock price before it can be eligible for service vesting conditions. To date, the Company has issued only ISOs, NQSOs, restricted stock units and performance-based stock awards under its stock incentive plans.

As of December 31, 2016, 15,920,578 shares were reserved and 13,680,746 shares were available for issuance under the 2010 Incentive Plan; 3,359,964 shares were reserved and 1,654,550 shares were available for issuance under the Directors’ Plan.

QUINSTREET, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Stock-Based Compensation

The Company estimates the fair value of stock options at the date of grant using the Black-Scholes option-pricing model. Options are granted with an exercise price equal to the closing price of the Company's common stock on the date of grant. The weighted-average Black-Scholes model assumptions for the three and six months ended December 31, 2016 and 2015 were as follows:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2016	2015	2016	2015
Expected term (in years)	3.5	3.8	4.6	3.9
Expected volatility	47 %	42 %	45 %	43 %
Expected dividend yield	—	—	—	—
Risk-free interest rate	1.0 %	0.9 %	1.0 %	1.0 %
Grant date fair value	$0.95	$1.91	$1.39	$1.94

The Company estimates the fair value of restricted stock units with a market condition at the date of the grant using the Monte Carlo simulation model. The weighted-average Monte Carlo simulation model assumptions for the three and six months ended December 31, 2016 and 2015 were as follows:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2016	2015	2016	2015
Expected term (in years)	4.0	4.0	4.0	4.0
Expected volatility	45 %	47 %	45 %	47 %
Expected dividend yield	—	—	—	—
Risk-free interest rate	1.3 %	1.4 %	1.0 %	1.3 %
Grant date fair value	$2.46	$5.80	$2.99	$6.17

The fair value of restricted stock units is determined based on the closing price of the Company's common stock on the grant date. Compensation expense is amortized net of estimated forfeitures on a straight-line basis over the requisite service period of the stock-based compensation awards.

12. Segment Information

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 deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker, its chief executive officer, reviews financial information presented on a consolidated basis and no expense or operating income is evaluated at a segment level. Given the consolidated level of review by the Company's chief executive officer, the Company operates as one reportable segment.

The following tables set forth net revenue and long-lived assets by geographic area (in thousands):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2016	2015	2016	2015
Net revenue:				
United States	$63,989	$63,440	$136,357	$134,666
International	1,621	1,521	2,691	2,684
Total net revenue	$65,610	$64,961	$139,048	$137,350

	December 31, 2016	June 30, 2016
Property and equipment, net:		
United States	$ 6,330	$6,973
International	600	705
Total property and equipment, net	$ 6,930	$7,678

QUINSTREET, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

13. Restructuring Costs

In November 2016, the Company announced a corporate restructuring in order to accelerate margin expansion and grow cash flow. As a result, the Company recognized restructuring costs of $2.4 million related to employee severance and benefits in the three months ended December 31, 2016, which represents substantially all costs expected to be incurred associated with the corporate restructuring.

The following table summarizes the cash-related restructuring activities for the three months ended December 31, 2016:

	Amount
Balance at October 1, 2016	$—
Charges	2,361
Payments	(1,106)
Balance at December 31, 2016	$ 1,255

The balance at December 31, 2016 is recorded within accrued liabilities in the condensed consolidated balance sheet and was paid in January 2017. In the three months ended December 31, 2016, the Company also incurred non-cash restructuring costs of an immaterial amount related to stock-based compensation.

14. Subsequent Events

In January 2017, the Company repurchased 187,500 shares of its common stock at a weighted average price of $3.82, excluding a broker commission of $0.03 per share, at a total cost of $0.7 million.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the fiscal year ended June 30, 2016, filed with the Securities and Exchange Commission ("SEC").

This Quarterly Report on Form 10-Q contains "forward-looking statements" that involve risks and uncertainties, as well as assumptions that, if they do not materialize or if they prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. The statements contained in this Quarterly Report on Form 10-Q that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are often identified by the use of words such as, but not limited to, "anticipate," "believe," "can," "continue," "could," "estimate," "expect," "intend," "may," "will," "plan," "project," "seek," "should," "target," "will," expressions or variations intended to identify forward-looking statements. These statements reflect the beliefs and assumptions of our management based on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified in "Part II —Item 1A. Risk Factors" below, and those discussed in the sections titled "Special Note Regarding Forward-Looking Statements" and "Risk Factors" included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2016, filed with the SEC. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

Management Overview

QuinStreet, Inc. is a leader in performance marketing products and technologies. We specialize in customer acquisition for clients in high value, information-intensive markets or "verticals," including financial services, education, home services, and business-to-business technology. Our clients include some of the world's largest companies and brands in those markets. While the majority of our operations and revenue are in North America, we have emerging businesses in Brazil and India.

We deliver measurable and cost-effective marketing results to our clients most typically in the form of a qualified lead, inquiry, click, call, application, or customer. Leads, inquiries, clicks, calls, and applications can then convert into a customer or sale for clients at a rate that results in an acceptable marketing cost to them. We are typically paid by clients when we deliver qualified leads, inquiries, clicks, calls, applications, or customers as defined by our agreements with them. References to the delivery of customers means a sale or completed customer transaction (e.g., bound insurance policies or customer appointments with clients). Because we bear the costs of media, our programs must result in attractive marketing costs to our clients at media costs and margins that provide sound financial outcomes for us. To deliver leads, inquiries, clicks, calls, applications, and customers to our clients, generally we:

- own or access targeted media through business arrangements (e.g., revenue sharing arrangements) or by purchasing media (e.g., clicks from major search engines);
- run advertisements or other forms of marketing messages and programs in that media to create visitor responses in the form most typically of leads or inquiries (e.g., contact information), clicks (to further qualification or matching steps, or to online client applications or offerings), calls (to our owned and operated call centers or that of our clients or their agents), applications (e.g., for enrollment or a financial product), or customers (e.g., bound insurance

policies);

- match these leads, inquiries, clicks, calls, applications, or customers to client offerings or brands that we believe can meet visitor interests or needs and client targets and requirements; and
- optimize client matches and media costs such that we achieve desired results for clients and a sound financial outcome for us.

Our primary financial objective has been and remains creating revenue growth from sustainable sources, at target levels of profitability. Our primary financial objective is not to maximize profits, but rather to achieve target levels of profitability while investing in various growth initiatives, as we continue to believe we are in the early stages of a large, long-term market opportunity.

Our business derives its net revenue from fees earned through the delivery of qualified leads, inquiries, clicks, calls, applications, or customers and, to a lesser extent, display advertisements, or impressions. Through a vertical focus, targeted media presence and our technology platform, we are able to deliver targeted, measurable marketing results to our clients.

Our two largest client verticals are financial services and education. Our financial services client vertical represented 60% and 61% of net revenue for the three and six months ended December 31, 2016 and 50% and 47% of net revenue for the three and six months ended December 31, 2015. Our education client vertical represented 25% and 24% of net revenue for the three and six months ended December 31, 2016 and 32% and 35% of net revenue for the three and six months ended December 31, 2015. Our other client verticals, consisting of home services, business-to-business technology and medical, represented 15% of net revenue for both the three and six months ended December 31, 2016 and 18% of net revenue for both the three and six months ended December 31, 2015. We generated the majority of our revenue from sales to clients in the United States.

One client in our financial services client vertical accounted for 10% and 11% of our net revenue for the three and six months ended December 31, 2016. No other client accounted for 10% or more of our net revenue for the three and six months ended December 31, 2016 and no client accounted for 10% or more of our net revenue for the three and six months ended December 31, 2015.

Trends Affecting our Business

Client Verticals

To date, we have generated the majority of our revenue from clients in our financial services and education client verticals. We expect that a majority of our revenue for the remainder of fiscal year 2017 will continue to be generated from clients in these two client verticals. In addition, revenue from our financial services client vertical is expected to increase as a percentage of our total revenue.

Our financial services client vertical has been challenged by a number of factors in the past, including the limited availability of high quality media at acceptable margins caused by changes in search engine algorithms, acquisition of media sources by competitors and increased competition for quality media. These effects may impact our business in the future again. To offset this impact, we have broadened our product set with enhanced click, lead, call and policy products that have enabled better monetization to provide greater access to high quality media sources. Moreover, we have entered into strategic partnerships to increase and diversify our access to quality media and client budgets.

Our education client vertical has been significantly challenged by regulations and enforcement activity affecting U.S. for-profit education institutions over the past several years. For example, in January 2014, the Department of Education initiated an investigation of a publicly traded U.S. for-profit education client with respect to its enrollment activities and job placement, among other things, and in July 2014, the Department of Education signed an agreement with the client requiring it to wind down or sell its campuses. In July 2015, the Federal Trade Commission initiated an investigation of another publicly traded U.S. for-profit education client with respect to its recruiting and enrollment practices. These and other similar regulatory and enforcement activities have affected and are expected to continue to affect our clients’ businesses and marketing practices, which have and may continue to, result in a decrease in these clients’ spending with us and other vendors and fluctuations in the volume and mix of our business with these clients. To offset the impact these regulatory and investigative activities have had on the U.S. for-profit education clients, we have broadened our product set from our traditional lead business with the addition of better qualified and matched leads or inquiries, clicks and calls; we believe these new enhanced products better match U.S. for-profit education client needs in the current regulatory environment. We have also broadened our markets in education to include not-for-profit schools and international markets in Brazil and India. Moreover, we have entered into strategic partnerships to increase and diversify our access to quality media and client budgets.

Development, Acquisition and Retention of High Quality Targeted Media

One of the primary challenges of our business is finding or creating media that is high quality and targeted enough to attract prospects for our clients at costs that provide a sound financial outcome for us. In order to grow our business, we must be able to find, develop and retain quality targeted media on a cost-effective basis. Consolidation of media sources, changes in search engine algorithms and increased competition for available media has, during some periods, limited and may continue to limit our ability to generate revenue at acceptable margins. To offset this impact, we have developed new sources of media, including entering into strategic partnerships with other marketing and media companies. Such partnerships include takeovers of performance marketing functions for large web media properties; backend monetization of unmatched traffic for clients with large media buys; and white label products for other performance marketing companies. We have also grown our revenue from mobile and social media traffic sources.

Seasonality

Our results are subject to significant fluctuation as a result of seasonality. In particular, our quarters ending December 31 (our second fiscal quarter) are typically characterized by seasonal weakness. In our second fiscal quarters, there is lower availability of lead supply from some forms of media during the holiday period on a cost effective basis and some of our clients have lower budgets. In our quarters ending March 31 (our third fiscal quarter), this trend generally reverses with better lead availability and often new budgets at the beginning of the year for our clients with fiscal years ending December 31.

Regulations

Our revenue has fluctuated in part as a result of federal, state and industry-based regulations and developing standards with respect to the enforcement of those regulations. Our business is affected directly because we operate websites and conduct telemarketing and email marketing, and indirectly affected as our clients adjust their operations as a result of regulatory changes and enforcement activity that affect their industries.

Clients in our financial services vertical have been affected by laws and regulations and the increased enforcement of new and pre-existing laws and regulations. In addition, our education client vertical has been significantly affected by the adoption of regulations affecting U.S. for-profit education institutions over the past several years, and a high level of governmental scrutiny is expected to continue. The effect of these regulations, or any future regulations, may continue to result in fluctuations in the volume and mix of our business with these clients.

An example of a regulatory change that may affect our business is the amendment of the Telephone Consumer Protection Act (the “TCPA”) that affects telemarketing calls. Our efforts to comply with the TCPA have thus far had a relatively small negative effect on traffic conversion rates. However, our clients may make business decisions based on their own experiences with the TCPA regardless of our products, and the changes we implemented to comply with the regulations. Those decisions may negatively affect our revenue or profitability.

Basis of Presentation

Net Revenue

Our business generates revenue from fees earned through the delivery of qualified leads, inquiries, clicks, calls, applications, customers and, to a lesser extent, display advertisements, or impressions. We deliver targeted and measurable results through a vertical focus that we classify into the following client verticals: financial services, education and “other” (which includes home services, business-to-business technology and medical).

Cost of Revenue

Cost of revenue consists primarily of media costs, personnel costs, amortization of intangible assets, depreciation expense, and amortization of internal software development costs related to revenue-producing technologies. Media costs consist primarily of fees paid to third-party publishers, media owners or managers, or to strategic partners that are directly related to a revenue-generating event and of pay-per-click, or PPC, ad purchases from Internet search companies. We pay these third-party publishers, media owners or managers, strategic partners and Internet search companies on a revenue-share, a cost-per-lead, or CPL, cost-per-click, or CPC, or cost-per-thousand-impressions, or CPM, basis. Personnel costs include salaries, stock-based compensation expense, bonuses, commissions and employee benefit costs. Personnel costs are primarily related to individuals associated with maintaining our servers and websites, our call center operations, our editorial staff, client management, creative team, content, compliance group, and media purchasing analysts. Costs associated with software incurred in the development phase or obtained for internal use are capitalized and amortized in cost of revenue over the software's estimated useful life.

Operating Expenses

We classify our operating expenses into three categories: product development, sales and marketing and general and administrative. Our operating expenses consist primarily of personnel costs and, to a lesser extent, professional services fees, facilities fees and other costs. Personnel costs for each category of operating expenses generally include salaries, stock-based compensation expense, bonuses, commissions, and employee benefit costs.

Product Development. Product development expenses consist primarily of personnel costs, facilities fees and professional services fees related to the development and maintenance of our products and media management platform. We are constraining expenses generally to the extent practicable.

Sales and Marketing. Sales and marketing expenses consist primarily of personnel costs, professional services fees and facilities fees. We are constraining expenses generally to the extent practicable.

General and Administrative. General and administrative expenses consist primarily of personnel costs of our finance, legal, employee benefits and compliance, technical support and other administrative personnel, as well as accounting and legal professional services fees, and insurance. We are constraining expenses generally to the extent practicable.

Interest and Other Expense, Net

Interest and other expense, net, consists primarily of interest expense, interest income, and other income and expense. Interest expense is related to our revolving loan facility. Borrowings under our revolving loan facility and related interest expense could increase if, among other things, we make additional acquisitions through debt financing. Interest income represents interest earned on our cash and cash equivalents, which may increase or decrease depending on market interest rates and the amounts invested. Other income and expense includes gains and losses on foreign currency exchange, gains and losses on sales of websites and domain names that were not considered to be strategically important to our business, and other non-operating items.

(Provision for) Benefit from Income Taxes

We are subject to tax in the United States as well as other tax jurisdictions or countries in which we conduct business. Earnings from our limited non-U.S. activities are subject to local country income tax and may be subject to U.S. income tax.

Critical Accounting Policies, Estimates and Judgments

In presenting our consolidated financial statements in conformity with U.S. generally accepted accounting principles, or GAAP, we are required to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities as of the date of the financial statements, and reported amounts of revenue and expenses during the reporting period.

Some of the estimates and assumptions we are required to make relate to matters that are inherently uncertain as they pertain to future events. We base these estimates and assumptions on historical experience or on various other factors that we believe to be reasonable and appropriate under the circumstances. On an ongoing basis, we reconsider and evaluate our estimates and assumptions. Actual results may differ significantly from these estimates.

We believe that the critical accounting policies listed below involve our more significant judgments, assumptions and estimates and, therefore, could have the greatest potential impact on our consolidated financial statements.

- Revenue recognition;
- Valuation of goodwill and intangible assets;
- Stock-based compensation;
- Income taxes; and
- Valuation of long-lived assets.

There have been no material changes to our critical accounting policies, estimates and judgments disclosed in our Annual Report on Form 10-K subsequent to June 30, 2016. For further information on our critical and other significant accounting policies and estimates, see Part II, Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Annual Report on Form 10-K for the year ended June 30, 2016, filed with the SEC.

Recently Issued Accounting Standards

See Note 2, Summary of Significant Accounting Policies, to our condensed consolidated financial statements.

Results of Operations

The following table sets forth our condensed consolidated statement of operations for the periods indicated:

	Three Months Ended December 31,				Six Months Ended December 31,			
	2016		2015		2016		2015	
	(In thousands)				(In thousands)			
Net revenue	$65,610	100.0%	$64,961	100.0%	$139,048	100.0%	$137,350	100.0%
Cost of revenue [1]	61,657	94.0	60,346	92.9	129,465	93.1	126,264	91.9
Gross profit	3,953	6.0	4,615	7.1	9,583	6.9	11,086	8.1
Operating expenses: [1]								
Product development	3,314	5.0	3,843	5.9	7,268	5.2	8,287	6.0
Sales and marketing	2,168	3.3	2,982	4.5	4,758	3.4	6,604	4.8
General and administrative	3,794	5.8	4,138	6.4	7,825	5.6	8,358	6.1
Restructuring charges	2,403	3.7	—	—	2,403	1.7	—	—
Operating loss	(7,726)	(11.8)	(6,348)	(9.7)	(12,671)	(9.0)	(12,163)	(8.8)
Interest income	36	—	10	—	57	—	16	—
Interest expense	(135)	(0.2)	(145)	(0.2)	(291)	(0.2)	(278)	(0.2)
Other (expense) income, net	(25)	—	65	0.1	110	—	8	—
Loss before income taxes	(7,850)	(12.0)	(6,418)	(9.8)	(12,795)	(9.2)	(12,417)	(9.0)
(Provision for) benefit from taxes	—	—	(40)	(0.1)	1,376	1.0	(405)	(0.3)
Net loss	$(7,850)	(12.0)%	$(6,458)	(9.9)%	$(11,419)	(8.2)%	$(12,822)	(9.3)%

[1] Cost of revenue and operating expenses include stock-based compensation expense as follows:

Cost of revenue	$728	1.1%	$930	1.4%	$1,699	1.2%	$1,857	1.4%
Product development	471	0.7	527	0.8	1,007	0.7	1,185	0.9
Sales and marketing	220	0.3	509	0.8	577	0.4	981	0.7
General and administrative	681	1.0	768	1.2	1,424	1.0	1,500	1.1
Restructuring charges	42	0.1	—	—	42	—	—	—

Net Revenue

	Three Months Ended December 31,		Six Months Ended December 31,		Three Months % Change	Six Months % Change
	2016	2015	2016	2015		
	(In thousands)					
Net revenue	$65,610	$64,961	$139,048	$137,350	1%	1%
Cost of revenue	61,657	60,346	129,465	126,264	2%	3%

Gross profit	$3,953	$4,615	$9,583	$11,086	(14 %)	(14 %)

Net revenue increased $0.7 million, or 1%, for the three months ended December 31, 2016, compared to the three months ended December 31, 2015. Revenue from our financial services client vertical increased $7.4 million, or 23%, for the three months ended December 31, 2016, compared to the three months ended December 31, 2015, primarily due to our enhanced product set that provides greater segmentation, transparency, and right pricing of media which have enabled access to more media and client budgets. Revenue from our education client vertical decreased $4.3 million, or 21%, for the three months ended December 31, 2016, compared to the three months ended December 31, 2015, primarily due to decreased client demand as a result of client initiatives which include campus closures and discontinuation of certain education programs and exits from the channel of some for-profit education clients. Revenue from our other client verticals decreased $2.4 million, or 21%, for the three months ended December 31, 2016, compared to the three months ended December 31, 2015, primarily due to decreased client demand in our business-to-business technology and medical client verticals, partially offset by increased client demand in our home services client vertical.

Net revenue increased $1.7 million, or 1%, for the six months ended December 31, 2016, compared to the six months ended December 31, 2015. Revenue from our financial services client vertical increased $19.8 million, or 31%, for the six months ended

December 31, 2016, compared to the six months ended December 31, 2015, primarily due to our enhanced product set that provides greater segmentation, transparency, and right pricing of media which have enabled access to more media and client budgets and to additional strategic partnerships that have increased and diversified our access to quality media and client budgets. Revenue from our education client vertical decreased $13.7 million, or 29%, for the six months ended December 31, 2016, compared to the six months ended December 31, 2015, primarily due to exits from the channel of some for-profit education clients and decreased client demand as a result of client initiatives which include campus closures and discontinuation of certain education programs. Revenue from our other client vertical decreased $4.4 million, or 17%, for the six months ended December 31, 2016, compared to the six months ended December 31, 2015, primarily due to decreased client demand in our business-to-business technology and medical client verticals, partially offset by increased client demand in our home services client vertical.

Cost of Revenue and Gross Margin

Cost of revenue increased $1.3 million, or 2%, for the three months ended December 31, 2016, compared to the three months ended December 31, 2015, driven by increased media costs of $2.5 million primarily due to higher revenue volumes from our financial services client vertical, which tend to have higher media costs as a percentage of revenue, partially offset by decreased personnel costs of $0.8 million and decreased amortization of intangible assets of $0.6 million. The decrease in personnel costs is primarily related to the corporate restructuring announced in November 2016 and the decrease in amortization of intangible assets is attributable to assets from historical acquisitions becoming fully amortized and decreased spending in recent periods. Gross margin, which is the difference between net revenue and cost of revenue as a percentage of net revenue, was 6% for the three months ended December 31, 2016 and 7% for the three months ended December 31, 2015. The decrease in gross margin was attributable to a higher proportion of our revenue coming from our financial services client vertical, partially offset by decreased personnel costs and decreased amortization of intangible assets.

Cost of revenue increased $3.2 million, or 3%, for the six months ended December 31, 2016, compared to the six months ended December 31, 2015, driven by increased media costs of $4.8 million primarily due to higher revenue volumes from our financial services client vertical, which tend to have higher media costs as a percentage of revenue, partially offset by decreased personnel costs of $1.2 million and decreased amortization of intangible assets of $1.0 million. The decrease in personnel costs is primarily related to the corporate restructuring announced in November 2016 and decreased incentive compensation associated with the lower achievement of performance objectives. The decrease in amortization of intangible assets is attributable to assets from historical acquisitions becoming fully amortized and decreased spending in recent periods. Gross margin, which is the difference between net revenue and cost of revenue as a percentage of net revenue, was 7% for the six months ended December 31, 2016 and 8% for the six months ended December 31, 2015. This decrease in gross margin was attributable to a higher proportion of our revenue coming from our financial services client vertical, partially offset by decreased personnel costs and decreased amortization of intangible assets.

Operating Expenses

	Three Months Ended December 31,		Six Months Ended December 31,		Three Months % Change	Six Months % Change
	2016	2015	2016	2015		
	(In thousands)					
Product development	$3,314	$3,843	$7,268	$8,287	(14%)	(12%)
Sales and marketing	2,168	2,982	4,758	6,604	(27%)	(28%)

General and administrative	3,794	4,138	7,825	8,358	(8	%)	(6	%)
Restructuring charges	2,403	—	2,403	—	100	%	100	%
Operating expenses	$11,679	$10,963	$22,254	$23,249	7	%	(4	%)

Product Development Expenses

Product development expenses decreased $0.5 million, or 14%, for the three months ended December 31, 2016, compared to the three months ended December 31, 2015. This was primarily due to decreased personnel costs of $0.4 million related to the corporate restructuring announced in November 2016 and decreased incentive compensation associated with the lower achievement of performance objectives.

Product development expenses decreased $1.0 million, or 12%, for the six months ended December 31, 2016, compared to the six months ended December 31, 2015. This was primarily due to decreased personnel costs of $0.7 million related to the corporate restructuring announced in November 2016 and decreased incentive compensation associated with the lower achievement of performance objectives.

Sales and Marketing Expenses

Sales and marketing expenses decreased $0.8 million, or 27%, for the three months ended December 31, 2016, compared to the three months ended December 31, 2015. This was primarily due to decreased personnel costs of $0.5 million related to decreased headcount and decreased stock-based compensation of $0.3 million.

Sales and marketing expenses decreased $1.8 million, or 28%, for the six months ended December 31, 2016, compared to the six months ended December 31, 2015. This was primarily due to decreased personnel costs of $1.1 million related to decreased headcount and decreased incentive compensation associated with the lower achievement of performance objectives and decreased stock-based compensation of $0.4 million.

General and Administrative Expenses

General and administrative expenses decreased $0.3 million, or 8%, for the three months ended December 31, 2016, compared to the three months ended December 31, 2015. This was primarily due to decreased personnel costs of $0.2 million and decreased professional services of $0.1 million.

General and administrative expenses decreased $0.5 million, or 6%, for the six months ended December 31, 2016, compared to the six months ended December 31, 2015. This was primarily due to decreased personnel costs related to decreased headcount and decreased incentive compensation associated with the lower achievement of performance objectives.

Restructuring Charges

In November 2016, we announced a corporate restructuring in order to accelerate margin expansion and grow cash flow. As a result, we recognized total cash and non-cash restructuring costs of $2.4 million related to employee severance and benefits in the three months ended December 31, 2016, which represents substantially all costs expected to be incurred associated with the corporate restructuring. The accrued liability balance as of December 31, 2016 of $1.3 million was paid in January 2017 using existing cash on hand. The corporate restructuring is expected to reduce operating costs by approximately $17 million annually, primarily from personnel costs in cost of revenue and product development. Benefits from the restructuring began to take effect in the three months ended December 31, 2016.

(Provision for) Benefit from Taxes

	Three Months Ended December 31,		Six Months Ended December 31,	
	2016	2015	2016	2015
	(In thousands)			
(Provision for) benefit from taxes	$—	$(40)	$1,376	$(405)

We recorded a valuation allowance against the majority of our deferred tax assets at the end of fiscal year 2014 and continue to maintain a full valuation allowance against our deferred tax assets as of December 31, 2016 as we believe it is not more likely than not that the net deferred tax assets will be fully realizable.

We did not record a benefit from or provision for income taxes for the three months ended December 31, 2016. We recorded a benefit from income taxes of $1.4 million for the six months ended December 31, 2016 as a result of a tax refund from an amended state tax return filing.

We recorded an immaterial provision for income taxes for the three months ended December 31, 2015. We recorded a provision for income taxes of $0.4 million for the six months ended December 31, 2015, primarily due to the outcome of a state tax examination. Our annual statutory tax rate was 34% for the three and six months ended December 31, 2016 and 2015. Due to the effects of our deferred tax asset valuation allowance and our net operating loss, our annual effective tax rate was not meaningful as our income tax amounts were not directly correlated to the amount of loss before income taxes for the period.

Liquidity and Capital Resources

As of December 31, 2016, our principal sources of liquidity consisted of cash and cash equivalents of $37.5 million, cash we expect to generate from future operations, and $25.0 million of available borrowings under our revolving loan facility. Our cash and cash equivalents are maintained in highly liquid investments with remaining maturities of 90 days or less at the time of purchase. We believe our cash equivalents are liquid and accessible.

Our short-term and long-term liquidity requirements primarily arise from our working capital requirements, capital expenditures, internal software development costs, payment of any outstanding balance on our revolving loan facility which matures in June 2017, and acquisitions from time to time. Our primary operating cash requirements include the payment of media costs, personnel costs, costs of information technology systems, and office facilities. Our ability to fund these requirements will depend on our future cash flows, which are determined, in part, by future operating performance and are, therefore, subject to prevailing global macroeconomic conditions and financial, business and other factors, some of which are beyond our control, and also our ability to access our revolving loan facility. Even though we may not need additional funds to fund anticipated liquidity requirements, we may still elect to obtain additional debt, issue additional equity securities or draw down on or increase our borrowing capacity under our current revolving loan facility for other reasons.

We believe that our principal sources of liquidity will be sufficient to satisfy our currently anticipated cash requirements through at least the next 12 months.

The following table summarizes our cash flows for the periods indicated:

	Six Months Ended December 31,	
	2016	2015
	(In thousands)	
Net cash provided by (used in) operating activities	$2,090	$(4,963)
Net cash used in investing activities	(1,740)	(2,983)
Net cash used in financing activities	(16,579)	(1,722)

Operating Activities

Cash flows from operating activities are primarily the result of our net loss adjusted for depreciation and amortization, stock-based compensation expense, and changes in working capital components.

Cash provided by operating activities was $2.1 million for the six months ended December 31, 2016, compared to cash flows used in operating activities of $5.0 million for the six months ended December 31, 2015.

Cash provided by operating activities for the six months ended December 31, 2016 consisted of a net loss of $11.4 million, which included a cash payment for restructuring costs of $1.1 million and a cash receipt from a state tax refund of $1.4 million, offset by non-cash adjustments of $11.1 million. In addition, there was a net increase in cash from changes in working capital of $2.4 million. The non-cash adjustments primarily consisted of depreciation and amortization of $6.3 million and stock-based compensation expense of $4.7 million. The changes in working capital accounts were primarily due to a decrease in accounts receivable of $5.9 million, offset by a decrease in accounts payable and accrued liabilities of $3.9 million. The decrease in accounts receivable was primarily due to the timing of receipts. The decrease in accounts payable and accrued liabilities was primarily due to bonus payments which occur annually during the three months ended September 30, 2016 and the timing of payments, partially offset by accrued restructuring costs of $1.3 million.

Cash used in operating activities for the six months ended December 31, 2015 consisted of a net loss of $12.8 million, which included a restructuring charge of $0.2 million, offset by non-cash adjustments of $13.8 million. In addition, there was a net decrease in cash from changes in working capital of $5.9 million. The non-cash adjustments primarily consisted of depreciation and amortization of $7.7 million and stock-based compensation expense net of tax benefits of $5.5 million. The changes in working capital accounts were primarily due to an increase in prepaid expenses and other assets of $3.9 million and a decrease in accounts payable and accrued liabilities of $6.8 million, offset by a decrease in accounts receivable of $5.1 million. The increase in prepaid expenses and other assets were primarily due to a one-time $10.0 million cash payment to All Web Leads, a strategic partner, to be its exclusive monetization partner for the majority of its insurance categories, offset by a $6.5 million cash receipt from a federal tax refund. The decrease in accrued liabilities was primarily due to bonus payments which occur annually during the three months ended September 30, 2015 and the decrease in accounts receivable and accounts payable were primarily due to the timing of receipts and payments.

Investing Activities

Cash flows used in investing activities generally include capital expenditures and capitalized internal development costs.

Cash flows used in investing activities was $1.7 million for the six months ended December 31, 2016, compared to cash flows used in investing activities of $3.0 million for the six months ended December 31, 2015.

Cash used in investing activities in the six months ended December 31, 2016 and 2015 was primarily due to capital expenditures and internal software development costs of $1.8 million and $3.1 million.

Financing Activities

Cash flows used in financing activities generally include proceeds from exercise of stock options, principal payments on acquisition-related notes payable, repayments of the revolving loan facility, repurchases of common stock and withholding taxes related to the release of restricted stock, net of share settlement.

Cash used in financing activities was $16.6 million for the six months ended December 31, 2016, compared to cash flows used in financing activities of $1.7 million for the six months ended December 31, 2015.

Cash used in financing activities in the six months ended December 31, 2016 was due to repayment of the revolving loan facility of $15.0 million, repurchases of common stock of $1.0 million and withholding taxes related to the release of restricted stock, net of share settlement of $0.5 million.

Cash used in financing activities in the six months ended December 31, 2015 was primarily due to withholding taxes related to the release of restricted stock, net of share settlement of $1.7 million.

Off-Balance Sheet Arrangements

During the periods presented, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. We have an investment in a variable interest entity of which we are not the primary beneficiary and as to which we do not have any material obligations.

Contractual Obligations

Our contractual obligations relate to borrowings under our revolving loan facility and operating leases. There have been no material changes to our contractual obligations from those disclosed in our Annual Report on Form 10-K for the year ended June 30, 2016.

Loan Facility

As of December 31, 2016, we were party to a credit agreement (the “Credit Agreement”) with Comerica Bank (the “Bank”), as administrative agent and sole lender, which consisted of a $25.0 million revolving loan facility with a maturity date of June 11, 2017. Borrowings under the revolving loan facility bear interest at a rate of the Eurodollar rate plus 3.00%, and is secured by substantially all of our assets. We must pay an annual facility fee of $62,500 and an annual unused fee of 0.25% of the undrawn revolving loan facility commitments. We have the right to prepay the revolving loan facility or permanently reduce the revolving loan facility credit commitments without premium or penalty, in whole or in part at any time. Borrowings under the revolving loan facility are subject to a borrowing base consisting of eligible receivables and certain other customary conditions.

The Credit Agreement, as amended, contains limitations on our ability to sell assets, make acquisitions, pay dividends, incur capital expenditures and also requires us to comply with certain additional covenants. In addition, we are also required to maintain financial covenants when there are amounts outstanding under the revolving loan facility and at the time we draw down amounts under the revolving loan facility.

We were in compliance with all covenants under the Credit Agreement as of December 31, 2016 and June 30, 2016.

As of December 31, 2016, there were no amounts outstanding under the revolving loan facility. As of June 30, 2016, there was $15.0 million outstanding under the revolving loan facility.

See Note 8, Debt, to our condensed consolidated financial statements for further information on our revolving loan facility.

Headquarters Lease

We entered into a lease agreement in February 2010 for approximately 63,998 square feet of office space located at 950 Tower Lane, Foster City, California. The term of the lease began on November 1, 2010 and expires on October 31, 2018. The monthly base rent was abated for the first 12 calendar months under the lease, and was $0.1 million through the 24th calendar month of the term of the lease. Monthly base rent increased to $0.2 million for the subsequent 12 months and now increases approximately 3% after each 12-month anniversary during the remaining term, including any extensions under our options to extend. We have two options to extend the term of the lease for one additional year for each option following the expiration date of the lease or renewal term, as applicable.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risks in the ordinary course of our business. These risks include primarily interest rate and foreign currency exchange risks.

Interest Rate Risk

We invest our cash equivalents primarily in money market funds. Cash and cash equivalents are held for working capital purposes and acquisition financing. We do not enter into investments for trading or speculative purposes. We believe that we do not have material exposure to changes in the fair value of these investments as a result of changes in interest rates due to the short-term nature of our investments. Declines in interest rates may reduce future investment income. However, a hypothetical decline of 1% in the interest rate on our investments would not have a material effect on our condensed consolidated financial statements.

Our exposure to interest rate risk under the revolving loan facility will depend on the extent to which we utilize the facility. Interest on borrowings under the revolving loan facility is payable quarterly at the Eurodollar rate plus 3.00%. As of December 31, 2016, there were no amounts outstanding under our revolving loan facility.

Foreign Currency Exchange Risk

To date, our client agreements have been predominately denominated in U.S. dollars, and, accordingly, we have limited exposure to foreign currency exchange rate fluctuations related to client agreements, and do not currently engage in foreign currency hedging transactions. As the local accounts for some of our foreign operations are maintained in the local currency of the respective country, we are subject to foreign currency exchange rate fluctuations associated with the remeasurement to U.S. dollars. A hypothetical change of 10% in foreign currency exchange rates would not have a material effect on our condensed consolidated financial statements.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive and principal financial officers, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2016. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Securities Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Securities Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As previously disclosed under "Item 9-A Controls and Procedures" in our Annual Report on Form 10-K for our fiscal year ended June 30, 2016, we concluded that our disclosure controls and procedures were not effective due to a material weakness in our internal control over financial reporting over the accuracy of the accounting for stock-based compensation expense for market-based restricted stock units. Specifically our internal controls with respect to stock-based compensation were not designed to appropriately identify and apply different expense recognition methodologies and, as a result, the compensation expense for market-based restricted stock units was incorrectly accounted for using straight-line basis rather than accelerated basis over the requisite service period. Based on the evaluation of our disclosure controls and procedures as of December 31, 2016, our principal executive and principal financial officers concluded that, as of such date, our disclosure controls and procedures were not effective at the reasonable assurance level.

Management's Remediation Initiatives

We are in the process of enhancing the stock-based compensation process to include formal documentation and review of the expense recognition policy for new award types granted, and modifications to existing awards in the period such awards are granted or modified.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15(d) and 15d-15(d) of the Securities Exchange Act that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we may become involved in legal proceedings and claims arising in the ordinary course of our business. Certain of our outstanding legal matters include claims for indeterminate amounts of damages. We record a liability when we believe that it is probable that a loss has been incurred and the amount can be reasonably estimated. Based on our current knowledge, we do not believe that there is a reasonable possibility that the final outcome of any pending or threatened legal proceedings to which we or any of our subsidiaries are a party, either individually or in the aggregate, will have a material adverse effect on our future financial results. However, the outcome of such legal matters is subject to significant uncertainties.

ITEM 1A. RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the risks described below and the other information in this periodic report. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may also become important factors that adversely affect our business. If any of the following risks actually occur, our business, financial condition or results of operations could be adversely affected. In those cases, the trading price of our common stock could decline and you may lose all or part of your investment.

Risks Related to Our Business and Industry

We operate in an industry that is still developing and have a relatively new business model that is continually evolving, which makes it difficult to evaluate our business and prospects.

We derive all of our revenue from the sale of online marketing and media services, which is still a developing industry that has undergone rapid and dramatic changes in its relatively short history and which is characterized by rapidly-changing Internet media and advertising technology, evolving industry standards, regulatory uncertainty, and changing user and client demands. As a result, we face risks and uncertainties such as but not limited to:

- our still developing industry and relatively new business model;
- changes in the economic condition, market dynamics, regulatory enforcement or legislative environment affecting our, our third-party publishers', and our clients' businesses;
- our dependence on the availability and affordability of quality media from third-party publishers and strategic partners;
- our dependence on Internet search companies to attract Internet visitors;
- our ability to accurately forecast our results of operations and appropriately plan our expenses;
- our ability to compete in our industry;
- our ability to manage cyber security risks and costs associated with maintaining a robust security infrastructure;
- our ability to develop our websites to allow Internet visitors to access our websites through mobile devices;
- our ability to develop new services, enhancements and features to meet new demands from our clients; and
- our ability to successfully challenge regulatory audits, investigations or allegations of noncompliance with laws.

If we are unable to address these risks, our business, results of operations and prospects could suffer.

Negative changes in the market conditions or the regulatory environment have had in the past, and may in the future have, a material and adverse impact on our revenue, business and growth.

Adverse macroeconomic conditions could cause decreases or delays in spending by our clients and could harm our ability to generate revenue and our results of operations. Moreover, to date, we have generated a large majority of our revenue from clients in our financial services and education client verticals. We expect that a majority of our revenue, at least in the near term, will continue to be generated from clients in our financial services and education client verticals. Changes in the market conditions or the regulatory environment in these two highly-regulated client verticals in particular have negatively impacted, and may continue to negatively impact, our clients' businesses, marketing practices and budgets and, therefore, our financial results.

Our, our third-party publishers', and our clients' businesses operate in highly regulated industries, subject to many laws and regulatory requirements, including federal, state, and local laws and regulations regarding unsolicited commercial email, telemarketing, user privacy, search engines, Internet tracking technologies, direct marketing, data security, data privacy, pricing, sweepstakes, promotions, intellectual property ownership and infringement, trade secrets, export of encryption technology, acceptable content and quality of goods, and taxation, among others. Each of our financial services, education and other client verticals is also subject to various laws and regulations, and our marketing activities on behalf of our clients are regulated. Many of these laws are frequently changing, and keeping our business in compliance with or bringing our business into compliance with new laws may be costly, affect our revenue and harm our financial results. Violations or alleged violations of laws by us, our third-party publishers or clients could result in damages, fines, criminal prosecution, unfavorable publicity, and restrictions on our ability to operate, any of which could have a material adverse effect on our business, financial condition, and results of operations. In addition, new laws or regulations or changes in enforcement of existing laws or regulations applicable to our clients could affect the activities or strategies of our clients and, therefore, lead to reductions in their level of business with us.

For example, the Federal Communications Commission amended the Telephone Consumer Protection Act (the "TCPA") that affects telemarketing calls. Certain provisions of the regulations became effective in July 2012, and additional regulations requiring prior express written consent for certain types of telemarketing calls became effective in October 2013. Our efforts to comply with the TCPA has not had a material impact on traffic conversion rates. However, depending on future traffic and product mix, it could potentially have a material effect on our revenue and profitability, including increasing our and our clients' exposure to enforcement actions and litigation. Additionally, we generate leads from which users provide a phone number, and a significant amount of revenue comes from calls made by our internal call centers as well as, in some cases, by third-party publishers' call centers. We also purchase a portion of our lead data from third-party publishers and cannot guarantee that these third-parties will comply with the regulations. Any failure by us or the third-party publishers on which we rely for telemarketing, email marketing, and other lead generation activities to adhere to or successfully implement appropriate processes and procedures in response to existing regulations and changing regulatory requirements could result in legal and monetary liability, significant fines and penalties, or damage to our reputation in the marketplace, any of which could have a material adverse effect on our business, financial condition, and results of operations. Furthermore, our clients may make business decisions based on their own experiences with the TCPA regardless of our products and the changes we implemented to comply with the new regulations. These decisions may negatively affect our revenue or profitability.

In connection with our owned and our third-party publishers' email campaigns to generate traffic for our clients, we are subject to various state and Federal laws regulating commercial email communications, including the federal CAN-SPAM Act. For example, in 2012, several of our clients were named defendants in a California Anti-Spam lawsuit relating to commercial emails which allegedly originated from us and our third-party publishers. While the matter was ultimately resolved in our clients' favor, we were nonetheless obligated to indemnify certain of our clients for the fees incurred in the defense of such matter. If we or any of our third-party publishers fail to comply with any provisions of these laws or regulations, we could be subject to regulatory investigation, enforcement actions, and litigation, as well as indemnification obligations with respect to our clients. Any negative outcomes from such regulatory actions or litigation, including monetary penalties or damages, could have a material adverse effect on our financial condition, results of operation, and reputation.

From time to time, we are subject to audits, inquiries, investigations, claims of non-compliance and lawsuits by federal and state governmental agencies, regulatory agencies, attorneys general, and other governmental or regulatory bodies, any of whom may allege violations of legal requirements. For example, in June 2012, we entered into an Assurance of Voluntary Compliance agreement following a civil investigation into certain of our marketing practices related to our education client vertical that was conducted by the attorneys general of a number of states. If the results of any future investigations, audits, inquiries, claims or litigation are unfavorable to us, we may be required to pay monetary fines or penalties or have restrictions placed on our business, which could materially adversely affect our business, financial condition, results of operations, and cash flows.

Federal and state regulations and increased oversight of clients in our education vertical have negatively affected, and may continue to negatively affect, our clients' businesses, marketing practices, and budgets, any or all of which could reduce our clients' level of business with us and thereby have a material adverse effect on our financial results.

To date, we have generated a large portion of our revenue from our education client vertical, and nearly all of that revenue was generated from post-secondary education institutions. Post-secondary education institutions are subject to extensive federal and state regulations and accrediting standards (including the Higher Education Act, Department of Education regulations and individual state higher education regulations) and oversight by various regulatory enforcement authorities (including the Department of Education, the Federal Trade Commission, the Consumer

Finance Protection Bureau and state attorneys general). Such regulations govern many aspects of these clients' operations, including marketing and recruiting activities, as well as private student lending and the school's eligibility to participate in Title IV federal student financial aid programs, which is the principal source of funding for many of our education clients. In addition, there have been significant changes to these regulations in recent years and a high level of regulatory scrutiny and enforcement activity (e.g., investigations of our clients and other post-secondary education institutions). Heightened regulatory activity and legislative and regulatory scrutiny are expected to continue in the post-secondary education sector. Such activity and scrutiny may have an adverse effect on our operating results as our management may be required to devote substantial time and resources to such matters, and such matters may result in lower client marketing spend.

For example, in January 2014, the Department of Education initiated an investigation of a U.S. publicly traded for-profit education client with respect to its enrollment activities and job placement, among other things, and in July 2014, the Department of Education signed an agreement with the client requiring it to wind down or sell its campuses. In September 2016, the Department of Education took action which resulted in the closure of a large for-profit education provider.

Similarly, in July 2015, the Federal Trade Commission initiated an investigation of another publicly traded U.S. for-profit education client with respect to its recruiting and enrollment practices, and in January 2016, the Federal Trade Commission filed a lawsuit against a different publicly-traded U.S. for-profit education client with respect to its advertising practices. Moreover, the Department of Education, the Consumer Finance Protection Bureau, the Federal Trade Commission and several state attorneys general currently have open investigations with several other post-secondary educational institutions including some of our clients. Regulatory decisions may also adversely impact our education clients indirectly. For example, in October 2016, the Department of Education published its final defense to repayment rule, which streamlines and liberalizes a procedure whereby students may have their federal loans forgiven. This may result in students increasingly seeking to have their loans forgiven, which may in turn involve claims by the government against education providers. In connection with these or other investigations of our clients' marketing practices, regulatory authorities may also make requests to us for information, which requests may consume substantial time and resources and result in a negative effect on our operating results. These and other similar regulatory and enforcement activities have affected, and are expected to continue to affect, our clients' businesses and marketing practices, which have resulted in, and may continue to result in, a decrease in these clients' spending with us and fluctuations in the volume and mix of our business with these clients. This may be the case notwithstanding the fact that we are not a target of these regulatory investigations or inquiries and the fact that our marketing practices consist largely of utilizing client-provided or client-approved online marketing materials subject to client advertising guidelines.

In addition, changes in, or new interpretations of, applicable laws, regulations, standards or policies applicable to these clients could have a material adverse effect on their accreditation, authorization to operate in various states, or receipt of funds under Title IV programs, any of which, in turn, may harm our ability to generate revenue from these clients and negatively impact our financial results.

Finally, although we are not a higher education institution, we are sometimes required to comply with such education laws and regulations as a result of our role as a vendor to higher educations, either directly or indirectly through our contractual arrangements with clients. Failure to comply with education laws and regulations could result in breach of contract and indemnification claims against us, subject us to regulatory sanctions and could cause damage to our reputation and impair our business.

A reduction in online marketing spend by our clients, a loss of clients or lower advertising yields may seriously harm our business, financial condition, and results of operations. In addition, a substantial portion of our revenue is generated from a limited number of clients and, if we lose a major client, our revenue will decrease and our business and prospects may be harmed.

We rely on clients' marketing spend on our owned and operated websites and on our network of third-party publisher and strategic partner websites. We have historically derived, and we expect to continue to derive, the majority of our revenue through the delivery of qualified leads, inquiries, clicks, calls, applications, and customers. One component of our platform that we use to generate client interest is our system of monetization tools, which is designed to match content with client offerings in a manner that optimizes revenue yield and end-user experience. Clients will stop spending marketing funds on our owned and operated websites or our third-party publisher and strategic partner websites if their investments do not generate leads and ultimately users or if we do not deliver advertisements in an appropriate and effective manner. The failure of our yield-optimized monetization technology to effectively match advertisements or client offerings with our content in a manner that results in increased revenue for our clients would have an adverse impact on our ability to maintain or increase our revenue from client marketing spend.

Even if our content is effectively matched with advertisements or client offerings, our current clients may not continue to place marketing spend or advertisements on our websites. If any of our clients decided not to continue marketing spend or advertising on our owned and operated websites or on our third-party publisher or strategic partner websites, we could experience a rapid decline in our revenue over a relatively short period of time. Any factors that limit the amount our clients are willing to and do spend on marketing or advertising with us, or to purchase leads from us, could have a material adverse effect on our business.

Furthermore, a substantial portion of our revenue is generated from a limited number of clients, including one client that accounted for 10% and 11% of our net revenue for the three and six months ended December 31, 2016. Our clients can generally terminate their contracts with us at any time, and they do not have minimum spend requirements. Clients may also fail to renew their contracts or reduce their level of business with us, leading to lower revenue.

In addition, reductions in business by one or more significant clients has in the past triggered, and may in the future trigger, price reductions for other clients whose prices for certain products are determined in whole or in part by client bidding or competition which may reduce our ability to monetize media, further decreasing revenue. Any future such price or volume reductions, or drop in media monetization, could result in lower revenue or margin. We expect that a limited number of clients will continue to account for a significant percentage of our revenue, and the loss of any one of these clients, or a material reduction in their marketing spending with us, could decrease our revenue and harm our business.

We depend on third-party publishers, including strategic partners, for a significant portion of our visitors. Any decline in the supply of media available through these websites or increase in the price of this media could cause our revenue to decline or our cost to reach visitors to increase.

A significant portion of our revenue is attributable to visitor traffic originating from third-party publishers (including strategic partners). In many instances, third-party publishers can change the media inventory they make available to us at any time and, therefore, impact our results of operations. In addition, third-party publishers may place significant restrictions on our offerings. These restrictions may prohibit advertisements from specific clients or specific industries, or restrict the use of certain creative content or formats. If a third-party publisher decides not to make media inventory available to us, or decides to demand a higher revenue-share or places significant restrictions on the use of such inventory, we may not be able to find media inventory from other websites that satisfies our requirements in a timely and cost-effective manner. In addition, the number of competing online marketing service providers and advertisers that acquire inventory from websites continues to increase. Consolidation of Internet advertising networks and third-party publishers could eventually lead to a concentration of desirable inventory on websites or networks owned by a small number of individuals or entities, which could limit the supply or impact the pricing of inventory available to us. In the past, we have experienced declines in our financial services client vertical primarily due to volume declines caused by losses of available media from third-party publishers acquired by competitors, changes in search engine algorithms which reduced or eliminated traffic from some third-party publishers and increased competition for quality media. We cannot assure you that we will be able to acquire media inventory that meets our clients' performance, price, and quality requirements, in which case our revenue could decline or our operating costs could increase.

We depend upon Internet search companies to direct a significant portion of the visitors to our owned and operated and our third-party publishers' websites. Changes in search engine algorithms have in the past harmed, and may in the future harm, the websites' placements in both paid and organic search result listings, which may reduce the number of visitors to our owned and operated and our third-party publishers' websites and as a result, cause our revenue to decline.

Our success depends on our ability to attract online visitors to our owned and operated and our third-party publishers' websites and convert them into customers for our clients in a cost-effective manner. We depend on Internet search companies to direct a substantial share of visitors to our owned and operated and our third-party publishers' websites. Search companies offer two types of search results: organic and paid listings. Organic listings are displayed based solely on formulas designed by the search companies. Paid listings are displayed based on a combination of the advertiser's bid price for particular keywords and the search engines' assessment of the website's relevance and quality.

Our ability to maintain or grow the number of visitors to our owned and operated and our third-party publishers' websites from search companies is not entirely within our control. Search companies frequently revise their algorithms and changes in their algorithms have in the past caused, and could in the future, cause our owned and operated and our third-party publishers' websites to receive less favorable placements. We have experienced fluctuations in organic rankings for a number of our owned and operated and our third-party publishers' websites and some of our paid listing campaigns have also been harmed by search engine algorithmic changes. Search companies could determine that our or our third-party publishers’ websites’ content is either not relevant or is of poor quality.

In addition, we may fail to optimally manage our paid listings, or our proprietary bid management technologies may fail. To attract and retain visitors, we use search engine optimization (“SEO”) which involves developing content to optimize ranking in search engine results. Our ability to successfully manage SEO efforts across our owned and operated websites and our third-party publishers’ websites depends on our timely and effective modification of SEO practices implemented in response to periodic changes in search engine algorithms and methodologies and changes in search query trends. If we fail to successfully manage our SEO strategy, our owned and operated and our third-party publishers’ websites may receive less favorable placement in organic or paid listings, which would reduce the number of visitors to our sites, decrease conversion rates and repeat business and have a detrimental effect on our ability to generate revenue. If visits to our owned and operated and our third-party publishers’ websites decrease, we may need to use more costly sources to replace lost visitors, and such increased expense could adversely affect our business and profitability. Even if we succeed in driving traffic to our owned and operated websites, our third-party publishers' websites and to our clients' websites, we may not be able to effectively monetize this traffic or otherwise retain users. Our failure to do so could result in lower advertising revenue from our owned and operated websites as well as third-party publishers' websites, which would have an adverse effect on our business, financial condition, and results of operations.

If we fail to continually enhance and adapt our products and services to keep pace with rapidly changing technologies and industry standards, we may not remain competitive and could lose clients or advertising inventory.

The online media and marketing industry is characterized by rapidly changing standards, changing technologies, frequent new product and service introductions, and changing user and client demands. The introduction of new technologies and services embodying new technologies and the emergence of new industry standards and practices could render our existing technologies and services obsolete and unmarketable or require unanticipated investments in technology. We continually make enhancements and other modifications to our proprietary technologies, and these changes may contain design or performance defects that are not readily apparent. If our proprietary technologies fail to achieve their intended purpose or are less effective than technologies used by our competitors, our business could be harmed.

Our future success will depend in part on our ability to successfully adapt to these rapidly changing online media formats and other technologies. If we fail to adapt successfully, we could lose clients or advertising inventory.

Our results of operations have fluctuated in the past and may do so in the future, which makes our results of operations difficult to predict and could cause our results of operations to fall short of analysts' and investors' expectations.

Historically, quarterly and annual results of operations have fluctuated due to changes in our business, our industry, and the general economic and regulatory climate. We expect our future results of operations to vary significantly from quarter to quarter due to a variety of factors, many of which are beyond our control. Our fluctuating results of operations could cause our performance and outlook to be below the expectations of securities analysts and investors, causing the price of our common stock to decline. Our business is changing and evolving, and, as a result, our historical results of operations may not be useful to you in predicting our future results of operations. Factors that may increase the volatility of our results of operations include, but are not limited to, the following:

- changes in client volume;
- loss of or reduced demand by existing clients;
- the availability and price of quality media;
- consolidation of media sources;
- changes in Internet search engine algorithms that affect our owned and operated and our third-party publishers' websites; and
- regulatory and legislative changes.

As a result of changes in our business model, increased investments, increased expenditures for certain businesses, products, services, and technologies, we anticipate fluctuations in our adjusted EBITDA margin.

We have invested and expect to continue to invest in new businesses, products, markets, services and technologies, including more expensive forms of media. For example, we expended significant resources in developing new products and technologies and made strategic outlays in, among other things, partnerships, which in the short term may have the effect of reducing our adjusted EBITDA margin. If we are unsuccessful in our monetization efforts with respect to new products and investments, we may fail to engage and retain users and clients. We may have insufficient revenue to fully offset liabilities and expenses in connection with these investments and may experience inadequate, unpredictable return of capital on our investments. As a result of these investments, we expect fluctuations in our adjusted EBITDA margin.

To maintain target levels of profitability, from time to time, we may restructure our operations or make other adjustments to our workforce. For example, in November 2016, we announced a corporate restructuring resulting in the reduction of approximately 25% of personnel costs. This restructuring could result in business disruptions or temporarily reduce workforce productivity. In addition, we may incur restructuring charges greater than expected and we may not achieve or sustain the expected cost savings or other anticipated benefits of our existing or future corporate restructurings, or do so within the expected time frame.

If we fail to compete effectively against other online marketing and media companies and other competitors, we could lose clients and our revenue may decline.

The market for online marketing is intensely competitive, and we expect this competition to continue to increase in the future both from existing competitors and, given the relatively low barriers to entry into the market, from new competitors. We compete both for clients and for limited high-quality media. We compete for clients on the basis of a number of factors, including return on investment of client's marketing spending, price, and client service.

We compete with Internet and traditional media companies for a share of clients' overall marketing budgets, including:

- online marketing or media services providers such as BankRate in the financial services client vertical and Education Dynamics in the education client vertical;
- offline and online advertising agencies;
- major Internet portals and search engine companies with advertising networks;
- other online marketing service providers, including online affiliate advertising networks and industry-specific portals or lead generation companies;
- digital advertising exchanges, real-time bidding and other programmatic buying channels;
- third-party publishers with their own sales forces that sell their online marketing services directly to clients;
- in-house marketing groups and activities at current or potential clients;
- offline direct marketing agencies;
- mobile and social media; and
- television, radio, and print companies.

Competition for web traffic among websites and search engines, as well as competition with traditional media companies, has resulted and may continue to result in significant increases in media pricing, declining margins, reductions in revenue, and loss of market share. In addition, if we expand the scope of our services, we may compete with a greater number of websites, clients, and traditional media companies across an increasing range of different services, including in vertical markets where competitors may have advantages in expertise, brand recognition, and other areas. Internet search companies with brand recognition, such as Google, Yahoo! and Microsoft, have significant numbers of direct sales personnel and substantial proprietary advertising inventory and web traffic that provide a significant competitive advantage and have a significant impact on pricing for Internet advertising and web traffic. Some of these companies may offer or develop more vertically targeted products that match users with products and services and, thus, compete with us more directly. For example, Google's search engine provides comparison shopping for insurance and other financial products, which could in the future compete directly with our comparison platforms, divert our users and ultimately our clients, and result in a significant loss of revenue for our financial services vertical. The trend toward consolidation in online marketing may also affect pricing and availability of media inventory and web traffic. Many of our current and potential competitors also have other competitive advantages over us, such as longer operating histories, greater brand recognition, larger client bases, greater access to advertising inventory on high-traffic websites, and significantly greater financial, technical, and marketing resources. As a result, we may not be able to compete successfully. Competition from other marketing service providers' online and offline offerings has affected and may continue to affect both volume and price, and, thus, revenue, profit margins, and profitability. If we fail to deliver results that are superior to those that other online marketing service providers deliver to clients, we could lose clients and market share, and our revenue may decline.

We are exposed to online security risks and security breaches particularly given that we gather, transmit and store personally identifiable information. Unauthorized access to or accidental disclosure of confidential or proprietary data may cause us to incur significant expenses and may negatively affect our reputation and business.

Nearly all of our products and services are web-based, and online performance marketing is data-driven. As a result, the amount of data stored on our servers has been increasing. We gather, transmit, and store information about our users and marketing and media partners, including personally identifiable information. This information may include social security numbers, credit scores, credit card information, and financial and health information, some of which is held or managed by our third-party vendors. As a result, we are subject to certain contractual terms, including third-party security reviews, as well as federal, state and foreign laws and regulations designed to protect personally identifiable information. Complying with these contractual terms and various laws could

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cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business. In addition, our existing security measures may not be successful in preventing security breaches. Despite our implementation of security measures and controls, our information technology and infrastructure are susceptible to circumvention by an internal party, external party, or unrelated third-party, such that electronic or physical computer break-ins, cyber attacks, malware, viruses, fraud, employee error, and other disruptions and security breaches that could result in third-parties gaining unauthorized access to our systems and data. In addition, the increased use of mobile devices increases the risk of unintentional disclosure of data including personally identifiable information. We may be unable to anticipate all our vulnerabilities and implement adequate preventative measures and, in some cases, we may not be able to immediately detect a security incident. In the past, we have experienced security incidents involving access to our databases. Although to our knowledge no sensitive financial or personal information has been compromised and no statutory breach notification has been required, any future security incidents could result in the compromise of such data and subject us to liability or remediation expense or result in cancellation of client contracts. Any security incident may also result in a misappropriation of our proprietary information or that of our users, clients, and third-party publishers, which could result in legal and financial liability, as well as harm to our reputation. Any compromise of our security could limit the adoption of our products and services and have an adverse effect on our business.

We also face risks associated with security breaches affecting third-parties conducting business over the Internet. Consumers generally are concerned with security and privacy on the Internet, and any publicized security problems could negatively affect consumers' willingness to provide private information on the Internet generally, including through our services. Some of our business is conducted through third-parties, which may gather, transmit, and store information about our users and marketing and media partners, through our infrastructure or through other systems. A security breach at any such third-party could be perceived by consumers as a security breach of our systems and in any event could result in negative publicity, damage our reputation, expose us to risk of loss or litigation and possible liability and subject us to regulatory penalties and sanctions. In addition, such third-parties may not comply with applicable disclosure or contractual requirements, which could expose us to liability.

Privacy concerns relating to our data collection practices and any perceived or actual unauthorized disclosure of personally identifiable information, whether through breach of our network or that of third-parties which we engage with, by an unauthorized party, employee theft, misuse, or error could harm our reputation, impair our ability to attract website visitors and to attract and retain our clients, result in a loss of confidence in the security of our products and services, or subject us to claims or litigation arising from damages suffered by consumers, and thereby harm our business and results of operations. In the past few years, several major companies, such as Yahoo!, Sony, Home Depot, Target and LinkedIn, have experienced high-profile security breaches that exposed their customers' personal information. In addition, we could incur significant costs for which our insurance policies may not adequately cover us and expend significant resources in protecting against security breaches and complying with the multitude of state, federal and foreign laws regarding data privacy and data breach notification obligations. We may need to increase our security-related expenditures to maintain or increase our systems' security or to address problems caused and liabilities incurred by security breaches.

More people are using mobile devices to access the Internet. If we fail to develop our websites to keep pace with this shift in user devices, we may not remain competitive and could lose clients or advertising inventory.

The number of people who access the Internet through mobile devices such as smart phones and tablets has increased dramatically in the past few years, and we expect the trend to continue. Our online marketing services and content were originally designed for desktop or laptop computers. The shift from desktop or laptop computers to mobile devices could potentially deteriorate the user experience for visitors to our websites and may make it more difficult for visitors to respond to our offerings. It also requires us to develop new offerings specifically designed for mobile devices, such as social media advertising opportunities. Additionally, the monetization of our online marketing services and content on these mobile devices might not be as lucrative for us compared to those on desktop and laptop computers. If we fail to develop our websites cost effectively and improve the monetization capabilities of our mobile marketing services, we may not remain competitive, which may negatively affect our business and results of operations.

We rely on our management team and other key employees, and the loss of one or more key employees could harm our business.

Our success and future growth depend upon the continued services of our management team, including Douglas Valenti, Chief Executive Officer, and other key employees in all areas of our organization. From time to time, there may be changes in our key employees resulting from the hiring or departure of executives and employees, which could disrupt our business. We have experienced declines in our business and a depressed stock price, making our equity and cash incentive compensation programs less attractive to current and potential key employees. If we lose the services of key employees or if we are unable to attract and retain additional qualified employees, our business and growth could suffer.

Third-party publishers, strategic partners, vendors, or their respective affiliates may engage in unauthorized or unlawful acts that could subject us to significant liability or cause us to lose clients and revenue.

We generate a significant portion of our web visitors from online media that we source directly from our third-party publishers' and strategic partners' owned and operated websites, as well as indirectly from the affiliates of our third-party publishers and strategic partners. We also rely on third-party call centers and email marketers. Some of these third-parties, strategic partners, vendors, and their respective affiliates are authorized to use our clients' brands, subject to contractual restrictions. Any activity by third-party publishers, strategic partners, vendors, or their respective affiliates which violates the marketing guidelines of our clients or that clients view as potentially damaging to their brands (e.g., search engine bidding on client trademarks), whether or not permitted by our contracts with our clients, could harm our relationship with the client and cause the client to terminate its relationship with us, resulting in a loss of revenue. Moreover, because we do not have a direct contractual relationship with the affiliates of our third-party publishers and strategic partners, we may not be able to monitor the compliance activity of such affiliates. If we are unable to cause our third-party publishers and strategic partners to monitor and enforce our clients' contractual restrictions on such affiliates, our clients may terminate their relationships with us or decrease their marketing budgets with us. In addition, we may also face liability for any failure of our third-party publishers, strategic partners, vendors or their respective affiliates to comply with regulatory requirements, as further described in the risk factor beginning, "Negative changes in the market conditions or the regulatory environment have had in the past, and may in the future have, a material and adverse impact on our revenue, business, and growth."

The law is unsettled on the extent of liability that an advertiser in our position has for the activities of third-party publishers, strategic partners, or vendors. Department of Education regulations impose liability on our education clients for misrepresentations made by their marketing service providers. In addition, certain of our contracts impose liability on us, including indemnification obligations, for the acts of our third-party publishers, strategic partners, or vendors. We could be subject to costly litigation and, if we are unsuccessful in defending ourselves, we could incur damages for the unauthorized or unlawful acts of third-party publishers, strategic partners, or vendors.

We rely on certain advertising agencies for the purchase of various advertising and marketing services on behalf of their clients. Such agencies may have or develop high-risk credit profiles, which may result in credit risk to us.

A portion of our client business is sourced through advertising agencies and, in many cases, we contract with these agencies and not directly with the underlying client. Contracting with these agencies subjects us to greater credit risk than where we contract with clients directly. In many cases, agencies are not required to pay us unless and until they are paid by the underlying client. In addition, many agencies are thinly capitalized and have or may develop high-risk credit profiles. This credit risk may vary depending on the nature of an agency's aggregated client base. If an agency were to become insolvent, or if an underlying client did not pay the agency, we may be required to write off account receivables as bad debt. Any such write-offs could have a materially negative effect on our results of operations for the periods in which the write-offs occur.

Damage to our reputation could harm our business, financial condition and results of operations.

Our business is dependent on attracting a large number of visitors to our owned and operated and our third-party publishers' websites and providing leads, inquiries, clicks, calls, applications, and customers to our clients, which depends in part on our reputation within the industry and with our clients. Certain other companies within our industry regularly engage in activities that others may view as unlawful or inappropriate. These activities by third-parties, such as spyware or deceptive promotions, may be seen as characteristic of participants in our industry and may therefore harm the reputation of all participants in our industry, including us.

Our ability to attract potential users and, thereby, clients, also depends in part on users receiving competitive levels of customer service, responsiveness and prices from our clients. If our clients do not provide competitive levels of service to users, our reputation and therefore our ability to attract additional clients and users could be harmed.

In addition, from time to time, we may be subject to investigations, inquiries or litigation by various regulators, which may harm our reputation regardless of the outcome of any such action. For example, in 2012 we responded to a civil investigation conducted by the attorneys general of a number of states into certain of our marketing and business practices resulting in us entering into an Assurance of Voluntary Compliance agreement. Negative perceptions of our business may result in additional regulation, enforcement actions by the government and increased litigation, any of which may affect our business and result in lower revenue.

We also believe that building brand awareness is important to achieving increased demand for certain of our products and services. Accordingly, we have dedicated, and expect to continue to dedicate, significant operating capital and resources to building brand awareness, which may not be successful. Our failure to build brand awareness may adversely affect our ability to attract and retain clients in a cost-effective manner and as a result, our business, financial condition and results of operations.

Any damage to our reputation, including from publicity from legal proceedings against us or companies that work within our industry, governmental proceedings, consumer class action litigation, or the disclosure of information security breaches or private information misuse, could adversely affect our business, financial condition and results of operations.

If we do not effectively manage any future growth or if we are not able to scale our products quickly enough to meet our clients' needs, our operating performance will suffer and we may lose clients.

We have historically experienced growth in our operations and operating locations. This growth has placed, and any future growth will continue to place, significant demands on our management and our operational and financial infrastructure. Growth, if any, may make it more difficult for us to accomplish the following:

- successfully scaling our technology to accommodate a larger business and integrate acquisitions;
- maintaining our standing with key vendors, including Internet search companies and third-party publishers;
- maintaining our client service standards; and
- developing and improving our operational, financial and management controls and maintaining adequate reporting systems and procedures.

Our future success depends in part on the efficient performance of our software and technology infrastructure. As the numbers of websites and Internet users increase, our technology infrastructure may not be able to meet the increased demand. Unexpected constraints on our technology infrastructure could lead to slower website response times or system failures and adversely affect the availability of websites and the level of user responses received, which could result in the loss of clients or revenue or harm to our business and results of operations.

In addition, our personnel, systems, procedures, and controls may be inadequate to support our future operations. The improvements required to manage growth may require us to make significant expenditures, expand, train and manage our employee base, and reallocate valuable management resources. We may spend substantial amounts to purchase or lease data centers and equipment, upgrade our technology and network infrastructure to handle increased traffic on our owned and operated websites and roll out new products and services. This expansion could be expensive and complex and could result in inefficiencies or operational failures. If we do not implement this expansion successfully, or if we experience inefficiencies and operational failures during its implementation, the quality of our products and services and our users' experience could decline. This could damage our reputation and cause us to lose current and potential users and clients. The costs associated with these adjustments to our architecture could harm our operating results. Accordingly, if we fail to effectively manage growth, our operating performance will suffer, and we may lose clients, key vendors and key personnel.

Interruption or failure of our information technology and communications systems could impair our ability to effectively deliver our services, which could cause us to lose clients and harm our results of operations.

Our delivery of marketing and media services depends on the continuing operation of our technology infrastructure and systems. Any damage to or failure of our systems could result in interruptions in our ability to deliver offerings quickly and accurately or process visitors' responses emanating from our various web presences. Interruptions in our service could reduce our revenue and profits, and our reputation could be damaged if users or clients perceive our systems to be unreliable. Our systems and operations are vulnerable to damage or interruption from earthquakes, terrorist attacks, floods, fires, power loss, break-ins, hardware or software failures, telecommunications failures, cyber attacks, computer viruses or other attempts to harm our systems, and similar events. If we or third-party data centers that we utilize were to experience a major power outage, we would have to rely on back-up generators. These back-up generators may not operate properly through a major power outage and their fuel supply could also be inadequate during a major power outage or disruptive event. Furthermore, we do not currently have backup generators at our Foster City, California headquarters. Information systems such as ours may be disrupted by even brief power outages, or by the fluctuations in power resulting from switches to and from back-up generators. This could give rise to obligations to certain of our clients which could have an adverse effect on our results of operations for the period of time in which any disruption of utility services to us occurs.

Our primary data center is at a third-party co-location center in San Francisco, California. All of the critical components of the system are redundant and we have a backup data center in Las Vegas, Nevada. We have implemented these backup systems and redundancies to minimize the risk associated with earthquakes, fire, power loss, telecommunications failure, and other events beyond our control; however, these backup systems may fail or may not be adequate to prevent losses.

Any unscheduled interruption in our service would result in an immediate loss of revenue. If we experience frequent or persistent system failures, the attractiveness of our technologies and services to clients and third-party publishers could be permanently harmed. The steps we have taken to increase the reliability and redundancy of our systems are expensive, reduce our operating margin and may not be successful in reducing the frequency or duration of unscheduled interruptions.

Acquisitions and investments could complicate operations, or could result in dilution and other harmful consequences that may adversely impact our business and results of operations.

Acquisitions have historically been an important element of our overall corporate strategy and use of capital. Any possible future acquisitions or investments could be material to our financial condition and results of operations. We may evaluate and enter into discussions regarding a wide array of potential strategic transactions. The process of integrating an acquired company, business or technology has created, and will continue to create, unforeseen operating difficulties and expenditures. Our failure to address these risks or other problems encountered in connection with our past or future acquisitions and investments could cause us to fail to realize the anticipated benefits of such acquisitions or investments, incur unanticipated liabilities and harm our business generally.

Future acquisitions could also result in dilutive issuances of our equity securities, the incurrence of debt, contingent liabilities, amortization expense, impairment of goodwill or restructuring charges, any of which could harm our financial condition or results. Also, the anticipated benefit of many of our acquisitions may not materialize.

We rely on call centers, Internet and data center providers, and other third-parties for key aspects of the process of providing services to our clients, and any failure or interruption in the services and products provided by these third-parties could harm our business.

We rely on internal and third-party call centers as well as third-party vendors, data centers and Internet providers. Notwithstanding disaster recovery and business continuity plans and precautions instituted to protect our clients and us from events that could interrupt delivery of services, there is no guarantee that such interruptions would not result in a prolonged interruption in our ability to provide services to our clients. Any temporary or permanent interruption in the services provided by our call centers or third-party providers could significantly harm our business.

In addition, any financial or other difficulties our third-party providers face may have negative effects on our business, the nature and extent of which we cannot predict. We exercise little control over our third-party vendors, which increases our vulnerability to problems with the services they provide. We license technology and related databases from third-parties to facilitate analysis and storage of data and delivery of offerings. We have experienced interruptions and delays in service and availability for data centers, bandwidth and other technologies in the past. Any errors, failures, interruptions or delays experienced in connection with these third-party technologies and services could adversely affect our business and could expose us to liabilities to third-parties.

We may need additional capital in the future to meet our financial obligations and to pursue our business objectives. Additional capital may not be available or may not be available on favorable terms and our business and financial condition could therefore be adversely affected.

While we anticipate that our existing cash and cash equivalents, together with availability under our revolving loan facility and cash from operations, will be sufficient to fund our operations for at least the next 12 months, we may need to raise additional capital, including debt capital, to fund operations in the future or to finance acquisitions. If we seek to raise additional capital in order to meet various objectives, including developing future technologies and services, increasing working capital, acquiring businesses, and responding to competitive pressures, capital may not be available on favorable terms or may not be available at all. In addition, our revolving loan facility limits the incurrence of additional indebtedness and is secured by substantially all of our assets, leaving us with limited collateral for additional financing. Lack of sufficient capital resources could significantly limit our ability to take advantage of business and strategic opportunities. Any additional capital raised through the sale of equity or debt securities with an equity component would dilute our stock ownership. If adequate additional funds are not available, we may be required to delay, reduce the scope of, or eliminate material parts of our business strategy, including potential additional acquisitions or development of new technologies.

Our quarterly revenue and results of operations may fluctuate significantly from quarter to quarter due to fluctuations in advertising spending, including seasonal and cyclical effects.

In addition to other factors that cause our results of operations to fluctuate, results are also subject to significant seasonal fluctuation. In particular, our quarters ending December 31 (our second fiscal quarter) are typically characterized by seasonal weakness. During that quarter, there is generally lower availability of lead supply from some forms of media during the holiday period on a cost effective basis and some of our clients have lower budgets. In our quarters ending March 31 (our third fiscal quarter), this trend generally reverses with better lead availability and often new budgets at the beginning of the year for our clients with fiscal years ending December 31.

Furthermore, advertising spend on the Internet, similar to traditional media, tends to be cyclical and discretionary as a result of factors beyond our control, including budgetary constraints and buying patterns of clients, as well as economic conditions affecting the Internet and media industry. For example, recent weather and other events have led to short-term increases in insurance industry client loss ratios, which in turn have led to decreased client spend on online performance marketing. In addition, inherent industry specific risks (e.g., Insurance industry loss ratios and cutbacks) and poor macroeconomic conditions as well as such short-term events could decrease our clients' advertising spending and thereby have a material adverse effect on our business, financial condition, and operating results.

If the market for online marketing services fails to continue to develop, our success may be limited, and our revenue may decrease.

The online marketing services market is relatively new and rapidly evolving, and it uses different measurements from traditional media to gauge its effectiveness. Some of our current or potential clients have little or no experience using the Internet for advertising and marketing purposes and have allocated only limited portions of their advertising and marketing budgets to the Internet. The adoption of online marketing, particularly by those companies that have historically relied upon traditional media for advertising, requires the acceptance of a new way of conducting business, exchanging information and evaluating new advertising and marketing technologies and services.

In particular, we are dependent on our clients' adoption of new metrics to measure the success of online marketing campaigns. Certain of our metrics are subject to inherent challenges in measurement, and real or perceived inaccuracies in such metrics may harm our reputation and negatively affect our business. We present key metrics such as cost-per-click, cost-per-lead and cost-per-acquisition, some of which are calculated using internal data. We periodically review and refine some of our methodologies for monitoring, gathering, and calculating these metrics. While our metrics are based on what we believe to be reasonable measurements and methodologies, there are inherent challenges in deriving our metrics. In addition, our user metrics may differ from estimates published by third-parties or from similar metrics of our competitors due to differences in methodology. If clients or publishers do not perceive our metrics to be accurate, or if we discover material inaccuracies in our metrics, it could negatively affect our business model and current or potential clients' willingness to adopt our metrics.

We may also experience resistance from traditional advertising agencies who may be advising our clients. We cannot assure you that the market for online marketing services will continue to grow. If the market for online marketing services fails to continue to develop or develops more slowly than we anticipate, the success of our business may be limited, and our revenue may decrease.

If we do not adequately protect our intellectual property rights, our competitive position and business may suffer.

Our ability to compete effectively depends upon our proprietary systems and technology. We rely on patent, trade secret, trademark and copyright law, confidentiality agreements, and technical measures to protect our proprietary rights. We enter into confidentiality agreements with our employees, consultants, independent contractors, advisors, client vendors, and publishers. These agreements may not effectively prevent unauthorized disclosure of confidential information or unauthorized parties from copying aspects of our services or obtaining and using our proprietary information. Further, these agreements may not provide an adequate remedy in the event of unauthorized disclosures or uses, and we cannot assure you that our rights under such agreements will be enforceable. Effective patent, trade secret, copyright, and trademark protection may not be available in all countries where we currently operate or in which we may operate in the future. Some of our systems and technologies are not covered by any copyright, patent or patent application. We cannot guarantee that: (i) our intellectual property rights will provide competitive advantages to us; (ii) our ability to assert our intellectual property rights against potential competitors or to settle current or future disputes will be effective; (iii) our intellectual property rights will be enforced in jurisdictions where competition may be intense or where legal protection may be weak; (iv) any of the patent, trademark, copyright, trade secret or other intellectual property rights that we presently employ in our business will not lapse or be invalidated, circumvented, challenged, or abandoned; (v) competitors will not design around our protected systems and technology; or (vi) that we will not lose the ability to assert our intellectual property rights against others.

We have from time to time become aware of third-parties who we believe may have infringed our intellectual property rights. Such infringement or infringement of which we are not yet aware could reduce our competitive advantages and cause us to lose clients, third-party publishers or could otherwise harm our business. Policing unauthorized use of our proprietary rights can be difficult and costly. Litigation, while it may be necessary to enforce or protect our intellectual property rights, could result in substantial costs and diversion of resources and management attention and could adversely affect our business, even if we are successful on the merits. In addition, others may independently discover trade secrets and proprietary information, and in such cases we could not assert any trade secret rights against such parties.

Third-parties may sue us for intellectual property infringement, which, even if unsuccessful, could require us to expend significant costs to defend or settle.

We cannot be certain that our internally developed or acquired systems and technologies do not and will not infringe the intellectual property rights of others. In addition, we license content, software and other intellectual property rights from third-parties and may be subject to claims of infringement if such parties do not possess the necessary intellectual property rights to the products they license to us.

In addition, we have in the past, and may in the future, be subject to legal proceedings and claims that we have infringed the patents or other intellectual property rights of third-parties. These claims sometimes involve patent holding companies or other adverse patent owners who have no relevant product revenue and against whom our own intellectual property rights, if any, may therefore provide little or no deterrence. For example, in December 2012, Internet Patents Corporation ("IPC") filed a patent infringement lawsuit against us in the Northern District of California alleging that some of our websites infringe a patent held by IPC. IPC is a non-practicing entity that relies on asserting its patents as its primary source of revenue. In addition, third-parties have asserted and may in the future assert intellectual property infringement claims against our clients, and we have agreed in certain circumstances to indemnify and defend against such claims. Any intellectual property-related infringement claims, whether or not meritorious and regardless of the outcome of the litigation, could result in costly litigation and could divert management resources and attention. Should we be found liable for infringement, we may be required to enter into licensing agreements, if available on acceptable terms or at all, pay substantial damages, or limit or curtail our systems and technologies. Moreover, we may need to redesign some of our systems and technologies to avoid future infringement liability. Any of the foregoing could prevent us from competing effectively and increase our costs.

Additionally, the laws relating to use of trademarks on the Internet are unsettled, particularly as they apply to search engine functionality. For example, other Internet marketing and search companies have been sued for trademark infringement and other intellectual property-related claims for displaying ads or search results in response to user queries that include trademarked terms. The outcomes of these lawsuits have differed from jurisdiction to jurisdiction. We may be subject to trademark infringement, unfair competition, misappropriation or other intellectual property-related claims which could be costly to defend and result in substantial damages or otherwise limit or curtail our activities, and therefore adversely affect our business or prospects.

Limitations on our ability to collect and use data derived from user activities, as well as new technologies that block our ability to deliver Internet-based advertising, could significantly diminish the value of our services and have an adverse effect on our ability to generate revenue.

When a user visits our websites, we use technologies, including “cookies,” to collect information such as the user’s IP address and the user’s past responses to our offerings. We also have relationships with data partners that collect and provide us with user data. We access and analyze this information in order to determine the effectiveness of a marketing campaign and to determine how to modify the campaign. The use of cookies is the subject of litigation, regulatory scrutiny and industry self-regulatory activities, including the discussion of “do-not-track” technologies and guidelines.

Additionally, users are able to block or delete cookies from their browser. Periodically, certain of our clients and publishers seek to prohibit or limit our collection or use of data derived from the use of cookies. Technologies, tools, software and applications (including new and enhanced web browsers) have been developed, and are likely to continue to be developed, that can block or allow users to opt out of display, search, and Internet-based advertising and content, delete or block the cookies used to deliver such advertising, or shift the location in which advertising appears on pages so that our advertisements do not show up in the most monetizable places on our pages or are obscured. As a result, the adoption of such technologies, tools, software, and applications could reduce the number of display and search advertisements that we are able to deliver and/or our ability to deliver Internet-based advertising and this, in turn, could reduce our results of operations.

Interruptions, failures or defects in our data collection systems, as well as privacy concerns and regulatory changes or enforcement actions affecting our or our data partners' ability to collect user data, could also limit our ability to analyze data from, and thereby optimize, our clients' marketing campaigns. If our access to data is limited in the future, we may be unable to provide effective technologies and services to clients and we may lose clients and revenue.

If we fail to maintain proper and effective internal controls, our ability to produce accurate financial statements on a timely basis or effectively prevent fraud could be impaired, which would adversely affect our ability to operate our business.

In order to comply with the Sarbanes-Oxley Act of 2002 ("SOX Act"), our management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States. We may in the future discover areas of our internal financial and accounting controls and procedures that need improvement. Our internal control over financial reporting will not prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. All control systems have inherent limitations, and, accordingly, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud will be detected. If we are unable to maintain proper and effective internal controls, we may not be able to produce accurate financial statements on a timely basis, which could adversely affect our ability to operate our business and could result in regulatory action.

If we fail to remediate the material weakness in our internal control over financial reporting or are unable to implement and maintain effective internal control over financial reporting in the future, the accuracy and timeliness of our financial reporting may be adversely affected.

We must maintain effective internal control over financial reporting in order to accurately and timely report our results of operations and financial condition. In addition, the SOX Act requires, among other things, that we assess the effectiveness of our internal control over financial reporting as of the end of our fiscal year, and the effectiveness of our disclosure controls and procedures quarterly. If we are not able to comply with the requirements of the SOX Act in a timely manner, the market price of our stock could decline and we could be subject to sanctions or investigations by NASDAQ, the SEC or other regulatory authorities, which would diminish investor confidence in our financial reporting and require additional financial and management resources, each of which may adversely affect our business and operating results.

We did not maintain effective internal control over financial reporting over the accuracy of the accounting for stock-based compensation expense for market-based restricted stock units. Specifically our internal controls with respect to stock-based compensation were not designed to appropriately identify and apply different expense recognition methodologies and, as a result, the compensation expense for market-based restricted stock units was incorrectly accounted for using a straight-line basis rather than an accelerated basis over the requisite service period.

This control deficiency resulted in an audit adjustment to our operating expenses and the revision of our quarterly financial statements used to derive the selected quarterly financial data table included in Item 7 in the Company's 2016

Annual Report on Form 10-K for the periods ended September 30, 2015, December 31, 2015 and March 31, 2016. Additionally, management assessed that this control deficiency could result in a misstatement of the aforementioned account balances and disclosures that would result in a material misstatement to our annual or quarterly financial statements that would not be prevented or detected on a timely basis. Accordingly, we determined that this control deficiency constitutes a material weakness. Based on this evaluation, our management has concluded that our internal control over financial reporting was not effective.

If we fail to effectively remediate this material weakness in our internal control over financial reporting, we may be unable to timely and accurately report our financial results, which could subject us to adverse consequences including, but not limited to, regulatory or enforcement actions by the SEC or NASDAQ. Even if we are able to report our financial statements accurately and in a timely manner, or if we do not make all necessary improvements to address this material weakness, continued disclosure of this material weakness will be required in future filings with the SEC, which could cause our reputation to be harmed and our stock price to decline.

We cannot assure you that we have identified all, or that we will not in the future have additional, material weaknesses. Material weaknesses may still exist when we report on the effectiveness of our internal control over financial reporting as required by the reporting requirements under Section 404 of the SOX Act. The standards required for a Section 404 assessment under the SOX Act may in the future require us to implement additional corporate governance practices and adhere to additional reporting requirements. These stringent standards require that our audit committee be advised and regularly updated on management's assessment of internal control over financial reporting. Our management may not be able to effectively and timely implement controls and procedures that adequately respond to the increased regulatory compliance and reporting requirements that are or will be applicable to us as a public company. If we fail to maintain effective internal control over financial reporting, our business and reputation may be harmed and our stock price may decline. Furthermore, investor perceptions of us may be adversely affected which could cause a decline in the market price of our common stock.

As a creator and a distributor of Internet content, we face potential liability and expenses for legal claims based on the nature and content of the materials that we create or distribute, including materials provided by our clients. If we are required to pay damages or expenses in connection with these legal claims, our results of operations and business may be harmed.

We display original content and third-party content on our websites and in our marketing messages. In addition, our clients provide us with advertising creative and financial information (e.g., insurance premium or credit card interest rates) that we display on our owned and operated and our third-party publishers' websites. As a result, we face potential liability based on a variety of claims, including defamation, negligence, deceptive advertising (including Department of Education regulations regarding misrepresentation in education marketing and Federal Trade Commission regulations), copyright or trademark infringement. We are also exposed to risk that content provided by third-parties or clients is inaccurate or misleading, and for material posted to our websites by users and other third-parties. These claims, whether brought in the United States or abroad, could divert our management's time and attention away from our business and result in significant costs to investigate, defend, and respond to investigative demands, regardless of the merit of these claims. In addition, if we become subject to these types of claims and are not successful in our defense, we may be forced to pay substantial damages.

We face additional risks in conducting business in international markets.

We have entered into certain international markets and may enter into additional international markets in the future, including through acquisitions. We have limited experience in marketing, selling and supporting our services outside of the United States, and we may not be successful in introducing or marketing our services abroad. For example, in fiscal year 2015, we acquired a company specializing in online marketing to financial services clients in Brazil. While we already have a foothold in the Brazilian education market, our expansion into the financial services market in Brazil is new and as such, we cannot guarantee that we will achieve the same success as we have with the Brazilian education market.

There are risks and challenges inherent in conducting business in international markets, such as:

- adapting our technologies and services to foreign clients' preferences and customs;
- successfully navigating foreign laws and regulations, including marketing, privacy regulations, employment and labor regulations;
- changes in foreign political and economic conditions;
- tariffs and other trade barriers, fluctuations in currency exchange rates and potentially adverse tax consequences;

- language barriers or cultural differences;
- reduced or limited protection for intellectual property rights in foreign jurisdictions;
- difficulties and costs in staffing, managing or overseeing foreign operations;
- education of potential clients who may not be familiar with online marketing;

- challenges in collecting accounts receivables; and
- successfully interpreting and complying with the U.S. Foreign Corrupt Practices Act and similar worldwide anti-bribery laws, particularly when operating in countries with varying degrees of governmental corruption.

If we are unable to successfully expand and market our services abroad, our business and future growth may be harmed, and we may incur costs that may not lead to future revenue.

In the past, we have recognized impairments in the carrying value of goodwill. Additional such charges in the future could negatively affect our financial condition and results of operations.

We continue to have a substantial amount of goodwill and purchased intangible assets on our consolidated balance sheet as a result of historical acquisitions. The carrying value of goodwill represents the fair value of an acquired business in excess of identifiable assets and liabilities as of the acquisition date. The carrying value of intangible assets with identifiable useful lives represents the fair value of relationships, content, domain names, acquired technology, among others, as of the acquisition date, and are amortized based on their economic lives. Goodwill that is expected to contribute indefinitely to our cash flows is not amortized, but must be evaluated for impairment at least annually. If the carrying value exceeds current fair value as determined based on the discounted future cash flows of the related business, the goodwill or intangible asset is considered impaired and is reduced to fair value via a non-cash charge to earnings. Events and conditions that could result in impairment include adverse changes in the regulatory environment, a reduced market capitalization or other factors leading to reduction in expected long-term growth or profitability.

Goodwill impairment analysis and measurement is a process that requires significant judgment. Our stock price and any estimated control premium are factors affecting the assessment of the fair value of our underlying reporting units for purposes of performing any goodwill impairment assessment. For example, our public market capitalization sustained a decline after December 31, 2012 and June 30, 2014 to a value below the net book carrying value of our equity, triggering the need for a goodwill impairment analysis. As a result of our goodwill impairment analysis, we recorded a goodwill impairment charge in those periods. Additionally, in the third quarter of fiscal year 2016, our stock price experienced volatility and our public market capitalization decreased to a value below the net book carrying value of our equity, triggering the need for an interim impairment test. While no impairment was recorded as a result of the interim impairment test, it is possible that another material change could occur in the future. We will continue to conduct impairment analyses of our goodwill on an annual basis, unless indicators of possible impairment arise that would cause a triggering event, and we would be required to take additional impairment charges in the future if any recoverability assessments reflect estimated fair values that are less than our recorded values. Further impairment charges with respect to our goodwill could have a material adverse effect on our financial condition and results of operations.

We could lose clients if we fail to detect click-through or other fraud on advertisements in a manner that is acceptable to our clients.

We are exposed to the risk of fraudulent clicks or actions on our websites or our third-party publishers’ websites, which could lead our clients to become dissatisfied with our campaigns, and in turn, lead to loss of clients and related revenue. Click-through fraud occurs when an individual clicks on an ad displayed on a website, or an automated system is used to create such clicks, with the intent of generating the revenue-share payment to the publisher rather than viewing the underlying content. Action fraud occurs when online lead forms are completed with false or fictitious information in an effort to increase a publisher’s compensable actions. From time to time, we have experienced fraudulent clicks or actions. We do not charge our clients for fraudulent clicks or actions when they are detected, and such fraudulent activities could negatively affect our profitability or harm our reputation. If fraudulent clicks or actions are not detected, the affected clients may experience a reduced return on their investment in our marketing programs, which could lead the clients to become dissatisfied with our campaigns, and in turn, lead to loss of clients and related revenue. Additionally, from time to time, we have had to, and in the future may have to, terminate relationships with publishers whom we believed to have engaged in fraud. Termination of such relationships entails a loss of revenue associated with the legitimate actions or clicks generated by such publishers.

As a public company, we are subject to compliance initiatives that will require substantial time from our management and result in significantly increased costs that may adversely affect our operating results and financial condition.

The Securities Exchange Act of 1934, Sarbanes-Oxley Act of 2002, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, and other rules implemented by the SEC and NASDAQ, impose various requirements on public companies, including requiring changes in corporate governance practices. These and proposed corporate governance laws and regulations under consideration may further increase our compliance costs. If compliance with these various legal and regulatory requirements diverts our management's attention from other business concerns, it could have a material adverse effect on our business, financial condition and results of operations. We also expect that these laws and regulations may make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage than used to be available. As a result, it may be more difficult for us to attract and retain qualified individuals to serve on our board of directors, on committees of our board of directors, or as executive officers.

Risks Related to the Ownership of Our Common Stock

Our stock price has been volatile and may continue to fluctuate significantly in the future, which may lead to you not being able to resell shares of our common stock at or above the price you paid, delisting, securities litigation or hostile or otherwise unfavorable takeover offers.

The trading price of our common stock has been volatile since our initial public offering and may continue to be subject to wide fluctuations in response to various factors, some of which are beyond our control. These factors include those discussed in this "Risk Factors" section of this report and other factors such as:

- our ability to grow our revenues and adjusted EBITDA margin and to manage any such growth effectively;
- changes in earnings estimates or recommendations by securities analysts;
- announcements about our revenue, earnings or other financial results that are not in line with analyst expectations;
- geopolitical and world economic conditions;
- our ability to find, develop or retain high quality targeted media on a cost effective basis;
- relatively low trading volume in our stock, which creates inherent volatility regardless of factors related to our business performance or prospects;
- the sale of, or indication of the intent to sell, substantial amounts of our common stock by our directors, officers or substantial shareholders;
- announcements by us or our competitors of new services, significant contracts, commercial relationships, acquisitions or capital commitments;
- our commencement of, involvement in, or a perceived threat of litigation or regulatory enforcement action; and
- negative publicity about us, our industry, our clients or our clients' industries.

In recent years, the stock market in general, and the market for technology and Internet-based companies in particular, has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. Broad market and industry factors may seriously affect the market price of our common stock, regardless of our actual operating performance. As a result of this volatility, you may not be able to sell your common stock at or above the price paid for the shares. In addition, in the past, following periods of volatility in the overall market and the market price of a particular company's securities, securities class action litigation has often been instituted against these companies. Such litigation, if instituted against us, could result in substantial costs and a diversion of our management's attention and resources.

Moreover, a declining stock price may make us attractive to hedge funds and other short-term investors which could result in substantial stock price volatility and cause fluctuations in trading volumes for our stock. A relatively low stock price may also cause us to become subject to an unsolicited or hostile acquisition bid which could result in substantial costs and a diversion of management attention and resources. In the event that such a bid is publicly disclosed, it may result in increased speculation and volatility in our stock price even if our board of directors decides not to pursue a transaction.

If securities or industry analysts do not publish research or reports about our business, or if they issue an adverse opinion regarding our stock, our stock price and trading volume could decline.

The trading market for our common stock is influenced by the research and reports that industry or securities analysts publish about us, our business or the industries or businesses of our clients. If any of the analysts issue an adverse opinion regarding our stock or if our actual results do not meet analyst estimates, our stock price would likely decline. If one or more of these analysts ceases coverage of our company or fails to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

Our directors and executive officers and their respective affiliates have substantial influence over us and could delay or prevent a change in corporate control.

As of December 31, 2016, our directors and executive officers, together with their affiliates, beneficially owned approximately 23% of our outstanding common stock. As a result, these stockholders, acting together, have substantial influence over the outcome of matters submitted to our stockholders for approval, including the election of directors and any merger, consolidation or sale of all or substantially all of our assets. In addition, these stockholders, acting together, have significant influence over the management and affairs of our company. Accordingly, this concentration of ownership may have the effect of:

- delaying, deferring or preventing a change in corporate control;
- impeding a merger, consolidation, takeover or other business combination involving us; or
- discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of us.

Provisions in our charter documents under Delaware law and in contractual obligations could discourage a takeover that stockholders may consider favorable and may lead to entrenchment of management.

Our amended and restated certificate of incorporation and bylaws contain provisions that could have the effect of delaying or preventing changes in control or changes in our management without the consent of our board of directors. These provisions include:

- a classified board of directors with three-year staggered terms, which may delay the ability of stockholders to change the membership of a majority of our board of directors;
- no cumulative voting in the election of directors, which limits the ability of minority stockholders to elect director candidates;
- the exclusive right of our board of directors to elect a director to fill a vacancy created by the expansion of the board of directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors;
- the ability of our board of directors to issue shares of preferred stock and to determine the price and other terms of those shares, including preferences and voting rights, without stockholder approval, which could be used to significantly dilute the ownership of a hostile acquirer;
- a prohibition on stockholder action by written consent, which forces stockholder action to be taken at an annual or special meeting of our stockholders;
- the requirement that a special meeting of stockholders may be called only by the chairman of the board of directors, the chief executive officer or the board of directors, which may delay the ability of our stockholders to force consideration of a proposal or to take action, including the removal of directors; and
- advance notice procedures that stockholders must comply with in order to nominate candidates to our board of directors or to propose matters to be acted upon at a stockholders' meeting, which may discourage or deter a potential acquiror from conducting a solicitation of proxies to elect the acquiror's own slate of directors or otherwise attempting to obtain control of us.

We are also subject to certain anti-takeover provisions under Delaware law. Under Delaware law, a corporation may not, in general, engage in a business combination with any holder of 15% or more of its capital stock unless the holder has held the stock for three years or, among other things, the board of directors has approved the transaction.

We do not currently intend to pay dividends on our common stock and, consequently, your ability to achieve a return on your investment will depend on appreciation in the price of our common stock.

We have not declared or paid dividends on our common stock and we do not intend to do so in the near term. We currently intend to invest our future earnings, if any, to fund our growth. Additionally, the terms of our revolving loan facility restrict our ability to pay dividends. Therefore, you are not likely to receive any dividends on your common stock in the near term, and capital appreciation, if any, of our common stock will be your sole source of gain for the foreseeable future.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Unregistered Sales of Equity Securities

None.

Purchases of Equity Securities by QuinStreet, Inc.

In November 2016, the Board of Directors authorized a stock repurchase program allowing the Company to repurchase up to 750,000 outstanding shares of its common stock with an expiration date of November 2017. Repurchases under this program took place in the open market and were made under a Rule 10b5-1 plan. There is no guarantee as to the exact number of shares that will be repurchased by the Company, and the Company may discontinue repurchases at any time.

The following table summarizes the stock repurchase activity during the second quarter of fiscal year 2017 and the number of shares that may yet be purchased pursuant to our stock repurchase program that was available as of December 31, 2016:

Period	Total Number of Shares Purchased	Weighted Average Price Paid Per Share [(1)]	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares that May Yet Be Purchased Under the Program
November 1, 2016 - November 30, 2016	250,979	$ 2.92	250,979	499,021
December 1, 2016 - December 31, 2016	93,044	3.21	93,044	405,977
Total	344,023	$ 3.00	344,023	

(1) Excludes a $0.03 per share broker commission.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

See the Exhibit Index following the signature page to this Quarterly Report on Form 10-Q for a list of exhibits filed or furnished with this report, which Exhibit Index is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

QUINSTREET, INC.

/s/ Gregory Wong
Gregory Wong
Chief Financial Officer and Senior Vice President
(Principal Financial and Accounting Officer and duly authorized signatory)
Date: February 9, 2017

EXHIBIT INDEX

Exhibit Number	Description of Document
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1‡	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.
‡ Furnished herewith.