QUINSTREET, INC
Form 10-K
August 19, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended June 30, 2016

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number: 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, including zip code)

(650) 587-7700

(Registrant’s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $0.001 per share	The NASDAQ Stock Market LLC (NASDAQ Global Select Market)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

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

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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. (Check one):

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

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

As of December 31, 2015, the aggregate market value of the voting stock held by non-affiliates of the registrant, based on the closing sale price of the Company's common stock as reported by the NASDAQ Global Select Market on such date, was $154,813,333. For purposes of this disclosure, shares held by persons who hold more than 5% of the outstanding shares of common stock and shares held by executive officers and directors of the registrant have been excluded because such persons may be deemed to be affiliates. This determination of executive officer or affiliate status is not a conclusive determination for other purposes.

Number of shares of common stock outstanding as of August 12, 2016: 45,750,455

Documents Incorporated by Reference:

Portions of the registrant's definitive proxy statement relating to its 2016 annual stockholders' meeting are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated.

QUINSTREET, INC.

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

TABLE OF CONTENTS

		Page
	PART I.	
Item 1.	Business	3
Item 1A.	Risk Factors	8
Item 1B.	Unresolved Staff Comments	25
Item 2.	Properties	25
Item 3.	Legal Proceedings	25
Item 4.	Mine Safety Disclosures	25
	PART II.	
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	26
Item 6.	Selected Consolidated Financial Data	28
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	30
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	43
Item 8.	Financial Statements and Supplementary Data	44
Item 9.	Changes In and Disagreements with Accountants on Accounting and Financial Disclosure	70
Item 9A.	Controls and Procedures	70
Item 9B.	Other Information	71
	PART III.	
Item 10.	Directors, Executive Officers and Corporate Governance	71
Item 11.	Executive Compensation	72
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	72
Item 13.	Certain Relationships and Related Transactions, and Director Independence	72
Item 14.	Principal Accounting Fees and Services	72
	PART IV.	
Item 15.	Exhibits, Financial Statement Schedules	73
	Signatures	74

PART I

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements. All statements other than statements of historical facts, including statements regarding our future financial condition, business strategy and plans and objectives of management for future operations, are forward-looking statements. Terminology such as “believe,” “may,” “might,” “objective,” “estimate,” “continue,” “anticipate,” “intend,” “should,” “plan,” “expect,” “predict,” “potential,” or the negative of these terms or other sin expressions is intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements are subject to a number of known and unknown risks and uncertainties that could cause our actual results to differ materially from those expressed or implied in our forward-looking statements. Such risks and uncertainties include, among others, those listed in Part 1, Item 1A. “Risk Factors” of this Annual Report on Form 10-K and elsewhere in this report, 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.

Except as required by law, we undertake no obligation to update publicly any forward-looking statements for any reason to conform these statements to actual results or to changes in our expectations. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements, and we qualify all of our forward-looking statements by these cautionary statements.

Item 1. Business

Our Company

We are a digital performance marketing product and media company. Our approach to proprietary performance marketing technologies allows clients to engage high intent digital media or traffic from a wide range of device types (e.g., mobile, desktop, tablet), in multiple formats or types of media (e.g., search engines, large and small media properties or websites, email), and in a wide range of cost-per-action, or CPA, forms. These forms of contact are the primary “products” we sell to our clients, and include qualified leads, inquiries, clicks, calls, applications and customers. We specialize in customer acquisition for clients in high value, information-intensive markets, or “verticals,” including financial services, education, business-to-business technology and home services. 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 generate revenue by delivering measurable online marketing results to our clients. The benefits to our clients include cost-effective and measurable customer acquisition costs, as well as management of highly targeted but also highly fragmented online media sources and access to our world-class proprietary technologies. We are predominantly paid on a negotiated or market-driven “per lead,” “per click,” or other “per action” basis that aligns with the customer acquisition cost targets of our clients. We bear the cost of paying Internet search companies, third-party publishers, strategic partners and other online media sources to generate qualified leads, inquiries, clicks, calls, applications or customers for our clients.

Our competitive advantages include our media buying power, proprietary technologies, extensive data and experience in performance marketing, and significant online media market share in the markets or verticals we serve. Our advantage in online media buying is key to our business model and comes from our ability to effectively segment and match high-intent, unbranded media or traffic – one of the largest sources of traffic for customer acquisition – to as many as hundreds of clients or client offerings and, in most cases, to match those visitors to multiple clients, which also satisfies the visitor's desire to choose among alternatives and to shop multiple offerings. Together, the ability to match more visitors in any given flow of traffic or media to a client offering, and to do so multiple times, adds up to a significant media buying advantage compared to individual clients or other buyers for these types of media.

Our proprietary technologies have been developed over the past 17 years to allow us to best segment and match media or traffic, to deliver optimized results for our clients and to operate our high volume and highly complex channel cost-efficiently.

Our extensive data and experience in performance marketing reflect the execution, knowledge and learning from billions of dollars of media spend on these campaigns over time. This is a steep and expensive learning curve. These learnings address millions of permutations of media sources, mix and order of creative and content merchandising, and approaches to the matching and segmentation of Internet visitors to optimize their experience and the results for clients. Together, these learnings allow us to run thousands of campaigns simultaneously and cost-effectively for our clients at acceptable media costs and margins to us.

Because of our deep expertise and capabilities in running financially successful performance marketing programs, we are able to effectively compete for sources and partners of high-intent, unbranded media, and our market share in our client verticals of this media is significant. Our media sources include owned-and-operated organic or search engine optimization ("SEO") websites, targeted search engine marketing ("SEM") or pay-per-click campaigns, social media and mobile programs, internal email databases, call center operations, partnerships with large and small online media companies, and more. Our collective media presence results in engagement with a significant share of online visitors in those markets or verticals, which leads us to be included in client online media buys.

We were incorporated in California on April 16, 1999 and reincorporated in Delaware on December 31, 2009. We have been a pioneer in the development and application of measurable marketing on the Internet. Clients pay us for the actual opt-in actions by visitors or customers that result from our marketing activities on their behalf, versus traditional impression-based advertising and marketing models in which an advertiser pays for a broad audience's exposure to an advertisement.

Market Opportunity

Change in marketing strategy and approach

We believe that marketing approaches are changing as budgets shift from offline, analog advertising media to digital advertising media such as Internet marketing. These changing approaches require a shift to fundamentally new competencies, including:

From qualitative, impression-driven marketing to analytic, data-driven marketing

Growth in Internet marketing is enabling a more data-driven approach to advertising. The measurability of online marketing allows marketers to collect a significant amount of detailed data on the performance of their marketing campaigns, including the effectiveness of ad format and placement and user responses. This data can then be analyzed and used to improve marketing campaign performance and cost-effectiveness on substantially shorter cycle times than with traditional offline media.

From account management-based client relationships to results-based client relationships

Marketers are becoming increasingly focused on strategies that deliver specific, measurable results. For example, marketers are attempting to better understand how their marketing spending produces measurable objectives such as meeting their target marketing cost per new customer. As marketers adopt more results-based approaches, the basis of client relationships with their marketing services providers is shifting from being more account management-based to being more results-oriented.

From marketing messages pushed on audiences to marketing messages pulled by self-directed audiences

Traditional marketing messages such as television and radio advertisements are broadcast to a broad audience. The Internet is enabling more self-directed and targeted marketing. For example, when Internet visitors click on PPC search advertisements, they are expressing an interest in and proactively engaging with information about a product or service related to that advertisement. The growth of self-directed marketing, primarily through online channels, allows marketers to present more targeted and potentially more relevant marketing messages to potential customers who have taken the first step in the buying process, which can in turn increase the effectiveness of marketers’ spending.

From marketing spending focused on large media buys to marketing spending optimized for fragmented media

We believe that media is becoming increasingly fragmented and that marketing strategies are changing to adapt to this trend. There are millions of Internet websites, tens of thousands of which have significant numbers of visitors. While this fragmentation can create challenges for marketers, it also allows for improved audience segmentation and the delivery of highly targeted marketing messages, but innovative technologies and approaches are necessary to effectively manage marketing given the increasing complexity resulting from more media fragmentation.

Increasing complexity of online marketing

Online marketing is a dynamic and increasingly complex advertising medium. There are numerous online channels for marketers to reach potential customers, including search engines, Internet portals, vertical content websites, affiliate networks, display and contextual ad networks, email, video advertising, and social media. We refer to these and other marketing channels as media. Each of these channels may involve multiple ad formats and different pricing models, amplifying the complexity of online marketing. We believe that this complexity increases the demand for our vertical marketing and media services due to our capabilities and to our experience managing and optimizing online marketing programs across multiple channels. Also, marketers and agencies often lack our ability to aggregate offerings from multiple clients in the same industry vertical, an approach that allows us to cover a wide selection of visitor segments and provide more potential matches to visitor needs. This approach can allow us to convert more Internet visitors into qualified leads, inquiries, clicks, calls, applications, or customers from targeted media sources, giving us an advantage when buying or monetizing that media.

Our Business Model

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 paid typically 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.

Media cost, or the cost to attract targeted Internet visitors, is the largest cost input to producing the measurable marketing results we deliver to clients. Balancing our clients' customer acquisition cost and conversion objectives — or the rate at which the leads, inquiries, clicks, calls, or applications that we deliver to them convert into customers — with our media costs and yield objectives, represents the primary challenge in our business model. We have been able to effectively balance these competing demands by focusing on our media sources and creative capabilities, developing proprietary technologies and optimization capabilities, and working to constantly improve segmentation and matching of visitors to clients through the application of our extensive data and experience in performance marketing. We also seek to mitigate media cost risk by working with third-party publishers and media owners predominantly on a revenue-share basis, which makes these costs variable and provides for risk management. Media purchased on a revenue-share basis has represented the majority of our media costs and of the Internet visitors we convert into qualified leads, inquiries, clicks, calls, applications, or customers for clients, contributing significantly to our ability to maintain profitability.

Media and Internet visitor mix

We are a client-driven organization. We seek to be one of the largest providers of measurable marketing results on the Internet in the client industry verticals we serve by meeting the needs of clients for results, reliability and volume. Meeting those client needs requires that we maintain a diversified and flexible mix of Internet visitor sources due to the dynamic nature of online media. Our media mix changes with changes in Internet visitor usage patterns. We adapt to those changes on an ongoing basis, and also proactively adjust our mix of vertical media sources to respond to client or vertical-specific circumstances and to achieve our financial objectives. Generally, our Internet visitor sources include:

- websites owned and operated by us, with content and offerings that are relevant to our clients' target customers;
- visitors acquired from PPC advertisements purchased on major search engines and sent to our websites;
- third-party publishers (including strategic partners) with whom we have a relationship and whose content or traffic is relevant to our clients' target customers;
- email lists owned by us or by third-parties; and
- advertisements run through online advertising networks, directly with major websites or portals, social media networks, or mobile networks.

Our Strategy

Our goal is to continue to be one of the largest and most successful performance marketing companies on the Internet, and eventually in other digitized media forms. We believe that we are in the early stages of a very large and long-term market opportunity. Our strategy for pursuing this opportunity includes the following key components:

- focus on generating sustainable revenues by providing measurable value to our clients;
- build QuinStreet and our industry sustainably by behaving ethically in all we do and by providing quality content and website experiences to Internet visitors;
- remain vertically focused, choosing to grow through depth, expertise and coverage in our current client verticals; enter new client verticals selectively over time, organically and through acquisitions;
- build a world class organization, with best-in-class capabilities for delivering measurable marketing results to clients and high yields or returns on media costs;
- develop and evolve the best technologies and platform for managing vertical marketing and media on the Internet; focus on technologies that enhance media yield, improve client results and achieve scale efficiencies;
- build, buy and partner with vertical content websites that provide the most relevant and highest quality visitor experiences in the client and media verticals we serve; and
- be a client-driven organization and develop a broad set of media sources and capabilities to reliably meet client needs.

Clients

In fiscal year 2016, we had one client, The Progressive Corporation, that accounted for 12% of net revenue. No other client accounted for 10% or more of net revenue in fiscal year 2016 and no client accounted for 10% or more of net revenue in fiscal years 2015 or 2014. Our top 20 clients accounted for 48%, 45% and 52% of net revenue in fiscal years 2016, 2015 and 2014. Since our service was first offered in 2001, we have developed a broad client base with many multi-year relationships. We enter into Internet marketing contracts with our clients, most of which are cancelable with little or no prior notice. In addition, these contracts do not contain penalty provisions for cancellation before the end of the contract term.

Sales and Marketing

We have an internal sales team that consists of employees focused on signing new clients and account managers who maintain and seek to increase our business with existing clients. Our sales people and account managers are each focused on a particular client vertical so that they develop an expertise in the marketing needs of our clients in that particular vertical.

Technology and Infrastructure

We have developed a suite of technologies to manage, improve and measure the results of the marketing programs we offer our clients. We use a combination of proprietary and third-party software as well as hardware from established technology vendors. We use specialized software for client management, building and managing websites, acquiring and managing media, managing our third-party publishers, and the matching of Internet visitors to our marketing clients. We have invested significantly in these technologies and plan to continue to do so to meet the demands of our clients and Internet visitors, to increase the scalability of our operations, and enhance management information systems and analytics in our operations. Our development teams work closely with our marketing and operating teams to develop applications and systems that can be used across our business. In fiscal years 2016, 2015 and 2014, we spent $16.4 million, $17.9 million and $19.5 million on product development.

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.

Intellectual Property

We rely on a combination of patent, trade secret, trademark and copyright laws in the United States and other jurisdictions together with confidentiality agreements and technical measures to protect the confidentiality of our proprietary rights. To protect our trade secrets, we control access to our proprietary systems and technology and enter into confidentiality and invention assignment agreements with our employees and consultants and confidentiality agreements with other third-parties. QuinStreet is a registered trademark in the United States and other jurisdictions. We also have registered and unregistered trademarks for the names of many of our websites, and we own the domain registrations for many of our website domains.

Our Competitors

Our primary competition falls into two categories: advertising and direct marketing services agencies, and online marketing and media companies. We compete for business on the basis of a number of factors including return on marketing expenditures, price, access to targeted media, ability to deliver large volumes or precise types of customer prospects, and reliability.

Advertising and direct marketing services agencies

Online and offline advertising and direct marketing services agencies control the majority of the large client marketing spending for which we primarily compete. So, while they are sometimes our competitors, agencies are also often our clients. We compete with agencies to attract marketing budget or spending from offline forms to the Internet or, once designated to be spent online, to be spent with us versus the agency or by the agency with others. When spending online, agencies spend with us and with portals, other websites and ad networks.

Online marketing and media companies

We compete with other Internet marketing and media companies, in many forms, for online marketing budgets. Most of these competitors compete with us in one vertical. Examples include BankRate in the financial services client vertical and Education Dynamics in the education client vertical. Some of our competition also comes from agencies or clients spending directly with larger websites or portals, including Google, Yahoo! and Microsoft.

Government Regulation

We provide services through a number of different online and offline channels. As a result, we are subject to many federal and state laws and regulations, including restrictions on the use of unsolicited commercial email, such as the CAN-SPAM Act and state email marketing laws, and restrictions on the use of marketing activities conducted by telephone, including the Telemarketing Sales Rule (the “TSR”) and the Telephone Consumer Protection Act (the “TCPA”). Our business is also subject to federal and state 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.

In addition, we provide services to a number of our clients that operate in highly regulated industries, particularly in our financial services and education verticals. In our financial services vertical, our websites and marketing services are subject to various federal, state and local laws, including state licensing laws, federal and state laws prohibiting unfair acts and practices, and federal and state advertising laws. In addition, we are a licensed insurance agent in all fifty states. In our education client vertical, nearly all of the revenue is generated from post-secondary education institutions. Post-secondary education institutions are subject to extensive federal and state regulations and accrediting agency standards, including the Higher Education Act of 1965 as amended (the "HEA"), Department of Education regulations under the HEA, individual state higher education regulations, as well as regulations of the Federal Trade Commission and Consumer Finance Protection Bureau and other federal agencies. Such state and federal regulations govern many aspects of these clients' operations, including marketing and recruiting activities, as well as 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. Although we are not an institution of higher education, we may be required to comply with such education laws and regulations as a result of our role as a vendor to higher education students, either directly or indirectly through our contractual arrangements with clients. Since 2010, there have been significant additions and changes to these regulations and increasing enforcement of them by regulators. In addition, Congress is considering changes to the HEA, resulting in increased scrutiny and demands for increased accountability in the education vertical. These changes may place additional regulatory burdens on post-secondary schools generally, and specific initiatives may be targeted at companies like us that serve higher education. A particularly high level of regulatory and legislative scrutiny has been focused on for-profit higher education institutions, several of which are clients. The costs of compliance with these regulations and new laws may increase in the future and any failure on our part to comply with such laws may subject us to significant liabilities.

Employees

As of June 30, 2016, we had 601 employees, which consisted of 177 employees in product development, 54 in sales and marketing, 42 in general and administration and 328 in operations. None of our employees are represented by a labor union, except for our employees in Brazil who are represented by a union as required by Brazilian law.

Available Information

We file reports with the Securities and Exchange Commission (“SEC”), including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and other filings required by the SEC. We make these reports and filings available free of charge on our website via the investor relations page on www.quinstreet.com as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. We also webcast our earnings calls and certain events we host with members of the investment community on our investor relations page at http://investor.quinstreet.com. The content of our website is not intended to be incorporated by reference into this report or in any other report or document we file, and any reference to this website and others included in this report is intended to be an inactive textual reference only.

The public may read and copy any materials we file with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site (http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

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 nearly 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.

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. In connection with 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 12% of our net revenue in fiscal year 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.

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 cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business. Despite our implementation of security measures and controls, our information technology and infrastructure are susceptible to 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.

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 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 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.

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 expenses, 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. Poor macroeconomic conditions 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 straight-line basis rather than 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 this 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 June 30, 2016, our directors and executive officers, together with their affiliates, beneficially owned approximately 24% 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.

24

Item 1B. Unresolved Staff Comments
None.

Item 2. Properties
Our principal executive offices are located in a leased facility in Foster City, California, consisting of approximately 63,998 square feet of office space under a lease that expires in October 2018 with the option to extend the lease term by another two years. This facility accommodates our principal engineering, sales, marketing, operations, finance and administrative activities. We also lease additional facilities to accommodate sales, marketing, and operations throughout the United States. Outside of the United States, we also lease facilities to accommodate engineering, sales, marketing, and operations in Brazil and India.

We may add new facilities and expand our existing facilities as we add employees and expand our markets, and we believe that suitable additional or substitute space will be available as needed to accommodate any such expansion of our operations.

Item 3. Legal Proceedings
From time to time, we may become involved in legal proceedings and claims arising in the ordinary course of 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 the pending or threatened legal proceedings to which we 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 4. Mine Safety Disclosures
Not Applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock has been traded on the NASDAQ Global Select Market under the symbol "QNST" since our initial public offering on February 11, 2010. Prior to this time, there was no public market for our common stock. The following table shows the high and low sale prices per share of our common stock as reported on the NASDAQ Global Select Market for the periods indicated:

Fiscal Year Ended June 30, 2015	High	Low
First quarter ended September 30, 2014	$6.09	$4.10
Second quarter ended December 31, 2014	$6.09	$3.78
Third quarter ended March 31, 2015	$6.83	$5.01
Fourth quarter ended June 30, 2015	$6.66	$5.06

Fiscal Year Ended June 30, 2016	High	Low
First quarter ended September 30, 2015	$6.82	$4.87
Second quarter ended December 31, 2015	$6.30	$4.23
Third quarter ended March 31, 2016	$4.35	$2.65
Fourth quarter ended June 30, 2016	$3.84	$2.82

On August 12, 2016, the closing price as reported on the NASDAQ Global Select Market of our common stock was $3.22 per share and we had approximately 89 stockholders of record of our common stock.

We have never declared or paid, and do not anticipate declaring or paying, any dividends on our common stock. Any future determination as to the declaration and payment of dividends, if any, will be at the discretion of our board of directors and will depend on then existing conditions, including our financial condition, operating results, contractual restrictions, capital requirements, business prospects and other factors our board of directors may deem relevant. Our revolving loan facility also restricts our ability to pay dividends.

For equity compensation plan information refer to Item 12 in Part III of this Annual Report on Form 10-K.

Performance Graph

The following performance graph shall not be deemed "soliciting material" or to be "filed" with the Securities and Exchange Commission for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or the Exchange Act, or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any filing of QuinStreet, Inc. under the Securities Act of 1933, as amended, or the Exchange Act.

The following performance graph shows a comparison from June 30, 2011 through June 30, 2016 of cumulative total return for our common stock, the NASDAQ Composite Index and the RDG Internet Composite Index. Such returns are based on historical results and are not intended to suggest future performance. Data for the NASDAQ Composite Index and the RDG Internet Composite Index assume reinvestment of dividends.

Recent Sales of Unregistered Securities

There were no unregistered sales of our equity securities during fiscal year 2016.

Item 6. Selected Consolidated Financial Data

The following selected consolidated financial data should be read together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and with the consolidated financial statements and accompanying notes appearing elsewhere in this report. The selected consolidated financial data in this section is not intended to replace our consolidated financial statements and the accompanying notes. The results of acquired businesses have been included in our consolidated financial statements since their respective dates of acquisition. Our historical results are not necessarily indicative of our future results and any interim results are not necessarily indicative of the results for a full fiscal year.

We derived the consolidated statements of operations data for the fiscal years ended June 30, 2016, 2015 and 2014 and the consolidated balance sheets data as of June 30, 2016 and 2015 from our audited consolidated financial statements appearing elsewhere in this report. The consolidated statements of operations data for the fiscal years ended June 30, 2013 and 2012 and the consolidated balance sheets data as of June 30, 2014, 2013 and 2012 are derived from our audited consolidated financial statements, which are not included in this report.

	Fiscal Year Ended June 30,				
	2016	2015	2014	2013	2012
	(In thousands, except per share data)				
Consolidated Statements of Operations Data:					
Net revenue	$297,706	$282,140	$282,549	$305,101	$370,468
Cost of revenue (1)	270,963	252,002	241,907	251,591	283,466
Gross profit	26,743	30,138	40,642	53,510	87,002
Operating expenses: (1)					
Product development	16,431	17,948	19,548	19,048	21,051
Sales and marketing	12,020	14,544	16,385	14,705	14,074
General and administrative	17,166	16,823	17,046	16,226	23,375
Impairment of goodwill	—	—	95,641	92,350	—
Total operating expenses	45,617	49,315	148,620	142,329	58,500
Operating (loss) income	(18,874)	(19,177)	(107,978)	(88,819)	28,502
Interest income	61	72	115	115	134
Interest expense	(585)	(3,818)	(3,825)	(5,200)	(4,462)
Other income (expense), net	112	2,671	1,493	(69)	(42)
Interest and other expense, net	(412)	(1,075)	(2,217)	(5,154)	(4,370)
(Loss) income before income taxes	(19,286)	(20,252)	(110,195)	(93,973)	24,132
(Provision for) benefit from taxes	(134)	244	(36,209)	26,601	(11,131)
Net (loss) income	$(19,420)	$(20,008)	$(146,404)	$(67,372)	$13,001
Net (loss) income per share: (2)					
Basic	$(0.43)	$(0.45)	$(3.36)	$(1.57)	$0.28
Diluted	$(0.43)	$(0.45)	$(3.36)	$(1.57)	$0.28
Weighted average shares used in computing net (loss) income per share:					
Basic	45,197	44,454	43,528	42,816	45,846
Diluted	45,197	44,454	43,528	42,816	46,859

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

Cost of revenue	$3,780	$3,120	$2,767	$3,930	$4,293
Product development	2,340	2,395	2,429	2,765	2,570
Sales and marketing	1,825	2,144	2,937	3,264	3,096
General and administrative	3,023	2,196	2,296	2,057	3,037

(2) See Note 3, Net Loss per Share, to our consolidated financial statements for an explanation of the method used to calculate basic and diluted net (loss) income per share of common stock.

	June 30, 2016	2015	2014	2013	2012
	(In thousands)				
Consolidated Balance Sheets Data:					
Cash and cash equivalents	$53,710	$60,468	$84,177	$90,117	$68,531
Working capital	44,264	69,549	110,412	111,040	103,222
Total assets	193,102	205,153	276,843	429,547	507,160
Long-term liabilities	4,631	20,740	65,448	83,961	98,489
Total debt	15,000	15,049	77,263	92,677	107,596
Total stockholders' equity	124,752	135,585	145,151	278,895	338,357

	Fiscal Year Ended June 30, 2016	2015	2014	2013	2012
	(In thousands)				
Consolidated Statements of Cash Flows Data:					
Net cash provided by operating activities	$1,015	$6,133	$18,377	$50,665	$46,375
Depreciation and amortization	15,087	18,867	26,097	32,325	31,150
Capital expenditures	1,859	3,346	5,455	1,341	2,268

	Fiscal Year Ended June 30, 2016	2015	2014	2013	2012
	(In thousands)				
Other Financial Data:					
Adjusted EBITDA (1)	$7,853	$9,984	$24,189	$47,872	$72,648

(1) We define adjusted EBITDA as net (loss) income less (provision for) benefit from taxes, depreciation expense, amortization expense, stock-based compensation expense, interest and other expense, net, impairment of goodwill, restructuring and legal settlement expense. Please see the "adjusted EBITDA" section within "Management's Discussion and Analysis of Financial Condition and Results of Operations" for more information.

The following table presents a reconciliation of adjusted EBITDA to net (loss) income calculated in accordance with U.S. generally accepted accounting principles (GAAP), the most comparable GAAP measure, for each of the periods indicated:

	Fiscal Year Ended June 30, 2016	2015	2014	2013	2012
	(In thousands)				
Net (loss) income	$(19,420)	$(20,008)	$(146,404)	$(67,372)	$13,001
Interest and other expense, net	412	1,075	2,217	5,154	4,370
Provision for (benefit from) taxes	134	(244)	36,209	(26,601)	11,131
Depreciation and amortization	15,087	18,867	26,097	32,325	31,150
Stock-based compensation expense	10,968	9,855	10,429	12,016	12,996
Impairment of goodwill	—	—	95,641	92,350	—
Restructuring	297	439	—	—	—
Legal settlement expense	375	—	—	—	—
Adjusted EBITDA	$7,853	$9,984	$24,189	$47,872	$72,648

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion of our financial condition and results of operations in conjunction with the consolidated financial statements and the notes thereto included elsewhere in this report. The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this report, particularly in the sections titled "Special Note Regarding Forward-Looking Statements" and "Risk Factors."

Management Overview

We are a digital performance marketing product and media company. We specialize in customer acquisition for clients in high value, information-intensive markets or "verticals," including financial services, education, business-to-business technology and home services. 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 52%, 42% and 39% of net revenue in fiscal years 2016, 2015 and 2014. Our education client vertical represented 30%, 38% and 43% of net revenue in fiscal years 2016, 2015 and 2014. Other client verticals, consisting primarily of business-to-business technology, home services and medical, represented 18%, 20% and 18% of net revenue in fiscal years 2016, 2015 and 2014. We generated the majority of our revenue from sales to clients in the United States.

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 in fiscal year 2017 will also be generated from clients in these 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 over the past several years, 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 continue to impact our business in the near future. 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 business-to-business technology, home services 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 and facilities fees. We are constraining expenses generally to the extent practicable; however we expect product and development expenses to increase in absolute dollars in the future as we accelerate revenue growth and profitability.

Sales and Marketing. Sales and marketing expenses consist primarily of personnel costs, professional services, facilities fees and depreciation expense. We are constraining expenses generally to the extent practicable; however we expect sales and marketing expenses to increase in absolute dollars in the future as we accelerate revenue growth and profitability.

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; however we expect general and administrative expenses to increase in absolute dollars in the future as we accelerate revenue growth and profitability.

Interest and Other Expense, Net

Interest and other expense, net, consists primarily of interest income, interest expense, and other income and expense. Interest income represents interest earned on our cash, cash equivalents and marketable securities, which may increase or decrease depending on market interest rates and the amounts invested. Interest expense is related to our term loan facility, revolving loan facility, the related interest rate swap, promissory notes issued in connection with our acquisitions, and imputed interest on non-interest bearing notes. Borrowings under our revolving loan facility, the aggregate principal amount of outstanding promissory notes and related interest expense could increase if, among other things, we make additional acquisitions through debt financing. 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 Tax

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.

Results of Operations

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

	Fiscal Year Ended					
	2016		2015		2014	
	(In thousands)					
Net Revenue	$297,706	100.0%	$282,140	100.0%	$282,549	100.0%
Cost of revenue [1]	270,963	91.0	252,002	89.3	241,907	85.6
Gross profit	26,743	9.0	30,138	10.7	40,642	14.4
Operating expenses: [1]						
Product development	16,431	5.5	17,948	6.4	19,548	6.9
Sales and marketing	12,020	4.0	14,544	5.1	16,385	5.8
General and administrative	17,166	5.8	16,823	6.0	17,046	6.0
Impairment of goodwill	—	—	—	—	95,641	33.8
Operating loss	(18,874)	(6.3)	(19,177)	(6.8)	(107,978)	(38.1)
Interest income	61	—	72	—	115	—
Interest expense	(585)	(0.2)	(3,818)	(1.3)	(3,825)	(1.4)
Other income, net	112	—	2,671	0.9	1,493	0.5
Loss before income taxes	(19,286)	(6.5)	(20,252)	(7.2)	(110,195)	(39.0)
(Provision for) benefit from taxes	(134)	—	244	0.1	(36,209)	(12.8)
Net loss	$(19,420)	(6.5)%	$(20,008)	(7.1)%	$(146,404)	(51.8)%

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

Cost of revenue	$3,780	1.3%	$3,120	1.1%	$2,767	1.0%
Product development	2,340	0.8	2,395	0.8	2,429	0.9
Sales and marketing	1,825	0.6	2,144	0.8	2,937	1.0
General and administrative	3,023	1.0	2,196	0.8	2,296	0.8

Net Revenue

	Fiscal Year Ended June 30,			2016 - 2015 % Change	2015 - 2014 % Change
	2016	2015	2014		
	(In thousands)				
Net revenue	$297,706	$282,140	$282,549	6%	(0%)
Cost of revenue	270,963	252,002	241,907	8%	4%
Gross profit	$26,743	$30,138	$40,642	(11%)	(26%)

Net revenue increased $15.6 million, or 6%, in fiscal year 2016 compared to fiscal year 2015. Our financial services client vertical revenue increased $36.0 million, or 30%, primarily due to the continued rollout of our enhanced products and media management platform and to strategic partnerships that have increased and diversified our access to quality media and client budgets. Our education client vertical revenue decreased $16.3 million, or 15%, primarily due to the exit from the channel by a large U.S. for-profit education client. Revenue from other client verticals decreased $4.1 million, or 7%, primarily due to decreased client demand in our business-to-business technology, partially offset by increased client demand in our home services client vertical.

Net revenue was approximately flat in fiscal year 2015 compared to fiscal year 2014. Our financial services client vertical revenue increased $7.3 million, or 6%, primarily due to our enhanced click, lead, call and policy products which enabled us to access higher quality media for our clients and has led to increased client budgets. Our education client vertical revenue decreased $14.1 million, or 12%, as a result of our education clients' lower budgets, largely due to uncertainty surrounding regulations and enforcement activity affecting U.S. for-profit education institutions and their operational adjustment to this activity. Revenue from other client verticals increased $6.4 million, or 13%, primarily due to increased client demand in our business-to-business technology and home services client verticals partially offset by decreased client demand in our medical client vertical.

Cost of Revenue and Gross Margin

Cost of revenue increased $19.0 million, or 8%, in fiscal year 2016 compared to fiscal year 2015, driven by increased media costs of $21.6 million and increased stock-based compensation expense of $0.7 million, offset by decreased amortization of intangible assets of $3.6 million. The increased media costs were due to higher revenue volumes. The decreased amortization of intangible assets were related to historical acquisitions becoming fully amortized and reduced spending on acquisitions in recent periods. Gross margin was 9% in fiscal year 2016 compared to 11% in fiscal year 2015. The decrease in gross margin was attributable to a higher proportion of our revenue coming from our financial services click products, which tend to have higher media costs as a percentage of revenue, partially offset by decreased amortization of intangible assets.

Cost of revenue increased $10.1 million, or 4%, in fiscal year 2015 compared to fiscal year 2014, driven by increased media costs of $11.1 million, increased personnel costs of $3.2 million and increased other expenses of $2.5 million, offset by decreased amortization of intangible assets of $7.1 million. The increased media costs were attributable to increased costs for high quality media. The increased personnel costs were attributable to an increase in average headcount. The decreased amortization of intangible assets were attributable to assets from historical acquisitions becoming fully amortized and reduced spending on acquisitions in recent periods. Gross margin was 11% in fiscal year 2015 compared to 14% in fiscal year 2014. The decrease in gross margin was attributable to increased media costs associated with our investments in optimizing high quality media in our financial services vertical.

Operating Expenses

	Fiscal Year Ended June 30,			2016 - 2015 % Change	2015 - 2014 % Change
	2016	2015	2014		
	(In thousands)				
Product development	$16,431	$17,948	$19,548	(8 %)	(8 %)
Sales and marketing	12,020	14,544	16,385	(17 %)	(11 %)
General and administrative	17,166	16,823	17,046	2 %	(1 %)
Impairment of goodwill	—	—	95,641	0 %	(100 %)
Operating expenses	$45,617	$49,315	$148,620	(7 %)	(67 %)

Product Development Expenses

Product development expenses decreased $1.5 million, or 8%, in fiscal year 2016 compared to fiscal year 2015, primarily due to decreased personnel costs of $1.8 million related to decreased headcount and decreased performance incentive compensation associated with the lower achievement of performance objectives.

Product development expenses decreased $1.6 million, or 8%, in fiscal year 2015 compared to fiscal year 2014, primarily due to decreased personnel costs of $1.1 million due to a decrease in average salaries.

Sales and Marketing Expenses

Sales and marketing expenses decreased $2.5 million, or 17%, in fiscal year 2016 compared to fiscal year 2015, primarily due to decreased personnel costs of $1.5 million related to decreased headcount and decreased performance incentive compensation associated with the lower achievement of performance objectives and decreased advertising costs of $0.4 million.

Sales and marketing expenses decreased $1.8 million, or 11%, in fiscal year 2015 compared to fiscal year 2014, primarily due to decreased stock-based compensation expense of $0.8 million, decreased advertising costs of $0.5 million and decreased personnel costs of $0.4 million.

General and Administrative Expenses

General and administrative expenses increased $0.3 million, or 2%, in fiscal year 2016 compared to fiscal year 2015.

General and administrative expenses decreased $0.2 million, or 1%, in fiscal year 2015 compared to fiscal year 2014.

Impairment of Goodwill

As discussed under "Critical Accounting Policies and Estimates," there was no goodwill impairment charge recognized in fiscal years 2016 and 2015. We recognized a goodwill impairment charge of $95.6 million in fiscal year 2014 due to declines sustained in our public market capitalization.

Interest and Other Expense, Net

	Fiscal Year Ended June 30,			2016 - 2015 % Change	2015 - 2014 % Change
	2016	2015	2014		
	(In thousands)				
Interest income	$61	$72	$115	(15 %)	(37 %)
Interest expense	(585)	(3,818)	(3,825)	(85 %)	(0 %)
Other income, net	112	2,671	1,493	(96 %)	79 %
Interest and other expense, net	$(412)	$(1,075)	$(2,217)	(62 %)	(52 %)

Interest income was immaterial in fiscal years 2016, 2015 and 2014.

Interest expense decreased $3.2 million, or 85%, in fiscal year 2016 compared to fiscal year 2015, primarily due to decreased debt obligations.

Interest expense was approximately flat in fiscal year 2015 compared to fiscal year 2014.

Other income, net decreased $2.6 million, or 96% in fiscal year 2016 compared to fiscal year 2015, primarily due to a decrease in gains on the sale of domain names that were not considered to be strategically important to our business of $3.2 million, partially offset by an expense of $0.3 million recognized in fiscal year 2015 related to the termination of the interest rate swap.

Other income, net increased $1.2 million, or 79%, in fiscal year 2015 compared to fiscal year 2014, primarily due to an increase in gains on the sale of domain names that were not considered to be strategically important to our business of $2.8 million, offset by a gain of $0.9 million recognized in fiscal year 2014 related to the sale of our shares of preferred stock in our DemandBase investment.

(Provision for) Benefit from Taxes

	Fiscal Year Ended June 30,		
	2016	2015	2014
	(In thousands)		
(Provision for) benefit from taxes	$(134)	$244	$(36,209)
Effective tax rate	(0.7 %)	1.2 %	(32.8 %)

We recorded a provision of $0.1 million in fiscal year 2016 primarily due to the outcome of a state tax examination, partially offset by the release of uncertain tax position reserves due to the expiration of the statue of limitations. Our effective tax rate was relatively flat in fiscal year 2016 compared to fiscal year 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.

We recorded a benefit from taxes of $0.2 million in fiscal year 2015 primarily due to the carryback of prior year tax losses. The decrease in our effective tax rate for fiscal year 2015 compared to fiscal year 2014 was primarily due to a one-time, non-cash charge recognized in fiscal year 2014 to establish a valuation allowance for a specific portion of our deferred tax assets.

Selected Quarterly Financial Data

The following table sets forth our unaudited quarterly condensed consolidated statements of operations data for the eight quarters ended June 30, 2016. We have prepared the statements of operations for each of these quarters on the same basis as the audited consolidated financial statements included elsewhere in this report and, in the opinion of management, each statement of operations includes all adjustments, consisting solely of normal recurring adjustments, necessary for the fair statement of the results of operations for these periods. This information should be read in conjunction with the audited consolidated financial statements and related notes included elsewhere in this report. These quarterly operating results are not necessarily indicative of our operating results for any future period.

	Three Months Ended							
	June 30, 2016	Mar 31, 2016	Dec 31, 2015	Sept 30, 2015	June 30, 2015	Mar 31, 2015	Dec 31, 2014	Sept 30, 2014
	(In thousands, except per share data) (unaudited)							
Net revenue	$79,113	$81,243	$64,961	$72,389	$70,912	$75,345	$66,694	$69,189
Costs of revenue	71,743	72,956	60,346	65,918	63,006	65,192	60,395	63,409
Gross profit	7,370	8,287	4,615	6,471	7,906	10,153	6,299	5,780
Operating expenses:								
Product development	3,930	4,214	3,843	4,444	4,095	4,653	4,244	4,956
Sales and marketing	2,518	2,898	2,982	3,622	3,639	3,881	3,357	3,667
General and administrative	4,460	4,348	4,138	4,220	3,829	4,300	4,079	4,615
Operating loss	(3,538)	(3,173)	(6,348)	(5,815)	(3,657)	(2,681)	(5,381)	(7,458)
Interest income	22	23	10	6	11	7	28	26
Interest expense	(152)	(155)	(145)	(133)	(1,092)	(760)	(786)	(1,180)
Other (expense) income, net	(8)	112	65	(57)	(330)	40	636	2,325
Loss before income taxes	(3,676)	(3,193)	(6,418)	(5,999)	(5,068)	(3,394)	(5,503)	(6,287)
Benefit from (provision for) taxes	343	(72)	(40)	(365)	40	178	26	—
Net loss	$(3,333)	$(3,265)	$(6,458)	$(6,364)	$(5,028)	$(3,216)	$(5,477)	$(6,287)
Net loss per share: (1)								
Basic	$(0.07)	$(0.07)	$(0.14)	$(0.14)	$(0.11)	$(0.07)	$(0.12)	$(0.14)
Diluted	$(0.07)	$(0.07)	$(0.14)	$(0.14)	$(0.11)	$(0.07)	$(0.12)	$(0.14)
Other Financial Data:								
Adjusted EBITDA	$3,016	$3,543	$158	$1,136	$2,905	$4,270	$2,131	$678

(1) Net loss per share for the four quarters of each fiscal year may not sum to the total for the fiscal year as a result of the different number of shares outstanding during each period.

During the quarter ended June 30, 2016, we identified errors related to our 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. We have 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 our 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. We will revise our previously issued quarterly condensed consolidated financial statements to correct the errors for the quarterly periods ended September 30, 2015, December 31, 2015 and March 31, 2016 of $0.3 million, $0.4 million and $0.4 million in future Quarterly Reports on Form 10-Q where quarterly condensed consolidated financial statements for such periods are included. We have reflected the correction of these errors in the applicable quarterly financial periods presented in the table above.

Adjusted EBITDA

We include adjusted EBITDA in this report because (i) we seek to manage our business to a level of adjusted EBITDA as a percentage of net revenue, (ii) it is a key basis upon which our management assesses our operating performance, (iii) it is one of the primary metrics investors use in evaluating Internet marketing companies, (iv) it is a factor in the evaluation of the performance of our management in determining compensation, and (v) it is an element of certain financial covenants under our revolving loan facility. We define adjusted EBITDA as net loss less (provision for) benefit from taxes, depreciation expense, amortization expense, stock-based compensation expense, interest and other (expense) income, net, restructuring and legal settlement expense.

We use adjusted EBITDA as a key performance measure because we believe it facilitates operating performance comparisons from period to period by excluding potential differences caused by variations in capital structures (affecting interest expense), tax positions (such as the impact on periods or companies of changes in effective tax rates or fluctuations in permanent differences or discrete quarterly items), non-recurring charges (such as restructuring and legal settlement expense) and the non-cash impact of depreciation expense, amortization expense and stock-based compensation expense. Since adjusted EBITDA facilitates internal comparisons of our historical operating performance on a more consistent basis, we also use adjusted EBITDA for business planning purposes, to incentivize and compensate our management personnel and in evaluating acquisition opportunities.

In addition, we believe adjusted EBITDA and similar measures are widely used by investors, securities analysts, ratings agencies and other interested parties in our industry as a measure of financial performance and debt-service capabilities. Our use of adjusted EBITDA has limitations as an analytical tool, and it should not be considered in isolation or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

- adjusted EBITDA does not reflect our cash expenditures for capital equipment or other contractual commitments;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements;
- adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- adjusted EBITDA does not consider the potentially dilutive impact of issuing stock-based compensation to our management team and employees;
- adjusted EBITDA does not reflect the interest expense or the cash requirements necessary to service interest or principal payments on our indebtedness;
- adjusted EBITDA does not reflect certain tax payments that may represent a reduction in cash available to us; and
- other companies, including companies in our industry, may calculate adjusted EBITDA measures differently, which reduces their usefulness as a comparative measure.

Due to these limitations, adjusted EBITDA should not be considered as a measure of discretionary cash available to us to invest in the growth of our business. When evaluating our performance, adjusted EBITDA should be considered alongside other financial performance measures, including various cash flow metrics, net loss and our other GAAP results.

The following table presents a reconciliation of adjusted EBITDA to net loss, the most comparable GAAP measure, for each of the periods indicated:

	June 30, 2016	Mar 31, 2016	Dec 31, 2015	Sept 30, 2015	June 30, 2015	Mar 31, 2015	Dec 31, 2014	Sept 30, 2014
	(In thousands) (unaudited)							
Net loss	$(3,333)	$(3,265)	$(6,458)	$(6,364)	$(5,028)	$(3,216)	$(5,477)	$(6,287)
Interest and other income (expense), net	138	20	70	184	1,411	713	122	(1,171)

(Benefit from) provision for taxes	(343)	72	40	365	(40)	(178)	(26)	—
Depreciation and amortization	3,650	3,721	3,772	3,944	4,089	4,370	4,986	5,422
Stock-based compensation expense	2,629	2,816	2,734	2,789	2,473	2,581	2,526	2,275
Restructuring	—	79	—	218	—	—	—	439
Legal settlement	275	100	—	—	—	—	—	—
Adjusted EBITDA	$3,016	$3,543	$158	$1,136	$2,905	$4,270	$2,131	$678
		.				.		
Adjusted EBITDA as a percentage of net revenue	4 %	4 %	—	2 %	4 %	6 %	3 %	1 %

37

We seek to manage our business to a level of adjusted EBITDA as a percentage of net revenue. We do so on a fiscal year basis by varying our operations to balance revenue growth and costs throughout the fiscal year. We do not seek to manage our business to a level of adjusted EBITDA on a quarterly basis and we expect our adjusted EBITDA margins to vary from quarter to quarter.

Liquidity and Capital Resources

As of June 30, 2016, our principal sources of liquidity consisted of cash and cash equivalents of $53.7 million, cash we expect to generate from future operations, and available borrowings under our $25.0 million revolving loan facility under which we have drawn $15.0 million. 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 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.

	Fiscal Year Ended June 30,		
	2016	2015	2014
	(In thousands)		
Net cash provided by operating activities	$1,015	$6,133	$18,377
Net cash (used in) provided by investing activities	(5,202)	33,270	(10,731)
Net cash used in financing activities	(2,497)	(63,119)	(13,539)

Net Cash Provided by Operating Activities

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

Cash provided by operating activities was $1.0 million for fiscal year 2016 compared to $6.1 million for fiscal year 2015 and $18.4 million for fiscal year 2014.

Cash provided by operating activities in fiscal year 2016 consisted of a net loss of $19.4 million, which included a restructuring charge of $0.3 million, offset by non-cash adjustments of $26.8 million. In addition, there was a net decrease in cash from changes in working capital of $6.3 million. The non-cash adjustments primarily consisted of depreciation and amortization of $15.1 million, stock-based compensation of $11.0 million, and provision for sales returns and doubtful accounts receivable of $0.8 million. The changes in working capital accounts were primarily due to an increase in other assets, noncurrent of $8.2 million and an increase in accounts receivable of $1.8 million, partially offset by a decrease in prepaid expenses and other assets of $4.5 million. The increase in other assets, noncurrent, was primarily due to a one-time $10.0 million cash payment to All Web Leads, a strategic partner, to be their exclusive click monetization partner for the majority of their insurance categories and the increase in accounts receivable was primarily due to the timing of cash receipts. The decrease in prepaid expenses and other assets was primarily due to a cash receipt from a federal tax refund of $6.5 million.

Cash provided by operating activities in fiscal year 2015 consisted of a net loss of $20.0 million, which included a restructuring charge of $0.4 million, offset by non-cash adjustments of $26.6 million. In addition, there was a net decrease in cash from changes in working capital of $0.4 million. The non-cash adjustments primarily consisted of depreciation and amortization of $18.9 million, stock-based compensation net of tax benefits of $9.9 million, and gain on the sale of domain names that were not considered to be strategically important to our business of $3.3 million. The changes in working capital accounts were primarily due to an increase in accounts receivable of $4.4 million, partially offset by an increase in accounts payable and accrued liabilities of $2.4 million and a decrease in net deferred taxes of $1.8 million. The increase in accounts receivable as well as the increase in accounts payable and accrued liabilities were primarily due to the timing of payments.

Cash provided by operating activities in fiscal year 2014 consisted of a net loss of $146.4 million, offset by non-cash adjustments of $130.4 million. In addition, there was a net increase in cash from changes in working capital of $34.4 million. The non-cash charges primarily consisted of impairment of goodwill of $95.6 million, depreciation, and amortization of $26.1 million, and stock-based compensation expense net of tax benefits of $9.9 million, offset by other adjustments, net of $1.1 million. The changes in working capital accounts were primarily due to a decrease in net deferred taxes of $45.1 million and a net increase in accounts payable and accrued liabilities of $0.4 million partially offset by an increase in prepaid expenses and other current assets of $6.3 million, an increase in accounts receivable of $3.5 million, and a decrease in deferred revenue and other noncurrent liabilities of $1.3 million. The decrease in deferred taxes was due to a one-time charge to establish a valuation allowance. The increase in accounts receivable was due to timing of collections.

Net Cash (Used in) Provided by Investing Activities

Cash from investing activities include capital expenditures, capitalized internal development costs, and purchases, sales and maturities of marketable securities.

Cash used in investing activities was $5.2 million for fiscal year 2016, compared to cash provided by investing activities of $33.3 million for fiscal year 2015 and cash used in investing activities of $10.7 million for fiscal year 2014.

Cash used in investing activities in fiscal year 2016 was primarily due capital expenditures and internal software development costs of $5.3 million.

Cash provided by investing activities in fiscal year 2015 was primarily due to net sales and maturities of marketable securities of $38.7 million and proceeds from the sale of domain names that were not considered to be strategically important to our business of $3.4 million, offset by capital expenditures and internal software development costs of $5.7 million and a purchase of an investment of $2.5 million.

Cash used in investing activities in fiscal year 2014 was primarily due to capital expenditures and internal software development costs of $7.9 million, licenses of intangible assets of $2.8 million and acquisition costs of $0.9 million offset by proceeds from a sale of an investment of $1.4 million and proceeds from the sale of domain names that were not considered to be strategically important to our business of $0.5 million. Net investments in marketable securities totaled $1.0 million.

Net Cash Used in Financing Activities

Cash from financing activities include proceeds from the exercise of stock options, withholding taxes related to restricted stock net of share settlement, excess tax benefits from stock-based compensation, proceeds from revolving loan facility, and principal payments on term loan facility and acquisition-related notes payable.

Cash used in financing activities was $2.5 million for fiscal year 2016 compared to $63.1 million for fiscal year 2015 and $13.5 million for fiscal year 2014.

Cash used in financing activities in fiscal year 2016 was primarily due to withholding taxes related to restricted stock net share settlement of $2.5 million.

Cash used in financing activities in fiscal year 2015 was primarily due to principal payments on our term loan facility and acquisition-related notes payable of $78.0 million and withholding taxes related to restricted stock net share settlement of $1.2 million, offset by proceeds from the revolving loan facility of $15.0 million and exercises of stock options of $1.3 million.

Cash used in financing activities in fiscal year 2014 was primarily due to principal payments on acquisition-related notes payable and our term loan facility and related fees of $15.5 million and withholding taxes related to restricted stock net of share settlement of $1.9 million, offset by proceeds received from exercises of stock options of $3.3 million and excess tax benefits from exercises of stock options of $0.5 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

The following table sets forth payments due under our contractual obligations as of June 30, 2016:

	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
	(In thousands)				
Revolving Loan Facility	$15,000	$ 15,000	$—	$ —	$ —
Operating Leases	8,601	3,545	4,871	185	—
Total	$23,601	$ 18,545	$4,871	$ 185	$ —

The above table does not include approximately $2.5 million of long-term income tax liabilities for uncertainty in income taxes due to the fact that we are unable to reasonably estimate the timing of these potential future payments.

Loan Facility

As of June 30, 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 maturing on June 11, 2017. Borrowings under the revolving loan facility bear interest at a rate of the Eurodollar rate plus 3.00%, and are secured by substantially all of our assets. Pursuant to the Credit Agreement, the revolving loan facility is subject to a borrowing base consisting of eligible receivables and certain other customary conditions. We must pay an annual facility fee of $62,500 and an annual unused fee of 0.25% of the undrawn revolving loan facility commitment. We have 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.

The Credit Agreement, as amended, contains limitations on our ability to sell assets, make acquisitions, pay dividends, incur capital expenditures and requires us to comply with certain additional covenants. We must also comply with certain financial covenants only 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 June 30, 2016 and 2015.

As of June 30, 2016 and 2015, there was $15.0 million was outstanding under the 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 remained at $0.1 million through the 24th calendar month of the term of the lease. After this 24 month period, 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.

Critical Accounting Policies and Estimates

We have prepared our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP"). In doing so, we are required 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 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, estimates and assumptions and, therefore, could have the greatest potential impact on our consolidated financial statements. In addition, we believe that a discussion of these policies is necessary to understand and evaluate the consolidated financial statements contained in this report.

See Note 2, Summary of Significant Accounting Principles, of our consolidated financial statements for further information on our critical and other significant accounting policies.

Revenue Recognition

Revenue earned through the delivery of qualified leads, inquiries, clicks, calls, applications, customers and, to a lesser extent, display advertisements, or impressions constituted all revenue in fiscal year 2016, and more than 99% of revenue in fiscal years 2015 and 2014. We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectability is reasonably assured. Delivery is deemed to have occurred at the time a qualified lead, inquiry, click, call, application, or customer is delivered to the client provided that no significant obligations remain.

Under our revenue recognition policies, we allocate revenue in an arrangement using the estimated selling price ("ESP") of deliverables if vendor-specific objective evidence ("VSOE") of selling price based on historical stand-alone sales or third-party evidence ("TPE") of selling price does not exist. Due to the unique nature of some of our multiple deliverable revenue arrangements, we may not be able to establish selling prices based on historical stand-alone sales or third-party evidence, therefore we may use our best estimate to establish selling prices for these arrangements under the standard. We establish best estimates within a range of selling prices considering multiple factors including, but not limited to, factors such as class of client, size of transaction, available media inventory, pricing strategies and market conditions. We believe the use of the best estimate of selling price allows revenue recognition in a manner consistent with the underlying economics of the transaction.

From time to time, we may agree to credit a client for certain leads, inquiries, clicks, calls, applications, or customers if they fail to meet the contractual or other guidelines of a particular client. We have established a sales reserve based on historical experience. To date, such credits have been within our expectations.

Separately from the agreements we have with clients, we have agreements with Internet search companies, third-party publishers and strategic partners to generate potential qualified leads, inquiries, clicks, calls, applications, or customers. We receive a fee from our clients and separately pay a fee to the Internet search companies, third-party publishers and strategic partners. We are the primary obligor in the transaction. As a result, the fees paid by our clients are recognized as revenue and the fees paid to our Internet search companies, third-party publishers and strategic partners are included in cost of revenue.

Deferred revenue is comprised of contractual billings in excess of recognized revenue and payments received in advance of revenue recognition.

Stock-Based Compensation

We measure and record the expense related to stock-based transactions based on the fair value of the stock-based payment awards as determined on the date of grant. The fair value of restricted stock units with a service condition is determined based on the closing price of our common stock on the date of grant. For stock options, we selected and have historically used the Black-Scholes option pricing model to estimate the fair value. For restricted stock units with a service and market condition, we have selected and used the Monte Carlo simulation model to estimate the fair value. In applying these models, our determination of fair value is affected by assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, the expected stock price volatility over the term of the award and the employees' actual and projected stock option exercise and pre-vesting employment termination behaviors. We estimate the expected volatility of our common stock based on our historical volatility over the expected term of the award. We have no history or expectation of paying dividends on our common stock. The risk-free interest rate is based on the U.S. Treasury yield for a term consistent with the expected term of the award.

We recognize stock-based compensation expense over the requisite service period using the straight-line method, based on awards ultimately expected to vest. We estimate future forfeitures at the date of grant. On an annual basis, we assess changes in our estimate of expected forfeitures based on recent forfeiture activity. The effect of adjustments made to forfeiture rates, if any, is recognized in the period that the change is made.

Goodwill

We conduct a test for the impairment of goodwill at the reporting unit level on at least an annual basis and whenever there are events or changes in circumstances that would more likely than not reduce the estimated fair value of a reporting unit below its carrying value. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value of each reporting unit. Significant judgments required to estimate the fair value of reporting units include estimating future cash flows and determining appropriate discount rates, growth rates, an appropriate control premium and other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value for each reporting unit which could trigger impairment.

In the third quarter of fiscal year 2016, our public market capitalization experienced a decline to a value below the net book carrying value of our equity which triggered the necessity to conduct an interim goodwill impairment test as of March 31, 2016. As all revenue in fiscal year 2016 had been earned through the delivery of qualified leads, inquiries, clicks, calls, applications, customers, and to a lesser extent, display advertisements, or impressions, we had one reporting unit as of March 31, 2016. Given that our shares are publicly traded in an active market, we believe that the quoted market price provides evidence of fair value. As of March 31, 2016, our market capitalization exceeded our net book carrying value. Additionally, we estimated fair value utilizing a weighting of the fair values derived from the market and income approach which exceeded our net book carrying value. Based on the results of the step one interim impairment test, we determined there was no goodwill impairment as of March 31, 2016.

We performed our annual goodwill impairment test on April 30, 2016 for fiscal year 2016. We conducted a qualitative assessment to determine whether it was necessary to perform a two-step quantitative goodwill impairment test. In assessing the qualitative factors, we considered any significant changes in key factors such as changes in industry and competitive environment, stock price, actual revenue performance compared to previous years and budget, EBITDA and cash flow generation, since the most recent valuation date, March 31, 2016. Based on the results of the qualitative assessment, there were no indicators of impairment. As of June 30, 2016, we did not identify any indicators of impairment.

We performed our annual goodwill impairment test on April 30, 2015 for fiscal year 2015. We had two reporting units for purposes of allocating and testing goodwill, DMS and DSS. We conducted a qualitative assessment to determine whether it was necessary to perform a two-step quantitative goodwill impairment test. In assessing the qualitative factors, we considered the impact of key factors such as changes in industry and competitive environment, stock price, actual revenue performance compared to previous years, forecasts and cash flow generation. Based on the results of the qualitative assessment, there were no indicators of impairment.

We performed our annual goodwill impairment test on April 30, 2014 for fiscal year 2014 and concluded that the carrying value of our DSS reporting unit exceeded its estimated fair value. This resulted in the recognition of a goodwill impairment charge of $1.2 million for the entire goodwill of our DSS reporting unit. We estimated the fair value of our DMS reporting unit and determined that there were no instances of impairment in our DMS reporting unit.

Our public market capitalization sustained a decline after June 30, 2014 primarily due to our operating results in the fourth quarter of fiscal year 2014, to a value below the net book carrying value of the our equity. As a result, we recognized a non-cash goodwill impairment charge in our DMS reporting unit in the aggregate of $95.6 million for the year ended June 30, 2014.

Long-Lived Assets

We evaluate long-lived assets, such as property and equipment and purchased intangible assets with finite lives, for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. We apply judgment when estimating the fair value of the assets based on the undiscounted future cash flows the assets are expected to generate and recognize an impairment loss if estimated undiscounted future cash flows expected to result from the use of the asset plus net proceeds expected from disposition of the asset, if any, are less than the carrying value of the asset. As of April 30, 2016, 2015 and 2014, we evaluated our long-lived assets and concluded there were no indicators of impairment. As mentioned in the Goodwill section above, our public market capitalization sustained a decline after June 30, 2014, to a value below the net book carrying value of our equity. As such, we tested our long-lived assets related to the DMS reporting unit as of June 30, 2014 and, based on the undiscounted cash flows, determined that these assets were not impaired.

Income Taxes

We account for income taxes using an asset and liability approach to record deferred taxes. Our deferred income tax assets represent temporary differences between the financial statement carrying amount and the tax basis of existing assets and liabilities that will result in deductible amounts in future years, including net operating loss carry forwards. A valuation allowance is recorded against our deferred tax assets which are not expected to be realized. Our judgment regarding future profitability may change due to future market conditions, changes in U.S. or international tax laws and other factors. We recorded a valuation allowance against the majority of our deferred tax assets at the end of fiscal year 2014 due to the significant negative evidence that the near term realization of certain assets were deemed unlikely. We continue to maintain the valuation allowance as of June 30, 2016.

Recent Accounting Pronouncements

See Note 2, Summary of Significant Accounting Policies, to our consolidated financial statements for information with respect to recent accounting pronouncements and the impact of these pronouncements on our consolidated financial statements.

Item 7A. 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 rate risks.

Interest Rate Risk

Our cash equivalents are invested 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 consolidated financial statements.

As of June 30, 2016, our revolving loan facility had an outstanding balance of $15.0 million. Interest on borrowings under the revolving loan facility is payable quarterly at the Eurodollar rate plus 3.00%. Our exposure to interest rate risk under the revolving loan facility will depend on the extent to which we utilize the facility. A hypothetical change of 1% from prevailing interest rates as of June 30, 2016 would not have a material effect on our interest expense.

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 consolidated financial statements.

Item 8. Financial Statements and Supplementary Data
QUINSTREET, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
Report of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm	45
Consolidated Balance Sheets	46
Consolidated Statements of Operations	47
Consolidated Statements of Comprehensive Loss	48
Consolidated Statements of Stockholders’ Equity	49
Consolidated Statements of Cash Flows	50
Notes to Consolidated Financial Statements	51

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of QuinStreet, Inc.

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of QuinStreet, Inc. and its subsidiaries as of June 30, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2016 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as of June 30, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) because a material weakness in internal control over financial reporting related to accuracy of the accounting for stock-based compensation expense for market-based restricted stock units existed as of that date. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness referred to above is described in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A. We considered this material weakness in determining the nature, timing, and extent of audit tests applied in our audit of the June 30, 2016 consolidated financial statements and our opinion regarding the effectiveness of the Company’s internal control over financial reporting does not affect our opinion on those consolidated financial statements. The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in management's report referred to above. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

San Jose, California

August 19, 2016

QUINSTREET, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	June 30, 2016	June 30, 2015
Assets		
Current assets:		
Cash and cash equivalents	$53,710	$60,468
Accounts receivable, net	47,218	46,240
Prepaid expenses and other assets	7,055	11,669
Total current assets	107,983	118,377
Property and equipment, net	7,678	8,565
Goodwill	56,118	56,118
Other intangible assets, net	10,081	19,030
Other assets, noncurrent	11,242	3,063
Total assets	$193,102	$205,153
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$19,814	$20,425
Accrued liabilities	27,705	27,146
Deferred revenue	1,200	1,208
Debt	15,000	49
Total current liabilities	63,719	48,828
Debt, noncurrent	—	15,000
Other liabilities, noncurrent	4,631	5,740
Total liabilities	68,350	69,568
Commitments and contingencies (See Note 9)		
Stockholders' equity:		
Common stock: $0.001 par value; 100,000,000 shares authorized; 45,557,295 and 44,617,850 shares issued and outstanding at June 30, 2016 and June 30, 2015	45	45
Additional paid-in capital	257,950	249,358
Accumulated other comprehensive loss	(418)	(413)
Accumulated deficit	(132,825)	(113,405)
Total stockholders' equity	124,752	135,585
Total liabilities and stockholders' equity	$193,102	$205,153

See notes to consolidated financial statements

QUINSTREET, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Fiscal Year Ended June 30,		
	2016	2015	2014
Net revenue	$297,706	$282,140	$282,549
Cost of revenue (1)	270,963	252,002	241,907
Gross profit	26,743	30,138	40,642
Operating expenses: (1)			
Product development	16,431	17,948	19,548
Sales and marketing	12,020	14,544	16,385
General and administrative	17,166	16,823	17,046
Impairment of goodwill	—	—	95,641
Operating loss	(18,874)	(19,177)	(107,978)
Interest income	61	72	115
Interest expense	(585)	(3,818)	(3,825)
Other income, net	112	2,671	1,493
Loss before income taxes	(19,286)	(20,252)	(110,195)
(Provision for) benefit from taxes	(134)	244	(36,209)
Net loss	$(19,420)	$(20,008)	$(146,404)
Net loss per share:			
Basic	$(0.43)	$(0.45)	$(3.36)
Diluted	$(0.43)	$(0.45)	$(3.36)
Weighted average shares used in computing net loss per share:			
Basic	45,197	44,454	43,528
Diluted	45,197	44,454	43,528

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

Cost of revenue	$3,780	$3,120	$2,767
Product development	2,340	2,395	2,429
Sales and marketing	1,825	2,144	2,937
General and administrative	3,023	2,196	2,296

See notes to consolidated financial statements

47

QUINSTREET, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

	Fiscal Year Ended June 30,		
	2016	2015	2014
Net loss	$(19,420)	$(20,008)	$(146,404)
Other comprehensive (loss) income:			
Unrealized gain (loss) on investments:			
Change in unrealized gain (loss)	—	13	(17)
Less: reclassification adjustment related to realized loss, net of tax of $0	—	16	—
Net change	—	29	(17)
Foreign currency translation adjustment	(5)	(18)	(49)
Unrealized gain (loss) on interest rate swap:			
Change in unrealized gain	—	225	24
Less: reclassification adjustment related to realized loss, net of tax of $0	—	405	—
Net change	—	630	24
Other comprehensive (loss) income	(5)	641	(42)
Comprehensive loss	$(19,425)	$(19,367)	$(146,446)

See notes to consolidated financial statements

QUINSTREET, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands, except share data)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings (Accumulated Deficit)	Total Shareholders' Equity
Balance at June 30, 2013	42,886,884	$ 43	$ 226,857	$ (1,012)	$ 53,007	$ 278,895
Issuance of common stock upon exercise of stock options	731,936	1	3,652	—	—	3,653
Release of restricted stock, net	407,088	—	—	—	—	—
Stock-based compensation	—	—	10,562	—	—	10,562
Withholding taxes related to restricted stock net share settlement	—	—	(1,958)	—	—	(1,958)
Excess tax benefits from stock-based compensation	—	—	445	—	—	445
Net loss	—	—	—	—	(146,404)	(146,404)
Other comprehensive loss	—	—	—	(42)	—	(42)
Balance at June 30, 2014	44,025,908	$ 44	$ 239,558	$ (1,054)	$ (93,397)	$ 145,151
Issuance of common stock upon exercise of stock options	211,878	1	974	—	—	975
Release of restricted stock, net	380,064	—	—	—	—	—
Stock-based compensation	—	—	9,989	—	—	9,989
Withholding taxes related to restricted stock net share settlement	—	—	(1,163)	—	—	(1,163)
Net loss	—	—	—	—	(20,008)	(20,008)
Other comprehensive income	—	—	—	641	—	641
Balance at June 30, 2015	44,617,850	$ 45	$ 249,358	$ (413)	$ (113,405)	$ 135,585
Issuance of common stock upon exercise of stock options	4,531	—	26	—	—	26
Release of restricted stock, net	934,914	—	—	—	—	—
Stock-based compensation	—	—	11,048	—	—	11,048
Withholding taxes related to restricted stock net share settlement	—	—	(2,482)	—	—	(2,482)

Net loss	—		—		—		—			(19,420	)	(19,420	)
Other comprehensive loss	—		—		—		(5	)		—		(5	)
Balance at June 30, 2016	45,557,295	$	45	$	257,950	$	(418	)	$	(132,825	)	$ 124,752	

See notes to consolidated financial statements

QUINSTREET, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Fiscal Year Ended June 30,		
	2016	2015	2014
Cash Flows from Operating Activities			
Net loss	$(19,420)	$(20,008)	$(146,404)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	15,087	18,867	26,097
Impairment of goodwill	—	—	95,641
Write-off of bank loan upfront fees	—	809	—
Provision for sales returns and doubtful accounts receivable	789	142	(104)
Stock-based compensation	10,968	9,855	10,429
Excess tax benefits from stock-based compensation	—	—	(543)
Gains on sale of investment and domain names	(181)	(3,331)	(1,413)
Other adjustments, net	116	247	296
Changes in assets and liabilities, net of effects of acquisitions:			
Accounts receivable	(1,767)	(4,403)	(3,484)
Prepaid expenses and other assets	4,448	(181)	(6,254)
Deferred taxes	(496)	1,786	45,075
Other assets, noncurrent	(8,179)	(5)	(77)
Accounts payable	(505)	2,030	539
Accrued liabilities	608	494	(161)
Deferred revenue	(8)	33	(702)
Other liabilities, noncurrent	(445)	(202)	(558)
Net cash provided by operating activities	1,015	6,133	18,377
Cash Flows from Investing Activities			
Capital expenditures	(1,859)	(3,346)	(5,455)
Business acquisitions	—	(500)	(875)
Other intangibles	—	—	(2,816)
Internal software development costs	(3,482)	(2,342)	(2,494)
Purchases of marketable securities	—	(16,600)	(50,770)
Proceeds from maturities of marketable securities	—	26,849	49,768
Proceeds from sales of marketable securities	—	28,427	—
Purchase of investment	—	(2,500)	—
Proceeds from sale of investment	—	—	1,437
Proceeds from sale of domain names	156	3,371	476
Other investing activities	(17)	(89)	(2)
Net cash (used in) provided by investing activities	(5,202)	33,270	(10,731)
Cash Flows from Financing Activities			
Proceeds from exercise of common stock options	26	1,300	3,329
Proceeds from revolving loan facility	—	15,000	—
Principal payments on term loan facility	—	(77,500)	(12,500)
Payment of bank loan upfront fees	—	(272)	—
Principal payments on acquisition-related notes payable	(41)	(484)	(2,953)
Excess tax benefits from stock-based compensation	—	—	543

Withholding taxes related to restricted stock net share settlement	(2,482)	(1,163)	(1,958)
Net cash used in financing activities	(2,497)	(63,119)	(13,539)
Effect of exchange rate changes on cash and cash equivalents	(74)	7	(47)
Net decrease in cash and cash equivalents	(6,758)	(23,709)	(5,940)
Cash and cash equivalents at beginning of period	60,468	84,177	90,117
Cash and cash equivalents at end of period	$53,710	$60,468	$84,177
Supplemental Disclosure of Cash Flow Information			
Cash paid for interest	643	3,052	3,762
Cash paid for income taxes	863	237	1,569
Supplemental Disclosure of Noncash Investing Activities			
Purchases of property and equipment	—	1,832	—

See notes to consolidated financial statements

QUINSTREET, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. The Company

QuinStreet, Inc. (the "Company") is a digital performance marketing product and media company. 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 business-to-business technology and home services. 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

Principles of Consolidation

The 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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("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 reporting period. These estimates are based on information available as of the date of the financial statements; therefore, actual results could differ from those estimates.

Revenue Recognition

Revenue earned through the delivery of qualified leads, clicks, calls, customers and, to a lesser extent, display advertisements, or impressions constituted substantially all revenue in fiscal year 2016, and more than 99% of revenue in fiscal years 2015 and 2014. The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectability is reasonably assured. Delivery is deemed to have occurred at the time a qualified lead, inquiry, click, call, application, or customer is delivered to the client provided that no significant obligations remain.

The Company allocates revenue in an arrangement using the estimated selling price (“ESP”) of deliverables if it does not have vendor-specific objective evidence (“VSOE”) of selling price based on historical stand-alone sales or third-party evidence (“TPE”) of selling price. Due to the unique nature of some of its multiple deliverable revenue arrangements, the Company may not be able to establish selling prices based on historical stand-alone sales or third-party evidence, therefore the Company may use its best estimate to establish selling prices for these arrangements under the standard. The Company establishes best estimates within a range of selling prices considering multiple factors including, but not limited to, class of client, size of transaction, available media inventory, pricing strategies and market conditions. The Company believes the use of the best estimate of selling price allows revenue recognition in a manner consistent with the underlying economics of the transaction.

From time to time, the Company may agree to credit a client for certain leads, inquiries, clicks, calls, applications, customers or impressions if they fail to meet the contractual or other guidelines of a particular client. The Company has established a sales reserve based on historical experience. To date, such credits have been within the Company’s estimates.

Separately from the agreements the Company has with clients, the Company also has agreements with Internet search companies, third-party publishers and strategic partners to generate potential qualified leads, inquiries, clicks, calls, applications, or customers for our clients. The Company receives a fee from our clients and separately pays a fee to the Internet search companies, third-party publishers and strategic partners. The Company is the primary obligor in the transaction. As a result, the fees paid by its clients are recognized as revenue and the fees paid to its Internet search companies, third-party publishers and strategic partners are included in cost of revenue.

Deferred revenue is comprised of contractual billings in excess of recognized revenue and payments received in advance of revenue recognition.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents and accounts receivable. The Company's investment portfolio consists of money market funds. Cash is deposited with financial institutions that management believes are creditworthy. To date, the Company has not experienced any material losses on its investment portfolio.

The Company maintains contracts with its clients, most of which are cancelable with little or no prior notice. In addition, these contracts do not contain penalty provisions for cancellation before the end of the contract term. In fiscal year 2016, the Company had one client, The Progressive Corporation, that accounted for 12% of net revenue. No other client accounted for 10% or more of net revenue in fiscal year 2016 and no client accounted for 10% or more of net revenue in fiscal years 2015 or 2014.

The Company's accounts receivable are derived from clients located principally in the United States. The Company performs ongoing credit evaluation of its clients, does not require collateral, and maintains allowances for potential credit losses on client accounts when deemed necessary. No client accounted for 10% or more of net accounts receivable as of June 30, 2016 or 2015.

Fair Value of Financial Instruments

The Company's financial instruments consist principally of cash equivalents, accounts receivable, accounts payable and a revolving loan facility. 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. The Company believes that the fair value of the revolving loan facility approximates its recorded amount as of June 30, 2016 as the interest rate on the revolving loan facility is variable and is based on market interest rates and after consideration of default and credit risk.

Cash and Cash Equivalents

All highly liquid investments with maturities of three months or less at the date of purchase are classified as cash equivalents. Cash equivalents consist of money market funds as of June 30, 2016.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization, and are depreciated on a straight-line basis over the estimated useful lives of the assets, as follows:

Computer equipment	3 years
Software	3 years
Furniture and fixtures	3 to 5 years
Leasehold improvements	the shorter of the lease term or the estimated useful lives of the improvements

Internal Software Development Costs

The Company incurs costs to develop software for internal use. The Company expenses all costs that relate to the planning and post-implementation phases of development as product development expense. Costs incurred in the development phase are capitalized and amortized over the product's estimated useful life if the product is expected to have a useful life beyond six months. Costs associated with repair or maintenance of existing sites or the developments of website content are included within cost of revenue in the Company's consolidated statements of operations. The Company's policy is to amortize capitalized internal software development costs on a product-by-product basis using the straight-line method over the estimated economic life of the application, which is generally two years. The Company capitalized \$3.5 million, \$2.5 million and \$2.5 million in fiscal years 2016, 2015 and 2014. Amortization of internal software development costs is reflected within cost of revenue in the Company's consolidated statements of operations.

Goodwill

The Company conducts a test for the impairment of goodwill at the reporting unit level on at least an annual basis and whenever there are events or changes in circumstances that would more likely than not reduce the estimated fair value of a reporting unit below its carrying value. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value of each reporting unit. Significant judgments required to estimate the fair value of reporting units include estimating future cash flows and determining appropriate discount rates, growth rates, an appropriate control premium and other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value for each reporting unit which could trigger impairment.

In the third quarter of fiscal year 2016, the Company's public market capitalization experienced a decline to a value below the net book carrying value of the Company's equity which triggered the necessity to conduct an interim goodwill impairment test as of March 31, 2016. As all revenue in fiscal year 2016 had been earned through the delivery of qualified leads, inquiries, clicks, calls, applications, customers, and to a lesser extent, display advertisements, or impressions, the Company had one reporting unit as of March 31, 2016. Given that the Company's shares are publicly traded in an active market, the Company believes that the quoted market price provides evidence of fair value. As of March 31, 2016, the Company's market capitalization exceeded the Company's net book carrying value. Additionally, the Company estimated fair value utilizing a weighting of the fair values derived from the market and income approach which exceeded the Company's net book carrying value. Based on the results of the step one interim impairment test, the Company determined there were no indicators of impairment as of March 31, 2016.

The Company performed its annual goodwill impairment test on April 30, 2016 for fiscal year 2016. The Company conducted a qualitative assessment to determine whether it is necessary to perform a two-step quantitative goodwill impairment test. In assessing the qualitative factors, the Company considered any significant change in key factors such as industry and competitive environment, stock price, actual revenue performance compared to previous years and budget, EBITDA and cash flow generation, since the most recent valuation date, March 31, 2016. Based on the results of the qualitative assessment, there were no indicators of impairment. As of June 30, 2016, the Company did not identify any indicators of impairment.

The Company performed its annual goodwill impairment test on April 30, 2015 for fiscal year 2015. The Company had two reporting units for purposes of allocating and testing goodwill, DMS and DSS. The Company conducted a qualitative assessment to determine whether it was necessary to perform a two-step quantitative goodwill impairment test. In assessing the qualitative factors, the Company considered the impact of key factors such as changes in industry and competitive environment, stock price, actual revenue performance compared to previous years, forecasts and cash flow generation. Based on the results of the qualitative assessment, there were no indicators of impairment.

The Company performed its annual goodwill impairment test on April 30, 2014 for fiscal year 2014 and concluded that the carrying value of the DSS reporting unit exceeded its estimated fair value. This resulted in the recognition of a goodwill impairment charge of $1.2 million for the entire goodwill of its DSS reporting unit. The Company estimated the fair value of its DMS reporting unit and determined that there were no instances of impairment in its DMS reporting unit.

The Company's public market capitalization sustained a decline after June 30, 2014 primarily due to the Company's operating results in the fourth quarter of fiscal year 2014, to a value below the net book carrying value of the Company's equity. As a result, the Company recognized a non-cash goodwill impairment charge in its DMS reporting unit in the aggregate of $95.6 million for the year ended June 30, 2014.

Long-Lived Assets

The Company evaluates long-lived assets, such as property and equipment and purchased intangible assets with finite lives, for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The Company applies judgment when assessing the fair value of the assets based on the undiscounted future cash flows the assets are expected to generate and recognizes an impairment loss if estimated undiscounted future cash flows expected to result from the use of the asset plus net proceeds expected from disposition of the asset, if any, are less than the carrying value of the asset. When the Company identifies an impairment, it reduces the carrying amount of the asset to its estimated fair value based on a discounted cash flow approach or, when available and appropriate, to comparable market values. As of April 30, 2016, 2015 and 2014, the Company evaluated its long-lived assets and concluded there were no indicators of impairment. As mentioned in the Goodwill section above, the Company's public market capitalization sustained a decline after June 30, 2014, to a value below the net book carrying value of its equity. As such, the Company tested its long-lived assets related to its DMS reporting unit as of June 30, 2014 and, based on the undiscounted cash flows, determined that these assets were not impaired.

Advertising Costs

The Company expenses advertising costs the first time the advertising takes place. The Company's advertising costs were $0.1 million, $0.7 million and $1.1 million in fiscal years 2016, 2015 and 2014.

Income Taxes

The Company accounts for income taxes using an asset and liability approach to record deferred taxes. The Company's deferred income tax assets represent temporary differences between the financial statement carrying amount and the tax basis of existing assets and liabilities that will result in deductible amounts in future years. Based on estimates, the carrying value of the Company's net deferred tax assets assumes that it is not more likely than not that the Company will be able to generate sufficient future taxable income in the respective tax jurisdictions. The Company's judgments regarding future profitability may change due to future market conditions, changes in U.S. or international tax laws and other factors.

Foreign Currency Translation

The Company's foreign operations are subject to exchange rate fluctuations. The majority of the Company's sales and expenses are denominated in U.S. dollars. The functional currency for the majority of the Company's foreign subsidiaries is the U.S. dollar. For these subsidiaries, assets and liabilities denominated in foreign currency are remeasured into U.S. dollars at current exchange rates for monetary assets and liabilities and historical exchange rates for nonmonetary assets and liabilities. Net revenue, cost of revenue and expenses are generally remeasured at average exchange rates in effect during each period. Gains and losses from foreign currency remeasurement are included in other income, net in the Company's consolidated statements of operations. Certain foreign subsidiaries designate the local currency as their functional currency. For those subsidiaries, the assets and liabilities are translated into U.S. dollars at exchange rates in effect at the balance sheet date. Income and expense items are translated at average exchange rates for the period. The foreign currency translation adjustments are included in accumulated other comprehensive loss as a separate component of stockholders' equity. Foreign currency transaction gains and losses are recorded within other income, net in the Company's consolidated statements of operations and were not material for any period presented.

Comprehensive Loss

Comprehensive loss consists of two components, net loss and other comprehensive (loss) income. Other comprehensive (loss) income refers to revenue, expenses, gains, and losses that under GAAP are recorded as an element of stockholders' equity but are excluded from net loss. The Company's comprehensive loss and accumulated other comprehensive loss consists of foreign currency translation adjustments from those subsidiaries not using the U.S. dollar as their functional currency, unrealized gains and losses on marketable securities categorized as available-for-sale and unrealized gains and losses on the interest rate swap. Total accumulated other comprehensive loss is displayed as a separate component of stockholders' equity.

Loss Contingencies

The Company is subject to the possibility of various loss contingencies arising in the ordinary course of business. Management considers the likelihood of loss or impairment of an asset or the incurrence of a liability, as well as its ability to reasonably estimate the amount of loss, in determining loss contingencies. An estimated loss contingency is accrued when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. The Company regularly evaluates current information available to its management to determine whether such accruals should be adjusted and whether new accruals are required.

From time to time, the Company is involved in disputes, litigation and other legal actions. The Company records a charge equal to at least the minimum estimated liability for a loss contingency only when both of the following conditions are met: (i) information available prior to issuance of the financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements, and (ii) the range of loss can be reasonably estimated. The actual liability in any such matters may be materially different from the Company's estimates, which could result in the need to adjust the liability and record additional expenses.

Stock-Based Compensation

The Company measures and records the expense related to stock-based transactions based on the fair values of stock-based payment awards, as determined on the date of grant. The fair value of restricted stock units with a service condition is determined based on the closing price of the Company's common stock on the date of grant. To estimate the fair value of stock options, the Company selected the Black-Scholes option pricing model. To estimate the fair value of restricted stock units with a service and market condition, the Company selected the Monte Carlo simulation model. In applying these models, the Company's determination of the fair value of the award is affected by assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, the Company's expected stock price volatility over the term of the award and the employees' actual and projected stock option exercise and pre-vesting employment termination behaviors.

The Company recognizes stock-based compensation expense over the requisite service period using the straight-line method, based on awards ultimately expected to vest. The Company estimates future forfeitures at the date of grant. On an annual basis, the Company assesses changes to its estimate of expected forfeitures based on recent forfeiture activity. The effect of adjustments made to the forfeiture rates, if any, is recognized in the period that change is made. Refer to Note 10, Stock Benefit Plans, for additional information regarding stock-based compensation.

401(k) Savings Plan

The Company sponsors a 401(k) defined contribution plan covering all U.S. employees. There were no employer contributions under this plan in fiscal years 2016, 2015 or 2014.

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. The Company is currently assessing the impact of this new guidance.

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 becomes effective for fiscal years beginning after December 15, 2015, and interim periods within those years, with early adoption permitted. The Company is currently assessing the impact of this new guidance.

In November 2015, the FASB issued a new accounting standard update on the balance sheet classification of deferred taxes. The new standard requires entities to classify deferred tax liabilities and assets as noncurrent in a classified statement of financial position. The new guidance becomes effective for fiscal years beginning after December 15, 2016, and interim periods within those years, with early adoption permitted. The Company early adopted this amended guidance in the fourth quarter of 2016 on a prospective basis. The adoption of this guidance did not have an impact on the Company's consolidated balance sheet. The Company's June 30, 2015 balances were not retrospectively adjusted.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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.

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.

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

	Fiscal Year Ended June 30,		
	2016	2015	2014
	(In thousands, except per share data)		
Numerator:			
Basic and Diluted:			
Net loss	$(19,420)	$(20,008)	$(146,404)
Denominator:			
Basic and Diluted:			
Weighted average shares of common stock used in computing basic and diluted net loss per share	45,197	44,454	43,528
Net loss per share:			
Basic and Diluted [(1)]	$(0.43)	$(0.45)	$(3.36)
Securities excluded from weighted average shares used in computing diluted net loss per share because the effect would have been anti-dilutive: [(2)]	5,331	8,198	8,843

(1) Diluted EPS does not reflect any potential common stock relating to stock options or restricted stock units due to net losses incurred in fiscal years 2016, 2015 and 2014. 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, Marketable Securities and Variable Interest Entities

Fair Value Measurements

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 June 30, 2016 and 2015, 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 June 30, 2016 and 2015, the Company used Level 2 assumptions for its acquisition-related promissory notes and revolving loan facility.

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 June 30, 2016 and 2015, the Company did not have any Level 3 financial assets or liabilities.

The Company's financial assets and liabilities as of June 30, 2016 and 2015 were categorized as follows in the fair value hierarchy (in thousands):

	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

	Fair Value Measurements as of June 30, 2015 Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Assets:			
Money market funds	$ 20,156	$ —	$ 20,156
Liabilities:			
Acquisition-related promissory note [1]	$ —	$ 49	$ 49
Revolving loan facility [1]	—	15,000	15,000
	$ —	$ 15,049	$ 15,049

(1) These liabilities were carried at historical cost on the Company's consolidated balance sheets.

Marketable Securities

All liquid investments with maturities of three months or less at the date of purchase are classified as cash equivalents. Investments with maturities greater than three months at the date of purchase are classified as marketable securities. Historically, the Company's marketable securities have been classified and accounted for as available-for-sale. Management determines the appropriate classification of its investments at the time of purchase and reevaluates the available-for-sale designation as of each balance sheet date. Available-for-sale securities are carried at fair value, with unrealized gains and losses, net of tax, reported as a component of accumulated other comprehensive loss within stockholders' equity.

The Company held money market funds of $20.2 million as of June 30, 2016 and June 30, 2015. Gross unrealized gains and losses were not material as the carrying value approximated estimated fair value due to its short maturities. The Company did not hold any marketable securities as of June 30, 2016 and 2015.

The Company did not realize any material gains or losses from sales of its securities in fiscal years 2016, 2015 and 2014. As of June 30, 2016 and 2015, the Company did not hold securities that had maturity dates greater than one year.

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 June 30, 2016 and 2015 is recognized at cost within other assets, noncurrent in the Company’s consolidated balance sheets. The Company’s interest was evaluated for impairment as of 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 was $2.5 million as of June 30, 2016, which represents the carrying value of the Company’s investment in the VIE.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

5. Balance Sheet Components

Accounts Receivable, Net

Accounts receivable, net was comprised of the following (in thousands):

	June 30, 2016	2015
Accounts receivable	$49,503	$48,304
Less: Allowance for doubtful accounts	(441)	(440)
Less: Allowance for sales returns	(1,844)	(1,624)
Total	$47,218	$46,240

Property and Equipment, Net

Property and equipment, net was comprised of the following (in thousands):

	June 30, 2016	2015
Computer equipment	$14,673	$13,656
Software	11,191	11,079
Furniture and fixtures	3,240	3,124
Leasehold improvements	1,957	1,806
Internal software development costs	29,521	26,056
Total property plant and equipment, gross	60,582	55,721
Less: Accumulated depreciation and amortization	(52,904)	(47,156)
Total property plant and equipment, net	$7,678	$8,565

Depreciation expense was $3.8 million, $4.0 million and $3.9 million for fiscal years 2016, 2015 and 2014. Amortization expense related to internal software development costs was $2.4 million, $2.4 million and $2.6 million for fiscal years 2016, 2015 and 2014.

Prepaid Expenses and Other Assets

Prepaid expenses and other assets were comprised of the following (in thousands):

	June 30,	
	2016	2015
Income tax receivable	$3,332	$9,719
Prepaid expenses	3,399	1,571
Other assets	324	379
Total	$7,055	$11,669

During fiscal year 2016, 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 its exclusive click monetization partner for the majority of its 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 June 30, 2016, the Company has recorded $1.0 million within prepaid expenses and other assets and $8.3 million within other assets, noncurrent in the Company's consolidated balance sheet. Amortization expense was $0.7 million for fiscal year 2016.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Accrued liabilities

Accrued liabilities were comprised of the following (in thousands):

	June 30, 2016	2015
Accrued media costs	$17,858	$14,728
Accrued compensation and related expenses and taxes payable	5,468	8,007
Accrued professional service and other business expenses	4,379	4,411
Total	$27,705	$27,146

6. Intangible Assets, Net and Goodwill

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

	June 30, 2016			June 30, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer/publisher/advertiser relationships	$36,669	$ (35,648)	$1,021	$37,056	$ (33,916)	$3,140
Content	61,717	(57,778)	3,939	62,162	(54,629)	7,533
Website/trade/domain names	31,470	(27,288)	4,182	31,533	(24,697)	6,836
Acquired technology and others	36,733	(35,794)	939	36,742	(35,221)	1,521
Total	$166,589	$ (156,508)	$10,081	$167,493	$ (148,463)	$19,030

Amortization of intangible assets was $8.9 million, $12.5 million and $19.6 million for fiscal years 2016, 2015 and 2014.

Future amortization expense for the Company’s intangible assets as of June 30, 2016 was as follows (in thousands):

Fiscal Year Ending June 30,	Amortization
2017	$ 6,119
2018	2,238
2019	793
2020	761
2021	170

Thereafter	—
Total	$ 10,081

The changes in the carrying amount of goodwill for fiscal years 2016 and 2015 was as follows (in thousands):

	Total
Balance at June 30, 2014	$55,451
Additions	667
Balance at June 30, 2015	$56,118
Additions	—
Balance at June 30, 2016	$56,118

As of June 30, 2016 and 2015, goodwill was $56.1 million. There were no additions to goodwill in fiscal year 2016. The additions to goodwill in fiscal year 2015 relate to the Company's acquisition of a Brazil-based online lead generation company in exchange for $0.5 million in cash upon closing of the acquisition and estimated payments totaling $0.3 million to be paid in the five years following the acquisition date upon the achievement of certain financial metrics.

There was no impairment charge recorded in fiscal years 2016 and 2015.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

7. Income Taxes

The components of loss before income taxes were as follows (in thousands):

	Fiscal Year Ended June 30,		
	2016	2015	2014
US	$(18,291)	$(18,917)	$(109,257)
Foreign	(995)	(1,335)	(938)
Total	$(19,286)	$(20,252)	$(110,195)

The components of the provision for (benefit from) taxes were as follows (in thousands):

	Fiscal Year Ended June 30,		
	2016	2015	2014
Current			
Federal	$(131)	$(2,140)	$(8,885)
State	(23)	(149)	(374)
Foreign	271	129	361
Total current provision for (benefit from) income taxes	$117	$(2,160)	$(8,898)
Deferred			
Federal	$15	$1,954	$42,842
State	—	—	2,265
Foreign	2	(38)	—
Total deferred provision for (benefit from) income taxes	17	1,916	45,107
Total provision for (benefit from) income taxes	$134	$(244)	$36,209

The reconciliation between the statutory federal income tax and the Company's effective tax rates as a percentage of income before income taxes was as follows:

	Fiscal Year Ended June 30,		
	2016	2015	2014
Federal tax rate	34.0 %	34.0 %	34.0 %
States taxes, net of federal benefit	7.7 %	5.8 %	2.4 %
Foreign rate differential	(1.1)%	(1.1)%	(0.6)%
Stock-based compensation expense	(15.7)%	(13.3)%	(3.6)%
Change in valuation allowance	(25.2)%	(25.0)%	(60.5)%
Impairment of goodwill	—	—	(4.3)%

Research and development credits	2.7 %	1.6 %	0.3 %
Other	(3.1)%	(0.8)%	(0.7)%
Effective income tax rate	(0.7)%	1.2 %	(32.8)%

60

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The components of the current and long-term deferred tax liabilities, net were as follows (in thousands):

	Fiscal Year Ended June 30, 2016	2015
Current:		
Reserves and accruals	$—	$3,091
Stock options	—	1,942
Other	—	74
Total current deferred tax assets	—	5,107
Valuation allowance - ST	—	(4,940)
Current deferred tax assets, net	$—	$166
Noncurrent:		
Reserves and accruals	$3,309	$1,134
Stock options	5,885	5,825
Intangible assets	47,850	53,261
Net operating loss	18,812	5,717
Fixed assets	9	(702)
Tax credits	3,874	2,785
Other	91	93
Total noncurrent deferred tax assets	79,830	68,113
Valuation allowance - LT	(79,868)	(68,301)
Noncurrent deferred tax liabilities, net	$(38)	$(188)
Total deferred tax liabilities, net	$(38)	$(22)

The Company recorded a valuation allowance against the majority of the Company's deferred tax assets at the end of fiscal year 2014 due to the significant negative evidence that the near term realization of certain assets were deemed unlikely. The Company regularly assesses the continuing need for a valuation allowance against its deferred tax assets. Significant judgment is required to determine whether a valuation allowance continues to be necessary and the amount of such valuation allowance, if appropriate. The Company considers all available evidence, both positive and negative to determine, based on the weight of available evidence, whether it is more likely than not that some or all of the deferred tax assets will not be realized. In evaluating the continued need for a valuation allowance the Company considers, among other things, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability, and the duration of statutory carryforward periods. As of June 30, 2016, the Company believes it is not more likely than not that the net deferred tax assets will be fully realizable and continues to maintain a full valuation allowance against its deferred tax assets.

As of June 30, 2016 and 2015, the Company had a federal operating loss carryforward of approximately $45.3 million and $14.1 million. As of June 30, 2016 and 2015, the Company's state operating loss carryforward was approximately $28.7 million and $13.8 million. Included in the federal, California and other state net operating loss carryovers above were approximately $0.1 million, $0.3 million and $0.2 million related to stock option windfall deductions, which when realized will be credited to equity. The federal and state net operating losses, if not used, will begin to expire on June 30, 2035 and June 30, 2034. The operating loss carryforward in the Brazil jurisdiction was approximately $1.8 million and does not have an expiration date. The operating loss carryforward in the India jurisdiction was approximately $4.0 million which will begin to expire on June 30, 2021. The Company has federal and California research and development tax credit carry-forwards of approximately $1.9 million and $4.7 million to offset future taxable income. The federal research and development tax credits, if not used, will begin to expire on June 30, 2033, while the state tax credit carry-forwards do not have an expiration date and may be carried forward indefinitely.

Utilization of the operating loss carryforwards and credits may be subject to a substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code of 1986, as amended, and similar state provisions. The annual limitation may result in the expiration of operating loss carryforwards and credits before utilization.

United States federal income taxes have not been provided for the $2.7 million of cumulative undistributed earnings of the Company’s foreign subsidiaries as of June 30, 2016. The Company’s present intention is that such undistributed earnings be permanently reinvested offshore, with the exception of the undistributed earnings of its Canadian subsidiary. The Company would be subject to additional United States taxes if these earnings were repatriated. The amount of the unrecognized deferred income tax liability related to these earnings is not material to the Company’s consolidated financial statements.

A reconciliation of the beginning and ending amounts of unrecognized tax benefits was as follows (in thousands):

	Fiscal Year Ended June 30,		
	2016	2015	2014
Balance at the beginning of the year	$3,263	$3,077	$2,692
Gross increases - current period tax positions	362	337	379
Gross increases - prior period tax positions	38	115	323
Gross decreases - prior period tax positions	—	(44)	—
Reductions as a result of lapsed statute of limitations	(488)	(222)	(317)
Balance at the end of the year	$3,175	$3,263	$3,077

The Company's policy is to include interest and penalties related to unrecognized tax benefits within the Company's (provision for) benefit from income taxes. As of June 30, 2016, the Company has accrued $1.0 million for interest and penalties related to the unrecognized tax benefits. The balance of interest and penalties is recorded as a noncurrent liability in the Company's consolidated balance sheet.

As of June 30, 2016, unrecognized tax benefits of $1.5 million, if recognized, would affect the Company's effective tax rate. The Company does not anticipate that the amount of existing unrecognized tax benefits will significantly increase or decrease within the next 12 months.

The Company is no longer subject to U.S. federal, state and local, or non-U.S., income tax examinations by tax authorities for years before 2011. The Company files income tax returns in the United States, various U.S. states and certain foreign jurisdictions. As of June 30, 2016, the tax years 2011 through 2015 remain open in the U.S., the tax years 2011 through 2015 remain open in the various state jurisdictions, and the tax years 2013 through 2015 remain open in various foreign jurisdictions.

8. Debt

Loan Facility

In November 2011, the Company entered into a credit agreement ("Credit Agreement") with Comerica Bank (the "Bank"), the administrative agent and lead arranger. The Credit Agreement consisted of a $100.0 million five-year term loan facility, with annual principal amortization of 5%, 10%, 15%, 20% and 50%, and a $200.0 million five-year revolving loan facility maturing on November 4, 2016.

On February 15, 2013, the Company entered into the First Amendment to Credit Agreement and Amendment to Guaranty ("First Amendment") with the Bank to, among other things: (1) amend the definition of EBITDA; and (2) reduce the $200.0 million five-year revolving loan facility to $100.0 million. Upfront arrangement fees incurred in connection with the First Amendment totaled $0.2 million. In connection with the reduction of the revolving credit line capacity, during the third quarter of fiscal 2013 the Company accelerated amortization of approximately $0.7 million of unamortized deferred upfront costs.

On July 17, 2014, the Company entered into the Second Amendment to Credit Agreement ("Second Amendment") with the Bank to, among other things, amend the financial covenants and reduce the revolving loan facility from $100.0 million to $50.0 million, each effective as of June 30, 2014. Upfront arrangement fees incurred in connection with the Second Amendment totaled $0.3 million and were deferred and amortized over the remaining term of the arrangement. In connection with the reduction of the revolving loan facility, the Company accelerated amortization of approximately $0.3 million of unamortized deferred upfront costs.

On June 11, 2015, the Company entered into the Third Amendment to Credit Agreement ("Third Amendment") with the Bank to, among other things, pay off in full and terminate the term loan facility, amend the financial covenants, reduce the revolving loan facility from $50.0 million to $25.0 million and extend the expiration date of the Credit Agreement from November 4, 2016 to June 11, 2017. Pursuant to the Third Amendment, each of the revolving loan facility lenders (other than the Bank) assigned its revolving loan facility commitments to the Bank, resulting in the Bank remaining as sole lender under the Credit Agreement. Upfront arrangement fees incurred in connection with the Third Amendment were not material. In connection with the termination of the term loan facility, the Company accelerated amortization of approximately $0.5 million of unamortized deferred upfront costs.

The Credit Agreement, as amended from time to time, is secured by substantially all of the Company's assets. Borrowings under the revolving loan facility are subject to a borrowing base consisting of eligible receivables and certain other customary conditions.

Pursuant to the Second Amendment, (1) the applicable margin for base rate borrowings was set at (a) 1.375% for the revolving loan facility or (b) 1.75% for the term loan facility, and (2) the applicable margin for Eurodollar rate borrowings was set at (a) 2.375% for the revolving loan facility or (b) 2.75% for the term loan facility.

Pursuant to the Third Amendment, borrowings under the revolving loan facility bear interest at a Eurodollar rate plus 3.00%.

EBITDA under the Credit Agreement is defined as net loss less benefit from (provision for) 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 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.

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, pursuant to the Third Amendment, the Company is 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.

The Company was in compliance with the covenants of the Credit Agreement, as amended, as of June 30, 2016 and 2015.

As of June 30, 2016 and 2015, $15.0 million was outstanding under the revolving loan facility. The Company's revolving loan facility matures in June 2017 and payment of the outstanding balance is due at that time.

Interest Rate Swap

During fiscal years 2015 and 2014, the Company held an interest rate swap to reduce its exposure to the financial impact of changing interest rates under its term loan facility. This interest rate swap was designated as a cash flow hedge of the interest rate risk attributable to forecasted variable interest payments. The effective portion of the fair value gains or losses on this swap was included as a component of accumulated other comprehensive loss with any hedge ineffectiveness immediately recognized into earnings.

In June 2015, in connection with the repayment in full and termination of the term loan facility, the Company also terminated the interest rate swap agreement. Upon settlement, the Company recognized an expense of $0.3 million within other income, net, in the Company's consolidated statement of operations.

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 for fiscal years 2016, 2015 and 2014 was $3.4 million, $3.5 million and $3.6 million. 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 June 30, 2016 were as follows (in thousands):

Fiscal Year Ending June 30,	Operating Leases
2017	$ 3,545
2018	3,422
2019	1,449
2020	159
2021	26
Thereafter	—
Total	$ 8,601

In February 2010, the Company entered into a lease agreement for its corporate headquarters 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 Company has the option to extend the term of the lease twice by one additional year. 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 options to extend.

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 June 30, 2016 and June 30, 2015.

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 June 30, 2016 and 2015.

10. Stock Benefit Plans

Stock-Based Compensation

In fiscal years 2016, 2015 and 2014, the Company recorded stock-based compensation expense of $11.0 million, $9.9 million and $10.4 million. There were no excess tax benefits recognized in fiscal years 2016 and 2015 due to the Company's full valuation allowance. The Company recognized related excess tax benefits of $0.5 million in fiscal year 2014.

There was no gross benefit of tax deductions recognized in fiscal years 2016 and 2015 due to the Company's full valuation allowance. The Company included as part of cash flows from financing activities a gross benefit of tax deductions of $0.5 million in fiscal year 2014 related to stock-based compensation.

Stock Incentive Plans

In November 2009, the Company's board of directors adopted the 2010 Equity Incentive Plan (the "2010 Incentive Plan") and the Company's stockholders approved the 2010 Incentive Plan in January 2010. The 2010 Incentive Plan became effective upon the completion of the IPO of the Company's common stock in February 2010. Awards granted after January 2008 but before the adoption of the 2010 Incentive Plan continue to be governed by the terms of the 2008 Equity Incentive Plan. All outstanding stock awards granted before January 2008 continue to be governed by the terms of the Company's amended and restated 1999 Equity Incentive Plan.

The 2010 Incentive Plan provides for the grant of incentive stock options ("ISOs"), nonstatutory stock options ("NQSOs"), restricted stock, restricted stock units ("RSUs"), stock appreciation rights, performance-based stock awards and other forms of equity compensation, as well as for the grant of performance cash awards. The Company may issue ISOs only to its employees. NQSOs and all other awards may be granted to employees, including officers, nonemployee directors and consultants.

Prior to fiscal year 2016, the Company granted restricted stock units with a service condition ("service-based RSUs"). In fiscal year 2016, the Company also began granting to employees RSUs with a service and market condition ("market-based RSUs") 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 ISOs, NQSOs, RSUs and performance-based stock awards under the 2010 Incentive Plan. ISOs and NQSOs are generally granted to employees with an exercise price equal to the market price of the Company's common stock at the date of grant. Stock options granted to employees generally have a contractual term of seven years and vest over four years of continuous service, with 25 percent of the stock options vesting on the one-year anniversary of the date of grant and the remaining 75 percent vesting in equal monthly installments over the three year period thereafter. RSUs granted to employees prior to fiscal year 2013 generally vest over five years of continuous service, with 15 percent of the RSUs vesting on the one-year anniversary of the date of grant, 60 percent vesting in equal quarterly installments over the following three years and the remaining 25 percent vesting in equal quarterly installments over the last year of the vesting period. RSUs granted to employees starting in fiscal year 2013 generally vest over four years of continuous service, with 25 percent of the RSUs vesting on the one-year anniversary of the date of grant and 6.25% vesting quarterly thereafter for the next 12 quarters.

An aggregate of 13,642,714 shares of the Company's common stock were reserved for issuance under the 2010 Incentive Plan as of June 30, 2016, and this amount will be increased by any outstanding stock awards that expire or terminate for any reason prior to their exercise or settlement. The number of shares of the Company's common stock reserved for issuance is increased annually through July 1, 2019 by up to five percent of the total number of shares of the Company's common stock outstanding on the last day of the preceding fiscal year. The maximum number of shares that may be issued under the 2010 Incentive Plan is 30,000,000. There were 12,665,625 shares available for issuance under the 2010 Incentive Plan as of June 30, 2016.

In November 2009, the Company's board of directors adopted the 2010 Non-Employee Directors' Stock Award Plan (the "Directors' Plan") and the stockholders approved the Directors' Plan in January 2010. The Directors' Plan became effective upon the completion of the Company's IPO. The Directors' Plan provides for the automatic grant of NQSOs and RSUs to non-employee directors and also provides for the discretionary grant of NQSOs and RSUs. Stock options granted to new non-employee directors vest in equal monthly installments over four years and annual stock option grants to existing directors vest in equal monthly installments over one year. In fiscal years 2016 and 2015, initial RSU grants vest daily over a period of four years and annual RSU grants vest daily over a period of one year. Prior to fiscal year 2015, the annual RSU grants vested quarterly over a period of four years and the initial RSU grants vested quarterly over a period of one year.

An aggregate of 2,789,628 shares of the Company’s common stock were reserved for issuance under the Directors’ Plan as of June 30, 2016. This amount is increased annually, by the sum of 200,000 shares and the aggregate number of shares of the Company’s common stock subject to awards granted under the Directors’ Plan during the immediately preceding fiscal year. There were 1,357,702 shares available for issuance under the Directors’ Plan as of June 30, 2016.

Valuation Assumptions

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 fair value of the common stock at the date of grant. The Company calculates the weighted average expected life of options using the simplified method pursuant to the accounting guidance for share-based payments as its historical exercise experience does not provide a reasonable basis upon which to estimate expected term. The Company estimates the expected volatility of its common stock based on its historical volatility over the expected term of the stock option and market-based RSU. The Company has no history or expectation of paying dividends on its common stock. The risk-free interest rate is based on the U.S. Treasury yield for a term consistent with the expected term of the stock option and market-based RSU.

The weighted average Black-Scholes model assumptions and the weighted average grant date fair value of stock options in fiscal years 2016, 2015 and 2014 were as follows:

	Fiscal Year Ended June 30,		
	2016	2015	2014
Expected term (in years)	3.9	4.6	4.6
Expected volatility	43 %	46 %	48 %
Expected dividend yield	—	—	—
Risk-free interest rate	1.0 %	1.6 %	1.4 %
Grant date fair value	$1.83	$1.87	$3.67

The Company estimates the fair value of market-based RSUs at the date of the grant using the Monte Carlo simulation model. The weighted average Monte Carlo simulation model assumptions in fiscal years 2016, 2015 and 2014 were as follows:

	Fiscal Year Ended June 30,		
	2016	2015	2014
Expected term (in years)	4.0	—	—
Expected volatility	47 %	—	—
Expected dividend yield	—	—	—
Risk-free interest rate	1.3 %	—	—
Grant date fair value	$5.04	—	—

The fair value of service-based RSUs 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.

Stock Option Award Activity

The following table summarizes the stock option award activity under the plans in fiscal years 2016 and 2015:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding at June 30, 2014	7,512,592	$ 10.32	3.27	$ 225,182
Granted	453,608	4.65		
Exercised	(211,878)	4.60		
Forfeited	(292,815)	9.92		
Expired	(1,583,066)	10.46		
Outstanding at June 30, 2015	5,878,441	$ 10.07	2.88	$ 950,759
Granted	297,586	5.41		
Exercised	(4,531)	5.79		
Forfeited	(143,863)	7.84		
Expired	(1,720,385)	10.18		
Outstanding at June 30, 2016	4,307,248	$ 9.78	2.67	$ 14,573
Vested and expected-to-vest at June 30, 2016 (1)	4,251,699	$ 9.81	2.65	$ 14,573
Vested and exercisable at June 30, 2016	3,834,714	$ 10.10	2.41	$ 14,573

66

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(1) The expected-to-vest options are the result of applying the pre-vesting forfeiture assumption to total outstanding options.

The following table summarizes outstanding and exercisable stock options by range of exercise price as of June 30, 2016:

	Options Outstanding			Options Exercisable	
Range or Exercise Prices	Number of Shares	Weighted Average Remaining Contractual Term	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
\$2.99 - \$5.65	472,211	5.00	\$ 4.56	360,251	\$ 4.44
\$5.79 - \$6.38	442,014	5.10	\$ 5.90	290,716	\$ 5.89
\$6.59 - \$9.01	673,568	1.33	\$ 8.37	637,567	\$ 8.41
\$9.23 - \$9.44	321,274	2.06	\$ 9.34	313,461	\$ 9.33
\$9.55 - \$9.55	508,750	4.07	\$ 9.55	369,383	\$ 9.55
\$9.64 - \$9.64	442,500	3.07	\$ 9.64	416,405	\$ 9.64
\$9.81 - \$11.26	454,436	0.87	\$ 10.60	454,436	\$ 10.60
\$11.67 - \$11.67	465,200	2.09	\$ 11.67	465,200	\$ 11.67
\$12.43 - \$16.89	207,395	1.94	\$ 15.78	207,395	\$ 15.78
\$19.00 - \$19.00	319,900	0.41	\$ 19.00	319,900	\$ 19.00
\$2.99 - \$19.00	4,307,248	2.67	\$ 9.78	3,834,714	\$ 10.10

The following table summarizes the total intrinsic value, the cash received and the actual tax benefit of all options exercised in fiscal years 2016, 2015 and 2014:

	Fiscal Year Ended June 30,		
	2016	2015	2014
Intrinsic value	\$1	\$131	\$1,875
Cash received	26	975	3,652
Tax benefit	—	—	—

As of June 30, 2016, there was \$1.2 million of total unrecognized compensation expense related to unvested stock options which are expected to be recognized over a weighted average period of 1.82 years.

Service-Based Restricted Stock Unit Activity

The following table summarizes the service-based RSU activity under the plans in fiscal years 2016 and 2015:

	Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Life (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding at June 30, 2014	1,647,337	$ 10.10	1.32	$ 9,077
Granted	3,443,278	5.26		
Vested	(606,209)	5.11		
Forfeited	(751,776)	7.04		
Outstanding at June 30, 2015	3,732,630	$ 7.06	1.32	$ 24,064
Granted	98,999	5.99		
Vested	(1,481,325)	6.09		
Forfeited	(438,395)	6.12		
Outstanding at June 30, 2016	1,911,909	$ 5.79	1.33	$ 6,691

At the time of vesting, a portion of service-based RSUs are relinquished and cancelled by the Company to provide for federal and state tax withholding obligations resulting from the service-based RSU release. As of June 30, 2016, there was $8.2 million of total unrecognized compensation expense related to service-based RSUs which are expected to be recognized over a weighted average period of 2.24 years.

Market-Based Restricted Stock Unit Activity

The following table summarizes the market-based RSU activity under the plans in fiscal year 2016:

	Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Life (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding at June 30, 2015	—	$ —	—	$ —
Granted	1,069,162	5.03		
Vested	—	—		
Forfeited	(63,560)	5.11		
Outstanding at June 30, 2016	1,005,602	$ 5.03	1.36	$ 3,570

As of June 30, 2016, there was $2.0 million of total unrecognized compensation expense related to market-based RSUs which are expected to be recognized over a weighted average period of 1.36 years.

11. Related Party Transactions

On April 22, 2013, the Company entered into an agreement (the “Transition Agreement”) with Bronwyn Syiek, the Company’s President, which provides for the transition and conclusion of Ms. Syiek’s employment with the Company. Pursuant to the Transition Agreement, Ms. Syiek continued to work full time as the Company’s President at her existing base salary through September 30, 2013. Ms. Syiek was eligible for, and received, a bonus for fiscal year 2013. On September 18, 2013, the Company entered into an amendment to the Transition Agreement, (the “Amended Transition Agreement”) whereby the amendment replaced the agreement in its entirety. Pursuant to the Amended Transition Agreement Ms. Syiek’s employment with the Company terminated on October 1, 2013, at which point Ms. Syiek entered into a consulting agreement with the Company, in consideration for which her “Continuous Service” (as defined in the Company’s 2010 Equity Incentive Plan) continued for certain of her equity awards. Ms. Syiek received $37,400 in cash compensation under the consulting agreement. The consulting agreement terminated on March 30, 2014.

In connection with its continuing review of non-strategic assets in March 2014, the Company elected to dispose of its equity investment in DemandBase, Inc. (“DemandBase”). In this regard, the Company contacted a number of existing DemandBase investors, including Split Rock Partners II, LP (“Split Rock”). Split Rock is managed by Split Rock

Partners II Management, LLC, of which the Company's director Mr. Simons is a managing director. In addition, Mr. Sands is a member of the board of directors of DemandBase and is also a managing partner of Costanoa Venture Capital, which is an investor in DemandBase. Accordingly, as the Company's sale of the shares to Split Rock could be deemed a related person transaction, the Company conducted an auction process with respect to the sale of the DemandBase shares. Split Rock ultimately prevailed in that process, and the Company's Audit Committee approved the sale in accordance with the Company's related person transactions policy. On April 11, 2014 the Company entered into a Stock Purchase Agreement with Split Rock whereby the partnership purchased all 1,436,781 shares of Series D Preferred Stock of DemandBase owned by the Company for a total purchase price of $1,436,781.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

	Fiscal Year Ended June 30,		
	2016	2015	2014
Net revenue:			
United States	$291,526	$276,182	$278,791
International	6,180	5,958	3,758
Total net revenue	$297,706		