

QUINSTREET, INC  
Form 10-K  
August 23, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the Fiscal Year Ended June 30, 2012**

**OR**

**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)

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Delaware  
(State or other jurisdiction of  
incorporation or organization)

77-0512121  
(I.R.S. Employer  
Identification No.)

950 Tower Lane, 6<sup>th</sup> 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  
Common Stock, par value \$0.001 per share

Name of Each Exchange on Which Registered  
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  No

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  No

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

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

Indicate by check mark 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.

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

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

As of December 31, 2011, 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 \$270,210,124. 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 16, 2012: 42,760,305

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### **Documents Incorporated by Reference:**

Portions of the registrant's definitive proxy statement relating to its 2012 annual stockholders' meeting are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated.

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**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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**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, negative of these terms or other similar 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 immature industry and relatively new business model;

our dependence on Internet search companies to attract Internet visitors;

our dependence on a small number of large clients and our dependence on a small number of client verticals for a majority of our revenue;

changes in regulatory and legislative environment affecting our business or our clients' businesses;

our ability to successfully manage any recent or future acquisitions;

our ability to attract and retain qualified employees and key personnel;

our ability to enhance and maintain our client and vendor relationships;

our ability to return to growth and to manage such growth effectively;

our ability to accurately forecast our operating results and appropriately plan our expenses;

our ability to develop new services and enhancements and features to meet new demands from our clients;

our ability to raise additional capital in the future, if needed;

general economic conditions in our domestic and potential future international markets;

our ability to compete in our industry; and

our ability to protect our intellectual property rights.

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**

QuinStreet is a leader in vertical marketing and media online. We have built a strong set of capabilities to engage Internet visitors with targeted media and to connect our marketing clients with their potential customers online. We focus on serving clients in large, information-intensive industry verticals where relevant, targeted media and offerings help visitors make informed choices, find the products that match their needs, and thus become qualified customer prospects for our clients. Our current primary client verticals are the education and financial services industries. We also have a presence in the business-to-business technology, home services and healthcare industries.

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We generate revenue by delivering measurable online marketing results to our clients. These results are typically in the form of qualified leads or clicks, the outcomes of customer prospects submitting requests for information on, or to be contacted regarding, client products, or their clicking on or through to specific client offers. These qualified leads or clicks are generated from our marketing activities on our websites or via third-party publishers with whom we have relationships. Clients primarily pay us for leads that they can convert into customers, typically in a call center or through other offline customer acquisition processes, or for clicks from our websites that they can convert into applications or customers on their websites. We are predominantly paid on a negotiated or market-driven per lead or per click basis. Media costs to generate qualified leads or clicks are borne by us as a cost of providing our services.

Founded in 1999, 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 prospects 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 more general exposure to an advertisement. We have been particularly focused on developing and delivering measurable marketing results in the search engine ecosystem, the entry point of the Internet for most of the visitors we convert into qualified leads or clicks for our clients. We own or partner with vertical content websites that attract Internet visitors from organic search engine rankings due to the quality and relevancy of their content to search engine users. We also acquire targeted visitors for our websites through the purchase of pay-per-click, or PPC advertisements on search engines. We complement search engine companies by building websites with content and offerings that are relevant and responsive to their searchers, and by increasing the value of the PPC search advertising they sell by matching visitors with offerings and converting them into customer prospects for our clients.

### **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 are fundamental, and require a shift to fundamentally new competencies, including:

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

We believe that the 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***

We believe that 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

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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 new 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 Internet visitor needs. This approach can allow us to convert more Internet visitors into qualified leads or clicks from targeted media sources, giving us an advantage when buying or monetizing that media.

## **Our Business Model**

We deliver cost-effective marketing results to our clients, predictably and scalably, most typically in the form of a qualified lead or click. These leads or clicks can then convert into a customer or sale for the client at a rate that results in an acceptable marketing cost to them. We get paid by clients primarily when we deliver qualified leads or clicks as defined in our agreements. We bear the costs of media, thus our programs must deliver a value to our clients and a media yield, or margin on our media costs, that provides a sound financial outcome for us. Our general process is:

We own or access targeted media;

We run advertisements or other forms of marketing messages and programs in that media to create visitor responses or clicks through to client offerings;

We match these responses or clicks to client offerings or brands that meet visitor interests or needs, converting visitors into qualified leads or clicks; and

We optimize client matches and media yield 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' cost and conversion objectives, or the rate at which the leads or clicks 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 capabilities, conversion optimization, and our mix of offerings and client coverage. We also seek to mitigate media cost risk by working with third-party



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website publishers predominantly on a revenue-share basis; media purchased on a non-revenue-share basis has represented a minority of our media costs and of the Internet visitors we convert into qualified leads or clicks for clients.

### ***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;

revenue sharing agreements with third-party publishers with whom we have a relationship and whose content is relevant to our clients' target customers;

email lists owned by third parties and warranted to us by their owners to comply with the CAN-SPAM Act;

email lists owned by us, and generated on an opt-in basis from Internet visitors to our websites; and

display ads run through online advertising networks or directly with major websites or portals.

### ***Conversion optimization***

Once we acquire targeted Internet visitors from any of our numerous online media sources, we seek to convert that media into qualified leads or clicks at a rate that balances client results with our media costs or yield objectives. We start by defining the segments and interests of Internet visitors in our client verticals, and by providing them with the information and product offerings on our websites and in our marketing programs that best meet their needs. Achieving acceptable client results and media yield then requires ongoing testing, measuring, analysis, feedback, and adaptation of the key components of our Internet marketing programs. These components include the marketing or advertising messaging, content mix, visitor navigation path, mix and coverage of client offerings presented, and point-of-sale conversion messaging—the content that is presented to an Internet visitor immediately prior to converting that individual into a lead or click for our clients. This data complexity is managed by us with technology, data reporting, marketing processes, and personnel. We believe that our scale and more than ten-year track record give us an advantage, as managing this complexity often implies a steep experience-based learning curve.

### ***Offerings and client coverage***

The Internet is a self-directed medium. Internet visitors choose the websites they visit and their online navigation paths, and always have the option of clicking away to a different website or web page. Having offerings or clients that match the interests or needs of website visitors is key to providing results and adequate media yield. Our vertical focus allows us to continuously revise and improve this matching process, to better understand the various segments of visitors and client offerings available to be matched, and to ensure that we enable Internet visitors to find what they seek.

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### **Our Competitive Advantages**

#### ***Vertical focus and expertise***

We focus our efforts on large, attractive client market verticals, and on building our depth of media and coverage of clients and client offerings within them. We have been a pioneer in developing vertical marketing and media on the Internet, and in providing measurable marketing results to clients. We focus on clients who are moving their marketing spending to measurable online formats and on information-intensive client verticals with large underlying market opportunities and high product or customer lifetime values. This focus allows us to utilize targeted media, in-depth industry and client knowledge, and customer segmentation and breadth of client offerings, or coverage, to deliver results for our clients and greater media yield.

#### ***Measurable marketing experience and expertise***

We have substantial experience at designing and deploying marketing programs that allow Internet visitors to find the information or product offerings they seek, and that can deliver economically attractive, measurable results to our clients, cost-effectively for us. Such results require frequent testing and balancing of numerous variables, including Internet visitor sources, mix of content and of client and product offerings, visitor navigation paths, prospect qualification, and advertising creative design, among others. The complexity of executing these marketing campaigns is challenging. Due to our scale and more than ten-year track record, we have successfully executed thousands of Internet marketing programs, and we have gained significant experience managing and optimizing this complexity to meet our clients' volume, quality and cost objectives.

#### ***Targeted media***

Targeted media attracts Internet visitors who are relatively narrowly focused demographically or in their interests. Targeted media can deliver better measurable marketing results for our clients, at lower media costs for us, due to higher rates of conversion of Internet visitors into leads or clicks for targeted offerings and, often, due to less competition from display advertisers. We have significant experience at creating, identifying, monetizing, and managing targeted media on the Internet. Many of the targeted media sources for our marketing programs are proprietary or more defensible because of our direct ownership of websites in our client verticals, our acquisition of targeted Internet visitors directly from search engines to our websites, and our exclusive or long-term relationships with media properties or sources owned by others. Examples of websites that we own and operate include WorldWideLearn.com and Schools.com in our education client vertical; CardRatings.com, MoneyRates.com, CarInsurance.com, Insurance.com and Insure.com in our financial services client vertical; Internet.com in our business-to-business technology client vertical; AllAboutLawns.com and OldHouseWeb.com in our home services client vertical; and ElderCarelink.com in our healthcare client vertical.

#### ***Proprietary technology***

We have developed a core technology platform and a common set of applications for managing and optimizing measurable marketing programs across multiple client verticals at scale. The primary objectives and effects of our technologies are to achieve higher media yield, deliver better results for our clients, and more efficiently and effectively manage our scale and complexity. We continuously strive to develop technologies that allow us to better match Internet visitors in our client verticals to the information, clients or product offerings they seek at scale. In so doing, our technologies can allow us to simultaneously improve visitor satisfaction, increase our media yield, and achieve higher rates of conversions of leads or clicks for our clients—a virtuous cycle of increased value for Internet visitors and our clients and competitive advantage for us. Some of the key applications in our technology platform are:

an ad server for tracking the placement and performance of content, creative messaging, and offerings on our websites and on those of publishers with whom we work;

database-driven applications for dynamically matching content, offers or brands to Internet visitors' expressed needs or interests;

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a platform for measuring and managing the performance of tens of thousands of PPC search engine advertising campaigns;

dashboards or reporting tools for displaying operating and financial metrics for thousands of ongoing marketing campaigns; and,

a compliance tool capable of cataloging and filtering content from the thousands of websites on which our marketing programs appear to ensure adherence to client branding guidelines and to regulatory requirements.

Approximately one-third of our employees are engineers, focused on building, maintaining and operating our technology platform.

### ***Client relationships***

We believe we are a reliable source of measurably effective marketing results for our clients. We endeavor to work collaboratively and in a data-driven way with clients to improve our results for them. We believe our high client retention and historic per client growth rates are due to:

our close, often direct, relationships with most of our large clients;

our ability to deliver measurable and attractive return on investment, or ROI, on clients' marketing spending;

our ownership of, or exclusive access to large amounts of, targeted media inventory and associated Internet visitors in the client verticals on which we focus; and

our ability to consistently and reliably deliver large quantities of qualified leads or clicks.

We believe that our high client retention rates, combined with our depth and breadth of online media in our primary client verticals, indicate that we are becoming an important marketing channel partner for our clients to reach their prospective customers.

### ***Client-driven online marketing approach***

We focus on providing measurable Internet marketing and media services to our clients in a way that protects and enhances their brands and their relationships with prospective customers. The Internet marketing programs we execute are designed to adhere to strict client branding and regulatory guidelines, and are designed to match our clients' brands and offers with expressed customer interest. We have contractual arrangements with third-party website publishers to ensure that they follow our clients' brand guidelines, and we utilize our proprietary technologies and trained personnel to help ensure compliance. In addition, we believe that providing relevant, helpful content and client offers that match an Internet visitor's self-selected interest in a product or service, such as requesting information about an education program or financial product, makes that visitor more likely to convert into a customer for our clients.

We do not engage in online marketing practices such as spyware or deceptive promotions as we believe that these do not provide value to Internet visitors and can undermine our clients' brands. A small minority of our Internet visitors reach our websites or client offerings through advertisements in emails. We employ practices to ensure that we comply with the CAN-SPAM Act governing unsolicited commercial email.

### ***Acquisition strategy and success***

We have successfully acquired vertical online marketing and media companies, including vertical website businesses, marketing services companies, and technologies. We believe we can integrate and generate value from acquisitions due to our scale, breadth of capabilities, and common technology platform.

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Our ability to monetize Internet media, coupled with client demand for our services, provides us with a particular advantage in acquiring targeted online media properties in the client verticals on which we focus.

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Our capabilities in online media can allow us to generate a greater volume of leads or clicks, and therefore create more value, than other owners of marketing services companies that have aggregated client budgets or relationships.

We can often apply technologies across our business volume to create more value than previous owners of the technology.

### **Scale**

We are one of the largest Internet vertical marketing and media companies in the world. Our scale allows us to better meet the needs of large clients for reliability, volume and quality of service. It allows us to invest more in technologies that improve media yield, client results and our operating efficiency. We are also able to invest more in other forms of research and development, including determining and developing new types of vertical media, new approaches to engaging website visitors, and new segments of Internet visitors and client budgets, all of which can lead to advantages in media costs, effectiveness in delivering client results, and then to more growth and greater scale.

### **Our Strategy**

Our goal is to be one of the largest and most successful marketing and media 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 business 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; develop a broad set of media sources and capabilities to reliably meet client needs.*

### **Our Culture**

Our values are the foundation of our successful business culture. They represent the standards we strive to achieve and the organization we continuously seek to become. These have been our guiding principles since our founding in 1999. Our values are:

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*Performance.* We lead and take ownership of results and growth. We know that results drive our success. We are bold in their pursuit. We take responsibility and a "whatever it takes" approach to getting things done, and done right. We seek input to make the best decisions possible, but we also act decisively. We ask for help rather than missing commitments or making excuses. We are committed to our personal and professional development and to that of our colleagues. Our growth grows the Company.

*Open Communications.* We respect our colleagues and deal with one another openly, honestly and non-hierarchically in an atmosphere of mutual trust and in pursuit of common stretch goals. We assume

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noble intentions. We have an obligation to dissent and may problem-solve with anyone, anywhere in the organization at any time in the pursuit of the best solutions. We are mindful of roles and of the need to keep each other informed to avoid discourtesy, chaos and unintended consequences. We avoid surprises. But, ideas and performance rule, not rank and reporting lines. We support decisions once made, and move forward.

*High Standards.* We hold each other and ourselves to the highest standards of performance, professionalism and personal behavior. We act with the highest of ethical standards. We deliver a strong full-time commitment to our work. We are as flexible as possible in work timing and place to maximize retention of the best people. We tolerate and forgive mistakes, and view them as opportunities to learn and grow. We do not tolerate patterns of bad behavior or poor performance.

*Teamwork.* We deal with one another openly, honestly and non-hierarchically in an atmosphere of mutual trust and respect and in pursuit of common stretch goals. We have an obligation to dissent in an effort to reach the best answers. We smooth the way for effective, dynamic team discussions by demonstrating care and concern for each individual in all of our interactions. We support decisions, once made.

*Customer Empathy.* We strive every day to better understand and anticipate the needs of all of our customers, including clients, visitors, publishers, and other business partners. We leverage these insights into better results, higher customer satisfaction and competitive advantage.

*Prioritization.* We work on what is most important to achieving Company objectives next. If not clear, we discuss and evaluate competing demands. We are decisive about what we will not do. We stop working on things that no longer adequately advance the business.

*Urgency.* We worry constantly about making enough progress, fast enough, and that the systems, products and programs that we touch are working correctly so that we do not lose time. We know our goals and measure our progress toward them daily.

*Progress.* We are pioneers. We generate hypotheses and make decisions based on facts and analysis, as well as intuition. We know that there will be failures in the pursuit of rapid progress. We learn from failures on short cycle times and iterate our way to success.

*Agility.* We prize creativity and flexibility. We innovate constantly. We embrace new ideas and approaches as opportunities to improve our performance or work environment. We adapt often and quickly to changing client, market and competitive dynamics. We resist pride of authorship; it limits progress. We actively benchmark and work to understand and employ internal and external best practices and successes.

*Recognition.* We are a meritocracy. Advancement and recognition are earned through contribution and performance, including helping others to achieve and nurturing the best Company culture. We celebrate each other's victories and efforts. We abhor office politics and never take an action just to advance self-interest or self-promotion.

*Fun.* We believe that work, done well, can and should be fun. We strive to create an upbeat, supportive environment and try not to take ourselves too seriously. We do not have time for negativism, pessimism or nay saying.

## **Clients**

In fiscal years 2012, 2011 and 2010, no client comprised more than 10% of annual net revenue and our top 20 clients accounted for 54%, 62% and 65% of net revenue, respectively. 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.



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### **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.

Our marketing programs include attendance at trade shows and conferences and limited advertising.

### **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 2012, 2011 and 2010, we spent \$21.1 million, \$24.2 million and \$19.7 million, respectively, 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 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. We also currently have two patent applications pending in the United States and no issued patents. 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 our many 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 QuinStreet and with portals, other websites and ad networks.

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### ***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 Halyard Education Partners 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**

Advertising and promotional information presented to visitors on our websites and our other marketing activities are subject to federal and state consumer protection laws that regulate unfair and deceptive practices. There are a variety of state and federal restrictions on the marketing activities conducted by telephone, the mail or by email, or over the internet, including the Telemarketing Sales Rule, state telemarketing laws, federal and state privacy laws, the CAN-SPAM Act, and the Federal Trade Commission Act and its accompanying regulations and guidelines.

In addition, some of our clients operate in regulated industries, particularly in our financial services, education and medical verticals. In our education client vertical, our clients are subject to the U.S. Higher Education Act, which, among other things, prohibits incentive compensation in recruiting students. The Department of Education issued regulations on incentive compensation, among other matters, repealed all safe harbors regarding incentive compensation which existed under the prior regulations, including the safe harbor for Internet-based recruiting and admissions activities. The regulations state that payment for contact information or consumer clicks do not constitute incentive compensation for purposes of the Higher Education Act provided that there is no commission, bonus or other incentive payment based directly or indirectly upon success in securing enrollments. Notwithstanding the foregoing, these regulations could impact how we are paid for leads by clients in our education client vertical and could also impact our education clients and their marketing practices. In addition, the same regulations impose strict liability on educational institutions for misrepresentations made by entities, like us, who contract with the institutions to provide marketing services. As a result, our clients have demanded and we have agreed to be subject to increased limitations of liability in our contracts as well as indemnification for actions by our third-party publishers. Other regulations, such as the regulations on gainful employment, restrict Federal financial aid to students in programs where certain debt-to-income ratios and loan default rates are not satisfied, could limit our clients businesses and, therefore, ours.

In our financial services vertical, the U.S. Real Estate Settlement Procedures Act, or RESPA, regulates the payments that may be made to mortgage brokers. While we do not engage in the activities of a traditional mortgage broker, we are licensed as a mortgage broker in 23 states for our online marketing activities. Our insurance business is also highly regulated and we are a licensed insurance agent in all fifty states.

In our medical client vertical, our medical device and supplies clients are subject to state and federal anti-kickback statutes that prohibit payment for referrals. While we believe our matching of prospective customers with our clients and the manner in which we are paid for these activities complies with these and other applicable regulations, these rules and regulations in many cases were not developed with online marketing in mind and their applicability is not always clear.

The rules and regulations are complex and may be subject to different interpretations by courts or other governmental authorities. We might unintentionally violate such laws, such laws may be modified and new laws may be enacted in the future. Any such developments (or developments stemming from enactment or modification of other laws) or the failure to anticipate accurately the application or interpretation of these laws could create liability to us and result in adverse publicity.

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### **Employees**

As of June 30, 2012, we had 673 employees, which consisted of 207 employees in product development and engineering, 62 in sales and marketing, 50 in general and administration and 354 in operations. None of our employees is represented by a labor union.

### **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 any other filings required by the SEC. We make available free of charge on our website via the investor relations page on [www.quinstreet.com](http://www.quinstreet.com) our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports 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. 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 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.

### **Executive Officers of the Registrant**

The name of and certain information regarding each of our current executive officers as of June 30, 2012 are set forth below.

<b>Name</b>	<b>Age</b>	<b>Position</b>
Douglas Valenti	52	Chief Executive Officer and Chairman
Bronwyn Syiek	48	President and Director
Kenneth Hahn	45	Chief Financial Officer and Chief Operating Officer
Scott Mackley	39	Executive Vice President
Nina Bhanap	39	Chief Technology Officer
Kenneth Siegel	54	General Counsel and Senior Vice President

*Douglas Valenti* has served as our Chief Executive Officer and member of our board of directors since July 1999 and as our Chairman and Chief Executive Officer since March 2004. Prior to QuinStreet, Mr. Valenti served as a partner at Rosewood Capital, a venture capital firm, for five years; at McKinsey & Company as a strategy consultant and engagement manager for three years; at Procter & Gamble in various management roles for three years; and for the U.S. Navy as a nuclear submarine officer for five years. He holds a Bachelors degree in Industrial Engineering from the Georgia Institute of Technology, where he graduated with highest honors and was named the Georgia Tech Outstanding Senior in 1982, and an M.B.A. from the Stanford Graduate School of Business, where he was an Arjay Miller Scholar.

*Bronwyn Syiek* has served as our President since May 2012 and member of our board of directors since January 2011, as our President and Chief Operating Officer from February 2007 to May 2012, as our Chief Operating Officer from April 2004 to February 2007, as Senior Vice President from September 2000 to April 2004, as Vice President from her start date in March 2000 to September 2000 and as a consultant to us from July 1999 to March 2000. Prior to joining us, Ms. Syiek served as Director of Business Development and member of the Executive Committee at De La Rue Plc, a banknote printing and security product company, for three years.

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She previously served as a strategy consultant and engagement manager at McKinsey & Company for four years and held various investment management and banking positions with Lloyds Bank and Charterhouse Bank. She holds an M.A. in Natural Sciences from Cambridge University in the United Kingdom.

*Kenneth Hahn* has served as our Chief Financial Officer and Chief Operating Officer since May 2012 and Chief Financial Officer since September 2006. Prior to joining us, Mr. Hahn served as Chief Financial Officer of Borland Software Corporation, a public software company, from September 2002 to July 2006. Previously, Mr. Hahn served in various roles, including Chief Financial Officer, of Extensity, Inc., a public software company, for five years; as a strategy consultant at the Boston Consulting Group for three years; and as an audit manager at Price Waterhouse, a public accounting firm, for five years. He holds a B.A. in Business from California State University Fullerton, summa cum laude, and an M.B.A. from the Stanford Graduate School of Business, where he was an Arjay Miller Scholar. Mr. Hahn is also a Certified Public Accountant (inactive), licensed in the state of California.

*Scott Mackley* has served as our Executive Vice President since February 2007, as Senior Vice President from December 2004 to February 2007, as Vice President from June 2003 to December 2004, as Senior Director from February 2002 to June 2003, as Director from October 2000 to February 2002 and as Senior Manager, Network Management from May 2000 to October 2000. Prior to joining us, Mr. Mackley served at Salomon Brothers and Salomon Smith Barney, in various roles in their Equity Trading unit and Investment Banking and Equity Capital Markets divisions over four years. He holds a B.A. in Economics from Washington and Lee University.

*Nina Bhanap* has served as our Chief Technology Officer since July 2009, as our Senior Vice President of Engineering from November 2006 to July 2009, as Vice President of Product Development from January 2004 to November 2006, as Senior Director from January 2003 to January 2004 and as Director of Product Management from October 2001 to January 2003. Prior to joining us, Ms. Bhanap served as Head of Fixed Income Sales Technology for Europe at Morgan Stanley for five years and as a senior associate at Booz Allen Hamilton for one year. She holds a B.S. in Computer Science with Honors from Imperial College, University of London, and an M.B.A. from the London Business School.

*Kenneth M. Siegel* has served as our Senior Vice President and General Counsel since February 2012. Prior to joining us, Mr. Siegel served as Senior Vice President, General Counsel and Secretary at SafeNet, a computer and network security company, for two years; as Vice President and General Counsel of Verigy Ltd., a provider of advanced test systems and solutions for the semiconductor industry, for four years; as Senior Vice President and General Counsel of Agile Software Corporation, a provider of product lifecycle management software solutions that was later acquired by Oracle, for four years; as Senior Vice President of Efficient Networks, Inc., a publicly traded broadband telecommunications equipment company that was acquired by Siemens AG, for two years, and as general counsel for one year. Previously, Mr. Siegel was an attorney with Wilson Sonsini Goodrich & Rosati, a corporate law firm, for thirteen years. Mr. Siegel holds a B.A. in International Policy Studies from the Monterey Institute of International Studies and a J.D. from the University of California Hastings College of the Law.

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### **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 report on Form 10-K. If any of such risks actually occur, our business, operating results or financial condition 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 immature industry and have a relatively new business model, 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 an immature industry that has undergone rapid and dramatic changes in its short history. The industry in which we operate is characterized by rapidly-changing Internet media, evolving industry standards, and changing user and client demands. Our business model is also evolving and is distinct from many other companies in our industry, and it may not be successful. As a result of these factors, the future revenue and income potential of our business is uncertain and we may not be able to return to our previous growth rates. Any evaluation of our business and our prospects must be considered in light of these factors and the risks and uncertainties often encountered by companies in an immature industry with an evolving business model such as ours. Some of these risks and uncertainties relate to our ability to:

maintain and expand client relationships;

respond to adverse and changing regulations in our verticals, particularly our education vertical;

sustain and grow relationships with third-party website publishers and other sources of web visitors;

sustain and increase the number of visitors to our websites;

manage our operations and implement and improve our operational, financial and management controls;

overcome challenges presented by adverse global economic conditions as they impact spending in our client verticals;

raise capital at attractive costs, or at all;

acquire and integrate websites and other businesses;

successfully expand our footprint in our existing client verticals and enter new client verticals;

respond effectively to competition and potential negative effects of competition on profit margins;

attract and retain qualified management, employees and independent service providers;

successfully introduce new processes and technologies and upgrade our existing technologies and services;

protect our proprietary technology and intellectual property rights; and

respond to government regulations relating to the Internet, marketing in our client verticals, personal data protection, email, software technologies and other aspects of our business.

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

***We are dependent on two market verticals for a majority of our revenue. Negative changes in the economic condition, market dynamics or regulatory environment in these verticals has caused and may continue to cause our revenue to decline and our business and growth to suffer.***

To date, we have generated a majority of our revenue from clients in our education and financial services client verticals. We expect that a majority of our revenue in the near term will continue to be generated from

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clients in our education and financial services client verticals. Changes in the market conditions or the regulatory environment in these two highly-regulated client verticals have negatively impacted and may continue to negatively impact our clients' businesses, marketing practices and budgets and, therefore, adversely affect our financial results.

***There is significant activity and uncertainty in the regulatory and legislative environment in the for-profit education sector. Regulatory and legislative changes have negatively affected and could continue to negatively affect our clients' businesses, marketing practices and budgets and could impact demand, pricing or form of our services, any or all of which could have a material adverse impact on our financial results.***

We generate nearly half of our revenue from our education client vertical and nearly all of that revenue is generated from for-profit educational institutions. There is intense governmental interest in and scrutiny of the for-profit education industry and a high degree of focus on marketing practices in the industry. The Department of Education has promulgated regulations that have adversely impacted and could continue to adversely impact us and our education clients. The intense focus on the for-profit education industry could result in further regulatory or legislative action. We cannot predict whether this will happen or what the impact could be on our financial results.

The Higher Education Act, administered by the U.S. Department of Education, provides that to be eligible to participate in Federal student financial aid programs, an educational institution must enter into a program participation agreement with the Secretary of the Department of Education. The agreement includes a number of conditions with which an institution must comply to be granted initial and continuing eligibility to participate. Among those conditions is a prohibition on institutions providing to any individual or entity engaged in recruiting or admission activities any commission, bonus, or other incentive payment based directly or indirectly on success in securing enrollments. The Department of Education issued regulations on incentive compensation and other matters which became effective July 1, 2011. The Department's regulations repeal all safe harbors regarding incentive compensation which existed under the prior regulations, including the safe harbor for Internet-based recruiting and admissions activities. The elimination of the safe harbors has created uncertainty for us and our education clients and impacts the way in which we are paid by our clients and, accordingly, has reduced the amount of revenue we generate from the education client vertical. Moreover, given the regulatory uncertainty affecting our education client base, we believe that overall external market spending by such companies has declined in recent periods, and there can be no assurance as to when or if such spending will return to prior levels.

In addition, the same regulations impose strict liability on educational institutions for misrepresentations made by entities, like us, who contract with the institutions to provide marketing services. As a result, some of our clients have demanded and we have agreed in some cases to increased assumptions of risk in our contracts as well as indemnification for actions by us and our third-party publishers. As a result of this increased contractual exposure with some clients, we could become subject to costly litigation and be required to pay substantial damages or indemnification claims. We could also experience damage to our reputation for our violation of any applicable regulation and the unauthorized or unlawful acts of third-party website publishers.

Other regulations could also negatively impact our for-profit education clients. For example, the regulations on gainful employment that restrict or eliminate federal financial aid to students in programs where certain debt-to-income ratios and loan default rates are not satisfied could result in the elimination or reduction in some of our clients' programs. Over the past year, enrollments have dropped significantly at some of our clients, caused in part by changes being made in anticipation of the implementation of this regulation. In addition, some of our large for-profit education clients have indicated that in coming years they may violate the 90/10 rule, whereby for-profit institutions must receive at least 10 percent of their revenue from sources other than federal student financial aid. If a for-profit institution fails to comply with the rule for two consecutive fiscal years, it may lose its eligibility to receive student-aid funds for at least two years. These and other regulations or a failure of our clients to comply with such regulations, could adversely affect our clients' businesses and, as a result, affect or materially reduce the amount of revenue we generate from those clients.

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Moreover, some of our education clients have had and may in the future have issues regarding their academic accreditation, which could adversely affect their ability to offer certain degree programs. If any of our significant education clients lose their accreditation, they are likely to reduce and may even eliminate their external marketing spending, which could adversely affect our financial results.

Our for-profit education clients have been significantly affected by the adoption of and uncertainty surrounding the new regulations over the past several years. The regulations have affected and are expected to continue to affect our clients' businesses and marketing practices, including an overall decrease in our clients' external marketing expenditures and a related decrease in our revenues from this client vertical. The effect of these regulations may continue to result in fluctuations in the volume and mix of our business with these clients.

***We depend on third-party website publishers for a significant portion of our visitors, and 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 arrangements that we have with third-party publishers. In many instances, website publishers can change the media inventory they make available to us at any time and, therefore, impact our revenue. In addition, website 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 website 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 advertising inventory from other websites that satisfy 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 website 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 of inventory available to us or increase the price of inventory to us. For example, throughout fiscal year 2012, our revenue has declined in our financial services client vertical primarily due to volume declines caused by losses of traffic from third-party publishers, which resulted from acquisitions of media sources by competitors, changes in a search engine's 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 advertising inventory that meets our clients' performance, price and quality requirements, in which case our revenue could decline or our operating costs could increase.

***Our operating results 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 operating results to fall short of analysts' and investors' expectations.***

Historically, our prior quarterly and annual operating results have fluctuated due to changes in our business, our industry and the general economic climate. Similarly, our future operating results may vary significantly from quarter to quarter due to a variety of factors, many of which are beyond our control. We expect our results to continue to fluctuate for the foreseeable future. Our fluctuating results could cause our performance to be below the expectations of securities analysts and investors, causing the price of our common stock to fall. Because our business is changing and evolving, our historical operating results may not be useful to you in predicting our future operating results. Factors that may increase the volatility of our operating results include the following:

changes in demand and pricing for our services;

changes in our pricing policies, the pricing policies of our competitors, or the pricing of Internet advertising or media;

the addition of new clients or the loss of existing clients;



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changes in our clients' advertising agencies or the marketing strategies our clients or their advertising agencies employ;

changes in the regulatory environment for us or our clients;

changes in the economic prospects of our clients or the economy generally, which could alter current or prospective clients' spending priorities, or could increase the time or costs required to complete sales with clients;

changes in the availability of Internet advertising or the cost to reach Internet visitors;

changes in the placement of our websites on search engines;

the introduction of new product or service offerings by our competitors; and

costs related to acquisitions of businesses or technologies.

***We depend upon Internet search companies to attract a significant portion of the visitors to our websites, and any change in the search companies' search algorithms or perception of us or our industry could result in our websites being listed less prominently in either paid or algorithmic search result listings, in which case the number of visitors to our websites and our revenue could decline.***

We depend in significant part on various Internet search companies, such as Google, Microsoft and Yahoo!, and other search websites to direct a significant number of visitors to our websites so that we can provide our online marketing services to our clients. Search websites typically provide two types of search results, algorithmic and paid listings. Algorithmic, or organic, listings are determined and displayed solely by a set of formulas designed by search companies. Paid listings can be purchased and then are displayed if particular words are included in a user's Internet search. Placement in paid listings is generally not determined solely on the bid price, but also takes into account the search engines' assessment of the quality of the website featured in the paid listing and other factors. We rely on both algorithmic and paid search results, as well as advertising on other websites, to direct a substantial share of the visitors to our websites.

Our ability to maintain the number of visitors to our websites from search websites and other websites is not entirely within our control. For example, Internet search websites frequently revise their algorithms in an attempt to optimize their search result listings or to maintain their internal standards and strategies. Changes in the algorithms could cause our websites to receive less favorable placements, which could reduce the number of users who visit our websites. We have experienced fluctuations in the search result rankings for a number of our websites. Some of our sites and paid listing campaigns have been negatively impacted by Google algorithmic changes. In addition, our business model may be deemed similar to those of our competitors and others in our industry that Internet search websites may consider to be unsuitable or unattractive. Internet search websites could deem our content to be unsuitable or below standards or less attractive or worthy than those of other or competing websites. In either such case, our websites may receive less favorable placement in algorithmic or paid listings, or both.

In addition, we may make decisions that are suboptimal regarding the purchase of paid listings or our proprietary bid management technologies may contain defects or otherwise fail to achieve their intended results, either of which could also reduce the number of visitors to our websites or cause us to incur additional costs. We may also make decisions that are suboptimal regarding the placement of advertisements on other websites and pricing, which could increase our costs to attract such visitors or cause us to incur unnecessary costs. A reduction in the number of visitors to our websites could negatively affect our ability to earn revenue. If visits to our websites decrease, we may need to resort to more costly sources to replace lost visitors, and such increased expense could adversely affect our business and profitability.

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***If we are unable to retain the members of our management team or attract and retain qualified management team members in the future, our business and growth could suffer.***

Our success and future growth depend, to a significant degree, on the continued contributions of the members of our management team. Each member of our management team is an at-will employee and may voluntarily terminate his or her employment with us at any time with minimal notice. We also may need to hire additional management team members to adequately manage our business. We may not be able to retain or identify and attract additional qualified management team members. Competition for experienced management-level personnel in our industry is intense. Qualified individuals are in high demand, particularly in the Internet marketing industry, and we may incur significant costs to attract and retain them. Members of our management team have also become, or will soon become, substantially vested in their stock option grants. We have recently experienced the loss of certain senior members of our management team, including one of our Executive Vice Presidents and our Senior Vice President of Corporate Development. If we lose the services of additional members of our management team or if we are unable to attract and retain additional qualified senior managers, our business and growth could suffer.

***We need to hire and retain additional qualified personnel to grow and manage our business. If we are unable to attract and retain qualified personnel, our business and growth could be seriously harmed.***

Our performance depends on the talents and efforts of our employees. Our future success will depend on our ability to attract, retain and motivate highly skilled personnel in all areas of our organization and, in particular, in our engineering/technology, sales and marketing, media, finance and legal/regulatory teams. We have found it difficult from time to time to locate and hire suitable personnel. If we experience similar difficulties in the future, our growth may be hindered. Qualified individuals are in high demand, particularly in the Internet marketing industry, and we may incur significant costs to attract and retain them. Many of our employees have also become, or will soon become, substantially vested in their stock option grants and may be more likely to leave us as a result. If we are unable to attract and retain the personnel we need to succeed, our business and growth could be harmed.

***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 would be adversely impacted.***

A substantial portion of our revenue is generated from a limited number of clients. Our top three clients accounted for 20% of our net revenue for the fiscal year 2012. Our clients can generally terminate their contracts with us at any time, with limited prior notice or penalty. Our clients may also reduce their level of business with us, leading to lower revenue. In addition, reductions in business by one or more significant clients may lead to price reductions to our other clients for those products whose prices are determined in whole or in part by client bidding or competition, resulting in lower revenue. We expect that a limited number of clients will continue to account for a significant percentage of our revenue, and the loss of, or material reduction in, their marketing spending with us could decrease our revenue and harm our business.

***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, which in certain cases have or may develop high-risk credit profiles, subjects us to greater credit risk than where we contract with clients directly. This credit risk may vary depending on the nature of an agency's aggregated client base. For the fiscal year ended June 30, 2012, we wrote off an account receivable as a bad debt of approximately \$1.4 million from an advertising agency which became insolvent. There can be no assurances that we will not experience similar bad debt in the future. Any such write-offs could have a materially negative effect on our results of operation for the periods in which the write-offs occur.

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*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 advertising inventory. We compete for clients on the basis of a number of factors, including return on marketing expenditures, 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 Halyard Education Partners in the education client vertical and BankRate in the financial services client vertical;

offline and online advertising agencies;

major Internet portals and search engine companies with advertising networks such as Google, Yahoo!, and Microsoft;

other online marketing service providers, including online affiliate advertising networks and industry-specific portals or lead generation companies;

website 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, could result in significant price pressure, declining margins, reductions in revenue and loss of market share. In addition, as we continue to 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. Large Internet 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 significant impact on pricing for Internet advertising and web traffic. These companies may also develop more vertically targeted products that match consumers with products and services, such as Google's mortgage rate and credit card comparison products, and thus compete with us more directly. The trend toward consolidation in the Internet advertising arena may also affect pricing and availability of advertising inventory and web traffic. Many of our current and potential competitors also enjoy 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 could affect both volume and price, and thus revenue. If we fail to deliver results that are superior to those that other marketing service providers achieve, we could lose clients and our revenue may decline.



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***We have a significant amount of debt, which may limit our ability to fund general corporate requirements and obtain additional financing, limit our flexibility in responding to business opportunities and competitive developments and increase our vulnerability to adverse economic and industry conditions.***

As of June 30, 2012, we had an outstanding term loan with a principal balance of \$97.5 million and a \$200 million revolving credit line, all of which is available to be drawn, subject to compliance with applicable covenants. As of such date, we also had outstanding notes to sellers arising from numerous acquisitions in the total principal amount of \$12.5 million. As a result of obligations associated with our debt:

we may not have sufficient liquidity to respond to business opportunities, competitive developments and adverse economic conditions;

we may not have sufficient liquidity to fund all of our costs if our revenue declines or costs increase; and

we may not have sufficient funds to repay the principal balance of our debt when due.

Our debt obligations may also impair our ability to obtain additional financing, if needed. Our indebtedness is secured by substantially all of our assets, leaving us with limited collateral for additional financing. Moreover, the terms of our indebtedness restrict our ability to take certain actions, including the incurrence of additional indebtedness, certain mergers and acquisitions, investments, asset sales and stock repurchase. In addition, even if we are able to raise needed equity financing, we are required to use a portion of the net proceeds of certain types of equity financings to repay the outstanding balance of our term loan. A failure to pay interest or indebtedness when due could result in a variety of adverse consequences, including the acceleration of our indebtedness. In such a situation, it is unlikely that we would be able to fulfill our obligations under our credit facility or repay the accelerated indebtedness or otherwise cover our costs.

***The continued global macroeconomic uncertainty poses additional risks to our business, financial condition and results of operations.***

The United States and the global economy are experiencing a prolonged period of economic uncertainty following severe economic downturns and credit issues in many countries. The slow pace of recovery in the United States, deterioration of global economies, potential insolvency of one or more countries globally, high unemployment and reduced and/or volatile equity valuations all create risks that could harm our business. If macroeconomic conditions were to worsen, we are not able to predict the impact such worsening conditions will have on the online marketing industry in general, and our results of operations specifically. Clients in particular client verticals such as financial services, particularly mortgage, credit cards and deposits, small- and medium-sized business customers and home services are facing very difficult conditions and their marketing spend has been negatively affected. These conditions could also damage our business opportunities in existing markets, and reduce our revenue and profitability. While the effect of these and related conditions poses widespread risk across our business, we believe that it may particularly affect our efforts in the mortgage, credit cards and deposits, small- and medium-sized business and home services client verticals, due to reduced availability of credit for households and businesses and reduced household disposable income. Economic conditions may not improve or may worsen.

***Poor perception of our business or industry as a result of the actions of third parties could harm our reputation and adversely affect our business, financial condition and results of operations.***

Our business is dependent on attracting a large number of visitors to our websites and providing leads and clicks to our clients, which depends in part on our reputation within the industry and with our clients. There are companies within our industry that regularly engage in activities that our clients' customers may view as unlawful or inappropriate. These activities by third parties, such as spyware or deceptive promotions, may be seen by clients as characteristic of participants in our industry and, therefore, may have an adverse effect on the reputation of all participants in our industry, including us. 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.

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***Our quarterly revenue and operating results may fluctuate significantly from quarter to quarter due to seasonal fluctuations in advertising spending.***

Our results are subject to significant fluctuation as a result of seasonality. In particular, our quarters ending December 31 (our second fiscal quarter) generally demonstrate seasonal weakness. In our second fiscal quarters, there is generally lower availability of some forms of media during the holiday period on a cost effective basis and some of our clients request fewer leads due to holiday staffing. Our fluctuating results could cause our performance to be below the expectations of securities analysts and investors, causing the price of our common stock to fall. To the extent our revenue contracts, we expect that the seasonality in our business may become more apparent and may in the future cause our operating results to fluctuate to a greater extent.

***If we do not effectively manage future growth, our operating performance will suffer and we may lose clients.***

Although we are currently experiencing challenges in growing our business, we have historically experienced rapid growth in our operations and operating locations. This growth has placed, and if we return to growth, will continue to place, significant demands on our management and our operational and financial infrastructure. In addition, we have actively acquired the assets of complementary businesses as part of our strategy to expand our portfolio of targeted media on a cost effective basis. Rapid growth and acquisitions may make it more difficult for us to accomplish the following:

successfully scale our technology to accommodate a larger business and integrate acquisitions;

maintain our standing with key vendors, including Internet search companies and third-party website publishers;

maintain our client service standards; and

develop and improve our operational, financial and management controls and maintain adequate reporting systems and procedures. In addition, our personnel, systems, procedures and controls may be inadequate to support our future operations. The improvements required to manage such growth would require us to make significant expenditures, expand, train and manage our employee base and allocate valuable management resources. If we fail to effectively manage our growth or acquisitions, our operating performance will suffer and we may lose clients, key vendors and key personnel.

***Our future growth depends in part on our ability to identify and complete acquisitions. Any acquisitions that we pursue or complete will involve a number of risks. If we are unable to address and resolve these risks successfully, such acquisition activity could harm our business, results of operations and financial condition.***

Our historical growth has been in significant part due to the large number of acquisitions we have completed of third-party website publishing businesses and other businesses that are complementary to our own. We intend to evaluate and pursue additional acquisitions of complementary businesses and technologies to expand our capabilities, client base and media. We have also evaluated, and expect to continue to evaluate, a wide array of potential strategic transactions. However, we may not be successful in identifying suitable acquisition candidates or be able to complete acquisitions of such candidates. In addition, we may not be able to obtain financing on favorable terms, or at all, to fund acquisitions that we may wish to pursue. The anticipated benefit of acquisitions that we complete may not materialize and the process of integrating acquired businesses or technologies may create unforeseen operating difficulties and expenditures. Some of the areas where we may face acquisition-related risks include:

diversion of management time and potential business disruptions;

difficulties integrating and supporting acquired products or technologies;



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disruptions or reductions in client revenues associated with changes to the business models of acquired businesses;

expenses, distractions and potential claims resulting from acquisitions, whether or not they are completed;

retaining and integrating employees from any businesses we may acquire;

issuance of dilutive equity securities, incurrence of debt or reduction in cash balances;

integrating various accounting, management, information, human resource and other systems to permit effective management;

incurring possible impairment charges, contingent liabilities, amortization expense or write-offs of goodwill;

unexpected capital expenditure requirements;

insufficient incremental revenue to offset increased expenses associated with acquisitions;

underperformance of acquired businesses or assets; and

becoming involved in acquisition-related litigation.

Foreign acquisitions involve risks in addition to those mentioned above, including those related to integration of operations across different cultures and languages, currency risks and the particular economic, political, administrative and management, and regulatory risks associated with specific countries. We may not be able to address these risks successfully, or at all, without incurring significant costs, delay or other operating problems. Our inability to resolve such risks could harm our business and results of operations.

***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 credit 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 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, pursuant to the terms of our credit facility, we are required to use a portion of the net proceeds of certain equity financings to repay the outstanding balance of our term loan. 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.

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

The online marketing services market is relatively new and rapidly evolving, and it uses different measurements than 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 Internet advertising, particularly by those entities 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





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marketing technologies and services. In particular, we are dependent on our clients' adoption of new metrics to measure the success of online marketing campaigns. 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, our ability to grow our business may be limited and our revenue may decrease.

***Third-party website publishers may engage in unauthorized or unlawful acts that could subject us to significant liability or cause us to lose clients.***

We generate a significant portion of our web visitors from media advertising that we purchase from third-party website publishers. Some of these publishers are authorized to display our clients' brands, subject to contractual restrictions. In the past, some of our third-party website publishers have engaged in activities that certain of our clients have viewed as harmful to their brands, such as displaying outdated descriptions of a client's offerings or outdated logos. Any activity by publishers that clients view as potentially damaging to their brands can harm our relationship with the client and cause the client to terminate its relationship with us, resulting in a loss of revenue. In addition, the law is unsettled on the extent of liability that an advertiser in our position has for the activities of third-party website publishers. Recent Department of Education regulations impose strict liability on our education clients for misrepresentations made by their marketing service providers and many of our contracts in the education client vertical impose liability on us for the acts of our third-party publishers. We could be subject to costly litigation and, if we are unsuccessful in defending ourselves, damages for the unauthorized or unlawful acts of third-party website publishers.

***Because many of our client contracts can be cancelled by the client with little or no prior notice or penalty, the cancellation of one or more contracts could result in an immediate decline in our revenue.***

We derive our revenue from contracts with our Internet marketing 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. The non-renewal, renegotiation, cancellation, or deferral of large contracts, or a number of contracts that in the aggregate account for a significant amount of our revenue, is difficult to anticipate and could result in an immediate decline in our revenue.

***Unauthorized access to or accidental disclosure of consumer personally-identifiable information that we collect may cause us to incur significant expenses and may negatively affect our credibility and business.***

There is growing concern over the security of personal information transmitted over the Internet, consumer identity theft and user privacy. Despite our implementation of security measures, our computer systems may be susceptible to electronic or physical computer break-ins, viruses and other disruptions and security breaches. Any perceived or actual unauthorized disclosure of personally-identifiable information regarding website visitors, whether through breach of our network by an unauthorized party, employee theft, misuse or error or otherwise, could harm our reputation, impair our ability to attract website visitors and attract and retain our clients, or subject us to claims or litigation arising from damages suffered by consumers, and thereby harm our business and operating results. In addition, we could incur significant costs in complying with the multitude of state, federal and foreign laws regarding the unauthorized disclosure of personal information.

***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 trade secret, trademark and copyright law, confidentiality agreements, and technical measures to protect our proprietary rights. We currently have two patent applications pending in the United States and no issued patents. Effective trade secret, copyright, trademark and patent 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

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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 not be limited by our agreements with third parties; (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 trademarks, copyrights, trade secrets 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 are a party to a number of third-party intellectual property license agreements and in the future may need to obtain additional licenses or renew existing license agreements. We are unable to predict with certainty whether these license agreements can be obtained or renewed on commercially reasonable terms, or at all.

We have from time to time become aware of third parties who we believe may have infringed on our intellectual property rights. The use of our intellectual property rights by others could reduce any competitive advantage we have developed and cause us to lose clients, third-party website publishers or otherwise harm our business. Policing unauthorized use of our proprietary rights can be difficult and costly. In addition, litigation, while it may be necessary to enforce or protect our intellectual property rights or to defend litigation brought against us, 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.

***Confidentiality agreements with employees, consultants and others may not adequately prevent disclosure of trade secrets and other proprietary information.***

We have devoted substantial resources to the development of our proprietary systems and technology. In order to protect our proprietary systems and technology, we enter into confidentiality agreements with our employees, consultants, independent contractors and other advisors. These agreements may not effectively prevent unauthorized disclosure of confidential information or unauthorized parties from copying aspects of our services or obtaining and using information that we regard as proprietary. Moreover, these agreements may not provide an adequate remedy in the event of such unauthorized disclosures of confidential information and we cannot assure you that our rights under such agreements will be enforceable. 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. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and failure to obtain or maintain trade secret protection could reduce any competitive advantage we have and cause us to lose clients, publishers or otherwise harm our business.

***Third parties may sue us for intellectual property infringement which, if successful, could require us to pay significant damages or curtail our offerings.***

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. For example, we are currently defending a patent infringement action brought against us by LendingTree. While we believe that we have meritorious defenses against LendingTree's claims, and intend to vigorously defend the matter, there can be no assurance that we will prevail in this matter and any adverse ruling may have a significant impact on our business and operating results. In addition, regardless of the outcome of the matter, we may incur significant legal fees defending the action until it is resolved.

In addition, we have in the past and may in the future be subject to legal proceedings and claims that we have infringed the patent 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

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whom our own patents, if any, may therefore provide little or no deterrence. In addition, third parties have asserted and may in the future assert intellectual property infringement claims against our clients, which we have agreed in certain circumstances to indemnify and defend against such claims. Any intellectual property related infringement claims, whether or not meritorious, could result in costly litigation and could divert management resources and attention. Moreover, 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 currently unsettled, particularly as they apply to search engine functionality. For example, other Internet marketing and search companies have been sued in the past for trademark infringement and other intellectual property-related claims for the display of ads or search results in response to user queries that include trademarked terms. The outcomes of these lawsuits have differed from jurisdiction to jurisdiction. For this reason, it is conceivable that certain of our activities could expose us 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 adversely affect our business or prospects.

***If we fail to keep pace with rapidly-changing technologies and industry standards or if our technologies fail to perform as intended, we could lose clients or advertising inventory and our results of operations may suffer.***

The business lines in which we currently compete are characterized by rapidly-changing Internet media and marketing 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. Our future success will depend in part on our ability to adapt to these rapidly-changing Internet media formats and other technologies. We will need to enhance our existing technologies and services and develop and introduce new technologies and services to address our clients' changing demands. If we fail to adapt successfully to such developments or timely introduce new technologies and services, we could lose clients, our expenses could increase and we could lose advertising inventory.

In addition, our proprietary technologies are relatively new, and they may contain design or performance defects that are not yet apparent. The use of our proprietary technologies may not achieve the intended results as effectively as other technologies that exist now or may be introduced by our competitors, in which case our business could be harmed.

***Changes in government regulation and industry standards applicable to the Internet and our business could decrease demand for our technologies and services or increase our costs.***

Laws and regulations that apply to Internet communications, commerce and advertising are becoming more prevalent. These regulations could increase the costs of conducting business on the Internet and could decrease demand for our technologies and services.

In the United States, federal and state laws have been enacted regarding copyrights, sending of unsolicited commercial email, user privacy, search engines, Internet tracking technologies, direct marketing, data security, children's privacy, pricing, sweepstakes, promotions, intellectual property ownership and infringement, trade secrets, export of encryption technology, taxation and acceptable content and quality of goods. Other laws and regulations may be adopted in the future. Laws and regulations, including those related to privacy and use of personal information, are changing rapidly outside the United States as well which may make compliance with

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such laws and regulations difficult and which may negatively affect our ability to expand internationally. This legislation could: (i) hinder growth in the use of the Internet generally; (ii) decrease the acceptance of the Internet as a communications, commercial and advertising medium; (iii) reduce our revenue; (iv) increase our operating expenses; or (v) expose us to significant liabilities.

The laws governing the Internet remain largely unsettled, even in areas where there has been some legislative action. While we actively monitor this changing legal and regulatory landscape to stay abreast of changes in the laws and regulations applicable to our business, we are not certain how our business might be affected by the application of existing laws governing issues such as property ownership, copyrights, encryption and other intellectual property issues, libel, obscenity and export or import matters to the Internet advertising industry. The vast majority of such laws were adopted prior to the advent of the Internet. As a result, they do not contemplate or address the unique issues of the Internet and related technologies. Changes in laws intended to address such issues could create uncertainty in the Internet market. It may take years to determine how existing laws apply to the Internet and Internet marketing. Such uncertainty makes it difficult to predict costs and could reduce demand for our services or increase the cost of doing business as a result of litigation costs or increased service delivery costs.

In particular, a number of U.S. federal laws impact our business. The Digital Millennium Copyright Act, or DMCA, is intended, in part, to limit the liability of eligible online service providers for listing or linking to third-party websites that include materials that infringe copyrights or other rights. Portions of the Communications Decency Act, or CDA, are intended to provide statutory protections to online service providers who distribute third-party content. We rely on the protections provided by both the DMCA and CDA in conducting our business. The U.S. Department of Education issued regulations on incentive compensation and other matters which became effective July 1, 2011. These regulations repeal all safe harbors regarding incentive compensation which existed under the prior regulations. The elimination of the safe harbors create uncertainty for us and our education clients and impact the way in which we are paid by our clients and, accordingly, could reduce the amount of revenue we generate from the education client vertical.

In addition, the Department has issued regulations that also restrict Title IV funding for programs not meeting prescribed income-to-debt ratios (i.e., programs not leading to gainful employment as defined under the proposed regulation). These provisions, could negatively affect our business with education clients. Any changes in these laws or judicial interpretations narrowing their protections could subject us to greater risk of liability and may increase our costs of compliance with these regulations or limit our ability to operate certain lines of business.

The financial services, education and medical industries are highly regulated and our marketing activities on behalf of our clients in those industries are also regulated. As described above, and for example, the regulations from the Department of Education on incentive compensation, gainful employment and other matters could limit our clients' businesses and limit the revenue we receive from our education clients. As an additional example, our mortgage and insurance websites and marketing services we offer 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. Any failure to comply with these laws and regulations could subject us to revocation of required licenses, civil, criminal or administrative liability, damage to our reputation or changes to or limitations on the conduct of our business. Any of the foregoing could cause our business, operations and financial condition to suffer.

***If any regulatory audit, investigation or other proceeding finds us not in compliance with the numerous laws and regulations applicable to us, we may not be able to successfully challenge such finding and our business could suffer.***

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 the legal or regulatory requirements applicable to us. For example, we

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responded to a civil investigation conducted by the attorneys general of Alabama, Arizona, Delaware, Florida, Idaho, Illinois, Iowa, Kentucky, Massachusetts, Minnesota, Nevada, North Carolina, Oregon, South Carolina, and Tennessee into certain of our marketing and business practices related to our education client vertical during fiscal year 2012. On June 26, 2012, we entered into an Assurance of Voluntary Compliance agreement (the Agreement) with the attorneys general which required us to transfer the GIBill.com website to the United States Veterans Administration, to pay \$2.5 million to the settling states and to add disclosures and disclaimers to our education-related websites. The new disclosures and disclaimers required by the Agreement could negatively affect media conversion rates and thus our revenue or profitability. If the results of future audits, inquiries, investigations, claims and lawsuits are unfavorable to us, we may be required to pay monetary fines or penalties or have restrictions placed on our business. Any one of these sanctions could materially adversely affect our business, financial condition, results of operations and cash flows and result in the imposition of significant restrictions on us and our ability to operate.

***Increased taxation of companies engaged in Internet commerce may adversely affect the commercial use of our marketing services and our financial results.***

The tax treatment of Internet commerce remains unsettled, and we cannot predict the effect of current attempts to impose sales, income or other taxes on commerce conducted over the Internet. Tax authorities at the international, federal, state and local levels are currently reviewing the taxation of Internet commerce, particularly as many governmental agencies seek to address fiscal concerns and budgetary shortfalls by introducing new taxes or expanding the applicability of existing tax laws. We have experienced certain states taking expansive positions with regard to their taxation of our services. The imposition of new laws requiring the collection of sales or other transactional taxes on the sale of our services via the Internet could create increased administrative burdens or costs, discourage clients from purchasing services from us, decrease our ability to compete or otherwise substantially harm our business and results of operations.

***Limitations on our ability to collect and use data derived from user activities could significantly diminish the value of our services and cause us to lose clients and revenue.***

When a user visits our websites, we use technologies, including cookies, to collect information such as the user's Internet Protocol, or IP, address, offerings delivered by us that have been previously viewed by the user and responses by the user to those offerings. In order to determine the effectiveness of a marketing campaign and to determine how to modify the campaign, we need to access and analyze this information. The use of cookies is the subject of regulatory scrutiny and industry self-regulatory activities, including the discussion of do-not-track technologies and guidelines and to litigation. 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 this data. Interruptions, failures or defects in our data collection systems, as well as privacy concerns regarding the collection of user data, could also limit our ability to analyze data from our clients' marketing campaigns. This risk is heightened when we deliver marketing services to clients in the financial and medical services client verticals. 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.

***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. If we are required to pay damages or expenses in connection with these legal claims, our operating results and business may be harmed.***

We create original content for our websites and marketing messages and distribute third-party content on our websites and in our marketing messages. As a creator and distributor of original content and third-party provided content, we face potential liability based on a variety of theories, including defamation, negligence, deceptive advertising (including the Department of Education's regulations regarding misrepresentation in education marketing), copyright or trademark infringement or other legal theories based on the nature, creation or

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distribution of this information. It is also possible that our website visitors could make claims against us for losses incurred in reliance upon information provided on our websites. In addition, as the number of users of forums and social media features on our websites increases, we could be exposed to liability in connection with material posted to our websites by users and other third parties. These claims, whether brought in the United States or abroad, could divert management time and attention away from our business and result in significant costs to investigate and defend, 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.

***Wireless devices and mobile phones are increasingly being used to access the Internet, and our online marketing services may not be as effective when accessed through these devices, which could cause harm to our business.***

The number of people who access the Internet through mobile devices such as smartphones and tablets has increased substantially in the last few years. Our online marketing services were designed for persons accessing the Internet on a desktop or laptop computer. The smaller screens, lower resolution graphics and less convenient typing capabilities of these devices may make it more difficult for visitors to respond to our offerings. In addition, the cost of mobile advertising is relatively high and may not be cost-effective for our services. If our services continue to be less effective or economically attractive for clients seeking to engage in marketing through these devices and this segment of web traffic grows at the expense of traditional computer Internet access, we will experience difficulty attracting website visitors and attracting and retaining clients and our operating results and business will be harmed.

***We may not succeed in expanding our businesses outside the United States, which may limit our future growth. If we were to expand our business outside of the United States, then we will face risks in conducting business in international markets.***

One potential area of growth for us is in the international markets and we have recently entered into certain international markets. However, 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.

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

the adaptation of technologies and services to foreign clients' preferences and customs;

application of foreign laws and regulations to us, including marketing and privacy 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

employment regulations and local labor conditions.

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.



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*We could be adversely affected by violations of the U.S. Foreign Corrupt Practices Act and similar worldwide anti-bribery laws.*

The U.S. Foreign Corrupt Practices Act ( FCPA ) and similar worldwide anti-bribery laws generally prohibit companies and their intermediaries from making improper payments to non-U.S. officials for the purpose of obtaining or retaining business. We operate in parts of the world outside the United States that have experienced governmental corruption to some degree. There can be no assurance that our internal control policies and procedures will always protect us from reckless or criminal acts committed by our employees or agents. Violations of these laws, or allegations of such violations, could disrupt our business and result in a material adverse effect on our results of operations, financial condition, and cash flows.

*We rely on Internet bandwidth 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 third-party vendors, including data center and Internet bandwidth providers. Any disruption in the network access or co-location services provided by these third-party providers or any failure of these third-party providers to handle current or higher volumes of use could significantly harm our business. Any financial or other difficulties our providers face may have negative effects on our business, the nature and extent of which we cannot predict. We exercise little control over these 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.

Our systems also heavily depend on the availability of electricity, which also comes from third-party providers. If we or third-party data centers which 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 for the period of time in which any disruption of utility services to us occurs.

*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 operating results.*

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 and/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 people believe our systems are 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, computer viruses or other attempts to harm our systems, and similar events.

We lease or maintain server space in various locations, including in San Francisco, California. Our California facilities are located in areas with a high risk of major earthquakes. Our facilities are also subject to break-ins, sabotage and intentional acts of vandalism, and to potential disruptions if the operators of these facilities have financial difficulties. Some of our systems are not fully redundant, and our disaster recovery planning cannot account for all eventualities. The occurrence of a natural disaster, a decision to close a facility we are using without adequate notice for financial reasons or other unanticipated problems at our facilities could result in lengthy interruptions in our service.

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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 website 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.

*Any constraints on the capacity of our technology infrastructure could delay the effectiveness of our operations or result in system failures, which would result in the loss of clients and harm our business and results of operations.*

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. A sudden and unexpected increase in the volume of user responses could strain the capacity of our technology infrastructure. Any capacity constraints we experience could lead to slower 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.

*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. We may in the future have to refund revenue that our clients have paid to us and that was later attributed to, or suspected to be caused by fraud. 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 to view the underlying content. Action fraud occurs when on-line forms are completed with false or fictitious information in an effort to increase the compensable actions in respect of which a web publisher is to be compensated. From time to time we have experienced fraudulent clicks or actions and we do not charge our clients for such fraudulent clicks or actions when they are detected. It is conceivable that this activity could negatively affect our profitability, and this type of fraudulent act could hurt 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 the related revenue. Additionally, we have from time to time had to terminate relationships with web publishers who we believed to have engaged in fraud, which we may have to do so in the future. Termination of such relationships entails a loss of revenue associated with the legitimate actions or clicks generated by such web publishers.

*An impairment in the carrying value of goodwill and other indefinite-lived intangible assets could negatively affect our operating results.*

We have a substantial amount of goodwill and purchased intangible assets on our balance sheet as a result of acquisitions we have completed. 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 expected to contribute indefinitely to our cash flows are 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, or other factors leading to reduction in expected long-term growth or profitability. If the value of goodwill or intangible assets is impaired, our earnings could be adversely affected.

Goodwill impairment analysis and measurement is a process that requires significant judgment. Our stock price and any estimated control premium are factors impacting the assessment of the fair value of our underlying

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reporting units for purposes of performing any goodwill impairment assessment. Our Common Stock price fluctuated from a high of \$13.80 to a low of \$7.80 during fiscal year 2012. If our stock price remains depressed and our market capitalization remains below our book value for a sustained period, then it is possible that this may be an indicator of goodwill impairment. A non-cash goodwill impairment charge would have the effect of decreasing our earnings or increasing our losses in such period. If we are required to take a substantial impairment charge, then our operating results would be materially adversely affected in such period.

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

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 U.S. generally accepted accounting principles. 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. Because of the inherent limitations in all control systems, 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.

### **Risks Related to the Ownership of Our Common Stock**

*Our stock price may be volatile, and you may not be able to resell shares of our common stock at or above the price you paid.*

The trading price of our common stock has been highly 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 on Form 10-K and others such as:

our ability to return to growth and to manage such growth effectively;

changes in earnings estimates or recommendations by securities analysts;

announcements about our revenues, earnings or growth rates that are not in line with analyst expectations, the risk of which is heightened because it is our policy not to give quarterly guidance on revenue, earnings, or growth rates.

changes in governmental regulations;

announcements regarding share repurchase programs and the timing and amount of shares we purchase under such programs;

announcements by us or our competitors of new services, significant contracts, commercial relationships, acquisitions or capital commitments;

changes in the search engine rankings of our sites or our ability to access PPC advertising;

developments with respect to intellectual property rights;

our ability to develop and market new and enhanced products on a timely basis;

our commencement of, or involvement in, litigation;

negative publicity about us, our industry, our clients or our clients' industries; and

a slowdown in our industry or the general economy.

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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. 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.

***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 who cover us issue an adverse opinion regarding our stock, 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.

***Material differences between our results and security analysts' estimates could cause our stock price to decrease.***

Our results may differ materially from security analysts' estimates, either in total or for a specific client vertical and such difference could cause the market price of our stock to decrease.

We have generally not provided specific guidance or forecasts for near-term operating results, increasing the likelihood that analyst estimates could differ from our own expectations and increasing the likelihood that our future results could differ from analyst estimates, either in total or for a specific client vertical.

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

As of June 30, 2012, our directors and executive officers, together with their affiliates, beneficially owned approximately 34% of our outstanding common stock. As a result, these stockholders, acting together, have substantial control 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.

***Future sales of shares by existing stockholders could cause our stock price to decline.***

If our directors, officers and/or their affiliates were to sell, or indicate an intent to sell, substantial amounts of our common stock held by them, the trading price of our common stock could decline significantly.

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*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 determine 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 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 do not intend to declare and pay dividends on our capital stock for the foreseeable future. We currently intend to invest our future earnings, if any, to fund our growth. Additionally, the terms of our credit facility restrict our ability to pay dividends. Therefore, you are not likely to receive any dividends on your common stock for the foreseeable future.

### **Item 1B. Unresolved Staff Comments**

None.

### **Item 2. Properties**

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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,

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marketing, operations and 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, India and the United Kingdom.

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***

On September 8, 2010, LendingTree, LLC ( LendingTree ) filed a patent infringement lawsuit against us in the United States District Court for the Western District of North Carolina, seeking a judgment that we have infringed a patent held by LendingTree, an injunctive order against the alleged infringing activities and an award for damages. If an injunction were to be granted, it could force us to stop or alter certain of our business activities, such as our lead generation in certain client verticals. On April 12, 2012, the Court held a claim construction hearing and issued an order construing certain disputed terms of the patent-in-suit. We believe that we have meritorious defenses against LendingTree's claims, and intend to vigorously defend the matter. There can be no assurance, however, that we will prevail in this matter and any adverse ruling may have a significant impact on our business and operating results. In addition, regardless of the outcome of the matter, we may incur significant legal fees defending the action until it is resolved. While we intend to vigorously defend our position, neither the outcome of the litigation nor the amount or potential range of exposure, if any, associated with the litigation can be assessed at this time.

On August 12, 2011, the attorney general of Kentucky sent a letter of inquiry to us regarding marketing services that we provide to for-profit schools. The attorneys general of Alabama, Arizona, Delaware, Florida, Idaho, Illinois, Iowa, Massachusetts, Minnesota, Nevada, North Carolina, Oregon, South Carolina, and Tennessee (the States ) subsequently joined Kentucky in the inquiry. The marketing services at issue relate to our websites, such as [www.gibill.com](http://www.gibill.com), [www.armystudyguide.com](http://www.armystudyguide.com), and others, whose intended audience comprises service members and veterans of the United States military. The attorneys general expressed concerns that the websites could mislead consumers into believing that the websites are affiliated with the government or that the featured schools are the only ones that accept scholastic subsidies (such as through the GI Bill) from service members and veterans and may thus violate the consumer protection laws of the respective States. On August 25, 2011, the Kentucky attorney general initiated a civil investigative demand, requesting information about our marketing, pricing structure, business relationships, and financial data with respect to the for-profit schools that appear on [www.gibill.com](http://www.gibill.com) and similar websites. Other of the 14 States initiated identical civil investigative demands. On June 26, 2012, we entered into an Assurance of Voluntary Compliance agreement (the Agreement ) with the attorneys general. Under the Agreement, we donated the URL [GIBill.com](http://GIBill.com) to the United States Department of Veterans Affairs. We also agreed to pay a total of \$2.5 million to the settling states to reimburse them for the cost of the investigation and negotiating process, and further agreed to provide expanded disclosures on other military-oriented and education-related websites. The new disclosures and disclaimers under the agreement could negatively affect media conversion rates. Early test results indicate that we should not suffer material diminishment of revenue. The tests were not exhaustive, so the full effects cannot be assessed with certainty. We believe that any negative effects we may experience could be mitigated by ongoing optimization efforts. We also believe that the changes are likely to be adopted more broadly in the industry, reducing or eliminating any relative disadvantage.

From time to time, we may become involved in other legal proceedings and claims arising in the ordinary course of our business.

### **Item 4. *Mine Safety Disclosures***

Not Applicable.



**Table of Contents****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:

<b>Fiscal Year Ended June 30, 2010</b>	<b>High</b>	<b>Low</b>
First quarter ended September 30, 2010	\$ 15.51	\$ 9.79
Second quarter ended December 31, 2010	\$ 21.38	\$ 13.91
Third quarter ended March 31, 2011	\$ 24.91	\$ 18.92
Fourth quarter ended June 30, 2011	\$ 22.98	\$ 10.68

<b>Fiscal Year Ended June 30, 2012</b>	<b>High</b>	<b>Low</b>
First quarter ended September 30, 2011	\$ 13.80	\$ 10.12
Second quarter ended December 31, 2011	\$ 12.64	\$ 8.44
Third quarter ended March 31, 2012	\$ 11.38	\$ 8.60
Fourth quarter ended June 30, 2012	\$ 11.90	\$ 7.80

On August 16, 2012, the closing price as reported on the NASDAQ Global Select Market of our common stock was \$8.68 per share and we had approximately 137 stockholders of record of our common stock.

We have never declared or paid, and do not anticipate declaring or paying, any cash 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 credit 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.

**Stock Repurchase Program**

On November 3, 2011, we announced that our Board of Directors authorized a stock repurchase program allowing us to repurchase our outstanding shares of common stock up to \$50.0 million. The repurchase program expires in November 2012. Repurchases under this program may take place in the open market or in privately negotiated transactions and may be made under a Rule 10b5-1 plan. There is no guarantee as to the exact number of shares that will be repurchased by us, and we may discontinue repurchases at any time. The amount authorized by our Board of Directors excludes broker commissions.

All of our stock repurchases during fiscal year 2012 were made pursuant to our publicly announced stock repurchase plan through open market purchases under Rule 10b5-1 plans. As of June 30, 2012, we had repurchased an aggregate of 4,753,919 shares of our common stock under this repurchase program at a weighted average price of \$9.47 per share for a total of \$45.0 million. The remaining amount available for the repurchase of our common stock was \$5.0 million as of June 30, 2012, all of which was used for repurchases in July 2012.

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The following table summarizes the stock repurchase activity during the fourth quarter of fiscal year 2012 and the approximate dollar value of shares that may yet be purchased pursuant to our stock repurchase program that was available as of June 30, 2012:

	Shares Repurchases			Approximate Dollar Value of Shares that May Yet Be Purchased Under the Programs (in millions)
	Total Number of Shares Purchased	Average Price Paid per Share <sup>(1)</sup>	Total Number of Shares Purchased as Part of Publicly Announce Programs	
April 1, 2012 - April 30, 2012		\$		\$ 13.5
May 1, 2012 - May 31, 2012	412,100	\$ 8.07	412,100	\$ 10.2
June 1, 2012 - June 30, 2012	581,500	\$ 8.92	581,500	\$ 5.0

<sup>(1)</sup> Excludes \$0.02 per share broker commission.

**Performance Graph**

This 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 graph shows a comparison from February 11, 2010 (the date our common stock commenced trading on the NASDAQ Global Select Market) through June 30, 2012 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.

**Table of Contents****Recent Sales of Unregistered Securities**

There were no unregistered sales of our equity securities during the fiscal year ended June 30, 2012.

**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, 2012, 2011, and 2010 and the consolidated balance sheets data as of June 30, 2012 and 2011 from our audited consolidated financial statements appearing elsewhere in this report. The consolidated statements of operations data for the fiscal year ended June 30, 2009 and 2008 and the consolidated balance sheets data as of June 30, 2010, 2009 and 2008 are derived from our audited consolidated financial statements, which are not included in this report.

	<b>Fiscal Year Ended June 30,</b>				
	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>(In thousands, except per share data)</b>				
<b>Consolidated Statements of Operations Data:</b>					
Net revenue	\$ 370,468	\$ 403,021	\$ 334,835	\$ 260,527	\$ 192,030
Cost of revenue <sup>(1)</sup>	283,466	291,991	240,730	181,593	130,869
Gross profit	87,002	111,030	94,105	78,934	61,161
Operating expenses: <sup>(1)</sup>					
Product development	21,051	24,163	19,726	14,887	14,051
Sales and marketing	14,074	17,382	16,698	16,154	12,409
General and administrative	23,375	20,396	18,464	13,172	13,371
Total operating expenses	58,500	61,941	54,888	44,213	39,831
Operating income	28,502	49,089	39,217	34,721	21,330
Interest income	134	169	97	245	1,482
Interest expense	(4,462)	(4,213)	(3,977)	(3,544)	(1,214)
Other income (expense), net	(42)	56	1,523	(239)	145
Interest and other income (expense), net	(4,370)	(3,988)	(2,357)	(3,538)	413
Income before income taxes	24,132	45,101	36,860	31,183	21,743
Provision for taxes	(11,131)	(17,887)	(16,276)	(13,909)	(8,876)
Net income	\$ 13,001	\$ 27,214	\$ 20,584	\$ 17,274	\$ 12,867
Less: 8% non-cumulative dividends on convertible preferred stock	\$	\$	\$ (2,018)	\$ (3,276)	\$ (3,276)
Less: Undistributed earnings allocated to convertible preferred stock	\$	\$	\$ (5,784)	\$ (8,599)	\$ (5,925)
Net income attributable to common stockholders - Basic	\$ 13,001	\$ 27,214	\$ 12,782	\$ 5,399	\$ 3,666
Undistributed earnings re-allocated to common stock	\$	\$	\$ 419	\$ 399	\$ 360
Net income attributable to common stockholders - Diluted	\$ 13,001	\$ 27,214	\$ 13,201	\$ 5,798	\$ 4,026
<b>Net income per share attributable to common stockholders: <sup>(2)</sup></b>					
Basic	\$ 0.28	\$ 0.59	\$ 0.50	\$ 0.41	\$ 0.28

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Diluted	\$	0.28	\$	0.55	\$	0.46	\$	0.39	\$	0.26
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Weighted average shares used in computing net income per share attributable to common stockholders:

Basic	45,846	46,222	25,616	13,294	13,104
Diluted	46,859	49,130	28,429	14,971	15,325

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

Cost of revenue	\$ 4,293	\$ 4,506	\$ 3,111	\$ 1,916	\$ 1,112
Product development	2,570	2,705	2,176	669	443
Sales and marketing	3,096	3,747	3,463	1,761	581
General and administrative	3,037	2,992	4,621	1,827	1,086

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- (2) See Note 3 to our consolidated financial statements included in this report for an explanation of the method used to calculate basic and diluted net income per share of common stock.

	2012	2011	June 30, 2010	2009	2008
	(In thousands)				
<b>Consolidated Balance Sheets Data:</b>					
Cash and cash equivalents	\$ 68,531	\$ 132,290	\$ 155,770	\$ 25,182	\$ 24,953
Working capital	103,222	162,361	155,164	16,426	17,022
Total assets	507,160	524,924	434,630	212,878	179,746
Total liabilities	168,803	169,535	144,608	96,289	86,032
Total debt	107,596	106,048	93,608	57,240	51,654
Total stockholders' equity	338,357	355,389	290,022	73,186	50,311

	2012	2011	Fiscal Year Ended June 30, 2010	2009	2008
	(In thousands)				
<b>Consolidated Statements of Cash Flows Data:</b>					
Net cash provided by operating activities	\$ 47,727	\$ 78,171	\$ 38,509	\$ 32,570	\$ 24,751
Depreciation and amortization	31,150	27,272	18,791	15,978	11,727
Capital expenditures	2,268	5,363	2,710	1,347	2,177

	2012	2011	Fiscal Year Ended June 30, 2010	2009	2008
	(In thousands)				
<b>Other Financial Data:</b>					
Adjusted EBITDA <sup>(1)</sup>	\$ 72,648	\$ 90,311	\$ 71,379	\$ 56,872	\$ 36,279

(1) We define Adjusted EBITDA as net income less provision for taxes, depreciation expense, amortization expense, stock-based compensation expense, interest and other income (expense), net. Please see the Adjusted EBITDA section with Management's Discussion and Analysis for more information.

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

	2012	2011	Fiscal Year Ended June 30, 2010	2009	2008
	(In thousands)				
Net income	\$ 13,001	\$ 27,214	\$ 20,584	\$ 17,274	\$ 12,867
Interest and other (income) expense, net	4,370	3,988	2,357	3,538	(413)
Provision for taxes	11,131	17,887	16,276	13,909	8,876
Depreciation and amortization	31,150	27,272	18,791	15,978	11,727
Stock-based compensation expense	12,996	13,950	13,371	6,173	3,222
Adjusted EBITDA	\$ 72,648	\$ 90,311	\$ 71,379	\$ 56,872	\$ 36,279

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### **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**

QuinStreet is a leader in vertical marketing and media online. We have built a strong set of capabilities to engage internet visitors with targeted media and to connect our marketing clients with their potential customers online. We focus on serving clients in large, information-intensive industry verticals where relevant, targeted media and offerings help visitors make informed choices, find the products that match their needs, and thus become qualified customer prospects for our clients.

We deliver cost-effective marketing results to our clients most typically in the form of a qualified lead or inquiry, or in the form of a click. These leads or clicks 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 or clicks as defined by our agreements with them. We bear the costs of media, thus our programs must deliver value to our clients and provide for a media yield, or margin on our media costs, that provides a sound financial outcome for us. Our general process is:

we own or access targeted media;

we run advertisements or other forms of marketing messages and programs in that media to create visitor responses or clicks through to client offerings;

we match these responses or clicks to client offerings that meet visitor interests or needs, converting visitors into qualified leads or clicks; and

we optimize client matches and media yield 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 believe we are in the early stages of a large, long-term market.

Our Direct Marketing Services, or DMS, business accounted for substantially all of our net revenue in fiscal years 2012, 2011 and 2010. Our DMS business derives its net revenue from fees earned through the delivery of qualified leads and clicks and, to a lesser extent, display advertisement, 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 42%, 45% and 43% of net revenue in fiscal years 2012, 2011 and 2010, respectively. Our education client vertical represented 42%, 44% and 45% of net revenue in fiscal years 2012, 2011 and 2010, respectively. Other DMS client verticals, consisting primarily of business-to-business technology, home services and medical, represented 16%, 11% and 11% of net revenue in fiscal years 2012, 2011 and 2010, respectively.

In addition, we derived less than 1% of our net revenue in fiscal years 2012, 2011 and 2010 from our Direct Selling Services, or DSS, business.

We generated substantially all of our revenue from sales to clients in the United States.



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### **Trends Affecting our Business**

#### *Client Verticals*

To date, we have generated the majority of our revenue from clients in our education and financial services client verticals. We expect that a majority of our revenue in fiscal year 2013 will be generated from clients in these two client verticals.

Our education client vertical has been significantly affected by the adoption of regulations affecting for-profit educational institutions over the past several years. The regulations have affected and are expected to continue to affect our clients' businesses and marketing practices, including an overall decrease in our clients' external marketing expenditures and a related decrease in our revenues from this client vertical. The effect of these regulations may continue to result in fluctuations in the volume and mix of our business with these clients.

In our financial services client vertical, prices are largely determined by bidding. In fiscal year 2012, we have seen pricing that we receive from clients stabilize. Throughout the year, our revenue has declined primarily due to volume declines caused by losses of traffic from third-party publishers resulting from acquisitions of media sources by competitors, changes in a search engine's algorithms which reduced or eliminated traffic from some third-party publishers, and increased competition for quality media.

#### *Acquisitions*

##### *Acquisitions in Fiscal Year 2012*

In February 2012, we acquired certain assets of Ziff Davis Enterprise from Enterprise Media Group, Inc., a New York-based online media and marketing company in the business-to-business technology market, in exchange for \$17.3 million in cash, to broaden our registered user database and brand name in the business-to-business technology market.

In August 2011, we acquired 100% of the outstanding equity interests of NarrowCast Group, LLC, or IT BusinessEdge, a Kentucky-based Internet media company in the business-to-business technology market, in exchange for \$24.0 million in cash, to broaden our registered user database and media access in the business-to-business technology market.

During fiscal year 2012, in addition to certain assets of Ziff Davis Enterprise and all of the equity interests of IT BusinessEdge, we acquired eleven other online publishing businesses.

##### *Acquisitions in Fiscal Year 2011*

In November 2010, we acquired 100% of the outstanding shares of Car Insurance.com, Inc., or CarInsurance.com, a Florida-based online insurance business, and certain of its affiliated companies, in exchange for \$49.7 million in cash, for its capacity to generate online visitors in the financial services market. In July 2010, we acquired the website business Insurance.com from Insurance.com Group, Inc., an Ohio-based online insurance business, in exchange for \$33.0 million in cash and the issuance of a \$2.6 million non-interest-bearing, unsecured promissory note, for its capacity to generate online visitors in the financial services market. During fiscal year 2011, in addition to the acquisitions of CarInsurance.com and Insurance.com, we acquired 13 other online publishing businesses.

##### *Acquisitions in Fiscal Year 2010*

In November 2009, we acquired the website business Internet.com, a division of WebMediaBrands, Inc., or Internet.com, a New York-based Internet media company, in exchange for \$15.9 million in cash and the issuance of a \$1.7 million non-interest-bearing, unsecured promissory note, to broaden our media access and client base in the business-to-business technology market. In October 2009, we acquired the website business Insure.com from



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Life Quotes, Inc., or Insure.com, an Illinois-based online insurance quote service and brokerage business, in exchange for \$15.0 million in cash and the issuance of a \$1.0 million non-interest-bearing, unsecured promissory note, for its capacity to generate online visitors in the financial services market. During fiscal year 2010, in addition to the acquisitions of Internet.com and Insure.com, we acquired 31 other online publishing businesses.

Our acquisition strategy may result in significant fluctuations in our available working capital from period to period and over the years. We may use cash, stock or promissory notes to acquire various businesses or technologies, and we cannot accurately predict the timing of those acquisitions or the impact on our cash flows and balance sheet. Large acquisitions or multiple acquisitions within a particular period may significantly affect our financial results for that period. We may utilize debt financing to make acquisitions, which could give rise to higher interest expense and more restrictive operating covenants. We may also utilize our stock as consideration, which could result in substantial dilution.

### ***Development, Retention and Acquisition of Targeted Media***

One of the primary challenges of our business is finding, retaining and developing media that is targeted enough to attract prospects for our clients at costs that work for our business model. In order to grow our business, we must be able to continue to find, develop and retain quality targeted media on a cost-effective basis. Our inability to find, develop and retain high quality targeted media has limited, during some periods, and may continue to limit our growth.

### ***Seasonality***

Our results are subject to significant fluctuation as a result of seasonality. In particular, our quarters ending December 31 (our second fiscal quarter) typically demonstrate seasonal weakness. In our second fiscal quarters, there is lower availability of cost effective media during the holiday period and some of our clients request fewer leads due to holiday staffing. 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.

### **Basis of Presentation**

#### ***General***

We operate in two segments: DMS and DSS. For further discussion and financial information about our reporting segments, see Note 14 to our consolidated financial statements.

#### ***Net Revenue***

*DMS.* Our DMS business generates revenue from fees earned through the delivery of qualified leads, clicks 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).

*DSS.* Our DSS business generated less than 1% of net revenue in fiscal years 2012, 2011 and 2010 from the provision of a hosted solution and related services for clients in the direct selling industry. We expect DSS to continue to represent an immaterial portion of our business.

#### ***Cost of Revenue***

Cost of revenue consists primarily of media costs, personnel costs, amortization of acquisition-related intangible assets, depreciation expense and amortization of internal software development costs relating to revenue-producing technologies. Media costs consist primarily of fees paid to website publishers that are directly related to a revenue-generating event and pay-per-click, or PPC, ad purchases from Internet search companies.

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We pay these Internet search companies and website publishers on a revenue-share, a cost-per-lead, or CPL, cost-per-click, or CPC, and cost-per-thousand-impressions, or CPM basis. Personnel costs include salaries, stock-based compensation expense, bonuses and employee benefit costs. Personnel costs are primarily related to individuals associated with maintaining our servers and websites, our editorial staff, client management, creative team, compliance group and media purchasing analysts.

Costs associated with software incurred in the development phase or obtained for internal use are capitalized and amortized to cost of revenue over the software's estimated useful life.

We anticipate that our cost of revenue will exhibit trends consistent with trends in our overall revenue.

### ***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, rent and allocated 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 professional services fees associated with the development and maintenance of our technology platforms, development and launching of our websites, product-based quality assurance and testing. We believe that continued investment in technology is critical to attaining our strategic objectives and, as a result, we expect product development expenses to increase in absolute dollars in the future.

*Sales and Marketing.* Sales and marketing expenses consist primarily of personnel costs and, to a lesser extent, professional services fees, travel costs and advertising. We expect sales and marketing expenses to increase in absolute dollars as we hire additional personnel in sales and marketing to support our product offerings.

*General and Administrative.* General and administrative expenses consist primarily of personnel costs of our executive, finance, legal, corporate and business development, employee benefits and compliance, technical support and other administrative personnel, as well as accounting and legal professional services fees and insurance. We expect general and administrative expenses to increase in absolute dollars in future periods as we continue to invest in corporate infrastructure and expanding our business internationally, including increased legal and accounting costs.

### ***Interest and Other Income (Expense), Net***

Interest and other income (expense), net, consists primarily of interest expense, other income and expense and interest income. Interest expense is related to our credit facility, including the related interest rate swap as well as promissory notes issued in connection with our acquisitions, and includes imputed interest on non-interest bearing notes. Borrowings under our credit facility and related interest expense could increase as we continue to implement our acquisition strategy. 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.

Other income (expense), net, includes foreign currency exchange gains and losses and other non-operating items.

### ***Income Tax Expense***

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.

**Table of Contents****Results of Operations**

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

	2012		Fiscal Year Ended June 30, 2011		2010	
			(In thousands)			
Net revenue	\$ 370,468	100.0%	\$ 403,021	100.0%	\$ 334,835	100.0%
Cost of revenue <sup>(1)</sup>	283,466	76.5	291,991	72.5	240,730	71.9
Gross profit	87,002	23.5	111,030	27.5	94,105	28.1
Operating expenses: <sup>(1)</sup>						
Product development	21,051	5.7	24,163	6.0	19,726	5.9
Sales and marketing	14,074	3.8	17,382	4.3	16,698	5.0
General and administrative	23,375	6.3	20,396	5.0	18,464	5.5
Operating income	28,502	7.7	49,089	12.2	39,217	11.7
Interest income	134	0.0	169	0.0	97	0.0
Interest expense	(4,462)	(1.2)	(4,213)	(1.0)	(3,977)	(1.2)
Other income (expense), net	(42)	(0.0)	56	0.0	1,523	0.5
Income before income taxes	24,132	6.5	45,101	11.2	36,860	11.0
Provision for taxes	(11,131)	(3.0)	(17,887)	(4.4)	(16,276)	(4.9)
Net income	\$ 13,001	3.5%	\$ 27,214	6.8%	\$ 20,584	6.1%

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

Cost of revenue	\$ 4,293	1.2%	\$ 4,506	1.1%	\$ 3,111	0.9%
Product development	2,570	0.7	2,705	0.7	2,176	0.6
Sales and marketing	3,096	0.8	3,747	0.9	3,463	1.0
General and administrative	3,037	0.8	2,992	0.7	4,621	1.4

**Net Revenue**

	Fiscal Year Ended June 30,			2012 -	2011 -
	2012	2011	2010	% Change	% Change
	(In thousands)				
Net revenue	\$ 370,468	\$ 403,021	\$ 334,835	(8%)	20%
Cost of revenue	283,466	291,991	240,730	(3%)	21%
Gross profit	\$ 87,002	\$ 111,030	\$ 94,105	(22%)	18%

Net revenue decreased \$32.6 million, or 8%, in fiscal year 2012 compared to fiscal year 2011. This was primarily due to a decrease in revenue from our financial services and education client verticals, which was partially offset by growth in revenue in our other client verticals. Our

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financial services client vertical revenue decreased \$26.2 million, or 14%, due to lower volumes resulting from reduced availability of quality publisher media and, to a lesser degree, lower click prices as compared to fiscal year 2011. Pricing in our financial services client vertical was relatively stable throughout fiscal year 2012. Our education client vertical revenue decreased \$20.4 million, or 12%, as a result of our education clients purchasing fewer inquiries due to uncertainty surrounding new regulations affecting for-profit educational institutions. Lower inquiry volumes were marginally offset by higher prices. Revenue from other client verticals increased \$14.1 million, or 31%, primarily due to the acquisition of IT BusinessEdge and certain assets of Ziff Davis Enterprise in the business-to-business technology client vertical and, to a lesser extent, higher lead volumes in our home services client vertical.

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Net revenue increased \$68.2 million, or 20%, in fiscal year 2011 compared to fiscal year 2010. The majority of this increase was attributable to an increase in revenue from our financial services client vertical and, to a lesser extent, our education client vertical and other client verticals. Financial services client vertical revenue increased \$38.0 million, or 26%, as increases in click and lead volume were partially offset by lower prices. Education client vertical revenue increased \$23.2 million, or 15%, driven by higher prices, a shift in mix towards higher priced inquiries and an increase in inquiry volume. Revenue from other client verticals increased \$7.0 million, or 18%, primarily due to the acquisition of Internet.com in November 2009.

*Cost of Revenue*

Cost of revenue decreased \$8.5 million, or 3%, in fiscal year 2012 compared to fiscal year 2011, driven by decreased media costs of \$12.6 million due to lower click volumes and decreased personnel costs of \$2.0 million, partially offset by increased amortization of acquisition-related intangible assets of \$4.1 million, professional service fees of \$1.0 million and a one-time offline marketing event expense of \$0.8 million related to an acquisition. The decreased personnel costs were attributable to a reduction in average headcount. Gross margin, which is the difference between net revenue and cost of revenue as a percentage of net revenue was 23% in fiscal year 2012 compared to 28% in fiscal year 2011, primarily due to a lower mix of traffic from owned and operated media, lower margins from publisher arrangements and higher amortization expenses, partially offset by the above-mentioned decreased personnel costs.

Cost of revenue increased \$51.3 million, or 21%, in fiscal year 2011 compared to fiscal year 2010, driven by an increase in media costs of \$28.9 million due to higher lead and click volumes, increased personnel costs of \$10.6 million and increased amortization of acquisition-related intangible assets of \$6.9 million resulting from acquisitions in fiscal year 2011 and 2010. The increase in personnel costs was attributable to a 34% increase in average headcount, primarily resulting from acquisitions. Gross margin, remained flat as compared to fiscal 2010 at 28% in fiscal year 2011, as higher margins from publisher arrangements and a higher mix of traffic from owned and operated targeted media were offset by the above-mentioned increase in headcount and related personnel costs, as well as higher amortization expense.

*Operating Expenses*

	Fiscal Year Ended June 30,			2012 -	2011 -
	2012	2011	2010	2011 %	2010 %
	(In thousands)			Change	Change
Product development	\$ 21,051	\$ 24,163	\$ 19,726	(13%)	22%
Sales and marketing	14,074	17,382	16,698	(19%)	4%
General and administrative	23,375	20,396	18,464	15%	10%
Operating expenses	\$ 58,500	\$ 61,941	\$ 54,888	(6%)	13%

*Product Development Expenses*

Product development expenses decreased \$3.1 million, or 13%, in fiscal year 2012 compared to fiscal year 2011, primarily due to decreased personnel costs of \$1.7 million resulting from a reduction in average headcount, increased capitalized software expenses of \$0.6 million, decreased professional services of \$0.4 million and various smaller decreases in product development expenses.

Product development expenses increased \$4.4 million, or 22%, in fiscal year 2011 compared to fiscal year 2010, primarily due to increased personnel costs. The increase in personnel costs was due to increased compensation expense of \$3.1 million, increased stock-based compensation expense of \$0.5 million and various smaller increases in product development expenses. The increase in compensation expense and stock-based compensation expense was due to a 24% increase in average headcount from additional hiring in connection with development projects and acquisitions.

**Table of Contents***Sales and Marketing Expenses*

Sales and marketing expenses decreased \$3.3 million, or 19%, in fiscal year 2012 compared to fiscal year 2011, primarily due to decreased personnel costs of \$2.3 million resulting from decreased performance bonus expenses and decreased stock-based compensation expense of \$0.7 million.

Sales and marketing expenses increased \$0.7 million, or 4%, in fiscal year 2011 compared to fiscal year 2010, primarily due to increased compensation expense of \$0.5 million.

*General and Administrative Expenses*

General and administrative expenses increased \$3.0 million, or 15%, in fiscal year 2012 compared to fiscal year 2011. This was due to a \$2.5 million payment to the attorneys general of multiple states in connection with a settlement related to online marketing for education companies, increased bad debt expense of \$1.4 million resulting from the insolvency of an advertising agency of record of one of our clients, partially offset by decreased personnel costs of \$1.4 million attributable to a reduction in average headcount.

General and administrative expenses increased \$1.9 million, or 10%, in fiscal year 2011 compared to fiscal year 2010, due to increased professional service fees of \$1.4 million, higher insurance premiums of \$0.3 million, state franchise tax charges of \$0.3 million and various smaller increases in general and administrative expenses, partially offset by decreased personnel costs of \$0.2 million. Professional service fees and insurance premiums increased due to our continued investment in corporate infrastructure and related expenses associated with being a public company, including increased compliance costs. The decrease in personnel costs was driven by a decline in stock-based compensation expense of \$1.6 million primarily due to the grant of fully-vested options to certain members of the board of directors in fiscal year 2010. The decrease in stock-based compensation expense was partially offset by increased compensation expense of \$1.4 million primarily due to higher salaries and performance bonus expenses associated with the achievement of specified financial metrics during fiscal year 2011.

*Interest and Other Income (Expense), Net*

	Fiscal Year Ended June 30,			2012 -	2011 -
	2012	2011	2010	2011 %	2010 %
		(In thousands)		Change	Change
Interest income	\$ 134	\$ 169	\$ 97	(21%)	74%
Interest expense	(4,462)	(4,213)	(3,977)	6%	6%
Other income (expense), net	(42)	56	1,523	(175%)	-96%
Interest and other income (expense), net	\$ (4,370)	\$ (3,988)	\$ (2,357)	10%	69%

Interest and other income (expense), net increased by \$0.4 million, or 10%, in fiscal year 2012 compared to fiscal year 2011, primarily due to increased interest expense of \$0.2 million in fiscal year 2012 and \$0.2 million attributable to proceeds from a settlement of a legal matter in fiscal year 2011.

Interest and other income (expense), net decreased by \$1.6 million, or 69%, in fiscal year 2011 compared to fiscal year 2010, due to a decrease in other income of \$1.5 million primarily from a gain of \$1.2 million in fiscal year 2010 on the extinguishment of acquisition-related promissory notes that we paid off at discounts prior to maturity.

*Provision for Taxes*

	Fiscal Year Ended June 30,		
	2012	2011	2010
		(In thousands)	

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Provision for taxes	\$ 11,131	\$ 17,887	\$ 16,276
Effective tax rate	46.1%	39.7%	44.2%

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The increase in our effective tax rate for fiscal year 2012 compared to fiscal year 2011, was primarily due to higher non-deductible stock-based compensation expense.

The decrease in our effective tax rate in fiscal year 2011 compared to fiscal year 2010, was primarily driven by lower state income tax expense.

As of June 30, 2012, we had net deferred tax assets of \$16.1 million. Our net deferred tax assets consist primarily of stock-based compensation expense, accruals and reserves not currently deductible for tax purposes. See Note 8 to our consolidated financial statements for more information about our deferred tax assets.

**Selected Quarterly Financial Data**

The following table sets forth our unaudited quarterly consolidated statements of operations data for the eight quarters ended June 30, 2012. 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.

	June 30, 2012	Mar 31, 2012	Dec 31, 2011	Three Months Ended		Mar 31, 2011	Dec 31, 2010	Sept 30, 2010
				Sept 30, 2011	June 30, 2011			
	(In thousands)							
Net revenue	\$ 85,698	\$ 93,023	\$ 90,523	\$ 101,224	\$ 94,118	\$ 107,705	\$ 97,582	\$ 103,616
Costs of revenue	67,044	72,278	68,396	75,748	69,122	78,578	70,662	73,629
Gross profit	18,654	20,745	22,127	25,476	24,996	29,127	26,920	29,987
Operating expenses:								
Product development	4,806	5,069	5,102	6,074	5,843	6,836	5,933	5,551
Sales and marketing	2,960	3,394	3,686	4,034	3,285	4,687	4,665	4,745
General and administrative	7,072	6,239	4,847	5,217	5,206	5,525	4,943	4,722
Operating income	3,816	6,043	8,492	10,151	10,662	12,079	11,379	14,969
Interest income	29	31	36	38	30	25	47	67
Interest expense	(1,153)	(1,111)	(1,115)	(1,083)	(1,105)	(1,091)	(1,028)	(989)
Other income (expense), net	79	3	(93)	(31)	(95)	66	(79)	164
Income before income taxes	2,771	4,966	7,320	9,075	9,492	11,079	10,319	14,211
Provision for taxes	(2,570)	(2,093)	(2,887)	(3,581)	(3,046)	(4,740)	(3,391)	(6,710)
Net income	\$ 201	\$ 2,873	\$ 4,433	\$ 5,494	\$ 6,446	\$ 6,339	\$ 6,928	\$ 7,501
Net income per share: <sup>(1)</sup>								
Basic	\$ 0.00	\$ 0.06	\$ 0.09	\$ 0.12	\$ 0.14	\$ 0.14	\$ 0.15	\$ 0.17
Diluted	\$ 0.00	\$ 0.06	\$ 0.09	\$ 0.11	\$ 0.13	\$ 0.13	\$ 0.14	\$ 0.16
<b>Other Financial Data:</b>								
Adjusted EBITDA	\$ 15,214	\$ 17,271	\$ 19,530	\$ 20,633	\$ 20,779	\$ 23,218	\$ 21,718	\$ 24,596

<sup>(1)</sup> Net income per share for the four quarters of each fiscal year may not sum to the total for the fiscal year because of the different number of shares outstanding during each period.





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***Adjusted EBITDA***

*Our use of Adjusted EBITDA.* We include Adjusted EBITDA in this report because (i) we seek to manage our business to a consistent 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 debt agreements. We define Adjusted EBITDA as net income less provision for taxes, depreciation expense, amortization expense, stock-based compensation expense, interest and other income (expense), net.

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) and the non-cash impact of depreciation, amortization and stock-based compensation expense. Because 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 significant 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 income and our other GAAP results.

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

	June 30, 2012	Mar 31, 2012	Dec 31, 2011	Three Months Ended		Mar 31, 2011	Dec 31, 2010	Sept 30, 2010
				Sept 30, 2011	June 30, 2011			
	(In thousands)							
Net income	\$ 201	\$ 2,873	\$ 4,433	\$ 5,494	\$ 6,446	\$ 6,339	\$ 6,928	\$ 7,501
Interest and other income (expense), net	1,045	1,077	1,172	1,076	1,170	1,000	1,060	758
Provision for taxes	2,570	2,093	2,887	3,581	3,046	4,740	3,391	6,710
Depreciation and amortization	8,493	8,032	7,517	7,108	7,020	7,632	6,723	5,897
Stock-based compensation expense	2,905	3,196	3,521	3,374	3,097	3,507	3,616	3,730
Adjusted EBITDA	\$ 15,214	\$ 17,271	\$ 19,530	\$ 20,633	\$ 20,779	\$ 23,218	\$ 21,718	\$ 24,596
Adjusted EBITDA as a percentage of revenue	18%	19%	22%	20%	22%	22%	22%	24%

*Adjusted EBITDA quarterly trends.* We seek to manage our business to a consistent 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 consistent level of Adjusted EBITDA on a quarterly basis and investors should expect our Adjusted EBITDA margins to vary from quarter to quarter.

**Liquidity and Capital Resources**

Our principal sources of liquidity as of June 30, 2012 consisted of cash and cash equivalents of \$68.5 million, short-term marketable securities of \$36.7 million, cash we expect to generate from operations, and our \$200.0 million revolving credit facility, which is committed until November 2016, all of which is available to be drawn, subject to compliance with applicable covenants. 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.

In November 2011, we replaced our existing \$225.0 million credit facility with a new credit facility that expanded our overall borrowing capacity by \$75.0 million to \$300.0 million, consisting of a \$100.0 million term loan and a \$200.0 million revolving credit facility. Additionally, in November 2011, our Board of Directors authorized a stock repurchase program allowing us to repurchase up to \$50.0 million, excluding broker commissions, of our outstanding shares of common stock. Through June 30, 2012, we have repurchased an aggregate of 4.8 million shares of our common stock for an aggregate of \$45.0 million. As of June 30, 2012, the remaining amount available for the repurchase of our common stock under this program was \$5.0 million, all of which was used for repurchases in July 2012.

Additionally, in August 2011, we acquired 100% of the outstanding equity interests of NarrowCast Group, LLC, or IT BusinessEdge, a Kentucky-based Internet media company in the business-to-business technology market, in exchange for \$24.0 million in cash. In February 2012, we acquired certain assets of Ziff Davis Enterprise from Enterprise Media Group, Inc., a New York-based online media and marketing company in the business-to-business technology market, for \$17.3 million in cash.

Our short-term and long-term liquidity requirements primarily arise from our working capital requirements, acquisitions from time to time and share repurchases. Our primary operating cash requirements include the payment of media costs, personnel costs, costs of information technology systems and office facilities. Our

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ability to fund these requirements will depend on our future cash flows, which are determined 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 credit facility.

We believe that our existing cash, cash equivalents, short-term marketable securities, cash generated from operations and our available borrowings under the credit facility will be sufficient to satisfy our currently anticipated cash requirements through at least the next 12 months.

Our ability to service any indebtedness we have incurred or may incur, including under our current credit facility, will depend on our ability to generate cash in the future. In addition, even though we may not need additional funds, we may still elect to obtain additional debt or equity securities or draw down on or increase our borrowing capacity under our current credit facility for other reasons.

	Fiscal Year Ended June 30,		
	2012	2011	2010
	(In thousands)		
Cash flows from operating activities	\$ 47,727	\$ 78,171	\$ 38,509
Cash flows from investing activities	(67,906)	\$ (134,763)	\$ (72,233)
Cash flows from financing activities	(43,447)	\$ 33,072	\$ 164,324

***Net Cash Provided by Operating Activities***

Our net cash provided by operating activities is primarily the result of our net income adjusted for non-cash expenses such as depreciation and amortization, stock-based compensation expense and changes in working capital components, and is influenced by the timing of cash collections from our clients and cash payments for purchases of media and other expenses.

Net cash provided by operating activities in fiscal year 2012 was due to net income of \$13.0 million, non-cash depreciation, amortization, stock-based compensation expense and related tax benefits of \$46.0 million, a decrease in other noncurrent assets comprised primarily of deferred taxes of \$2.8 million, partially offset by an increase in prepaid expenses and other assets of \$2.6 million, an increase in accounts receivable of \$2.0 million and a decrease in accounts payable and accrued liabilities of \$7.8 million. The decrease in accounts payable and accrued liabilities is due to timing of payments and decreased cost of revenue associated with decreased revenue. The increase in prepaid expenses and other assets is primarily due to timing of payments. The increase in accounts receivable is attributable to timing of receipts. The decrease in deferred taxes is due to larger temporary differences between the financial statement carrying amount and the tax basis of certain existing assets and liabilities.

Net cash provided by operating activities in fiscal year 2011 was due to net income of \$27.2 million, non-cash depreciation, amortization, stock-based compensation expense and related tax benefits of \$33.8 million, an increase in accounts payable and accrued liabilities of \$8.9 million, a decrease in prepaid expenses and other assets of \$5.1 million and a decrease in accounts receivable of \$3.9 million, partially offset by an increase in other noncurrent assets comprised primarily of deferred taxes of \$3.3 million. The increase in accounts payable and accrued liabilities is due to timing of payments and increased cost of revenue associated with increased revenue. The decrease in prepaid expenses and other assets is primarily due to timing of payments. The decrease in accounts receivable is attributable to timing of receipts. The increase in deferred taxes is due to larger temporary differences between the financial statement carrying amount and the tax basis of certain existing assets and liabilities.

Net cash provided by operating activities in fiscal year 2010 was due to net income of \$20.6 million, non-cash depreciation, amortization, stock-based compensation expense and related tax benefits of \$30.3 million and an increase in accounts payable and accrued liabilities of \$11.3 million, partially offset by an increase in accounts receivable of \$14.4 million, an increase in deferred taxes of \$6.8 million, as well as a gain from the

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early extinguishment of debt of \$1.2 million. The increase in accounts payable and accrued liabilities is due to timing of payments and increased cost of sales associated with increased revenue. The increase in accounts receivable is attributable to increased revenue, as well as timing of receipts. The increase in deferred taxes is primarily due to larger temporary differences between the financial statement carrying amount and the tax basis of certain existing assets and liabilities.

***Net Cash Used in Investing Activities***

Our investing activities include acquisitions of media websites and businesses; purchases, sales and maturities of marketable securities; capital expenditures; and capitalized internal development costs.

Cash used in investing activities in fiscal year 2012 was primarily due to our acquisition of IT Business Edge for a cash payment of \$24.0 million, acquisition of certain assets of Ziff Davis Enterprise of \$17.3 million and the purchases of the operations of eleven other online publishing businesses for an aggregate of \$14.6 million in cash payments, as well as net investments in marketable securities of \$3.2 million. Capital expenditures and internal software development costs totaled \$4.6 million in fiscal year 2012.

Cash used in investing activities in fiscal year 2011 was primarily due to our acquisition of CarInsurance.com for an initial cash payment of \$49.7 million and Insurance.com for an initial cash payment of \$33.0 million. Cash used in investing activities was also impacted by purchases of the operations of 13 other online publishing businesses for an aggregate of \$9.2 million in cash payments, which included \$4.5 million of contingent consideration related to a prior period acquisition, as well as net investments in marketable securities of \$35.2 million. Capital expenditures and internal software development costs totaled \$7.2 million in fiscal year 2011.

Cash used in investing activities in fiscal year 2010 was primarily due to our acquisitions of Internet.com, Insure.com and HSH Association Financial Publications ( HSH ). We acquired the website business of the Internet.com division of WebMediaBrands, Inc., a New York-based Internet media company, for an initial cash payment of \$15.9 million. We acquired the website business of Insure.com from LifeQuotes, Inc., an Illinois-based online insurance quote service and brokerage business, for an initial cash payment of \$15.0 million. We acquired HSH, a New Jersey-based online company providing comprehensive mortgage rate information, for an initial cash payment of \$6.0 million. Cash used in investing activities was also affected by purchases of the operations of 30 other website publishing businesses for an aggregate of \$31.2 million in cash payments, which included \$4.5 million of contingent consideration related to the acquisition of SureHits in fiscal year 2008. Capital expenditures and internal software development costs totaled \$4.1 million in fiscal year 2010.

***Net Cash Provided by or Used in Financing Activities***

Cash used in financing activities in fiscal year 2012 was primarily due to repurchases of our common stock of \$43.9 million under our stock repurchase program and principal payments on acquisition-related notes payable and our term loan and related fees of \$9.9 million, partially offset by proceeds from bank debt of \$5.9 million and exercise of stock options of \$4.7 million.

Cash provided by financing activities in fiscal year 2011 was primarily due to net proceeds from the draw-down of our revolving credit line of \$24.4 million, proceeds from the exercise of stock options of \$16.7 million and excess tax benefits from stock-based compensation of \$7.5 million, partially offset by \$15.4 million in principal payments on acquisition-related promissory notes and our term loan.

Cash provided by financing activities in fiscal year 2010 was primarily due to proceeds from our IPO, net of issuance costs, of \$136.8 million, draw-down of our credit facility, net of principal payments, of \$40.2 million, proceeds from stock option exercises of \$1.6 million and excess tax benefits of \$1.9 million, partially offset by \$15.5 million of principal payments on acquisition-related promissory notes.

**Table of Contents****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.

**Contractual Obligations**

Our contractual obligations relate primarily to borrowings under the credit facility, acquisition-related promissory notes and operating leases.

The following table sets forth payments due under our contractual obligations as of June 30, 2012:

Year Ending June 30,	Promissory Notes	Credit Facility	Operating Leases	Total
2013	\$ 8,569	\$ 7,500	\$ 3,184	\$ 19,253
2014	3,364	12,500	3,251	19,115
2015	560	17,500	3,117	21,177
2016	50	20,000	3,060	23,110
2017 and thereafter		40,000	6,335	46,335
Total	\$ 12,543	\$ 97,500	\$ 18,947	\$ 128,990

The above table does not include approximately \$2.4 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.

**Credit Facility**

On November 4, 2011, we replaced our existing \$225.0 million credit facility with a new \$300.0 million credit facility. The new facility consists of a \$100.0 million five-year term loan, with annual principal amortization of 5%, 10%, 15%, 20% and 50%, and a \$200.0 million five-year revolving credit line.

Borrowings under the credit facility are collateralized by substantially all of our assets. Interest is payable at specified margins above either the Eurodollar Margin or the Prime Rate. The interest rate varies dependent upon the ratio of funded debt to adjusted EBITDA and ranges from Eurodollar Margin + 1.625% to 2.375% or Prime + 1.00% for the revolving credit line and from Eurodollar Margin + 2.00% to 2.75% or Prime + 1.00% for the term loan. Adjusted EBITDA is defined as net income less provision for taxes, depreciation expense, amortization expense, stock-based compensation expense, interest and other income (expense), and acquisition costs for business combinations. The interest rate margins for the new facility are 0.50% less than the commensurate margins under our previous credit facility. The revolving credit line requires a facility fee of 0.375% of the revolving credit line capacity.

To reduce our exposure to rising interest rates under the term loan, on February 24, 2012, we entered into an interest rate swap encompassing the principal balances scheduled to be outstanding as of January 1, 2014 and thereafter, such principal amount totaling \$85.0 million on January 1, 2014 and amortizing to \$35.0 million on November 4, 2016. The interest rate swap effectively fixes the Eurodollar Margin at 0.97%.

The credit facility expires in November 2016. The credit facility restricts our ability to raise additional debt financing and pay dividends, and also requires us to comply with other nonfinancial covenants. In addition, we are required to maintain financial ratios computed as follows:

1. A minimum fixed charge coverage ratio of 1.15:1, calculated as the ratio of (i) trailing twelve months of adjusted EBITDA to (ii) the sum of capital expenditures, net cash interest expense, cash taxes, cash dividends

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and trailing twelve months payments of indebtedness. Payment of unsecured indebtedness is excluded to the degree that sufficient unused revolving credit line capacity exists such that the relevant debt payment could be made from the credit facility.

2. A maximum funded debt to adjusted EBITDA ratio of 3:1, calculated as the ratio of (i) the sum of all obligations owed to lending institutions, the face amount of any letters of credit, indebtedness owed in connection with acquisition-related notes and indebtedness owed in connection with capital lease obligations to (ii) trailing twelve months of adjusted EBITDA.

We were in compliance with the covenants of our new credit facility as of June 30, 2012.

### ***Interest Rate Swap***

We entered into an interest rate swap to reduce our exposure to the financial impact of changing interest rates under our term loan. The effective date of the swap is April 9, 2012 with a maturity date of November 4, 2016. At June 30, 2012, we had approximately \$85.0 million of notional amount outstanding under the swap agreement that exchanges a variable interest rate base (Eurodollar margin) for a fixed interest rate of 0.97% over the term of the agreement. This interest rate swap is 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 will be included as a component of accumulated other comprehensive income (loss).

At June 30, 2012, our interest rate swap qualifies as a cash flow hedge. For this qualifying hedge, the effective portion of the change in fair value will be recognized through earnings when the underlying transaction being hedged affects earnings, thereby allowing the swap's gains to offset interest expense from the term loan on the income statement. Any hedge ineffectiveness is recognized in earnings in the current period.

### ***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 will remain at \$0.1 million through the 24th calendar month of the term of the lease. After this 24 month period, monthly base rent will increase to \$0.2 million for the subsequent 12 months and then increase 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

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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.

For further information on our critical and other significant accounting policies, see Note 2 of our consolidated financial statements included in this report.

### ***Revenue Recognition***

We derive our revenue from two sources: Direct Marketing Services ( DMS ) and Direct Selling Services ( DSS ).

DMS revenue is derived primarily from fees which are earned through the delivery of qualified leads or clicks and, to a lesser extent, display advertisements, or impressions. 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 or click is delivered to the client provided that no significant obligations remain.

On July 1, 2010, as required under GAAP, we adopted the amended accounting guidance for multiple deliverable revenue arrangements which provides guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and how the consideration should be allocated. The adoption of this amended guidance did not have a significant impact on our revenue recognition for multiple deliverable revenue arrangements.

The guidance requires the allocation of 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 do 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 new 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 or clicks 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 immaterial and within our expectations.

For a portion of our revenue, we have agreements with providers of online media or traffic ( Publishers ) used in the generation of qualified leads or clicks. We receive a fee from our clients and pay a fee to Publishers either on a revenue-share, cost-per-lead, cost- per-click or cost-per-thousand-impressions basis. 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 Publishers are included in cost of revenue.

DSS revenue comprises (i) set-up and professional services fees and (ii) usage fees. Set-up and professional service fees that do not provide stand-alone value to a client are recognized over the contractual term of the agreement or the expected client relationship period, whichever is longer, effective when the application reaches the go-live date. We define the go-live date as the date when the application enters into a production environment or all essential functionalities have been delivered. Usage fees are recognized on a monthly basis as earned.

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



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***Stock-Based Compensation***

We measure and record the expense related to stock-based transactions based on the fair values of the awards as determined 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. In applying the Black-Scholes option pricing model, 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 stock options and the employees' actual and projected stock option exercise and pre-vesting employment termination behaviors. Since we do not have extensive trading history, we estimate the expected volatility of our common stock based on the historical volatility of comparable public companies over the stock options' expected term. We have no history or expectation of paying cash 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 stock options. The fair value of restricted stock units is determined based on the closing price of our common stock on the date of grant.

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 and revise the estimates, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

***Goodwill***

We conduct a test for the impairment of goodwill on at least an annual basis. We have two reporting units, DMS and DSS. We performed our annual goodwill impairment test in our quarter ending June 30, 2012, but will conduct the test at an earlier date if indicators of possible impairment arise that would cause a triggering event. The impairment test first compares the fair value of our reporting unit to its carrying amount, including goodwill, to assess whether impairment is present.

In our quarter ending June 30, 2012, we determined that the estimated fair value of our DMS reporting unit was in excess of its carrying value. The carrying value of our DMS reporting unit was approximately \$337.1 million in our quarter ending June 30, 2012. The estimated fair value of our DMS reporting unit under a market approach was approximately \$431.7 million in our quarter ending June 30, 2012 based on our market capitalization of the entire business enterprise, including a control premium, less the estimated fair value of our DSS reporting unit. This resulted in an excess of fair value over the carrying value of approximately \$94.6 million or 28%.

In our quarter ending June 30, 2012, we determined that the estimated fair value of our DSS reporting unit was in excess of its carrying value. The carrying value of our DSS reporting unit was approximately \$1.3 million in our quarter ending June 30, 2012. The estimated fair value of our DSS reporting unit under an income approach was approximately \$1.4 million in our quarter ending June 30, 2012 based on the present value of estimated future cash flows. This resulted in an excess of fair value over the carrying value of approximately \$0.1 million or 13%.

Based on our impairment test conducted in our quarter ending June 30, 2012, we concluded that there was no impairment of goodwill for fiscal year 2012. No impairment charges were recorded in other periods presented.

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions. We base these estimates on historical and anticipated results and trends and on various other assumptions that we believe are reasonable under the circumstances, including assumptions as to future events. Actual results could differ from those estimates, and such differences could affect the estimated fair value of the reporting units and hence the valuation of goodwill could be affected. Circumstances that could affect the valuation of goodwill include, among other things, a significant change in our market capitalization, the business climate and buying habits of our subscriber base, and with respect to the DSS reporting unit, the loss of a significant customer. The application of the goodwill impairment test requires judgment, including the identification of reporting units, the assignment of assets, liabilities and goodwill to reporting units and the

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determination of 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 which could trigger impairment.

### ***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. No impairment charges were recorded in the periods presented.

### ***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. Based on estimates, the carrying value of our net deferred tax assets assumes that it is more likely than not that we will be able to generate sufficient future taxable income in certain tax jurisdictions. Our judgment regarding future profitability may change due to future market conditions, changes in U.S. or international tax laws and other factors.

### ***Recent Accounting Pronouncements***

See Note 2 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 foreign currency exchange and interest rate risks.

#### **Interest Rate Risk**

We invest our cash equivalents and short-term investments primarily in liquid, highly-rated U.S. government or municipal fixed income securities, certificates of deposit with financial institutions and money market funds. Unrestricted cash, cash equivalents and short-term investments 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, 2012, our credit facility had a borrowing capacity of \$300.0 million with \$97.5 million in term loans outstanding, and no amounts outstanding under our revolving line of credit. Interest on borrowings under the credit facility is payable quarterly at specified margins above either the Eurodollar Margin or the Prime Rate. Our exposure to interest rate risk under the credit facility will depend on the extent to which we utilize such facility. To reduce our exposure to rising interest rates under the term loan, on February 24, 2012, we entered into an interest rate swap encompassing the principal balances scheduled to be outstanding as of January 1, 2014 and

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thereafter, such principal amount will total \$85.0 million on January 1, 2014 and amortize to \$35.0 million on November 4, 2016. The interest rate swap effectively fixes the Eurodollar Margin at a fixed rate of 0.97%. A hypothetical change of 1% from prevailing interest rates as of June 30, 2012 would affect our interest expense and the fair value of the swap by less than \$0.1 million.

In addition to the \$85.0 million of term loans covered by the interest rate swap as of June 30, 2012, the Company also had variable rate debt outstanding of \$12.5 million.

A hypothetical increase of 1% in the Eurodollar Margin or Prime Rate-based interest rate on our variable rate debt outstanding of \$12.5 million as of June 30, 2012 would result in an increase in our interest expense of \$0.1 million per year, assuming constant borrowing levels.

**Foreign Currency Exchange Risk**

To date, our international 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.

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**Item 8. *Financial Statements and Supplementary Data***

**QUINSTREET, INC.**

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**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 at June 30, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2012 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 maintained, in all material respects, effective internal control over financial reporting as of June 30, 2012, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). 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 on Internal Control Over Financial Reporting appearing under Item 9A. 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 audits (which was an integrated audit in 2012). 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 23, 2012

**Table of Contents****QUINSTREET, INC.****CONSOLIDATED BALANCE SHEETS****(In thousands, except share and per share data)**

	June 30, 2012	June 30, 2011
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 68,531	\$ 132,290
Marketable securities	36,736	34,927
Accounts receivable, net	52,830	48,225
Deferred tax assets	7,665	10,253
Prepaid expenses and other assets	7,774	5,773
Total current assets	173,536	231,468
Property and equipment, net	8,755	8,875
Goodwill	243,049	211,856
Other intangible assets, net	72,444	65,847
Deferred tax assets, noncurrent	8,446	5,866
Other assets, noncurrent	930	1,012
Total assets	\$ 507,160	\$ 524,924
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities		
Accounts payable	\$ 22,870	\$ 23,300
Accrued liabilities	29,462	33,238
Deferred revenue	2,553	2,531
Debt	15,429	10,038
Total current liabilities	70,314	69,107
Deferred revenue, noncurrent	49	58
Debt, noncurrent	92,167	96,010
Other liabilities, noncurrent	6,273	4,360
Total liabilities	168,803	169,535
Commitments and contingencies (See Note 10)		
Stockholders' equity		
Common stock: \$0.001 par value; 100,000,000 shares authorized; 43,350,831 and 49,564,877 shares issued, and 43,222,031 and 47,387,425 shares outstanding at June 30, 2012 and 2011, respectively	43	50
Additional paid-in capital	220,552	255,689
Treasury stock, at cost (128,800 and 2,177,452 shares at June 30, 2012 and 2011, respectively)	(1,178)	(7,779)
Accumulated other comprehensive income	(1,439)	51
Retained earnings	120,379	107,378
Total stockholders' equity	338,357	355,389
Total liabilities and stockholders' equity	\$ 507,160	\$ 524,924

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See notes to consolidated financial statements

**Table of Contents****QUINSTREET, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands, except per share data)**

	Fiscal Year Ended June 30,		
	2012	2011	2010
Net revenue	\$ 370,468	\$ 403,021	\$ 334,835
Cost of revenue <sup>(1)</sup>	283,466	291,991	240,730
Gross profit	87,002	111,030	94,105
Operating expenses: <sup>(1)</sup>			
Product development	21,051	24,163	19,726
Sales and marketing	14,074	17,382	16,698
General and administrative	23,375	20,396	18,464
Operating income	28,502	49,089	39,217
Interest income	134	169	97
Interest expense	(4,462)	(4,213)	(3,977)
Other income (expense), net	(42)	56	1,523
Income before income taxes	24,132	45,101	36,860
Provision for taxes	(11,131)	(17,887)	(16,276)
Net income	\$ 13,001	\$ 27,214	\$ 20,584
Net income attributable to common stockholders:			
Basic	\$ 13,001	\$ 27,214	\$ 12,782
Diluted	\$ 13,001	\$ 27,214	\$ 13,201
Net income per share attributable to common stockholders:			
Basic	\$ 0.28	\$ 0.59	\$ 0.50
Diluted	\$ 0.28	\$ 0.55	\$ 0.46
Weighted average shares used in computing net income per share attributable to common stockholders:			
Basic	45,846	46,222	25,616
Diluted	46,859	49,130	28,429
<sup>(1)</sup> Cost of revenue and operating expenses include stock-based compensation expense as follows:			
Cost of revenue	\$ 4,293	\$ 4,506	\$ 3,111
Product development	2,570	2,705	2,176
Sales and marketing	3,096	3,747	3,463
General and administrative	3,037	2,992	4,621

See notes to consolidated financial statements



**Table of Contents****QUINSTREET, INC.****CONSOLIDATED STATEMENTS OF CONVERTIBLE PREFERRED STOCK, STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME**

(In thousands, except share data)

	Convertible Preferred Stock		Common Stock		Treasury Stock		Accumulated Other Comprehensive Income			Total	
	Shares	Amount	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Shareholders' Equity	Comprehensive Income	
<b>Balance at June 30, 2009</b>	21,176,533	\$ 43,403	15,413,000	\$ 15	(2,097,652)	\$ (7,064)	\$ 20,634	\$ 21	\$ 59,580	\$ 73,186	
Issuance of common stock upon exercise of stock options			657,614	1			1,639			1,640	
Issuance of common stock in connection with initial public offering, net of issuance costs of \$13,215			10,000,000	10			136,775			136,785	
Conversion of preferred stock to common stock in connection with initial public offering	(21,176,533)	(43,403)	21,176,533	21			43,382			43,403	
Stock-based compensation							13,371			13,371	
Excess tax benefits from stock-based compensation							1,780			1,780	
Repurchase of common stock					(79,800)	(715)				(715)	
Comprehensive income:											
Net income									20,584	20,584	\$ 20,584
Currency translation adjustments								(12)		(12)	(12)
<b>Comprehensive income</b>											<b>\$ 20,572</b>
<b>Balance at June 30, 2010</b>		\$	47,247,147	\$ 47	(2,177,452)	\$ (7,779)	\$ 217,581	\$ 9	\$ 80,164	\$ 290,022	
Issuance of common stock upon exercise of stock options			2,317,730	3			16,967			16,970	
Payments of initial public offering issuance costs							(101)			(101)	
Stock-based compensation							13,950			13,950	
Excess tax benefits from stock-based compensation							7,292			7,292	
Repurchase of common stock											

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### Comprehensive income:

Net income	27,214	27,214	\$ 27,214
Unrealized gain (loss) on investments	2	2	2
Currency translation adjustments	40	40	40

### Comprehensive income