QUINSTREET, INC
Form 10-Q
February 11, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File No. 001-34628

QuinStreet, Inc.

(Exact Name of Registrant as Specified in Its Charter)

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

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

650-578-7700

Registrant’s telephone number, including area code

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

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
Emerging growth company	

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

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

Number of shares of common stock outstanding as of January 31, 2019: 49,807,261

QUINSTREET, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

QUINSTREET, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

(Unaudited)

	December 31, 2018	June 30, 2018
Assets		
Current assets:		
Cash and cash equivalents	$62,447	$64,700
Accounts receivable, net	63,122	68,492
Prepaid expenses and other assets	4,927	4,432
Total current assets	130,496	137,624
Property and equipment, net	4,575	4,211
Goodwill	67,429	62,283
Other intangible assets, net	28,984	8,573
Deferred tax assets, noncurrent	50,132	60
Other assets, noncurrent	6,133	7,545
Total assets	$287,749	$220,296
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$34,759	$32,506
Accrued liabilities	28,592	34,811
Deferred revenue	892	715
Other liabilities	3,903	—
Total current liabilities	68,146	68,032
Other liabilities, noncurrent	8,397	3,938
Total liabilities	76,543	71,970
Commitments and contingencies (See Note 10)		
Stockholders' equity:		
Common stock: $0.001 par value; 100,000,000 shares authorized; 49,771,433 and 48,146,384 shares issued and outstanding at December 31, 2018 and June 30, 2018	50	48
Additional paid-in capital	282,493	277,761
Accumulated other comprehensive loss	(357)	(380)
Accumulated deficit	(70,980)	(129,103)
Total stockholders' equity	211,206	148,326

Total liabilities and stockholders' equity	$287,749	$220,296

See notes to condensed consolidated financial statements

QUINSTREET, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
Net revenue	$104,096	$87,494	$216,965	$174,912
Cost of revenue [1]	90,915	75,239	187,728	151,179
Gross profit	13,181	12,255	29,237	23,733
Operating expenses: [1]				
Product development	2,995	3,475	6,300	6,689
Sales and marketing	2,283	2,597	4,327	5,044
General and administrative	5,049	4,511	10,443	8,971
Operating income	2,854	1,672	8,167	3,029
Interest income	69	36	135	73
Interest expense	(98)	—	(98)	—
Other income, net	115	243	48	286
Income before taxes	2,940	1,951	8,252	3,388
Benefit from (provision for) taxes	49,886	(4)	49,871	4
Net income	$52,826	$1,947	$58,123	$3,392
Net income per share:				
Basic	$1.07	$0.04	$1.18	$0.07
Diluted	$1.00	$0.04	$1.11	$0.07
Weighted-average shares used in computing net income per share:				
Basic	49,490	45,974	49,077	45,776
Diluted	52,682	49,614	52,562	48,172

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

Cost of revenue	$2,001	$1,001	$3,540	$1,926
Product development	427	484	828	960
Sales and marketing	429	306	713	605
General and administrative	1,022	772	1,909	1,509

See notes to condensed consolidated financial statements

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QUINSTREET, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
Net income	$52,826	$1,947	$58,123	$3,392
Other comprehensive (loss) income:				
Foreign currency translation adjustment	(55)	(26)	23	(17)
Total other comprehensive (loss) income	(55)	(26)	23	(17)
Comprehensive income	$52,771	$1,921	$58,146	$3,375

See notes to condensed consolidated financial statements

QUINSTREET, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands, except share data)

(Unaudited)

	Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance at September 30, 2018	49,145,985	$ 49	—	$ —	$ 277,084	$ (302)	$ (123,806)	$ 153,025
Issuance of common stock upon exercise of stock options	397,306	1	—	—	3,071	—	—	3,072
Release of restricted stock, net of share settlement	228,142	—	—	—	—	—	—	—
Stock-based compensation expense	—	—	—	—	3,899	—	—	3,899
Withholding taxes related to release of restricted stock, net of share settlement	—	—	—	—	(1,561)	—	—	(1,561)
Net income	—	—	—	—	—	—	52,826	52,826
Other comprehensive loss	—	—	—	—	—	(55)	—	(55)
Balance at December 31, 2018	49,771,433	$ 50	—	$ —	$ 282,493	$ (357)	$ (70,980)	$ 211,206

	Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance at September 30, 2017	45,713,248	$ 46	—	$ —	$ 265,137	$ (454)	$ (143,588)	$ 121,141
Issuance of common stock upon exercise of stock options	181,175		—		898	—	—	898
Release of restricted stock, net of share settlement	388,821	—	—	—	—	—	—	—
Repurchases of common stock	—	—	(62,364)	(523)	—	—	—	(523)
Retirement of treasury stock	(62,364)		62,364	523	(523)		—	—
Stock-based compensation expense	—	—	—	—	2,579	—	—	2,579
Withholding taxes related to release of restricted stock, net of	—	—	—	—	(1,109)	—	—	(1,109)

share settlement								
Net income	—	—	—	—	—	—	1,947	1,947
Other comprehensive loss	—	—	—	—	—	(26)	—	(26)
Balance at December 31, 2017	46,220,880	$ 46	—	$ —	$ 266,982	$ (480)	$ (141,641)	$ 124,907

See notes to condensed consolidated financial statements

QUINSTREET, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands, except share data)

(Unaudited)

	Common Stock Shares	Amount	Treasury Stock Shares	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
Balance at June 30, 2018	48,146,384	$ 48	—	$ —	$ 277,761	$ (380)	$ (129,103)	$ 148,326
Issuance of common stock upon exercise of stock options	701,386	1	—	—	5,123	—	—	5,124
Release of restricted stock, net of share settlement	923,663	1	—	—	(1)	—	—	—
Stock-based compensation expense	—	—	—	—	7,028	—	—	7,028
Withholding taxes related to release of restricted stock, net of share settlement	—	—	—	—	(7,418)	—	—	(7,418)
Net income	—	—	—	—	—	—	58,123	58,123
Other comprehensive income	—	—	—	—	—	23	—	23
Balance at December 31, 2018	49,771,433	$ 50	—	$ —	$ 282,493	$ (357)	$ (70,980)	$ 211,206

	Common Stock Shares	Amount	Treasury Stock Shares	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
Balance at June 30, 2017	45,435,836	$ 45	—	$ —	$ 263,533	$ (463)	$ (145,033)	$ 118,082
Issuance of common stock upon exercise of stock options	181,175		—		898	—	—	898
Release of restricted stock, net of share settlement	697,210	1	—	—	(1)	—	—	—
Repurchases of common stock	—	—	(93,341)	(648)	—	—	—	(648)
Retirement of treasury stock	(93,341)	—	93,341	648	(648)	—	—	—
Stock-based compensation expense	—	—	—	—	5,035	—	—	5,035
Withholding taxes related to release of restricted stock, net of	—	—	—	—	(1,835)	—	—	(1,835)

share settlement								
Net income	—	—	—	—	—	—	3,392	3,392
Other comprehensive loss	—	—	—	—	—	(17)	—	(17)
Balance at December 31, 2017	46,220,880	$ 46	—	$ —	$ 266,982	$ (480)	$ (141,641)	$ 124,907

See notes to condensed consolidated financial statements

QUINSTREET, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended December 31,	
	2018	2017
Cash Flows from Operating Activities		
Net income	$58,123	$3,392
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,019	4,071
Provision for sales returns and doubtful accounts receivable	425	241
Stock-based compensation	6,990	5,000
Release of tax valuation allowance	(49,442)	—
Other adjustments, net	370	(272)
Changes in assets and liabilities:		
Accounts receivable	7,655	(4,899)
Prepaid expenses and other assets	220	(44)
Deferred taxes	(597)	—
Accounts payable	2,138	169
Accrued liabilities	(7,659)	3,543
Deferred revenue	177	(396)
Other liabilities, noncurrent	460	(1,186)
Net cash provided by operating activities	22,879	9,619
Cash Flows from Investing Activities		
Capital expenditures	(652)	(199)
Business acquisitions, net	(22,156)	(14,154)
Internal software development costs	(1,194)	(1,061)
Other investing activities	170	224
Net cash used in investing activities	(23,832)	(15,190)
Cash Flows from Financing Activities		
Withholding taxes related to release of restricted stock, net of share settlement	(7,418)	(1,835)
Repurchases of common stock	—	(647)
Proceeds from exercise of common stock options	5,206	898
Net cash used in financing activities	(2,212)	(1,584)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	37	(10)
Net decrease in cash, cash equivalents and restricted cash	(3,128)	(7,165)
Cash, cash equivalents and restricted cash at beginning of period	65,588	50,459
Cash, cash equivalents and restricted cash at end of period	$62,460	$43,294
Reconciliation of cash, cash equivalents, and restricted cash to the condensed consolidated balance sheets		
Cash and cash equivalents	$62,447	$42,406
Restricted cash included in other assets, noncurrent	13	888
Total cash, cash equivalents and restricted cash	$62,460	$43,294

Supplemental Disclosure of Cash Flow Information		
Cash paid for income taxes	129	118
Accrued post-closing payments related to AmOne Corp. acquisition (see Note 7)	7,514	—

See notes to condensed consolidated financial statements

QUINSTREET, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. The Company

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

2. Summary of Significant Accounting Policies

Basis of Presentation

Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company and its subsidiaries. Intercompany balances and transactions have been eliminated in consolidation.

Unaudited Interim Financial Information

The accompanying condensed consolidated financial statements and the notes to the condensed consolidated financial statements as of December 31, 2018 and for the three and six months ended December 31, 2018 and 2017 are unaudited. These unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") and applicable rules and regulations of the Securities and Exchange Commission ("SEC") regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Accordingly, these interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2018, as filed with the SEC on September 12, 2018. The condensed consolidated balance sheet at June 30, 2018 included herein was derived from the audited financial statements as of that date, but does not include all disclosures, including notes, required by GAAP.

The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and, in the opinion of management, include all adjustments (consisting only of normal recurring adjustments) necessary for the fair presentation of the Company's condensed consolidated balance sheet at December 31, 2018, its condensed consolidated statements of stockholders' equity, operations and comprehensive income for the three and six months ended December 31, 2018 and 2017 and condensed consolidated statements of cash flows for the six months ended December 31, 2018 and 2017. The results of operations for the

three and six months ended December 31, 2018 are not necessarily indicative of the results to be expected for the fiscal year ending June 30, 2019, or any other future period.

Use of Estimates

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

Accounting Policies

The significant accounting policies are described in Note 2, Summary of Significant Accounting Policies, to the consolidated financial statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2018.

QUINSTREET, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Revenue Recognition

The Company derives revenue primarily from fees earned through the delivery of qualified clicks, leads, inquiries, calls, applications, customers and, to a lesser extent, display advertisements, or impressions. As of July 1, 2018, the Company adopted ASC 606, Revenue from Contracts with Customers (ASC 606) which governs how the Company recognizes revenues in these arrangements. The Company applied the provisions of ASC 606 using the modified retrospective approach, with the cumulative effect of the adoption recognized as of July 1, 2018, to all contracts that had not been completed as of that date. Under ASC 606, the Company recognizes revenue when the Company transfers promised goods or services to clients in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company recognizes revenue pursuant to the five-step framework contained in ASC 606: (i) identify the contract with a client; (ii) identify the performance obligations in the contract, including whether they are distinct in the context of the contract; (iii) determine the transaction price, including the constraint on variable consideration; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the Company satisfies the performance obligations.

As part of determining whether a contract exists, probability of collection is assessed on a client-by-client basis at the outset of the contract. Clients are subjected to a credit review process that evaluates the clients' financial position and the ability and intention to pay. If it is determined from the outset of an arrangement that the client does not have the ability or intention to pay, the Company will conclude that a contract does not exist and will continuously reassess its evaluation until the Company is able to conclude that a contract does exist.

Generally, the Company's contracts specify the period of time as one month, but in some instances the term may be longer. However, for most of the Company's contracts with clients, either party can terminate the contract at any time without penalty. Consequently, enforceable rights and obligations only exist on a day-to-day basis, resulting in individual daily contracts during the specified term of the contract or until one party terminates the contract prior to the end of the specified term.

The Company has assessed the services promised in its contracts with clients and has identified one performance obligation, which is a series of distinct services. Depending on the client's needs, these services consist of a specified number or an unlimited number of clicks, leads, calls, applications, customers, etc. (hereafter collectively referred to as "marketing results") to be delivered over a period of time. The Company satisfies these performance obligations over time as the services are provided. The Company does not promise to provide any other significant goods or services to its clients.

Transaction price is measured based on the consideration that the Company expects to receive from a contract with a client. The Company's contracts with clients contain variable consideration as the price for an individual marketing result varies on a day-to-day basis depending on the market-driven amount a client has committed to pay. However, because the Company ensures the stated period of its contracts do not span multiple reporting periods, the contractual amount within a period is based on the number of marketing results delivered within the period. Therefore, the transaction price for any given period is fixed and no estimation of variable consideration is required.

If a marketing result delivered to a client does not meet the contractual requirements associated with that marketing result, the Company's contracts allow for clients to return a marketing result generally within 5-10 days of having received the marketing result. Such returns are factored into the amount billed to the client on a monthly basis and consequently result in a reduction to revenue in the same month the marketing result is delivered. No warranties are offered to the Company's clients.

The Company does not allocate transaction price as the Company has only one performance obligation and its contracts do not span multiple periods. Taxes collected from clients and remitted to governmental authorities are not included in revenue.

The Company bills clients monthly in arrears for the marketing results delivered during the preceding month. The Company's standard payment terms are 30-60 days. Consequently, the Company does not have significant financing components in its arrangements.

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

QUINSTREET, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Concentrations of Credit Risk

The Company had one client that accounted for 21% and 23% of net revenue for the three and six months ended December 31, 2018 and 23% of net revenue for both the three and six months ended December 31, 2017. That same client accounted for 10% and 13% of net accounts receivable as of December 31, 2018 and June 30, 2018. One additional client accounted for 13% of net accounts receivable as of both December 31, 2018 and June 30, 2018. No other clients accounted for 10% or more of net revenue for the three and six months ended December 31, 2018 or 2017 or 10% or more of net accounts receivable as of December 31, 2018 or June 30, 2018.

Fair Value of Financial Instruments

The Company’s financial instruments consist principally of cash equivalents, accounts receivable, accounts payable and post-closing payments related to its acquisition of AmOne Corp. (“AmOne”). The fair value of the Company’s cash equivalents is determined based on quoted prices in active markets for identical assets for its money market funds. The recorded value and fair value of the post-closing payments as of December 31, 2018 was $7.6 million and was determined using observable market inputs. The recorded values of the Company’s accounts receivable and accounts payable approximate their current fair values due to the relatively short-term nature of these accounts.

Cash, Cash Equivalents and Restricted Cash

All highly liquid investments with maturities of three months or less at the date of purchase are classified as cash equivalents on the Company’s condensed consolidated balance sheets. As of December 31, 2018 and June 30, 2018, the Company held money market funds of $11.1 million and $10.9 million which are classified as cash equivalents. As of June 30, 2018, the Company maintained $0.9 million cash restricted as collateral for letters of credit. In the second quarter of fiscal year 2019, the cash restriction from the issuing financial institution was removed.

Recent Accounting Pronouncements

In May 2014, the FASB issued a new accounting standard update on revenue from contracts with clients. The new guidance provides that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In March and April 2016, the FASB amended this standard to clarify implementation guidance on principal versus agent considerations and the identification of performance obligations and licensing. In May 2016, the FASB amended this standard to address improvements to the guidance on collectability, noncash consideration, and completed contracts at transition as well as provide a practical expedient for contract modifications at transition and an accounting policy election related to the presentation of sales taxes and other similar taxes collected from customers. The new standard becomes effective for fiscal years beginning after December 15, 2017, and interim periods within those years with early adoption permitted. The Company adopted the new standard effective July 1, 2018 using the modified retrospective approach. The adoption of the standard did not have a material effect on any individual line within the Company’s condensed consolidated financial statements nor on the financial statements as a whole. Therefore, the Company has not included the impact of adoption by line item in its disclosures.

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

In November 2016, the FASB issued a new accounting standard update on the disclosure of restricted cash on the statement of cash flows. The new guidance requires the statement of cash flows explain the changes during a reporting period of the totals for cash, cash equivalents, restricted cash, and restricted cash equivalents. Additionally, amounts for restricted cash and restricted cash equivalents are to be included with cash and cash equivalents if the cash flow statement includes a reconciliation of the total cash balances for a reporting period. The Company adopted the new standard effective July 1, 2018. The adoption of this standard did not have a material impact on the Company’s condensed consolidated financial statements.

In January 2017, the FASB issued a new accounting standard update to simplify the measurement of goodwill by eliminating the Step 2 impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit’s goodwill with the carrying amount of that goodwill. The new guidance requires an entity to compare the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair

QUINSTREET, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

value. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The new guidance becomes effective for goodwill impairment tests in fiscal years beginning after December 15, 2019, with early adoption permitted. The adoption of this standard is not expected to have an impact on the Company's condensed consolidated financial statements.

In January 2017, the FASB issued a new accounting standard update which revises the definition of a business and provides new guidance in evaluating when a set of transferred assets and activities is a business. The Company adopted the new standard effective on July 1, 2018, on a prospective basis and the adoption of this standard did not have a material impact on the Company's condensed consolidated financial statements.

In May 2017, the FASB issued a new accounting standard update to amend the scope of modification accounting for share-based payment arrangements. The amendments in the update provide guidance on the types of changes to the terms or conditions of share-based payment awards that would be required to apply modification accounting under ASC 718, Compensation-Stock Compensation. The new guidance became effective on July 1, 2018 and the adoption of this standard did not have a material impact on the Company's condensed consolidated financial statements.

3. Revenue

Disaggregation of Revenue

The following table shows the Company's net revenue disaggregated by vertical (in thousands):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
Net revenue:				
Financial Services	$74,410	$62,284	$151,776	$120,853
Education	16,214	15,423	38,653	33,570
Other	13,472	9,787	26,536	20,489
Total net revenue	$104,096	$87,494	$216,965	$174,912

Contract Balances

The following table provides information about contract liabilities from the Company's contracts with its clients (in thousands):

	December 31, 2018	June 30, 2018
Deferred revenue	$ 892	$715
Client deposits	669	684

The Company's contract liabilities result from payments received in advance of revenue recognition and advance consideration received from clients, which precede the Company's satisfaction of the associated performance obligation. Significant changes in the liability balances during the period relate to advance consideration received from clients, offset by revenue recognized of $4.0 million.

4. Net Income per Share

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

QUINSTREET, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
	(In thousands, except per share data)		(In thousands, except per share data)	
Numerator:				
Basic and Diluted:				
Net income	$ 52,826	$ 1,947	$ 58,123	$ 3,392
Denominator:				
Basic:				
Weighted-average shares of common stock used in computing basic net income per share	49,490	45,974	49,077	45,776
Diluted:				
Weighted-average shares of common stock used in computing basic net income per share	49,490	45,974	49,077	45,776
Weighted-average effect of dilutive securities:				
Stock options	1,779	1,332	1,832	724
Restricted stock units	1,413	2,308	1,653	1,672
Weighted-average shares of common stock used in computing diluted net income per share	52,682	49,614	52,562	48,172
Net income per share:				
Basic	$ 1.07	$ 0.04	$ 1.18	$ 0.07
Diluted	$ 1.00	$ 0.04	$ 1.11	$ 0.07
Securities excluded from weighted-average shares used in computing diluted net income per share because the effect would have been anti-dilutive: (1)	98	1,398	96	2,088

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

5. Fair Value Measurements

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

markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

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

Level 1 — Inputs are unadjusted quoted prices in active markets for identical assets or liabilities. Pricing inputs are based upon quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The valuations are based on quoted prices of the underlying security that are readily and regularly available in an active market, and accordingly, a significant degree of judgment is not required. As of December 31, 2018 and June 30, 2018, the Company used Level 1 assumptions for its money market funds.

Level 2 — Pricing inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities. As of December 31, 2018, the Company used Level 2 assumptions for its post-closing payments. As of June 30, 2018, the Company did not have any Level 2 financial assets or liabilities.

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Level 3 — Pricing inputs are generally unobservable for the assets or liabilities and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require management's judgment or estimation of assumptions that market participants would use in pricing the assets or liabilities. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques. As of December 31, 2018 and June 30, 2018, the Company did not have any Level 3 financial assets or liabilities.

6. Prepaid Expenses and Other Assets

During the three months ended December 31, 2015, the Company entered into a 10-year partnership agreement with a large online customer acquisition marketing company focused on the U.S. insurance industry to be their exclusive click monetization partner for the majority of their insurance categories. The agreement included a one-time upfront cash payment of $10.0 million. The payment is being amortized on a straight-line basis over the life of the contract. As of December 31, 2018, the Company has recorded $1.0 million within prepaid expenses and other assets and $5.7 million within other assets, noncurrent on the Company's condensed consolidated balance sheet. As of June 30, 2018, the Company had recorded $1.0 million within prepaid expenses and other assets and $6.3 million within other assets, noncurrent on the Company's condensed consolidated balance sheet. Amortization expense was $0.3 and $0.6 million for both the three and six months ended December 31, 2018 and 2017.

7. Acquisitions

On October 1, 2018, the Company completed the purchase of AmOne, an online performance marketing company in the financial services client vertical, to broaden its publisher and customer relationships. In exchange for all outstanding shares of AmOne, the Company paid $23.0 million in cash upon closing (including $2.7 million cash for net assets acquired subject to post-closing adjustments) and $8.0 million in post-closing payments, payable in equal semi-annual installments over a two year period, with the first installment payable six months following the date of closing. As of December 31, 2018, the Company has a liability related to post-closing adjustments for net assets acquired of $0.1 million included in accrued liabilities on the Company's condensed consolidated balance sheet. The total consideration was calculated as follows (in thousands):

	Estimated Fair Value
Cash	$ 23,032
Post-closing adjustments for net assets acquired	138
Post-closing payments, net of imputed interest of $486	7,514
Total	$ 30,684

As of December 31, 2018, the Company had recorded $3.9 million in other liabilities, current and $3.7 million in other liabilities, noncurrent, on the Company's condensed consolidated balance sheet related to post-closing payments.

The acquisition was accounted for as a business combination and the results of operations of AmOne have been included in the Company's results of operations as of October 1, 2018. The Company allocated the purchase price to identifiable assets acquired based on their estimated fair values. The excess of the purchase price over the aggregate fair value of the identifiable assets acquired was recorded as goodwill and is primarily attributable to synergies the Company expects to achieve related to the acquisition. The goodwill is deductible for tax purposes.

The following table summarizes the preliminary allocation of the purchase price and the estimated useful lives of the identifiable assets acquired as of the date of the acquisition (in thousands):

	Estimated Fair Value	Estimated Useful Life
Customer/publisher/advertiser relationships	$ 21,300	7 years
Website/trade/domain names	900	15 years
Acquired technology and others	500	3 years
Net assets	2,838	n/a
Goodwill	5,146	Indefinite
Total	$ 30,684	

The Company is still finalizing the allocation of the purchase price to the individual assets acquired. Accordingly, these preliminary estimates are subject to change during the measurement period, which is the period subsequent to the acquisition date during which

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the acquirer may adjust the provisional amounts recognized for a business combination, not to exceed one year form the acquisition date. The final purchase price allocation, which may include changes in the allocations within intangible assets and between intangible assets and goodwill, as well as changes in the estimated useful lives of the intangible assets, will be determined when the Company has completed the detailed review of underlying inputs and assumptions used in its preliminary purchase price allocation.

The unaudited pro forma financial information in the table below summarizes the combined results of operations for the Company and AmOne as though AmOne had been acquired as of the beginning of fiscal year 2018. The unaudited pro forma financial information is presented for illustrative purposes only and do not necessarily reflect what the combined company's results of operations would have been had the acquisition occurred as of the beginning of fiscal year 2018, nor is it necessarily indicative of the future results of operations of the combined company.

	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
	(In thousands)		(In thousands)	
Net revenue	$104,096	$92,663	$223,455	$185,673
Net income	52,846	2,862	59,379	5,293

The pro forma financial information for the three and six months ended December 31, 2018 includes the elimination of $20 thousand and $192 thousand of nonrecurring acquisition costs incurred by the Company that are directly related to the acquisition.

The change in the carrying amount of goodwill for the six months ended December 31, 2018 was as follows (in thousands):

	Goodwill
Balance at June 30, 2018	$62,283
Additions	5,146
Balance at December 31, 2018	$67,429

8. Intangible Assets

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

	December 31, 2018			June 30, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer/publisher/advertiser relationships	$62,399	$ (38,494)	$23,905	$41,101	$ (37,286)	$ 3,815
Content	60,959	(60,928)	31	60,969	(60,930)	39
Website/trade/domain names	31,995	(29,775)	2,220	31,098	(29,369)	1,729
Acquired technology and others	39,399	(36,571)	2,828	38,900	(35,910)	2,990
Total	$194,752	$ (165,768)	$28,984	$172,068	$ (163,495)	$ 8,573

Amortization of intangible assets was $1.5 million and $2.2 million for the three and six months ended December 31, 2018 and $0.7 million and $1.8 million for the three and six months ended December 31, 2017.

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Future amortization expense for the Company's intangible assets as of December 31, 2018 was as follows (in thousands):

Fiscal Year Ending June 30,	Amortization
2019 (remaining six months)	$ 3,071
2020	6,081
2021	4,761
2022	3,678
2023	3,446
Thereafter	7,947
Total	$ 28,984

9. Income Taxes

The Company recorded a valuation allowance against the majority of its deferred tax assets at the end of fiscal year 2014. In the second quarter of fiscal year 2019, due to the preponderance of positive evidence, including the Company's cumulative profit before taxes and future forecasts of continued profitability for the United States, the Company determined that sufficient positive evidence existed to conclude that substantially all of its valuation allowance was no longer needed. Accordingly; the Company recorded a net benefit from income taxes of $49.9 million for the three and six months ended December 31, 2018 primarily related to the release of the valuation allowance for the majority of its federal and states deferred tax assets of $49.4 million. The Company continues to maintain a valuation allowance related to its deferred tax assets for its foreign entities and California research and development tax credits. If there are unfavorable changes to actual operating results or to projections of future income, the Company may determine that it is more likely than not such deferred tax assets may not be realizable.

The Company's tax provision or benefit from income taxes for interim periods is determined using an estimate of its annual effective tax rate, adjusted for discrete items, if any. Each quarter the Company updates its estimate of the annual effective tax rate and makes a year-to-date adjustment to the provision. The primary difference between the effective tax rate and the federal statutory tax rate relates to the release of the valuation allowance related to the United States federal and state deferred tax assets with the exception of California research and development tax credits and the benefit of excess share-based compensation tax deductions.

The Tax Cuts and Jobs Act (the "Tax Reform Act") was enacted on December 22, 2017. The Tax Reform Act significantly impacts the future ongoing U.S. corporate income tax by, among things, lowering the U.S. corporate income tax rates from 34% to 21%, providing for unlimited net operating loss carry-forward periods, and implementing a territorial tax system. The reduction of the U.S. corporate tax rate required the Company to revalue its

U.S. deferred tax assets and liabilities to the recently enacted federal rate of 21%, however due to the Company's valuation allowance on domestic deferred tax assets as of the effective date of the Tax Reform Act, there was no material impact to the Company's condensed consolidated financial statements as a result of the federal tax rate reduction. The guidance provides a measurement period that should not extend beyond one year from the Tax Reform Act enactment date for companies to complete the accounting. In accordance with the guidance, a company must reflect the income tax effects of those aspects of the Tax Reform Act for which the accounting is complete. In the second quarter of fiscal year 2019, the Company completed its analysis to determine the effect of the Tax Reform Act and recorded no adjustments as of December 31, 2018.

10. Commitments and Contingencies

Leases

The Company leases office space under non-cancelable operating leases with various expiration dates through fiscal year 2026. Rent expense was $1.0 million and $2.0 million for the three and six months ended December 31, 2018 and $0.8 million and $1.6 million for the three and six months ended December 31, 2017. The Company recognizes rent expense on a straight-line basis over the lease period and accrues for rent expense incurred but not paid.

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Future annual minimum lease payments under noncancelable operating leases as of December 31, 2018 were as follows (in thousands):

Fiscal Year Ending June 30,	Operating Leases
2019 (remaining six months)	$ 842
2020	3,323
2021	4,017
2022	3,989
2023	3,675
Thereafter	1,416
Total	$ 17,262

Guarantor Arrangements

The Company has agreements whereby it indemnifies its officers and directors for certain events or occurrences while the officer or director is, or was, serving at the Company's request in such capacity. The term of the indemnification period is for the officer or director's lifetime. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, the Company has a director and officer insurance policy that limits its exposure and enables the Company to recover a portion of any future amounts under certain circumstances and subject to deductibles and exclusions. As a result of its insurance policy coverage, the Company believes the estimated fair value of these indemnification agreements is not material. Accordingly, the Company had no liabilities recorded for these agreements as of December 31, 2018 and June 30, 2018.

In the ordinary course of its business, the Company from time to time enters into standard indemnification provisions in its agreements with its clients. Pursuant to these provisions, the Company may be obligated to indemnify its clients for certain losses suffered or incurred, including losses arising from violations of applicable law by the Company or by its third-party publishers, losses arising from actions or omissions of the Company or its third-party publishers, and for third-party claims that a Company product infringed upon any United States patent, copyright or other intellectual property rights. Where practicable, the Company limits its liabilities under such indemnities. Subject to these limitations, the term of such indemnification provisions is generally coterminous with the corresponding agreements but may extend for the duration of the applicable statute of limitations after termination of the agreement. The potential amount of future payments to defend lawsuits or settle indemnified claims under these indemnification provisions is generally limited and the Company believes the estimated fair value of these indemnity provisions is not material. Accordingly, the Company had no liabilities recorded for these agreements as of December 31, 2018 and June 30, 2018.

Lending Commitments

In the third quarter of fiscal 2018, the Company entered into an unsecured revolving promissory note as a lender, as part of a strategic partnership intended to increase the Company's presence in the emerging technology career education market. The principal balance at any time cannot exceed $2.5 million and any outstanding principal balance

bears interest at 6.00% payable monthly. Repayment of the principal balance can occur without premium or penalty in whole or in part at any time. In the event of an equity offering by the borrower, any outstanding principal balance may be converted to equity securities at the mutual agreement of the Company and borrower. The principal balance and any accrued interest is due on January 1, 2019. No amounts were outstanding as of December 31, 2018. The promissory note expired on January 1, 2019 and was not renewed.

Letters of Credit

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

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11. Stockholders' Equity

Stock Repurchases

In November 2016, the Board of Directors authorized a stock repurchase program to repurchase up to 750,000 outstanding shares of its common stock. Under this program, during the six months ended December 31, 2017, the Company repurchased and retired 30,977 shares of its common stock at a weighted-average price of $3.99 per share, excluding a broker commission of $0.03 per share, at a total cost of $0.1 million. Repurchases under this program took place in the open market and were made under a Rule 10b5-1 plan. This program was completed in July 2017.

In July 2017, the Board of Directors authorized a stock repurchase program to repurchase up to 905,000 outstanding shares of its common stock. In October 2017, the Board of Directors increased the number of outstanding shares that may be repurchased to 966,000 shares. Under this program, no repurchases were made during the three and six months ended December 31, 2018. In the three and six months ended December 31, 2017, the Company repurchased and retired 62,364 shares of its common stock at a weighted-average price of $8.36 per share, excluding a broker commission of $0.03 per share, at a total cost of $0.5 million. Repurchases under this program took place in the open market and were made under a Rule 10b5-1 plan.

The Company's accounting policy upon the retirement of treasury stock is to deduct its par value from common stock and reduce additional paid-in capital by the amount recorded in additional paid-in capital when the stock was originally issued.

12. Stock Benefit Plans

Stock Incentive Plans

The Company may grant incentive stock options ("ISOs"), nonstatutory stock options ("NQSOs"), restricted stock, restricted stock units ("RSUs"), stock appreciation rights, performance-based stock awards, and other forms of equity compensation, as well as performance cash awards, under its 2010 Equity Incentive Plan (the "2010 Incentive Plan"). The Company may grant NQSOs and RSUs to non-employee directors under the 2010 Non-Employee Directors' Stock Award Plan (the "Directors' Plan"). Prior to fiscal year 2016, the Company granted RSUs with a service condition ("service-based RSUs"). In fiscal year 2016, the Company also began granting to employees RSUs with a market condition ("market-based RSUs") that requires that the Company's stock price achieve a specified price above the grant date stock price before it can be eligible for service vesting conditions. In fiscal year 2019, the Company began granting to employees RSUs with a performance condition ("performance-based RSUs") that vest variably subject to the achievement of revenue growth and adjusted EBITDA targets. The Company evaluates the portion of the awards that are probable to vest quarterly until the performance criteria are met. To date, the Company has issued ISOs, NQSOs, service-based RSUs, market-based RSUs, and performance-based RSUs under its stock incentive plans.

As of December 31, 2018, 20,599,689 shares were reserved and 14,789,389 shares were available for issuance under the 2010 Incentive Plan; 4,333,939 shares were reserved and 2,279,127 shares were available for issuance under the

Directors' Plan.

Stock-Based Compensation

The Company estimates the fair value of stock options at the date of grant using the Black-Scholes option-pricing model. Options are granted with an exercise price equal to the closing price of the Company's common stock on the date of grant.

The weighted-average Black-Scholes model assumptions for the three and six months ended December 31, 2018 and 2017 were as follows:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
Expected term (in years)	4.0	4.4	4.2	4.6
Expected volatility	56 %	49 %	55 %	47 %
Expected dividend yield	—	—	—	—
Risk-free interest rate	2.9 %	2.0 %	2.9 %	1.8 %
Grant date fair value	$6.56	$3.09	$6.56	$1.73

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The Company estimates the fair value of market-based RSUs at the date of the grant using the Monte Carlo simulation model. There were no grants of market-based RSUs during the six months ended December 31, 2018. The weighted-average Monte Carlo simulation model assumptions for the three and six months ended December 31, 2017 were as follows:

	December 31, 2017	
	Three Months Ended	Six Months Ended
Expected term (in years)	4.0	4.0
Expected volatility	48 %	48 %
Expected dividend yield	—	—
Risk-free interest rate	2.1 %	2.0 %
Grant date fair value	$6.16	$ 5.25

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

13. Segment Information

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker, its chief executive officer, reviews financial information presented on a consolidated basis and no expense or operating income is evaluated at a segment level. Given the consolidated level of review by the Company's chief executive officer, the Company operates as one reportable segment.

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

	Three Months Ended December 31,	Six Months Ended December 31,

	2018	2017	2018	2017
Net revenue:				
United States	$102,247	$85,798	$213,035	$170,868
International	1,849	1,696	3,930	4,044
Total net revenue	$104,096	$87,494	$216,965	$174,912

	December 31, 2018	June 30, 2018
Property and equipment, net:		
United States	$ 4,295	$3,875
International	280	336
Total property and equipment, net	$ 4,575	$4,211

	December 31, 2018	June 30, 2018
Other intangible assets, net:		
United States	$ 28,884	$8,441
International	100	132
Total other intangible assets, net	$ 28,984	$8,573

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the fiscal year ended June 30, 2018, filed with the Securities and Exchange Commission ("SEC").

This Quarterly Report on Form 10-Q contains "forward-looking statements" that involve risks and uncertainties, as well as assumptions that, if they do not materialize or if they prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. The statements contained in this Quarterly Report on Form 10-Q that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are often identified by the use of words such as, but not limited to, "anticipate," "believe," "expect," "can," "continue," "could," "estimate," "expect," "intend," "outlook," "may," "will," "plan," "project," "seek," "shou "would," and similar expressions or variations intended to identify forward-looking statements. These statements reflect the beliefs and assumptions of our management based on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified in "Part II —Item 1A. Risk Factors" below, and those discussed in the sections titled "Special Note Regarding Forward-Looking Statements" and "Risk Factors" included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2018, filed with the SEC. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

Management Overview

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

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

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

their agents), applications (e.g., for enrollment or a financial product), or customers (e.g., bound insurance policies);

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

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

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

Our two largest client verticals are financial services and education. Our financial services client vertical represented 71% and 70% of net revenue for the three and six months ended December 31, 2018 and 71% and 69% of net revenue for the three and six months ended December 31, 2017. Our education client vertical represented 16% and 18% of net revenue for the three and six months ended December 31, 2018 and 18% and 19% of net revenue for the three and six months ended December 31, 2017. Our other client verticals, consisting of home services and business-to-business technology, represented 13% and 12% of net revenue for the three and six months ended December 31, 2018 and 11% and 12% of net revenue for the three and six months ended December 31, 2017. We generated the majority of our revenue from sales to clients in the United States.

One client in our financial services client vertical accounted for 21% and 23% of our net revenue for the three and six months ended December 31, 2018 and 23% of our net revenue for both the three and six months ended December 31, 2017. No other client accounted for 10% or more of our net revenue for the three and six months ended December 31, 2018 or 2017.

Trends Affecting our Business

Client Verticals

Our financial services client vertical has been challenged by a number of factors in the past, including the limited availability of high quality media at acceptable margins caused by the acquisition of media sources by competitors, increased competition for high quality media and changes in search engine algorithms. These factors may impact our business in the future again. To offset this impact, we have enhanced our product set to provide greater segmentation, matching, transparency and right pricing of media that have enabled better monetization to provide greater access to high quality media sources. Moreover, we have entered into strategic partnerships and acquisitions to increase and diversify our access to quality media and client budgets. Our financial services client vertical also benefits from more spending by clients in digital media and performance marketing as digital marketing continues to evolve.

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

Development, Acquisition and Retention of High Quality Targeted Media

One of the primary challenges of our business is finding or creating media that is high quality and targeted enough to attract prospects for our clients at costs that provide a sound financial outcome for us. In order to grow our business,

we must be able to find, develop and retain quality targeted media on a cost-effective basis. Consolidation of media sources, changes in search engine algorithms and increased competition for available media has, during some periods, limited and may continue to limit our ability to generate revenue at acceptable margins. To offset this impact, we have developed new sources of media, including entering into strategic partnerships with other marketing and media companies and acquisitions. Such partnerships include takeovers of performance marketing functions for large web media properties; backend monetization of unmatched traffic for clients with large media buys; and white label products for other performance marketing companies. We have also focused on growing our revenue from email, mobile and social media traffic sources.

Seasonality

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

Our results are also subject to fluctuation as a result of seasonality in our clients' business. For example, revenue in our clients' lending businesses is subject to cyclical and seasonal trends. Home sales typically rise during the spring and summer months and decline during the fall and winter months, while refinancing and home equity activity is principally driven by mortgage interest rates as well as real estate values. Other factors affecting our clients' businesses include macro factors such as credit availability in the market, the strength of the economy and employment.

Regulations

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

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

An example of a regulatory change that may affect our business is the amendment of the Telephone Consumer Protection Act (the "TCPA") that affects telemarketing calls. Our clients may make business decisions based on their own experiences with the TCPA regardless of our products and compliance practices. Those decisions may negatively affect our revenue and profitability.

Basis of Presentation

Net Revenue

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

Cost of Revenue

Cost of revenue consists primarily of media and marketing costs, personnel costs, amortization of intangible assets, depreciation expense, and amortization of internal software development costs related to revenue-producing technologies. Media and marketing costs consist primarily of fees paid to third-party publishers, media owners or managers, or to strategic partners that are directly related to a revenue-generating event and of pay-per-click, or PPC, ad purchases from Internet search companies. We pay these third-party publishers, media owners or managers, strategic partners and Internet search companies on a revenue-share, a cost-per-lead, or CPL, cost-per-click, or CPC,

or cost-per-thousand-impressions, or CPM, basis. Personnel costs include salaries, stock-based compensation expense, bonuses, commissions and employee benefit costs. Personnel costs are primarily related to individuals associated with maintaining our servers and websites, our call center operations, our editorial staff, client management, creative team, content, compliance group, and media purchasing analysts. Costs associated with software incurred in the development phase or obtained for internal use are capitalized and amortized to cost of revenue over the software's estimated useful life.

Operating Expenses

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

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

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

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

Other Income, Net

Other income, net, consists primarily of interest income and other income and expense. Interest income represents interest earned on our cash and cash equivalents, which may increase or decrease depending on market interest rates and the amounts invested. Interest expense relates to imputed interest on the AmOne Corp. (“AmOne”) acquisition post-closing payments. We have no borrowing agreements outstanding as of December 31, 2018; however interest expense could increase if, among other things, we enter into a new borrowing agreement to manage liquidity or make additional acquisitions through debt financing. Other income and expense includes gains and losses on foreign currency exchange, gains and losses on sales of websites and domain names that were not considered to be strategically important to our business and other non-operating items.

Benefit from (Provision for) Income Taxes

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

Critical Accounting Policies, Estimates and Judgments

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

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

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

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

For further information on our critical and other significant accounting policies and estimates, see Part II, Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Annual Report on Form 10-K for the year ended June 30, 2018, filed with the SEC.

Recently Issued Accounting Standards

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

Results of Operations

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

	Three Months Ended December 31,				Six Months Ended December 31,			
	2018		2017		2018		2017	
	(In thousands)				(In thousands)			
Net revenue	$104,096	100.0%	$87,494	100.0%	$216,965	100.0%	$174,912	100.0%
Cost of revenue [1]	90,915	87.3	75,239	86.0	187,728	86.5	151,179	86.5
Gross profit	13,181	12.7	12,255	14.0	29,237	13.5	23,733	13.5
Operating expenses: [1]								
Product development	2,995	2.9	3,475	4.0	6,300	2.9	6,689	3.8
Sales and marketing	2,283	2.2	2,597	3.0	4,327	2.0	5,044	2.9
General and administrative	5,049	4.9	4,511	5.1	10,443	4.8	8,971	5.1
Operating income	2,854	2.7	1,672	1.9	8,167	3.8	3,029	1.7
Interest income	69	0.1	36	—	135	—	73	—
Interest expense	(98)	(0.1)	—	—	(98)	—	—	—
Other income, net	115	0.1	243	0.3	48	—	286	0.2
Income before taxes	2,940	2.8	1,951	2.2	8,252	3.8	3,388	1.9
Benefit from (provision for) taxes	49,886	47.9	(4)	—	49,871	23.0	4	—
Net income	$52,826	50.7%	$1,947	2.2%	$58,123	26.8%	$3,392	1.9%

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

Cost of revenue	$2,001	1.9%	$1,001	1.1%	$3,540	1.6%	1,926	1.1%
Product development	427	0.4	484	0.6	828	0.4	960	0.5
Sales and marketing	429	0.4	306	0.3	713	0.3	605	0.3
General and administrative	1,022	1.0	772	0.9	1,909	0.9	1,509	0.9

Gross Profit

Three Months Ended December 31,		Six Months Ended December 31,		Three Months	Six Months
2018	2017	2018	2017	% Change	% Change

	(In thousands)							
Net revenue	$104,096	$87,494	$216,965	$174,912	19	%	24	%
Cost of revenue	90,915	75,239	187,728	151,179	21	%	24	%
Gross profit	$13,181	$12,255	$29,237	$23,733	8	%	23	%

Net Revenue

Net revenue increased $16.6 million, or 19%, for the three months ended December 31, 2018 compared to the three months ended December 31, 2017. Revenue from our financial services client vertical increased $12.1 million, or 19%, for the three months ended December 31, 2018 compared to the three months ended December 31, 2017, primarily due to our enhanced product set that provides greater segmentation, transparency, and right pricing of media which have enabled access to more media and client budgets. Revenue from our financial services client vertical also increased as a result of the acquisition of AmOne. Revenue from our education client

vertical increased $0.8 million, or 5%, for the three months ended December 31, 2018, compared to the three months ended December 31, 2017, primarily due to increased client demand from U.S. education clients. Revenue from our other client vertical increased $3.7 million, or 38%, for the three months ended December 31, 2018, compared to the three months ended December 31, 2017, primarily due to increased client demand in our home services and business-to-business technology client verticals.

Net revenue increased $42.1 million, or 24%, for the six months ended December 31, 2018 compared to the six months ended December 31, 2017. Revenue from our financial services client vertical increased $30.9 million, or 26%, for the six months ended December 31, 2018 compared to the six months ended December 31, 2017, primarily due to our enhanced product set that provides greater segmentation, transparency, and right pricing of media which have enabled access to more media and client budgets. Revenue from our financial services client vertical also increased as a result of the acquisition of AmOne. Revenue from our education client vertical increased $5.1 million, or 15%, for the six months ended December 31, 2018 compared to the six months ended December 31, 2017, primarily due to increased client demand from U.S. education clients. Revenue from our other client vertical increased $6.1 million, or 30%, for the six months ended December 31, 2018 compared to the six months ended December 31, 2017, primarily due to increased client demand in our home services and business-to-business technology client verticals.

Cost of Revenue and Gross Profit Margin

Cost of revenue increased $15.7 million, or 21%, for the three months ended December 31, 2018 compared to the three months ended December 31, 2017, driven by increased media and marketing costs of $12.3 million, increased personnel costs of $1.4 million and increased stock-based compensation expense of $1.0 million. The increase in media and marketing costs is primarily due to higher revenue volumes and the increase in personnel costs is primarily due to higher headcount as a result of the acquisition of AmOne. Gross margin, which is the difference between net revenue and cost of revenue as a percentage of net revenue, was 13% for the three months ended December 31, 2018 compared to 14% for the three months ended December 31, 2017.

Cost of revenue increased $36.5 million, or 24%, for the six months ended December 31, 2018 compared to the six months ended December 31, 2017, driven by increased media and marketing costs of $31.8 million, increased personnel costs of $2.5 million and increased stock-based compensation expense of $1.6 million. The increase in media and marketing costs is primarily due to higher revenue volumes and the increase in personnel costs is primarily due to higher headcount partially as a result of the acquisition of AmOne. Gross margin, which is the difference between net revenue and cost of revenue as a percentage of net revenue, was 14% for both the six months ended December 31, 2018 and 2017.

Operating Expenses

	Three Months Ended December 31,		Six Months Ended December 31,		Three Months % Change	Six Months % Change
	2018	2017	2018	2017		
Product development	$2,995	$3,475	$6,300	$6,689	(14 %)	(6 %)
Sales and marketing	2,283	2,597	4,327	5,044	(12 %)	(14 %)
General and administrative	5,049	4,511	10,443	8,971	12 %	16 %

Operating expenses	$10,327	$10,583	$21,070	$20,704	(2 %)	2 %

Product Development Expenses

Product development expenses decreased $0.5 million, or 14%, for the three months ended December 31, 2018 compared to the three months ended December 31, 2017 primarily due to decreased incentive compensation expense.

Product development expenses decreased $0.4 million, or 6%, for the six months ended December 31, 2018 compared to the six months ended December 31, 2017 primarily due to decreased incentive compensation expense.

Sales and Marketing Expenses

Sales and marketing expenses decreased $0.3 million, or 12%, for the three months ended December 31, 2018 compared to the three months ended December 31, 2017 primarily due to decreased personnel costs as a result of lower headcount and decreased incentive compensation expense.

Sales and marketing expense decreased $0.7 million, or 14%, for the six months ended December 31, 2018 compared to the six months ended December 31, 2017 primarily due to decreased personnel costs as a result of lower headcount and decreased incentive compensation expense.

General and Administrative Expenses

General and administrative expenses increased $0.5 million, or 12%, for the three months ended December 31, 2018 compared to the three months ended December 31, 2017 primarily due to increased stock-based compensation expense of $0.3 million and professional services fees of $0.2 million related to the acquisition of AmOne. This was offset by lower personnel costs of $0.1 million as a result of decreased incentive compensation expense.

General and administrative expenses increased $1.5 million, or 16%, for the six months ended December 31, 2018, compared to the six months ended December 31, 2017 primarily due to increased stock-based compensation expense of $0.4 million, increased professional services fees of $0.4 million related to the acquisition of AmOne and increased business tax expense of $0.2 million. There was also an increase in personnel costs of $0.1 million as a result of annual compensation increases and payroll related taxes, partially offset by decreased incentive compensation expense.

Benefit from (Provision for) Taxes

	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
	(In thousands)			
Benefit from (provision for) taxes	$49,886	$ (4)	$49,871	$ 4

We recorded a valuation allowance against the majority of our deferred tax assets at the end of fiscal year 2014. In the second quarter of fiscal year 2019, due to the preponderance of positive evidence, including our cumulative profit before taxes and future forecasts of continued profitability for the United States, we determined that sufficient positive evidence existed to conclude that substantially all of our valuation allowance was no longer needed. Accordingly; we recorded a one-time non-cash benefit from income taxes of $49.4 million related to the release of the valuation allowance for the majority of our federal and states deferred tax assets.

Our tax provision or benefit from income taxes for interim periods is determined using an estimate of our annual effective tax rate, adjusted for discrete items, if any. Each quarter, we update our estimate of the annual effective tax rate and make a year-to-date adjustment to the provision. The primary difference between the effective tax rate and the federal statutory tax rate relates to the release of the valuation allowance related to the United States federal and state deferred tax assets with the exception of California research and development tax credits and the benefit of excess share-based compensation tax deductions.

Liquidity and Capital Resources

As of December 31, 2018, our principal sources of liquidity consisted of cash and cash equivalents of $62.4 million and cash we expect to generate from future operations. Our cash and cash equivalents are maintained in highly liquid investments with remaining maturities of 90 days or less at the time of purchase. We believe our cash equivalents are liquid and accessible.

Our short-term and long-term liquidity requirements primarily arise from our working capital requirements, capital expenditures, internal software development costs, and acquisitions from time to time. Our acquisitions may also have deferred purchase price components. For example our acquisition of AmOne requires the payment by us of $8.0 million in equal, semi-annual installments over a two year period following the closing date. Our primary operating cash requirements include the payment of media costs, personnel costs, costs of information technology systems and office facilities. Our ability to fund these requirements will depend on our future cash flows, which are determined, in part, by future operating performance and are, therefore, subject to prevailing global macroeconomic conditions and financial, business and other factors, some of which are beyond our control. Even though we may not need additional funds to fund anticipated liquidity requirements, we may still elect to obtain debt financing or issue additional equity securities for other reasons.

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

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

	Six Months Ended December 31,	
	2018	2017
	(In thousands)	
Net cash provided by operating activities	$22,879	$9,619
Net cash used in investing activities	(23,832)	(15,190)
Net cash used in financing activities	(2,212)	(1,584)

Operating Activities

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

Cash provided by operating activities was $22.9 million for the six months ended December 31, 2018, compared to cash flows provided by operating activities of $9.6 million for the six months ended December 31, 2017.

Cash provided by operating activities for the six months ended December 31, 2018 consisted of a net income of $58.1 million and a net increase in cash from changes in working capital of $2.4 million, offset by non-cash adjustments of $38.0 million. The non-cash adjustments primarily consisted of a one-time non-cash benefit of $49.4 million related to our release of the valuation for the majority of our federal and states deferred tax assets, offset by depreciation and amortization of $4.0 million and stock-based compensation expense of $7.0 million. The changes in working capital accounts were primarily attributable to a decrease in accounts receivable of $7.7 million and an increase in accounts payable of $2.1 million, offset by a decrease in accrued liabilities of $7.7 million. The decrease in accounts receivable was due to the timing of receipts. The increase in accounts payable and decrease in accrued liabilities was due to the timing of payments, including the payment of fiscal year 2018 incentive compensation expense in the first quarter of fiscal year 2019.

Cash provided by operating activities for the six months ended December 31, 2017 consisted of a net income of $3.4 million and non-cash adjustments of $9.0 million. In addition, there was a net decrease in cash from changes in working capital of $2.8 million. The non-cash adjustments primarily consisted of depreciation and amortization of $4.1 million and stock-based compensation expense of $5.0 million. The changes in working capital accounts were primarily attributable to an increase in accounts receivable of $4.9 million and a decrease in other liabilities of $1.2 million, offset by an increase in accrued liabilities of $3.5 million. The increase in accounts receivable is due to higher revenue and the decrease in other liabilities is due to the change in the classification of deferred rent for our headquarters lease from long-term to short-term. The increase in accrued liabilities is attributable to the timing of payments and a change in the classification of deferred rent for our headquarters lease.

Investing Activities

Cash flows from investing activities generally include capital expenditures, capitalized internal software development costs and acquisitions from time to time.

Cash used in investing activities was $23.8 million for the six months ended December 31, 2018, compared to cash flows used in investing activities of $15.2 million for the six months ended December 31, 2017.

Cash used in investing activities in the six months ended December 31, 2018 was primarily due to $23.0 million cash paid at the closing of the AmOne acquisition, net of cash acquired of $0.9 million, and capital expenditures and internal software development costs of $1.8 million.

Cash used in investing activities in the six months ended December 31, 2017 was primarily due to our acquisition of certain assets of Katch, LLC for $14.0 million and capital expenditures and internal software development costs of $1.3 million.

Financing Activities

Cash flows from financing activities generally include withholding taxes related to the release of restricted stock, net of share settlement, proceeds from the exercise of stock options and repurchases of common stock.

Cash used in financing activities was $2.2 million for the six months ended December 31, 2018, compared to cash used in financing activities of $1.6 million for the six months ended December 31, 2017.

Cash used in financing activities in the six months ended December 31, 2018 was due to withholding taxes related to the release of restricted stock, net of share settlement of $7.4 million partially offset by proceeds from the exercise of stock options of $5.2 million.

Cash used in financing activities in the six months ended December 31, 2017 was due to withholding taxes paid related to the release of restricted stock, net of share settlement of $1.8 million and repurchases of common stock of $0.6 million, partially offset by proceeds from the exercise of stock options of $0.9 million.

Off-Balance Sheet Arrangements

During the periods presented, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

In the third quarter of fiscal 2018, we entered into an unsecured revolving promissory note as a lender, as part of a strategic partnership intended to increase our presence in the emerging technology career education market. The principal balance at any time cannot exceed $2.5 million and any outstanding principal balance bears interest at a rate of 6.00% payable monthly. Repayment of the principal balance can occur without premium or penalty in whole or in part at any time. In the event of an equity offering by the borrower, any outstanding principal balance may be converted into equity securities of the borrower at the mutual agreement of us and the borrower. The principal balance and any accrued interest is due on January 1, 2019. As of December 31, 2018, there were no amounts outstanding. The promissory note expired on January 1, 2019 and was not renewed.

Contractual Obligations

Our contractual obligations relate to operating leases and a lending commitment which expired on January 1, 2019 and was not renewed. Additionally, in the second quarter of fiscal year 2019, in connection with the acquisition of AmOne, we agreed to pay $8.0 million in post-closing payments, payable in equal semi-annual installments over a two year period, with the first installment payable six months following October 1, 2018. There have been no material changes to our contractual obligations from those disclosed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2018 other than as previously described.

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 expired on October 31, 2018. The monthly base rent was abated for the first 12 calendar months under the lease, and was $0.1 million through the 24th calendar month of the term of the lease. After this 24 month period, monthly base rent increased to $0.2 million for the subsequent 12 months and increased approximately 3% after each 12-month anniversary during the remaining term.

In April 2018, we amended the lease agreement. The extended lease term period began on November 1, 2018 and expires on October 31, 2023. Additionally, the square footage of office space was reduced to approximately 44,556. During the first year of the extended lease term, the monthly base rent will be abated for the first eight months and increases to $0.2 million for the remaining four months. During the second year of the extended lease term, the monthly base rent will be abated for the first four months, increase to $0.2 million for the fifth month, and increase to

$0.3 million for the remaining seven months. Subsequently, after each 12-month anniversary, the monthly base rent will increase by approximately 3%. We have one remaining option to extend the term of the lease for an additional five years following October 31, 2023.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest Rate Risk

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

Foreign Currency Exchange Risk

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive and principal financial officers, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2018. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Securities Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Securities Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of December 31, 2018, our principal executive and principal financial officers concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

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

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

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

Risks Related to Our Business and Industry

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

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

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

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

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

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

closure of such schools in our education client vertical.

Our, our third-party publishers', and our clients' businesses operate in highly regulated industries, subject to many laws and regulatory requirements, including federal, state, and local laws and regulations regarding unsolicited commercial email, telemarketing, user privacy, search engines, Internet tracking technologies, direct marketing, data security, data privacy, pricing, sweepstakes, promotions, intellectual property ownership and infringement, trade secrets, export of encryption technology, acceptable content and quality of goods, and taxation, among others. Each of our financial services, education and other client verticals is also

subject to various laws and regulations, and our marketing activities on behalf of our clients are regulated. Many of these laws and regulations are frequently changing and can be subject to vagaries of interpretation and emphasis, and the extent and evolution of future government regulation is uncertain, therefore, keeping our business in compliance with or bringing our business into compliance with new laws may be costly, affect our revenue and harm our financial results. For example, we believe increased regulation may occur in the area of data privacy, and laws and regulations applying to the solicitation, collection, processing or use of personally identifiable information. Further, foreign laws and regulations such as the General Data Protection Regulation ("GDPR"), which became effective in May 2018, may apply to our business and marketing activities that are offered to European Union users. The GDPR creates a range of new compliance obligations and penalties for non-compliance are significant. The foregoing could affect our ability to use and share data and may result in expenditures to ensure our ability to store, process and share data in accordance with applicable laws and regulations. Violations or alleged violations of laws by us, our third-party publishers or clients could result in damages, fines, criminal prosecution, unfavorable publicity, and restrictions on our ability to operate, any of which could have a material adverse effect on our business, financial condition, and results of operations. In addition, new laws or regulations or changes in enforcement of existing laws or regulations applicable to our clients could affect the activities or strategies of our clients and, therefore, lead to reductions in their level of business with us.

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

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

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

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

To date, we have generated a large portion of our revenue from our education client vertical, and nearly all of that revenue was generated from post-secondary education institutions. Post-secondary education institutions are subject to extensive federal and state regulations and accrediting standards (including the Higher Education Act, Department of Education regulations and individual state higher education regulations) and oversight by various regulatory enforcement authorities (including the Department of Education, the Federal Trade Commission, the Consumer Finance Protection Bureau and state attorneys general). Such regulations govern many aspects of these clients' operations, including marketing and recruiting activities, as well as private student lending and the school's eligibility to participate in Title IV federal student financial aid programs, which is the principal source of funding for many of our education clients. In addition, there have been significant changes to these regulations in recent years and a high level of regulatory scrutiny and enforcement activity (e.g., investigations of our clients and other post-secondary education institutions). Heightened regulatory activity and legislative and regulatory scrutiny may continue in the post-secondary education sector. Such activity and scrutiny may have an adverse effect on our operating results as our management may be required to devote substantial time and resources to such matters, and such matters may result in lower client marketing spend.

For example, in January 2014, the Department of Education initiated an investigation of a U.S. publicly traded for-profit education client with respect to its enrollment activities and job placement, among other things, and in July 2014, the Department of Education signed an agreement with that same education client requiring it to wind down or sell its campuses.

Similarly, in July 2015, the Federal Trade Commission initiated an investigation of another publicly traded U.S. for-profit education client with respect to its recruiting and enrollment practices, and in January 2016, the Federal Trade Commission filed a lawsuit against a different publicly-traded U.S. for-profit education client with respect to its advertising practices. In September 2016, the Department of Education took action which resulted in the closure of another large for-profit education provider. For example, in January 2019, a U.S. publicly traded for-profit education client entered into agreements with attorneys general from 48 states and the District of Columbia thereby bringing closure to a five-year investigation. Our largest not-for-profit education client also entered federal receivership in January 2019. These legal proceedings may delay payment of amounts owed to us or result in us receiving less than the amounts owed. Moreover, the Department of Education, the Consumer Finance Protection Bureau, the Federal Trade Commission and several state attorneys general currently have open investigations with several other post-secondary educational institutions. Regulatory decisions may also adversely impact our education clients indirectly. For example, in October 2016, the Department of Education published its final defense to repayment rule, which streamlines and liberalizes a procedure whereby students may have their federal loans forgiven. And, in December 2017, the Department of Education announced a new tiered system approach to determine loan forgiveness. This may streamline the government's review of students' requests to have their loans forgiven, which may in turn involve claims by the government against education providers. In connection with these or other investigations of our clients' marketing practices, regulatory authorities may also make requests to us for information, which requests may consume substantial time and resources and result in a negative effect on our operating results. These and other similar regulatory and enforcement activities have affected, and are expected to continue to affect, our clients' businesses and marketing practices, which have resulted in, and may continue to result in, a decrease in these clients' spending with us and fluctuations in the volume and mix of our business with these clients. This may be the case notwithstanding the fact that we are not a target of these regulatory investigations or inquiries and the fact that our marketing practices consist largely of utilizing client-provided or client-approved online marketing materials subject to client advertising guidelines.

In addition, changes in, or new interpretations of, applicable laws, regulations, standards or policies applicable to these clients could have a material adverse effect on their accreditation, authorization to operate in various states, or receipt of funds under Title IV programs, any of which, in turn, may harm our ability to generate revenue from these clients and negatively impact our financial results. For example, in September 2017, the Department of Education approved conversion of two for-profit post-secondary education institutions to operate as non-profit post-secondary education institutions. These conversions may not be successful, may subject the institutions to adverse publicity or otherwise adversely impact our business.

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

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

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

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

Furthermore, a substantial portion of our revenue is generated from a limited number of clients, including one client that accounted for 21% and 23% of our net revenue for the three and six months ended December 31, 2018. Our clients can generally terminate their contracts with us at any time, and they do not have minimum spend requirements. Clients may also fail to renew their contracts or reduce their level of business with us, leading to lower revenue.

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

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

A significant portion of our revenue is attributable to visitor traffic originating from third-party publishers (including strategic partners). In many instances, third-party publishers can change the media inventory they make available to us at any time in ways that could impact our results of operations. In addition, third-party publishers may place significant restrictions on our offerings. These restrictions may prohibit advertisements from specific clients or specific industries, or restrict the use of certain creative content or formats. If a third-party publisher decides not to make its media channel or inventory available to us, decides to demand a higher revenue-share or places significant restrictions on the use of such inventory, we may not be able to find media inventory from other websites that satisfies our requirements in a timely and cost-effective manner. Consolidation of Internet advertising networks and third-party publishers could eventually lead to a concentration of desirable inventory on websites or networks owned by a small

number of individuals or entities, which could limit the supply or impact the pricing of inventory available to us. In the past, we have experienced declines in our financial services client vertical primarily due to volume declines caused by losses of available media from third-party publishers acquired by competitors, changes in search engine algorithms which reduced or eliminated traffic from some third-party publishers and increased competition for quality media. We cannot assure you that we will be able to acquire media inventory that meets our clients' performance, price, and quality requirements, in which case our revenue could decline or our operating costs could increase.

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

Our success depends on our ability to attract online visitors to our owned and operated and our third-party publishers' websites and convert them into customers for our clients in a cost-effective manner. We depend on Internet search companies to direct a substantial share of visitors to our owned and operated and our third-party publishers' websites. Search companies offer two types of search results: organic and paid listings. Organic listings are displayed based solely on formulas designed by the search companies. Paid listings are displayed based on a combination of the advertiser's bid price for particular keywords and the search engines' assessment of the website's relevance and quality. If one or more of the search engines or other online sources on which we rely for purchased listings modifies or terminates its relationship with us, our expenses could rise, we could lose consumers, and traffic to our websites could decrease. Any of the foregoing could have a material adverse effect on our business, financial condition and results of operations.

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

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

We are subject to risks with respect to counterparties, and failure of such counterparties to meet their obligations could cause us to suffer losses or negatively impact our results of operations and cash flows.

We have entered into, and expect to enter into in the future, various contracts, including contracts with clients, third-party publishers and strategic partners, that subject us to counterparty risks. The ability and willingness of our counterparties to perform their obligations under any contract will depend on a number of factors that are beyond our control and may include, among other things, general economic conditions, specific industry vertical conditions, and the overall financial condition of the counterparty. As a result, clients, third-party publishers or strategic partners may

seek to renegotiate the terms of their existing agreements with us, terminate their agreements with us for convenience (where permitted) or avoid performing their obligations under those agreements. Should a counterparty fail to honor its contractual obligations with us or terminate its agreements with us for convenience (where permitted), we could sustain significant losses or write-offs, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

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

The online media and marketing industry is characterized by rapidly changing standards, changing technologies, frequent new product and service introductions, and changing user and client demands. The introduction of new technologies and services embodying new technologies and the emergence of new industry standards and practices could render our existing technologies and

services obsolete and unmarketable or require unanticipated investments in technology. We continually make enhancements and other modifications to our proprietary technologies, and these changes may contain design or performance defects that are not readily apparent. If our proprietary technologies fail to achieve their intended purpose or are less effective than technologies used by our competitors, our business could be harmed.

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

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

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

- changes in client volume;
- loss of or reduced demand by existing clients and agencies;
- the availability and price of quality media;
- consolidation of media sources;
- seasonality;
- developing and implementing our media strategies and client initiatives;
- changes in our revenue mix and shifts in margins related to changes in our media strategies or client initiatives;
- changes in interest rates;
- changes in Internet search engine algorithms that affect our owned and operated and our third-party publishers' websites ability to attract and retain Internet visitors; and
- regulatory and legislative changes, or their interpretation or emphasis, in our and our client industries.

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

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

To maintain target levels of profitability, from time to time, we may restructure our operations or make other adjustments to our workforce. For example, in November 2016, we announced a corporate restructuring resulting in the reduction of approximately 25% of personnel costs. We have completed the restructuring; however we may not achieve or sustain the expected cost savings or other anticipated benefits of our existing or future corporate restructurings, or do so within the expected time frame.

Our visitor traffic can be impacted by interest rate volatility.

Visitor traffic to our online platforms in our financial services client vertical can increase or decrease with interest rate movements. A decline in interest rates may lead to reduced client demand for media, as there are more consumers in the marketplace seeking

financing and, accordingly, clients may receive more organic media volume. Similarly, an increase in interest rates may lead to reduced client demand, for media as higher interest rate payments may deter consumers in the marketplace from seeking financing. Further, the credit risks for our financial services client vertical may vary depending on if the loans are secured or unsecured obligations. For example, personal loans are unsecured obligations and generally carry shorter terms and smaller loan amounts than mortgages thus they generally are riskier assets for lenders than mortgages or other secured loans. Federal Reserve Board actions, regulations restricting the amount of interest and fees that may be charged to consumers and general market conditions affecting access to credit could also cause significant visitor fluctuations and have a material and adverse effect on our business.

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 high-quality media. We compete for clients on the basis of a number of factors, including return on investment of client's marketing spending, price, and client service.

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

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

Finding, developing and retaining high quality media on a cost-effective basis is challenging because competition for web traffic among websites and search engines, as well as competition with traditional media companies, has resulted and may continue to result in significant increases in media pricing, declining margins, reductions in revenue, and loss of market share. In addition, if we expand the scope of our services, we may compete with a greater number of websites, clients, and traditional media companies across an increasing range of different services, including in vertical markets where competitors may have advantages in expertise, brand recognition, and other areas. Internet search companies with brand recognition, such as Google, Yahoo! and Bing, have significant numbers of direct sales personnel and substantial proprietary advertising inventory and web traffic that provide a significant competitive advantage and have a significant impact on pricing for Internet advertising and web traffic. Some of these companies may offer or develop more vertically targeted products that match users with products and services and, thus, compete with us more directly. The trend toward consolidation in online marketing may also affect pricing and availability of media inventory and web traffic. Many of our current and potential competitors also have other competitive advantages over us, such as longer operating histories, greater brand recognition, larger client bases, greater access to advertising inventory on high-traffic websites, and significantly greater financial, technical, and marketing resources. As a result, we may not be able to compete successfully. Competition from other marketing service providers' online

and offline offerings has affected and may continue to affect both volume and price, and, thus, revenue, profit margins, and profitability. If we fail to deliver results that are superior to those that other online marketing service providers deliver to clients, we could lose clients and market share, and our revenue may decline.

We are exposed to online security risks and security breaches particularly given that we gather, transmit and store personally identifiable information. If we fail to maintain adequate security and supporting infrastructure, we may be in breach of our commitments to our clients. Unauthorized access to or accidental disclosure of confidential or proprietary data in our network systems may cause us to incur significant expenses and may negatively affect our reputation and business.

Nearly all of our products and services are web-based, and online performance marketing is data-driven. As a result, the amount of data stored on our servers has been increasing. We gather, transmit, and store information about our users and marketing and media partners, including personally identifiable information. This information may include social security numbers, credit scores, credit card information, and financial and health information, some of which is held or managed by our third-party vendors. As a result, we are subject to certain contractual terms, including third-party security reviews, as well as federal, state and foreign laws and regulations designed to protect personally identifiable information. Complying with these contractual terms and various laws could cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business. In addition, our existing security measures may not be successful in preventing security breaches. As we grow our business, we expect to continue to invest in technology services, hardware and software. Creating the appropriate security support for our technology platforms is expensive and complex, and our execution could result in inefficiencies or operational failures and increased vulnerability to cyber-attacks. We may also make commitments to our clients regarding our security practices in connection with clients' due diligence. If we do not adequately implement and enforce these security policies to the satisfaction of our clients, we could be in violation of our commitments to our clients and this could result in a loss of client confidence, damage to our reputation and loss of business. Despite our implementation of security measures and controls, our information technology and infrastructure are susceptible to circumvention by an internal party, external party, or unrelated third-party, such that electronic or physical computer break-ins, cyber-attacks, malware, viruses, fraud, employee error, and other disruptions and security breaches that could result in third-parties gaining unauthorized access to our systems and data. In addition, the increased use of mobile devices increases the risk of unintentional disclosure of data including personally identifiable information. We may be unable to anticipate all our vulnerabilities and implement adequate preventative measures and, in some cases, we may not be able to immediately detect a security incident. In the past, we have experienced security incidents involving access to our databases. Although to our knowledge no sensitive financial or personal information has been compromised and no statutory breach notification has been required, any future security incidents could result in the compromise of such data and subject us to liability or remediation expense or result in cancellation of client contracts. Any security incident may also result in a misappropriation of our proprietary information or that of our users, clients, and third-party publishers, which could result in legal and financial liability, as well as harm to our reputation. Any compromise of our security could limit the adoption of our products and services and have an adverse effect on our business.

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

Security concerns relating to our technological infrastructure, privacy concerns relating to our data collection practices and any perceived or public disclosure of actual unauthorized disclosure of personally identifiable information, whether through breach of our network or that of third-parties which we engage with, by an unauthorized party,

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

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

The number of people who access the Internet through mobile devices such as smart phones and tablets has increased dramatically in the past several years, and we expect the trend to continue. Our online marketing services and content were originally designed for

desktop or laptop computers. The shift from desktop or laptop computers to mobile devices could potentially deteriorate the user experience for visitors to our websites and may make it more difficult for visitors to respond to our offerings. It also requires us to develop new product offerings specifically designed for mobile devices, such as social media advertising opportunities. Additionally, the monetization of our online marketing services and content on these mobile devices might not be as lucrative for us compared to those on desktop and laptop computers. If we fail to optimize our websites cost effectively and improve the monetization capabilities of our mobile marketing services, we may not remain competitive, which may negatively affect our business and results of operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In addition, our personnel, systems, procedures, and controls may be inadequate to support our future operations. The improvements required to manage growth may require us to make significant expenditures, expand, train and manage

our employee base, and reallocate valuable management resources. We may spend substantial amounts to purchase or lease data centers and equipment, upgrade our technology and network infrastructure to handle increased traffic on our owned and operated websites and roll out new products and services. Any such expansion could be expensive and complex and could result in inefficiencies or operational failures. If we do not implement such expansion successfully, or if we experience inefficiencies and operational failures during its implementation, the quality of our products and services and our users' experience could decline. This could damage our reputation and cause us to lose current and potential users and clients. The costs associated with these adjustments to our architecture could harm

our operating results. Accordingly, if we fail to effectively manage any future growth, our operating performance will suffer, and we may lose clients, key vendors and key personnel.

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

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

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

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

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

Acquisitions have historically been an important element of our overall corporate strategy and use of capital. For example, in October 2018, we acquired AmOne Corp., and in November 2017, we acquired certain assets relating to the auto insurance, home insurance and mortgage verticals of Katch, LLC. Any of our acquisitions, investments or divestitures could be material to our financial condition and results of operations. We may evaluate and enter into discussions regarding a wide array of potential strategic transactions. The process of integrating an acquired company, business or technology has created, and will continue to create, unforeseen operating difficulties and expenditures. Our failure to address these risks or other problems encountered in connection with our past or future acquisitions and investments could cause us to fail to realize the anticipated benefits of such acquisitions or investments, incur unanticipated liabilities and harm our business generally.

Our acquisitions could also result in dilutive issuances of our equity securities, the incurrence of debt or deferred purchase price obligations, contingent liabilities, amortization expense, impairment of goodwill or restructuring charges, any of which could harm our financial condition or results. For example, under our acquisition agreement of

AmOne, we are required to pay up to $8.0 million in additional post-closing payments, payable in equal semi-annual installments over a two year period, with the first installment payable six months following the date of closing, October 1, 2018. Also, the anticipated benefit of many of our acquisitions may not materialize. In connection with a disposition of assets or a business, we may agree to provide indemnification for certain potential liabilities or retain certain liabilities or obligations, which may adversely impact our financial condition or results.

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

We rely on internal and third-party call centers as well as third-party vendors, data centers and Internet providers. Notwithstanding disaster recovery and business continuity plans and precautions instituted to protect our clients and us from events that could interrupt

delivery of services, there is no guarantee that such interruptions would not result in a prolonged interruption in our ability to provide services to our clients. Any temporary or permanent interruption in the services provided by our call centers or third-party providers could significantly harm our business.

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

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

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

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

In addition to other factors that cause our results of operations to fluctuate, results are also subject to significant seasonal fluctuation. In particular, our quarters ending December 31 (our second fiscal quarter) are typically characterized by seasonal weakness. During that quarter, there is generally lower availability of lead supply from some forms of media during the holiday period on a cost effective basis and some of our clients have lower budgets. In our quarters ending March 31 (our third fiscal quarter), this trend generally reverses with better lead availability and often new budgets at the beginning of the year for our clients with fiscal years ending December 31. Moreover, our lending clients' businesses are subject to seasonality. For example, our clients that offer mortgage products are historically subject to seasonal trends. These trends reflect the general patterns of the mortgage industry and housing sales, which typically peak in the spring and summer seasons. Other factors affecting our lending clients' businesses include macro factors such as credit availability, the strength of the economy and employment. Any of the foregoing seasonal trends, or the combination of them, may negatively impact our quarterly revenue and results of operations.

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

on our business, financial condition, and operating results.

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

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

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

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

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

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

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

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

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

In addition, we have in the past, and may in the future, be subject to legal proceedings and claims that we have infringed the patents or other intellectual property rights of third-parties. These claims sometimes involve patent holding companies or other adverse patent owners who have no relevant product revenue and against whom our own intellectual property rights, if any, may therefore provide little or no deterrence. For example, in December 2012, Internet Patents Corporation (“IPC”) filed a patent infringement lawsuit against us in the Northern District of California alleging that some of our websites infringe a patent held by IPC. IPC is a non-practicing entity that relies on asserting its patents as its primary source of revenue. In addition, third-parties have asserted and may in the future assert intellectual property infringement claims against our clients, and we have agreed in certain circumstances to indemnify and defend against such claims. Any intellectual property-related infringement claims, whether or not meritorious and regardless of the outcome of the litigation, could result in costly litigation, could divert management resources and attention and could

cause us to change our business practices. Should we be found liable for infringement, we may be required to enter into licensing agreements, if available on acceptable terms or at all, pay substantial damages, or limit or curtail our systems and technologies. Moreover, we may need to redesign some of our systems and technologies to avoid future infringement liability. Any of the foregoing could prevent us from competing effectively and increase our costs.

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

Limitations on our ability to collect and use data derived from user activities, as well as new technologies that block our ability to deliver Internet-based advertising, and if our emails are not delivered and accepted or are routed by email providers less favorably than other emails could significantly diminish the value of our services and have an adverse effect on our ability to generate revenue.

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

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

Furthermore, if email service providers (“ESPs”) or internet service providers (“ISPs”), implement new or more restrictive email or content delivery or accessibility policies, including with respect to net neutrality, it may become more difficult to deliver emails to consumers or for consumers to access our websites and services. For example, if ESPs categorize our emails as “promotional,” then these emails may be directed to an alternate and less readily accessible section of a consumer’s inbox. In the event ESPs materially limit or halt the delivery of our emails, or if we fail to deliver emails to consumers in a manner compatible with ESPs’ email handling or authentication technologies, our ability to contact consumers through email could be significantly restricted. In addition, if we are placed on “spam” lists or lists of entities that have been involved in sending unwanted, unsolicited emails, or if ISPs prioritize or provide superior access to our competitors’ content, our business and results of operations may be adversely affected.

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

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

In order to comply with the Sarbanes-Oxley Act of 2002 (“SOX Act”), our management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States. We may in the future discover areas of our internal financial and accounting controls and procedures that need improvement. Our internal control over financial reporting will not prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system’s objectives will be met. All control systems have inherent limitations, and, accordingly, no evaluation of controls can provide absolute assurance that

misstatements due to error or fraud will not occur or that all control issues and instances of fraud will be detected. If we are unable to maintain proper and effective internal controls, we may not be able to produce accurate financial statements on a timely basis, which could adversely affect our ability to operate our business and could result in regulatory action.

We have previously identified material weaknesses in our internal control over financial reporting in both fiscal years 2017 and 2016. Although we believe these material weaknesses have since been remediated, if we identify additional material weaknesses in the future or otherwise fail to maintain an effective system of internal control over financial reporting, the accuracy and timeliness of our financial reporting may be adversely affected.

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

In fiscal years 2017 and 2016, we identified material weaknesses in our internal control over financial reporting. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. Specifically, in fiscal year 2017, we disclosed a material weakness in internal control over financial reporting over the completeness and accuracy of the accounting for non-standard revenue credits and in fiscal year 2016, we identified a material weakness in our internal control over financial reporting over the accuracy of the accounting for stock-based compensation expense for market-based restricted stock units. We believe we have fully remediated the material weakness identified in fiscal year 2017 as of June 30, 2018, and remediated the material weakness identified in fiscal year 2016 as of June 30, 2017. However, we cannot assure you that the measures we have taken to date will be sufficient to identify or prevent future material weaknesses.

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

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

We display original content and third-party content on our websites and in our marketing messages. In addition, our clients provide us with advertising creative and financial information (e.g., insurance premium or credit card interest

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

We face additional risks in conducting business in international markets.

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

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

- adapting our technologies and services to foreign clients' preferences and customs;
- successfully navigating foreign laws and regulations, including marketing, privacy regulations, employment and labor regulations;
- changes in foreign political and economic conditions;
- tariffs and other trade barriers, fluctuations in currency exchange rates and potentially adverse tax consequences;
- language barriers or cultural differences;
- reduced or limited protection for intellectual property rights in foreign jurisdictions;
- difficulties and costs in staffing, managing or overseeing foreign operations;
- education of potential clients who may not be familiar with online marketing;
- challenges in collecting accounts receivables; and
- successfully interpreting and complying with the U.S. Foreign Corrupt Practices Act and similar foreign anti-bribery laws, particularly when operating in countries with varying degrees of governmental corruption.

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

We may be required to record a significant charge to earnings if our goodwill or intangible assets become impaired.

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

Goodwill impairment analysis and measurement is a process that requires significant judgment. Our stock price and any estimated control premium are factors affecting the assessment of the fair value of our underlying reporting units for purposes of performing any goodwill impairment assessment. For example, our public market capitalization sustained a decline after December 31, 2012 and June 30, 2014 to a value below the net book carrying value of our equity, triggering the need for a goodwill impairment analysis. As a result of our goodwill impairment analysis, we

recorded a goodwill impairment charge in those periods. Additionally, in the third quarter of fiscal year 2016, our stock price experienced volatility and our public market capitalization decreased to a value below the net book carrying value of our equity, triggering the need for an interim impairment test. While no impairment was recorded as a result of the interim impairment test, it is possible that another material change could occur in the future. We will continue to conduct impairment analyses of our goodwill on an annual basis, unless indicators of possible impairment arise that would cause a triggering

event, and we would be required to take additional impairment charges in the future if any recoverability assessments reflect estimated fair values that are less than our recorded values. Further impairment charges with respect to our goodwill could have a material adverse effect on our financial condition and results of operations.

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

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

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

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

Risks Related to the Ownership of Our Common Stock

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

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

- our ability to grow our revenues and adjusted EBITDA margin and to manage any such growth effectively;
- changes in earnings estimates or recommendations by securities analysts;
- announcements about our revenue, earnings or other financial results that are not in line with analyst expectations;

- geopolitical and world economic conditions;
- our ability to find, develop or retain high quality targeted media on a cost effective basis;
- relatively low trading volume in our stock, which creates inherent volatility regardless of factors related to our business performance or prospects;
- the sale of, or indication of the intent to sell, substantial amounts of our common stock by our directors, officers or substantial shareholders;

- stock repurchase programs;
- announcements by us or our competitors of new services, significant contracts, commercial relationships, acquisitions or capital commitments;
- fluctuations in the stock price and operating results of our competitors or perceived competitors that operate in our industries;
- our commencement of, involvement in, or a perceived threat of litigation or regulatory enforcement action; and
- negative publicity about us, our industry, our clients or our clients' industries.

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

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

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

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

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

As of December 31, 2018, our directors and executive officers, together with their affiliates, beneficially or otherwise owned approximately 11 % of our outstanding common stock. As a result, these stockholders, acting together, have substantial influence over the outcome of matters submitted to our stockholders for approval, including the election of directors and any merger, consolidation or sale of all or substantially all of our assets. In addition, these stockholders, acting together, have significant influence over the management and affairs of our company. Accordingly, this concentration of ownership may have the effect of:

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

We cannot guarantee that our stock repurchase program will be fully consummated or that our stock repurchase program will enhance long-term stockholder value, and stock repurchases could increase the volatility of the price of our stock and could diminish our cash reserves.

Our board of directors has authorized a stock repurchase program allowing us to repurchase up to 966,000 outstanding shares of our common stock. As of December 31, 2018, the number of shares that remains available for repurchase pursuant to our stock repurchase program is 903,636 shares. The timing and actual number of shares repurchased will depend on a variety of factors including the price, cash availability and other market conditions. The stock repurchase program, authorized by our board of directors,

does not obligate us to repurchase any specific dollar amount or to acquire any specific number of shares. The stock repurchase program could affect the price of our stock and increase volatility and may be suspended or terminated at any time, which may result in a decrease in the trading price of our stock. The existence of our stock repurchase program could also cause the price of our common stock to be higher than it would be in the absence of such a program and could potentially reduce the market liquidity for our common stock. Additionally, repurchases under our stock repurchase program will diminish our cash reserves. There can be no assurance that any stock repurchases will enhance stockholder value because the market price of our common stock may decline below the levels at which we repurchased such shares. Any failure to repurchase shares after we have announced our intention to do so may negatively impact our reputation and investor confidence in us and may negatively impact our stock price. Although our stock repurchase program is intended to enhance long-term stockholder value, short-term stock price fluctuations could reduce the program's effectiveness.

We may be subject to short selling strategies that may drive down the market price of our common stock.

Short sellers may attempt to drive down the market price of our common stock. Short selling is the practice of selling securities that the seller does not own but may have borrowed with the intention of buying identical securities back at a later date. The short seller hopes to profit from a decline in the value of the securities between the time the securities are borrowed and the time they are replaced. As it is in the short seller's best interests for the price of the stock to decline, many short sellers (sometime known as "disclosed shorts") publish, or arrange for the publication of, negative opinions regarding the relevant issuer and its business prospects to create negative market momentum. Although traditionally these disclosed shorts were limited in their ability to access mainstream business media or to otherwise create negative market rumors, the rise of the Internet and technological advancements regarding document creation, videotaping and publication by weblog ("blogging") have allowed many disclosed shorts to publicly attack a company's credibility, strategy and veracity by means of so-called "research reports" that mimic the type of investment analysis performed by large Wall Street firms and independent research analysts. These short attacks have, in the past, led to selling of shares in the market. Further, these short seller publications are not regulated by any governmental, self-regulatory organization or other official authority in the U.S. and they are not subject to certification requirements imposed by the Securities and Exchange Commission. Accordingly, the opinions they express may be based on distortions, omissions or fabrications. Companies that are subject to unfavorable allegations, even if untrue, may have to expend a significant amount of resources to investigate such allegations and/or defend themselves, including shareholder suits against the company that may be prompted by such allegations. We have in the past, and may in the future, be the subject of shareholder suits that we believe were prompted by allegations made by short sellers.

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

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

- a classified board of directors with three-year staggered terms, which may delay the ability of stockholders to change the membership of a majority of our board of directors;
- no cumulative voting in the election of directors, which limits the ability of minority stockholders to elect director candidates;
- the exclusive right of our board of directors to elect a director to fill a vacancy created by the expansion of the board of directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors;
- the ability of our board of directors to issue shares of preferred stock and to determine the price and other terms of those shares, including preferences and voting rights, without stockholder approval, which could be used to

significantly dilute the ownership of a hostile acquirer;

- a prohibition on stockholder action by written consent, which forces stockholder action to be taken at an annual or special meeting of our stockholders;
- the requirement that a special meeting of stockholders may be called only by the chairman of the board of directors, the chief executive officer or the board of directors, which may delay the ability of our stockholders to force consideration of a proposal or to take action, including the removal of directors; and
- advance notice procedures that stockholders must comply with in order to nominate candidates to our board of directors or to propose matters to be acted upon at a stockholders' meeting, which may discourage or deter a potential acquirer from

conducting a solicitation of proxies to elect the acquirer's own slate of directors or otherwise attempting to obtain control of us.

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

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

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

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

Unregistered Sales of Equity Securities

None.

Purchases of Equity Securities by QuinStreet, Inc.

In July 2017, the Board of Directors authorized a stock repurchase program allowing the Company to repurchase up to 905,000 outstanding shares of its common stock. In October 2017, the Board of Directors increased the number of outstanding shares that may be repurchased to 966,000 shares.

As of December 31, 2018, the maximum number of shares that may yet be repurchased under the stock repurchase program is 903,636 shares. No repurchases have been made under this stock repurchase program during the first quarter of fiscal year 2019. There is no guarantee as to the exact number of shares that will be repurchased by the Company, and the Company may discontinue repurchases at any time.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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

*Filed herewith.
‡Furnished herewith.

SIGNATURES

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

QUINSTREET, INC.

/s/ Gregory Wong
Gregory Wong
Chief Financial Officer and Senior Vice President
(Principal Financial and Accounting Officer and duly authorized signatory)
Date: February 11, 2019