UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the Fiscal Year Ended June 30, 2020

OR

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

Commission file number: 001-34628

QuinStreet, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**77-0512121**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

950 Tower Lane, 6th Floor
Foster City, California 94404
(Address of principal executive offices, including zip code)

(650) 587-7700
(Registrant's telephone number, including area code)

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

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "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 ☒

As of December 31, 2019, the aggregate market value of the voting stock held by non-affiliates of the registrant, based on the closing sale price of the Company's common stock as reported by the Nasdaq Global Select Market on such date, was $716,784,346. For purposes of calculating the aggregate market value of shares held by non-affiliates, we have assumed that all outstanding shares are held by non-affiliates, except for shares owned by each of our executive officers, directors and 5% or greater stockholders. In the case of 5% or greater stockholders, we have not deemed such stockholders to be affiliates unless there are facts and circumstances indicating that such stockholders exercise any control over our company. The determination of executive officer or affiliate status is not a conclusive determination for other purposes.

Number of shares of common stock outstanding as of August 24, 2020: 52,659,296

Documents Incorporated by Reference:

Portions of the registrant's definitive proxy statement relating to its 2020 annual stockholders' meeting are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated.

QUINSTREET, INC.

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

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PART I

CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements. All statements other than statements of historical facts, including statements regarding our future financial condition, business strategy and plans and objectives of management for future operations, are forward-looking statements. Terminology such as “believe,” “may,” “might,” “objective,” “estimate,” “continue,” “anticipate,” “intend,” “should,” “plan,” “expect,” “predict,” “potential,” or the negative of these terms or other similar expressions is intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements are subject to a number of known and unknown risks and uncertainties that could cause our actual results to differ materially from those expressed or implied in our forward-looking statements. Such risks and uncertainties include, among others, those listed in Part 1, Item 1A. “Risk Factors” of this Annual Report on Form 10-K and elsewhere in this report, such as but not limited to:

- our still developing industry and relatively new business model;
- changes in the general economic conditions and market dynamics in the United States, or in the specific markets in which we currently do business, including as a result of the recent COVID-19 pandemic;
- the impact of the COVID-19 pandemic on us, our third-party publishers’, and our clients’ businesses, the extent of which will depend on future actions and outcomes that are highly uncertain and cannot be predicted, including the scope, severity and duration of the pandemic, the actions taken to contain the pandemic or mitigate its impact, the direct and indirect economic and financial market effects of the pandemic, and the pace of the economic and financial market recovery;
- changes in the regulatory enforcement or legislative environment;
- 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 successfully complete acquisitions, divestitures and other business development transactions; and our ability to enter into, and manage the relationship and risks associated with, strategic partnerships; and
- our ability to successfully challenge regulatory audits, investigations or allegations of noncompliance with laws.

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

Item 1. *Business*

Our Company

We are a leader in performance marketplace products and technologies. Our approach to proprietary performance marketing technologies allows clients to engage high intent digital media or traffic from a wide range of device types (e.g., mobile, desktop, tablet), in multiple formats or types of media (e.g., search engines, large and small media properties or websites, email), and in a wide range of cost-per-action, or CPA, forms. These forms of contact are the primary “products” we sell to our clients, and include qualified clicks, leads, inquiries, calls, applications and customers. We specialize in customer acquisition for clients in high value, information-intensive markets, or “verticals,” including financial services, education, and home services. Our clients include some of the world’s largest companies and brands in those markets. The majority of our operations and revenue are in North America.

We generate revenue by delivering measurable online marketing results to our clients.The benefits to our clients include cost-effective andmeasurable customer acquisition costs, as well as management of highly targeted but also highly fragmented online media sources and access to our world-class proprietary technologies. We are predominantly paid on a negotiated or market-driven “per click,” “per lead,” or other “per action” basis that aligns with the customer acquisition cost targets of our clients. We bear the cost of paying Internet search companies, third-party publishers, strategic partners and other online media sourcesto generate qualified clicks, leads, inquiries, calls, applications or customers for our clients.

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

Our proprietary technologies have been developed over the past 21 years to allow us to best segment and match media or traffic, to deliver optimized results for our clients and to operate our high volume and highly complex channel cost-efficiently.

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

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

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

Market Opportunity

Change in marketing strategy and approach

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

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

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

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

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

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

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

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

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

Increasing complexity of online marketing

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

Our Business Model

We deliver measurable and cost-effective marketing results to our clients, 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 paid typically 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., 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 with online publisher partners, large and small) or by purchasing media (e.g., clicks from major search engines);
- run advertisements or other forms of marketing messages and programs in that media that result in consumer or visitor responses, typically in the form of clicks (by a consumer to further qualification or matching steps, or to online client applications or offerings), leads or inquiries (e.g., consumer contact information), calls (from a consumer or to a consumer by our owned and operated or contracted call centers or by that of our clients or their agents), applications (e.g., for enrollment or a financial product), or customers (e.g., funded personal loans); and
- continuously seek to display clients and client offerings to visitors or consumers that result in the maximum number of consumers finding solutions that can meet their needs and to which they will take action to respond, resulting in media buying

efficiency (e.g., by segmenting media or traffic so that the most appropriate clients or client offerings can be displayed or "matched" to each segment based on fit, response rates or conversion rates);

- through technology and analytics, seek to optimize combination of objectives to satisfy the maximum number of shopping or researching visitors or consumers, deliver on client marketing objectives, effectively compete for online media, and generate a sound financial outcome for us.

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

Media and Internet visitor mix

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

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

Our Strategy

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

- focus on generating sustainable revenues by providing measurable value to our clients;
- build QuinStreet and our industry sustainably by behaving ethically in all we do and by providing quality content and website experiences to Internet visitors;
- remain vertically focused, choosing to grow through depth, expertise and coverage in our current client verticals; enter new client verticals selectively over time, organically and through acquisitions;
- build a world class organization, with best-in-class capabilities for delivering measurable marketing results to clients and high yields or returns on media costs;
- develop and evolve the best products, technologies and platform for managing successful performance marketing campaigns on the Internet; focus on technologies that enhance media yield, improve client results and achieve scale efficiencies;

- build and apply unique data advantages from running some of the largest campaigns over long periods of time in our client verticals, including the steep learning curves of what campaigns work best to optimize each media type and each client's results;
- build and partner with vertical content websites that attract high intent visitors in the client and media verticals we serve; and
- be a client-driven organization and develop a broad set of media sources and capabilities to reliably meet client needs.

Clients

In fiscal years 2020, 2019 and 2018, we had one client, The Progressive Corporation, that accounted for 21%, 22% and 23% of net revenue. No other client accounted for 10% or more of net revenue in fiscal years 2020, 2019 and 2018. Our top 20 clients accounted for 55%, 54% and 57% of net revenue in fiscal years 2020, 2019 and 2018. Since our service was first offered in 2001, we have developed a broad client base with many multi-year relationships. We enter into Internet marketing contracts with our clients, most of which are cancelable with little or no prior notice. In addition, these contracts do not contain penalty provisions for cancellation before the end of the contract term.

Sales and Marketing

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

Technology and Infrastructure

We have developed a suite of technologies to manage, improve and measure the results of the marketing programs we offer our clients. We use a combination of proprietary and third-party software as well as hardware from established technology vendors. We use specialized software for client management, building and managing websites, acquiring and managing media, managing our third-party publishers, and using data and optimization tools to best match Internet visitors to our marketing clients. We have invested significantly in these technologies and plan to continue to do so to meet the demands of our clients and Internet visitors, to increase the scalability of our operations, and enhance management information systems and analytics in our operations. Our development teams work closely with our marketing and operating teams to develop applications and systems that can be used across our business. In fiscal years 2020, 2019 and 2018, we spent $14.2 million, $12.3 million and $13.8 million on product development.

Our primary data center is at a third-party co-location center in San Francisco, California. All of the critical components of the system are redundant, and we have a backup data center in Las Vegas, Nevada. We have implemented these backup systems and redundancies to minimize the risk associated with earthquakes, fire, power loss, telecommunications failure, and other events beyond our control.

Intellectual Property

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

Our Competitors

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

Advertising and direct marketing services agencies

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

Online marketing and media companies

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

Government Regulation

We provide services through a number of different online and offline channels. As a result, we are subject to many federal and state laws and regulations, including restrictions on the use of unsolicited commercial email, such as the CAN-SPAM Act and state email marketing laws, and restrictions on the use of marketing activities conducted by telephone, including the Telemarketing Sales Rule and the Telephone Consumer Protection Act. Our business is also subject to federal and state laws and regulations regarding unsolicited commercial email, telemarketing, user privacy, search engines, Internet tracking technologies, direct marketing, data security, data privacy, pricing, sweepstakes, promotions, intellectual property ownership and infringement, trade secrets, export of encryption technology, acceptable content and quality of goods, and taxation, among others.

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

Employees

As of June 30, 2020, we had 592 employees, which consisted of 163 employees in product development, 26 in sales and marketing, 42 in general and administration and 361 in operations. None of our employees are represented by a labor union.

Available Information

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

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

Item 1A. ***Risk Factors***

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

Risks Related to Our Business and Industry

We face risks and uncertainties related to the COVID-19 pandemic, which could significantly disrupt our operations and which could have a material adverse impact on our business, financial condition, operating results and cash flows. These risks and uncertainties could pertain to other viruses, pandemics or other such unforeseen and broadbased public health crises.

Our business has been and may continue to be adversely impacted by the effects of COVID-19. In addition to negative macroeconomic effects on our business, decreased consumer demand for certain lines of products offered by our clients, and reduced client budgets, the COVID-19 pandemic and any other related adverse public health developments have caused and may further cause declines in revenue and margin, and disruption to our business may continue or worsen over a prolonged period. The businesses of our clients and third-party media publishers (including strategic partners) have also been negatively affected and may continue to be disrupted by reduced demand, declines in consumer credit, increased default rates, absenteeism, quarantines and restrictions on employees' ability to work, office closures and travel or health-related restrictions. Depending on the magnitude and duration of such disruptions and their effect on client spending and/or the availability of quality media from third-party publishers including strategic partners, our business, financial condition, operating results and cash flows could be adversely affected.

In addition, COVID-19 or other disease outbreaks has in the short-run, and may over the longer term, adversely affect the economies and financial markets within many countries, including in the United States, resulting in an economic downturn that has and could continue to negatively affect marketing and advertising spend in certain lines of products offered by our clients or on media availability or performance. For example, certain companies that operate in the credit-driven markets such as credit cards and personal loans have been negatively impacted by weak economic and employment conditions. Such continuing effects of COVID-19, and other similar effects, have resulted and may continue to result in reduced marketing and advertising spend or drops in media availability or performance, which could have a material adverse effect on our business, financial condition, operating results and cash flows. There can be no assurance that any decrease in revenue or margin resulting from COVID-19 will be offset by increased revenue or margin in subsequent periods or that our business, financial condition, operating results and cash flows will remain consistent with pre-pandemic expectations and/or performances.

Furthermore, we may experience disruptions to our business operations resulting from quarantines, self-isolations, or other movement and restrictions on the ability of our employees to perform their jobs that may impact our sales and marketing activities and our ability to design, develop or deliver our products and services in a timely manner or meet customer commitments, which could have a material adverse impact on our business, financial condition, operating results and cash flows. In addition, we previously announced that we paused our financial advisor-led process to review strategic alternatives in large part due to market uncertainties resulting from the COVID-19 pandemic.

Moreover, to the extent the COVID-19 pandemic or any worsening of the global business and economic environment as a result thereof adversely affects our business, financial condition, operating results and cash flows, it may also have the effect of heightening or exacerbating many of the other risks described in these risk factors, such as those relating to a reduction in online marketing spend by our clients, a loss of clients or lower advertising yields, our dependence on third-party publishers including strategic partners, risks with respect to counterparties, annual and quarterly fluctuations in our results of operations, the impact of interest rate volatility on our visitor traffic, internal control over financial reporting, seasonal fluctuations, our ability to collect our receivables from our clients and risks relating to our ability to raise additional capital when and as needed.

Given that the magnitude and duration of COVID-19's impact on our business and operations remain uncertain, the continued spread of COVID-19 or the occurrence of other pandemics and the imposition of related public health measures and travel and business restrictions could have a material adverse impact on our business, financial condition, operating results and cash flows.

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. For example, we recently introduced our new QuinStreet Rating Platform ("QRP") product for insurance agents. As a result, we face risks and uncertainties such as but not limited to:

- our still developing industry and relatively new business model and products such as QRP;
- changes in the general economic conditions and market dynamics in the United States, or in the specific markets in which we currently do business, including as a result of the recent COVID-19 pandemic;
- the impact of the COVID-19 pandemic on us, our third-party publishers', and our clients' businesses, the extent of which will depend on future actions and outcomes that are highly uncertain and cannot be predicted, including the scope, severity and duration of the pandemic, the actions taken to contain the pandemic or mitigate its impact, the direct and indirect economic and financial market effects of the pandemic, and the pace of the economic and financial market recovery;
- changes in the regulatory enforcement or legislative environment;
- 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;
- our ability to successfully complete acquisitions, divestitures and other business development transactions; and our ability to enter into, and manage the relationship and risks associated with, strategic partnerships; 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. Changes in the macroeconomic conditions including any economic downturn in general, or 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, impact our business, financial condition, operating results and cash flows.

We, 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. Keeping our business in compliance with or bringing our business into compliance with new laws, therefore, may be costly, affect our revenue and harm our financial results. We believe increased regulation may continue to occur in the area of data privacy, and laws and regulations applying to the solicitation, collection, retention, deletion and processing, sharing or use of personally identifiable information. For example, the State of California enacted the California Consumer Privacy Act of 2018 ("CCPA") that took effect on January 1, 2020. CCPA applies to our business and marketing activities. Among other things, CCPA requires covered businesses to provide new disclosures to California consumers about their data collection, use and sharing practices and with limited business exceptions, CCPA affords such consumers new rights to request deletion of data collected about them as well as to opt-out of certain data sharing practices. 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 created 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, use, process and share data in accordance with applicable laws and regulations. Violations or alleged violations of laws by us, our third-party publishers or our 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 have 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 then U.S. publicly traded former 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 provider requiring it to wind down or sell its campuses.

Similarly, in July 2015, the Federal Trade Commission initiated an investigation of another then U.S. publicly traded former 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 then U.S. publicly-traded former 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. 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. A large former 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 types of conversions may not be successful, may subject the institutions to adverse publicity, which could reduce these clients' business with us and adversely impact our business.

Finally, although we are not a higher education institution, we are sometimes required to comply with 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 to which we are subject 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 marketing results 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. For example, macroeconomic conditions such as an economic downturn or public health crises such as the COVID-19 pandemic has impacted and may continue to impact certain lines of our clients' marketing spend in the short-term and potentially in the long-term. If any of our clients decided not to continue to place 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 marketing results from us, could have a material adverse effect on our business, financial condition, operating results and cash flows.

Furthermore, a substantial portion of our revenue is generated from a limited number of clients, including one client that accounted for 21% of our net revenue for fiscal year 2020. Our clients can generally terminate their contracts with us at any time or pause marketing spending without contract termination, 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 such future price or volume reductions, or drop in media monetization, could result in lower revenue or margin which could have a material adverse effect on our business, financial condition, operating results and cash flows. 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 including any economic downturn, public health crises including the COVID-19 pandemic, 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, or we could be involved in costly litigation to defend, enforce and protect our contractual rights, both of 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. For example, the COVID-19 pandemic will in the short-run, and may over the longer term, make our results of operations difficult to predict. 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 new products and investments and may experience inadequate or unpredictable return of capital on our investments. As a result of these new products and investments, we may 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.

Our visitor traffic and our clients' spend can be impacted by interest rate volatility.

Visitor traffic to our online platforms in our lending and banking client verticals may change as interest rates change. A decrease in interest rates may lead to more consumers looking to lower their borrowing costs. These consumers may visit our websites, websites within or outside our publisher network, or our clients' websites. To the extent consumers visit websites not in our network our lending client vertical may be adversely impacted. A decrease in interest rates may also reduce consumer demand for banking products. Interest rate increases may decrease demand for lending products but may not increase demand for banking products. Federal Reserve Board actions, regulations restricting the amount of interest and fees that may be charged to consumers, increased borrower default levels, tightening or uncertainty with respect to underwriting standards, and general market conditions affecting access to credit could also cause significant fluctuations in consumer behavior, as well as volatility in client spending and demand for media, each of which could 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 EducationDynamics, 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 or 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 for mobile access with respect to user interfaces, 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. For example, a user's experience on a mobile device with respect to user interfaces such as an online marketing website and content originally designed for desktop or laptop computers will be suboptimal unless such website and content are designed to accommodate and improve mobile access to ensure a positive user experience. It also requires us to develop new product offerings specifically designed for mobile devices, such as social media advertising opportunities. 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, in the past, 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.

If we are unable to collect our receivables from our clients, our results of operations and cash flows could be adversely affected.

We expect to obtain payment from our clients for work performed and maintain an allowance against receivables for potential losses on client accounts. Actual losses on client receivables could differ from those that we currently anticipate and, as a result, we might need to adjust our allowances. We may not accurately assess the creditworthiness of our clients. Macroeconomic conditions, such as any evolving industry standards, economic downturns, changing regulatory conditions, and changing visitor and client demands, could also result in financial difficulties for our clients, including insolvency or bankruptcy. As a result, this could cause clients to delay payments to us, request modifications to their payment arrangements that could extend the timing of cash receipts, or default on their payment obligations to us. For example, in the third quarter of fiscal year 2019, we recorded a one-time charge of $8.7 million for bad debt expense related to a large former education client, which arose in part due to the U.S. Department of Education placing restrictions on one of its for-profit school from Title IV programs. If we experience an increase in the time to bill and collect for our services, our results of operations and cash flows could be adversely affected.

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 or 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 acquisitions of Modernize, Inc. ("Modernize"), AmOne Corp. ("AmOne"), CloudControlMedia, LLC ("CCM") and MyBankTracker.com, LLC ("MBT");
- 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, and continue to be, an important element of our overall corporate strategy and use of capital.In addition, although we recently announced that we paused our financial advisor-led review of strategic alternatives due in large part to market uncertainties as a result of the COVID-19 pandemic, we regularly review and assess strategic alternatives in the ordinary course of business, including potential acquisitions, investments or divestitures. These potential strategic alternatives may result in a wide array of potential strategic transactions that could be material to our financial condition and results of operations. For example, we acquired Modernize in July 2020, MBT in May 2019, CCM in April 2019, and AmOne in October 2018, and in the second half of fiscal year 2020, we divested our B2B client vertical, our businesses in Brazil consisting of QSB and VEMM along with its interests in EDB, and our mortgage business.

Acquisitions, investments or divestitures, and the process of evaluating strategic alternatives, involves a number of risks and uncertainties. For example, the process of integrating an acquired company, business or technology has in the past created, and may create in the future, unforeseen operating challenges, risks and expenditures, including with respect to: (i) integrating an acquired company's accounting, financial reporting, management information and information security, human resource, and other administrative systems to permit effective management, and the lack of control if such integration is delayed or not implemented; (ii) integrating the controls, procedures and policies at companies we acquire appropriate for a public company; and (iii) transitioning the acquired company's operations, users and customers onto our existing platforms. The success of our acquisitions and other investments will depend in part on our ability to successfully integrate and leverage them to enhance our existing products and services or develop compelling new ones. It may take longer than expected to realize the full benefits from these acquisitions or investments, such as increased revenue, enhanced efficiencies, or increased market share, or the benefit may ultimately be smaller than we expected. Our failure to address these risks or other problems encountered in connection with our 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.

In addition, evaluating, negotiating and completing strategic transactions, including acquisitions, investments or divestitures, may distract management from our other businesses and result in significant expenses. Moreover, we may invest significant resources towards evaluating and negotiating strategic alternatives that do not ultimately result in a strategic transaction.

Our acquisitions or investments 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 with MBT, we are required to pay $4.0 million in post-closing payments and an estimated earn-out of $1.5 million of which the earn-out was paid off in the third quarter of fiscal year 2020. Under our acquisition agreement with CCM, we are required to pay $7.5 million in post-closing payments and an estimated earn-out of $3.6 million. Under our acquisition agreement withAmOne, we are required to pay $8.0 million in post-closing payments. Under our acquisition agreement with Modernize, we are required to pay $27.5 million in post-closing payments. Also, the anticipated benefit of many of our strategic transactions, including anticipated synergies, may not materialize. In connection with a disposition of assets or a business, we may also 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 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. Moreover, our lending clients' businesses are subject to seasonality. For example, our clients that offer home services products are historically subject to seasonal trends. These trends reflect the general patterns of the home services industry, which typically peak in the spring and summer seasons. Other factors affecting our 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, operating results and cash flows.

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. For example, past or current employees, contractors or agents may reveal confidential or 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. With respect to industry self-regulatory activities, the leading web browsing companies have started or announced their intent to block or phase out third-party cookies from their web browsers.

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

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.

If we identify material weaknesses in our internal control over financial reporting 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 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. While no material weaknesses were identified in our internal control over financial reporting as of June 30, 2020, we cannot assure you that we will not in the future identify material weaknesses. In addition, 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. 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.

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.

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 have a substantial amount of goodwill and purchased intangible assets on our consolidated balance sheet as a result of 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 requirements, auditor attestation requirements and critical audit matters reporting. These and future laws and regulations 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, including outlook, that are not in line with analyst expectations;
- geopolitical and predominantly domestic as well as potentially international economic conditions in addition to public health crises such as the COVID-19 pandemic;
- 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 June 30, 2020, our directors and executive officers, together with their affiliates, beneficially or otherwise owned approximately 9% 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 that commenced in October 2017. As of June 30, 2020, 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 and does not have an expiration date. 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 1B. ***Unresolved Staff Comments***

None.

Item 2. ***Properties***

Our principal executive office is located in a leased facility in Foster City, California, consisting of approximately 44,556 square feet of office space under a lease with an expiration date in October 2023. This facility accommodates our principal engineering, sales, marketing, operations, finance and administrative activities. We also lease additional facilities to accommodate sales, marketing, and operations throughout the United States. Outside of the United States, we also lease facilities to accommodate engineering, sales, marketing, and operations in India.

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

Item 3. ***Legal Proceedings***

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

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

Not Applicable.

PART II

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

The following table shows the high and low sale prices per share of our common stock as reported on the Nasdaq Global Select Market for the periods indicated:

Fiscal Year Ended June 30, 2020	High	Low
First quarter ended September 30, 2019	$ 16.95	$ 10.38
Second quarter ended December 31, 2019	$ 16.22	$ 11.64
Third quarter ended March 31, 2020	$ 15.36	$ 6.11
Fourth quarter ended June 30, 2020	$ 11.63	$ 6.57

Fiscal Year Ended June 30, 2019	High	Low
First quarter ended September 30, 2018	$ 16.42	$ 12.12
Second quarter ended December 31, 2018	$ 17.75	$ 12.48
Third quarter ended March 31, 2019	$ 20.02	$ 12.66
Fourth quarter ended June 30, 2019	$ 16.81	$ 12.98

On August 24, 2020, the closing price as reported on the Nasdaq Global Select Market of our common stock was $13.31 per share and we had approximately 55 stockholders of record of our common stock.

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

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

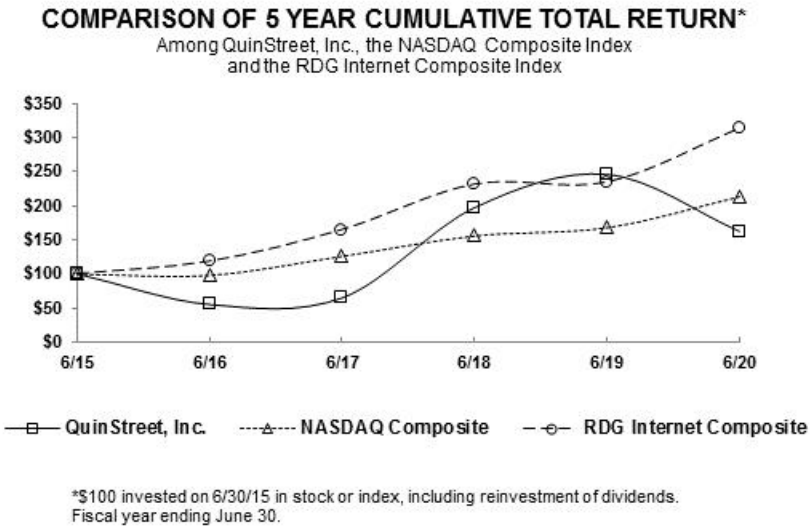
Stock Repurchase Program

In July 2017, the Board of Directors authorized a stock repurchase program allowing us to repurchase up to 905,000 outstanding shares of our common stock. In October 2017, the Board of Directors increased the number of outstanding shares that may be repurchased to 966,000 shares. There is no guarantee as to the exact number of shares that will be repurchased by us, and we may discontinue repurchases at any time. There were no repurchases under this stock repurchase program during fiscal year 2020. As of June 30, 2020, the number of shares that remains available for repurchase pursuant to our stock repurchase program is 903,636 shares.

Performance Graph

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

The following performance graph shows a comparison from June 30, 2015 through June 30, 2020 of cumulative total return for our common stock, the Nasdaq Composite Index and the RDG Internet Composite Index. Such returns are based on historical results and are not intended to suggest future performance. Data for the Nasdaq Composite Index and the RDG Internet Composite Index assume reinvestment of dividends.



Recent Sales of Unregistered Securities

There were no unregistered sales of our equity securities in fiscal year 2020.

Item 6. ***Selected Consolidated Financial Data***

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

We derived the consolidated statements of operations data for fiscal years ended June 30, 2020, 2019 and 2018 and the consolidated balance sheets data as of June 30, 2020 and 2019 from our audited consolidated financial statements appearing elsewhere in this report. The consolidated statements of operations data for fiscal years ended June 30, 2017 and 2016 and the consolidated balance sheets data as of June 30, 2018, 2017 and 2016 are derived from our audited consolidated financial statements, which are not included in this report.

	Fiscal Year Ended June 30,				
	2020	2019	2018	2017	2016
	(In thousands, except per share data)				
Consolidated Statements of Operations Data:					
Net revenue	$ 490,339	$ 455,154	$ 404,358	$ 299,785	$ 297,706
Cost of revenue (1)	437,864	393,509	345,947	269,409	270,963
Gross profit	52,475	61,645	58,411	30,376	26,743
Operating expenses: (1)					
Product development	14,206	12,329	13,805	13,476	16,431
Sales and marketing	8,876	8,755	10,414	9,189	12,020
General and administrative	23,188	29,834	18,556	15,934	17,166
Restructuring charges	—	—	—	2,441	—
Total operating expenses	46,270	50,918	42,775	41,040	45,617
Operating income (loss)	6,205	10,727	15,636	(10,664)	(18,874)
Interest income	230	290	181	138	61
Interest expense	(696)	(367)	—	(346)	(585)
Other income (expense), net	12,947	69	687	(2,416)	112
Interest and other income (expense), net	12,481	(8)	868	(2,624)	(412)
Income (loss) before income taxes	18,686	10,719	16,504	(13,288)	(19,286)
(Provision for) benefit from income taxes	(584)	51,761	(574)	1,080	(134)
Net income (loss)	$ 18,102	$ 62,480	$ 15,930	$ (12,208)	$ (19,420)
Net income (loss) per share: (2)					
Basic	$ 0.35	$ 1.26	$ 0.34	$ (0.27)	$ (0.43)
Diluted	$ 0.34	$ 1.18	$ 0.32	$ (0.27)	$ (0.43)
Weighted-average shares used in computing net income (loss) per share:					
Basic	51,529	49,581	46,417	45,594	45,197
Diluted	53,387	52,754	49,872	45,594	45,197

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

Cost of revenue	$ 8,569	$ 7,354	$ 3,982	$ 3,109	$ 3,780
Product development	1,819	1,606	1,949	1,834	2,340
Sales and marketing	1,701	1,358	1,222	1,154	1,825
General and administrative	4,628	3,810	3,029	2,759	3,023
Restructuring charges	—	—	—	42	—

(2) See Note 4, *Net Income per Share*, to our consolidated financial statements for an explanation of the method used to calculate basic and diluted net income (loss) per share of common stock.

	June 30,				
	2020	2019	2018	2017	2016
	(In thousands)				
Consolidated Balance Sheets Data:					
Cash and cash equivalents	$ 107,509	$ 62,522	$ 64,700	$ 49,571	$ 53,710
Working capital	99,735	59,679	69,592	47,301	44,264
Total assets	358,407	324,611	220,296	174,308	193,102
Long-term liabilities	16,626	18,083	3,938	3,672	4,631
Total debt	—	—	—	—	15,000
Total stockholders' equity	255,944	222,829	148,326	118,082	124,752

	Fiscal Year Ended June 30,				
	2020	2019	2018	2017	2016
	(In thousands)				
Consolidated Statements of Cash Flows Data:					
Net cash provided by operating activities	$ 47,608	$ 37,965	$ 26,979	$ 18,536	$ 1,015
Depreciation and amortization	11,476	8,975	7,767	11,377	15,087
Capital expenditures	1,962	1,972	610	1,160	1,859

	Fiscal Year Ended June 30,				
	2020	2019	2018	2017	2016
	(In thousands)				
Other Financial Data:					
Adjusted EBITDA (1)	$ 36,229	$ 34,489	$ 34,679	$ 12,010	$ 7,853

(1) We define adjusted EBITDA as net income (loss) less interest and other expense (income), net, provision for (benefit from) income taxes, depreciation expense, amortization expense, stock-based compensation expense, acquisition costs, gain on divestitures of businesses, net, strategic review costs, contingent consideration adjustment, litigation settlement expense, external expenses related to the material weakness disclosed in our FY 2017 Annual Report on Form 10-K, and restructuring costs. Please see the “adjusted EBITDA” section within “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for more information.

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

	Fiscal Year Ended June 30,				
	2020	2019	2018	2017	2016
	(In thousands)				
Net income (loss)	$ 18,102	$ 62,480	$ 15,930	$ (12,208)	$ (19,420)
Interest and other expense (income), net	1,097	8	(868)	2,624	412
Provision for (benefit from) income taxes	584	(51,761)	574	(1,080)	134
Depreciation and amortization	11,476	8,975	7,767	11,377	15,087
Stock-based compensation expense	16,717	14,128	10,182	8,856	10,968
Acquisition costs	985	736	667	—	—
Gain on divestitures of businesses, net	(13,578)	—	—	—	—
Strategic review costs	330	—	—	—	—
Contingent consideration adjustment	—	(100)	(152)	—	—
Litigation settlement expense	95	23	16	—	375
Material weakness related expense	—	—	563	—	—
Restructuring costs	421	—	—	2,441	297
Adjusted EBITDA	$ 36,229	$ 34,489	$ 34,679	$ 12,010	$ 7,853

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

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

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, and home services. Our clients include some of the world's largest companies and brands in those markets. The majority of our operations and revenue are in North America.

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 with online publisher partners, large and small) or by purchasing media (e.g., clicks from major search engines);
- run advertisements or other forms of marketing messages and programs in that media that result in consumer or visitor responses, typically in the form of clicks (by a consumer to further qualification or matching steps, or to online client applications or offerings), leads or inquiries (e.g., consumer contact information), calls (from a consumer or to a consumer by our owned and operated or contracted call centers or by that of our clients or their agents), applications (e.g., for enrollment or a financial product), or customers (e.g., funded personal loans); and
- continuously seek to display clients and client offerings to visitors or consumers that result in the maximum number of consumers finding solutions that can meet their needs and to which they will take action to respond, resulting in media buying efficiency (e.g., by segmenting media or traffic so that the most appropriate clients or client offerings can be displayed or "matched" to each segment based on fit, response rates or conversion rates);
- through technology and analytics, seek to optimize combination of objectives to satisfy the maximum number of shopping or researching visitors or consumers, deliver on client marketing objectives, effectively compete for online media, and generate 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 financial services client vertical represented 75%, 73% and 70% of net revenue in fiscal years 2020, 2019 and 2018. Our education client vertical represented 13%, 15% and 19% of net revenue in fiscal years 2020, 2019 and 2018. Our other client vertical, consisting of home services and business-to-business technology, represented 12%, 12% and 11% of net revenue in fiscal years 2020, 2019 and 2018. We generated the majority of our revenue from sales to clients in the United States.

Trends Affecting our Business

COVID-19

We continue to monitor COVID-19 for impacts that may unfavorably affect our business, such as reductions in client spending on marketing and advertising, drops in media availability or performance, deteriorating consumer spending, fluctuations in interest rates, and credit quality of our receivables. The COVID-19 pandemic has affected and may continue to affect our business operations, including our employees, clients, publishers, business partners, and communities, and there is substantial uncertainty in the nature and degree of its continued effects over time. The extent to which the COVID-19 pandemic impacts our business going forward will depend on numerous evolving factors we cannot reliably predict, including the duration and scope of the pandemic; governmental, business, and individuals' actions in response to the pandemic; and the impact on economic activity including the length and depth of the economic recession or financial market instability. These factors may adversely impact consumer, business, and government spending as well as customers' ability to pay for our services on an ongoing basis. Refer to Risk Factors (Part I, Item 1A of this Form 10-K) for a discussion of these factors and other risks.

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 clicks, leads, inquiries, calls, applications, and customers; 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. Moreover, we have entered into strategic partnerships and acquisitions to increase and diversify our access to quality media and client budgets.

The COVID-19 pandemic is also affecting our client verticals to varying degrees. For example, within our financial services client vertical, certain lines of business including personal loans, credit cards, and banking, have seen and may continue to see reductions in near-term demand for our services due to weakening economic and employment conditions, and the uncertainty over the length and depth of the economic downturn.

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, or acquire 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 call center, 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 generally 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 home services client vertical is subject to cyclical and seasonal trends, as the consumer demand for home services typically rises during the spring and summer seasons and declines during the fall and winter seasons. Other factors affecting our clients' businesses include macro factors such as credit availability in the market, interest rates, 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 andfacilities expense. 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 related taxes, 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, accounting and legal professional services fees, facilities fees and bad debt expense. We are constraining expenses generally to the extent practicable.

Interest and Other Income, Net

Interest and other income, net, consists primarily of interest expense, interest income, and other income and expense. Interest expense is related to imputed interest on post-closing payments related to our acquisitions in fiscal year 2019. We have no borrowing agreements outstanding as of June 30, 2020; 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. Interest income represents interest earned on our cash and cash equivalents, which may increase or decrease depending on market interest rates and the amounts invested. Other income and expense includes gains and losses on foreign currency exchange, gains and losses on divestitures that were not considered to be strategically important to our business, impairment of investment and other non-operating items.

(Provision for) Benefit from Income Taxes

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

Results of Operations

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

	Fiscal Year Ended June 30,					
	2020		2019		2018	
	(In thousands, except percentages)					
Net revenue	$ 490,339	100.0%	$ 455,154	100.0%	$ 404,358	100.0%
Cost of revenue (1)	437,864	89.3	393,509	86.5	345,947	85.6
Gross profit	52,475	10.7	61,645	13.5	58,411	14.4
Operating expenses: (1)						
Product development	14,206	2.9	12,329	2.6	13,805	3.3
Sales and marketing	8,876	1.8	8,755	1.9	10,414	2.6
General and administrative	23,188	4.7	29,834	6.6	18,556	4.6
Operating income	6,205	1.3	10,727	2.4	15,636	3.9
Interest income	230	—	290	—	181	—
Interest expense	(696)	(0.1)	(367)	—	—	—
Other income, net	12,947	2.6	69	—	687	0.2
Income before income taxes	18,686	3.8	10,719	2.4	16,504	4.1
(Provision for) benefit from income taxes	(584)	(0.1)	51,761	11.3	(574)	(0.2)
Net income	$ 18,102	3.7%	$ 62,480	13.7%	$ 15,930	3.9%

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

Cost of revenue	$ 8,569	1.7%	$ 7,354	1.6%	$ 3,982	1.0%
Product development	1,819	0.4	1,606	0.4	1,949	0.5
Sales and marketing	1,701	0.3	1,358	0.3	1,222	0.3
General and administrative	4,628	0.9	3,810	0.8	3,029	0.7

Gross Profit

	Fiscal Year Ended June 30,			2020 - 2019	2019 - 2018
	2020	2019	2018	% Change	% Change
	(In thousands)				
Net revenue	$ 490,339	$ 455,154	$ 404,358	8%	13%
Cost of revenue	437,864	393,509	345,947	11%	14%
Gross profit	$ 52,475	$ 61,645	$ 58,411	(15%)	6%

Net Revenue

Net revenue increased by $35.2 million, or 8%, in fiscal year 2020 compared to fiscal year 2019. Revenue from our financial services client vertical increased by $39.8 million, or 12%, 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. The change in revenue from our financial services client vertical was also driven by increased revenue from our personal loans business, primarily as a result of the acquisition of AmOne completed in the first quarter of fiscal year 2019, and increased revenue from our credit cards and banking business driven by expanding media sources, offset by a decline in revenue from our mortgage business as a result of lower refinancing activity and the divestiture of the business completed in April 2020, and a decline in revenue in credit-driven business during the last fiscal quarter due to the impact of COVID-19. Revenue from our education client vertical decreased by $7.3 million, or 11%, primarily due to the loss of a large not-for-profit education client who entered federal receivership in January 2019. Revenues from our other client vertical increased by $2.7 million, or 5%, primarily due to an increase of $9.7 million in our home services client vertical attributable to increased client demand, offset by a decrease of $7.0 million as a result of the divestiture of the B2B client vertical completed in February 2020.

Net revenue increased by $50.8 million, or 13%, in fiscal year 2019 compared to fiscal year 2018. Revenue from our financial services client vertical increased by $47.3 million, or 17%, 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. The change in revenue from our financial services client vertical was also driven by increased revenue from our personal loans business, primarily as a result of the acquisition of AmOne, and increased revenue from our credit cards business driven by expanding media sources, offset by a decline in revenue from our mortgage business due to lower refinancing activity. Revenue from our education client vertical revenue decreased by $8.8 million, or 11%, primarily due to the loss of a large not-for-profit education client who entered federal receivership, lower availability of high quality media at acceptable margins due to competitor acquisitions of media sources, and decreased client budgets due to school closures. Revenues from our other client vertical increased by $12.3 million, or 28%, 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 by $44.4 million, or 11%, in fiscal year 2020 compared to fiscal year 2019. This was primarily driven by increased media and marketing costs of $34.0 million, increased personnel costs including stock-based compensation expense of $7.6 million, and increased amortization of intangible assets of $2.5 million. The increase in media and marketing costs was due to higher revenue volumes. The increase in personnel costs and stock-based compensation is primarily due to higher headcount as a result of the acquisitions completed in fiscal year 2019. The increase in amortization expense is primarily due to the acquisitions of intangible assets in fiscal year 2019. Gross profit margin, which is the difference between net revenue and cost of revenue as a percentage of net revenue, was 11% in fiscal year 2020 compared to 14% in fiscal year 2019. The decrease in gross profit margin was attributable to increased media fees and personnel costs as a percentage of revenue.

Cost of revenue increased by $47.6 million, or 14%, in fiscal year 2019 compared to fiscal year 2018. This was primarily driven by increased media and marketing costs of $34.4 million, increased personnel costs of $7.6 million, increased stock-based compensation expense of $3.4 million, and increased amortization of intangible assets of $2.1 million. The increase in media and marketing costs was due to higher revenue volumes. The increase in personnel costs and stock-based compensation is primarily due to higher headcount as a result of the acquisition of AmOne in October 2018. The increase in amortization expense is primarily due to the acquisitions of intangible assets in fiscal year 2019. Gross profit margin was 14% for both fiscal years 2019 and 2018.

Operating Expenses

	Fiscal Year Ended June 30,			2020 - 2019	2019 - 2018
	2020	2019	2018	% Change	% Change
	(In thousands)				
Product development	$ 14,206	$ 12,329	$ 13,805	15%	(11%)
Sales and marketing	8,876	8,755	10,414	1%	(16%)
General and administrative	23,188	29,834	18,556	(22%)	61%
Operating expenses	$ 46,270	$ 50,918	$ 42,775	(9%)	19%

Product Development Expenses

Product development expenses increased $1.9 million, or 15% in fiscal year 2020 compared to fiscal year 2019 primarily due to increased personnel costs of $1.8 million as a result of annual compensation increases.

Product development expenses decreased $1.5 million, or 11% in fiscal year 2019 compared to fiscal year 2018 primarily due to decreased personnel costs of $0.7 million as a result of decreased incentive compensation expense, and decreased stock-based compensation expense of $0.3 million.

Sales and Marketing Expenses

Sales and marketing expenses increased $0.1 million, or 1% in fiscal year 2020 compared to fiscal year 2019.

Sales and marketing expenses decreased $1.7 million, or 16% in fiscal year 2019 compared to fiscal year 2018 primarily due to decreased personnel costs of $1.5 million as a result of lower headcount and decreased incentive compensation expense.

General and Administrative Expenses

General and administrative expenses decreased $6.6 million, or 22%, in fiscal year 2020 compared to fiscal year 2019, primaril due to a charge of $8.7 million for bad debt expense related to a large former education client recorded in fiscal year 2019, offset by increased personnel costs including stock-based compensation expense of $1.4 million, and increased facilities expense of $0.6 million.

General and administrative expenses increased $11.3 million, or 61%, in fiscal year 2019 compared to fiscal year 2018, primarily due to a charge of $8.7 million for bad debt expense related to a large former education client, increased personnel costs of $0.8 million related to stock-based compensation expense, increased professional services fees of $0.7 million associated with our acquisitions during fiscal year 2019, and increased business tax expense of $0.2 million.

Interest and Other Income, Net

	Fiscal Year Ended June 30,			2020 - 2019	2019 - 2018
	2020	2019	2018	% Change	% Change
	(In thousands)				
Interest income	$ 230	$ 290	$ 181	(21%)	60%
Interest expense	(696)	(367)	—	90%	100%
Other income, net	12,947	69	687	NM	(90%)
Interest and other income, net	$ 12,481	$ (8)	$ 868	NM	(101%)

NM – not meaningful

Interest income relates to interest earned on our cash and cash equivalents in fiscal years 2020, 2019 and 2018.

Interest expense increased $0.3 million, or 90%, in fiscal year 2020 compared to fiscal year 2019 primarily due to increased imputed interest on a higher average outstanding balance of the post-closing payments related to our business acquisitions completed in fiscal year 2019.Interest expense increased $0.4 million, or 100%, in fiscal year 2019 compared to fiscal year 2018 due to imputed interest on post-closing payments related to our business acquisitions during fiscal year 2019.

Other income, net, was $12.9 million in fiscal year 2020 primarily due toa net disposition gain of $13.6 million recognized from the business divestitures completed in fiscal year 2020. Other income, net, was immaterial in fiscal year 2019. Other income, net, was $0.7 million in fiscal year 2018 primarily due to income from the sale of other assets and domain names that were not considered strategically important to our business.

(Provision for) Benefit from Income Taxes

	Fiscal Year Ended June 30,		
	2020	2019	2018
	(In thousands)		
(Provision for) benefit from income taxes	$ (584)	$ 51,761	$ (574)
Effective tax rate	3.1%	(482.9%)	3.5%

We recorded a provision for income taxes of $0.6 million in fiscal year 2020, primarily as a result of deferred federal and state income taxes of $3.5 million, offset by an expected tax refund of $3.1 million to be received from the California Franchise Tax Board, based on a settlement reached in the third quarter of fiscal year 2020.

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 in 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.

We recorded a provision for income taxes of $0.6 million in fiscal year 2018, primarily as a result of current state and foreign income taxes.

Our effective tax rate was 3.1%, (482.9%) and 3.5% in fiscal years 2020, 2019 and 2018. The change in the effective tax rate in fiscal year 2019 was primarily due 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.

Selected Quarterly Financial Data

The following table sets forth our unaudited quarterly condensed consolidated statements of operations for the eight quarters ended June 30, 2020.We have prepared the statements of operations for each of these quarters on the same basis as the audited consolidated financial statements included elsewhere in this report and, in the opinion of management, each statement of operations includes all adjustments, consisting solely of normal recurring adjustments, necessary for the fair statement of the results of operations for these periods. This information should be read in conjunction with the audited consolidated financial statements and related notes included elsewhere in this report. These quarterly operating results are not necessarily indicative of our operating results for any future period.

	Three Months Ended							
	June 30, 2020	Mar 31, 2020	Dec 31, 2019	Sept 30, 2019	June 30, 2019	Mar 31, 2019	Dec 31, 2018	Sept 30, 2018
	(In thousands, except per share data) (unaudited)							
Net revenue	$ 116,961	$ 128,663	$ 118,101	$ 126,614	$ 121,964	$ 116,225	$ 104,096	$ 112,869
Costs of revenue	105,147	114,210	105,318	113,189	107,431	98,350	90,915	96,813
Gross profit	11,814	14,453	12,783	13,425	14,533	17,875	13,181	16,056
Operating expenses:								
Product development	4,001	3,250	3,399	3,556	3,165	2,864	2,995	3,305
Sales and marketing	1,805	2,116	2,592	2,363	2,409	2,019	2,283	2,044
General and administrative	6,789	5,076	5,498	5,825	5,472	13,919	5,049	5,394
Operating (loss) income	(781)	4,011	1,294	1,681	3,487	(927)	2,854	5,313
Interest income	61	43	54	72	75	80	69	66
Interest expense	(130)	(177)	(177)	(212)	(173)	(96)	(98)	—
Other income (expense), net	2,722	10,491	(9)	(257)	29	(8)	115	(67)
Income (loss) before income taxes	1,872	14,368	1,162	1,284	3,418	(951)	2,940	5,312
(Provision for) benefit from income taxes	(370)	(449)	387	(152)	(2)	1,892	49,886	(15)
Net income	$ 1,502	$ 13,919	$ 1,549	$ 1,132	$ 3,416	$ 941	$ 52,826	$ 5,297
Net income per share: (1)								
Basic	$ 0.03	$ 0.27	$ 0.03	$ 0.02	$ 0.07	$ 0.02	$ 1.07	$ 0.11
Diluted	$ 0.03	$ 0.26	$ 0.03	$ 0.02	$ 0.06	$ 0.02	$ 1.00	$ 0.10
Other Financial Data:								
Adjusted EBITDA	$ 8,398	$ 9,332	$ 9,063	$ 9,436	$ 10,371	$ 4,545	$ 9,316	$ 10,257

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

Adjusted EBITDA

We include adjusted EBITDA in this report because (i) we seek to manage our business to a level of adjusted EBITDA as a percentage of net revenue, (ii)is used internally by management for planning purposes, including preparation of internal budgets; to allocate resources; to evaluate the effectiveness of operational strategies and capital expenditures as well as the capacity to service debt, (iii) it is a key basis upon which management assesses our operating performance, (iv) it is one of the primary metrics investors use in evaluating Internet marketing companies, (v) it is a factor in determining compensation, (vi) it is an element of certain financial covenants under our historical borrowing arrangements, and (vii) it is a factor that assists investors in the analysis of ongoing operating trends We define adjusted EBITDA as net income less interest and other expense (income), net, provision for (benefit from)

income taxes, depreciation expense, amortization expense, stock-based compensation expense, acquisition costs, gain on divestitures of businesses, net, contingent consideration adjustment, strategic review costs, litigation settlement expense, and restructuring costs.

We use adjusted EBITDA as a key performance measure because we believe it facilitates operating performance comparisons from period to period by excluding potential differences caused by variations in capital structures (affecting interest expense), tax positions (such as the impact of changes in effective tax rates or fluctuations in permanent differences or discrete quarterly items), non-recurring charges and certain other items that we do not believe are indicative of our core operating activities (such as acquisition related expense, gain or loss on divestitures of businesses, strategic review costs, contingent consideration adjustment, litigation settlement expense, restructuring costs, and other expense (income), net) and the non-cash impact of depreciation expense, amortization expense and stock-based compensation expense.

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

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

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

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

	Three Months Ended							
	June 30, 2020	Mar 31, 2020	Dec 31, 2019	Sept 30, 2019	June 30, 2019	Mar 31, 2019	Dec 31, 2018	Sept 30, 2018
	(In thousands) (unaudited)							
Net income	$ 1,502	$ 13,919	$ 1,549	$ 1,132	$ 3,416	$ 941	$ 52,826	$ 5,297
Interest and other expense (income), net	106	462	132	397	69	24	(86)	1
Provision for (benefit from) income taxes	370	449	(387)	152	2	(1,892)	(49,886)	15
Depreciation and amortization	2,959	2,851	2,854	2,812	2,595	2,361	2,371	1,648
Stock-based compensation expense	5,500	1,869	4,700	4,648	4,188	2,950	3,879	3,111
Acquisition costs	634	40	16	295	201	161	202	172
Gain on divestitures of businesses, net	(2,759)	(10,819)	—	—	—	—	—	—
Contingent consideration adjustment	—	—	—	—	(100)	—	—	—
Strategic review costs	68	63	199	—	—	—	—	—
Litigation settlement expense	15	80	—	—	—	—	10	13
Restructuring costs	3	418	—	—	—	—	—	—
Adjusted EBITDA	$ 8,398	$ 9,332	$ 9,063	$ 9,436	$ 10,371	$ 4,545	$ 9,316	$ 10,257
Adjusted EBITDA as a percentage of net revenue	7%	7%	8%	7%	9%	4%	9%	9%

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

Liquidity and Capital Resources

As of June 30, 2020, our principal sources of liquidity consisted of cash and cash equivalents of $107.5 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 in fiscal year 2019 also have deferred purchase price components and contingent consideration which requires us to make a series of payments following the acquisition 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 including the impact of COVID-19, 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.

	Fiscal Year Ended June 30,		
	2020	2019	2018
	(In thousands)		
Net cash provided by operating activities	$ 47,608	$ 37,965	$ 26,979
Net cash provided by (used in) investing activities	8,868	(36,989)	(15,849)
Net cash (used in) provided by financing activities	(11,632)	(4,054)	3,894

Net Cash Provided by Operating Activities

Cash flows from operating activities are primarily the result of our net income adjusted for depreciation and amortization, provision for sales returns and doubtful accounts receivable, stock-based compensation expense, gains and losses on divestitures of businesses, deferred income taxes and changes in working capital components.

Cash provided by operating activities was $47.6 million in fiscal year 2020 compared to $38.0 million in fiscal year 2019 and $27.0 million in fiscal year 2018.

Cash provided by operating activities in fiscal year 2020 consisted of net income of $18.1 million, adjusted for non-cash adjustments of $19.4 million and changes in working capital accounts of $10.1 million. The non-cash adjustments primarily consisted of stock-based compensation expense of $16.7 million and depreciation and amortization of $11.5 million, offset by a net disposition gain of $13.6 million recognized from the business divestitures completed in fiscal year 2020. The changes in working capital accounts were primarily attributable to a decrease in accounts receivable of $11.4 million and a decrease in other assets, noncurrent of $5.5 million, offset by an increase in prepaid expenses and other assets of $8.1 million. The decrease in accounts receivable was due to the timing of receipts. The decrease in other assets, noncurrent, was primarily due to a reclassification of unamortized prepaid expense of $4.3 million from long-term to short-term as we expected to receive payment within the next 12 months. The increase in prepaid expenses and other assets was primarily due to the reclassification of $4.3 million as discussed above, as well as an expected tax refund of $3.1 million to be received from the California Franchise Tax Board, based on a settlement reached in the third quarter of fiscal year 2020.

Cash provided by operating activities in fiscal year 2019 consisted of net income of $62.5 million, adjusted for non-cash adjustments of $19.0 million and changes in working capital accounts of $5.6 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 allowance for the majority of our federal and states deferred tax assets, offset by stock-based compensation expense of $14.1 million, depreciation and amortization of $9.0 million, and bad debt expense of $8.7 million related to a large former education client. The changes in working capital accounts were primarily attributable to an increase in accounts receivable of $8.3 million and a decrease in accrued liabilities of $3.4 million, offset by an increase in accounts payable of $4.5 million. The increase in accounts receivable is primarily due to the increase in revenue, the decrease in accrued liabilities is primarily due to a decrease in accrued performance incentive compensation associated with the lower achievement of performance objectives and the increase in accounts payable is primarily due to the timing of payments.

Cash provided by operating activities in fiscal year 2018 consisted of net income of $15.9 million, adjusted for non-cash adjustments of $17.3 million. In addition, there was a net decrease in cash from changes in working capital of $6.3 million. The non-cash adjustments primarily consisted of stock-based compensation expense of $10.2 million and depreciation and amortization of $7.8 million. The changes in working capital accounts were primarily due to an increase in accounts receivable of $25.0 million primarily due to increased net revenues, offset by an increase in accounts payable and accrued liabilities of $15.8 million, primarily due to an increase in media costs associated with increased revenue, and an increase in accrued performance incentive compensation associated with the higher achievement of performance objectives. The decrease in prepaid expenses and other assets of $1.9 million was primarily due to the timing of payments and the decrease in other assets noncurrent of $1.1 million was primarily due to the amortization expense for the year.

Net Cash Provided by (Used in) Investing Activities

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

Cash provided by investing activities was $8.9 million in fiscal year 2020, compared to cash used in investing activities of $37.0 million in fiscal year 2019 and $15.8 million in fiscal year 2018.

Cash provided by investing activities in fiscal year 2020 was primarily due to$15.4 million cash received from the business divestitures completed in fiscal year 2020, net of cash divested of $0.3 million, offset by capital expenditures and internal software development costs of $4.3 million, and a cash payment of $2.0 million associated with an insignificant business acquisition completed in fiscal year 2020.

Cash used in investing activities in fiscal year 2019 was primarily due to our acquisitions of AmOne, CCMand MBT in fiscal year 2019 for $32.7 million, net of cash acquired of $3.1 million and capital expenditures and internal software development costs of $4.3 million.

Cash used in investing activities in fiscal year 2018 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 $2.8 million, offset by proceeds from sales of other assets and domain names of $1.1 million.

Net Cash (Used in) Provided by Financing Activities

Cash flows from financing activities generally include payment of withholding taxes related to the release of restricted stock, net of share settlement, proceeds from the exercise of stock options, post-closing payments related to business acquisitions, and repurchases of common stock.

Cash used in financing activities was $11.6 million in fiscal year 2020, compared to cash used in financing activities of $4.1 million in fiscal year 2019 and cash provided by financing activities of $3.9 million in fiscal year 2018.

Cash used in financing activities in fiscal year 2020 was due to the post-closing payments and contingent consideration related to acquisitions of $9.3 million, and payments of withholding taxes related to the release of restricted stock, net of share settlement of $6.4 million, offset by proceeds from the exercise of stock options of $4.1 million.

Cash used in financing activities in fiscal year 2019 was due to the payments of withholding taxes related to the release of restricted stock, net of share settlement of $9.9 million and post-closing payments related to acquisitions of $2.0 million, offset by proceeds from the exercise of stock options of $7.8 million.

Cash provided by financing activities in fiscal year 2018 was due to the proceeds from the exercise of common stock options of $11.0 million, offset by payments of withholding taxes related to the release of restricted stock, net of share settlement of $6.5 million, and repurchases of common stock of $0.6 million.

Off-Balance Sheet Arrangements

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

Contractual Obligations

The following table sets forth payments due under our contractual obligations as of June 30, 2020:

	Total	Less than 1 Year	1-3 Years	3-5 Years
	(In thousands)			
Operating leases (1)	$ 14,746	$ 4,733	$ 8,206	$ 1,807
Post-closing payment related to acquisitions (2)	9,045	5,712	3,333	—
Contingent consideration related to acquisitions (2)	3,170	1,022	1,940	208
Total	$ 26,961	$ 11,467	$ 13,479	$ 2,015

(1) We lease various office facilities, including our corporate headquarters in Foster City, California. The terms of certain lease agreements include rent escalation provisions and tenant improvement allowances.

In February 2010, we entered into a lease agreement for our corporate headquarters located at 950 Tower Lane, Foster City, California with an expiration date in October 2018 and an option to extend the term of the lease twice by one additional year. In April 2018, the lease agreement was amended to extend the lease term through October 31, 2023. Under the amended lease agreement, the monthly base rent was 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.

(2) In accordance with the terms of the acquisitions during fiscal year 2019, we are required to make post-closing payments and contingent consideration payments. See Note 6, *Acquisitions,* to our consolidated financial statements for more information on the post-closing payments and contingent consideration payments related to our business acquisitions in fiscal year 2019.

The above table does not include approximately $2.3 million of long-term income tax liabilities for uncertainty in income taxes due to the fact that we are unable to reasonably estimate the timing of these potential future payments.

Critical Accounting Policies and Estimates

We have prepared our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP"). In doing so, we are required to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results may differ significantly from these estimates. 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.

Additionally, COVID-19 is a factor which may cause actual results to differ from estimates. COVID-19 is contributing to a general slowdown in the global economy and may affect our business, results of operations, financial condition, and future strategic plans. At this time, the extent to which the COVID-19 may impact our financial condition or results of operations is uncertain.

We refer to these estimates and assumptions as critical accounting policies and estimates. We believe that the critical accounting policies listed below involve our more significant judgments, estimates and assumptions and, therefore, could have the greatest potential impact on our consolidated financial statements. In addition, we believe that a discussion of these policies is necessary to understand and evaluate the consolidated financial statements contained in this report.

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

Revenue Recognition

We generate substantially all of our 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 recognize revenue when we transfer control of promised goods or services to our clients in an amount that reflects the consideration to which we expect to receive in exchange for those goods or services. We recognize revenue pursuant to the five-step framework contained in ASC 606, Revenue from Contracts with Customers: (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, we will conclude that a contract does not exist and will continuously reassess our evaluation until we are able to conclude that a contract does exist.

Generally, our contracts specify the period of time as one month, but in some instances the term may be longer. However, for most of our 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.

We have assessed the services promised in our contracts with clients and have 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. We satisfy these performance obligations over time as the services are provided. We do not promise to provide any other significant goods or services to our clients.

Transaction price is measured based on the consideration that we expect to receive from a contract with a client. Our 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 we ensure the stated period of our contracts does not generally

span to 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, our 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 our clients.

We do not allocate transaction price as we have only one performance obligation and our contracts do not generally span multiple periods. Taxes collected from clients and remitted to governmental authorities are not included in revenue. We elected to use the practical expedient which allows us to record sales commissions as expense as incurred when the amortization period would have been one year or less.

We bill clients monthly in arrears for the marketing results delivered during the preceding month. Our standard payment terms are 30-60 days. Consequently, we do not have significant financing components in our arrangements.

Separately from the agreements that we have with clients, we have agreements with Internet search companies, third-party publishers and strategic partners that we engage with to generate targeted marketing results for our clients. We receive a fee from our clients and separately pay a fee to the Internet search companies, third-party publishers and strategic partners. We are the principal in the transaction. As a result, the fees paid by our clients are recognized as revenue and the fees paid to our Internet search companies, third-party publishers and strategic partners are included in cost of revenue.

Stock-Based Compensation

We measure and record the expense related to stock-based transactions based on the fair value of the stock-based payment awards as determined on the date of grant. The fair value of restricted stock units with a service condition ("service-based RSU") is determined based on the closing price of our common stock on the date of grant. For stock options, we have selected and used the Black-Scholes option pricing model to estimate the fair value. The fair value of restricted stock units with a service and performance condition ("performance-based RSU") is determined based on the closing price of our common stock on the date of grant. Grant date as defined by ASC 718 is determined when the components that comprise the performance targets have been fully established. If a grant date has not been established, the compensation expense associated with the performance-based RSU is re-measured at each reporting date based on the closing price of our common stock at each reporting date until the grant date has been established. For restricted stock units with a service and market condition ("market-based RSU"), we have selected and used the Monte Carlo simulation model to estimate the fair value on the date of grant.

In applying these models, our determination of fair value is affected by assumptions regarding a number of subjective variables. These variables include, but are not limited to, the expected stock price volatility over the term of the award and the employees' actual and projected stock option exercise and pre-vesting employment termination behaviors. We estimate the expected volatility of our common stock based on our historical volatility over the expected term of the award. We have no history or expectation of paying dividends on our common stock. The risk-free interest rate is based on the U.S. Treasury yield for a term consistent with the expected term of the award.

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

Business Combinations

We account for acquisitions of entities that include inputs and processes and have the ability to create outputs as business combinations. Under the acquisition method of accounting, the total consideration is allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. The excess of the purchase price over the fair values of these identifiable assets and liabilities is recorded as goodwill. During the measurement period, which may be up to one year from the acquisition date, we may record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill.

In determining the fair value of assets acquired and liabilities assumed in a business combination, we used the income approach to value our most significant acquired assets. Significant assumptions relating to our estimates in the income approach include base

revenue, revenue growth rate, net of client attrition, projected gross margin, discount rates, rates of increase in operating expenses and the future effective income tax rates. The valuations of our acquired businesses have been performed by a third-party valuation specialist under our management's supervision. We believe that the estimated fair value assigned to the assets acquired and liabilities assumed are based on reasonable assumptions and estimates that marketplace participants would use. However, such assumptions are inherently uncertain and actual results could differ from those estimates. Future changes in our assumptions or the interrelationship of those assumptions may negatively impact future valuations. In future measurements of fair value, adverse changes in discounted cash flow assumptions could result in an impairment of goodwill or intangible assets that would require a non-cash charge to the consolidated statements of operations and may have a material effect on our financial condition and operating results.

Acquisition related costs are not considered part of the consideration, and are expensed as operating expenses as incurred. Contingentconsideration, if any, is measured at fair value initially on the acquisition date as well as subsequently at the end of each reporting period until settlement at the end of the assessment period. We include the results of operations of the businesses acquired as of the beginning of the acquisition dates.

Goodwill

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

We perform our annual goodwill impairment test on April 30 and conduct a qualitative assessment to determine whether it is necessary to perform a quantitative goodwill impairment test. In assessing the qualitative factors, we consider the impact of key factors such as changes in the general economic conditions including the impact of COVID-19, changes in industry and competitive environment, stock price, actual revenue performance compared to previous years, forecasts and cash flow generation. We had one reporting unit for purposes of allocating and testing goodwill for fiscal years 2020 and 2019. Based on the results of the qualitative assessment completed as of April 30, 2020 and 2019, there were no indicators of impairment.

Long-Lived Assets

We evaluate long-lived assets, such as property and equipment and purchased intangible assets with finite lives, for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If necessary, a quantitative test is performed that requires the application of judgment when assessing the fair value of an asset. When we identify an impairment, we reduce the carrying amount of the asset to its estimated fair value based on a discounted cash flow approach or, when available and appropriate, to comparable market values. As of April 30, 2020 and 2019, we evaluated our long-lived assets and concluded there were no indicators of impairment.

Income Taxes

We account for income taxes using an asset and liability approach to record deferred taxes. Our deferred income tax assets represent temporary differences between the financial statement carrying amount and the tax basis of existing assets and liabilities that will result in deductible amounts in future years, including net operating loss carry forwards. Deferred tax assets and liabilities are measured using the currently enacted tax rates that apply to taxable income in effect for the years in which those tax assets and liabilities are expected to be realized or settled. Valuation allowances are provided when necessary to reduce deferred tax assets to the amount expected to be realized. We regularly assess the realizability of our deferred tax assets. Significant judgment is required to determine whether a valuation allowance is necessary and the amount of such valuation allowance, if appropriate. We consider all available evidence, both positive and negative, to determine, based on the weight of available evidence, whether it is more likely than not that some or all of the deferred tax assets will not be realized. In evaluating the need, or continued need, for a valuation allowance we consider, among other things, the nature, frequency and severity of current and cumulative taxable income or losses, forecasts of future profitability, and the duration of statutory carryforward periods. Our judgment regarding future profitability may change due to future market conditions including the impact of COVID-19, changes in U.S. or international tax laws and other factors.

We recognize tax benefits from an uncertain tax position only if it is more likely than not, based on the technical merits of the position, that the tax position will be sustained on examination by the tax authorities. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

Recent Accounting Pronouncements

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

Item 7A. ***Quantitative and Qualitative Disclosures about Market Risk***

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

Interest Rate Risk

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

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

QUINSTREET, INC.

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The supplementary financial information required by this Item 8 is included in Item 7 under the caption "Selected Quarterly Financial Data."

Report of Independent Registered Public Accounting Firm

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

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of QuinStreet, Inc. and its subsidiaries (the "Company") as of June 30, 2020 and June 30, 2019, and the related consolidated statements of operations, of comprehensive income, of stockholders' equity and of cash flows for each of the three years in the period ended June 30, 2020, including the related notes and schedule of valuation and qualifying accounts for each of the three years in the period ended June 30, 2020 appearing under Item 15(a)(2) (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of June 30, 2020, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of June 30, 2020 and June 30, 2019, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2020 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2020, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for leases as of July 1, 2019.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in

accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Realizability of deferred tax assets

As described in Notes 2 and 10 to the consolidated financial statements, the company has recorded $49 million in deferred tax assets as of June 30, 2020. Management applied significant judgment in assessing the positive and negative evidence available in the determination of the amount of deferred tax assets that were more-likely-than-not to be realized in the future. In evaluating the need, or continued need, for a valuation allowance, management considers the weighting of the positive and negative evidence, which included, among other things, the nature, frequency and severity of current and cumulative taxable income or losses, forecasts of future profitability, and the duration of statutory carryforward periods.

The principal considerations for our determination that performing procedures relating to the realizability of deferred tax assets is a critical audit matter are (i) the significant judgment by management in determining the amount of deferred tax assets that were more-likely-than-not to be realized in the future which in turn led to a high degree of auditor judgment and subjectivity in applying procedures relating to assessing the positive and negative evidence, and (ii) significant audit effort was necessary in evaluating the weighting of the positive and negative evidence.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to income taxes, including controls over the assessment of realizability of deferred tax assets including assessing the positive and negative evidence. These procedures also included, among others, testing management's process for assessing the realizability of deferred tax assets, and evaluating management's weighting of positive and negative evidence.

/s/ PricewaterhouseCoopers LLP
San Jose, California
August 28, 2020

We have served as the Company's auditor since 2000.

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

	June 30, 2020	June 30, 2019
Assets		
Current assets:		
Cash and cash equivalents	$ 107,509	$ 62,522
Accounts receivable, net	64,472	75,628
Prepaid expenses and other assets	13,591	5,228
Total current assets	185,572	143,378
Property and equipment, net	5,657	5,410
Operating lease right-of-use assets	9,118	—
Goodwill	80,677	82,544
Other intangible assets, net	28,174	35,118
Deferred tax assets, noncurrent	48,673	52,149
Other assets, noncurrent	536	6,012
Total assets	$ 358,407	$ 324,611
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 36,759	$ 37,093
Accrued liabilities	42,271	36,878
Deferred revenue	73	761
Other liabilities	6,734	8,967
Total current liabilities	85,837	83,699
Operating lease liabilities, noncurrent	8,692	—
Other liabilities, noncurrent	7,934	18,083
Total liabilities	102,463	101,782
Commitments and contingencies (See Note 12)		
Stockholders' equity:		
Common stock: $0.001 par value; 100,000,000 shares authorized;52,209,813 and 50,518,460 shares issued and outstanding at June 30, 2020 and June 30, 2019	52	50
Additional paid-in capital	304,650	289,768
Accumulated other comprehensive loss	(237)	(366)
Accumulated deficit	(48,521)	(66,623)
Total stockholders' equity	255,944	222,829
Total liabilities and stockholders' equity	$ 358,407	$ 324,611

See notes to consolidated financial statements

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

	Fiscal Year Ended June 30,		
	2020	2019	2018
Net revenue	$ 490,339	$ 455,154	$ 404,358
Cost of revenue [1]	437,864	393,509	345,947
Gross profit	52,475	61,645	58,411
Operating expenses: [1]			
Product development	14,206	12,329	13,805
Sales and marketing	8,876	8,755	10,414
General and administrative	23,188	29,834	18,556
Operating income	6,205	10,727	15,636
Interest income	230	290	181
Interest expense	(696)	(367)	—
Other income, net	12,947	69	687
Income before income taxes	18,686	10,719	16,504
(Provision for) benefit from income taxes	(584)	51,761	(574)
Net income	$ 18,102	$ 62,480	$ 15,930
Net income per share:			
Basic	$ 0.35	$ 1.26	$ 0.34
Diluted	$ 0.34	$ 1.18	$ 0.32
Weighted-average shares used in computing net income per share:			
Basic	51,529	49,581	46,417
Diluted	53,387	52,754	49,872

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

Cost of revenue	$ 8,569	$ 7,354	$ 3,982
Product development	1,819	1,606	1,949
Sales and marketing	1,701	1,358	1,222
General and administrative	4,628	3,810	3,029

See notes to consolidated financial statements

QUINSTREET, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)

	Fiscal Year Ended June 30,		
	2020	2019	2018
Net income	$ 18,102	$ 62,480	$ 15,930
Other comprehensive income:			
Foreign currency translation adjustment	129	14	83
Total other comprehensive income	129	14	83
Comprehensive income	$ 18,231	$ 62,494	$ 16,013

See notes to consolidated financial statements

QUINSTREET, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands, except share data)

	Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				
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	1,465,265	1	—	—	11,114	—	—	11,115
Release of restricted stock, net of share settlement	1,338,624	2	—	—	(2)	—	—	—
Stock-based compensation expense	—	—	—	—	10,250	—	—	10,250
Withholding taxes related to release of restricted stock, net of share settlement	—	—	—	—	(6,487)	—	—	(6,487)
Repurchase of common stock	—	—	(93,341)	(647)	—	—	—	(647)
Retirement of treasury stock	(93,341)	—	93,341	647	(647)	—	—	—
Net income	—	—	—	—	—	—	15,930	15,930
Other comprehensive income	—	—	—	—	—	83	—	83
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	1,147,124	1	—	—	7,701	—	—	7,702
Release of restricted stock, net of share settlement	1,224,952	1	—	—	(1)	—	—	—
Stock-based compensation expense	—	—	—	—	14,198	—	—	14,198
Withholding taxes related to release of restricted stock, net of share settlement	—	—	—	—	(9,891)	—	—	(9,891)
Net income	—	—	—	—	—	—	62,480	62,480
Other comprehensive income	—	—	—	—	—	14	—	14
Balance at June 30, 2019	50,518,460	$ 50	—	$ —	$ 289,768	$ (366)	$ (66,623)	$ 222,829
Issuance of common stock upon exercise of stock options	777,854	1	—	—	4,478	—	—	4,479
Release of restricted stock, net of share settlement	913,499	1	—	—	(1)	—	—	—
Stock-based compensation expense	—	—	—	—	16,781	—	—	16,781
Withholding taxes related to release of restricted stock, net of share settlement	—	—	—	—	(6,376)	—	—	(6,376)
Net income	—	—	—	—	—	—	18,102	18,102
Other comprehensive income	—	—	—	—	—	129	—	129
Balance at June 30, 2020	52,209,813	$ 52	—	$ —	$ 304,650	$ (237)	$ (48,521)	$ 255,944

See notes to consolidated financial statements

QUINSTREET, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Fiscal Year Ended June 30,		
	2020	2019	2018
Cash Flows from Operating Activities			
Net income	$ 18,102	$ 62,480	$ 15,930
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	11,476	8,975	7,767
Provision for sales returns and doubtful accounts receivable	625	9,343	525
Stock-based compensation	16,717	14,128	10,182
Non-cash lease expense	259	—	—
Deferred income taxes	3,546	(52,019)	(51)
Gain on divestitures of businesses, net	(13,578)	—	—
Other adjustments, net	315	610	(1,108)
Changes in assets and liabilities:			
Accounts receivable	11,354	(8,321)	(24,958)
Prepaid expenses and other assets	(8,136)	(545)	1,910
Other assets, noncurrent	5,508	634	1,096
Accounts payable	103	4,534	7,350
Accrued liabilities	1,173	(3,368)	8,489
Deferred revenue	178	46	(411)
Other liabilities, noncurrent	(34)	1,468	258
Net cash provided by operating activities	47,608	37,965	26,979
Cash Flows from Investing Activities			
Capital expenditures	(1,962)	(1,972)	(610)
Business acquisitions, net	(2,000)	(32,737)	(14,154)
Internal software development costs	(2,291)	(2,336)	(2,146)
Proceeds from divestitures of businesses, net of cash divested	15,096	—	—
Other investing activities	25	56	1,061
Net cash provided by (used in) investing activities	8,868	(36,989)	(15,849)
Cash Flows from Financing Activities			
Proceeds from exercise of common stock options	4,092	7,789	11,028
Payment of withholding taxes related to release of restricted stock, net of share settlement	(6,376)	(9,891)	(6,487)
Post-closing payments and contingent consideration related to acquisitions	(9,348)	(1,952)	—
Repurchases of common stock	—	—	(647)
Net cash (used in) provided by financing activities	(11,632)	(4,054)	3,894
Effect of exchange rate changes on cash, cash equivalents and restricted cash	143	26	105
Net increase (decrease) in cash, cash equivalents and restricted cash	44,987	(3,052)	15,129
Cash, cash equivalents and restricted cash at beginning of period	62,536	65,588	50,459
Cash, cash equivalents and restricted cash at end of period	$ 107,523	$ 62,536	$ 65,588
Reconciliation of cash, cash equivalents, and restricted cash to the consolidated balance sheets			
Cash and cash equivalents	$ 107,509	$ 62,522	$ 64,700
Restricted cash included in other assets, noncurrent	14	14	888
Total cash, cash equivalents and restricted cash	$ 107,523	$ 62,536	$ 65,588
Supplemental Disclosure of Cash Flow Information			
Cash paid for income taxes	373	334	245
Supplemental Disclosure of Noncash Investing and Financing Activities			
Post-closing payments unpaid at acquisition date (See Note 6)	—	17,893	—
Contingent consideration unpaid at acquisition date (See Note 6)	—	5,058	—
Purchases of property and equipment included in accrued liabilities	72	230	215
Retirement of treasury stock	—	—	(647)

See notes to consolidated financial statements

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 and India. The majority of the Company's operations and revenue are in North America.

2. Summary of Significant Accounting Policies

Principles of Consolidation

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. These estimates are based on information available as of the date of the financial statements; therefore, actual results could differ from those estimates.

Additionally, the COVID-19 pandemic is a factor which may cause actual results to differ from estimates. COVID-19 is contributing to a general slowdown in the global economy and may affect the Company's business, results of operations, financial condition, and future strategic plans. At this time, the extent to which the COVID-19 may impact the Company's financial condition or results of operations is uncertain.

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. 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, Revenue from Contracts with Customers: (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 does not generally 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 generally span multiple periods. Taxes collected from clients and remitted to governmental authorities are not included in revenue. The Company elected to use the practical expedient which allows the Company to record sales commissions as expense as incurred when the amortization period would have been one year or less.

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 has agreements with Internet search companies, third-party publishers and strategic partners that we engage with to generate targeted 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 principal 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.

Concentrations of Credit Risk

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

The Company maintains contracts with its clients, most of which are cancelable with little or no prior notice. In addition, these contracts do not contain penalty provisions for cancellation before the end of the contract term. In fiscal years 2020, 2019 and 2018, the Company had one client, The Progressive Corporation, that accounted for 21%, 22% and 23% of net revenue. No other client accounted for 10% or more of net revenue in fiscal years 2020, 2019 and 2018.

The Company’s accounts receivable are derived from clients located principally in the United States. The Company performs ongoing credit evaluation of its clients, does not require collateral, and maintains allowances for potential credit losses on client accounts when deemed necessary. The Company had one client, The Progressive Corporation, that accounted for 17% and 11% of net accounts receivable as of June 30, 2020 and June 30, 2019. No other clients accounted for 10% or more of net accounts receivable as of June 30, 2020 or 2019.

Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the reporting date. The Company estimates and categorizes the fair value of its financial instruments by applying the following hierarchy:

Level 1 — Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to directly access.

Level 2 — Valuations based on quoted prices for similar assets or liabilities; valuations for interest-bearing securities based on non-daily quoted prices in active markets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities.

Level 3 — Valuations based on inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.The Company's financial instruments consist principally of cash equivalents, accounts receivable, accounts payable, post-closing payments and contingent consideration related to acquisitions. 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. See Note 5, *Fair Value Measurements,* for additional information regarding fair value measurements.

Cash and Cash Equivalents

All highly liquid investments with maturities of three months or less at the date of purchase are classified as cash equivalents on the Company's consolidated balance sheets.

Property and Equipment

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

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

Internal Software Development Costs

The Company incurs costs to develop software for internal use. The Company expenses all costs that relate to the planning and post-implementation phases of development as product development expense. Costs incurred in the development phase are capitalized and amortized over the product's estimated useful life if the product is expected to have a useful life beyond six months. Costs associated with repair or maintenance of existing sites or the development of website content are included within cost of revenue in the Company's consolidated statements of operations. The Company's policy is to amortize capitalized internal software development costs on a product-by-product basis using the straight-line method over the estimated economic life of the application, which is generally two years. The Company capitalized internal software development costs of $1.1 million, $2.3 million and $2.0 million in fiscal years 2020, 2019 and 2018. Amortization of internal software development costs is reflected within cost of revenue in the Company's consolidated statements of operations.

Leases

Effective July 1, 2019, the Company adopted ASC 842, Leases (ASC 842) which requires the recognition of lease liabilities and right-of-use ("ROU") assets on the consolidated balance sheets, while recognizing expenses on the consolidated income statements in a manner similar to the legacy guidance. The Company applied the provisions of ASC 842 using the modified transition approach to all leases existing at the date of initial application and not restating comparative periods.

Under ASC 842, at the commencement date of a lease, the Company recognizes lease liabilities which represent its obligation to make lease payments, and ROU assets which represent its right to use the underlying asset during the lease term. The lease liability is measured at the present value of lease payments over the lease term. As the Company's leases typically do not provide an implicit rate, the Company uses an incremental borrowing rate based on the information available at the lease commencement date. The ROU asset is measured at cost, which includes the initial measurement of the lease liability and initial direct costs incurred by the Company and excludes lease incentives. Lease liabilities are recorded in accrued liabilities and operating lease liabilities, noncurrent. ROU assets are recorded in operating lease right-of-use assets.

Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Operating lease expense is recognized on a straight-line basis over the lease term. Lease agreements that contain both

lease and non-lease components are generally accounted for separately. The Company does not recognize lease liabilities and ROU assets for short-term leases with terms of twelve months or less.

Business Combinations

The Company accounts for acquisitions of entities that include inputs and processes and have the ability to create outputs as business combinations. Under the acquisition method of accounting, the total consideration is allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. The excess of the purchase price over the fair values of these identifiable assets and liabilities is recorded as goodwill. During the measurement period, which may be up to one year from the acquisition date, the Company may record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill.

In determining the fair value of assets acquired and liabilities assumed in a business combination, the Company used the income approach to value its most significant acquired asset. Significant assumptions relating to the Company's estimates in the income approach include base revenue, revenue growth rate, net of client attrition, projected gross margin, discount rates, rates of increase in operating expenses and the future effective income tax rates. The valuations of our acquired businesses have been performed by a third-party valuation specialist under the Company management's supervision. The Company believes that the estimated fair value assigned to the assets acquired and liabilities assumed are based on reasonable assumptions and estimates that marketplace participants would use. However, such assumptions are inherently uncertain and actual results could differ from those estimates. Future changes in our assumptions or the interrelationship of those assumptions may negatively impact future valuations. In future measurements of fair value, adverse changes in discounted cash flow assumptions could result in an impairment of goodwill or intangible assets that would require a non-cash charge to the consolidated statements of operations and may have a material effect on our financial condition and operating results.

Acquisition related costs are not considered part of the consideration, and are expensed as operating expense as incurred. Contingent consideration, if any, is measured at fair value initially on the acquisition date as well as subsequently at the end of each reporting period until settlement at the end of the assessment period. The Company includes the results of operations of the businesses acquired as of the beginning of the acquisition dates.

Goodwill

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

The Company performs its annual goodwill impairment test on April 30 and conducts a qualitative assessment to determine whether it is necessary to perform a quantitative goodwill impairment test. In assessing the qualitative factors, the Company considers the impact of key factors such as changes in the general economic conditions including the impact of COVID-19, changes in industry and competitive environment, stock price, actual revenue performance compared to previous years, forecasts and cash flow generation. The Company had one reporting unit for purposes of allocating and testing goodwill for fiscal years 2020 and 2019. Based on the results of the qualitative assessment completed as of April 30, 2020 and 2019, there were no indicators of impairment.

Long-Lived Assets

The Company evaluates long-lived assets, such as property and equipment and purchased intangible assets with finite lives, for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If necessary, a quantitative test is performed that requires the application of judgment when assessing the fair value of an asset. When the Company identifies an impairment, it reduces the carrying amount of the asset to its estimated fair value based on a discounted cash flow approach or, when available and appropriate, to comparable market values. As of April 30, 2020 and 2019, the Company evaluated its long-lived assets and concluded there were no indicators of impairment. The weighted-average useful life of intangible assets was 5.8 years as of June 30, 2020.

Income Taxes

The Company accounts for income taxes using an asset and liability approach to record deferred taxes. The Company's deferred income tax assets represent temporary differences between the financial statement carrying amount and the tax basis of existing assets and liabilities that will result in deductible amounts in future years, including net loss carry forwards. Deferred tax assets and liabilities are measured using the currently enacted tax rates that apply to taxable income in effect for the years in which those tax assets and liabilities are expected to be realized or settled. Valuation allowances are provided when necessary to reduce deferred tax assets to the amount expected to be realized. The Company regularly assesses the realizability of our deferred tax assets. Significant judgment is required to determine whether a valuation allowance is necessary and the amount of such valuation allowance, if appropriate. The Company considers all available evidence, both positive and negative to determine, based on the weight of available evidence, whether it is more likely than not that some or all of the deferred tax assets will not be realized. In evaluating the need, or continued need, for a valuation allowance the Company considers, among other things, the nature, frequency and severity of current and cumulative taxable income or losses, forecasts of future profitability, and the duration of statutory carryforward periods. The Company's judgments regarding future profitability may change due to future market conditions including the impact of COVID-19, changes in U.S. or international tax laws and other factors.

The Company recognizes tax benefits from an uncertain tax position only if it is more likely than not, based on the technical merits of the position, that the tax position will be sustained on examination by the tax authorities. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Interest and penalties related to unrecognized tax benefits are recognized within income tax expense.

Foreign Currency Translation

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

Comprehensive Income

Comprehensive income consists of two components, net income and other comprehensive income. Other comprehensive income refers to revenue, expenses, gains, and losses that under GAAP are recorded as an element of stockholders' equity but are excluded from net income. The Company's comprehensive income and accumulated other comprehensive loss consists of foreign currency translation adjustments from those subsidiaries not using the U.S. dollar as their functional currency. Total accumulated other comprehensive loss is disclosed as a separate component of stockholders' equity.

Loss Contingencies

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

From time to time, the Company is involved in disputes, litigation and other legal actions. The Company records a charge equal to at least the minimum estimated liability for a loss contingency only when both of the following conditions are met: (i) information available prior to issuance of the financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements, and (ii) the range of loss can be reasonably estimated. The actual liability in any

such matters may be materially different from the Company's estimates, which could result in the need to adjust the liability and record additional expenses.

Stock-Based Compensation

The Company measures and records the expense related to stock-based transactions based on the fair values of stock-based payment awards, as determined on the date of grant. The fair value of restricted stock units with a service condition ("service-based RSU") is determined based on the closing price of the Company's common stock on the date of grant. To estimate the fair value of stock options, the Company selected the Black-Scholes option pricing model. The fair value of restricted stock units with a service and performance condition ("performance-based RSU") is determined based on the closing price of the Company's common stock on the date of grant. Grant date as defined by ASC 718 is determined when the components that comprise the performance targets have been fully established. If a grant date has not been established, the compensation expense associated with the performance-based RSUs is re-measured at each reporting date based on the closing price of our common stock at each reporting date until the grant date has been established. For restricted stock units with a service and market condition ("market-based RSU"), the Company selected the Monte Carlo simulation model to estimate the fair value on the date of grant. In applying these models, the Company's determination of the fair value of the award is affected by assumptions regarding a number of subjective variables. These variables include, but are not limited to, the Company's expected stock price volatility over the term of the award and the employees' actual and projected stock option exercise and pre-vesting employment termination behaviors.

The Company recognizes stock-based compensation expense for options and service-based RSUs using the straight-line method, and for performance-based RSUs and market-based RSUs using the graded vesting method, based on awards ultimately expected to vest. The Company estimates future forfeitures at the date of grant. On an annual basis, the Company assesses changes to its estimate of expected forfeitures based on recent forfeiture activity. The effect of adjustments made to the forfeiture rates, if any, is recognized in the period that change is made. See Note 14, *Stock Benefit Plans*, for additional information regarding stock-based compensation.

401(k) Savings Plan

The Company sponsors a 401(k) defined contribution plan covering all U.S. employees. There were no employer contributions under this plan in fiscal years 2020, 2019 or 2018.

Recent Accounting Pronouncements

Accounting Pronouncements Adopted

Leases. In February 2016, the Financial Accounting Standards Board (the "FASB") issued new accounting standard update on leases, which requires the recognition of lease liabilities and ROU assets on the consolidated balance sheets, while recognizing expenses on the consolidated income statements in a manner similar to legacy guidance. The Company adopted the new standard as of July 1, 2019 using the modified transition approach to all leases existing at the date of initial application and not restating comparative periods. The primary impact of adopting the new standard was the recognition of lease liabilities of $16.7 million and ROU assets of $13.1 million for operating leases in the first quarter of fiscal year 2020, which included reclassifying deferred rent as a component of the ROU assets. The Company's adoption of the new standard had no material impact on its consolidated statement of operations and cash flows.

The Company elected certain transition practical expedients, which allows the Company not to reassess (i) whether any expired or existing contracts as of the adoption date are or contain a lease, (ii) lease classification for any expired or existing leases as of the adoption date and (iii) initial direct costs for any existing leases as of the adoption date. In addition, the Company has elected not to recognize lease liabilities and ROU assets for short-term leases with terms of twelve months or less. See Note 11, *Leases,* for further information regarding the impact of adoption of the standard on the Company's consolidated financial statements.

Goodwill Impairment. In January 2017, the FASB issued a new accounting standard update to simplify the measurement of goodwill by eliminating the Step 2 impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. The new guidance requires an entity to compare the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The new guidance becomes effective for goodwill impairment tests in fiscal years beginning after December 31, 2019, with early adoption permitted. The

Company early adopted the new standard effective on July 1, 2019. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

Accounting Pronouncements Not Yet Adopted

Fair Value Measurements. In August 2018, the FASB issued a new accounting standard which eliminates, adds and modifies certain disclosure requirements for fair value measurement. The new guidance is effective for the Company in the first quarter of fiscal year 2021. Implementation on a prospective or retrospective basis varies by specific disclosure requirement. Early adoption is permitted. The standard also allows for early adoption of any removed or modified disclosures upon issuance of the new guidance while delaying adoption of the additional disclosures until their effective date. The Company is currently assessing the impact the new guidance will have on the financial statement disclosures.

Although there are several other new accounting pronouncements issued or proposed by the FASB, the Company does not believe any of these accounting pronouncements has had or will have a material impact on its consolidated financial position or operating results.

3. Revenue

Disaggregation of Revenue

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

	Fiscal Year Ended June 30,		
	2020	2019	2018
Net revenue:			
Financial services	$ 370,136	$ 330,384	$ 283,114
Education	61,212	68,473	77,261
Other	58,991	56,297	43,983
Total net revenue	$ 490,339	$ 455,154	$ 404,358

Contract Balances

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

	June 30,	
	2020	2019
Deferred revenue	$ 73	$ 761
Client deposits	700	661
Total	$ 773	$ 1,422

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. The changes in the liability balances during fiscal year 2020 related to advance consideration received from clients of $8.2 million, offset by revenue recognized of $7.9 million, and derecognition of deferred revenue of $0.9 million upon divestiture of the business-to-business technology ("B2B") client vertical. See Note 7, *Divestitures*, for more information.

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.

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

	Fiscal Year Ended June 30,		
	2020	2019	2018
	(In thousands, except per share data)		
Numerator:			
Basic and Diluted:			
Net income	$ 18,102	$ 62,480	$ 15,930
Denominator:			
Basic:			
Weighted-average shares of common stock used in computing basic net income per share	51,529	49,581	46,417
Diluted:			
Weighted average shares of common stock used in computing basic net income per share	51,529	49,581	46,417
Weighted average effect of dilutive securities:			
Stock options	1,054	1,724	1,334
Restricted stock units	804	1,449	2,121
Weighted average shares of common stock used in computing diluted net income per share	53,387	52,754	49,872
Net income per share:			
Basic	$ 0.35	$ 1.26	$ 0.34
Diluted	$ 0.34	$ 1.18	$ 0.32
Securities excluded from weighted-average shares used in computing diluted net income per share because the effect would have been anti-dilutive: (1)	1,104	118	1,129

(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

The following tables present the fair value of our financial instruments:

	June 30, 2020				June 30, 2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Money market funds	$ 1,668	$ —	$ —	$ 1,668	$ 11,206	$ —	$ —	$ 11,206
Total	$ 1,668	$ —	$ —	$ 1,668	$ 11,206	$ —	$ —	$ 11,206
Liabilities:								
Post-closing payments related to acquisitions	$ —	$ 9,045	$ —	$ 9,045	$ —	$ 16,259	$ —	$ 16,259
Contingent consideration related to acquisitions	—	—	3,170	3,170	—	—	5,058	5,058
Total	$ —	$ 9,045	$ 3,170	$ 12,215	$ —	$ 16,259	$ 5,058	$ 21,317
Reported as:								
Cash and cash equivalents				$ 1,668				$ 11,206
Other Liabilities:								
Current				$ 6,734				$ 8,967
Noncurrent				5,481				12,350
Total				$ 12,215				$ 21,317

There were no transfers between Level 1 and Level 2 during the periods presented.

Cash Equivalents

The valuation technique used to measure the fair value of money market funds included using quoted prices in active markets for identical assets.

Post-Closing Payments Related to Acquisitions

The post-closing payments are future payments related to the Company's acquisitions of AmOne Corp ("AmOne"), CloudControlMedia, LLC ("CCM") and MyBankTracker.com, LLC ("MBT"). As the fair value of the Company's post-closing payments was determined based on installments stipulated in the terms of the acquisition agreements and discount rates observable in the market, the post-closing payments are classified as Level 2 within the fair value hierarchy. See Note 6, *Acquisitions*, for further details related to the acquisitions.

Contingent Consideration Related to Acquisitions

The contingent consideration consists of estimated future payments related to the Company's acquisition of CCM and MBT. The fair value of the contingent consideration is determined using the real options technique which incorporates various estimates, including projected net revenue and gross margin that is subject to the contingent consideration payment, a volatility factor applied to net revenue and gross margin based on year-on-year growth in net revenue and gross margin of comparable companies and discount rates. As certain of these inputs are not observable in the market, the contingent consideration is classified as a Level 3 instrument. See Note 6, *Acquisitions*, for further details related to the acquisitions.

The following table represents the change in the contingent consideration (in thousands):

	Level 3
Balance as of June 30, 2018	$ —
Additions related to acquisitions (initial measurement)	5,058
Balance as of June 30, 2019	5,058
Change in fair value during the period	—
Payments made during the period	(1,888)
Balance as of June 30, 2020	$ 3,170

6. Acquisitions

Fiscal Year 2019 Acquisitions

AmOne Corp.

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 the 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 will make $8.0 million in post-closing payments, payable in cash in equal semi-annual installments over a two year period, with the first installment paid six months following the date of closing.

CloudControlMedia, LLC

On April 15, 2019, the Company completed the purchase of CCM, a marketing services company in the education client vertical, to broaden its customer relationships. In exchange for all the outstanding shares of CCM, the Company paid $8.3 million in cash upon closing (including $0.8 million cash for net assets acquired subject to post-closing adjustments) and will make a series of future payments following the acquisition date. The $7.5 million post-closing payments are payable in cash in equal semi-annual installments over a four year period, with the first installment paid six months following the date of closing. The contingent consideration is payable for five years following the date of closing and is calculated every June 30 and December 31 for the preceding six months.

MyBankTracker.com, LLC

On May 14, 2019, the Company completed the purchase of MBT, a leading personal finance website to broaden its customer relationships. In exchange for all the outstanding shares of MBT, the Company paid $4.5 million in cash upon closing (including $1.5 million cash for net assets acquired) and will make a series of future payments following the acquisition date. The $4.0 million post-closing payments are payable in cash in equal semi-annual installments over a two year period, with the first installment paid twelve months following the date of closing. The contingent consideration is calculated semi-annually for the preceding six months beginning on December 31, 2019 and ending on June 30, 2023. In the third quarter of fiscal year 2020, the Company reached an agreement with the seller and paid off the outstanding balance owed with respect to the contingent consideration.

The following table summarizes the total consideration for each acquisition as of the acquisition dates (in thousands):

	AmOne	CCM	MBT
Cash	$ 23,032	$ 8,281	$ 4,511
Post-closing adjustments for net assets acquired	138	(72)	—
Post-closing payments, net of imputed interest(1)	7,514	6,671	3,708
Contingent consideration	—	3,553	1,505
Total	$ 30,684	$ 18,433	$ 9,724

(1) The post-closing payment is net of imputed interest of $486 thousand for AmOne, $829 thousand for CCM and $292 thousand for MBT.

The acquisitions were accounted for as business combinations and the results of operations of the acquired businesses have been included in the Company's results of operations as of the acquisition date. The Company expensed all transaction costs in the period in which they were incurred. The Company allocated the purchase price to identifiable assets acquired based on their estimated fair values. The fair value of the consideration transferred and the assets acquired and liabilities assumed was determined by the Company and in doing so management engaged a third-party valuation specialist to assist with the measurement of the fair value of identifiable intangible assets and obligations related to post-closing payments and contingent consideration. The estimated fair value of the identifiable assets acquired and liabilities assumed in the relevant acquisition is based on management's best estimates. The fair value of the publisher and advertiser relationships was determined using the multi-period excess earnings income approach or cost approach. The fair value of trade names was determined using the relief-from-royalty method. The fair value of acquired technology was determined using the cost approach. 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 fair value of the contingent consideration was determined using the real options technique. See Note 5, *Fair Value Measurements,* for additional information regarding the valuation of the contingent consideration.

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

	AmOne	Estimated Useful Life	CCM	Estimated Useful Life	MBT	Estimated Useful Life
Customer/publisher/advertiser relationships	$ 21,300	7 years	$ 4,500	3-4 years	$ 3,400	3-12 years
Website/trade/domain names	900	15 years	300	5 years	1,100	15 years
Acquired technology and others	500	3 years	—	n/a	—	n/a
Net assets	2,838	n/a	2,071	n/a	1,671	n/a
Goodwill	5,146	Indefinite	11,562	Indefinite	3,553	Indefinite
Total	$ 30,684		$ 18,433		$ 9,724	

As of June 30, 2020, the Company has finalized the allocation of the purchase price to the assets acquired and liabilities assumed as of the acquisition date, upon completion of the measurement period for all the acquisitions completed in fiscal year 2019.

The unaudited pro forma financial information in the table below summarizes the combined results of operations for the Company and the acquired businesses as though these acquisitions occurred 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 acquisitions occurred as of the beginning of fiscal year 2018, nor is it necessarily indicative of the future results of operations of the combined Company.

	Fiscal Year Ended June 30,	
	2019	2018
	(In thousands)	
Net revenue	474,378	440,419
Net income	65,445	20,813

The pro forma financial information for fiscal year 2019 included the elimination of $0.4 million of nonrecurring acquisitiorcosts incurred by the Company that were directly related to the acquisitions.

Fiscal Year 2018 Acquisition

Katch, LLC

In November 2017, the Company acquired certain assets relating to the auto insurance, home insurance and mortgage verticals of Katch, LLC, ("Katch") an online performance marketing company, for $14.0 million in cash to broaden its customer and publisher relationships. The acquisition was accounted for as a business combination. The results of the acquired assets of Katch have been included in the Company's consolidated financial statements since the acquisition date. The Company allocated the purchase price to identifiable intangible assets acquired based on their estimated fair values. The excess of the purchase price over the aggregate fair value of the identifiable intangible 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 allocation of the purchase price and the estimated useful lives of the identifiable assets acquired as of thedate of the acquisition (in thousands):

	Estimated Fair Value	Estimated Useful Life
Customer/publisher/advertiser relationships	$ 4,200	4-7 years
Acquired technology and others	3,700	3 years
Goodwill	6,100	Indefinite
Total	$ 14,000	

The financial results of the acquisition of Katch were considered immaterial for purposes of pro forma financial disclosures.

7. Divestitures

Business-to-Business Technology Client Vertical

On February 14, 2020, as a result of the Company's decision to narrow its focus to its best performing businesses and market opportunities, the Company entered into an agreement with a third party to sell its B2B client vertical for a purchase price of $12.9 million. The purchase price consisted of $10.0 million in upfront cash consideration and $2.9 million in a secured promissory note, receivable in equal monthly installments over a 12 month period. The Company recognized a gain of $12.0 million within other income, net on the Company's consolidated statements of operations upon the divestiture of this business in the third quarter of fiscal year 2020.

Mortgage Business

On April 30, 2020, the Company entered into an agreement with a third party to sell its mortgage business for total cash consideration of $3.3 million. The Company recognized a gain of $2.8 million within other income, net on the Company's consolidated statements of operations upon the divestiture of this business in the fourth quarter of fiscal year 2020.

Other

In the third quarter of fiscal year 2020, the Company also completed the divestitures of its wholly owned subsidiaries, QuinStreet Brasil Online Marketing e Midia Ltda ("QSB"), and VEMM, LLC ("VEMM") along with its interests in Euro-Demand Do Brasil Serviços de Geração de Leads Ltda ("EDB"), for combined cash proceeds of $1.1 million; provided, however, the Company retained a minority equity interest in VEMM. The aggregate impact from these divestitures was not considered material to the Company.

8. Balance Sheet Components

Accounts Receivable, Net

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

	June 30,	
	2020	2019
Accounts receivable	$ 74,649	$ 85,926
Less: Allowance for doubtful accounts	(10,177)	(10,298)
Total	$ 64,472	$ 75,628

Prepaid Expenses and Other Assets

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

	June 30,	
	2020	2019
Prepaid expenses	$ 9,001	$ 3,504
Income tax receivable	3,798	1,043
Other assets	792	681
Total	$ 13,591	$ 5,228

In fiscal year 2016, the Company entered into a 10-year partnership agreement with a large online customer acquisition marketing company focused on the U.S. insurance industry to be its exclusive click monetization partner for the majority of its insurance categories. The agreement included a one-time upfront cash payment of $10.0 million. The payment is being amortized on a straight-line basis over the life of the contract and is assessed for impairment annually. As of June 30, 2020, the Company had recorded $5.3 million within prepaid expenses and other assets on the Company's consolidated balance sheet as the Company expected to receive payment for the residual balance within the next 12 months. As of June 30, 2019, the Company had recorded $1.0 million within prepaid expenses and other assets and $5.3 million within other assets, noncurrent on the Company's consolidated balance sheet. Amortization expense was $1.0 million, $1.0 million and $1.0 million for fiscal years 2020, 2019 and 2018.

Property and Equipment, Net

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

	June 30,	
	2020	2019
Computer equipment	$ 12,763	$ 12,328
Software	11,751	11,605
Furniture and fixtures	3,060	3,156
Leasehold improvements	2,842	2,838
Internal software development costs	36,993	35,941
Total property plant and equipment, gross	67,409	65,868
Less: Accumulated depreciation and amortization	(61,752)	(60,458)
Total property plant and equipment, net	$ 5,657	$ 5,410

Depreciation expense was $1.3 million, $1.1 million and $1.5 million for fiscal years 2020, 2019 and 2018. Amortization expense related to internal software development costs was $2.4 million, $2.3 million and $2.8 million for fiscal years 2020, 2019 and 2018.

Accrued liabilities

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

	June 30,	
	2020	2019
Accrued media costs	$ 31,948	$ 30,429
Accrued professional service and other business expenses	8,066	4,916
Accrued compensation and related expenses	2,257	1,533
Total	$ 42,271	$ 36,878

9. Intangible Assets, Net and Goodwill

Intangible Assets, Net

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

	June 30, 2020			June 30, 2019		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer/publisher/advertiser relationships	$ 61,324	$ (36,213)	$ 25,111	$ 70,300	$ (40,663)	$ 29,637
Content	55,430	(55,430)	—	60,964	(60,940)	24
Website/trade/domain names	23,059	(20,717)	2,342	33,546	(30,218)	3,328
Acquired technology and others	27,941	(27,220)	721	39,400	(37,271)	2,129
Total	$ 167,754	$ (139,580)	$ 28,174	$ 204,210	$ (169,092)	$ 35,118

Amortization of intangible assets was $7.8 million, $5.6 million and $3.5 million for fiscal years 2020, 2019 and 2018.

Future amortization expense for the Company's intangible assets as of June 30, 2020 was as follows (in thousands):

Fiscal Year Ending June 30,	Amortization
2021	$ 6,610
2022	5,509
2023	4,913
2024	4,016
2025	3,605
Thereafter	3,521
Total	$ 28,174

Goodwill

The changes in the carrying amount of goodwill for fiscal years 2020 and 2019 were as follows (in thousands):

	Goodwill
Balance at June 30, 2018	$ 62,283
Additions[1]	20,261
Balance at June 30, 2019	82,544
Additions[2]	1,100
Disposals[3]	(2,967)
Balance at June 30, 2020	$ 80,677

(1) Represents goodwill acquired associated with the business acquisitions completed in fiscal year 2019. See Note 6*Acquisitions*, for more information.
(2) Represents goodwill acquired associated with an insignificant business acquisition completed in the third quarter of fiscal year 2020
(3) Represents goodwill disposed associated with the business divestitures completed in fiscal year 2020. See Note 7*Divestitures*, for more information.

10. Income Taxes

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

	Fiscal Year Ended June 30,		
	2020	2019	2018
US	$ 17,824	$ 10,316	$ 17,218
Foreign	862	403	(714)
Total	$ 18,686	$ 10,719	$ 16,504

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

	Fiscal Year Ended June 30,		
	2020	2019	2018
Current:			
Federal	$ —	$ —	$ (2)
State	(3,110)	193	479
Foreign	218	255	210
Total current (benefit from) provision for income taxes	(2,892)	448	687
Deferred:			
Federal	2,504	(45,201)	(113)
State	972	(7,008)	—
Foreign	—	—	—
Total deferred provision for (benefit from) income taxes	3,476	(52,209)	(113)
Total provision for (benefit from) income taxes	$ 584	$ (51,761)	$ 574

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

	Fiscal Year Ended June 30,		
	2020	2019	2018
Federal tax rate	21.0%	21.0%	27.6%
States taxes, net of federal benefit	(11.4)%	(69.3)%	(1.4)%
Foreign rate differential	2.1%	0.3%	0.3%
Stock-based compensation expense	(8.7)%	(48.9)%	(20.8)%
Change in valuation allowance	(2.4)%	(397.8)%	(151.3)%
Research and development credits	(4.1)%	(8.5)%	(4.8)%
Federal tax rate change impact	—	—	146.3%
Disqualified compensation expense	5.3%	16.5%	5.7%
Uncertain tax position	1.8%	2.8%	1.4%
Business divestitures	(1.3)%	—	—
Other	0.8%	1.0%	0.5%
Effective income tax rate	3.1%	(482.9)%	3.5%

The benefit from state taxes, net of federal benefit, of 11.4% related to anexpected tax refund of $3.1 million to be received from the California Franchise Tax Board, based on a settlement reached in the third quarter of fiscal year 2020.

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

	June 30,	
	2020	2019
Noncurrent deferred tax assets:		
Reserves and accruals	$ 3,973	$ 3,695
Stock-based compensation expense	3,441	3,319
Intangible assets	8,620	18,085
Net operating loss	30,953	27,818
Fixed assets	59	47
Tax credits	8,852	7,474
Operating lease right-of-use assets	884	—
Other	237	57
Total noncurrent deferred tax assets	57,019	60,495
Valuation allowance - long-term	(7,523)	(8,346)
Noncurrent deferred tax assets, net	49,496	52,149
Noncurrent deferred tax liabilities:		
Operating lease liabilities	(823)	—
Noncurrent deferred tax liabilities	(823)	—
Total deferred tax assets, net	$ 48,673	$ 52,149

The Company recorded a valuation allowance against the majority of the Company's 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 in 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 released the valuation allowance for the majority of its federal and state deferred tax assets. The Company continues to maintain a valuation allowance related to its deferred tax assets for its foreign entity 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 that such deferred tax assets may not be realizable.

As of June 30, 2020 and 2019, the Company had a federal operating loss carryforward of approximately $120.8 million and $102.0 million. As of June 30, 2020 and 2019, the Company's state operating loss carryforward was approximately $72.6 million and $64.0 million. With the exception of $35.2 million of federal net operating losses which can be carried forward indefinitely, the federal and state net operating losses, if not used, will begin to expire on June 30, 2035 and June 30, 2037. The operating loss

carryforward in the India jurisdiction was approximately $5.5 million which will begin to expire onJune 30, 2021. The Company has federal and California research and development tax credit carry-forwards of approximately $5.1 million and $8.3 million to offset future taxable income. The federal research and development tax credits, if not used, will begin to expire on June 30, 2034, while the state tax credit carry-forwards do not have an expiration date and may be carried forward indefinitely.

On June 29, 2020, Governor Newsom signed into law Assembly Bill 85 ("AB 85"). Key provisions of this assembly bill include the suspension of net operating loss ("NOL") utilization for corporations with at least $1.0 million of net business income or modified adjusted gross income subject to the tax imposed under the California Revenue & Taxation Code. Suspended NOL will receive an extended carryover period for the amount that was disallowed. The AB 85 NOL suspension is effective for taxable years beginning on or after January 1, 2020, and before January 1, 2023. AB 85 also imposes a credit utilization limit of $5.0 million. This credit limit shall apply to the "total of all business credits otherwise allowable" including carryovers. Corporations filing combined returns are limited to $5.0 million for all taxpayers included in the combined report. There is no impact expected related to the passage of AB 85 on the Company as it is currently and has historically been generating net operating losses for tax.

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

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

	Fiscal Year Ended June 30,		
	2020	2019	2018
Balance at the beginning of the year	$ 3,727	$ 3,256	$ 2,838
Gross increases - current period tax positions	406	467	429
Gross increases - prior period tax positions	106	10	70
Gross decreases - prior period tax positions	—	—	—
Reductions as a result of lapsed statute of limitations	(3)	(6)	(81)
Balance at the end of the year	$ 4,236	$ 3,727	$ 3,256

The Company's policy is to include interest and penalties related to unrecognized tax benefits within the Company's (provision for) benefit from income taxes. As of June 30, 2020, the Company has accrued $1.3 million for interest and penalties related to the unrecognized tax benefits. The balance of interest and penalties is recorded as a noncurrent liability in the Company's consolidated balance sheet.

As of June 30, 2020, unrecognized tax benefits of $2.3 million, if recognized, would affect the Company's effective tax rate. The Company does not anticipate that the amount of existing unrecognized tax benefits will significantly increase or decrease within the next 12 months.

The Company files income tax returns in the United States, various U.S. states and certain foreign jurisdictions and is no longer subject to U.S. federal, state and local, or non-U.S., income tax examinations by tax authorities for years before 2013. As of June 30, 2020, the tax years 2014 through 2018 remain open in the U.S., the tax years 2013 through 2018 remain open in the various state jurisdictions, and the tax years 2015 through 2018 remain open in various foreign jurisdictions. The Company believes that adequate amounts have been reserved for any adjustments that may ultimately result from our open examinations.

On March 27, 2020, the "Coronavirus Aid, Relief and Economic Security (CARES) Act" was signed into law. The Act includes income tax provisions relating to net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations and technical corrections to tax depreciation methods for qualified improvement property. These provisions are not expected to have a material effect on the Company's consolidated financial statements.

11. Leases

The Company has operating leases primarily for its office facilities. The leases expire at various dates through fiscal year 2025, some of which include options to renew, with renewal terms of up to 5 years. The Company does not include any renewal options in the lease terms for calculating lease liability, as the renewal options allow the Company to maintain operational flexibility and the Company is not reasonably certain that it will exercise these renewal options at the time of the lease commencement.

The components of lease expense for fiscal year 2020 were as follows (in thousands):

	Fiscal Year Ended June 30, 2020
Operating lease expense	$ 3,940
Short-term lease expense	1,119
Variable lease expense (1)	580
Total lease expense	$ 5,639

(1) Variable lease expense for fiscal year 2020 primarily included common area maintenance charges.

Rent expense for fiscal years 2019 and 2018 was $3.9 million and $3.4 million, which was recognized using the straight-line method over the term of a lease in accordance with the previous lease accounting standard.

Supplemental information related to operating leases was as follows (in thousands, except lease term and discount rate):

	Fiscal Year Ended June 30, 2020
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows used for operating leases	$ 3,675
Lease liabilities arising from obtaining right-of-use assets	
Operating leases	$ 423
Weighted average remaining lease term - operating leases	3.2 years
Weighted average discount rate - operating leases	4.6%

The implicit rate within each lease is not readily determinable and therefore the Company uses its incremental borrowing rate at the lease commencement date to determine the present value of the lease payments. The determination of the incremental borrowing rate requires judgement. The Company determined its incremental borrowing rate for each lease using indicative bank borrowing rates, adjusted for various factors including level of collateralization, term and currency to align with the terms of a lease.

Maturities of operating lease liabilities as of June 30, 2020 were as follows (in thousands):

Fiscal Year Ending June 30,	Amount
2021	$ 4,492
2022	4,322
2023	3,884
2024	1,789
2025	18
Total minimum lease payments	$ 14,505
Less imputed interest	(1,600)
Present value of net minimum lease payments	$ 12,905
Operating lease liabilities:	
Current	4,213
Noncurrent	8,692
Total	$ 12,905

Total future principal contractual obligations for operating lease commitments exceeded the undiscounted lease liability by $0.2 million as of June 30, 2020, primarily because the lease liability excluded short-term lease payments (due to the adoption of the short-term lease exemption).

As disclosed in the Company's fiscal year 2019 Annual Report on Form 10-K and under the previous lease accounting standard, the future annual minimum lease payments under noncancelable operating leases as of June 30, 2019 were as follows (in thousands):

Fiscal Year Ending June 30,	Operating Leases
2020	$ 3,529
2021	4,263
2022	4,234
2023	3,801
2024	1,312
Thereafter	176
Total	$ 17,315

12. Commitments and Contingencies

Guarantor Arrangements

The Company has agreements whereby it indemnifies its officers and directors for certain events or occurrences while the officer or director is, or was, serving at the Company's request in such capacity. The term of the indemnification period is for the officer or director's lifetime. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, the Company has a director and officer insurance policy that limits its exposure and enables the Company to recover a portion of any future amounts under certain circumstances and subject to deductibles and exclusions. As a result of its insurance policy coverage, the Company believes the estimated fair value of these indemnification agreements is not material. Accordingly, the Company had no liabilities recorded for these agreements as of June 30, 2020 and June 30, 2019.

In the ordinary course of its business, the Company from time to time enters into standard indemnification provisions in its agreements with its clients. Pursuant to these provisions, the Company may be obligated to indemnify its clients for certain losses suffered or incurred, including losses arising from violations of applicable law by the Company or by its third-party publishers, losses arising from actions or omissions of the Company or its third-party publishers, and for third-party claims that a Company product infringed upon any United States patent, copyright, or other intellectual property rights. Where practicable, the Company limits its liabilities under such indemnities. Subject to these limitations, the term of such indemnification provisions is generally coterminous with the corresponding agreements and survives for the duration of the applicable statute of limitations after termination of the agreement. The potential amount of future payments to defend lawsuits or settle indemnified claims under these indemnification provisions is generally limited and the Company believes the estimated fair value of these indemnity provisions is not material. Accordingly, the Company had no liabilities recorded for these agreements as of June 30, 2020 and June 30, 2019.

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.

13. 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, in fiscal year 2018, 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 fiscal years 2020 and 2019. During fiscal year 2018, 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. As of June 30, 2020, the number of shares that remains available for repurchase is 903,636 shares.

Retirement of Treasury Stock

There were no shares that were retired in fiscal years 2020 and 2019. In fiscal year 2018, the Company retired 93,341 shares of its common stock with a carrying value of $0.6 million. 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.

14. Stock Benefit Plans

Stock-Based Compensation

In fiscal years 2020, 2019 and 2018, the Company recorded stock-based compensation expense of $16.7 million, $14.1 million and $10.2 million. In fiscal years 2020 and 2019, the Company recognized tax benefits related to stock-based compensation of $1.6 million and $5.2 million, which are reflected in the Company's (provision for) benefit from income taxes. There were no tax benefits realized in fiscal year 2018 due to the Company's full valuation allowance.

Stock Incentive Plans

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

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

Prior to fiscal year 2016, the Company granted service-based RSUs. In fiscal year 2016, the Company also began granting market-based RSUs that requires 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 performance-based RSUs that vest variably subject to the achievement of performance targets, consisting of both 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 the 2010 Incentive Plan. ISOs and NQSOs are generally granted to employees with an exercise price equal to the market price of the Company's common stock at the date of grant. Stock options granted to employees generally have a contractual term of seven years and vest over four years of continuous service, with 25 percent of the stock options vesting on the one-year anniversary of the date of grant and the remaining 75 percent vesting in equal monthly installments over the three year period thereafter. RSUs generally vest over four years of continuous service, with 25 percent of the RSUs vesting on the one-year anniversary of the date of grant and 6.25% vesting quarterly thereafter for the next 12 quarters, subject to any performance or stock price targets.

An aggregate of 23,125,612 shares of the Company's common stock were reserved for issuance under the 2010 Incentive Plan as of June 30, 2020, and this amount will be increased by any outstanding stock awards that expire or terminate for any reason prior to their exercise or settlement. The number of shares of the Company's common stock reserved for issuance was increased annually through July 1, 2019 by up to five percent of the total number of shares of the Company's common stock outstanding on the last day of the preceding fiscal year. The maximum number of shares that may be issued under the 2010 Incentive Plan is 30,000,000. There were 15,841,496 shares available for issuance under the 2010 Incentive Plan as of June 30, 2020.

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

An aggregate of 4,598,838 shares of the Company's common stock were reserved for issuance under the Directors' Plan as of June 30, 2020. This amount was increased annually through July 1, 2019, by the sum of 200,000 shares and the aggregate number of shares of the Company's common stock subject to awards granted under the Directors' Plan during the immediately preceding fiscal year. There were 2,481,050 shares available for issuance under the Directors' Plan as of June 30, 2020.

Valuation Assumptions

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

The weighted-average Black-Scholes model assumptions and the weighted-average grant date fair value of stock options in fiscal years 2020, 2019 and 2018 were as follows:

	Fiscal Year Ended June 30,		
	2020	**2019**	**2018**
Expected term (in years)	4.3	4.4	4.6
Expected volatility	58%	56%	48%
Expected dividend yield	—	—	—
Risk-free interest rate	1.4%	2.5%	1.9%
Grant date fair value	$ 5.30	$ 6.86	$ 2.09

There were no market-based RSU grants during fiscal years 2020 and 2019. The weighted-average Monte Carlo simulation model assumptions in fiscal year 2018 were as follows:

	Fiscal Year Ended June 30, 2018
Expected term (in years)	4.0
Expected volatility	50%
Expected dividend yield	—
Risk-free interest rate	2.4%
Grant date fair value	$ 7.66

Stock Option Award Activity

The following table summarizes the stock option award activity under the plans in fiscal years 2020 and 2019:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding at June 30, 2018	3,513,963	$ 5.65	4.18	$ 24,989
Granted	81,029	14.52		
Exercised	(1,147,124)	6.71		
Forfeited	(28,349)	4.64		
Expired	(7,797)	11.17		
Outstanding at June 30, 2019	2,411,722	$ 5.44	3.64	$ 25,123
Granted	39,010	11.42		
Exercised	(777,854)	5.76		
Forfeited	(68,750)	9.17		
Expired	(7,275)	10.01		
Outstanding at June 30, 2020	1,596,853	$ 5.25	3.18	$ 8,892
Vested and expected-to-vest at June 30, 2020 (1)	1,582,998	$ 5.23	3.17	$ 8,841
Vested and exercisable at June 30, 2020	1,257,570	$ 5.08	2.92	$ 7,213

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

The following table summarizes outstanding and exercisable stock options by range of exercise price as of June 30, 2020:

	Options Outstanding			Options Exercisable	
Range or Exercise Prices	Number of Shares	Weighted Average Remaining Contractual Term	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
$3.40 - $3.40	50,000	3.59	$ 3.40	41,666	$ 3.40
$3.59 - $3.59	354,167	3.42	$ 3.59	306,771	$ 3.59
$3.63 - $3.63	326,149	3.08	$ 3.63	303,544	$ 3.63
$3.91 - $3.91	75,000	1.34	$ 3.91	75,000	$ 3.91
$4.01 - $4.01	313,770	3.95	$ 4.01	155,956	$ 4.01
$4.31 - $5.65	165,066	1.90	$ 4.90	154,649	$ 4.93
$5.80 - $9.55	160,419	3.08	$ 7.69	116,668	$ 7.16
$10.75 - $15.64	145,294	3.45	$ 14.10	99,309	$ 14.76
$15.72 - $15.72	2,389	5.87	$ 15.72	2,389	$ 15.72
$18.35 - $18.35	4,599	5.57	$ 18.35	1,618	$ 18.35
$3.40 - $18.35	1,596,853	3.18	$ 5.25	1,257,570	$ 5.08

The following table summarizes the total intrinsic value, the cash received and the actual tax benefit of all options exercised in fiscal years 2020, 2019 and 2018 (in thousands):

	Fiscal Year Ended June 30,		
	2020	2019	2018
Intrinsic value	$ 6,145	$ 9,749	$ 6,440
Cash received	4,480	7,702	11,115
Tax benefit	894	1,399	—

As of June 30, 2020, there was $0.8 million of total unrecognized compensation expense related to unvested stock options which are expected to be recognized over a weighted-average period of 1.2 years.

Service-Based Restricted Stock Unit Activity

The following table summarizes the service-based RSU activity under the plans in fiscal years 2020 and 2019:

	Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Life (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding at June 30, 2018	2,667,527	$ 4.33	0.86	$ 33,878
Granted	1,042,354	13.96		
Vested	(1,638,840)	4.35		
Forfeited	(69,035)	8.68		
Outstanding at June 30, 2019	2,002,006	$ 9.06	1.10	$ 31,732
Granted	959,740	15.57		
Vested	(1,018,624)	8.66		
Forfeited	(146,366)	12.86		
Outstanding at June 30, 2020	1,796,756	$ 12.37	1.11	$ 18,794

As of June 30, 2020, there was $15.5 million of total unrecognized compensation expense related to service-based RSUs.

Market-Based Restricted Stock Unit Activity

The following table summarizes the market-based RSU activity under the 2010 Incentive Plan in fiscal years 2020 and 2019:

	Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Life (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding at June 30, 2018	498,268	$ 4.89	0.96	$ 6,328
Granted	—	—		
Vested	(273,941)	4.86		
Forfeited	(28,229)	4.61		
Outstanding at June 30, 2019	196,098	$ 5.00	0.68	$ 3,108
Granted	—	—		
Vested	(107,743)	4.48		
Forfeited	(15,387)	7.36		
Outstanding at June 30, 2020	72,968	$ 5.61	0.52	$ 763

As of June 30, 2020, the total unrecognized compensation expense related to market-based RSUs was immaterial.

Performance-Based Restricted Stock Unit Activity

The following table summarizes the performance-based RSU activity under the 2010 Incentive Plan in fiscal years 2020 and 2019:

	Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Life (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding at June 30, 2018	—	$ —	—	$ —
Granted	742,547	15.85		
Vested	—	—		
Forfeited	(25,935)	15.85		
Outstanding at June 30, 2019	716,612	$ 15.85	1.36	$ 11,358
Granted	752,671	10.46		
Vested	(290,929)	16.25		
Forfeited	(80,712)	13.89		
Outstanding at June 30, 2020	1,097,642	$ 12.37	1.30	$ 11,481

As of June 30, 2020, there was $4.8 million of total unrecognized compensation expense related to performance-based RSUs.

At the time of vesting, a portion of RSUs are withheld by the Company to provide for federal and state tax withholding obligations resulting from the release of the RSUs.

15. 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):

	Fiscal Year Ended June 30,		
	2020	2019	2018
Net revenue:			
United States	$ 475,208	$ 445,957	$ 395,880
International	15,131	9,197	8,478
Total net revenue	$ 490,339	$ 455,154	$ 404,358

	June 30,	
	2020	2019
Property and equipment, net:		
United States	$ 5,477	$ 5,149
International	180	261
Total property and equipment, net	$ 5,657	$ 5,410

	June 30,	
	2020	2019
Other intangible assets, net:		
United States	$ 28,174	$ 35,044
International	—	74
Total other intangible assets, net	$ 28,174	$ 35,118

16. Subsequent Events

On July 1, 2020, the Company completed the acquisition of Modernize, Inc. ("Modernize"), a leading home improvement performance marketing company in the home services client vertical, to broaden its customer and media relationships. In exchange for all the outstanding shares of Modernize, the Company paid $43.9 million in cash upon closing (including $3.9 million cash for net assets acquired subject to post-closing adjustments) and will make $27.5 million in post-closing payments, payable in cash in equal annual installments over a five year period. The Company expects to account for this transaction as a business combination. The initial accounting, including the identification and allocation of consideration to assets acquired and liabilities assumed, is not complete given the proximity of the acquisition to the financial statement filing date.

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

Item 9A. ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2020. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "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 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 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 June 30, 2020, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosures and procedures were effective at the reasonable assurance level.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of its assets,
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of our management and directors, and
- provide reasonable assurance regarding prevention or timely detection of any unauthorized acquisition, use or disposition of our assets that could have a material effect on the consolidated financial statements.

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

Our management has assessed the effectiveness of the internal control over financial reporting as of June 30, 2020. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control — Integrated Framework (2013 Framework). Based on this evaluation, our management has concluded that our internal control over financial reporting was effective as of June 30, 2020.

The effectiveness of our internal control over financial reporting as of June 30, 2020 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears in this annual report on Form 10-K.

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 Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the three months ended June 30, 2020 that has materially

affected, or is reasonably likely to materially affect, our internal control over financial reporting.We have not experienced any material impact to our internal controls over financial reporting despite the fact that our employees are working remotely due to the COVID-19 pandemic. We are continually monitoring and assessing the COVID-19 situation to determine any potential impacts on the design and operating effectiveness of our internal controls over financial reporting.

Item 9B. ***Other Information***

None.

PART III

Item 10. *Directors, Executive Officers and Corporate Governance*

The information required by this item concerning directors and executive officers is incorporated herein by reference from the sections to be titled "Election of Class III Directors," "Board of Directors" and "Directors and Executive Officers" in our definitive proxy statement to be filed with the Securities and Exchange Commission in connection with our 2020 annual meeting of stockholders (the "Proxy Statement"). The Proxy Statement is expected to be filed no later than 120 days after the end of our fiscal year ended June 30, 2020.

The information required by this item with respect to Section 16(a) of the Exchange Act is incorporated herein by reference from the section to be titled "Section 16(a) Beneficial Ownership Reporting Compliance" in our Proxy Statement.

Code of Ethics

We have adopted a Code of Conduct and Ethics that applies to all of our employees, officers (including our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions), agents and representatives, including directors and consultants. We will make any required disclosure of future amendments to our Code of Conduct and Ethics, or waivers of such provisions, applicable to any principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions or our directors on the investor relations page of our corporate website *(www.quinstreet.com).*

Item 11. *Executive Compensation*

The information required by this item will be set forth in the sections to be titled "Report of the Compensation Committee," "Board of Directors" and "Executive Compensation" in our Proxy Statement and is incorporated herein by reference.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

The information required by this item will be set forth in the sections to be titled "Executive Compensation" and "Stock Ownership of Certain Beneficial Owners and Management" in our Proxy Statement and is incorporated herein by reference.

Item 13. *Certain Relationships and Related Transactions, and Director Independence*

The information required by this item will be included in the section to be titled "Stock Ownership of Certain Beneficial Owners and Management" and "Board of Directors" in the Proxy Statement and is incorporated herein by reference.

Item 14. *Principal Accountant Fees and Services*

The information required by this item will be set forth in the section to be titled "Ratification of the Selection of PricewaterhouseCoopers LLP as our Independent Registered Public Accounting Firm" in our Proxy Statement and is incorporated herein by reference.

PART IV

Item 15. ***Exhibits, Financial Statement Schedules***

(a) We have filed the following documents as part of this Annual Report on Form 10-K:

1. Consolidated Financial Statements

	Page
Report of Independent Registered Public Accounting Firm	52
Consolidated Balance Sheets	54
Consolidated Statements of Operations	55
Consolidated Statements of Comprehensive Income	56
Consolidated Statements of Stockholders' Equity	57
Consolidated Statements of Cash Flows	58
Notes to Consolidated Financial Statements	59

2. Financial Statement Schedules

The following financial statement schedule is filed as a part of this report:

Schedule II: Valuation and Qualifying Accounts

The activity in the allowance for doubtful accounts and the deferred tax asset valuation allowance are as follows (in thousands):

	Balance at the beginning of the year	Charged to expenses/against revenue (1)	Write-offs net of recoveries	Balance at the end of the year
Allowance for doubtful accounts				
Fiscal year 2018	$ 1,950	$ 525	$ (650)	$ 1,825
Fiscal year 2019 (2)	$ 1,625	$ 9,342	$ (669)	$ 10,298
Fiscal year 2020	$ 10,298	$ 630	$ (751)	$ 10,177
Deferred tax asset valuation allowance				
Fiscal year 2018	$ 81,964	$ (24,767)	$ —	$ 57,197
Fiscal year 2019	$ 57,197	$ 571	$ (49,422)	$ 8,346
Fiscal year 2020	$ 8,346	$ (784)	$ (39)	$ 7,523

(1) Additions to the allowance for doubtful accounts and the valuation allowance are charged to expense. Additions to the allowance for sales returns are charged against revenue.

(2) In fiscal year 2019, the Company adopted ASC 606 which requires allowance for sales returns to be classified as a liability. Accordingly, the balance as of July 1, 2018 excludes an allowance for sales returns of $0.2 million.

All other schedules are omitted because they are not required or the required information is shown in the financial statements or notes thereto.

(b) Exhibits

Exhibit Number	Description of Exhibit	Form	File Number	Exhibit	Filing Date

2.1	Stock Purchase Agreement, dated November 5, 2010, by and among QuinStreet, Inc., Car Insurance.com, Inc., Car Insurance Agency, Inc., Car Insurance Holdings, Inc., CarInsurance.com, Inc., Lloyd Register IV, Lloyd Register III, David Fitzgerald, Timothy Register, Randy Horowitz and Erick Pace.	8-K	001-34628	2.1	November 8, 2010
3.1	Amended and Restated Certificate of Incorporation.	S-1/A	333-163228	3.2	December 22, 2009
3.2	Bylaws.	S-1/A	333-163228	3.4	December 22, 2009
4.1	Form of QuinStreet, Inc.'s Common Stock Certificate.	S-1/A	333-163228	4.1	January 14, 2010
10.1+	QuinStreet, Inc. 2008 Equity Incentive Plan.	S-1	333-163228	10.1	November 19, 2009
10.2+	Forms of Option Agreement and Option Grant Notice under 2008 Equity Incentive Plan (for non-executive officer employees).	S-1	333-163228	10.2	November 19, 2009
10.3+	Forms of Option Agreement and Option Grant Notice under 2008 Equity Incentive Plan (for executive officers).	S-1	333-163228	10.3	November 19, 2009
10.4+	Forms of Option Agreement and Option Grant Notice under 2008 Equity Incentive Plan (for non-employee directors).	S-1	333-163228	10.4	November 19, 2009
10.5+	QuinStreet, Inc. 2010 Equity Incentive Plan.	S-8	333-165534	99.9	March 17, 2010
10.6+	Forms of Option Agreement and Option Grant Notice under 2010 Equity Incentive Plan (for non-executive officer employees).	S-8	333-165534	99.10	March 17, 2010
10.7+	Forms of Option Agreement and Option Grant Notice under 2010 Equity Incentive Plan (for executive officers).	S-8	333-165534	99.11	March 17, 2010
10.8+	Forms of Senior Management Restricted Stock Unit (RSU) Grant Notice and Agreement under 2010 Equity Incentive Plan (for executive officers).	10-K	001-34628	10.8	August 23, 2012
10.9+	Forms of Restricted Stock Unit (RSU) Grant Notice and Agreement under 2010 Equity Incentive Plan (for non-executive officer employees).	10-K	001-34628	10.9	August 23, 2012
10.10+	Form of Restricted Stock Unit Agreement under 2010 Equity Incentive Plan (for non-employee directors).	10-K	001-34628	10.10	August 20, 2013
10.11+	QuinStreet, Inc. 2010 Non-Employee Directors' Stock Award Plan.	S-8	333-165534	99.12	March 17, 2010
10.12+	Forms of Option Agreement and Option Grant Notice for Initial Grants under the 2010 Non-Employee Directors' Stock Award Plan.	S-8	333-165534	99.13	March 17, 2010
10.13+	Forms of Option Agreement and Option Grant Notice for Annual Grants under the 2010 Non-Employee Directors' Stock Award Plan.	S-8	333-165534	99.14	March 17, 2010
10.15+	Annual Incentive Plan.	S-1/A	333-163228	10.12	January 14, 2010
10.16	Second Amended and Restated Revolving Credit and Term Loan Agreement, by and among QuinStreet, Inc., the lenders thereto and Comerica Bank as Administrative Agent Sole Lead Arranger and Sole Bookrunner, Bank of America N.A. as Syndication Agent, and Union Bank, N.A. as Documentation Agent dated as of November 4, 2011.	10-Q	001-34628	10.1	November 8, 2011

10.17	First Amendment to Second Amended and Restated Revolving Credit and Term Loan Agreement and Amendment to Guaranty dated as of February 15, 2013.	10-Q	001-34628	10.1	February 15, 2013
10.18	Office Lease Metro Center, dated as of February 25, 2010, between the registrant and CA-Metro Center Limited Partnership.	10-Q	001-34628	10.1	May 12, 2010
10.19+	Form of Indemnification Agreement made by and between QuinStreet, Inc. and each of its directors and executive officers.	S-1/A	333-163228	10.19	January 26, 2010
10.20	Assurance of Voluntary Compliance dated June 26, 2012 by and among QuinStreet, Inc. and the Attorneys General of the States of Alabama, Arizona, Arkansas, Delaware, Florida, Idaho, Illinois, Iowa, Kentucky, Massachusetts, Mississippi, Missouri, Nevada, New York, North Carolina, Ohio, Oregon, South Carolina, Tennessee and West Virginia.	8-K	001-34628	10.1	June 27, 2012
10.21	License and Investment Agreement by and among QuinStreet, Inc., Bronwyn Syiek and TownB Corporation dated August 23, 2012.	10-K	001-34628	10.19	August 23, 2012
10.23	Transition Agreement dated September 18, 2013 between the Company and Scott Mackley.	8-K	001-34628	10.1	September 19, 2013
10.24	Transition Agreement dated September 18, 2013 between the Company and Bronwyn Syiek.	8-K	001-34628	10.2	September 19, 2013
10.26	Second Amendment to the Second Amended and Restated Revolving Credit and Term Loan Agreement, as amended from time to time, dated as of July 17, 2014, by and among QuinStreet, Inc., Comerica Bank, as administrative agent, and certain lenders party thereto.	8-K	001-34628	10.1	July 22, 2014
10.27+	Forms of Senior Management Performance-Based Restricted Stock Unit (RSU) Grant Notice and Agreement under 2010 Equity Incentive Plan (for executive officers).	10-K	001-34628	10.27	September 12, 2014
10.28+	Form of Deferred Restricted Stock Unit Agreement under 2010 Non-Employee Directors' Stock Award Plan.	10-Q	001-34628	10.1	February 6, 2015
10.29	Third Amendment, to the Second Amended and Restated Revolving Credit and Term Loan Agreement, as amended from time to time, dated as of June 11, 2015, by and among QuinStreet, Inc., Comerica Bank, as administrative agent, and certain lenders party thereto.	8-K	001-34628	10.1	June 12, 2015
10.30+	Forms of Performance-Based Restricted Stock Unit (RSU) Grant Notice and Agreement under 2010 Equity Incentive Plan (for non-executive officer employees).	10-K	001-34628	10.30	August 19, 2015
10.31	Counselor Agreement dated December 31, 2015 between the Company and William Bradley.	10-Q	001-34628	10.1	February 9, 2016
10.32	Form of Change in Control Severance Agreement.	10-Q	001-34628	10.1	November 9, 2016
10.33+	Forms of Restricted Stock Unit (RSU) Grant Notice and Agreement under 2010 Equity Incentive Plan (for employees with a Change in Control Severance Agreement).	10-K	001-34628	10.33	September 8, 2017
10.34+	Forms of Option Agreement and Option Grant Notice under 2010 Equity Incentive Plan (for employees with a Change in Control Severance Agreement).	10-K	001-34628	10.34	September 8, 2017

10.35	Amended Office Lease Metro Center, dated February 25, 2010 between the registrant and CA-Metro Center Limited Partnership	10-K	001-34628	10.35	September 12, 2018
10.36#	Share Purchase Agreement between QuinStreet, Inc., AmOne Corp., and Rod Romero dated October 1, 2018.	8-K	001-34628	2.1	October 5, 2018
10.37+	Forms of Performance-Based Restricted Stock Unit (RSU) Grant Notice and Agreement under 2010 Equity Incentive Plan with Revenue and Adjusted EBITDA Performance Metrics (for non-executive officer employees).	10-Q	001-34628	10.36	November 9, 2018
10.38+	Forms of Performance-Based Restricted Stock Unit (RSU) Grant Notice and Agreement under 2010 Equity Incentive Plan with Revenue and Adjusted EBITDA Performance Metrics (for executive officer).	10-Q	001-34628	10.37	November 9, 2018
10.39+	Forms of Performance-Based Restricted Stock Unit (RSU) Grant Notice and Agreement under 2010 Equity Incentive Plan with Revenue and Adjusted EBITDA Performance Metrics (for employees with a Change in Control Severance Agreement).	10-Q	001-34628	10.38	November 9, 2018
23.1*	Consent of Independent Registered Public Accounting Firm.				
24.1*	Power of Attorney (incorporated by reference to the signature page of this Annual Report on Form 10-K).				
31.1*	Certification of the Chief Executive Officer of QuinStreet, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act.				
31.2*	Certification of the Chief Financial Officer of QuinStreet, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act.				
32.1**	Section 1350 Certifications of Chief Executive Officer and Chief Financial Officer.				
101.INS*	Inline XBRL Instance Document - the instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.				
101.SCH*	Inline XBRL Taxonomy Extension Schema Document				
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document				
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document				
101. LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document				
101. PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document				
104*	Cover Page Interactive Data File (formatted as iXBRL and contained in Exhibit 101).				

* Filed herewith.

** Furnished herewith.

\+ Indicates management contract or compensatory plan.

\# The schedules to this exhibit have been omitted pursuant to Item 601(b)(2) of Regulation S-K. QuinStreet, Inc. will furnish copies of such schedules to the SEC upon its request; provided, however, that QuinStreet, Inc. may request confidential treatment pursuant to Rule 24b-2 of the Exchange Act for any schedule so furnished.

Item 16. ***Form 10-K Summary***

None**.**

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, on August 28, 2020.

QuinStreet, Inc.

By: /s/ Douglas Valenti
Douglas Valenti
Chairman and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Douglas Valenti and Gregory Wong, and each of them, as his true and lawful attorneys-in-fact and agents, with full power of substitution and re-substitution, for him in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission hereby ratifying and confirming that each of said attorneys-in-fact and agents, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Douglas Valenti Douglas Valenti	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	August 28, 2020
/s/ Gregory Wong Gregory Wong	Chief Financial Officer (Principal Financial and Accounting Officer)	August 28, 2020
/s/ Matthew Glickman Matthew Glickman	Director	August 28, 2020
/s/ Stuart Huizinga Stuart Huizinga	Director	August 28, 2020
/s/ Robin Josephs Robin Josephs	Director	August 28, 2020
/s/ David Pauldine David Pauldine	Director	August 28, 2020
/s/ Gregory Sands Gregory Sands	Director	August 28, 2020
/s/ Andrew Sheehan Andrew Sheehan	Director	August 28, 2020
/s/ James Simons James Simons	Director	August 28, 2020

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-233532, 333-227296, 333-220397, 333-213220, 333-206472, 333-198714, 333-190735, 333-183517, 333-176272, 333-168322, 333-165534) of QuinStreet, Inc. of our report dated August 28, 2020 relating to the financial statements and financial statement schedules and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
San Jose, California
August 28, 2020

Exhibit 31.1

CERTIFICATION PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT

I, Douglas Valenti, certify that:

1. I have reviewed this annual report on Form 10-K of QuinStreet, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the company's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 28, 2020

/s/ Douglas Valenti
Douglas Valenti
Chairman and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT

I, Gregory Wong, certify that:

1. I have reviewed this annual report on Form 10-K of QuinStreet, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the company's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 28, 2020

/s/ Gregory Wong
Gregory Wong
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 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

The certification set forth below is being submitted in connection with the report on Form 10-K of QuinStreet, Inc. (the "Report") for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code.

Douglas Valenti, the Chief Executive Officer and Gregory Wong, the Chief Financial Officer of QuinStreet, Inc., each certifies that, to the best of his knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of QuinStreet, Inc.

Date: August 28, 2020

/s/ Douglas Valenti
Name: Douglas Valenti
Chairman and Chief Executive Officer
(Principal Executive Officer)

/s/ Gregory Wong
Name: Gregory Wong
Chief Financial Officer
(Principal Financial and Accounting Officer)