

QUINSTREET, INC
Form 10-Q
May 06, 2011

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

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

For the quarterly period ended March 31, 2011

or

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

For the transition period from _____ to _____

Commission File No. 001-34628

QuinStreet, Inc.

(Exact Name of Registrant as Specified in Its Charter)

**Delaware
(State or Other Jurisdiction of
Incorporation or Organization)**

**77-0512121
(IRS Employer
Identification No.)**

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

**94404
(Zip Code)**

650-578-7700

Registrant's Telephone Number, Including Area Code

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

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

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

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting
company ☐

(Do not check if a smaller
reporting company)

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

Number of shares of common stock outstanding as of April 29, 2011: 46,931,647

QUINSTREET, INC.
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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****QUINSTREET, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands, except share and per share data)****(Unaudited)**

	March 31, 2011	June 30, 2010
Assets		
Current assets		
Cash and cash equivalents	\$ 124,684	\$ 155,770
Marketable securities	25,420	
Accounts receivable, net	52,704	51,466
Deferred tax assets	8,526	8,528
Prepaid expenses and other assets	7,775	3,123
Total current assets	219,109	218,887
Property and equipment, net	9,195	5,419
Goodwill	211,710	158,582
Other intangible assets, net	71,366	47,156
Deferred tax assets, noncurrent	3,972	3,972
Other assets, noncurrent	487	614
Total assets	\$ 515,839	\$ 434,630
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 23,535	\$ 16,776
Accrued liabilities	34,397	30,144
Deferred revenue	2,371	1,241
Debt	11,080	15,562
Total current liabilities	71,383	63,723
Deferred revenue, noncurrent	122	305
Debt, noncurrent	100,010	78,046
Other liabilities, noncurrent	3,457	2,534
Total liabilities	174,972	144,608
Commitments and contingencies (See Note 8)		
Stockholders' equity		
Common stock: \$0.001 par value; 100,000,000 shares authorized; 49,085,803 and 47,247,147 shares issued, and 46,908,351 and 45,069,695 shares outstanding at	49	47

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March 31, 2011 and June 30, 2010, respectively

Additional paid-in capital	247,692	217,581
Treasury stock, at cost (2,177,452 shares at March 31, 2011 and June 30, 2010)	(7,779)	(7,779)
Accumulated other comprehensive (loss) income	(27)	9
Retained earnings	100,932	80,164
Total stockholders' equity	340,867	290,022
Total liabilities and stockholders' equity	\$ 515,839	\$ 434,630

See notes to condensed consolidated financial statements

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2011	2010	2011	2010
Net revenue	\$ 107,705	\$ 90,773	\$ 308,903	\$ 246,288
Cost of revenue ⁽¹⁾	78,578	66,268	222,869	177,872
Gross profit	29,127	24,505	86,034	68,416
Operating expenses: ⁽¹⁾				
Product development	6,836	5,325	18,320	14,534
Sales and marketing	4,687	4,575	14,097	12,190
General and administrative	5,525	4,467	15,190	14,111
Operating income	12,079	10,138	38,427	27,581
Interest income	25	16	139	33
Interest expense	(1,091)	(1,302)	(3,108)	(2,931)
Other income (expense), net	66	(64)	151	221
Income before income taxes	11,079	8,788	35,609	24,904
Provision for taxes	(4,740)	(3,538)	(14,841)	(10,731)
Net income	\$ 6,339	\$ 5,250	\$ 20,768	\$ 14,173
Net income attributable to common stockholders				
Basic	\$ 6,339	\$ 3,714	\$ 20,768	\$ 6,371
Diluted	\$ 6,339	\$ 3,797	\$ 20,768	\$ 6,790
Net income per share attributable to common stockholders				
Basic	\$ 0.14	\$ 0.12	\$ 0.45	\$ 0.33
Diluted	\$ 0.13	\$ 0.11	\$ 0.42	\$ 0.31
Weighted average shares used in computing net income per share attributable to common stockholders				
Basic	46,792	30,795	45,910	19,156
Diluted	50,593	33,938	48,960	22,008

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

Cost of revenue	\$ 1,138	\$ 653	\$ 3,411	\$ 2,143
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Product development	669	686	2,084	1,570
Sales and marketing	918	1,163	3,116	2,504
General and administrative	782	624	2,242	4,002

See notes to condensed consolidated financial statements

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

	Nine Months Ended March 31,	
	2011	2010
Cash Flows from Operating Activities		
Net income	\$ 20,768	\$ 14,173
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	20,252	13,678
Provision for sales returns and doubtful accounts receivable	(143)	(234)
Stock-based compensation	10,853	10,219
Excess tax benefits from stock-based compensation	(6,744)	(1,821)
Other non-cash adjustments, net	208	567
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(486)	(11,261)
Prepaid expenses and other assets	1,896	(5,251)
Other assets, noncurrent	133	(145)
Accounts payable	6,567	4,338
Accrued liabilities	3,403	5,635
Deferred revenue	947	(57)
Other liabilities, noncurrent	923	122
Net cash provided by operating activities	58,577	29,963
Cash Flows from Investing Activities		
Capital expenditures and other investing activities	(4,430)	(2,092)
Business acquisitions, net of notes payable and cash acquired	(91,723)	(52,899)
Internal software development costs	(1,322)	(1,009)
Purchases of marketable securities	(33,923)	
Proceeds from sales and maturities of marketable securities	8,484	
Net cash used in investing activities	(122,914)	(56,000)
Cash Flows from Financing Activities		
Net proceeds from issuance of common stock	(106)	138,076
Proceeds from exercise of common stock options	12,580	1,550
Proceeds from bank debt	24,425	43,300
Principal payments on bank debt	(2,650)	(2,250)
Principal payments on acquisition-related notes payable	(7,725)	(5,609)
Excess tax benefits from stock-based compensation	6,744	1,821
Repurchases of common stock		(715)
Net cash provided by financing activities	33,268	176,173
Effect of exchange rate changes on cash and cash equivalents	(17)	
Net (decrease) increase in cash and cash equivalents	(31,086)	150,136

Cash and cash equivalents at beginning of period	155,770	25,182
Cash and cash equivalents at end of period	\$ 124,684	\$ 175,318

Supplemental Disclosure of Cash Flow Information

Cash paid for interest	2,836	1,888
Cash paid for taxes	13,017	15,404

Supplemental Disclosure of Noncash Investing and Financing Activities

Notes payable issued in connection with business acquisitions	3,217	10,750
Accrued stock issuance costs		1,273

See notes to condensed consolidated financial statements

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QUINSTREET, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share and per share data)
(Unaudited)

1. The Company

QuinStreet, Inc. (the Company) is an online vertical marketing and media company. The Company was incorporated in California on April 16, 1999 and reincorporated in Delaware on December 31, 2009. The Company provides vertically oriented customer acquisition programs for its clients. The Company also provides hosted solutions for direct selling companies. The corporate headquarters are located in Foster City, California, with offices in Arkansas, Connecticut, Florida, Massachusetts, Nevada, New Jersey, New York, North Carolina, Oklahoma, Oregon, India and the United Kingdom.

2. Summary of Significant Accounting Policies

Basis of Presentation

Principles of Consolidation

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

Unaudited Interim Financial Information

The accompanying condensed consolidated financial statements and the notes to the condensed consolidated financial statements as of March 31, 2011 and for the three and nine months ended March 31, 2011 and 2010 are unaudited. These unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) and applicable rules and regulations of the Securities and Exchange Commission (SEC) regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Accordingly, these interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2010, as filed with the SEC on September 13, 2010. The condensed consolidated balance sheet as of June 30, 2010 included herein was derived from the audited financial statements as of that date, but does not include all disclosures, including notes required by GAAP.

The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and in the opinion of management include all adjustments (consisting only of normal recurring adjustments) necessary for the fair statement of the Company's condensed consolidated balance sheet at March 31, 2011, its condensed consolidated statements of operations for the three and nine months ended March 31, 2011 and 2010, and its condensed consolidated statements of cash flows for the nine months ended March 31, 2011 and 2010. The results of operations for the three and nine months ended March 31, 2011 are not necessarily indicative of the results to be expected for the fiscal year ending June 30, 2011 or any other future period.

Use of Estimates

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

Revenue Recognition

The Company derives its revenue from two sources: Direct Marketing Services (DMS) and Direct Selling Services (DSS). DMS revenue, which constituted 99.7% of net revenue for both the three and nine months ended March 31, 2011 and 99.7% and

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QUINSTREET, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS **Continued**
(In thousands, except share and per share data)
(Unaudited)

99.4% of net revenue for the three and nine months ended March 31, 2010, respectively, is derived from fees which are earned through the delivery of qualified leads, clicks and, to a lesser extent, display advertisements (impressions). The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectability is reasonably assured. Delivery is deemed to have occurred at the time a qualified lead, click or impression is delivered to the client, provided that no significant obligations remain.

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

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

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

For a portion of its revenue, the Company has agreements with providers of online media or traffic (Publishers) used in the generation of leads and clicks. The Company receives a fee from its clients and pays a fee to Publishers as a portion of revenue generated or on a cost per lead, cost per click or cost per thousand impressions basis. The Company is the primary obligor in the transaction. As a result, the fees paid by the Company's clients are recognized as revenue and the fees paid to its Publishers are included in cost of revenue.

DSS revenue, which constituted 0.3% of net revenue for both the three and nine months ended March 31, 2011 and 0.3% and 0.6% for the three and nine months ended March 31, 2010, respectively, comprises (i) set-up and professional services fees and (ii) usage fees. Set-up and professional service fees that do not provide stand-alone value to a client are recognized over the contractual term of the agreement or the expected client relationship period, whichever is longer, effective when the application reaches the go-live date. The Company defines the go-live date as the date when the application enters into a production environment or all essential functionalities have been delivered. Usage fees are recognized on a monthly basis as earned.

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

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents, marketable securities and accounts receivable. The Company's investment portfolio consists of liquid high-quality fixed income US government securities, time deposits with financial institutions and money market funds. Cash and time deposits are deposited with financial institutions that management believes are creditworthy. Historically, the Company has not experienced any losses of its deposits.

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QUINSTREET, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS **Continued**
(In thousands, except share and per share data)
(Unaudited)

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. To date, such losses have been within management's expectations.

One client accounted for 10% of net revenue for the nine months ended March 31, 2010. No client accounted for 10% or more of net revenue for any other period presented. No client accounted for 10% or more of net accounts receivable as of March 31, 2011 or June 30, 2010.

Fair Value of Financial Instruments

The Company's financial instruments consist principally of cash and cash equivalents, marketable securities, accounts receivable, accounts payable, acquisition-related notes payable, a term loan and a revolving credit line. The fair value of the securities held as cash equivalents or marketable securities is determined based on quoted prices if an active market for identical assets exists. If quoted prices for identical assets are not available, the fair value is determined by using quoted prices for similar assets in active markets or observable inputs, such as interest rates. The recorded values of the Company's accounts receivable and accounts payable approximate their current fair values due to the relatively short-term nature of these accounts. The fair value of acquisition-related notes payable approximates their recorded amounts at March 31, 2011 as the interest rates on similar financing arrangements available to the Company at March 31, 2011 approximates the interest rates implied when these acquisition-related notes payable were originally issued and recorded. The Company believes that the fair values of the term loan and revolving credit line, after consideration of nonperformance and credit risk, approximate their recorded amounts at March 31, 2011 as the interest rates on these instruments are variable and based on market interest rates.

Goodwill

Goodwill is tested for impairment at the reporting unit level on an annual basis and whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. 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 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 has determined that DMS and DSS constitute two separate reporting units. The Company performs its annual goodwill impairment review during its fourth fiscal quarter. No impairment charges were recorded in the periods presented.

Long-Lived Assets

The Company evaluates long-lived assets, such as property and equipment and purchased intangible assets with finite lives, for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The Company applies judgment when assessing the fair value of the assets based on the undiscounted future cash flows the assets are expected to generate and recognizes an impairment loss if estimated undiscounted future cash flows expected to result from the use of the asset plus net proceeds expected from disposition of the asset, if any, are less than the carrying value of the asset. When the Company identifies an impairment, it reduces the carrying amount of the asset to its estimated fair value based on a discounted cash flow approach or, when available and appropriate, to comparable market values. No impairment charges were recorded in the periods presented.

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 certain existing assets and liabilities that will result in deductible amounts in future years,

including net operating loss carry forwards. Based on estimates, the carrying value of the Company's net deferred tax assets assumes that it is more likely than not that the Company will be able to generate sufficient future taxable income in certain tax jurisdictions. The Company's judgments regarding future profitability may change due to future market conditions, changes in U.S. or international tax laws and other factors.

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QUINSTREET, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS **Continued**
(In thousands, except share and per share data)
(Unaudited)

In December 2010, the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 ("2010 Tax Relief Act") was signed into law. The 2010 Tax Relief Act, among other provisions, provides for the extension of certain tax cuts for two years, the retroactive reinstatement of the research and development credits, as well as certain depreciation benefits. The Company expects a favorable impact on the effective tax rate as a result of the extension of the research and development credits.

Stock-Based Compensation

The Company measures and records the expense related to share-based transactions based on the fair value of stock-based payment awards, as determined on the date of grant. To determine the fair value of stock options, the Company has selected the Black-Scholes option pricing model. In applying the Black-Scholes option pricing model, the Company's determination of fair value of the share-based payment award on the date of grant is affected by the Company's estimated fair value of common stock for stock options granted prior to the Company's initial public offering ("IPO"), as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, the Company's expected stock price volatility over the term of the stock options, the employees' projected stock option exercise behaviors and projected pre-vesting employment terminations. The fair value of restricted stock units is determined based on the closing price of the Company's common stock on the date of grant.

For awards with graded vesting, the Company recognizes stock-based compensation expense over the requisite service period using the straight-line method, based on awards ultimately expected to vest. The Company estimates future forfeitures at the date of grant and revises the estimates, as necessary, in subsequent periods if actual forfeitures differ from those estimates.

See Note 9 for further information.

Recent Accounting Pronouncements

In October 2009, the FASB amended the accounting standards for revenue recognition to remove tangible products containing software components and non-software components that function together to deliver the product's essential functionality from the scope of industry-specific software revenue recognition guidance. In October 2009, the FASB also amended the accounting standards for multiple deliverable revenue arrangements to

provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and how the consideration should be allocated;

require an entity to allocate revenue in an arrangement using the estimated selling price ("ESP") of deliverables if a vendor does not have vendor-specific objective evidence ("VSOE") of selling price or third-party evidence ("TPE") of selling price;

and eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method.

Both standards became effective for the Company on July 1, 2010. The adoption of the new standards did not have a material effect on the Company's consolidated financial statements.

In December 2010, the FASB issued an update to the accounting standard for business combinations. The revised guidance clarifies how to present pro forma information and mandates that all business combinations that occurred during the current reporting period should be reported as though the business combination had occurred as of the beginning of the comparative prior reporting period. The amendment is effective for annual reporting periods beginning on or after December 15, 2010, with early adoption permitted. The Company adopted the guidance effective in the second quarter of fiscal 2011. The adoption of the amended standard did not have a material effect on the Company's consolidated financial statements.

3. Net Income Attributable to Common Stockholders and Net Income per Share

Basic and diluted net income per share attributable to common stockholders is presented in conformity with the two-class method required for participating securities. In February 2010, all of the Company's outstanding convertible preferred stock converted into common stock in connection with the IPO. Prior to the conversion, holders of Series A, Series B and Series C convertible preferred stock were each entitled to receive 8% per annum non-cumulative dividends, payable prior and in preference to any dividends on any other shares of the Company's capital stock. No such dividends were paid.

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QUINSTREET, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS **Continued**
(In thousands, except share and per share data)
(Unaudited)

For periods prior to the conversion of the convertible preferred stock, net income per share information is computed using the two-class method. Under the two-class method, basic net income per share attributable to common stockholders is computed by dividing the net income attributable to common stockholders by the weighted average number of shares of common stock outstanding during the period. Net income attributable to common stockholders is computed by subtracting from net income the portion of period-to-date earnings that the preferred stockholders would have been entitled to receive pursuant to their dividend rights had this portion of net income been distributed. Diluted net income per share attributable to common stockholders 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 attributable to common stockholders:

	Three Months Ended		Nine Months Ended	
	March 31,		March 31,	
	2011	2010⁽²⁾	2011	2010⁽²⁾
	(In thousands, except per share data)			
Numerator:				
Basic:				
Net income	\$ 6,339	\$ 5,250	\$ 20,768	\$ 14,173
8% non-cumulative dividends on convertible preferred stock		(373)		(2,018)
Undistributed earnings allocated to convertible preferred stock		(1,163)		(5,784)
Net income attributable to common stockholders basic	\$ 6,339	\$ 3,714	\$ 20,768	\$ 6,371
Diluted:				
Net income attributable to common stockholders basic	\$ 6,339	\$ 3,714	\$ 20,768	\$ 6,371
Undistributed earnings re-allocated to common stock		83		419
Net income attributable to common stockholders diluted	\$ 6,339	\$ 3,797	\$ 20,768	\$ 6,790
Denominator:				
Basic:				
Weighted average shares of common stock used in computing basic net income per share	46,792	30,795	45,910	19,156

Diluted:

Weighted average shares of common stock used in computing basic net income per share	46,792	30,795	45,910	19,156
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Weighted average effect of dilutive securities:				
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Stock options	3,691	3,143	2,990	2,852
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Restricted stock units	110		60	
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Weighted average shares of common stock used in computing diluted net income per share	50,593	33,938	48,960	22,008
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Net income per share attributable to common stockholders				
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Basic	\$ 0.14	\$ 0.12	\$ 0.45	\$ 0.33
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Diluted	\$ 0.13	\$ 0.11	\$ 0.42	\$ 0.31
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Securities excluded from weighted average shares used in computing diluted net income per share because the effect would have been anti-dilutive:

(1)	1,315	2,495	2,860	2,801
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(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.

(2) Earnings per share for the three and nine months ended March 31, 2010 include the effects of the convertible preferred stock before its conversion in connection with the IPO under the two-class method.

4. Marketable Securities and Fair Value Measurements

Marketable Securities

All liquid investments with maturities of three months or less at the date of purchase are classified as cash equivalents. Investments with maturities greater than three months at the date of purchase are classified as marketable securities. The Company's marketable

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QUINSTREET, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS **Continued**
(In thousands, except share and per share data)
(Unaudited)

securities have been classified and accounted for as available-for-sale. Management determines the appropriate classification of its investments at the time of purchase and reevaluates the available-for-sale designation as of each balance sheet date. Available-for-sale securities are carried at fair value, with unrealized gains and losses, net of tax, reported as a component of stockholders' equity. The cost of securities sold is based upon the specific identification method.

The following table summarizes unrealized gains and losses related to available-for-sale securities held by the Company as of March 31, 2011 and June 30, 2010:

	As of March 31, 2011			
	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
US government securities	\$ 22,158	\$	\$	\$ 22,158
Time deposits	20,838		19	20,819
Money market funds	522			522
	\$ 43,518	\$	\$ 19	\$ 43,499

	As of June 30, 2010			
	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Money market funds	\$ 133,128	\$	\$	\$ 133,128
	\$ 133,128	\$	\$	\$ 133,128

As of March 31, 2011 and June 30, 2010, the Company did not hold securities that had maturity dates greater than one year.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (the exit price) in an orderly transaction between market participants at the measurement date. A hierarchy for inputs used in measuring fair value has been defined to minimize the use of unobservable inputs by requiring the use of observable market data when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on active market data. Unobservable inputs are inputs that reflect the Company's assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available in the circumstances.

The fair value hierarchy prioritizes the inputs into three broad levels:

Level 1 Inputs are unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument.

Level 3 Inputs are unobservable inputs based on the Company's assumptions.

The securities held by the Company as of March 31, 2011 and June 30, 2010 were categorized as follows in the fair value hierarchy:

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	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
	Total		
Assets:			
US government securities	\$ 22,158	\$ 22,158	\$
Time deposits	20,819		20,819
Money market funds	522	522	
Total at March 31, 2011	\$ 43,499	\$ 22,680	\$ 20,819
Assets:			
Money market funds	\$ 133,128	\$ 133,128	\$
Total at June 30, 2010	\$ 133,128	\$ 133,128	\$

5. Acquisitions***Acquisitions in Fiscal Year 2011******Acquisition of CarInsurance.com***

On November 5, 2010, the Company acquired 100% of the outstanding shares of Car Insurance.com, Inc., or CarInsurance.com, a Florida-based online insurance business, and certain of its affiliated companies, in exchange for \$49,655 in cash paid upon closing of the acquisition. The results of CarInsurance.com's operations have been included in the consolidated financial statements since the acquisition date. The Company acquired CarInsurance.com for its capacity to generate online visitors in the financial services market. The total purchase price recorded was as follows:

	Amount
Cash	\$ 49,655
	\$ 49,655

The acquisition was accounted for as a purchase business combination. The Company allocated the purchase price to tangible assets acquired, liabilities assumed and identifiable intangible assets acquired based on their estimated fair values. The excess of the purchase price over the aggregate fair value was recorded as goodwill. The goodwill is deductible for tax purposes. The following table summarizes the preliminary allocation of the purchase price and the estimated useful lives of the identifiable intangible assets acquired as of the date of the acquisition:

	Estimated Fair Value	Estimated Useful Life
Tangible assets acquired	\$ 661	

Liabilities assumed	(807)	
Advertiser relationships	260	6-7 years
Content	16,130	7 years
Website/trade/domain names	4,350	10 years
Acquired technology and others	3,000	2-4 years
Noncompete agreements	40	4 years
Goodwill	26,021	Indefinite
	\$ 49,655	

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Acquisition of Insurance.com

On July 26, 2010, the Company acquired the website business of Insurance.com, from Insurance.com Group, Inc., an Ohio-based online insurance business, in exchange for \$33,000 in cash paid upon closing of the acquisition and the issuance of a \$2,640 non-interest-bearing, unsecured promissory note payable in one installment on the second anniversary of the acquisition date. The results of Insurance.com's operations have been included in the consolidated financial statements since the acquisition date. The Company acquired Insurance.com for its capacity to generate online visitors in the financial services market. The total purchase price recorded was as follows:

	Amount
Cash	\$ 33,000
Fair value of debt (net of \$157 of imputed interest)	2,483
	\$ 35,483

The acquisition was accounted for as a purchase business combination. The Company allocated the purchase price to tangible assets and identifiable intangible assets acquired based on their estimated fair values. The excess of the purchase price over the aggregate fair value was recorded as goodwill. The goodwill is deductible for tax purposes. The following table summarizes the preliminary allocation of the purchase price and the estimated useful lives of the identifiable intangible assets acquired as of the date of the acquisition:

	Estimated Fair Value	Estimated Useful Life
Tangible assets acquired	\$ 1,204	
Advertiser relationships	2,120	7 years
Content	4,290	4 years
Website/trade/domain names	2,940	10 years
Acquired technology and others	5,530	2-4 years
Noncompete agreements	60	5 years
Goodwill	19,339	Indefinite
	\$ 35,483	

Other Acquisitions in Fiscal Year 2011

During the nine months ended March 31, 2011, in addition to the acquisition of CarInsurance.com and Insurance.com, the Company acquired operations from 12 other online publishing businesses in exchange for \$4,598 in cash paid upon closing of the acquisitions and \$774 in non-interest-bearing, unsecured promissory notes payable over a period of time ranging from one to three years. The Company also recorded \$4,500 in earn-out payments related to a prior period acquisition as addition to goodwill. The aggregate purchase price recorded was as follows:

	Amount
Cash	\$ 9,098
Fair value of debt (net of \$40 of imputed interest)	734
	\$ 9,832

The acquisitions were accounted for as purchase business combinations. In each of the acquisitions, 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 was recorded as goodwill. Goodwill deductible for tax purposes is \$7,768. The following table summarizes the preliminary allocation of the purchase prices of these other acquisitions during the nine months ended March 31, 2011 and the estimated useful lives of the identifiable intangible assets acquired as of the respective dates of these acquisitions:

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	Estimated Fair Value	Estimated Useful Life
Customer/publisher relationships	\$ 221	5 years
Content	1,252	3-5 years
Website/trade/domain names	518	4-5 years
Noncompete agreements	73	1-3 years
Goodwill	7,768	Indefinite
	\$ 9,832	

Acquisitions in Fiscal Year 2010**Acquisition of Internet.com**

On November 30, 2009, the Company acquired the website business of Internet.com, a division of WebMediaBrands, Inc., a New York-based Internet media company, in exchange for \$16,000 in cash paid upon closing of the acquisition and the issuance of a \$2,000 non-interest-bearing, unsecured promissory note payable in one installment. The Company received \$357 in a working capital adjustment following the closing of the acquisition. The adjustment reduced the face value of the note payable by \$300 and the cash paid by \$57. The results of Internet.com's operations have been included in the consolidated financial statements since the acquisition date. The Company acquired Internet.com to broaden its media access and client base in the business-to-business market. The total purchase price recorded was as follows:

	Amount
Cash	\$ 15,943
Fair value of debt (net of \$46 of imputed interest)	1,654
	\$ 17,597

The acquisition was accounted for as a purchase business combination. The Company allocated the purchase price to tangible assets acquired, liabilities assumed and identifiable intangible assets acquired based on their estimated fair values. The excess of the purchase price over the aggregate fair value was recorded as goodwill. 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 intangible assets acquired as of the date of the acquisition:

	Estimated Fair Value	Estimated Useful Life
Tangible assets acquired	\$ 3,136	
Liabilities assumed	(503)	
Advertiser relationships	1,300	5 - 7 years
Content	2,400	4 years
Website/trade/domain names	2,500	5 years
Noncompete agreements	200	2 years
Goodwill	8,564	Indefinite

\$ 17,597

Acquisition of Insure.com

On October 8, 2009, the Company acquired the website business Insure.com, from Life Quotes, Inc., an Illinois-based online marketing company, in exchange for \$15,000 in cash paid upon closing of the acquisition and the issuance of a \$1,000 non-interest-bearing, unsecured promissory note payable in one installment. The results of Insure.com's acquired operations have been included in the consolidated financial statements since the acquisition date. The Company acquired Insure.com for its capacity to generate online visitors in the financial services market. The total purchase price recorded was as follows:

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	Amount
Cash	\$ 15,000
Fair value of debt (net of \$24 of imputed interest)	976
	\$ 15,976

The acquisition was accounted for as a purchase business combination. 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 was recorded as goodwill. 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 intangible assets acquired as of the date of the acquisition:

	Estimated Fair Value	Estimated Useful Life
Advertiser relationships	\$ 900	3 years
Content	3,900	8 years
Website/trade/domain names	1,250	8 years
Goodwill	9,926	Indefinite
	\$ 15,976	

Acquisition of Payler Corp. D/B/A HSH Associates Financial Publishers (HSH)

On September 14, 2009, the Company acquired 100% of the outstanding shares of HSH, a New Jersey-based online marketing business, in exchange for \$6,000 in cash paid upon closing of the acquisition and the issuance of \$4,000 in non-interest-bearing, unsecured promissory notes payable in five installments over five years. The results of HSH's acquired operations have been included in the consolidated financial statements since the acquisition date. The Company acquired HSH for its capacity to generate online visitors in the financial services market. The total purchase price recorded was as follows:

	Amount
Cash	\$ 6,000
Fair value of debt (net of \$241 of imputed interest)	3,759
	\$ 9,759

The acquisition was accounted for as a purchase business combination. The Company allocated the purchase price to tangible assets acquired, liabilities assumed and identifiable intangible assets acquired based on their estimated fair values. The excess of the purchase price over the aggregate fair value was recorded as goodwill. The goodwill is not deductible for tax purposes. The following table summarizes the allocation of the purchase price and the estimated useful lives of the identifiable intangible assets acquired as of the date of the acquisition:

Estimated Estimated

	Fair Value	Useful Life
Tangible assets acquired	\$ 50	
Liabilities assumed	(1,695)	
Advertiser relationships	1,100	3 years
Content	1,400	6 years
Website/trade/domain names	800	6 years
Goodwill	8,104	Indefinite
	\$ 9,759	

Other Acquisitions in Fiscal Year 2010

During fiscal year 2010, in addition to the acquisition of Internet.com, Insure.com and HSH, the Company acquired operations from 30 other online publishing businesses in exchange for \$29,882 in cash paid upon closing of the acquisitions and \$8,643 in non-

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interest-bearing, unsecured promissory notes payable over a period of time ranging from one to five years. The aggregate purchase price recorded was as follows:

	Amount
Cash	\$ 29,882
Fair value of debt (net of \$531 of imputed interest)	8,112
	\$ 37,994

The acquisitions were accounted for as purchase business combinations. In each of the acquisitions, the Company allocated the purchase price to tangible assets acquired and identifiable intangible assets acquired based on their estimated fair values. The excess of the purchase price over the aggregate fair value was recorded as goodwill. Goodwill deductible for tax purposes is \$24,299. The following table summarizes the allocation of the purchase prices of these other acquisitions and the estimated useful lives of the identifiable intangible assets acquired as of the respective dates of these acquisitions:

	Estimated Fair Value	Estimated Useful Life
Tangible assets acquired	\$ 45	
Customer/publisher relationships	1,150	1-7 years
Content	8,384	1-6 years
Website/trade/domain names	2,748	5 years
Acquired technology	199	3 years
Noncompete agreements	224	2-3 years
Goodwill	25,244	Indefinite
	\$ 37,994	

Pro Forma Financial Information

The pro forma financial information in the table below summarizes the combined results of operations for the Company and other companies that were acquired since the beginning of fiscal year 2011. The pro forma financial information includes the business combination accounting effects resulting from these acquisitions including amortization charges from acquired intangible assets and the related tax effects as though the aforementioned companies were combined as of the beginning of fiscal year 2010. The pro forma financial information as presented below is for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisitions had taken place at the beginning of fiscal year 2010.

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2011	2010	2011	2010
Net revenue	\$ 107,927	\$ 91,826	\$ 310,659	\$ 251,135
Net income	7,144	1,165	21,535	9,770
Basic net income per share	\$ 0.15	\$ 0.02	\$ 0.47	\$ 0.21

Diluted net income per share	\$	0.14	\$	0.02	\$	0.44	\$	0.20
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6. Intangible Assets, Net and Goodwill

Intangible assets, net balances, excluding goodwill, consisted of the following:

	March 31, 2011			June 30, 2010		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer/publisher/advertiser relationships	\$ 29,257	\$ (15,565)	\$ 13,692	\$ 26,656	\$ (11,455)	\$ 15,201
Content	56,641	(22,841)	33,800	34,969	(16,454)	18,515
Website/trade/domain names	23,510	(7,676)	15,834	15,701	(5,198)	10,503
Acquired technology and others	20,175	(12,135)	8,040	11,477	(8,540)	2,937
	\$ 129,583	\$ (58,217)	\$ 71,366	\$ 88,803	\$ (41,647)	\$ 47,156

Amortization of intangible assets was \$6,124 and \$16,575 in the three and nine months ended March 31, 2011, respectively, and \$4,110 and \$11,070 in the three and nine months ended March 31, 2010, respectively.

Future amortization expense for the Company's acquisition-related intangible assets as of March 31, 2011 was as follows:

Year Ending June 30,

2011 (remaining three months)	\$ 5,589
2012	20,899
2013	15,313
2014	10,622
2015	6,731
2016 and thereafter	12,212
	\$ 71,366

The change in the carrying amount of goodwill for the nine months ended March 31, 2011 was as follows:

	DMS	DSS	Total
Balance at June 30, 2010	\$ 157,351	\$ 1,231	\$ 158,582
Additions	53,128		53,128
Balance at March 31, 2011	\$ 210,479	\$ 1,231	\$ 211,710

In the nine months ended March 31, 2011, the additions to goodwill relate to the Company's acquisitions as described in Note 5, and primarily reflect the value of the synergies expected to be generated from combining the Company's technology and know-how with the acquired businesses' access to online visitors.

7. Debt***Promissory Notes***

During the nine months ended March 31, 2011 and 2010, the Company issued total promissory notes for the acquisition of businesses of \$3,217 and \$10,750, respectively, net of imputed interest amounts of \$197 and \$606, respectively. All of the promissory notes are non-interest-bearing and unsecured. For these notes, interest was imputed such that the notes carry an interest rate commensurate with that available to the Company in the market for similar debt instruments. The Company recorded accretion of promissory notes of \$133 and \$436 as interest expense for the three and nine months ended March 31, 2011, respectively, and \$304 and \$946 for the three and nine months ended March 31, 2010, respectively.

Credit Facility

In January 2010, the Company replaced its existing credit facility with a new credit facility with a total borrowing capacity of \$175,000. The new credit facility consisted of a \$35,000 four-year term loan, with principal amortization of 10%, 15%, 35% and 40% annually, and a \$140,000 four-year revolving credit line with an option to increase the revolving credit line by an additional \$50,000. In February 2011, the Company exercised this option, thereby increasing the total capacity of the credit facility to \$225,000.

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Borrowings under the credit facility are collateralized by the Company's assets and interest is payable quarterly at specified margins above either LIBOR or the Prime Rate. The interest rate varies dependent upon the ratio of funded debt to adjusted EBITDA and ranges from LIBOR + 2.125% to 2.875% or Prime + 1.00% to 1.50% for the revolving credit line and from LIBOR + 2.50% to 3.25% or Prime + 1.00% to 1.50% for the term loan. Adjusted EBITDA is defined as net income less provision for taxes, depreciation expense, amortization expense, stock-based compensation expense, interest and other income (expense), net and acquisition costs for business combinations. The revolving credit line requires a facility fee of 0.375% of the revolving credit line capacity. The credit facility expires in January 2014. The credit facility agreement restricts the Company's ability to raise additional debt financing and pay dividends. In addition, the Company is required to maintain financial ratios computed as follows:

1. Quick ratio: ratio of (i) the sum of unrestricted cash and cash equivalents and trade receivables less than 90 days from invoice date to (ii) current liabilities and face amount of any letters of credit less the current portion of deferred revenue.

2. Fixed charge coverage: ratio of (i) trailing twelve months of adjusted EBITDA to (ii) the sum of capital expenditures, net cash interest expense, cash taxes, cash dividends and trailing twelve months payments of indebtedness. Payment of unsecured indebtedness is excluded to the degree that sufficient unused revolving credit line exists such that the relevant debt payment could be made from the credit facility.

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

Under the terms of the credit facility the Company must maintain a minimum quick ratio of 1.15:1.00, a minimum fixed charge coverage ratio of 1.15:1.00 and a maximum funded debt to adjusted EBITDA ratio of 2.50:1.00, and the terms also require the Company to comply with other nonfinancial covenants. The Company was in compliance with the covenants as of March 31, 2011 and June 30, 2010.

Upfront arrangement fees incurred in connection with the credit facility are deferred and amortized over the remaining term of the arrangement as interest expense. As of March 31, 2011 and June 30, 2010, \$31,500 and \$34,150, respectively, was outstanding under the term loan. Under the revolving credit line, \$66,553 and \$41,754 was outstanding as of March 31, 2011 and June 30, 2010, respectively.

Debt Maturities

The maturities of debt as of March 31, 2011 were as follows:

Year Ending June 30,	Promissory Notes	Credit Facility
2011 (remaining three months)	\$ 3,992	\$ 1,312
2012	3,527	7,000
2013	4,924	12,688
2014	1,702	77,053
2015	560	
2016	50	
	14,755	98,053
Less: imputed interest and unamortized discounts	(359)	(1,359)
Less: current portion	(6,318)	(4,762)
Noncurrent portion of debt	\$ 8,078	\$ 91,932

Letters of Credit

The Company has a \$350 letter of credit agreement with a financial institution that is used as collateral for fidelity bonds placed with an insurance company and a \$500 letter of credit agreement with a financial institution that is used as collateral for the

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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.

8. Commitments and Contingencies***Leases***

The Company leases office space and equipment under non-cancelable operating leases with various expiration dates through 2018. Rent expense for the three and nine months ended March 31, 2011 was \$785 and \$2,472, respectively, and \$787 and \$2,457 for the three and nine months ended March 31, 2010, respectively. The Company recognizes rent expense on a straight-line basis over the lease period and accrues for rent expense incurred but not paid.

Future annual minimum lease payments under noncancelable operating leases as of March 31, 2011 were as follows:

Year Ending June 30,	Operating Leases
2011 (remaining three months)	\$ 283
2012	1,614
2013	2,624
2014	2,805
2015	2,822
2016	2,837
Thereafter	5,875
	\$ 18,860

The lease for the Company's previous corporate headquarters located at 1051 Hillsdale Boulevard, Foster City, California expired in October 2010.

In February 2010, the Company entered into a new lease agreement for office space located at 950 Tower Lane, Foster City, California. The term of the lease began on November 1, 2010 and expires on October 31, 2018. The monthly base rent is abated for the first 12 calendar months under the lease. Thereafter, the monthly base rent will be \$118 through the 24th calendar month of the term of the lease, after which the monthly base rent will increase to \$182 for the subsequent 12 months. In the following years the monthly base rent will increase approximately 3% after each 12-month anniversary during the term of the lease, including any extensions under the Company's options to extend.

The Company has two options to extend the term of the lease for one additional year for each option following the expiration date of the lease or renewal term, as applicable.

Concurrently with the execution of the lease, the Company delivered to the landlord, as collateral for the full performance by the Company of all of its obligations under the lease, and for all losses and damages the landlord may suffer as a result of any default by the Company under the lease, a letter of credit in the face amount of \$500.

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 paid. As a result of its insurance policy coverage, the Company believes the estimated fair value of these indemnification agreements is minimal. Accordingly, the Company had no liabilities recorded for these

agreements as of March 31, 2011 and June 30, 2010.

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In the ordinary course of its business, the Company enters into standard indemnification provisions in its agreements with its clients. Pursuant to these provisions, the Company indemnifies its clients for losses suffered or incurred in connection with third-party claims that a Company product infringed upon any United States patent, copyright or other intellectual property rights. Where applicable, the Company generally limits such infringement indemnities to those claims directed solely to its products and not in combination with other software or products. With respect to its DSS products, the Company also generally reserves the right to resolve such claims by designing a non-infringing alternative or by obtaining a license on reasonable terms, and failing that, to terminate its relationship with the client. Subject to these limitations, the term of such indemnity provisions is generally coterminous with the corresponding agreements.

The potential amount of future payments to defend lawsuits or settle indemnified claims under these indemnification provisions is unlimited; however, the Company believes the estimated fair value of these indemnity provisions is minimal, and accordingly, the Company had no liabilities recorded for these agreements as of March 31, 2011 and June 30, 2010.

Litigation

On September 8, 2010, a patent infringement lawsuit was filed against the Company by LendingTree, LLC (LendingTree) in the United States District Court for the Western District of North Carolina, seeking a judgment that the Company has infringed a certain patent held by LendingTree, an injunctive order against the alleged infringing activities and an award for damages. On September 24, 2010, LendingTree filed a first amended complaint adding an additional defendant. If an injunction is granted, it could force the Company to stop or alter certain of its business activities, such as its lead generation in certain client verticals. While the Company intends to vigorously defend its position, neither the outcome of the litigation nor the amount and range of potential damages or exposure associated with the litigation can be assessed with certainty.

9. Stock Benefit Plans***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 (the 2008 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 1999 Plan).

The 2010 Incentive Plan provides for the grant of incentive stock options (ISOs), nonstatutory stock options (NQSOs), restricted stock, restricted stock units, stock appreciation rights, performance-based stock awards and other forms of equity compensation, as well as 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.

To date, the Company has issued only ISOs, NQSOs and restricted stock units 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. Restricted stock units granted to employees generally vest over five years of continuous service, with 15 percent of the restricted stock units vesting on the one-year anniversary of the date of grant, 60 percent vesting in equal quarterly installments over the following three years and the remaining 25 percent vesting in equal quarterly installments over the last year of the vesting period.

An aggregate of 2,535,761 shares of the Company's common stock were reserved for issuance under the 2010 Incentive Plan as of March 31, 2011, 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 may be 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. As of March 31, 2011, 2,011,650 shares were available for issuance under the 2010 Incentive Plan.

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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 to non-employee directors and also provides for the discretionary grant of restricted stock units. Stock options granted to new non-employee directors vest in equal monthly installments over four years; annual grants to existing directors vest in equal monthly installments over one year.

An aggregate of 500,000 shares of the Company's common stock were reserved for issuance under the Directors' Plan as of March 31, 2011. This amount may be increased annually, by the sum of 200,000 shares and the aggregate number of shares of the Company's common stock subject to awards granted under the Directors' Plan during the immediately preceding fiscal year. As of March 31, 2011, 380,000 shares were available for issuance under the Directors' Plan.

Stock-Based Compensation

The Company estimates the fair value of stock options at the date of grant using the Black-Scholes option-pricing model. Options are granted with an exercise price equal to the fair value of the common stock at the date of grant. The weighted average Black-Scholes model assumptions and the weighted average grant date fair value of employee stock options for the three and nine months ended March 31, 2011 and 2010 were as follows:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2011	2010	2011	2010
Expected term (in years)	4.6	4.6	4.6	4.6
Expected volatility	54%	56%	54%	67%
Expected dividend yield	0.0%	0.0%	0.0%	0.0%
Risk-free interest rate	2.1%	2.4%	1.7%	2.4%
Grant date fair value	\$ 10.48	\$ 9.18	\$ 7.81	\$ 9.52

The fair value of restricted stock units is determined based on the closing price of the Company's common stock on the grant date.

Compensation expense is amortized net of estimated forfeitures on a straight-line basis over the requisite service period of the stock-based compensation awards.

10. Stockholders' Equity

The following table sets forth the components of comprehensive income for the three and nine months ended March 31, 2011 and 2010:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2011	2010	2011	2010
Net income	\$ 6,339	\$ 5,250	\$ 20,768	\$ 14,173
Other comprehensive income (loss)				
Unrealized loss on investments	(6)		(19)	
Foreign currency translation adjustment	7	8	(17)	
Comprehensive income	\$ 6,340	\$ 5,258	\$ 20,732	\$ 14,173

11. 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 is its chief executive officer. The Company's chief executive officer reviews financial information presented on a consolidated basis, accompanied by information about operating segments, including net sales and operating income before depreciation, amortization and stock-based compensation expense.

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QUINSTREET, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS **Continued**
(In thousands, except share and per share data)
(Unaudited)

The Company determined its operating segments to be DMS, which derives revenue from fees earned through the delivery of qualified leads, clicks and, to a lesser extent, impressions, and DSS, which derives revenue from the sale of direct selling services through a hosted solution. The Company's reportable operating segments consist of DMS and DSS. The accounting policies of the two reportable operating segments are the same as those described in Note 2.

The Company evaluates the performance of its operating segments based on net sales and operating income before depreciation, amortization and stock-based compensation expense.

The Company does not allocate most of its assets, as well as its depreciation and amortization expense, stock-based compensation expense, interest income, interest expense and income tax expense by segment. Accordingly, the Company does not report such information.

Summarized information by segment was as follows:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2011	2010	2011	2010
Net revenue by segment:				
DMS	\$ 107,344	\$ 90,511	\$ 307,878	\$ 244,841
DSS	361	262	1,025	1,447
Total net revenue	107,705	90,773	308,903	246,288
Segment operating income before depreciation, amortization, and stock-based compensation expense:				
DMS	22,987	18,266	68,898	50,672
DSS	231	73	634	806
Total segment operating income before depreciation, amortization, and stock-based compensation expense	23,218	18,339	69,532	51,478
Depreciation and amortization	(7,632)	(5,075)	(20,252)	(13,678)
Stock-based compensation expense	(3,507)	(3,126)	(10,853)	(10,219)
Total operating income	\$ 12,079	\$ 10,138	\$ 38,427	\$ 27,581

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2011	2010	2011	2010
Net revenue:				
United States	\$ 107,390	\$ 90,452	\$ 307,883	\$ 245,310
International	315	321	1,020	978
Total net revenue	\$ 107,705	\$ 90,773	\$ 308,903	\$ 246,288

	March 31, 2011	June 30, 2010
Long-lived assets:		
United States	\$ 8,965	\$ 5,193
International	230	226
Total long-lived assets	\$ 9,195	\$ 5,419

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the fiscal year ended June 30, 2010, as filed with the Securities and Exchange Commission (SEC) on September 13, 2010.

This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. The statements contained in this Quarterly Report on Form 10-Q that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are often identified by the use of words such as, but not limited to, anticipate, believe, can, continue, could, estimate, expect, intend, may, will, plan, project, seek, should, target, will, would, and similar expressions or variations intended to identify forward-looking statements. These statements are based on the beliefs and assumptions of our management based on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified in Part II Item 1A. Risk Factors below, and those discussed in the sections titled Special Note Regarding Forward-Looking Statements and Risk Factors included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2010, as filed with the SEC on September 13, 2010. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

Management Overview

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

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

We own or access targeted media;

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

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

We optimize client matches and media yield such that we achieve desired results for clients and a sound financial outcome for us.

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

market.

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Our Direct Marketing Services, or DMS, business accounted for 99.7% of our net revenue in both the three and nine months ended March 31, 2011, and 99.7% and 99.4% of our net revenue in the three and nine months ended March 31, 2010, respectively. Our DMS business derives net revenue from fees earned through the delivery of qualified leads and clicks and, to a lesser extent, from fees for display advertisements, or impressions. Through a vertical focus, targeted media presence and our technology platform, we are able to deliver targeted, measurable marketing results to our clients.

Our two largest client verticals are financial services and education. Our financial services client vertical represented 45% and 46% of net revenue in the three and nine months ended March 31, 2011, respectively, and 46% and 43% of net revenue in the three and nine months ended March 31, 2010, respectively. Our education client vertical represented 45% and 43% of net revenue in the three and nine months ended March 31, 2011, respectively, and 42% and 47% of net revenue in the three and nine months ended March 31, 2010, respectively. Other DMS client verticals, consisting primarily of home services, business-to-business, or B2B, and medical, represented 10% and 11% of net revenue in the three and nine months ended March 31, 2011, respectively, and 12% and 9% of net revenue in the three and nine months ended March 31, 2010, respectively.

In addition, we derived 0.3% of our net revenue in both the three and nine months ended March 31, 2011, and 0.3% and 0.6% of our net revenue in the three and nine months ended March 31, 2010, respectively, from the provision of a hosted solution and related services for clients in the direct selling industry, also referred to as our Direct Selling Services, or DSS, business.

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

One of our largest clients retained an advertising agency and reduced its purchases of leads from us beginning November 2009. This client accounted for 10% of our net revenue in the nine months ended March 31, 2010. In the three and nine months ended March 31, 2011 and three months ended March 31, 2010, this client comprised less than 10% of our net revenue.

Trends Affecting our Business***Client Verticals***

To date, we have generated the majority of our revenue from clients in our financial services and education client verticals. We expect that a majority of our revenue in the near term will be generated from clients in our financial services and education client verticals. Marketing budgets for clients in our education client vertical are affected by a number of factors, including the availability of student financial aid, the regulation of for-profit educational institutions and economic conditions. In addition, the education and financial services industries are highly regulated and changes in regulations or government actions may affect our clients' businesses and marketing practices.

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

In November 2010, we acquired 100% of the outstanding shares of Car Insurance.com, Inc., or CarInsurance.com, a Florida-based online insurance business, and certain of its affiliated companies, in exchange for \$49.7 million in cash, for its capacity to generate online visitors in the financial services market. In July 2010, we acquired the website business Insurance.com from Insurance.com Group, Inc., an Ohio-based online insurance business, in exchange for \$33.0 million in cash and the issuance of a \$2.6 million non-interest-bearing, unsecured promissory note, for its capacity to generate online visitors in the financial services market. During the nine months ended March 31, 2011, in addition to the acquisitions of CarInsurance.com and Insurance.com, we acquired 12 other online publishing businesses.

Acquisitions in Fiscal Year 2010

In November 2009, we acquired the website business Internet.com, a division of WebMediaBrands, Inc., a New York-based Internet media company, in exchange for \$15.9 million in cash and the issuance of a \$1.7 million non-interest-bearing, unsecured promissory note, to broaden our media access and client base in the B2B market. In October 2009, we acquired the website business Insure.com from Life Quotes, Inc., an Illinois-based online insurance quote service and brokerage business, in exchange for \$15.0 million in cash and the issuance of a \$1.0 million non-interest-bearing, unsecured promissory note, for its capacity to generate online

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visitors in the financial services market. During fiscal year 2010, in addition to the acquisitions of Internet.com and Insure.com, we acquired 31 other online publishing businesses.

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

Development and Acquisition of Targeted Media

One of the primary challenges of our business is finding or creating media that is targeted enough to attract prospects economically for our clients and at costs that work for our business model. In order to continue to grow our business, we must be able to continue to find or develop quality targeted media on a cost-effective basis. Our inability to find or develop quality targeted media could impair our growth or adversely affect our financial performance.

Seasonality

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

Basis of Presentation

General

We operate in two segments: DMS and DSS. For further discussion and financial information about our reporting segments, see Note 11 to our condensed consolidated financial statements.

Net Revenue

DMS. Our DMS business generates revenue from fees earned through the delivery of qualified leads, clicks and, to a lesser extent, display advertisements, or impressions. We deliver targeted and measurable results through a vertical focus that we classify into the following client verticals: financial services, education and other (which includes home services, B2B and medical).

DSS. Our DSS business generated 0.3% of net revenue in both the three and nine months ended March 31, 2011, and 0.3% and 0.6% of net revenue in the three and nine months ended March 31, 2010, respectively. We expect DSS to continue to represent an immaterial portion of our business.

Cost of Revenue

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

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Operating Expenses

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

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

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

General and Administrative. General and administrative expenses consist primarily of personnel costs of our executive, finance, legal, corporate and business development, employee benefits and compliance, technical support and other administrative personnel, as well as accounting and legal professional services fees and other corporate expenses. We expect general and administrative expenses to increase in absolute dollars in future periods as we continue to invest in corporate infrastructure and incur additional expenses associated with being a public company, including increased legal and accounting costs, higher insurance premiums, investor relations costs and compliance costs associated with Section 404 of the Sarbanes-Oxley Act of 2002.

Interest and Other Income (Expense), Net

Interest and other income (expense), net, consists primarily of interest expense and interest income. Interest expense is related to our credit facility and promissory notes issued in connection with our acquisitions and includes imputed interest. The outstanding balance of our credit facility and acquisition-related promissory notes was \$98.1 million and \$14.8 million, respectively, as of March 31, 2011. Borrowings under our credit facility and related interest expense could increase as we continue to implement our acquisition strategy. Interest income represents interest received on our cash and cash equivalents, which may decrease depending on market interest rates and the amount of our invested cash and cash equivalents.

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

Income Tax Expense

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

Critical Accounting Policies, Estimates and Judgments

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

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

We believe that the critical accounting policies listed below involve our more significant judgments, assumptions and estimates and, therefore, could have the greatest potential impact on our consolidated financial statements. There have been no material changes to our critical accounting policies, estimates and judgments subsequent to June 30, 2010.

Revenue recognition;

Stock-based compensation;

Goodwill;

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Long-lived assets; and

Income taxes.

For further information on our critical and other significant accounting policies, see Note 2 to our condensed consolidated financial statements and our Annual Report on Form 10-K for the fiscal year ended June 30, 2010 as filed with the SEC on September 13, 2010.

Recently Issued Accounting Standards

See Note 2 to our condensed consolidated financial statements.

Results of Operations

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

	Three Months Ended March 31,				Nine Months Ended March 31,			
	2011		2010		2011		2010	
	(in thousands)							
Net revenue	\$ 107,705	100.0%	\$ 90,773	100.0%	\$ 308,903	100.0%	\$ 246,288	100.0%
Cost of revenue ⁽¹⁾	78,578	73.0	66,268	73.0	222,869	72.1	177,872	72.2
Gross profit	29,127	27.0	24,505	27.0	86,034	27.9	68,416	27.8
Operating expenses: ⁽¹⁾								
Product development	6,836	6.3	5,325	5.9	18,320	6.0	14,534	5.9
Sales and marketing	4,687	4.4	4,575	5.0	14,097	4.6	12,190	5.0
General and administrative	5,525	5.1	4,467	4.9	15,190	4.9	14,111	5.7
Operating income	12,079	11.2	10,138	11.2	38,427	12.4	27,581	11.2
Interest income	25	0.0	16	0.0	139	0.0	33	0.0
Interest expense	(1,091)	(1.0)	(1,302)	(1.4)	(3,108)	(1.0)	(2,931)	(1.2)
Other income (expense), net	66	0.1	(64)	(0.1)	151	0.1	221	0.1
Income before income taxes	11,079	10.3	8,788	9.7	35,609	11.5	24,904	10.1
Provision for taxes	(4,740)	(4.4)	(3,538)	(3.9)	(14,841)	(4.8)	(10,731)	(4.3)
Net income	\$ 6,339	5.9%	\$ 5,250	5.8%	\$ 20,768	6.7%	\$ 14,173	5.8%

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

Cost of revenue	\$ 1,138	1.1%	\$ 653	0.7%	\$ 3,411	1.1%	\$ 2,143	0.9%
Product development	669	0.6	686	0.8	\$ 2,084	0.7	1,570	0.6
Sales and marketing	918	0.9	1,163	1.3	\$ 3,116	1.0	2,504	1.0
General and administrative	782	0.7	624	0.7	\$ 2,242	0.7	4,002	1.6

Table of Contents***Net Revenue***

	Three Months Ended March 31,		Nine Months Ended March 31,		Three Months	Nine Months %
	2011	2010	2011	2010	% Change	Change
	(in thousands)					
Net revenue	\$ 107,705	\$ 90,773	\$ 308,903	\$ 246,288	19%	25%
Cost of revenue	78,578	66,268	222,869	177,872	19%	25%
Gross profit	\$ 29,127	\$ 24,505	\$ 86,034	\$ 68,416	19%	26%

Net revenue increased \$16.9 million, or 19%, for the three months ended March 31, 2011, compared to the three months ended March 31, 2010. The majority of this increase was attributable to an increase in revenue from our education client vertical, and to a somewhat lesser extent, our financial services client vertical. Education client vertical revenue increased \$9.9 million, or 26%, for the three months ended March 31, 2011, compared to the three months ended March 31, 2010, driven by higher prices, a shift in mix towards higher priced inquiries and an increase in inquiry volume. Financial services client vertical revenue increased \$7.0 million, or 17%, for the three months ended March 31, 2011, compared to the three months ended March 31, 2010, as increases in click and lead volumes were partially offset by lower prices. Our other client verticals' revenue increased slightly by \$0.1 million, or 1%, for the three months ended March 31, 2011, compared to the three months ended March 31, 2010.

Net revenue increased \$62.6 million, or 25%, for the nine months ended March 31, 2011, compared to the nine months ended March 31, 2010. The majority of this increase was attributable to an increase in revenue from our financial services client vertical and, to a lesser extent, our education client vertical and other client verticals. Financial services client vertical revenue increased \$37.4 million, or 36%, for the nine months ended March 31, 2011, compared to the nine months ended March 31, 2010, as increases in click and lead volume were partially offset by lower prices. Education client vertical revenue increased \$18.8 million, or 16%, for the nine months ended March 31, 2011, compared to the nine months ended March 31, 2010, driven by higher prices, a shift in mix towards higher priced inquiries and an increase in inquiry volume. Our other client verticals' revenue increased \$6.5 million, or 25%, for the nine months ended March 31, 2011, compared to the nine months ended March 31, 2010. The increase in our other client vertical was primarily affected by growth in our B2B client vertical resulting from our acquisition of the website business of Internet.com in November 2009.

Cost of Revenue

Cost of revenue increased \$12.3 million, or 19%, for the three months ended March 31, 2011, compared to the three months ended March 31, 2010, driven by an increase in media costs of \$6.9 million due to higher lead and click volumes, increased personnel costs of \$2.1 million and increased amortization of acquisition-related intangible assets of \$2.0 million resulting from acquisitions during the past twelve months. The increase in personnel costs was attributable to a 19% increase in average headcount, primarily resulting from the expansion of our business and the acquisition of CarInsurance.com. Gross margin, which is the difference between net revenue and cost of revenue as a percentage of net revenue, remained flat at 27% in both the three months ended March 31, 2011 and March 31, 2010, as higher margins from publisher arrangements were offset by the above-mentioned increase in headcount and related personnel costs, as well as higher amortization expense.

Cost of revenue increased \$45.0 million, or 25%, for the nine months ended March 31, 2011, compared to the nine months ended March 31, 2010, driven by an increase in media costs of \$24.4 million due to higher lead and click volumes, increased personnel costs of \$10.8 million and increased amortization of acquisition-related intangible assets of \$5.5 million resulting from acquisitions during the past twelve months. The increase in personnel costs was attributable to a 45% increase in average headcount, primarily resulting from the expansion of our business and the acquisition of the website business of Internet.com in November 2009, as well as increased performance bonus expense due to an increase in the number of individuals eligible for such bonus. Gross margin remained flat at 28% in

both the nine months ended March 31, 2011 and March 31, 2010, as higher margins from publisher arrangements and a higher mix of traffic from owned and operated targeted media were offset by the above-mentioned increase in headcount and related personnel costs, as well as higher amortization expense.

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	Three Months Ended March 31,		Nine Months Ended March 31,		Three Months %	Nine Months %
	2011	2010	2011	2010	Change	Change
	(in thousands)					
Product development	\$ 6,836	\$ 5,325	\$ 18,320	\$ 14,534	28%	26%
Sales and marketing	4,687	4,575	14,097	12,190	2%	16%
General and administrative	5,525	4,467	15,190	14,111	24%	8%
Operating expenses	\$ 17,048	\$ 14,367	\$ 47,607	\$ 40,835	19%	17%

Product Development Expenses

Product development expenses increased \$1.5 million, or 28%, for the three months ended March 31, 2011, compared to the three months ended March 31, 2010, due to increased compensation expense of \$1.3 million affected by a 28% increase in average headcount from additional hiring in connection with development projects and recent acquisitions.

Product development expenses increased \$3.8 million, or 26%, for the nine months ended March 31, 2011, compared to the nine months ended March 31, 2010, due to increased personnel costs. The increase in personnel costs was due to increased compensation expense of \$2.8 million, increased stock-based compensation expense of \$0.5 million and various smaller increases in product development expenses. The increase in compensation expense and stock-based compensation expense was due to a 28% increase in average headcount from additional hiring in connection with development projects and recent acquisitions.

Sales and Marketing Expenses

Sales and marketing expenses remained relatively unchanged for the three months ended March 31, 2011, compared to the three months ended March 31, 2010, as increased compensation expense of \$0.3 million due to a 5% increase in average headcount was offset by a decrease in stock-based compensation expense of \$0.2 million.

Sales and marketing expenses increased \$1.9 million, or 16%, for the nine months ended March 31, 2011, compared to the nine months ended March 31, 2010, due to increased personnel costs. The increase in personnel costs was due to increased compensation expense of \$1.1 million and increased stock-based compensation expense of \$0.6 million. The increase in compensation expense was due to a 4% increase in average headcount and increased performance bonus expenses associated with the achievement of specified financial metrics for the nine months ended March 31, 2011.

General and Administrative Expenses

General and administrative expenses increased \$1.1 million, or 24%, for the three months ended March 31, 2011, compared to the three months ended March 31, 2010, due to increased personnel costs of \$0.6 million, state franchise tax charges of \$0.2 million and increased professional service fees of \$0.2 million. The increase in personnel costs was driven by increased compensation expense of \$0.4 million and increased stock-based compensation expense of \$0.2 million. The increase in compensation expense was primarily due to higher salaries and performance bonus expenses associated with the achievement of specified financial metrics for the three months ended March 31, 2011. Professional service fees increased due to our continued investment in corporate infrastructure and related expenses associated with being a public company, including increased compliance costs.

General and administrative expenses increased \$1.1 million, or 8%, for the nine months ended March 31, 2011, compared to the nine months ended March 31, 2010, as increased professional service fees of \$0.5 million, higher insurance premiums of \$0.3 million, state franchise tax charges of \$0.2 million and various smaller increases in general and administrative expenses were partially offset by decreased personnel costs of \$0.3 million. Professional service fees and insurance premiums increased due to our continued investment in corporate infrastructure and related expenses associated with being a public company, including increased compliance costs. The decrease in personnel

costs was driven by a decline in stock-based compensation expense of \$1.8 million primarily due to the grant of fully-vested options to certain members of the board of directors in the nine months ended March 31, 2010. The decrease in stock-based compensation expense was partially offset by increased compensation expense of \$1.5 million primarily due to higher salaries and performance bonus expenses associated with the achievement of specified financial metrics for the nine months ended March 31, 2011.

Table of Contents***Interest and Other Income (Expense), Net***

	Three Months Ended March 31,		Nine Months Ended March 31,		Three Months %	Nine Months %
	2011	2010	2011	2010	Change	Change
	(in thousands)					
Interest income	\$ 25	\$ 16	\$ 139	\$ 33	56%	321%
Interest expense	(1,091)	(1,302)	(3,108)	(2,931)	(16%)	6%
Other income (expense), net	66	(64)	151	221	(203%)	(32%)
Interest and other income (expense), net	\$ (1,000)	\$ (1,350)	\$ (2,818)	\$ (2,677)	(26%)	5%

Interest and other income (expense), net decreased \$0.4 million, or 26%, for the three months ended March 31, 2011, compared to the three months ended March 31, 2010, due to a decline in interest expense of \$0.2 million and an increase in other income (expense), net of \$0.1 million. The decline in interest expense was attributable to lower balances of promissory notes outstanding. The increase in other income (expense), net was primarily due to foreign exchange gains in the three months ended March 31, 2011.

Interest and other income (expense), net decreased slightly by \$0.1 million, or 5%, for the nine months ended March 31, 2011, compared to the nine months ended March 31, 2010, as an increase in interest expense of \$0.2 million was partially offset by a slight increase in interest income of \$0.1 million. The increase in interest expense was attributable to the draw down on our credit facility.

Provision for Taxes

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2011	2010	2011	2010
	(in thousands)			
Provision for taxes	\$ 4,740	\$ 3,538	\$ 14,841	\$ 10,731
Effective tax rate	42.8%	40.3%	41.7%	43.1%

The increase in our effective tax rate for the three months ended March 31, 2011, compared to the three months ended March 31, 2010, was primarily driven by the release of tax-related reserves and the impact of an amended federal filing in the three months ended March 31, 2010.

The decrease in our effective tax rate for the nine months ended March 31, 2011, compared to the nine months ended March 31, 2010, was primarily driven by the retroactive reinstatement of research and development tax credits and higher tax benefits from stock option exercises. The research and development credits were retroactively extended under the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 beginning January 1, 2010 through December 31, 2012. See Note 2 to the condensed consolidated financial statements for more information.

Liquidity and Capital Resources

Our primary operating cash requirements include the payment of media costs, personnel costs, costs of information technology systems and office facilities.

Our principal sources of liquidity as of March 31, 2011, consisted of cash and cash equivalents of \$124.7 million, short-term marketable securities of \$25.4 million and our credit facility, which had \$123.4 million available for borrowing. We believe that our existing cash, cash equivalents, short-term marketable securities, available borrowings under the credit facility and cash generated from operations will be sufficient to satisfy our currently anticipated cash

requirements through at least the next 12 months.

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	Nine Months Ended March 31,	
	2011	2010
	(in thousands)	
Cash flows from operating activities	\$ 58,577	\$ 29,963
Cash flows from investing activities	(122,914)	(56,000)
Cash flows from financing activities	33,268	176,173

Net Cash Provided by Operating Activities

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

Net cash provided by operating activities in the nine months ended March 31, 2011 was due to net income of \$20.8 million, non-cash depreciation, amortization and stock-based compensation expense of \$31.1 million, a net increase in accounts payable and accrued liabilities of \$10.0 million and a decrease in prepaid expenses and other assets of \$2.0 million, partially offset by excess tax benefits from stock-based compensation of \$6.7 million. The net increase in accounts payable and accrued liabilities is due to timing of payments and increased cost of revenue associated with increased revenue. The decrease in prepaid expenses and other assets is primarily due to timing of payments.

Net cash provided by operating activities in the nine months ended March 31, 2010, was the result of net income of \$14.2 million, non-cash depreciation, amortization and stock-based compensation expense of \$23.9 million and an increase in accounts payable and accrued liabilities of \$10.0 million, partially offset by an increase in accounts receivable of \$11.3 million, an increase in prepaid expenses and other assets of \$5.4 million and excess tax benefits from stock-based compensation of \$1.8 million. The increase in accounts payable and accrued liabilities is due to timing of payments and increased cost of revenue associated with increased revenue. The increase in accounts receivable is attributable to increased revenue, as well as timing of receipts. The increase in prepaid expenses and other assets is primarily due to timing of payments.

Net Cash Used in Investing Activities

Our investing activities include acquisitions of media websites and businesses; capital expenditures and capitalized internal development costs.

Cash used in investing activities in the nine months ended March 31, 2011 was primarily due to our acquisition of CarInsurance.com for an initial cash payment of \$49.7 million and Insurance.com for an initial cash payment of \$33.0 million. Cash used in investing activities in the nine months ended March 31, 2011 was also impacted by purchases of the operations of 12 other online publishing businesses for an aggregate of \$9.1 million in cash payments, which included \$4.5 million of contingent consideration related to a prior period acquisition, as well as net investments in marketable securities of \$25.4 million. Capital expenditures and internal software development costs totaled \$5.8 million in the nine months ended March 31, 2011.

Cash used in investing activities in the nine months ended March 31, 2010 was primarily due to our acquisition of Internet.com for an initial cash payment of \$15.9 million and Insure.com for an initial cash payment of \$15.0 million. Cash used in investing activities in the nine months ended March 31, 2010 was also impacted by purchases of the operations of 23 other online publishing businesses for an aggregate of \$20.6 million in cash payments, which included \$4.5 million of contingent consideration related to a prior period acquisition. Capital expenditures and internal software development costs totaled \$3.2 million in the nine months ended March 31, 2010.

Net Cash Provided by Financing Activities

Cash provided by financing activities in the nine months ended March 31, 2011 was primarily due to net proceeds from the draw-down of our revolving credit line of \$24.4 million, proceeds from the exercise of stock options of \$12.6 million and excess tax benefits from stock-based compensation of \$6.7 million, partially offset by \$10.4 million in principal payments on acquisition-related notes payable and our term loan.

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Cash provided by financing activities in the nine months ended March 31, 2010 was primarily due to proceeds from our IPO, net of issuance costs, of \$138.1 million, the draw-down of our revolving credit line of \$43.3 million, excess tax benefits from stock-based compensation of \$1.8 million and proceeds from the exercise of stock options of \$1.6 million, partially offset by \$8.6 million in principal payments on acquisition-related notes payable and our term loan, as well as repurchases of our common stock.

Off-Balance Sheet Arrangements

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

Contractual Obligations

Our contractual obligations relate primarily to borrowings under our credit facility, acquisition-related notes payable, operating leases and purchase obligations. There have been no significant changes in our contractual obligations from those disclosed in our Annual Report on Form 10-K for the year ended June 30, 2010.

Credit Facility

In January 2010, we replaced our existing credit facility with a credit facility totaling \$175.0 million. The new facility consisted of a \$35.0 million four-year term loan, with principal amortization of 10%, 15%, 35% and 40% annually, and a \$140.0 million four-year revolving credit line with an option to increase the revolving credit line by \$50.0 million. We exercised this option in February 2011, thereby increasing the total capacity of the credit facility to \$225.0 million. Borrowings under the credit facility are collateralized by our assets and interest is payable quarterly at specified margins above either LIBOR or the Prime Rate. The interest rate varies dependent upon the ratio of funded debt to adjusted EBITDA and ranges from LIBOR + 2.125% to 2.875% or Prime + 1.00% to 1.50% for the revolving credit line and from LIBOR + 2.50% to 3.25% or Prime + 1.00% to 1.50% for the term loan. Adjusted EBITDA is defined as net income less provision for taxes, depreciation expense, amortization expense, stock-based compensation expense, interest and other income (expense), net and acquisition costs for business combinations. The revolving credit line requires a facility fee of 0.375% of the revolving credit line capacity. The credit facility expires in January 2014. The credit facility agreement restricts our ability to raise additional debt financing and pay dividends. In addition, we are required to maintain financial ratios computed as follows:

1. Quick ratio: ratio of (i) the sum of unrestricted cash and cash equivalents and trade receivables less than 90 days from invoice date to (ii) current liabilities and face amount of any letters of credit less the current portion of deferred revenue.

2. Fixed charge coverage: ratio of (i) trailing twelve months of adjusted EBITDA to (ii) the sum of capital expenditures, net cash interest expense, cash taxes, cash dividends and trailing twelve months payments of indebtedness. Payment of unsecured indebtedness is excluded to the degree that sufficient unused revolving credit line exists such that the relevant debt payment could be made from the credit facility.

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

Under the terms of the credit facility we must maintain a minimum quick ratio of 1.15:1.00, a minimum fixed charge coverage ratio of 1.15:1.00 and a maximum funded debt to adjusted EBITDA ratio of 2.50:1.00, and the terms also require us to comply with other non-financial covenants. We were in compliance with the covenants as of March 31, 2011 and June 30, 2010.

New Lease

As the previous lease for our corporate headquarters located at 1051 Hillsdale Boulevard, Foster City, California expired in October 2010, we entered into a new lease agreement in February 2010 for approximately 63,998 square feet of office space located at 950 Tower Lane, Foster City, California. The term of the lease began on November 1, 2010 and expires on October 31, 2018. The monthly base rent is abated for the first 12 calendar months under the lease. Thereafter the base rent will be \$118,000 through the 24th calendar month of the term of the lease, after which the monthly base rent will increase to \$182,000 for the subsequent 12 months.

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In the following years the monthly base rent will increase approximately 3% after each 12-month anniversary during the term of the lease, including any extensions under our options to extend.

We have two options to extend the term of the lease for one additional year for each option following the expiration date of the lease or renewal term, as applicable.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Foreign Currency Exchange Risk

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

Interest Rate Risk

We invest our cash equivalents and short-term investments primarily in money market funds, US government securities and short-term deposits with original maturities of less than three months. Unrestricted cash, cash equivalents and short-term investments are held for working capital purposes and acquisition financing. We do not enter into investments for trading or speculative purposes. We believe that we do not have material exposure to changes in the fair value as a result of changes in interest rates due to the short-term nature of our investments. Declines in interest rates may reduce future investment income. However, a hypothetical decline of 1% in the interest rate on our investments would not have a material effect on our consolidated financial condition or results of operations.

As of March 31, 2011, our credit facility had a borrowing capacity of \$225.0 million. Interest on borrowings under the credit facility is payable quarterly at specified margins above either LIBOR or the Prime Rate. Our exposure to interest rate risk under the credit facility will depend on the extent to which we utilize such facility. As of March 31, 2011, we had \$98.1 million outstanding under our credit facility. A hypothetical increase of 1% in the LIBOR or Prime Rate-based interest rate on our credit facility would result in an increase in our interest expense of \$1.0 million per year, assuming constant borrowing levels.

ITEM 4. 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 March 31, 2011. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Securities Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Securities Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of March 31, 2011, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

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Changes in Internal Control over Financial Reporting

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

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On September 8, 2010, a patent infringement lawsuit was filed against us by LendingTree, LLC ("LendingTree") in the United States District Court for the Western District of North Carolina, seeking a judgment that we have infringed a certain patent held by LendingTree, an injunctive order against the alleged infringing activities and an award for damages. On September 24, 2010, LendingTree filed a first amended complaint adding an additional defendant. If an injunction is granted, it could force us to stop or alter certain of our business activities, such as our lead generation in certain of our client verticals. While we intend to vigorously defend our position, neither the outcome of the litigation nor the amount and range of potential damages or exposure associated with the litigation can be assessed with certainty.

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

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 Quarterly Report on Form 10-Q. If any of such risks actually occur, our business, operating results or financial condition could be adversely affected. In those cases, the trading price of our common stock could decline and you may lose all or part of your investment.

Risks Related to Our Business and Industry

We operate in an immature industry and have a relatively new business model, which makes it difficult to evaluate our business and prospects.

We derive nearly all of our revenue from the sale of online marketing and media services, which is an immature industry that has undergone rapid and dramatic changes in its short history. The industry in which we operate is characterized by rapidly-changing Internet media, evolving industry standards, and changing user and client demands. Our business model is also evolving and is distinct from many other companies in our industry, and it may not be successful. As a result of these factors, the future revenue and income potential of our business is uncertain. Although we have experienced significant revenue growth in recent periods, we may not be able to sustain current revenue levels or growth rates. Any evaluation of our business and our prospects must be considered in light of these factors and the risks and uncertainties often encountered by companies in an immature industry with an evolving business model such as ours. Some of these risks and uncertainties relate to our ability to:

maintain and expand client relationships;

sustain and increase the number of visitors to our websites;

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

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

raise capital at attractive costs, or at all;

acquire and integrate websites and other businesses;

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

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

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

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

protect our proprietary technology and intellectual property rights; and

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

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

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

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

Our ability to maintain the number of visitors to our websites from search websites and other websites is not entirely within our control. For example, Internet search websites frequently revise their algorithms in an attempt to optimize their search result listings or to maintain their internal standards and strategies. Changes in the algorithms could cause our websites to receive less favorable placements, which could reduce the number of users who visit our websites. Changes to search engine user interfaces, such as Google Instant, may also adversely impact the number of users we attract to our websites. Throughout the years we have experienced fluctuations in the search result rankings for a number of our websites. Some of our sites and paid listing campaigns have been negatively impacted by Google algorithmic changes. We may make decisions that are suboptimal regarding the purchase of paid listings or our proprietary bid management technologies may contain defects or otherwise fail to achieve their intended results, either of which could also reduce the number of visitors to our websites or cause us to incur additional costs. We may also make decisions that are suboptimal regarding the placement of advertisements on other websites and pricing, which could increase our costs to attract such visitors or cause us to incur unnecessary costs. Our approaches may be deemed similar to those of our competitors and others in our industry that Internet search websites may consider to be unsuitable or unattractive. Internet search websites could deem our content to be unsuitable or below standards or less attractive or worthy than those of other or competing websites. In either such case, our websites may receive less favorable placement in algorithmic or paid listings, or both. A reduction in the number of visitors to our websites could negatively affect our ability to earn revenue. If visits to our websites decrease, we may need to resort to more costly sources to replace lost visitors, and such increased expense could adversely affect our business and profitability. ***A substantial portion of our revenue is generated from a limited number of clients and, if we lose a major client, our revenue will decrease and our business and prospects would be adversely impacted.***

A substantial portion of our revenue is generated from a limited number of clients. Our top three clients accounted for 21% of our net revenue for the nine months ended March 31, 2011 and for 23% of our net revenue in the fiscal year ended June 30, 2010. Our clients can generally terminate their contracts with us at any time, with limited prior notice or penalty. Our clients may reduce their level of business with us, leading to lower revenue. In addition, reductions in business by one or more significant clients of our programs may lead to price reductions to our other clients for those products whose prices are determined in whole or in part by client bidding or competition, resulting in lower revenue. We expect that a limited number of clients will continue to account for a significant percentage of our revenue, and the loss of, or material reduction in, their marketing spending with us could decrease our revenue and harm our business.

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

We generate nearly half of our revenue from our education client vertical and nearly all of that revenue is generated from for-profit educational institutions. There is intense governmental interest in and scrutiny of the for-profit education industry and a high degree of focus on marketing practices in the industry. The Department of Education

has promulgated proposed and final regulations that could

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adversely impact us and our education clients. The intense focus on the for-profit education industry could result in further regulatory or legislative action. We cannot predict whether this will happen or what the impact could be on our financial results.

Over the past year, the Department of Education has been working on revised regulations under the United States Higher Education Act. The Higher Education Act, administered by the U.S. Department of Education, provides that to be eligible to participate in Federal student financial aid programs, an educational institution must enter into a program participation agreement with the Secretary of the Department of Education. The agreement includes a number of conditions with which an institution must comply to be granted initial and continuing eligibility to participate. Among those conditions is a prohibition on institutions providing to any individual or entity engaged in recruiting or admission activities any commission, bonus, or other incentive payment based directly or indirectly on success in securing enrollments. The current regulations promulgated under the Higher Education Act specify a number of types of compensation, or safe harbors, that do not constitute incentive compensation in violation of this agreement. One of these safe harbors permits an institution to award incentive compensation for Internet-based recruitment and admission activities that provide information about the institution to prospective students, refer prospective students to the institution, or permit prospective students to apply for admission online. The Department of Education issued final regulations on October 29, 2010 on incentive compensation and other matters. These regulations become effective July 1, 2011. The Department's regulations repeal all safe harbors regarding incentive compensation, including the Internet safe harbor. The elimination of the safe harbors could create uncertainty for us and our education clients and impact the way in which we are paid by our clients and, accordingly, could reduce the amount of revenue we generate from the education client vertical.

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

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

Any of the aforementioned regulatory or legislative risks could cause some or all of our education clients to significantly shrink or even to cease doing business, which could have a material adverse effect on our financial results.

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

To date, we have generated a majority of our revenue from clients in our education and financial services client verticals. We expect that a majority of our revenue in the near term will be generated from clients in our education and financial services client verticals. Changes in the market conditions or the regulatory environment in these two highly-regulated client verticals may negatively impact our clients' businesses, marketing practices and budgets and, therefore, adversely affect our financial results.

For example, some of our large clients in the education client vertical have publicly indicated that enrollments are dropping or are expected to drop in the future. While it is not clear what impact these declines in enrollment may have on these clients' marketing budgets and business with us, declining enrollments could result in reduced marketing budgets and, therefore, adversely affect our financial results.

Any acquisitions that we complete will involve a number of risks. If we are unable to address and resolve these risks successfully, such acquisitions could harm our business, results of operations and financial condition.

The anticipated benefit of any acquisitions that we complete may not materialize. In addition, the process of integrating acquired businesses or technologies may create unforeseen operating difficulties and expenditures. Some of the areas where we may face acquisition-related risks include:

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diversion of management time and potential business disruptions;

difficulties integrating and supporting acquired products or technologies;

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

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

retaining and integrating employees from any businesses we may acquire;

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

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

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

unexpected capital expenditure requirements;

insufficient revenue to offset increased expenses associated with acquisitions;

underperformance problems associated with acquisitions; and

becoming involved in acquisition-related litigation.

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

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

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

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

Our performance depends on the talents and efforts of our employees. Our future success will depend on our ability to attract, retain and motivate highly skilled personnel in all areas of our organization and, in particular, in our engineering/technology, sales and marketing, media, finance and legal/regulatory teams. We plan to continue to grow our business and will need to hire additional personnel to support this growth. We have found it difficult from time to

time to locate and hire suitable personnel. If we experience similar difficulties in the future, our growth may be hindered. Qualified individuals are in high demand, particularly in the Internet marketing industry, and we may incur significant costs to attract and retain them. Many of our employees have also become, or will soon become, substantially vested in their stock option grants. Employees may be more likely to leave us as a result of the recent

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establishment of a public market for our common stock. If we are unable to attract and retain the personnel we need to succeed, our business and growth could be harmed.

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

A significant portion of our revenue is attributable to visitors originating from advertising placements that we purchase on third-party websites. In many instances, website publishers can change the advertising inventory they make available to us at any time and, therefore, impact our revenue. In addition, website publishers may place significant restrictions on our offerings. These restrictions may prohibit advertisements from specific clients or specific industries, or restrict the use of certain creative content or formats. If a website publisher decides not to make advertising inventory available to us, or decides to demand a higher revenue share or places significant restrictions on the use of such inventory, we may not be able to find advertising inventory from other websites that satisfy our requirements in a timely and cost-effective manner. In addition, the number of competing online marketing service providers and advertisers that acquire inventory from websites continues to increase. Consolidation of Internet advertising networks and website publishers could eventually lead to a concentration of desirable inventory on a small number of websites or networks, which could limit the supply of inventory available to us or increase the price of inventory to us. We cannot assure you that we will be able to acquire advertising inventory that meets our clients performance, price and quality requirements. If any of these things occur, our revenue could decline or our operating costs may increase.

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

We have experienced rapid growth in our operations and operating locations, and we expect to experience continued growth in our business, both through acquisitions and internal growth. This growth has placed, and will continue to place, significant demands on our management and our operational and financial infrastructure. In particular, continued rapid growth and acquisitions may make it more difficult for us to accomplish the following:

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

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

- maintain our client service standards; and

- develop and improve our operational, financial and management controls and maintain adequate reporting systems and procedures.

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

Our future growth depends in part on our ability to identify and complete acquisitions.

Our growth over the past several years is in significant part due to the large number of acquisitions we have completed. We have completed a large number of acquisitions of third-party website publishing businesses and other businesses that are complementary to our own. We intend to pursue acquisitions of complementary businesses and technologies to expand our capabilities, client base and media. We have evaluated, and expect to continue to evaluate, a wide array of potential strategic transactions. However, we may not be successful in identifying suitable acquisition candidates or be able to complete acquisitions of such candidates. In addition, we may not be able to obtain financing on favorable terms, or at all, to fund acquisitions that we may wish to pursue.

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

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

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

As of March 31, 2011, we had an outstanding term loan with a principal balance of \$31.5 million and a revolving credit line pursuant to which we can borrow up to an additional \$190.0 million. As of March 31, 2011, we had drawn \$66.6 million from our revolving credit line. As of such date, we also had outstanding notes to sellers arising from numerous acquisitions in the total principal amount of \$14.8 million. As a result of our debt:

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

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

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

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

The severe economic downturn in the United States still poses additional risks to our business, financial condition and results of operations.

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

reduced availability of credit for households and business and reduced household disposable income. Economic conditions may not improve or may worsen.

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

Our business is dependent on attracting a large number of visitors to our websites and providing leads and clicks to our clients, which depends in part on our reputation within the industry and with our clients. There are companies within our industry that regularly engage in activities that our clients' customers may view as unlawful or inappropriate. These activities, such as spyware or deceptive promotions, by third parties may be seen by clients as characteristic of participants in our industry and, therefore, may have an adverse effect on the reputation of all participants in our industry, including us. Any damage to our reputation, including from publicity from legal proceedings against us or companies that work within our industry, governmental proceedings, consumer class action litigation, or the disclosure of information security breaches or private information misuse, could adversely affect our business, financial condition and results of operations.

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

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

changes in demand and pricing for our services;

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

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

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

changes in the regulatory environment for us or our clients;

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

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

changes in the placement of our websites on search engines;

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

costs related to acquisitions of businesses or technologies.

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

Our results are subject to significant fluctuation as a result of seasonality. In particular, our quarters ending December 31 (our second fiscal quarter) demonstrate seasonal weakness. In our second fiscal quarters, there is lower availability of lead supply from some forms of media during the holiday period on a cost effective basis and some of

our clients request fewer leads due to holiday staffing. Our fluctuating results could cause our performance to be below the expectations of securities analysts and investors, causing the price of our common stock to fall. To the extent our rate of growth slows, we expect that the seasonality in our business may become more apparent and may in the future cause our operating results to fluctuate to a greater extent.

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

The market for online marketing is intensely competitive. We expect this competition to continue to increase in the future. We perceive only limited barriers to entry to the online marketing industry. We compete both for clients and for limited high quality advertising inventory. We compete for clients on the basis of a number of factors, including return on marketing expenditures, price, and client service.

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

- online marketing or media services providers such as Monster Worldwide in the education client vertical and BankRate in the financial services client vertical;

- offline and online advertising agencies;

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

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

- website publishers with their own sales forces that sell their online marketing services directly to clients;

- in-house marketing groups at current or potential clients;

- offline direct marketing agencies; and

- television, radio and print companies.

Competition for web traffic among websites and search engines, as well as competition with traditional media companies, could result in significant price pressure, declining margins, reductions in revenue and loss of market share. In addition, as we continue to expand the scope of our services, we may compete with a greater number of websites, clients and traditional media companies across an increasing range of different services, including in vertical markets where competitors may have advantages in expertise, brand recognition and other areas. Large Internet companies with brand recognition, such as Google, Yahoo!, MSN, and AOL, have significant numbers of direct sales personnel and substantial proprietary advertising inventory and web traffic that provide a significant competitive advantage and have significant impact on pricing for Internet advertising and web traffic. These companies may also develop more vertically targeted products that match consumers with products and services, such as Google's mortgage rate and credit card comparison products, and thus compete with us more directly. The trend toward consolidation in the Internet advertising arena may also affect pricing and availability of advertising inventory and web traffic. Many of our current and potential competitors also enjoy other competitive advantages over us, such as longer operating histories, greater brand recognition, larger client bases, greater access to advertising inventory on high-traffic websites, and significantly greater financial, technical and marketing resources. As a result, we may not be able to compete successfully. Competition from other marketing service providers' on- and offline offerings could affect both volume and price, and thus revenue. If we fail to deliver results that are superior to those that other online marketing service providers achieve, we could lose clients and our revenue may decline.

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

The online marketing services market is relatively new and rapidly evolving, and it uses different measurements than traditional media to gauge its effectiveness. Some of our current or potential clients have little or no experience using the Internet for advertising and marketing purposes and have allocated only limited portions of their advertising and marketing budgets to the Internet. The adoption of Internet advertising, particularly by those entities that have

historically relied upon traditional media for advertising, requires the acceptance of a new way of conducting business, exchanging information and evaluating new advertising and marketing technologies and services. In particular, we are dependent on our clients' adoption of new metrics to measure the success of online marketing campaigns. We may also experience resistance from traditional advertising agencies who may be advising our clients. We cannot assure you that the market for online marketing services will continue to grow. If the market for online marketing services fails to continue to develop or develops more slowly than we anticipate, our ability to grow our business may be limited and our revenue may decrease.

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

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

Because many of our client contracts can be cancelled by the client with little prior notice or penalty, the cancellation of one or more contracts could result in an immediate decline in our revenue.

We derive our revenue from contracts with our Internet marketing clients, most of which are cancelable with little or no prior notice. In addition, these contracts do not contain penalty provisions for cancellation before the end of the contract term. The non-renewal, renegotiation, cancellation, or deferral of large contracts, or a number of contracts that in the aggregate account for a significant amount of our revenue, is difficult to anticipate and could result in an immediate decline in our revenue.

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

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

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

Our ability to compete effectively depends upon our proprietary systems and technology. We rely on trade secret, trademark and copyright law, confidentiality agreements, technical measures and patents to protect our proprietary rights. We currently have two patent applications pending in the United States and no issued patents. Effective trade secret, copyright, trademark and patent protection may not be available in all countries where we currently operate or in which we may operate in the future. Some of our systems and technologies are not covered by any copyright, patent or patent application. We cannot guarantee that: (i) our intellectual property rights will provide competitive advantages to us; (ii) our ability to assert our intellectual property rights against potential competitors or to settle current or future disputes will not be limited by our agreements with third parties; (iii) our intellectual property rights will be enforced in jurisdictions where competition may be intense or where legal protection may be weak; (iv) any of the patents, trademarks, copyrights, trade secrets or other intellectual property rights that we presently employ in our business will not lapse or be invalidated, circumvented, challenged, or abandoned; (v) competitors will not design around our protected systems and technology; or (vi) that we will not lose the ability to assert our intellectual property rights against others.

We are a party to a number of third-party intellectual property license agreements and in the future, may need to obtain additional licenses or renew existing license agreements. We are unable to predict with certainty whether these license agreements can be obtained or renewed on commercially reasonable terms, or at all.

We have from time to time become aware of third parties who we believe may have infringed on our intellectual property rights. The use of our intellectual property rights by others could reduce any competitive advantage we have developed and cause us to lose clients, third-party website publishers or otherwise harm our business. Policing

unauthorized use of our proprietary rights can be difficult and costly. In addition, litigation, while it may be necessary to enforce or protect our intellectual property rights or to defend

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litigation brought against us, could result in substantial costs and diversion of resources and management attention and could adversely affect our business, even if we are successful on the merits.

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

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

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

We cannot be certain that our internally-developed or acquired systems and technologies do not and will not infringe the intellectual property rights of others. In addition, we license content, software and other intellectual property rights from third parties and may be subject to claims of infringement if such parties do not possess the necessary intellectual property rights to the products they license to us. We have in the past and may in the future be subject to legal proceedings and claims that we have infringed the patent or other intellectual property rights of a third-party. These claims sometimes involve patent holding companies or other adverse patent owners who have no relevant product revenue and against whom our own patents, if any, may therefore provide little or no deterrence. In addition, third parties have asserted and may in the future assert intellectual property infringement claims against our clients, which we have agreed in certain circumstances to indemnify and defend against such claims. Any intellectual property related infringement claims, whether or not meritorious, could result in costly litigation and could divert management resources and attention. Moreover, should we be found liable for infringement, we may be required to enter into licensing agreements, if available on acceptable terms or at all, pay substantial damages, or limit or curtail our systems and technologies. Moreover, we may need to redesign some of our systems and technologies to avoid future infringement liability. Any of the foregoing could prevent us from competing effectively and increase our costs.

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

Our proprietary technologies may include design or performance defects and may not achieve their intended results, either of which could impair our future revenue growth.

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

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

The business lines in which we currently compete are characterized by rapidly-changing Internet media and marketing standards, changing technologies, frequent new product and service introductions, and changing user and client demands. The introduction of new technologies and services embodying new technologies and the emergence of

new industry standards and practices could render

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our existing technologies and services obsolete and unmarketable or require unanticipated investments in technology. Our future success will depend in part on our ability to adapt to these rapidly-changing Internet media formats and other technologies. We will need to enhance our existing technologies and services and develop and introduce new technologies and services to address our clients' changing demands. If we fail to adapt successfully to such developments or timely introduce new technologies and services, we could lose clients, our expenses could increase and we could lose advertising inventory.

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

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

In the United States, federal and state laws have been enacted regarding copyrights, sending of unsolicited commercial email, user privacy, search engines, Internet tracking technologies, direct marketing, data security, children's privacy, pricing, sweepstakes, promotions, intellectual property ownership and infringement, trade secrets, export of encryption technology, taxation and acceptable content and quality of goods. Other laws and regulations may be adopted in the future. Laws and regulations, including those related to privacy and use of personal information, are changing rapidly outside the United States as well which may make compliance with such laws and regulations difficult and which may negatively affect our ability to expand internationally. This legislation could: (i) hinder growth in the use of the Internet generally; (ii) decrease the acceptance of the Internet as a communications, commercial and advertising medium; (iii) reduce our revenue; (iv) increase our operating expenses; or (v) expose us to significant liabilities.

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

In particular, a number of U.S. federal laws impact our business. The Digital Millennium Copyright Act, or DMCA, is intended, in part, to limit the liability of eligible online service providers for listing or linking to third-party websites that include materials that infringe copyrights or other rights. Portions of the Communications Decency Act, or CDA, are intended to provide statutory protections to online service providers who distribute third-party content. We rely on the protections provided by both the DMCA and CDA in conducting our business. In addition, the United States Higher Education Act provides that to be eligible to participate in Federal student financial aid programs, an educational institution must enter into a program participation agreement with the Secretary of the Department of Education. The agreement includes a number of conditions with which an institution must comply to be granted initial and continuing eligibility to participate. Among those conditions is a prohibition on institutions providing to any individual or entity engaged in recruiting or admission activities any commission, bonus, or other incentive payment based directly or indirectly on success in securing enrollments. The current regulations promulgated under the Higher Education Act specify a number of types of compensation, or safe harbors, that do not constitute incentive compensation in violation of this agreement. One of these safe harbors permits an institution to award incentive compensation for Internet-based recruitment and admission activities that provide information about the institution to prospective students, refer prospective students to the institution, or permit prospective students to apply for admission online. The Department of Education issued final regulations on October 29, 2010 on incentive compensation and other matters. These regulations become effective July 1, 2011. The Department's regulations repeal all safe harbors regarding incentive compensation, including the Internet safe harbor. The elimination of the safe harbors could create

uncertainty for us and our education clients and impact the way in which we are paid by our clients and, accordingly, could reduce the amount of revenue we generate from the education client vertical.

In addition, the Department has proposed regulations that would also restrict Title IV funding for programs not meeting prescribed income-to-debt ratios (i.e., programs not leading to gainful employment as defined under the proposed regulation). The Department is expected to issue final regulations on gainful employment in 2011 and those regulations would take effect on July 1, 2012. These provisions, if adopted and as enforced, could negatively affect our business with education clients. Any changes in these laws or

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judicial interpretations narrowing their protections will subject us to greater risk of liability and may increase our costs of compliance with these regulations or limit our ability to operate certain lines of business.

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

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

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

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

When a user visits our websites, we use technologies, including cookies, to collect information such as the user's Internet Protocol, or IP, address, offerings delivered by us that have been previously viewed by the user and responses by the user to those offerings. In order to determine the effectiveness of a marketing campaign and to determine how to modify the campaign, we need to access and analyze this information. The use of cookies has been the subject of regulatory scrutiny and litigation and users are able to block or delete cookies from their browser. Periodically, certain of our clients and publishers seek to prohibit or limit our collection or use of this data. Interruptions, failures or defects in our data collection systems, as well as privacy concerns regarding the collection of user data, could also limit our ability to analyze data from our clients' marketing campaigns. This risk is heightened when we deliver marketing services to clients in the financial and medical services client verticals. If our access to data is limited in the future, we may be unable to provide effective technologies and services to clients and we may lose clients and revenue.

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

We create original content for our websites and marketing messages and distribute third-party content on our websites and in our marketing messages. As a creator and distributor of original content and third-party provided content, we face potential liability based on a variety of theories, including defamation, negligence, deceptive advertising, copyright or trademark infringement or other legal theories based on the nature, creation or distribution of this information. It is also possible that our website visitors could make claims against us for losses incurred in reliance upon information provided on our websites. In addition, as the number of users of forums and social media features on our websites increases, we could be exposed to liability in connection with material posted to our websites by users and other third parties. These claims, whether brought in the United States or abroad, could divert management time and attention away from our business and result in significant costs to investigate and defend, regardless of the merit of these claims. In addition, if we become subject to these types of claims and are not successful in our defense, we may be forced to pay substantial damages.

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

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

We may not succeed in expanding our businesses outside the United States, which may limit our future growth.

One potential area of growth for us is in the international markets. However, we have limited experience in marketing, selling and supporting our services outside of the United States and we may not be successful in introducing or marketing our services abroad. There are risks inherent in conducting business in international markets, such as:

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

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

changes in foreign political and economic conditions;

tariffs and other trade barriers, fluctuations in currency exchange rates and potentially adverse tax consequences;

language barriers or cultural differences;

reduced or limited protection for intellectual property rights in foreign jurisdictions;

difficulties and costs in staffing, managing or overseeing foreign operations; and

education of potential clients who may not be familiar with online marketing.

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

We rely on third-party vendors, including data center and Internet bandwidth providers. Any disruption in the network access or co-location services provided by these third-party providers or any failure of these third-party providers to handle current or higher volumes of use could significantly harm our business. Any financial or other difficulties our providers face may have negative effects on our business, the nature and extent of which we cannot predict. We exercise little control over these third-party vendors, which increases our vulnerability to problems with the services they provide. We license technology and related databases from third parties to facilitate analysis and storage of data and delivery of offerings. We have experienced interruptions and delays in service and availability for data centers, bandwidth and other technologies in the past. Any errors, failures, interruptions or delays experienced in connection with these third-party technologies and services could adversely affect our business and could expose us to liabilities to third parties.

Our systems also heavily depend on the availability of electricity, which also comes from third-party providers. If we or third-party data centers which we utilize were to experience a major power outage, we would have to rely on back-up generators. These back-up generators may not operate properly through a major power outage and their fuel

supply could also be inadequate during a major power outage or disruptive event. Furthermore, we do not currently have backup generators at our Foster City, California headquarters. Information systems such as ours may be disrupted by even brief power outages, or by the fluctuations in power resulting from switches to and from back-up generators. This could give rise to obligations to certain of our clients which could have an adverse effect on our results for the period of time in which any disruption of utility services to us occurs.

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

Our delivery of marketing and media services depends on the continuing operation of our technology infrastructure and systems. Any damage to or failure of our systems could result in interruptions in our ability to deliver offerings quickly and accurately and/or process visitors' responses emanating from our various web presences. Interruptions in our service could reduce our revenue and profits, and our reputation could be damaged if people believe our systems are unreliable. Our systems and operations are vulnerable to damage or interruption from earthquakes, terrorist attacks, floods, fires, power loss, break-ins, hardware or software failures, telecommunications failures, computer viruses or other attempts to harm our systems, and similar events.

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

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

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

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

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

We are exposed to the risk of fraudulent clicks or actions on our websites or our third-party publishers' websites. We may in the future have to refund revenue that our clients have paid to us and that was later attributed to, or suspected to be caused by, fraud. Click-through fraud occurs when an individual clicks on an ad displayed on a website or an automated system is used to create such clicks with the intent of generating the revenue share payment to the publisher rather than to view the underlying content. Action fraud occurs when on-line forms are completed with false or fictitious information in an effort to increase the compensable actions in respect of which a web publisher is to be compensated. From time to time we have experienced fraudulent clicks or actions and we do not charge our clients for such fraudulent clicks or actions when they are detected. It is conceivable that this activity could negatively affect our profitability, and this type of fraudulent act could hurt our reputation. If fraudulent clicks or actions are not detected, the affected clients may experience a reduced return on their investment in our marketing programs, which could lead the clients to become dissatisfied with our campaigns, and in turn, lead to loss of clients and the related revenue. Additionally, we have from time to time had to terminate relationships with web publishers who we believed to have engaged in fraud and we may have to do so in the future. Termination of such relationships entails a loss of revenue associated with the legitimate actions or clicks generated by such web publishers.

We incur significant costs as a result of operating as a public company, which may adversely affect our operating results and financial condition.

As a public company, we incur significant accounting, legal and other expenses that we did not incur as a private company. We incur costs associated with our public company reporting requirements. We also incur costs associated

with corporate governance requirements, including requirements under the Sarbanes-Oxley Act of 2002, or Sarbanes-Oxley Act, as well as rules implemented by

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the SEC and NASDAQ. We expect these rules and regulations to continue to increase our legal and financial compliance costs and to make some activities more time-consuming and costly. Our management and other personnel will need to continue to devote a substantial amount of time to these compliance initiatives. Furthermore, these laws and regulations could make it more difficult or more costly for us to obtain certain types of insurance, including director and officer liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. The impact of these requirements could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as executive officers. These additional costs may adversely affect our operating results and financial condition.

In addition, the Sarbanes-Oxley Act requires, among other things, that we maintain effective internal control over financial reporting and disclosure controls and procedures. In particular, for the fiscal year ending June 30, 2011, we must perform system and process evaluation and testing of our internal control over financial reporting to allow management and our independent registered public accounting firm to report on the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act, or Section 404. Our compliance with Section 404 will require that we incur substantial expense and expend significant management time on compliance-related issues.

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

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

Risks Related to the Ownership of Our Common Stock

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

Prior to our initial public offering there was no public market for shares of our common stock, and an active public market for our shares may not be sustained. The trading price of our common stock has been highly volatile since our initial public offering and may continue to be subject to wide fluctuations in response to various factors, some of which are beyond our control. These factors include those discussed in this Risk Factors section of this report on Form 10-Q and others such as:

- changes in earnings estimates or recommendations by securities analysts;

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

- changes in governmental regulations;

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

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

developments with respect to intellectual property rights;

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

our commencement of, or involvement in, litigation;

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

a slowdown in our industry or the general economy.

In recent years, the stock market in general, and the market for technology and Internet-based companies in particular, has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. Broad market and industry factors may seriously affect the market price of our common stock, regardless of our actual operating performance. In addition, in the past, following periods of volatility in the overall market and the market price of a particular company's securities, securities class action litigation has often been instituted against these companies. Such litigation, if instituted against us, could result in substantial costs and a diversion of our management's attention and resources.

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

The trading market for our common stock is influenced by the research and reports that industry or securities analysts publish about us or our business. If any of the analysts who cover us issue an adverse opinion regarding our stock, our stock price would likely decline. If one or more of these analysts ceases coverage of our company or fail 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, executive officers and principal stockholders and their respective affiliates have substantial control over us and could delay or prevent a change in corporate control.

As of March 31, 2011, our directors and executive officers, together with their affiliates, beneficially owned approximately 40% of our outstanding common stock. As a result, these stockholders, acting together, have substantial control over the outcome of matters submitted to our stockholders for approval, including the election of directors and any merger, consolidation or sale of all or substantially all of our assets. In addition, these stockholders, acting together, have significant influence over the management and affairs of our company. Accordingly, this concentration of ownership may have the effect of:

delaying, deferring or preventing a change in corporate control;

impeding a merger, consolidation, takeover or other business combination involving us; or

discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of us.

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

If our existing stockholders sell, or indicate an intent to sell, substantial amounts of our common stock in the public market the trading price of our common stock could decline significantly. We had 46,908,351 shares of common stock outstanding as of March 31, 2011. In addition, (i) the 10,458,564 shares subject to outstanding stock options and restricted stock units under our equity incentive plans as of March 31, 2011 and (ii) the shares reserved for future issuance under our equity incentive plans will become eligible for sale in the public market in the future, subject to certain legal and contractual limitations. If these additional shares are sold, or if it is perceived that they will be sold, in the public market, the price of our common stock could decline substantially.

We have broad discretion to determine how to use the funds raised in our initial public offering and may use them in ways that may not enhance our operating results or the price of our common stock.

Our management has broad discretion over the use of proceeds from our initial public offering, and we could spend the proceeds from the initial public offering in ways our stockholders may not agree with or that do not yield a favorable return. We have been using and intend to continue to use the net proceeds from our initial public offering for working capital, capital expenditures and other general corporate purposes. We may also use and continue to use a portion of the net proceeds to make repayments on our debt or acquire other businesses, products or technologies. If we do not invest or apply the proceeds of our initial public offering in ways that improve our operating results, we may fail to achieve expected financial results, which could cause our stock price to decline.

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

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

a classified board of directors with three-year staggered terms, which may delay the ability of stockholders to change the membership of a majority of our board of directors;

no cumulative voting in the election of directors, which limits the ability of minority stockholders to elect director candidates;

the exclusive right of our board of directors to elect a director to fill a vacancy created by the expansion of the board of directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors;

the ability of our board of directors to determine to issue shares of preferred stock and to determine the price and other terms of those shares, including preferences and voting rights, without stockholder approval, which could be used to significantly dilute the ownership of a hostile acquirer;

a prohibition on stockholder action by written consent, which forces stockholder action to be taken at an annual or special meeting of our stockholders;

the requirement that a special meeting of stockholders may be called only by the chairman of the board of directors, the chief executive officer or the board of directors, which may delay the ability of our stockholders to force consideration of a proposal or to take action, including the removal of directors; and

advance notice procedures that stockholders must comply with in order to nominate candidates to our board of directors or to propose matters to be acted upon at a stockholders' meeting, which may discourage or deter a potential acquiror from conducting a solicitation of proxies to elect the acquiror's own slate of directors or otherwise attempting to obtain control of us.

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

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

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

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

Unregistered Sales of Equity Securities

None.

Use of Proceeds

On February 10, 2010, our registration statement on Form S-1 (File No. 333-163228) was declared effective for our initial public offering, pursuant to which we registered the offering and sale of 10,000,000 shares of common stock at a public offering price of \$15.00 per share and an aggregate offering price of \$150.0 million. The managing underwriters were Credit Suisse Securities (USA) LLC, Merrill Lynch, Pierce Fenner & Smith Incorporated and J.P. Morgan Securities Inc. The offering was completed on February 17, 2010.

As a result of the offering, we received net proceeds of \$136.7 million, after underwriting discounts and commissions of \$10.5 million and other offering costs of \$2.8 million. None of such payments were a direct or indirect payment to any of our directors or officers or their associates, to persons owning ten percent or more of our common stock or any of our other affiliates.

The net offering proceeds have been invested in money market accounts.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. (REMOVED AND RESERVED)

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit

Number

Description of Document

31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith.

Furnished herewith.

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SIGNATURES

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

QUINSTREET, INC.

/s/ Kenneth Hahn

Kenneth Hahn

Chief Financial Officer

(Principal Financial Officer and duly authorized
signatory)

Date: May 6, 2011

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INDEX TO EXHIBITS

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