UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Fiscal Year Ended June 30, 2011

OR

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

Commission file number: 001-34628

QuinStreet, Inc.

(Exact name of registrant as specified in its charter)

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

950 Tower Lane, 6th Floor
Foster City, California 94404
(Address of principal executive offices, including zip code)
(650) 587-7700
(Registrant's telephone number, including area code)

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

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

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

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

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

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 o

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

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

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

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

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

As of December 31, 2010, the aggregate market value of the voting stock held by non-affiliates of the registrant, based on the closing sale price of the Company's common stock as reported by the NASDAQ Global Select Market on such date, was $404,319,901. For purposes of this disclosure, shares held by persons who hold more than 5% of the outstanding shares of common stock and shares held by executive officers and directors of the registrant have been excluded because such persons may be deemed to be affiliates. This determination of executive officer or affiliate status is not a conclusive determination for other purposes.

Number of shares of common stock outstanding as of August 25, 2011: 47,558,647

Documents Incorporated by Reference:

Portions of the registrant's definitive proxy statement relating to its 2011 annual stockholders' meeting are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated.

QUINSTREET, INC.

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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PART I

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- our immature industry and relatively new business model;
- our dependence on Internet search companies to attract Internet visitors;
- our dependence on a small number of large clients and our dependence on a small number of client verticals for a majority of our revenue;
- changes in regulatory and legislative environment affecting our business or our clients’ businesses;
- our ability to successfully manage any recent or future acquisitions;
- our ability to attract and retain qualified employees and key personnel;
- our ability to enhance and maintain our client and vendor relationships;
- our ability to manage our growth effectively;
- our ability to accurately forecast our operating results and appropriately plan our expenses;
- our ability to develop new services and enhancements and features to meet new demands from our clients;
- our ability to raise additional capital in the future, if needed;
- general economic conditions in our domestic and potential future international markets;
- our ability to compete in our industry; and
- our ability to protect our intellectual property rights.

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

Item 1. *Business*

Our Company

QuinStreet is a leader in vertical marketing and media online. We have built a strong set of capabilities to engage Internet visitors with targeted media and to connect our marketing clients with their potential customers online. We focus on serving clients in large, information-intensive industry verticals where relevant, targeted media and offerings help visitors make informed choices, find the products that match their needs, and thus become qualified customer prospects for our clients. Our current primary client verticals are the education and financial services industries. We also have a presence in the home services, business-to-business, or B2B, and healthcare industries.

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

Founded in 1999, we have been a pioneer in the development and application of measurable marketing on the Internet. Clients pay us for the actual opt-in actions by prospects or customers that result from our marketing activities on their behalf, versus traditional impression-based advertising and marketing models in which an advertiser pays for more general exposure to an advertisement. We have been particularly focused on developing and delivering measurable marketing results in the search engine “ecosystem”, the entry point of the Internet for most of the visitors we convert into qualified leads or clicks for our clients. We own or partner with vertical content websites that attract Internet visitors from organic search engine rankings due to the quality and relevancy of their content to search engine users. We also acquire targeted visitors for our websites through the purchase of pay-per-click, or PPC advertisements on search engines. We complement search engine companies by building websites with content and offerings that are relevant and responsive to their searchers, and by increasing the value of the PPC search advertising they sell by matching visitors with offerings and converting them into customer prospects for our clients.

Market Opportunity

Our clients are shifting more of their marketing budgets from traditional media channels such as direct mail, television, radio, and newspapers to the Internet because of increasing usage of the Internet by their potential customers. We believe that direct marketing is the most applicable and relevant marketing segment to us because it is targeted and measurable. According to the December 2010 research report, “Understanding The Changing Needs Of The US Online Consumer, 2010” by Forrester Research, Americans spend 36% of their time with media on the Internet, but online direct marketing is forecasted to represent only 19% of the $163 billion in total annual U.S. direct marketing spending in 2011, as reported by the Direct Marketing Association. The Internet is an effective direct marketing medium due to its targeting and measurability characteristics. If direct marketing budgets shift to the Internet in proportion to Americans’ share of time spent with media on the Internet — from 19% to 36% of the $163 billion in total spending — that could represent an increased market opportunity of $28 billion. In addition, as traditional media categories such as television and radio shift from analog to digital formats, they can become channels for the targeted and measurable marketing techniques and capabilities we have developed for the Internet, thus expanding our addressable market opportunity. Further future market potential will also come from international markets.

Change in marketing strategy and approach

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

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

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

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

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

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

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

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

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

Increasing complexity of online marketing

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

Our Business Model

We deliver cost-effective marketing results to our clients, predictably and scalably, most typically in the form of a qualified lead or click. These leads or clicks can then convert into a customer or sale for the client at a rate that results in an acceptable marketing cost to them. We get paid by clients primarily when we deliver qualified leads or clicks as defined in our agreements. Because we bear the costs of media, our programs must deliver a value to our clients and 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 or brands that meet visitor interests or needs, converting visitors into qualified leads or clicks.
- We optimize client matches and media yield such that we achieve desired results for clients and a sound financial outcome for us.

Media cost, or the cost to attract targeted Internet visitors, is the largest cost input to producing the measurable marketing results we deliver to clients. Balancing our clients' cost and conversion objectives, or the rate at which the leads or clicks that we deliver to them convert into customers, with our media costs and yield objectives, represents the primary challenge in our business model. We have been able to effectively balance these competing demands by focusing on our media sources and capabilities, conversion optimization, and our mix of offerings and client coverage. We also seek to mitigate media cost risk by working with third-party website publishers predominantly on a revenue-share basis; media purchased on a non-revenue-share basis has represented a minority of our media costs and of the Internet visitors we convert into qualified leads or clicks for clients.

Media and Internet visitor mix

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

- websites owned and operated by us, with content and offerings that are relevant to our clients' target customers;
- visitors acquired from PPC advertisements purchased on major search engines and sent to our websites;
- revenue sharing agreements with third-party publishers with whom we have a relationship and whose content is relevant to our clients' target customers;
- email lists owned by third parties and warranted to us by their owners to comply with the CAN-SPAM Act;
- email lists owned by us, and generated on an opt-in basis from Internet visitors to our websites; and
- display ads run through online advertising networks or directly with major websites or portals.

Conversion optimization

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

Offerings and client coverage

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

Our Competitive Advantages

Vertical focus and expertise

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

Measurable marketing experience and expertise

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

Targeted media

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

Proprietary technology

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

Internet visitors and our clients and competitive advantage for us. Some of the key applications in our technology platform are:

- an ad server for tracking the placement and performance of content, creative messaging, and offerings on our websites and on those of publishers with whom we work;
- database-driven applications for dynamically matching content, offers or brands to Internet visitors' expressed needs or interests;
- a platform for measuring and managing the performance of tens of thousands of PPC search engine advertising campaigns;
- dashboards or reporting tools for displaying operating and financial metrics for thousands of ongoing marketing campaigns; and,
- a compliance tool capable of cataloging and filtering content from the thousands of websites on which our marketing programs appear to ensure adherence to client branding guidelines and to regulatory requirements.

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

Client relationships

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

- our close, often direct, relationships with most of our large clients;
- our ability to deliver measurable and attractive return on investment, or ROI, on clients' marketing spending;
- our ownership of, or exclusive access to large amounts of, targeted media inventory and associated Internet visitors in the client verticals on which we focus; and,
- our ability to consistently and reliably deliver large quantities of qualified leads or clicks.

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

Client-driven online marketing approach

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

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

Acquisition strategy and success

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

- Our ability to monetize Internet media, coupled with client demand for our services, provides us with a particular advantage in acquiring targeted online media properties in the client verticals on which we focus.
- Our capabilities in online media can allow us to generate a greater volume of leads or clicks, and therefore create more value, than other owners of marketing services companies that have aggregated client budgets or relationships.
- We can often apply technologies across our business volume to create more value than previous owners of the technology.

Scale

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

Our Strategy

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

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

Our Culture

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

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

2. *Open Communications.* We respect our colleagues and deal with one another openly, honestly and non-hierarchically in an atmosphere of mutual trust and in pursuit of common stretch goals. We assume noble intentions. We have an obligation to dissent and may problem-solve with anyone, anywhere in the organization at any time in the pursuit of the best solutions. We are mindful of roles and of the need to keep each other informed to avoid discourtesy, chaos and unintended consequences. We avoid surprises. But, ideas and performance rule, not rank and reporting lines. We support decisions once made, and move forward.

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

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

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

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

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

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

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

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

Clients

In fiscal years 2011, 2010 and 2009, our top 20 clients accounted for 62%, 65% and 68% of net revenue, respectively. One of our largest current clients, DeVry Inc., accounted for 19% of net revenue in fiscal year 2009. In fiscal years 2011 and 2010, no client comprised more than 10% of annual net revenue. Since our service was first offered in 2001, we have developed a broad client base with many multi-year relationships. We enter into Internet marketing contracts with our clients, most of which are cancelable with little or no prior notice. In addition, these contracts do not contain penalty provisions for cancellation before the end of the contract term.

Sales and Marketing

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

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

Technology and Infrastructure

We have developed a suite of technologies to manage, improve and measure the results of the marketing programs we offer our clients. We use a combination of proprietary and third-party software as well as hardware from established technology vendors. We use specialized software for client management, building and managing websites, acquiring and managing media, managing our third-party publishers, and the matching of Internet visitors to our marketing clients. We have invested significantly in these technologies and plan to continue to do so to meet the demands of our clients and Internet visitors, to increase the scalability of our operations, and enhance management information systems and analytics in our operations. Our development teams work closely with our marketing and operating teams to develop applications and systems that can be used across our business. In fiscal years 2011, 2010 and 2009, we spent $24.2 million, $19.7 million and $14.9 million, respectively, on product development.

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

Intellectual Property

We rely on a combination of trade secret, trademark, copyright and patent laws in the United States and other jurisdictions together with confidentiality agreements and technical measures to protect the confidentiality of our proprietary rights. We currently have two patent applications pending in the United States and no issued patents. We rely much more heavily on trade secret protection than patent protection. To protect our trade secrets, we control access to our proprietary systems and technology and enter into confidentiality and invention assignment agreements with our employees and consultants and confidentiality agreements with other third parties. QuinStreet is a registered trademark in the United States and other jurisdictions. We also have registered and unregistered trademarks for the names of many of our websites and we own the domain registrations for our many website domains.

Our Competitors

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

Advertising and direct marketing services agencies

Online and offline advertising and direct marketing services agencies control the majority of the large client marketing spending for which we primarily compete. So, while they are sometimes our competitors, agencies are also often our clients. We compete with agencies to attract marketing budget or spending from offline forms to the

Internet or, once designated to be spent online, to be spent with us versus the agency or by the agency with others. When spending online, agencies spend with QuinStreet and with portals, other websites and ad networks.

Online marketing and media companies

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

Government Regulation

Advertising and promotional information presented to visitors on our websites and our other marketing activities are subject to federal and state consumer protection laws that regulate unfair and deceptive practices. There are a variety of state and federal restrictions on the marketing activities conducted by telephone, the mail or by email, or over the internet, including the Telemarketing Sales Rule, state telemarketing laws, federal and state privacy laws, the CAN-SPAM Act, and the Federal Trade Commission Act and its accompanying regulations and guidelines. In addition, some of our clients operate in regulated industries, particularly in our financial services, education and medical verticals. In our education client vertical, our clients are subject to the U.S. Higher Education Act, which, among other things, prohibits incentive compensation in recruiting students. The Department of Education issued final regulations on incentive compensation and other matters which become effective July 1, 2011. The Department's regulations repeal all safe harbors regarding incentive compensation which existed under the prior regulations, including the safe harbor for Internet-based recruiting and admissions activities. The regulations state that payment for contact information or consumer "clicks" do not constitute incentive compensation for purposes of the Higher Education Act provided that there is no commission, bonus or other incentive payment based directly or indirectly upon success in securing enrollments. Notwithstanding the foregoing, these regulations could impact how we are paid for leads by clients in our education client vertical and could also impact our education clients and their marketing practices. In addition, the same regulations impose strict liability on educational institutions for misrepresentations made by entities, like us, who contract with the institutions to provide marketing services. As a result, our clients have demanded and we have agreed to be subject to increased limitations of liability in our contracts as well as indemnification for actions by our third-party publishers. Other regulations, such as the regulations on "gainful employment" that become effective on July 1, 2012 will restrict Federal financial aid to students in programs where certain debt-to-income ratios and loan default rates are not satisfied, could limit our clients' businesses and, therefore, ours. In our financial services vertical, the U.S. Real Estate Settlement Procedures Act, or RESPA, regulates the payments that may be made to mortgage brokers. While we do not engage in the activities of a traditional mortgage broker, we are licensed as a mortgage broker in 24 states for our online marketing activities. Our insurance business is also highly regulated and we are a licensed insurance agent in all fifty states. In our medical client vertical, our medical device and supplies clients are subject to state and federal anti-kickback statutes that prohibit payment for referrals. While we believe our matching of prospective customers with our clients and the manner in which we are paid for these activities complies with these and other applicable regulations, these rules and regulations in many cases were not developed with online marketing in mind and their applicability is not always clear. The rules and regulations are complex and may be subject to different interpretations by courts or other governmental authorities. We might unintentionally violate such laws, such laws may be modified and new laws may be enacted in the future. Any such developments (or developments stemming from enactment or modification of other laws) or the failure to anticipate accurately the application or interpretation of these laws could create liability to us and result in adverse publicity.

Employees

As of June 30, 2011, we had 675 employees, which consisted of 207 employees in product development and engineering, 64 in sales and marketing, 57 in general and administration and 347 in operations. None of our employees is represented by a labor union.

Available Information

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

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

Executive Officers of the Registrant

The name of and certain information regarding each of our current executive officers as of June 30, 2011 are set forth below.

Name	Age	Position
Douglas Valenti	51	Chief Executive Officer and Chairman
Bronwyn Syiek	47	President and Chief Operating Officer
Kenneth Hahn	44	Chief Financial Officer
Tom Cheli	40	Executive Vice President
Scott Mackley	38	Executive Vice President
Nina Bhanap	38	Chief Technology Officer
Daniel Caul	45	General Counsel
Timothy Stevens	44	Senior Vice President

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

Bronwyn Syiek has served as our President and Chief Operating Officer since February 2007 and member of our board of directors since January 2011, as our Chief Operating Officer from April 2004 to February 2007, as Senior Vice President from September 2000 to April 2004, as Vice President from her start date in March 2000 to September 2000 and as a consultant to us from July 1999 to March 2000. Prior to joining us, Ms. Syiek served as Director of Business Development and member of the Executive Committee at De La Rue Plc, a banknote printing and security product company, for three years. She previously served as a strategy consultant and engagement manager at McKinsey & Company for four years and held various investment management and banking positions with Lloyds Bank and Charterhouse Bank. She holds an M.A. in Natural Sciences from Cambridge University in the United Kingdom.

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

Tom Cheli has served as our Executive Vice President since February 2007, as Senior Vice President from December 2004 to February 2007, as Vice President of Sales from January 2001 to December 2004 and as Director of Sales from February 2000 to January 2001. Prior to joining us, Mr. Cheli served as Director of Inside Sales and Sales Operations at Collagen Aesthetics Corporation, an aesthetic biomedical device company, and as Regional Sales Manager at Akorn Ophthalmics, Inc., a specialty pharmaceutical company. He holds a B.A. in Sports Medicine from the University of the Pacific.

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

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

Daniel Caul has served as our General Counsel since January 2008. Prior to joining us, Mr. Caul served as General Counsel for the Search and Media division of IAC/InterActiveCorp, an Internet search and advertising company, from September 2006 to January 2008, and prior to the acquisition by IAC/InterActiveCorp, he was Assistant General Counsel of Ask Jeeves, Inc. from February 2003 to September 2006. Previously, Mr. Caul was an attorney with Howard, Rice, Nemerovsky, Canady, Falk and Rabkin, a corporate law firm, for four years and served as a U.S. District Court clerk. He holds a B.A. in Political Science from Vanderbilt University, summa cum laude, and a J.D. from the Harvard Law School, magna cum laude. Mr. Caul was also a Fulbright Scholar.

Timothy Stevens has served as our Senior Vice President since October 2008. Prior to joining us, Mr. Stevens served as President and CEO of Doppelganger, Inc., an online social entertainment studio, from January 2007 to October 2008. Prior to Doppelganger, Mr. Stevens served as General Counsel for Borland Software Corporation, a software company, from October 2003 to June 2006. Previously, he served in various executive management roles, including most recently as Senior Vice President of Corporate Development, at Inktomi Corporation, an Internet infrastructure company, during his six year tenure. Previously, Mr. Stevens was an attorney with Wilson Sonsini Goodrich & Rosati, a corporate law firm, for six years. He holds a B.S. in both Finance and Management from the University of Oregon, summa cum laude, and a J.D. from the University of California at Davis, Order of the Coif.

Item 1A. *Risk Factors*

Investing in our common stock involves a high degree of risk. You should carefully consider the risks described below and the other information in this report on Form 10-K. If any of such risks actually occur, our business, operating results or financial condition could be adversely affected. In those cases, the trading price of our common stock could decline and you may lose all or part of your investment.

Risks Related to Our Business and Industry

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

We derive nearly all of our revenue from the sale of online marketing and media services, which is an immature industry that has undergone rapid and dramatic changes in its short history. The industry in which we operate is characterized by rapidly-changing Internet media, evolving industry standards, and changing user and client demands. Our business model is also evolving and is distinct from many other companies in our industry, and it may not be successful. As a result of these factors, the future revenue and income potential of our business is uncertain. 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;
- overcome challenges presented by adverse global economic conditions as they impact spending in our client verticals;
- raise capital at attractive costs, or at all;
- acquire and integrate websites and other businesses;
- successfully expand our footprint in our existing client verticals and enter new client verticals;
- respond effectively to competition and potential negative effects of competition on profit margins;
- attract and retain qualified management, employees and independent service providers;
- successfully introduce new processes and technologies and upgrade our existing technologies and services;
- protect our proprietary technology and intellectual property rights; and
- respond to government regulations relating to the Internet, marketing in our client verticals, personal data protection, email, software technologies and other aspects of our business.

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

We 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. We have experienced fluctuations in the search result rankings for a number of our websites. Some of our sites and paid listing campaigns have been negatively impacted by Google algorithmic changes. In addition, our business model may be deemed similar to those of our competitors and others in our industry that Internet search websites may consider to be unsuitable or unattractive. Internet search websites could deem our content to be unsuitable or below standards or less attractive or worthy than those of other or competing websites. In either such case, our websites may receive less favorable placement in algorithmic or paid listings, or both.

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

A substantial portion of our revenue is generated from a limited number of clients and, if we lose a major client, our revenue will decrease and our business and prospects would be adversely impacted.

A substantial portion of our revenue is generated from a limited number of clients. Our top three clients accounted for 20% of our net revenue for the fiscal year ended June 30, 2011. 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 adversely impact us and our education clients. The intense focus on the for-profit education industry could result in further regulatory or legislative action. We cannot predict whether this will happen or what the impact could be on our financial results.

The Higher Education Act, administered by the U.S. Department of Education, provides that to be eligible to participate in Federal student financial aid programs, an educational institution must enter into a program participation agreement with the Secretary of the Department of Education. The agreement includes a number of conditions with which an institution must comply to be granted initial and continuing eligibility to participate. Among those conditions is a prohibition on institutions providing to any individual or entity engaged in recruiting or admission activities any commission, bonus, or other incentive payment based directly or indirectly on success in securing enrollments. The Department of Education issued final regulations on incentive compensation and other matters which became effective July 1, 2011. The Department's regulations repeal all safe harbors regarding incentive compensation which existed under the prior regulations, including the safe harbor for Internet-based recruiting and admissions activities. The elimination of the safe harbors 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 same regulations impose strict liability on educational institutions for misrepresentations made by entities, like us, who contract with the institutions to provide marketing services. As a result, our clients have demanded and we have agreed to be subject to increased limitations of liability in our contracts as well as indemnification for actions by our third-party publishers. We could be subject to costly litigation and damage to our reputation, if we are unsuccessful in defending ourselves, damages for our violation of any applicable regulation and the unauthorized or unlawful acts of third-party website publishers.

Other existing and proposed regulations could negatively impact our for-profit education clients. For example, the regulations 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. Over the past year, enrollments have dropped significantly at some of our clients, caused in part by changes being made in anticipation of the implementation of this regulation. In addition, some of our large for-profit education clients have indicated that in coming years they may violate the “90/10 rule,” whereby for-profit institutions must receive at least 10 percent of their revenue from sources other than federal student financial aid. If a for-profit institution fails to comply with the rule for two consecutive fiscal years, it may lose its eligibility to receive student-aid funds for at least two years. These and other regulations or a failure of our clients to comply with such regulations, could adversely affect our clients' businesses and, as a result, affect or materially reduce the amount of revenue we generate from those clients.

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 continue to 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.

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

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

- diversion of management time and potential business disruptions;
- difficulties integrating and supporting acquired products or technologies;
- 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 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 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 arrangements that we have with third-party websites. In many instances, website publishers can change the media inventory they make available to us at any time and, therefore, impact our revenue. In addition, website publishers may place significant restrictions on our offerings. These restrictions may prohibit advertisements from specific clients or specific industries, or restrict the use of certain creative content or formats. If a website publisher decides not to make media inventory available to us, or decides to demand a higher revenue share or places significant restrictions on the use of such inventory, we may not be able to find advertising inventory from other websites that satisfy our requirements in a timely and cost-effective manner. In addition, the number of competing online marketing service providers and advertisers that acquire inventory from websites continues to increase. Consolidation of Internet advertising networks and website publishers could eventually lead to a concentration of desirable inventory on 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 further growth in our business, both through acquisitions and internally. 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.

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 June 30, 2011, we had an outstanding term loan with a principal balance of $30.2 million and a revolving credit line pursuant to which we can borrow up to an additional $190.0 million. As of June 30, 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 $11.0 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 and significant uncertainty about the economic outlook remains. The slow pace of recovery in the United States, deterioration of global economies, potential insolvency of one or more countries globally, high unemployment and reduced 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.

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

Our results are subject to significant fluctuation as a result of seasonality. In particular, our quarters ending December 31 (our second fiscal quarter) generally demonstrate seasonal weakness. In our second fiscal quarters, there is generally lower availability of 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.

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 Halyard Education Partners in the education client vertical and BankRate in the financial services client vertical;
- offline and online advertising agencies;
- major Internet portals and search engine companies with advertising networks such as Google, Yahoo!, 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.

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. Recent Department of Education regulations impose strict liability on our education clients for misrepresentations made by their marketing service providers and many of our contracts in the education client vertical impose liability on us for the acts of our third-party publishers. We could be subject to costly litigation and, if we are unsuccessful in defending ourselves, damages for the unauthorized or unlawful acts of third-party website publishers.

Because many of our client contracts can be cancelled by the client with little 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 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 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. The Higher Education Act, administered by the U.S. Department of Education, provides that to be eligible to participate in Federal student financial aid programs, an educational institution must enter into a program participation agreement with the Secretary of the Department of Education. The agreement includes a number of conditions with which an institution must comply to be granted initial and continuing eligibility to participate. Among those conditions is a prohibition on institutions providing to any individual or entity engaged in recruiting or admission activities any commission, bonus, or other incentive payment based directly or indirectly on success in securing enrollments. The Department of Education issued final regulations on incentive compensation and other matters which became effective July 1, 2011. The Department's regulations repeal all safe harbors regarding incentive compensation which existed under the prior regulations, including the safe harbor for Internet-based recruiting and admissions activities. The elimination of the safe harbors create uncertainty for us and our education clients and impact the way in which we are paid by our clients and, accordingly, could reduce the amount of revenue we generate from the education client vertical.

In addition, the Department has issued final regulations that will also restrict Title IV funding for programs not meeting prescribed income-to-debt ratios (i.e., programs not leading to "gainful employment" as defined under the proposed regulation). These regulations will take effect on July 1, 2012. These provisions, could negatively affect our business with education clients. Any changes in these laws or 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 and insurance websites and marketing services we offer are subject to various federal, state and local laws, including state licensing laws, federal and state laws prohibiting unfair acts and practices, and federal and state advertising laws. Any failure to comply with these laws and regulations could subject us to revocation of required licenses, civil, criminal or administrative liability, damage to our reputation or changes to or limitations on the conduct of our business. Any of the foregoing could cause our business, operations and financial condition to suffer.

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 (including the Department of Education's regulations regarding misrepresentation in education marketing), copyright or trademark infringement or other legal theories based on the nature, creation or distribution of this information. It is also possible that our website visitors could make claims against us for losses incurred in reliance upon information provided on our websites. In addition, as the number of users of forums and social media features on our websites increases, we could be exposed to liability in connection with material posted to our websites by users and other third parties. These claims, whether brought in the United States or abroad, could divert management time and attention away from our business and result in significant costs to investigate and defend, regardless of the merit of these claims. In addition, if we become subject to these types of claims and are not successful in our defense, we may be forced to pay substantial damages.

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

The number of people who access the Internet through 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 and we have recently entered into certain 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.

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.

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

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

Risks Related to the Ownership of Our Common Stock

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

The trading price of our common stock has been highly volatile since our initial public offering and may continue to be subject to wide fluctuations in response to various factors, some of which are beyond our control. These factors include those discussed in this "Risk Factors" section of this report on Form 10-K and others such as:

- 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;
- 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 June 30, 2011, our directors and executive officers, together with their affiliates, beneficially owned approximately 38% 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 47,387,425 shares of common stock outstanding as of June 30, 2011. In addition, (i) the 9,753,295 shares subject to outstanding stock options and restricted stock units under our equity incentive plans as of June 30, 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.

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

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

- a classified board of directors with three-year staggered terms, which may delay the ability of stockholders to change the membership of a majority of our board of directors;
- no cumulative voting in the election of directors, which limits the ability of minority stockholders to elect director candidates;
- the exclusive right of our board of directors to elect a director to fill a vacancy created by the expansion of the board of directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors;
- the ability of our board of directors to determine to issue shares of preferred stock and to determine the price and other terms of those shares, including preferences and voting rights, without stockholder approval, which could be used to significantly dilute the ownership of a hostile acquirer;
- a prohibition on stockholder action by written consent, which forces stockholder action to be taken at an annual or special meeting of our stockholders;
- the requirement that a special meeting of stockholders may be called only by the chairman of the board of directors, the chief executive officer or the board of directors, which may delay the ability of our stockholders to force consideration of a proposal or to take action, including the removal of directors; and
- advance notice procedures that stockholders must comply with in order to nominate candidates to our board of directors or to propose matters to be acted upon at a stockholders' meeting, which may discourage or deter a potential acquiror from conducting a solicitation of proxies to elect the acquiror's own slate of directors or otherwise attempting to obtain control of us.

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

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

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

Item 1B. *Unresolved Staff Comments*

None.

Item 2. *Properties*

Our principal executive offices are located in a leased facility in Foster City, California, consisting of approximately 63,998 square feet of office space under a lease that expires in October 2018 with the option to extend the lease term by another two years. This facility accommodates our principal engineering, sales, marketing, operations and finance and administrative activities. We also lease buildings in Arkansas, Florida, Massachusetts, Nevada, New Jersey, New York, North Carolina, Oklahoma, Oregon, India and the United Kingdom.

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

Item 3. ***Legal Proceedings***

On September 8, 2010, 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 4. ***(Removed and Reserved)***

PART II

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

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

Fiscal Year Ended June 30, 2010	High	Low
Third quarter ended March 31, 2010 (beginning February 11, 2010)	$ 17.74	$ 12.77
Fourth quarter ended June 30, 2010	$ 18.25	$ 11.37

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

On August 25, 2011, the closing price as reported on the NASDAQ Global Select Market of our common stock was $10.30 per share and we had approximately 152 stockholders of record of our common stock.

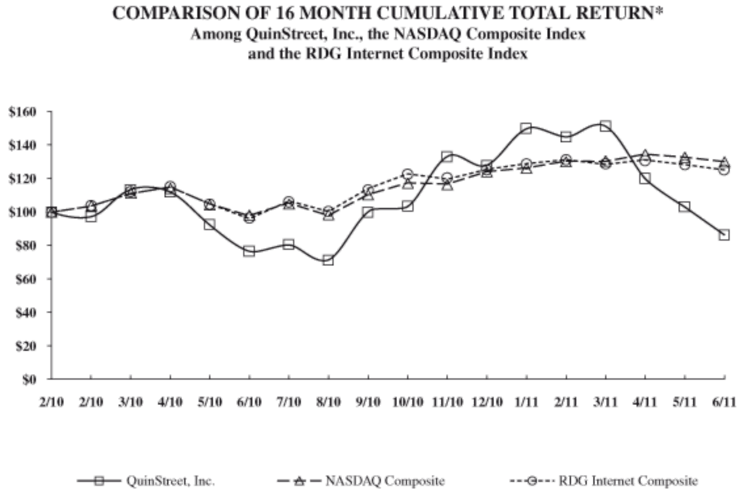
We have never declared or paid, and do not anticipate declaring or paying, any cash dividends on our common stock. Any future determination as to the declaration and payment of dividends, if any, will be at the discretion of our board of directors and will depend on then existing conditions, including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

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

Performance Graph

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

The following graph shows a comparison from February 11, 2010 (the date our common stock commenced trading on the NASDAQ Global Select Market) through June 30, 2011 of cumulative total return for our common stock, the NASDAQ Composite Index and the RDG Internet Composite Index. Such returns are based on historical results and are not intended to suggest future performance. Data for the NASDAQ Composite Index and the RDG Internet Composite Index assume reinvestment of dividends.



* $100 invested on 2/11/10 in stock or 1/31/10 in index, including reinvestment of dividends.

Recent Sales of Unregistered Securities

There were no unregistered sales of our equity securities during the fiscal year ended June 30, 2011.

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 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 and short-term marketable securities.

There has been no material change in the planned use of proceeds from our initial public offering as described in our final prospectus filed with the SEC pursuant to Rule 424(b).

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

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

We derived the consolidated statements of operations data for the fiscal years ended June 30, 2011, 2010 and 2009 and the consolidated balance sheets data as of June 30, 2011 and 2010 from our audited consolidated financial statements appearing elsewhere in this report. The consolidated statements of operations data for the fiscal year ended June 30, 2008 and 2007 and the consolidated balance sheets data as of June 30, 2009, 2008 and 2007 are derived from our audited consolidated financial statements, which are not included in this report.

	Fiscal Year Ended June 30,				
	2011	2010	2009	2008	2007
	(In thousands, except per share data)				
Consolidated Statements of Operations Data:					
Net revenue	$ 403,021	$ 334,835	$ 260,527	$ 192,030	$ 167,370
Cost of revenue(1)	291,991	240,730	181,593	130,869	108,945
Gross profit	111,030	94,105	78,934	61,161	58,425
Operating expenses: (1)					
Product development	24,163	19,726	14,887	14,051	14,094
Sales and marketing	17,382	16,698	16,154	12,409	8,487
General and administrative	20,396	18,464	13,172	13,371	11,440
Total operating expenses	61,941	54,888	44,213	39,831	34,021
Operating income	49,089	39,217	34,721	21,330	24,404
Interest income	169	97	245	1,482	1,905
Interest expense	(4,213)	(3,977)	(3,544)	(1,214)	(732)
Other income (expense), net	56	1,523	(239)	145	(139)
Interest and other income (expense), net	(3,988)	(2,357)	(3,538)	413	1,034
Income before income taxes	45,101	36,860	31,183	21,743	25,438
Provision for taxes	(17,887)	(16,276)	(13,909)	(8,876)	(9,828)
Net income	$ 27,214	$ 20,584	$ 17,274	$ 12,867	$ 15,610
Less: 8% non-cumulative dividends on convertible preferred stock	$ —	$ (2,018)	$ (3,276)	$ (3,276)	$ (3,276)
Less: Undistributed earnings allocated to convertible preferred stock	$ —	$ (5,784)	$ (8,599)	$ (5,925)	$ (7,690)
Net income attributable to common stockholders — Basic	$ 27,214	$ 12,782	$ 5,399	$ 3,666	$ 4,644
Undistributed earnings re-allocated to common stock	$ —	$ 419	$ 399	$ 360	$ 522
Net income attributable to common stockholders — Diluted	$ 27,214	$ 13,201	$ 5,798	$ 4,026	$ 5,166

	Fiscal Year Ended June 30, 2011	2010	2009	2008	2007
	(In thousands, except per share data)				
Net income per share attributable to common stockholders:(2)					
Basic	$ 0.59	$ 0.50	$ 0.41	$ 0.28	$ 0.36
Diluted	$ 0.55	$ 0.46	$ 0.39	$ 0.26	$ 0.34
Weighted average shares used in computing net income per share attributable to common stockholders:					
Basic	46,222	25,616	13,294	13,104	12,789
Diluted	49,130	28,429	14,971	15,325	15,263

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

	2011	2010	2009	2008	2007
Cost of revenue	$ 4,506	$ 3,111	$ 1,916	$ 1,112	$ 416
Product development	2,705	2,176	669	443	75
Sales and marketing	3,747	3,463	1,761	581	226
General and administrative	2,992	4,621	1,827	1,086	1,354

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

	June 30, 2011	2010	2009	2008	2007
	(In thousands)				
Consolidated Balance Sheets Data:					
Cash and cash equivalents	$132,290	$155,770	$ 25,182	$ 24,953	$ 26,765
Working capital	162,361	155,164	16,426	17,022	42,769
Total assets	524,924	434,630	212,878	179,746	118,536
Total liabilities	169,535	144,608	96,289	86,032	37,831
Total debt	106,048	93,608	57,240	51,654	10,250
Total stockholders’ equity	355,389	290,022	73,186	50,311	37,312

	Fiscal Year Ended June 30, 2011	2010	2009	2008	2007
	(In thousands)				
Consolidated Statements of Cash Flows Data:					
Net cash provided by operating activities	$ 78,171	$ 38,509	$ 32,570	$ 24,751	$ 25,197
Depreciation and amortization	27,272	18,791	15,978	11,727	9,637
Capital expenditures	5,363	2,710	1,347	2,177	2,030

	Fiscal Year Ended June 30, 2011	2010	2009	2008	2007
	(In thousands)				
Other Financial Data:					
Adjusted EBITDA(1)	$ 90,311	$ 71,379	$ 56,872	$ 36,279	$ 36,112

(1) We define Adjusted EBITDA as net income less provision for taxes, depreciation expense, amortization expense, stock-based compensation expense, interest and other income (expense), net. Please see the “Adjusted EBITDA” section below for more information.

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

	Fiscal Year Ended June 30, 2011	2010	2009 (In thousands)	2008	2007
Net income	$ 27,214	$ 20,584	$ 17,274	$ 12,867	$ 15,610
Interest and other (income) expense, net	3,988	2,357	3,538	(413)	(1,034)
Provision for taxes	17,887	16,276	13,909	8,876	9,828
Depreciation and amortization	27,272	18,791	15,978	11,727	9,637
Stock-based compensation expense	13,950	13,371	6,173	3,222	2,071
Adjusted EBITDA	$ 90,311	$ 71,379	$ 56,872	$ 36,279	$ 36,112

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

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

Management Overview

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

We deliver cost-effective marketing results to our clients most typically in the form of a qualified lead or inquiry, or in the form of a click. These leads or clicks can then convert into a customer or sale for clients at a rate that results in an acceptable marketing cost to them. We are typically paid by clients when we deliver qualified leads or clicks as defined by our agreements with them. 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.

Our Direct Marketing Services, or DMS, business accounted for substantially all of our net revenue in fiscal years 2011, 2010 and 2009. Our DMS business derives its net revenue from fees earned through the delivery of qualified leads and clicks and, to a lesser extent, display advertisement, or impressions. Through a vertical focus, targeted media presence and our technology platform, we are able to deliver targeted, measurable marketing results to our clients.

Our two largest client verticals are financial services and education. Our financial services client vertical represented 45%, 43% and 31% of net revenue in fiscal years 2011, 2010 and 2009, respectively. Our education client vertical represented 44%, 45% and 58% of net revenue in fiscal years 2011, 2010 and 2009, respectively. Other DMS client verticals, consisting primarily of home services, business-to-business, or B2B, and medical, represented 11%, 11%, and 10% of net revenue in fiscal years 2011, 2010 and 2009, respectively.

In addition, we derived less than 1% of our net revenue in fiscal year 2011 and 1% in fiscal years 2010 and 2009 from our Direct Selling Services, or DSS, business.

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

Trends Affecting our Business

Client Verticals

To date, we have generated the majority of our revenue from clients in our financial services and education client verticals. We expect that a majority of our revenue in fiscal year 2012 will be generated from clients in these two client verticals.

Our education client vertical is affected by a number of factors, including most importantly uncertainty from the adoption of the new regulations of for-profit financial institutions. The uncertainty and the regulations may affect our clients' businesses and marketing practices and may result in fluctuations in the volume and mix of our business with these clients.

Our financial services client vertical has been negatively affected by pricing pressure. Prices in the click business of our financial services client vertical are determined by bidding. Changes in volume of one or more bidders can dynamically impact pricing for all clients. Recently, revenue in our financial services client vertical has been negatively affected by the pricing impact from volume reductions by certain clients.

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 fiscal year 2011, in addition to the acquisitions of CarInsurance.com and Insurance.com, we acquired 13 other online publishing businesses.

Also, in August 2011, we acquired 100% of the outstanding equity interests of NarrowCast Group, LLC, a Kentucky-based Internet media company, in exchange for $23,961 in cash, to broaden our media access in the business-to-business market.

Acquisitions in Fiscal Year 2010

In November 2009, we acquired the website business Internet.com, a division of WebMediaBrands, Inc., or Internet.com, a New York-based Internet media company, in exchange for $15.9 million in cash and the issuance of a $1.7 million non-interest-bearing, unsecured promissory note, to broaden our media access and client base in the B2B market. In October 2009, we acquired the website business Insure.com from Life Quotes, Inc., or Insure.com, an Illinois-based online insurance quote service and brokerage business, in exchange for $15.0 million in cash and the issuance of a $1.0 million non-interest-bearing, unsecured promissory note, for its capacity to generate online visitors in the financial services market. During fiscal year 2010, in addition to the acquisitions of Internet.com and Insure.com, we acquired 31 other online publishing businesses.

Acquisitions in Fiscal Year 2009

In August 2008, we acquired 100% of the outstanding shares of U.S. Citizens for Fair Credit Card Terms, Inc., or CardRatings, an Arkansas-based online marketing company, in exchange for $10.4 million in cash and the issuance of $5.0 million in non-interest-bearing, secured promissory notes, for its capacity to generate online visitors in the financial services market. During fiscal year 2009, in addition to the acquisition of CardRatings, we acquired 33 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 high 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 14 to our consolidated financial statements.

Net Revenue

DMS. Our DMS business generates revenue from fees earned through the delivery of qualified leads, clicks and, to a lesser extent, display advertisement, 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 approximately 1% of net revenue in fiscal years 2011, 2010 and 2009 from the provision of a hosted solution and related services for clients in the direct selling industry. We expect DSS to continue to represent an immaterial portion of our business.

Cost of Revenue

Cost of revenue consists primarily of media costs, personnel costs, amortization of acquisition-related intangible assets, depreciation expense and amortization of internal software development costs relating to revenue-producing technologies. Media costs consist primarily of fees paid to website publishers that are directly related to a revenue-generating event and pay-per-click, or PPC, ad purchases from Internet search companies. We pay these Internet search companies and website publishers on a revenue-share, a cost-per-lead, or CPL, cost-per-click, or CPC and cost-per-thousand-impressions, or CPM basis. Personnel costs include salaries, stock-based compensation expense, bonuses and employee benefit costs. Personnel costs are primarily related to individuals associated with maintaining our servers and websites, our editorial staff, client management, creative team, compliance group and media purchasing analysts.

Costs associated with software incurred in the development phase or obtained for internal use are capitalized and amortized 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.

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 and 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, other income and 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. 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, cash equivalents and marketable securities, which may increase or decrease depending on market interest rates and the amounts invested.

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

Income Tax Expense

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

Results of Operations

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

	Fiscal Year Ended June 30, 2011		2010 (In thousands)		2009	
Net revenue	$ 403,021	100.0%	$ 334,835	100.0%	$ 260,527	100.0%
Cost of revenue(1)	291,991	72.5	240,730	71.9	181,593	69.7
Gross profit	111,030	27.5	94,105	28.1	78,934	30.3
Operating expenses:(1)						
Product development	24,163	6.0	19,726	5.9	14,887	5.7
Sales and marketing	17,382	4.3	16,698	5.0	16,154	6.2
General and administrative	20,396	5.0	18,464	5.5	13,172	5.1
Operating income	49,089	12.2	39,217	11.7	34,721	13.3
Interest income	169	0.0	97	0.0	245	0.1
Interest expense	(4,213)	(1.0)	(3,977)	(1.2)	(3,544)	(1.4)
Other income (expense), net	56	0.0	1,523	0.5	(239)	(0.1)
Income before income taxes	45,101	11.2	36,860	11.0	31,183	12.0
Provision for taxes	(17,887)	(4.4)	(16,276)	(4.9)	(13,909)	(5.4)
Net income	$ 27,214	6.8%	$ 20,584	6.1%	$ 17,274	6.6%

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

Cost of revenue	$4,506	1.1%	$3,111	0.9%	$1,916	0.7%
Product development	2,705	0.7	2,176	0.6	669	0.3
Sales and marketing	3,747	0.9	3,463	1.0	1,761	0.7
General and administrative	2,992	0.7	4,621	1.4	1,827	0.7

Net Revenue

	Fiscal Year Ended June 30, 2011	2010 (In thousands)	2009	2011 - 2010 % Change	2010 - 2009 % Change
Net revenue	$ 403,021	$ 334,835	$ 260,527	20%	29%
Cost of revenue	291,991	240,730	181,593	21%	33%
Gross profit	$ 111,030	$ 94,105	$ 78,934	18%	19%

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

Net revenue increased $74.3 million, or 29%, in fiscal year 2010 compared to fiscal year 2009, attributable to an increase in revenue from our financial services client vertical and, to a lesser extent, our other client verticals. Financial services client vertical revenue increased $64.2 million, or 81%. The increase in financial services client vertical revenue was driven by lead and click volume increases at relatively steady prices. Our other client verticals' revenue increased $9.3 million, or 31%. The increase in our other client vertical revenue was primarily affected by growth in our B2B client vertical revenue resulting from our acquisition of Internet.com in November 2009 and, to a lesser extent, due to growth in our medical client vertical resulting from our acquisition of the website business of ElderCareLink in April 2009. Our education client vertical revenue remained relatively flat, increasing $0.8 million, or 1%. The slight increase was driven by growth from a majority of our education clients, almost entirely offset by revenue decline from a single client.

Cost of Revenue

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

Cost of revenue increased $59.1 million, or 33%, in fiscal year 2010 compared to fiscal year 2009, driven by a $41.2 million increase in media costs due to lead and click volume increases, increased personnel costs of $10.7 million and increased amortization of acquisition-related intangible assets of $3.2 million resulting from acquisitions in fiscal year 2009 and 2010. The increase in personnel costs was attributable to a 17% increase in average headcount, resulting from the acquisition of Internet.com in November 2009, as well as the expansion of our business. Gross margin declined from 30% in fiscal year 2009 to 28% in fiscal year 2010, due to the above-mentioned increase in headcount and related compensation expense, as well as due to a higher mix of traffic from third parties.

Operating Expenses

	Fiscal Year Ended June 30,			2011 - 2010	2010 - 2009
	2011	2010 (In thousands)	2009	% Change	% Change
Product development	$ 24,163	$ 19,726	$ 14,887	22%	33%
Sales and marketing	17,382	16,698	16,154	4%	3%
General and administrative	20,396	18,464	13,172	10%	40%
Operating expenses	$ 61,941	$ 54,888	$ 44,213	13%	24%

Product Development Expenses

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

Product development expenses increased $4.8 million, or 33%, in fiscal year 2010 compared to fiscal year 2009, primarily due to increased personnel costs of $4.2 million and, to a lesser extent, increased professional services fees of $0.4 million. The increase in personnel costs was attributable to increased compensation expense of $2.7 million and increased stock-based compensation expense of $1.5 million. The increase in compensation expense was due to a 20% increase in average headcount affected by additional hiring in connection with development projects, as well as increased performance bonus expense due to the achievement of specified financial metrics during fiscal year 2010 and an increase in the number of individuals eligible for such bonus. Professional services fees also increased due to these development projects.

Sales and Marketing Expenses

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

Sales and marketing expenses increased $0.5 million, or 3%, in fiscal year 2010 compared to fiscal year 2009, due to increased personnel costs of $1.0 million partially offset by decreases in various smaller items. The increase in personnel costs was due to increased stock-based compensation expense of $1.7 million, partially offset by a decline in compensation expense of $0.7 million due to a decrease of 18% in average headcount affected by a reduction in workforce since the third quarter of fiscal year 2009, while bonuses and commissions increased due to the achievement of specified financial metrics during fiscal year 2010.

General and Administrative Expenses

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

General and administrative expenses increased $5.3 million, or 40%, in fiscal year 2010 compared to fiscal year 2009, due to increased personnel costs of $3.9 million, increased professional services fees of $0.8 million, increased direct acquisition costs of $0.3 million and various smaller increases in general and administrative expenses, partially offset by a decline in legal fees of $0.6 million. The increase in personnel costs was due to increased stock-based compensation expense of $2.8 million and increased compensation expense of $1.1 million. The increase in stock-based compensation expense was driven by the grant of fully-vested options to certain members of our board of directors in conjunction with an increase in the fair value our common stock. The increase in compensation expense was due to a 21% increase in average headcount due to our continued investment in corporate infrastructure, as well as increased performance bonus expense associated with the achievement of specified financial metrics. Professional services fees increased due to our continued investment in corporate infrastructure and related expenses associated with being a public company, including increased accounting and tax fees, higher insurance premiums, investor relations and compliance costs. The decline in legal fees was due to the settlement of an ongoing legal matter prior to the fourth quarter of fiscal year 2009.

Interest and Other Income (Expense), Net

	Fiscal Year Ended June 30,			2011 - 2010	2010 - 2009
	2011	2010	2009	% Change	% Change
		(In thousands)			
Interest income	$ 169	$ 97	$ 245	74%	(60)%
Interest expense	(4,213)	(3,977)	(3,544)	6%	12%
Other income (expense), net	56	1,523	(239)	(96)%	(737)%
Interest and other income (expense), net	$ (3,988)	$ (2,357)	$ (3,538)	69%	(33)%

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

Interest and other income (expense), net increased $1.2 million, or 33%, in fiscal year 2010 compared to fiscal year 2009, due to an increase in other income (expense), net of $1.8 million, partially offset by an increase in interest expense of $0.4 million. Other income (expense), net increased due to a gain on the extinguishment of acquisition-related promissory notes of $1.2 million that we paid off at discounts prior to maturity. The increase in interest expense is attributable to the draw down on our credit facility, partially offset by lower non-cash imputed interest on acquisition-related promissory notes.

Provision for Taxes

	Fiscal Year Ended June 30,		
	2011	2010	2009
		(In thousands)	
Provision for taxes	$17,887	$16,276	$13,909
Effective tax rate	39.7%	44.2%	44.6%

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

Our effective tax rate remained largely unchanged in fiscal year 2010 compared to fiscal year 2009 as higher non-deductible stock-based compensation expense was largely offset by a tax benefit in foreign jurisdictions and the release of ASC 740-10 reserves.

As of June 30, 2011, we had net deferred tax assets of $16.1 million. Our net deferred tax assets consist primarily of stock-based compensation expense, accruals and reserves not currently deductible for tax purposes.

Selected Quarterly Financial Data

The following table sets forth our unaudited quarterly consolidated statements of operations data for the eight quarters ended June 30, 2011. We have prepared the statements of operations for each of these quarters on the same basis as the audited consolidated financial statements included elsewhere in this report and, in the opinion of the management, each statement of operations includes all adjustments, consisting solely of normal recurring adjustments, necessary for the fair statement of the results of operations for these periods. This information should be read in conjunction with the audited consolidated financial statements and related notes included elsewhere in this report. These quarterly operating results are not necessarily indicative of our operating results for any future period.

	Three Months Ended							
	June 30, 2011	Mar 31, 2011	Dec 31, 2010	Sept 30, 2010	June 30, 2010	Mar 31, 2010	Dec 31, 2009	Sept 30, 2009
	(In thousands)							
Net revenue	$ 94,118	$ 107,705	$ 97,582	$ 103,616	$ 88,547	$ 90,773	$ 76,963	$ 78,552
Costs of revenue	69,122	78,578	70,662	73,629	62,858	66,268	56,557	55,047
Gross profit	24,996	29,127	26,920	29,987	25,689	24,505	20,406	23,505
Operating expenses:								
Product development	5,843	6,836	5,933	5,551	5,192	5,325	4,739	4,470
Sales and marketing	3,285	4,687	4,665	4,745	4,508	4,575	3,990	3,625
General and administrative	5,206	5,525	4,943	4,722	4,353	4,467	6,203	3,441
Operating income	10,662	12,079	11,379	14,969	11,636	10,138	5,474	11,969
Interest income	30	25	47	67	64	16	8	9
Interest expense	(1,105)	(1,091)	(1,028)	(989)	(1,046)	(1,302)	(881)	(748)
Other income (expense), net	(95)	66	(79)	164	1,302	(64)	165	120
Income before income taxes	9,492	11,079	10,319	14,211	11,956	8,788	4,766	11,350
Provision for taxes	(3,046)	(4,740)	(3,391)	(6,710)	(5,545)	(3,538)	(2,356)	(4,837)
Net income	$ 6,446	$ 6,339	$ 6,928	$ 7,501	$ 6,411	$ 5,250	$ 2,410	$ 6,513
Net income per share:(1)								
Basic	$ 0.14	$ 0.14	$ 0.15	$ 0.17	$ 0.14	$ 0.12	$ 0.05	$ 0.16
Diluted	$ 0.13	$ 0.13	$ 0.14	$ 0.16	$ 0.13	$ 0.11	$ 0.04	$ 0.16
Other Financial Data:								
Adjusted EBITDA	$ 20,779	$ 23,218	$ 21,718	$ 24,596	$ 19,901	$ 18,339	$ 14,989	$ 18,150

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

Adjusted EBITDA

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

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

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

- Adjusted EBITDA does not reflect our cash expenditures for capital equipment or other contractual commitments;

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

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

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

	Three Months Ended							
	June 30, 2011	Mar 31, 2011	Dec 31, 2010	Sept 30, 2010	June 30, 2010	Mar 31, 2010	Dec 31, 2009	Sept 30, 2009
	(In thousands)							
Net income	$ 6,446	$ 6,339	$ 6,928	$ 7,501	$ 6,411	$ 5,250	$ 2,410	$ 6,513
Interest and other income (expense), net	$ 1,170	1,000	1,060	758	(320)	1,350	708	619
Provision for taxes	$ 3,046	4,740	3,391	6,710	5,545	3,538	2,356	4,837
Depreciation and amortization	$ 7,020	7,632	6,723	5,897	5,113	5,075	4,651	3,952
Stock-based compensation expense	$ 3,097	3,507	3,616	3,730	3,152	3,126	4,864	2,229
Adjusted EBITDA	$ 20,779	$ 23,218	$ 21,718	$ 24,596	$ 19,901	$ 18,339	$ 14,989	$ 18,150

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

For quarterly periods ending from September 30, 2009 to June 30, 2011, Adjusted EBITDA as a percentage of revenue was 23%, 19%, 20%, 22% and 24%, 22%, 22% and 22%, respectively. In general, Adjusted EBITDA as a percentage of revenue tends to be seasonally weaker in the quarter ending December 31, and stronger in quarters ending March 31 and June 30.

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 June 30, 2011, consisted of cash and cash equivalents of $132.3 million, short-term marketable securities of $34.9 million, and our credit facility which had $123.4 million available for borrowing. We believe that our existing cash and 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.

	Fiscal Year Ended June 30,		
	2011	2010	2009
		(In thousands)	
Cash flows from operating activities	$ 78,171	$ 38,509	$ 32,570
Cash flows from investing activities	(134,763)	(72,233)	(27,326)
Cash flows from financing activities	33,072	164,324	(5,012)

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 and changes in working capital components, and is influenced by the timing of cash collections from our clients and cash payments for purchases of media and other expenses.

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

Net cash provided by operating activities in fiscal year 2010 was due to net income of $20.6 million, non-cash depreciation, amortization, stock-based compensation expense and related tax benefits of $30.3 million and an increase in accounts payable and accrued liabilities of $11.3 million, partially offset by an increase in accounts receivable of $14.4 million, an increase in deferred taxes of $6.8 million, as well as a gain from the early extinguishment of debt of $1.2 million. The increase in accounts payable and accrued liabilities is due to timing of payments and increased cost of sales associated with increased revenue. The increase in accounts receivable is attributable to increased revenue, as well as timing of receipts. The increase in deferred taxes is primarily due to larger temporary differences between the financial statement carrying amount and the tax basis of certain existing assets and liabilities.

Net cash provided by operating activities in fiscal year 2009 was due to net income of $17.3 million, non-cash depreciation, amortization, stock-based compensation expense and related tax benefits of $21.7 million and increased accounts payable and accrued liabilities of $5.9 million, partially offset by an increase in accounts receivable of $9.0 million and increased deferred taxes of $4.1 million. The increase in accounts payable and accrued liabilities is due to timing of payments. The increase in accounts receivable is due to increased revenue, as well as due to timing of receipts. The increase in deferred taxes is due to larger temporary differences between the financial statement carrying amount and the tax basis of certain existing assets and liabilities.

Net Cash Used in Investing Activities

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

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

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

Cash used in investing activities in fiscal year 2009 was affected by the acquisition of CardRatings for an initial cash payment of $10.4 million, as well as purchases of the operations of 33 other website publishing businesses for an aggregate of $19.1 million in cash payments, which included $4.5 million of contingent consideration related to the acquisition of SureHits in fiscal year 2008. Capital expenditures and internal software development costs totaled $2.4 million in fiscal year 2009. Cash used in investing activities was partially offset by proceeds from sales and maturities of marketable securities of $2.3 million.

Net Cash Provided by or Used in Financing Activities

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

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

Cash used in financing activities in fiscal year 2009 was due to principal payments on acquisition-related promissory notes and our term loan of $13.1 million and stock repurchases of $1.3 million, partially offset by proceeds from a draw-down of our revolving credit line of $8.6 million.

Off-Balance Sheet Arrangements

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

Contractual Obligations

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

The following table sets forth payments due under our contractual obligations as of June 30, 2011:

	Payments Due by Period (In thousands)				
	Total	Less Than 1 Year	1 to 3 Years	3 to 5 Years	More Than 5 Years
Credit facility	$ 96,741	$ 7,000	$ 89,741	$ —	$ —
Notes payable	10,967	3,597	6,760	610	—
Operating lease obligatio	19,462	1,881	5,970	5,736	5,875
	$ 127,170	$ 12,478	$ 102,471	$ 6,346	$ 5,875

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

In connection with the acquisition of SureHits and contingent upon the achievement of specified financial targets we may be required to make an earn-out payment of $4.5 million in January of 2012.

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 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 June 30, 2011 and 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. 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. 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.

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.

Critical Accounting Policies and Estimates

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

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

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

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

Revenue Recognition

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

DMS revenue is derived primarily from fees which are earned through the delivery of qualified leads or clicks and, to a lesser extent, display advertisements, or impressions. We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectability is reasonably assured. Delivery is deemed to have occurred at the time a qualified lead or click is delivered to the client provided that no significant obligations remain.

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

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

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

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

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

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

Stock-Based Compensation

We measure and record the expense related to stock-based transactions based on the fair values of the awards as determined on the date of grant. For stock options, we selected the Black-Scholes option pricing model to estimate the fair value. In applying the Black-Scholes option pricing model, our determination of fair value is affected by assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, the expected stock price volatility over the term of the stock options and the employees' actual and projected stock option exercise and pre-vesting employment termination behaviors. The fair value of restricted stock units is determined based on the closing price of our common stock on the date of grant.

We recognize stock-based compensation expense over the requisite service period using the straight-line method, based on awards ultimately expected to vest. We estimate future forfeitures at the date of grant and revise the estimates, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Goodwill

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 a reporting unit exceeds its fair value. The application of the goodwill impairment test requires judgment, including the identification of reporting units, the assignment of assets, liabilities and goodwill to reporting units and the determination of the fair value of each reporting unit. Significant judgments required to estimate the fair value of reporting units include estimating future cash flows and determining appropriate discount rates, growth rates and other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value which could trigger impairment. We performed our annual goodwill impairment test in our quarter ending June 30, 2011.

We concluded that DMS and DSS constitute two separate reporting units. We determined the fair value of our DMS reporting unit by adjusting the fair value of the business enterprise based on our market capitalization for the fair value of the DSS reporting unit. The fair value of our DSS reporting unit was estimated using the income approach. Under the income approach, we calculated the fair value of our DSS reporting unit based on the present value of estimated future cash flows. Our assessment indicated that the estimated fair value of our DMS reporting unit was substantially in excess of its carrying value while the estimated fair value of our DSS reporting unit approximated its carrying value. The carrying value of our DSS reporting unit includes allocated goodwill of $1.2 million which represents less than 1% of our total goodwill balance. No impairment charges were recorded in the periods presented.

The fair value of the reporting units and hence the valuation of goodwill could be affected if actual results differ substantially from our estimates. Circumstances that could affect the valuation of goodwill include, among other things, a significant change in our market capitalization, the business climate and buying habits of our subscriber base, and with respect to the DSS reporting unit, the loss of a significant customer.

Long-Lived Assets

We evaluate long-lived assets, such as property and equipment and purchased intangible assets with finite lives, for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. We apply judgment when estimating the fair value of the assets based on the undiscounted future cash flows the assets are expected to generate and recognize an impairment loss if estimated undiscounted future cash flows expected to result from the use of the asset plus net proceeds expected from disposition of the asset, if any, are less than the carrying value of the asset. No impairment charges were recorded in the periods presented.

Income Taxes

We account for income taxes using an asset and liability approach to record deferred taxes. Our deferred income tax assets represent temporary differences between the financial statement carrying amount and the tax basis of existing assets and liabilities that will result in deductible amounts in future years, including net operating loss carry forwards. Based on estimates, the carrying value of our net deferred tax assets assumes that it is more likely than not that we will be able to generate sufficient future taxable income in certain tax jurisdictions. Our judgment regarding future profitability may change due to future market conditions, changes in U.S. or international tax laws and other factors.

Recent Accounting Pronouncements

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

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

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

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 twelve months. The 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.

Our credit facility had a borrowing capacity of $225.0 million. Interest on borrowings under the credit facility is based 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 June 30, 2011, we had $96.7 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 8. ***Financial Statements and Supplementary Data***

QUINSTREET, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of QuinStreet, Inc. and its subsidiaries at June 30, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2011 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2011, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our audits (which was an integrated audit in 2011). We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

/s/ PricewaterhouseCoopers LLP

San Jose, California
August 29, 2011

QUINSTREET, INC.

CONSOLIDATED BALANCE SHEETS

	June 30, 2011	June 30, 2010
	(In thousands, except share and per share data)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 132,290	$ 155,770
Marketable securities	34,927	—
Accounts receivable, net	48,225	51,466
Deferred tax assets	10,253	8,528
Prepaid expenses and other assets	5,773	3,123
Total current assets	231,468	218,887
Property and equipment, net	8,875	5,419
Goodwill	211,856	158,582
Other intangible assets, net	65,847	47,156
Deferred tax assets, noncurrent	5,866	3,972
Other assets, noncurrent	1,012	614
Total assets	$ 524,924	$ 434,630
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 23,300	$ 16,776
Accrued liabilities	33,238	30,144
Deferred revenue	2,531	1,241
Debt	10,038	15,562
Total current liabilities	69,107	63,723
Deferred revenue, noncurrent	58	305
Debt, noncurrent	96,010	78,046
Other liabilities, noncurrent	4,360	2,534
Total liabilities	169,535	144,608
Commitments and contingencies (See Note 10)		
Stockholders' equity		
Common stock: $0.001 par value; 100,000,000 shares authorized; 49,564,877 and 47,247,147 shares issued, and 47,387,425 and 45,069,695 shares outstanding at June 30, 2011 and 2010, respectively	50	47
Additional paid-in capital	255,689	217,581
Treasury stock, at cost (2,177,452 shares at June 30, 2011 and 2010)	(7,779)	(7,779)
Accumulated other comprehensive income	51	9
Retained earnings	107,378	80,164
Total stockholders' equity	355,389	290,022
Total liabilities and stockholders' equity	$ 524,924	$ 434,630

See notes to consolidated financial statements

QUINSTREET, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Fiscal Year Ended June 30,		
	2011	2010	2009
	(In thousands, except per share data)		
Net revenue	$ 403,021	$ 334,835	$ 260,527
Cost of revenue(1)	291,991	240,730	181,593
Gross profit	111,030	94,105	78,934
Operating expenses:(1)			
Product development	24,163	19,726	14,887
Sales and marketing	17,382	16,698	16,154
General and administrative	20,396	18,464	13,172
Operating income	49,089	39,217	34,721
Interest income	169	97	245
Interest expense	(4,213)	(3,977)	(3,544)
Other income (expense), net	56	1,523	(239)
Income before income taxes	45,101	36,860	31,183
Provision for taxes	(17,887)	(16,276)	(13,909)
Net income	$ 27,214	$ 20,584	$ 17,274
Net income attributable to common stockholders:			
Basic	$ 27,214	$ 12,782	$ 5,399
Diluted	$ 27,214	$ 13,201	$ 5,798
Net income per share attributable to common stockholders:			
Basic	$ 0.59	$ 0.50	$ 0.41
Diluted	$ 0.55	$ 0.46	$ 0.39
Weighted average shares used in computing net income per share attributable to common stockholders:			
Basic	46,222	25,616	13,294
Diluted	49,130	28,429	14,971

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

Cost of revenue	$ 4,506	$ 3,111	$ 1,916
Product development	2,705	2,176	669
Sales and marketing	3,747	3,463	1,761
General and administrative	2,992	4,621	1,827

See notes to consolidated financial statements

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QUINSTREET, INC.

CONSOLIDATED STATEMENTS OF CONVERTIBLE PREFERRED STOCK, STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

	Convertible Preferred Stock		Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Shareholders' Equity	Comprehensive Income
	Shares	Amount	Shares	Amount	Shares	Amount					
						(In thousands, except share data)					
Balance at June 30, 2008	21,176,533	$ 43,403	15,243,284	$ 15	(1,934,377)	$ (5,727)	$ 13,683	$ 34	$ 42,306	$ 50,311	
Issuance of common stock upon exercise of stock options	—	—	169,716	—	—	—	304	—	—	304	
Stock-based compensation	—	—	—	—	—	—	6,173	—	—	6,173	
Excess tax benefits from stock-based compensation	—	—	—	—	—	—	474	—	—	474	
Repurchase of common stock	—	—	—	—	(163,275)	(1,337)	—	—	—	(1,337)	
Comprehensive income:											
Net income	—	—	—	—	—	—	—	—	17,274	17,274	$ 17,274
Unrealized gain on investments	—	—	—	—	—	—	—	(10)	—	(10)	$ (10)
Currency translation adjustments	—	—	—	—	—	—	—	(3)	—	(3)	(3)
Comprehensive income	—	—	—	—	—	—	—	—	—	—	$ 17,261
Balance at June 30, 2009	21,176,533	$ 43,403	15,413,000	$ 15	(2,097,652)	$ (7,064)	$ 20,634	$ 21	$ 59,580	$ 73,186	
Issuance of common stock upon exercise of stock options	—	—	657,614	1	—	—	1,639	—	—	1,640	
Issuance of common stock in connection with initial public offering, net of issuance costs of $13,215	—		10,000,000	10	—	—	136,775	—	—	136,785	
Conversion of preferred stock to common stock in connection with initial public offering	(21,176,533)	(43,403)	21,176,533	21	—	—	43,382	—	—	43,403	
Stock-based compensation	—	—	—	—	—	—	13,371	—	—	13,371	
Excess tax benefits from stock-based compensation	—	—	—	—	—	—	1,780	—	—	1,780	
Repurchase of common stock	—	—	—	—	(79,800)	(715)	—	—	—	(715)	
Comprehensive income:											
Net income	—	—	—	—	—	—	—	—	20,584	20,584	$ 20,584
Currency translation adjustments	—	—	—	—	—	—	—	(12)	—	(12)	(12)
Comprehensive income	—	—	—	—	—	—	—	—	—	—	$ 20,572
Balance at June 30, 2010	—	$ —	47,247,147	$ 47	(2,177,452)	$ (7,779)	$ 217,581	$ 9	$ 80,164	$ 290,022	
Issuance of common stock upon exercise of stock options	—	—	2,317,730	3	—	—	16,967	—	—	16,970	
Payment of initial public offering issuance costs	—	—	—	—	—	—	(101)	—	—	(101)	
Stock-based compensation	—	—	—	—	—	—	13,950	—	—	13,950	
Excess tax benefits from stock-based compensation	—	—	—	—	—	—	7,292	—	—	7,292	
Comprehensive income:											
Net income	—	—	—	—	—	—	—	—	27,214	27,214	$ 27,214
Unrealized gain on investments	—	—	—	—	—	—	—	2	—	2	2
Currency translation adjustments	—	—	—	—	—	—	—	40	—	40	40
Comprehensive income	—	—	—	—	—	—	—	—	—	—	$ 27,256
Balance at June 30, 2011	—	$ —	49,564,877	$ 50	(2,177,452)	$ (7,779)	$ 255,689	$ 51	$ 107,378	$ 355,389	

See notes to consolidated financial statements

QUINSTREET, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal Year Ended June 30,		
	2011	2010	2009
		(In thousands)	
Cash Flows from Operating Activities			
Net income	$ 27,214	$ 20,584	$ 17,274
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	27,272	18,791	15,978
Provision for sales returns and doubtful accounts receivable	(35)	(751)	1,473
Stock-based compensation	13,950	13,371	6,173
Excess tax benefits from stock-based compensation	(7,458)	(1,859)	(474)
Other non-cash adjustments, net	99	(1,622)	563
Changes in assets and liabilities, net of effects of acquisitions:			
Accounts receivable	3,885	(14,403)	(9,042)
Prepaid expenses and other assets	4,947	29	485
Other assets, noncurrent	120	11	(710)
Deferred taxes	(3,252)	(6,771)	(4,081)
Accounts payable	6,375	3,363	3,359
Accrued liabilities	2,552	7,900	2,491
Deferred revenue	1,043	(112)	(720)
Other liabilities, noncurrent	1,459	(22)	(199)
Net cash provided by operating activities	78,171	38,509	32,570
Cash Flows from Investing Activities			
Capital expenditures	(5,363)	(2,710)	(1,347)
Business acquisitions, net of notes payable and cash acquired	(91,838)	(68,176)	(27,932)
Internal software development costs	(1,841)	(1,414)	(1,060)
Purchases of marketable securities	(54,433)	—	—
Proceeds from sales and maturities of marketable securities	19,227	—	2,302
Other investing activities	(515)	67	711
Net cash used in investing activities	(134,763)	(72,233)	(27,326)
Cash Flows from Financing Activities			
Net proceeds from issuance of common stock	(106)	136,790	—
Proceeds from exercise of common stock options	16,710	1,640	304
Proceeds from bank debt	24,425	43,300	8,607
Principal payments on bank debt	(3,963)	(3,100)	(3,500)
Principal payments on acquisition-related notes payable	(11,452)	(15,450)	(9,560)
Excess tax benefits from stock-based compensation	7,458	1,859	474
Repurchases of common stock	—	(715)	(1,337)
Net cash provided by (used in) financing activities	33,072	164,324	(5,012)
Effect of exchange rate changes on cash and cash equivalents	40	(12)	(3)
Net (decrease) increase in cash and cash equivalents	(23,480)	130,588	229
Cash and cash equivalents at beginning of period	155,770	25,182	24,953
Cash and cash equivalents at end of period	$ 132,290	$ 155,770	$ 25,182
Supplemental Disclosure of Cash Flow Information			
Cash paid for interest	4,128	3,860	2,269
Cash paid for taxes	16,885	22,109	20,354
Supplemental Disclosure of Noncash Investing and Financing Activities			
Notes payable issued in connection with business acquisitions	3,311	14,501	8,151
Conversion of preferred stock to common stock	—	43,403	—

See notes to consolidated financial statements

QUINSTREET, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share and per share data)

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, Florida, Massachusetts, Nevada, New Jersey, New York, North Carolina, Oklahoma, Oregon, India and the United Kingdom.

2. Summary of Significant Accounting Policies

Basis of Consolidation

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

Use of Estimates

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

Revenue Recognition

The Company derives its revenue from two sources: Direct Marketing Services ("DMS") and Direct Selling Services ("DSS"). DMS revenue, which constituted more than 99% in fiscal year 2011 and 99% of net revenue in both fiscal year 2010 and 2009 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, 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 less than 1% in fiscal year 2011 and 1% of net revenue in both fiscal year 2010 and 2009, 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 or municipal securities, certificates of deposit with financial institutions and money market funds. Cash and certificates of deposit are deposited with financial institutions that management believes are creditworthy. To date, the Company has not experienced any losses on its investment portfolio.

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.

Fair Value of Financial Instruments

The Company's financial instruments consist principally of cash equivalents, accounts receivable, accounts payable, acquisition-related promissory notes, a term loan and a revolving credit line. The fair value of the Company's cash equivalents is determined based on quoted prices in active markets for identical assets. 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 promissory notes approximates their recorded amounts as the interest rates on similar financing arrangements available to the Company at June 30, 2011 approximates the interest rates implied when these acquisition-related promissory notes were originally issued and recorded. The Company believes that the fair values of the term loan and revolving credit line approximate their recorded amounts at June 30, 2011 as the interest rates on these instruments are variable and based on market interest rates and after consideration of default and credit risk.

Cash and Cash Equivalents

All highly liquid investments with maturities of three months or less at the date of purchase are classified as cash equivalents. Cash equivalents consist primarily of money market funds, municipal securities and certificates of deposit with original maturities of three months or less. Cash equivalents amounted to $59,398 and $135,630 at June 30, 2011 and 2010.

(In thousands, except share and per share data)

Property and Equipment

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

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

Internal Software Development Costs

The Company incurs costs to develop software for internal use. The Company expenses all costs that relate to the planning and post-implementation phases of development as product development expense. Costs incurred in the development phase are capitalized and amortized over the product's estimated useful life if the product is expected to have a useful life beyond six months. Costs associated with repair or maintenance of existing sites or the developments of website content are included in cost of revenue in the accompanying statements of operations. The Company's policy is to amortize capitalized internal software development costs on a product-by-product basis using the straight-line method over the estimated economic life of the application, which is generally two years. The Company capitalized $1,841, $1,414 and $1,060 in fiscal years 2011, 2010 and 2009, respectively. Amortization of internal software development costs is reflected in cost of revenue.

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 and concluded that goodwill was not impaired. 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.

Advertising Costs

The Company expenses advertising costs as they are incurred. Advertising expenses for fiscal years 2011, 2010 and 2009 were $190, $139 and $185, respectively.

Income Taxes

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

Foreign Currency Translation

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

Comprehensive Income

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

Loss Contingencies

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

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

Stock-Based Compensation

The Company measures and records the expense related to stock-based transactions based on the fair values of stock-based payment awards, as determined on the date of grant. To estimate the fair value of stock options, the Company selected the Black-Scholes option pricing model. In applying the Black-Scholes option pricing model, the Company's determination of the fair value of the stock option is affected by assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, the Company's expected stock price volatility over the term of the stock options and the employees' actual and projected stock option exercise and pre-vesting employment termination behaviors. 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, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

See Note 11 for further information.

401(k) Savings Plan

The Company sponsors a 401(k) defined contribution plan covering all U.S. employees. Contributions made by the Company are determined annually by the Board of Directors. There were no employer contributions under this plan for fiscal years 2011, 2010 and 2009.

Recent Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board ("FASB") amended the accounting guidance 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 guidance 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 sets of guidance became effective for the Company on July 1, 2010. The adoption of the new guidance did not have a material effect on the Company's consolidated financial statements.

In December 2010, the FASB issued an update to the accounting guidance 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 year 2011. The adoption of the amended guidance did not have a material effect on the Company's consolidated financial statements.

In June 2011, the FASB issued an update that requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The guidance eliminates the option to present the components of other comprehensive income as part of the statement of equity. It is effective for the Company in the first quarter of fiscal year 2013 and should be applied retrospectively. The Company is currently evaluating the impact of the adoption of the new guidance on its 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.

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(In thousands, except share and per share data)

The following table presents the calculation of basic and diluted net income per share attributable to common stockholders:

	Years Ended June 30, 2011	2010(2)	2009(2)
	(In thousands, except per share data)		
Numerator:			
Basic:			
Net income	$ 27,214	$ 20,584	$ 17,274
8% non-cumulative dividends on convertible preferred stock	—	(2,018)	(3,276)
Undistributed earnings allocated to convertible preferred stock	—	(5,784)	(8,599)
Net income attributable to common stockholders — basic	$ 27,214	$ 12,782	$ 5,399
Diluted:			
Net income attributable to common stockholders — basic	$ 27,214	$ 12,782	$ 5,399
Undistributed earnings re-allocated to common stock	—	419	399
Net income attributable to common stockholders — diluted	$ 27,214	$ 13,201	$ 5,798
Denominator:			
Basic:			
Weighted average shares of common stock used in computing basic net income per share	46,222	25,616	13,294
Diluted:			
Weighted average shares of common stock used in computing basic net income per share	46,222	25,616	13,294
Weighted average effect of dilutive securities:			
Stock options	2,845	2,813	1,677
Restricted stock units	63	—	—
Weighted average shares of common stock used in computing diluted net income per share	49,130	28,429	14,971
Net income per share attributable to common stockholders:			
Basic	$ 0.59	$ 0.50	$ 0.41
Diluted	$ 0.55	$ 0.46	$ 0.39
Securities excluded from weighted average shares used in computing diluted net income per share because the effect would have been anti-dilutive:(1)	2,689	2,918	4,740

(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 fiscal years ended June 30, 2010 and 2009 include the effects of the convertible preferred stock under the two-class method before its conversion in connection with the IPO.

(In thousands, except share and per share data)

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 investments 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.

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

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

	As of June 30, 2011			
	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
US municipal securities	$ 23,625	$ 12	$ —	$ 23,637
Certificates of deposit	19,046	—	10	19,036
Money market funds	51,654	—	—	51,654
	$ 94,325	$ 12	$ 10	$ 94,327

	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

The Company did not realize any gains or losses from sales of its investments in fiscal years 2011, 2010 or 2009.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., 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.

(In thousands, except share and per share data)

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

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

	Fair Value Measurements as of June 30, 2011 Using		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
US municipal securities	$ 23,637	$ —	$ 23,637
Certificates of deposit	19,036	—	19,036
Money market funds	51,654	51,654	—
	$ 94,327	$ 51,654	$ 42,673

	Fair Value Measurements as of June 30, 2010 Using		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Money market funds	$ 133,128	$ 133,128	$ —
	$ 133,128	$ 133,128	$ —

5. Balance Sheet Components

Accounts Receivable, Net

Accounts receivable, net are comprised of the following:

	June 30,	
	2011	2010
Accounts receivable	$ 50,948	$ 54,224
Less: Allowance for doubtful accounts	(276)	(324)
Less: Allowance for sales returns	(2,447)	(2,434)
	$ 48,225	$ 51,466

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(In thousands, except share and per share data)

Property and Equipment, Net

Property and equipment, net is comprised of the following:

	June 30, 2011	June 30, 2010
Computer equipment	$ 11,448	$ 11,506
Software	6,344	5,946
Furniture and fixtures	2,404	1,976
Leasehold improvements	1,863	917
Internal software development costs	16,711	14,870
	38,770	35,215
Less: Accumulated depreciation and amortization	(29,895)	(29,796)
	$ 8,875	$ 5,419

Depreciation expense was $3,629, $2,227 and $2,742 for fiscal years 2011, 2010 and 2009, respectively. Amortization expense related to internal software development costs was $1,478, $1,275 and $1,500 for fiscal years 2011, 2010 and 2009, respectively.

Accrued liabilities

Accrued liabilities are comprised of the following:

	June 30, 2011	June 30, 2010
Accrued media costs	$ 17,516	$ 15,760
Accrued compensation and related expenses	12,403	11,872
Accrued taxes payable	517	642
Accrued professional service and other business expenses	2,802	1,870
Total accrued liabilities	$ 33,238	$ 30,144

6. 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

(In thousands, except share and per share data)

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	

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 allocation of the purchase price and the estimated useful lives of the identifiable intangible assets acquired as of the date of the acquisition:

(In thousands, except share and per share data)

	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 fiscal year 2011, in addition to the acquisitions of CarInsurance.com and Insurance.com, the Company acquired operations from 13 other online publishing businesses in exchange for $4,722 in cash paid upon closing of the acquisitions and $864 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	$ 9,222
Fair value of debt (net of $36 of imputed interest)	828
	$ 10,050

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 $7,914. The following table summarizes the preliminary 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
Customer/publisher relationships	$ 233	3-5 years
Content	1,274	3-5 years
Website/trade/domain names	541	4-5 years
Noncompete agreements	88	1-3 years
Goodwill	7,914	Indefinite
	$ 10,050	

Acquisitions in Fiscal Year 2010

In fiscal year 2010, the Company acquired the website business of Internet.com, a division of WebMediaBrands, Inc., a New York-based Internet media company, to broaden its media access and client base in the business-to-business market, the website business Insure.com, from Life Quotes, Inc., an Illinois-based online marketing company for its capacity to generate online visitors in the financial services market, 100% of the outstanding shares of Payler Corp. D/B/A HSH Associates Financial Publishers ("HSH"), a New Jersey-based online marketing business, for its capacity to generate online visitors in the financial services market, as well as 30 other online publishing businesses. The Company also recorded $4,500 in earn-out payments related to a prior period acquisition as addition to goodwill.

(In thousands, except share and per share data)

The total purchase prices recorded were as follows:

	Internet.com	Insure.com	HSH	Other	Total
Cash	$ 15,943	$ 15,000	$ 6,000	$ 29,882	$ 66,825
Fair value of debt (net of imputed interest)	1,654	976	3,759	8,112	14,501
	$ 17,597	$ 15,976	$ 9,759	$ 37,994	$ 81,326

The acquisitions were accounted for as a purchase business combinations. 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 deductible for tax purposes is $50,893. 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 acquisitions:

	Internet.com	Insure.com	HSH	Other	Total	Estimated Useful Life
Tangible assets acquired	$ 3,136	$ —	$ 50	$ 45	$ 3,231	
Liabilities assumed	(503)	—	(1,695)	—	(2,198)	
Customer/publisher/advertiser relationships	1,300	900	1,100	1,150	4,450	1-7 years
Content	2,400	3,900	1,400	8,384	16,084	1-8 years
Website/trade/domain names	2,500	1,250	800	2,748	7,298	5-8 years
Acquired technology	—	—	—	199	199	3 years
Noncompete agreements	200	—	—	224	424	2-3 years
Goodwill	8,564	9,926	8,104	25,244	51,838	Indefinite
	$ 17,597	$ 15,976	$ 9,759	$ 37,994	$ 81,326	

Acquisitions in Fiscal Year 2009

In fiscal year 2009, the Company acquired 100% of the outstanding shares of CardRatings, an Arkansas-based online marketing company for its capacity to generate online visitors in the financial services market, as well as 33 other online publishing businesses. The Company also recorded $4,500 in earn-out payments related to a prior period acquisition as addition to goodwill.

QUINSTREET, INC.

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The total purchase prices recorded were as follows:

	CardRatings	Other	Total
Cash	$ 10,372	$ 19,106	$ 29,478
Fair value of debt (net of imputed interest)	4,278	3,873	8,151
Acquisition related costs	20	134	154
	$ 14,670	$ 23,113	$ 37,783

The acquisitions were accounted for as a purchase business combinations. 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 acquisitions:

	CardRatings	Other	Total	Estimated Useful Life
Tangible assets acquired	$ 834	$ —	$ 834	
Liabilities assumed	(206)	(22)	(228)	
Customer/publisher/advertiser relationships	2,325	1,952	4,277	1-7 years
Content	140	2,538	2,678	1-6 years
Website/trade/domain names	776	2,418	3,194	5 years
Acquired technology	—	392	392	3 years
Noncompete agreements	124	236	360	2-3 years
Goodwill	10,677	15,599	26,276	Indefinite
	$ 14,670	$ 23,113	$ 37,783	

Pro Forma Financial Information (unaudited)

The unaudited 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 2010. 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 acquired as of the beginning of fiscal year 2010. The unaudited 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.

	Fiscal Year Ended June 30,	
	2011	2010
Net revenue	$ 404,777	$ 348,793
Net income	27,981	13,804
Basic net income per share	$ 0.61	$ 0.23
Diluted net income per share	$ 0.57	$ 0.23

QUINSTREET, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(In thousands, except share and per share data)

7. Intangibles Assets, Net and Goodwill

Intangible assets, net consisted of the following:

	June 30, 2011			June 30, 2010		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer/publisher/advertiser relationships	$ 29,269	$ (16,892)	$ 12,377	$ 26,656	$ (11,455)	$ 15,201
Content	56,663	(25,142)	31,521	34,969	(16,454)	18,515
Website/trade/domain names	23,533	(8,569)	14,964	15,701	(5,198)	10,503
Acquired technology and others	20,190	(13,205)	6,985	11,477	(8,540)	2,937
	$ 129,655	$ (63,808)	$ 65,847	$ 88,803	$ (41,647)	$ 47,156

Amortization of intangible assets was $22,165, $15,289 and $11,736 for fiscal years 2011, 2010 and 2009, respectively.

Amortization expense for the Company's acquisition-related intangible assets as of June 30, 2011 for each of the next five years and thereafter is as follows:

Year Ending June 30,	
2012	$ 20,921
2013	15,335
2014	10,643
2015	6,736
2016	4,745
Thereafter	7,467
	$ 65,847

The changes in the carrying amount of goodwill for fiscal years 2011 and 2010 were as follows:

	DMS	DSS	Total
Balance at June 30, 2009	$ 105,513	$ 1,231	$ 106,744
Additions	51,838	—	51,838
Balance at June 30, 2010	$ 157,351	$ 1,231	$ 158,582
Additions	53,274	—	53,274
Balance at June 30, 2011	$ 210,625	$ 1,231	$ 211,856

The additions to goodwill relate to the Company's acquisitions as described in Note 6, 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.

QUINSTREET, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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8. Income Taxes

The components of income before income taxes are as follows:

	Fiscal Year Ended June 30, 2011	2010	2009
US	$ 44,270	$ 35,987	$ 30,806
Foreign	831	873	377
	$ 45,101	$ 36,860	$ 31,183

The components of the provision for taxes are as follows:

	Fiscal Year Ended June 30, 2011	2010	2009
Current			
Federal	$ 18,581	$ 17,555	$ 14,018
State	2,741	5,827	3,808
Foreign	186	(88)	164
	21,508	23,294	17,990
Deferred			
Federal	$ (3,260)	$ (6,005)	$ (4,109)
State	(324)	(981)	94
Foreign	(37)	(32)	(66)
	(3,621)	(7,018)	(4,081)
	$ 17,887	$ 16,276	$ 13,909

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

	Fiscal Year Ended June 30, 2011	2010	2009
Federal tax rate	35.0%	35.0%	35.0%
States taxes, net of federal benefit	3.2%	8.1%	8.2%
Stock-based compensation expense	2.8%	4.4%	2.8%
Other	(1.3)%	(3.3)%	(1.4)%
Effective income tax rate	39.7%	44.2%	44.6%

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The components of the current and long-term deferred tax assets, net are as follows:

	Fiscal Year Ended June 30, 2011	2010
Current:		
Reserves and accruals	$ 6,424	$ 4,780
Stock options	1,954	1,545
Deferred revenue	959	190
Other	916	1,884
Net operating loss	—	129
Total current deferred tax assets	$ 10,253	$ 8,528
Noncurrent		
Stock options	$ 5,861	$ 4,634
Intangible assets	1,156	(462)
Net operating loss	—	169
Fixed assets	(1,161)	(211)
Foreign	10	11
Total noncurrent deferred tax assets	5,866	4,141
Valuation allowance	—	(169)
Noncurrent deferred tax assets, net	$ 5,866	$ 3,972
Total deferred tax assets, net	$ 16,119	$ 12,500

Management periodically evaluates the realizability of the deferred tax assets and recognizes the tax benefit only as reassessment demonstrates that they are realizable. At such time, if it is determined that it is more likely than not that the deferred tax assets are realizable, the valuation allowance will be adjusted. As of June 30, 2011 the Company determined that no valuation allowance is required as it believes it is more likely than not to realize all its deferred tax assets in the foreseeable future.

As of June 30, 2011, the Company had no operating loss carryforwards for federal or state income tax purposes. The California net operating loss of $2,494 as of June 30, 2010 was utilized in fiscal year 2011.

United States federal income taxes have not been provided for the $1,565 of cumulative undistributed earnings of the Company's foreign subsidiaries as of June 30, 2011. The Company's present intention is that such undistributed earnings be permanently reinvested offshore, with the exception of the undistributed earnings of its Canadian subsidiary. The Company would be subject to additional United States taxes if these earnings were repatriated. The amount of the unrecognized deferred income tax liability related to these earnings is not material to the consolidated financial statements.

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A reconciliation of the beginning and ending amounts of unrecognized tax benefits is as follows:

	Fiscal Year		
	2011	2010	2009
Balance at the beginning of the year	$ 2,014	$ 2,617	$ 2,248
Gross increases — current period tax positions	493	219	868
Gross decreases — current period tax positions		—	(293)
Reductions as a result of lapsed statute of limitations	(195)	(99)	(206)
Gross decreases — settlements with tax authorities	—	(723)	—
Balance at the end of the year	$ 2,312	$ 2,014	$ 2,617

The Company's policy is to include interest and penalties related to unrecognized tax benefits within the Company's provision for income taxes. As of June 30, 2011, the Company has accrued $572 for interest and penalties related to the unrecognized tax benefits. The balance of unrecognized tax benefits and the related interest and penalties is recorded as a noncurrent liability on the Company's consolidated balance sheet.

As of June 30, 2011, unrecognized tax benefits of $2,312, if recognized, would affect the Company's effective tax rate. The Company does not anticipate that the amount of existing unrecognized tax benefits will significantly increase or decrease within the next 12 months.

With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S., income tax examinations by tax authorities for years before 2007. The California Franchise Tax Board ("FTB") is examining the Company's California income tax return for its fiscal years ended June 30, 2007 and 2008. The audit is currently in progress with no estimated completion date. The Company files income tax returns in the United States, various U.S. states and certain foreign jurisdictions. As of June 30, 2011, the tax years 2008 through 2010 remain open in the U.S., the tax years 2006 through 2010 remain open in the various state jurisdictions, and the tax years 2006 through 2010 remain open in various foreign jurisdictions.

9. Debt

Promissory Notes

During fiscal years 2011, 2010 and 2009, the Company issued total promissory notes for the acquisition of businesses of $3,311, $14,501 and $8,151, respectively, net of imputed interest amounts of $193, $842 and $1,117, respectively. All of the promissory notes are non-interest-bearing. 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. Accretion of promissory notes of $523, $1,188 and $1,461 was recorded as interest expense during fiscal years 2011, 2010 and 2009, respectively. Certain of the promissory notes are secured by the assets acquired with respect to which the notes were issued.

Credit Facility

In September 2008, the Company replaced its existing revolving credit facility of $60,000 with a credit facility totaling $100,000. The new facility consisted of a $30,000 five-year term loan and a $70,000 revolving credit line.

In November 2009, the Company entered into an amendment of its existing credit facility pursuant to which the Company's lenders agreed to increase the maximum amount available under the Company's revolving credit line from $70,000 to $100,000.

In January 2010, the Company replaced its existing credit facility with a new credit facility with total borrowing capacity of $175,000. The new credit facility consists 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 optional increase of $50,000. In February 2011, the Company exercised this option, thereby increasing the total capacity of the credit facility to $225,000.

Borrowings under the credit facility are collateralized by the Company's assets and interest is payable 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 June 30, 2011 and 2010.

Upfront arrangement fees incurred in connection with the credit facility are deferred and amortized over the remaining term of the arrangement. As of June 30, 2011 and 2010, $30,188 and $34,150, respectively, was outstanding under the term loan. Under the revolving credit line $66,553 and $41,753 was outstanding as of June 30, 2011 and 2010, respectively.

(In thousands, except share and per share data)

Debt Maturities

The maturities of debt as of June 30, 2011 were as follows:

Year Ending June 30,	Promissory Notes	Credit Facility
2012	$ 3,597	$ 7,000
2013	4,958	12,688
2014	1,802	77,053
2015	560	—
2016	50	—
	10,967	96,741
Less: imputed interest and unamortized discounts	(422)	(1,238)
Less: current portion	(3,526)	(6,512)
Noncurrent portion of debt	$ 7,019	$ 88,991

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 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.

10. Commitments and Contingencies

Leases

The Company leases office space and equipment under non-cancelable operating leases with various expiration dates through fiscal year 2018. Rent expense for fiscal years 2011, 2010 and 2009, was $3,259, $3,091 and $2,550, 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 all noncancelable operating leases as of June 30, 2011 were as follows:

Year Ending June 30,	Operating Leases
2012	$ 1,881
2013	2,934
2014	3,036
2015	2,899
2016	2,837
Thereafter	5,875
	$ 19,462

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 Company has the option to extend the term of the lease twice by one additional year. The monthly base rent is abated for the first year of the lease, then will be $118 in the second year and $182 in the third year of the lease term. In the following years the monthly base rent will increase approximately 3% annually.

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 June 30, 2011 and 2010, respectively.

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 June 30, 2011 and 2010, respectively.

During fiscal year 2009, the Company settled an indemnity obligation with respect to one litigation matter. See discussion below for further details.

Litigation

In 2005, the Company was notified by one of its DSS segment clients that epicRealm Licensing, LLC ("epicRealm LLC"), had filed a lawsuit in federal court in Texas against such client alleging that certain web-based services provided by the Company and others to such client infringed certain epicRealm LLC patents. In 2006, the Company filed suit against epicRealm Licensing LP ("epicRealm LP") in federal court in Delaware seeking to invalidate certain epicRealm LP patents. In 2007, epicRealm LP filed counterclaims against the Company alleging patent infringement. Parallel Networks, LLC was later substituted for epicRealm LP as the patent holder and party-in-interest. In April 2009, the Company entered into a settlement and license agreement ("Agreement") with Parallel Networks pertaining to the patents in question ("Licensed Patents"). Under the terms of the Agreement, Parallel Networks granted the Company a perpetual, royalty-free, non-sublicensable and generally non-transferable, worldwide right and license under the Licensed Patents: (i) to use any product technology or service covered by or which embodies any one or more claims of the Licensed Patents (as defined in the Agreement); and (ii) to practice any method covered by any one or more claims of the Licensed Patents in connection with the activities in clause (i). Additionally, Parallel Networks covenanted not to sue the Company. The Company paid Parallel Networks a one-time, non-refundable fee of $850. The Company recognized an intangible asset of $226 related to the estimated fair value of the license and recorded the remaining $624 as a settlement expense.

In September 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. Subsequently, 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.

11. Stock Benefit Plans

Stock-Based Compensation

In fiscal years 2011, 20010 and 2009, the Company recorded stock-based compensation expense of $13,950, $13,371 and $6,173, respectively, resulting in the recognition of related excess tax benefits of $7,292, $1,780 and $474, respectively. The Company included as part of cash flows from financing activities a gross benefit of tax deductions of $7,458, $1,859 and $474 in fiscal years 2011, 2010 and 2009, respectively, related to stock-based compensation.

Stock Incentive Plans

In November 2009, the Company's board of directors adopted the 2010 Equity Incentive Plan (the "2010 Incentive Plan") and the Company's stockholders approved the 2010 Incentive Plan in January 2010. The 2010 Incentive Plan became effective upon the completion of the IPO of the Company's common stock in February 2010. Awards granted after January 2008 but before the adoption of the 2010 Incentive Plan continue to be governed by the terms of the 2008 Equity Incentive Plan (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 June 30, 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 June 30, 2011, 2,237,845 shares were available for issuance under the 2010 Incentive Plan.

(In thousands, except share and per share data)

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 June 30, 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 June 30, 2011, 380,000 shares were available for issuance under the Directors' Plan.

In July 2011, the Company increased the number of shares of common stock reserved for issuance under the 2010 Incentive Plan and the Directors' Plan by 2,369,371 shares and 320,000 shares, respectively.

Valuation Assumptions

The Company estimates the fair value of stock option awards 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 as of the date of grant. The Company calculates the weighted average expected life of options using the simplified method pursuant to the accounting guidance for share-based payments as it does not have sufficient historical exercise experience. Since the Company's does not have extensive trading history, the Company estimates the expected volatility of its common stock based on the historical volatility of comparable public companies over the stock option's expected term. The Company has no history or expectation of paying cash dividends on its common stock. The risk-free interest rate is based on the U.S. Treasury yield for a term consistent with the expected term of the stock options.

The weighted average Black-Scholes model assumptions and the weighted average grant date fair value of employee stock options in fiscal years 2011, 2010 and 2009 were as follows:

	Fiscal Year Ended June 30,		
	2011	2010	2009
Expected term (in years)	4.6	4.6	4.6
Expected volatility	54%	67%	62%
Expected dividend yield	0.0%	0.0%	0.0%
Risk-free interest rate	1.7%	2.4%	2.8%
Grant date fair value	$ 7.81	$ 9.42	$ 5.28

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.

(In thousands, except share and per share data)

Stock Option Award Activity

The following table summarizes the stock option award activity under the Plans for fiscal year 2011:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in Years)	Aggregate Intrinsic Value
Outstanding at June 30, 2010	11,796,062	$ 9.79		
Granted	691,600	16.93		
Exercised	(2,317,730)	7.32		
Forfeited	(790,986)	12.04		
Expired	(30,411)	14.71		
Outstanding at June 30, 2011	9,348,535	$ 10.73	4.51	$ 31,568
Vested and expected-to-vest at June 30, 2011(1)	8,731,144	$ 10.58	4.46	$ 30,270
Vested and exercisable at June 30, 2011	6,541,612	$ 9.51	4.16	$ 26,357

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

The following table summarizes the total intrinsic value, the cash received and the actual tax benefit of all options exercised during fiscal years 2011, 2010 and 2009, respectively:

	Fiscal Year Ended June 30,		
	2011	2010	2009
Intrinsic value	$ 25,795	$ 8,001	$ 1,365
Cash received	16,967	1,640	304
Tax benefit	9,612	2,129	544

As of June 30, 2011, there was $27,861 of total unrecognized compensation expense related to unvested stock options which is expected to be recognized over a weighted average period of 2.2 years.

Restricted Stock Unit Activity

The following table summarizes the restricted stock unit activity under the Plans for fiscal year 2011:

	Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Life (in Years)	Aggregate Intrinsic Value
Outstanding at June 30, 2010	—	$ —		
Granted	453,620	14.33		
Vested	—	—		
Forfeited	(48,860)	14.63		
Outstanding at June 30, 2011	404,760	$ 14.29	2.13	$ 5,254

As of June 30, 2011, there was $5,769 of total unrecognized compensation expense related to restricted stock units which is expected to be recognized over a weighted average period of 4.2 years.

12. Stockholders' Equity

Initial Public Offering of Common Stock

In February 2010, the Company completed its initial public offering ("IPO"), whereby it sold 10,000,000 shares of common stock at a price of $15.00 per share. The Company received $136,684 net of offering costs of $13,316. In conjunction with the closing of the IPO, all of the Company's outstanding shares of convertible preferred stock automatically converted on a one-for-one basis into 21,176,533 shares of common stock.

Stock Repurchases

The Company repurchased 79,800 and 163,275 shares of its outstanding common stock at a total cost of $715 and $1,337 and an average cost of $8.96 and $8.19 per share in fiscal year 2010 and 2009, respectively. These shares have been accounted for as treasury stock.

13. Related Party Transactions

Katrina Boydon serves as the Company's Vice President of Content and Compliance and is the sister of Bronwyn Syiek, the Company's President and Chief Operating Officer. In fiscal years 2011, 2010 and 2009, Ms. Boydon received a base salary of $203, $193 and $184 per year, respectively, and a bonus payout of $69, $67 and $51, respectively. In fiscal years 2010 and 2009, Ms. Boydon was granted options to purchase an aggregate of 45,000 and 30,000 shares of the Company's common stock, respectively. Ms. Boydon's fiscal year 2012 base salary is $214 per year, and she has a fiscal year 2012 target bonus of $75.

Rian Valenti serves as a client strategy and development manager and is the son of Doug Valenti, the Company's Chief Executive Officer and Chairman. Mr. Rian Valenti joined the Company in fiscal year 2009. In fiscal years 2011, 2010 and 2009, Mr. Rian Valenti received a base salary of $62, $54 and $52 per year, and a commission payout of $32, $23 and $2, respectively. In fiscal year 2011 and 2009, Mr. Rian Valenti was granted 750 restricted stock units and options to purchase an aggregate of 1,500 shares of the Company's common stock, respectively. Mr. Rian Valenti's fiscal year 2012 base salary is $75 per year, and he has a fiscal year 2012 commission opportunity of $55.

The Company had a preferred publisher agreement with Remilon, an online publishing entity, one of whose primary owners is the brother-in-law of one of the Company's Executive Vice Presidents. Under the preferred publisher agreement, the Company paid commissions for qualified leads generated from links on Remilon's website. In fiscal years 2010 and 2009, the Company paid commissions to Remilon of $2,226 and $4,204, respectively. The publisher agreement expired in October 2009. There were no amounts payable at June 30, 2010 or 2011.

14. 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.

(In thousands, except share and per share data)

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 all of its assets, or 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:

	Fiscal Year Ended June 30,		
	2011	2010	2009
Net revenue by segment:			
DMS	$ 401,703	$ 333,090	$ 257,420
DSS	1,318	1,745	3,107
Total net revenue	403,021	334,835	260,527
Segment operating income before depreciation, amortization, and stock-based compensation expense:			
DMS	89,590	70,423	55,251
DSS	721	956	1,621
Total segment operating income before depreciation, amortization, and stock-based compensation expense	90,311	71,379	56,872
Depreciation and amortization	(27,272)	(18,791)	(15,978)
Stock-based compensation expense	(13,950)	(13,371)	(6,173)
Total operating income	$ 49,089	$ 39,217	$ 34,721

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

	Fiscal Year Ended June 30,		
	2011	2010	2009
Net revenue:			
United States	$ 401,673	$ 334,131	$ 259,965
International	1,348	704	562
Total net revenue	$ 403,021	$ 334,835	$ 260,527

	June 30 2011	June 30, 2010
Long-lived assets:		
United States	$ 8,641	$ 5,193
International	234	226
Total long-lived assets	$ 8,875	$ 5,419

15. Subsequent Events

Acquisition of NarrowCast Group, LLC (IT Business Edge or "ITBE")

On August 25, 2011, the Company acquired 100% of the outstanding equity interests of ITBE, in exchange for $23,961 in cash paid upon closing of the acquisition. The results of ITBE's operations will be included in the consolidated financial statements following the acquisition date. The Company acquired ITBE to broaden its media access in the business-to-business market.

The Company is currently evaluating the purchase price allocation following the consummation of the transaction. It is not possible to disclose the preliminary purchase price allocation or unaudited pro forma combined financial information given the short period of time between the acquisition date and the filing date of this report.

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

None.

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

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2011. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of June 30, 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.

Management's Report on Internal Control Over Financial Reporting

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

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of its assets,

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of our management and directors, and

(iii) provide reasonable assurance regarding prevention or timely detection of any unauthorized acquisition, use or disposition of our assets that could have a material effect on the consolidated financial statements.

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

Our management has assessed the effectiveness of the internal control over financial reporting as of June 30, 2011. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control — Integrated Framework. Based on this evaluation, our management has concluded that our internal control over financial reporting was effective as of June 30, 2011.

The effectiveness of our internal control over financial reporting as of June 30, 2011 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears in this annual report on Form 10-K.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the three months ended June 30, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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

None.

PART III

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

The information required by this item concerning directors is incorporated herein by reference from the section entitled “Election of Class II Directors” in our definitive proxy statement to be filed with the Securities and Exchange Commission in connection with our 2011 annual meeting of stockholders (the “Proxy Statement”). The Proxy Statement is expected to be filed no later than 120 days after the end of our fiscal year ended June 30, 2011.

Information regarding executive officers required by Item 401 of Regulation S-K is furnished in a separate disclosure in Part I of this report, under the caption “Executive Officers of the Registrant,” because we will not furnish such information in our definitive proxy statement prepared in accordance with Schedule 14A.

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

Code of Ethics

We have adopted a Code of Conduct and Ethics that applies to our Chief Executive Officer, Chief Financial Officer, Corporate Controller and all others performing similar functions. The Code of Conduct and Ethics is available on the investor relations section of the Company’s website at http://investor.quinstreet.com.

Item 11. ***Executive Compensation***

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

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

The information required by this item will be set forth in the sections entitled “Equity Compensation Plan Information” and “Stock Ownership of Certain Beneficial Owners and Management” in our Proxy Statement and is incorporated herein by reference.

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

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

Item 14. ***Principal Accountant Fees and Services***

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

PART IV

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

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

1. Consolidated Financial Statements

2. Financial Statement Schedules

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

Schedule II: Valuation and Qualifying Accounts

Allowance for doubtful accounts receivables and sales returns

	Balance at the Beginning of the Year	Charged to Expenses/ Against the Revenue	Write-offs Net of Receivables	Balance at the End of the Year
Fiscal year 2009	$ 2,161	$ 1,463	$ (115)	$ 3,509
Fiscal year 2010	$ 3,509	$ 263	$ (1,014)	$ 2,758
Fiscal year 2011	$ 2,758	$ 1,156	$ (1,191)	$ 2,723

Note: Additions to the allowance for doubtful accounts are charged to expense. Additions to the allowance for sales credits are charged against revenue.

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

(b) Exhibits

Exhibit No.	Description of Exhibit
2.1(11)	Stock Purchase Agreement, dated November 5, 2010, by and among QuinStreet, Inc., Car Insurance.com, Inc., Car Insurance Agency, Inc., Car Insurance Holdings, Inc., CarInsurance.com, Inc., Lloyd Register IV, Lloyd Register III, David Fitzgerald, Timothy Register, Randy Horowitz and Erick Pace.
3.1(6)	Amended and Restated Certificate of Incorporation.
3.2(7)	Amended and Restated Bylaws.

Exhibit No.	Description of Exhibit
4.1(3)	Form of QuinStreet, Inc.'s Common Stock Certificate.
4.2(1)	Second Amended and Restated Investor Rights Agreement, by and between QuinStreet, Inc., Douglas Valenti and the investors listed on Schedule 1 thereto, dated May 28, 2003.
10.1(1)+	QuinStreet, Inc. 2008 Equity Incentive Plan.
10.2(1)+	Forms of Option Agreement and Option Grant Notice under 2008 Equity Incentive Plan (for non-executive officer employees).
10.3(1)+	Forms of Option Agreement and Option Grant Notice under 2008 Equity Incentive Plan (for executive officers).
10.4(1)+	Forms of Option Agreement and Option Grant Notice under 2008 Equity Incentive Plan (for non-employee directors).
10.5(2)+	QuinStreet, Inc. 2010 Equity Incentive Plan.
10.6(2)+	Forms of Option Agreement and Option Grant Notice under 2010 Equity Incentive Plan (for non-executive officer employees).
10.7(2)+	Forms of Option Agreement and Option Grant Notice under 2010 Equity Incentive Plan (for executive officers).
10.8(2)+	QuinStreet, Inc. 2010 Non-Employee Directors' Stock Award Plan.
10.9(2)+	Form of Option Agreement and Option Grant Notice for Initial Grants under the 2010 Non-Employee Directors' Stock Award Plan.
10.10(2)+	Form of Option Agreement and Option Grant Notice for Annual Grants under the 2010 Non-Employee Directors' Stock Award Plan.
10.11*+	Form of Incremental Bonus Plan.
10.12(3)+	Annual Incentive Plan.
10.13(3)	Amended and Restated Revolving Credit and Term Loan Agreement, by and among QuinStreet, Inc., the lenders thereto and Comerica Bank as Administrative Agent, dated as of January 14, 2010.
10.13.1(8)	New Lender Addendum by U.S. Bank National Association, dated February 2, 2011, to the Amended and Restated Revolving Credit and Term Loan Agreement dated January 14, 2011.
10.13.2(9)	New Lender Addendum by Bank of the West, dated February 2, 2011, to the Amended and Restated Revolving Credit and Term Loan Agreement dated January 14, 2011
10.13.3(10)	Revised Schedule 1.2, dated February 2, 2011, to the Amended and Restated Revolving Credit and Term Loan Agreement dated January 14, 2011.
10.14(3)	Security Agreement, by and among QuinStreet, Inc., certain subsidiaries of QuinStreet, Inc. and Comerica Bank as Administrative Agent, dated as of September 29, 2008.
10.15(3)#	QuinStreet Merchant Agreement, dated as of October 3, 2001, by and between QuinStreet, Inc. and DeVry, Inc.
10.16(3)#	Letter Agreement, dated as of December 2, 2003, by and between QuinStreet, Inc. and DeVry, Inc.
10.17(3)#	Letter Agreement by and between QuinStreet, Inc. and DeVry, Inc.
10.18(3)#	Letter Agreement, dated as of October 5, 2007, by and between QuinStreet, Inc. and DeVry, Inc.
10.19(4)+	Form of Indemnification Agreement made by and between QuinStreet, Inc. and each of its directors and executive officers.
10.20(5)	Office Lease Metro Center, dated as of February 24, 2010, between the registrant and CA-Metro Center Limited Partnership.
21.1*	List of subsidiaries.
23.1*	Consent of Independent Registered Public Accounting Firm.
24.1*	Power of Attorney (incorporated by reference to the signature page of this Annual Report on Form 10-K).
31.1*	Certification of the Chief Executive Officer of QuinStreet, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act.

Exhibit No.	Description of Exhibit
31.2*	Certification of the Chief Financial Officer of QuinStreet, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act.
32.1**	Section 1350 Certifications of Chief Executive Officer and Chief Financial Officer.

* Filed herewith.

** Furnished herewith.

\+ Indicates management contract or compensatory plan.

\# Confidential treatment has been granted for certain information contained in this document. Such information has been omitted and filed separately with the Securities and Exchange Commission.

(1) Incorporated by reference to the same numbered exhibit to QuinStreet, Inc.'s Registration Statement on Form S-1 (SEC File No. 333-163228) filed on November 19, 2009.

(2) Incorporated by reference to the same numbered exhibit to QuinStreet, Inc.'s Amendment No. 1 to Registration Statement on Form S-1 (SEC File No. 333-163228) filed on December 22, 2009.

(3) Incorporated by reference to the same numbered exhibit to QuinStreet, Inc.'s Amendment No. 2 to Registration Statement on Form S-1 (SEC File No. 333-163228) filed on January 14, 2010.

(4) Incorporated by reference to the same numbered exhibit to QuinStreet, Inc.'s Amendment No. 3 to Registration Statement on Form S-1 (SEC File No. 333-163228) filed on January 26, 2010.

(5) Incorporated by reference to Exhibit 10.1 to QuinStreet, Inc.'s quarterly report on Form 10-Q (SEC File No. 001-34628) filed on May 12, 2010.

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(11) Incorporated by reference to the same numbered exhibit to QuinStreet, Inc.'s Current Report on Form 8-K (SEC File No. 001-34628) filed on November 8, 2011.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on August 29, 2011.

QuinStreet, Inc.

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

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

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

Signature	Title	Date
/s/ Douglas Valenti Douglas Valenti	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	August 29, 2011
/s/ Kenneth Hahn Kenneth Hahn	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	August 29, 2011
/s/ Bronwyn Syiek Bronwyn Syiek	President, Chief Operating Officer and Director	August 29, 2011
/s/ William Bradley William Bradley	Director	August 29, 2011
/s/ John G. McDonald John G. McDonald	Director	August 29, 2011
/s/ Gregory Sands Gregory Sands	Director	August 29, 2011
/s/ James Simons James Simons	Director	August 29, 2011
/s/ Glenn Solomon Glenn Solomon	Director	August 29, 2011
/s/ Dana Stalder Dana Stalder	Director	August 29, 2011

EXHIBIT INDEX

Exhibit No.	Description of Exhibit
2.1(11)	Stock Purchase Agreement, dated November 5, 2010, by and among QuinStreet, Inc., Car Insurance.com, Inc., Car Insurance Agency, Inc., Car Insurance Holdings, Inc., CarInsurance.com, Inc., Lloyd Register IV, Lloyd Register III, David Fitzgerald, Timothy Register, Randy Horowitz and Erick Pace.
3.1(6)	Amended and Restated Certificate of Incorporation.
3.2(7)	Amended and Restated Bylaws.
4.1(3)	Form of QuinStreet, Inc.'s Common Stock Certificate.
4.2(1)	Second Amended and Restated Investor Rights Agreement, by and between QuinStreet, Inc., Douglas Valenti and the investors listed on Schedule 1 thereto, dated May 28, 2003.
10.1(1)+	QuinStreet, Inc. 2008 Equity Incentive Plan.
10.2(1)+	Forms of Option Agreement and Option Grant Notice under 2008 Equity Incentive Plan (for non-executive officer employees).
10.3(1)+	Forms of Option Agreement and Option Grant Notice under 2008 Equity Incentive Plan (for executive officers).
10.4(1)+	Forms of Option Agreement and Option Grant Notice under 2008 Equity Incentive Plan (for non-employee directors).
10.5(2)+	QuinStreet, Inc. 2010 Equity Incentive Plan.
10.6(2)+	Forms of Option Agreement and Option Grant Notice under 2010 Equity Incentive Plan (for non-executive officer employees).
10.7(2)+	Forms of Option Agreement and Option Grant Notice under 2010 Equity Incentive Plan (for executive officers).
10.8(2)+	QuinStreet, Inc. 2010 Non-Employee Directors' Stock Award Plan.
10.9(2)+	Form of Option Agreement and Option Grant Notice for Initial Grants under the 2010 Non-Employee Directors' Stock Award Plan.
10.10(2)+	Form of Option Agreement and Option Grant Notice for Annual Grants under the 2010 Non-Employee Directors' Stock Award Plan.
10.11*+	Form of Incremental Bonus Plan.
10.12(3)+	Annual Incentive Plan.
10.13(3)	Amended and Restated Revolving Credit and Term Loan Agreement, by and among QuinStreet, Inc., the lenders thereto and Comerica Bank as Administrative Agent, dated as of January 14, 2010.
10.13.1(8)	New Lender Addendum by U.S. Bank National Association, dated February 2, 2011, to the Amended and Restated Revolving Credit and Term Loan Agreement dated January 14, 2011.
10.13.2(9)	New Lender Addendum by Bank of the West, dated February 2, 2011, to the Amended and Restated Revolving Credit and Term Loan Agreement dated January 14, 2011
10.13.3(10)	Revised Schedule 1.2, dated February 2, 2011, to the Amended and Restated Revolving Credit and Term Loan Agreement dated January 14, 2011.
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31.2*	Certification of the Chief Financial Officer of QuinStreet, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act.
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* Filed herewith.

** Furnished herewith.

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INCREMENTAL BONUS PLAN

FROM: Doug Valenti **DATE:**

TO:

RE: **QuinStreet Incremental Bonus Plan**

The Compensation Committee of the Board has once again approved an incremental bonus plan for senior staff for fiscal year [ ]. The purpose of incremental bonuses is to provide incentive and cash compensation for performance that is beyond budget or expected growth targets AND that is consistent with the strategic objectives and interests of the Company. The incremental bonus is in addition to the potential discretionary bonus component of your annual compensation. In fiscal year [ ], the incremental bonus pool will accrue when Company EBITDA exceeds that represented by 20% Revenue growth over the prior fiscal year results and a 20% EBITDA margin ("Target EBITDA").

Your specific incremental bonus rate is shown below. The general terms of the incremental plan are also outlined below. Once you have reviewed, understand and agree to the plan and terms, please sign on the line provided, and return to me.

Your Incremental Bonus as % of FY[ ]
<u>Company EBITDA > Target EBITDA</u>
[ ]%

<u>Incremental bonus plan terms</u>

- Company EBITDA is as reported in the Company's final unaudited annual Income Statement for the applicable fiscal year.
- The amount and payment of incremental bonuses are at the complete and sole discretion of the CEO, and may not be paid in part or in full, even if financial targets are achieved. This is to protect the Company from unforeseen changes in business circumstances and unintended consequences, and to make adjustments if actions maximize personal bonuses but otherwise (even unintentionally) damage Company or shareholder interests by, for example: increasing costs or limit growth elsewhere or in the future, or acting in ways counter to Company strategy and/or best long-term business potential or positioning. Important considerations, among others, include: margins; growth; client concentration; development of proprietary media, technologies and other capabilities deemed necessary for defensibility and sustainability; specific performance of individual, group or vertical.
- Incremental bonuses will be paid one time only, usually but not necessarily about 30 days following publication of approved full-year results. You must be a full-time employee in good standing at the time of payment to receive any incremental bonus payment at all. There are no exceptions and no other payments or obligations of any kind under this Plan.
- The CEO must have your signed (acknowledged and agreed) Incremental Bonus Plan memo (this form) on file for you to be included in the Plan and receive a bonus payment.

Acknowledged and agreed: ___________ ___________
Date

Exhibit 21.1

SUBSIDIARIES OF THE REGISTRANT

Name	Jurisdiction
QuinStreet Insurance Agency, Inc.	Florida
QuinStreet Europe Ltd. (f/k/a MWR Systems, Ltd.)	U.K.
QuinStreet Software India Private Limited	India
QuinStreet Cayman Islands Ltd.	C.I.
QuinStreet Brasil Online Marketing E Media LTDA (5-2-2011)	Brazil
QuinStreet Media, Inc.	CA
QuinStreet Properties, Inc.	CA
3041486 Nova Scotia Company	Nova Scotia
WorldWide Learn, Inc.	Alberta
QuinStreet LLC	Illinois
HQ Publications LLC	Illinois

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-176272) of QuinStreet, Inc. of our report dated August 29, 2011 relating to the financial statements, financial statement schedule and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
San Jose, California
August 29, 2011

Exhibit 31.1

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT

I, Douglas Valenti, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: August 29, 2011

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

Exhibit 31.2

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT

I, Kenneth Hahn, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: August 29, 2011

/s/ Kenneth Hahn
Kenneth Hahn
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

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

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

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of QuinStreet, Inc..

Date: August 29, 2011

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

/s/ Kenneth Hahn
Name: Kenneth Hahn
Chief Financial Officer