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, 2018

OR

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

Commission file number: 001-34628

QuinStreet, Inc.

(Exact name of registrant as specified in its charter)

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

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

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

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

Title of Each Class	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 ☐ No ☒

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

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

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

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

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

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

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

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

As of December 31, 2017, 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 $295,202,687. For purposes of calculating the aggregate market value of shares held by non-affiliates, we have assumed that all outstanding shares are held by non-affiliates, except for shares beneficially owned by each of our executive officers, directors and 5% or greater stockholders. In the case of 5% or greater stockholders, we have not deemed such stockholders to be affiliates unless there are facts and circumstances indicating that such stockholders exercise any control over our company. The determination of executive officer or affiliate status is not a conclusive determination for other purposes.

Number of shares of common stock outstanding as of September 7, 2018: 49,078,172

Documents Incorporated by Reference:

Portions of the registrant's definitive proxy statement relating to its 2018 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, 2018

TABLE OF CONTENTS

PART I

CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS

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

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

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

Item 1. *Business*

Our Company

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

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

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

Our proprietary technologies have been developed over the past 19 years to allow us to best segment and match media or traffic, to deliver optimized results for our clients and to operate our high volume and highly complex channel cost-efficiently.

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

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

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

Market Opportunity

Change in marketing strategy and approach

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

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

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

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

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

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

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

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

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

Increasing complexity of online marketing

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

Our Business Model

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

- own or access targeted media through business arrangements (e.g., revenue sharing arrangements) or by purchasing media (e.g., clicks from major search engines);
- run advertisements or other forms of marketing messages and programs in that media to create visitor responses typically in the form of leads or inquiries (e.g., contact information), clicks (to further qualification or matching steps, or to online client applications or offerings), calls (to our owned and operated call centers or that of our clients or their agents), applications (e.g., for enrollment or a financial product), or customers (e.g., bound insurance policies);
- match these leads, inquiries, clicks, calls, applications, or customers to client offerings or brands that we believe can meet visitor interests or needs and client targets and requirements; and
- optimize client matches and media costs such that we achieve desired results for clients and a sound financial outcome for us.

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

Media and Internet visitor mix

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

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

Our Strategy

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

- focus on generating sustainable revenues by providing measurable value to our clients;
- build QuinStreet and our industry sustainably by behaving ethically in all we do and by providing quality content and website experiences to Internet visitors;
- remain vertically focused, choosing to grow through depth, expertise and coverage in our current client verticals; enter new client verticals selectively over time, organically and through acquisitions;
- build a world class organization, with best-in-class capabilities for delivering measurable marketing results to clients and high yields or returns on media costs;
- develop and evolve the best products, technologies and platform for managing successful performance marketing campaigns on the Internet; focus on technologies that enhance media yield, improve client results and achieve scale efficiencies;
- build and apply unique data advantages from running some of the largest campaigns over long periods of time in our client verticals, including the steep learning curves of what campaigns work best to optimize each media type and each client’s results;
- build and partner with vertical content websites that attract high intent visitors in the client and media verticals we serve; and
- be a client-driven organization and develop a broad set of media sources and capabilities to reliably meet client needs.

Clients

In fiscal years 2018, 2017 and 2016, we had one client, The Progressive Corporation, that accounted for 23%, 17% and 12% of net revenue. No other client accounted for 10% or more of net revenue in fiscal years 2018, 2017 and 2016. Our top 20 clients accounted for 57%, 52% and 48% of net revenue in fiscal years 2018, 2017 and 2016. Since our service was first offered in 2001, we have developed a broad client base with many multi-year relationships. We enter into Internet marketing contracts with our clients, most of which are cancelable with little or no prior notice. In addition, these contracts do not contain penalty provisions for cancellation before the end of the contract term.

Sales and Marketing

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

Technology and Infrastructure

We have developed a suite of technologies to manage, improve and measure the results of the marketing programs we offer our clients. We use a combination of proprietary and third-party software as well as hardware from established technology vendors. We use specialized software for client management, building and managing websites, acquiring and managing media, managing our third-party publishers, and using data and optimization tools to best match Internet visitors to our marketing clients. We have invested significantly in these technologies and plan to continue to do so to meet the demands of our clients and Internet visitors, to increase the scalability of our operations, and enhance management information systems and analytics in our operations. Our development teams work closely with our marketing and operating teams to develop applications and systems that can be used across our business. In fiscal years 2018, 2017 and 2016, we spent $13.8 million, $13.5 million and $16.4 million on product development.

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

Intellectual Property

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

Our Competitors

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

Advertising and direct marketing services agencies

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

Online marketing and media companies

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

Government Regulation

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

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

Employees

As of June 30, 2018, we had 506 employees, which consisted of 168 employees in product development, 47 in sales and marketing, 39 in general and administration and 252 in operations. None of our employees are represented by a labor union, except for our employees in Brazil who are represented by a union as required by Brazilian law.

Available Information

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

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

Item 1A. *Risk Factors*

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

Risks Related to Our Business and Industry

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

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

- our still developing industry and relatively new business model;
- changes in the economic condition, market dynamics, regulatory enforcement or legislative environment affecting our, our third-party publishers', and our clients' businesses;

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

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

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

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

Our, our third-party publishers', and our clients' businesses operate in highly regulated industries, subject to many laws and regulatory requirements, including federal, state, and local laws and regulations regarding unsolicited commercial email, telemarketing, user privacy, search engines, Internet tracking technologies, direct marketing, data security, data privacy, pricing, sweepstakes, promotions, intellectual property ownership and infringement, trade secrets, export of encryption technology, acceptable content and quality of goods, and taxation, among others. Each of our financial services, education and other client verticals is also subject to various laws and regulations, and our marketing activities on behalf of our clients are regulated. Many of these laws and regulations are frequently changing and can be subject to vagaries of interpretation and emphasis, and the extent and evolution of future government regulation is uncertain, therefore, keeping our business in compliance with or bringing our business into compliance with new laws may be costly, affect our revenue and harm our financial results. For example, we believe increased regulation may occur in the area of data privacy, and laws and regulations applying to the solicitation, collection, processing or use of personally identifiable information. Further, foreign laws and regulations such as the General Data Protection Regulation ("GDPR"), which became effective in May 2018, may apply to our business and marketing activities that are offered to European Union users. The GDPR creates a range of new compliance obligations and penalties for non-compliance are significant. The foregoing could affect our ability to use and share data and may result in expenditures to ensure our ability to store, process and share data in accordance with applicable laws and regulations. Violations or alleged violations of laws by us, our third-party publishers or clients could result in damages, fines, criminal prosecution, unfavorable publicity, and restrictions on our ability to operate, any of which could have a material adverse effect on our business, financial condition, and results of operations. In addition, new laws or regulations or changes in enforcement of existing laws or regulations applicable to our clients could affect the activities or strategies of our clients and, therefore, lead to reductions in their level of business with us.

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

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

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

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

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

For example, in January 2014, the Department of Education initiated an investigation of a U.S. publicly traded for-profit education client with respect to its enrollment activities and job placement, among other things, and in July 2014, the Department of Education signed an agreement with the client requiring it to wind down or sell its campuses. In September 2016, the Department of Education took action which resulted in the closure of a large for-profit education provider.

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

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

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

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

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

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

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

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

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

A significant portion of our revenue is attributable to visitor traffic originating from third-party publishers (including strategic partners). In many instances, third-party publishers can change the media inventory they make available to us at any time in ways that could impact our results of operations. In addition, third-party publishers may place significant restrictions on our offerings. These restrictions may prohibit advertisements from specific clients or specific industries, or restrict the use of certain creative content or formats. If a third-party publisher decides not to make its media channel or inventory available to us, decides to demand a higher revenue-share or places significant restrictions on the use of such inventory, we may not be able to find media inventory from other websites that satisfies our requirements in a timely and cost-effective manner. Consolidation of Internet advertising networks and third-party publishers could eventually lead to a concentration of desirable inventory on websites or networks owned by a small number of individuals or entities, which could limit the supply or impact the pricing of inventory available to us. In the past, we have experienced declines in our financial services client vertical primarily due to volume declines caused by losses of available media from third-party publishers acquired by competitors, changes in search engine algorithms which reduced or eliminated traffic from some third-party publishers and increased competition for quality media. We cannot assure you that we will be able to acquire media inventory that meets our clients' performance, price, and quality requirements, in which case our revenue could decline or our operating costs could increase.

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

Our success depends on our ability to attract online visitors to our owned and operated and our third-party publishers' websites and convert them into customers for our clients in a cost-effective manner. We depend on Internet search companies to direct a substantial share of visitors to our owned and operated and our third-party publishers' websites. Search companies offer two types of search results: organic and paid listings. Organic listings are displayed based solely on formulas designed by the search companies. Paid listings are displayed based on a combination of the advertiser's bid price for particular keywords and the search engines' assessment of the website's relevance and quality.

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

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

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

The online media and marketing industry is characterized by rapidly changing standards, changing technologies, frequent new product and service introductions, and changing user and client demands. The introduction of new technologies and services embodying new technologies and the emergence of new industry standards and practices could render our existing technologies and services obsolete and unmarketable or require unanticipated investments in technology. We continually make enhancements and other modifications to our proprietary technologies, and these changes may contain design or performance defects that are not readily apparent. If our proprietary technologies fail to achieve their intended purpose or are less effective than technologies used by our competitors, our business could be harmed.

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

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

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

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

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

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

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

Our visitor traffic can be impacted by interest rate volatility.

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

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

The market for online marketing is intensely competitive, and we expect this competition to continue to increase in the future both from existing competitors and, given the relatively low barriers to entry into the market, from new competitors. We compete both for clients and for high-quality media. We compete for clients on the basis of a number of factors, including return on investment of client’s marketing spending, price, and client service.

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

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

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

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

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

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

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

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

The number of people who access the Internet through mobile devices such as smart phones and tablets has increased dramatically in the past several years, and we expect the trend to continue. Our online marketing services and content were originally designed for desktop or laptop computers. The shift from desktop or laptop computers to mobile devices could potentially deteriorate the user experience for visitors to our websites and may make it more difficult for visitors to respond to our offerings. It also requires us to develop new product offerings specifically designed for mobile devices, such as social media advertising opportunities. Additionally, the monetization of our online marketing services and content on these mobile devices might not be as lucrative for us compared to those on desktop and laptop computers. If we fail to optimize our websites cost effectively and improve the monetization capabilities of our mobile marketing services, we may not remain competitive, which may negatively affect our business and results of operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In addition, our personnel, systems, procedures, and controls may be inadequate to support our future operations. The improvements required to manage growth may require us to make significant expenditures, expand, train and manage our employee base, and reallocate valuable management resources. We may spend substantial amounts to purchase or lease data centers and equipment, upgrade our technology and network infrastructure to handle increased traffic on our owned and operated websites and roll out new products and services. Any such expansion could be expensive and complex and could result in inefficiencies or operational failures. If we do not implement such expansion successfully, or if we experience inefficiencies and operational failures during its implementation, the quality of our products and services and our users' experience could decline. This could damage our reputation and cause us to lose current and potential users and clients. The costs associated with these adjustments to our architecture could harm our operating results. Accordingly, if we fail to effectively manage any future growth, our operating performance will suffer, and we may lose clients, key vendors and key personnel.

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

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

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

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

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

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

Future acquisitions could also result in dilutive issuances of our equity securities, the incurrence of debt, contingent liabilities, amortization expense, impairment of goodwill or restructuring charges, any of which could harm our financial condition or results. Also, the anticipated benefit of many of our acquisitions may not materialize. In connection with a disposition of assets or a business, we may agree to provide indemnification for certain potential liabilities or retain certain liabilities or obligations, which may adversely impact our financial condition or results.

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

We rely on internal and third-party call centers as well as third-party vendors, data centers and Internet providers. Notwithstanding disaster recovery and business continuity plans and precautions instituted to protect our clients and us from events that could interrupt delivery of services, there is no guarantee that such interruptions would not result in a prolonged interruption in our ability to provide services to our clients. Any temporary or permanent interruption in the services provided by our call centers or third-party providers could significantly harm our business.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In addition, we have in the past, and may in the future, be subject to legal proceedings and claims that we have infringed the patents or other intellectual property rights of third-parties. These claims sometimes involve patent holding companies or other adverse patent owners who have no relevant product revenue and against whom our own intellectual property rights, if any, may therefore provide little or no deterrence. For example, in December 2012, Internet Patents Corporation (“IPC”) filed a patent infringement lawsuit against us in the Northern District of California alleging that some of our websites infringe a patent held by IPC. IPC is a non-practicing entity that relies on asserting its patents as its primary source of revenue. In addition, third-parties have asserted and may in the future assert intellectual property infringement claims against our clients, and we have agreed in certain circumstances to indemnify and defend against such claims. Any intellectual property-related infringement claims, whether or not meritorious and regardless of the outcome of the litigation, could result in costly litigation, could divert management resources and attention and could cause us to change our business practices. Should we be found liable for infringement, we may be required to enter into licensing agreements, if available on acceptable terms or at all, pay substantial damages, or limit or curtail our systems and technologies. Moreover, we may need to redesign some of our systems and technologies to avoid future infringement liability. Any of the foregoing could prevent us from competing effectively and increase our costs.

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

Limitations on our ability to collect and use data derived from user activities, as well as new technologies that block our ability to deliver Internet-based advertising, could significantly diminish the value of our services and have an adverse effect on our ability to generate revenue.

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

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

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

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

In order to comply with the Sarbanes-Oxley Act of 2002 ("SOX Act"), our management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States. We may in the future discover areas of our internal financial and accounting controls and procedures that need improvement. Our internal control over financial reporting will not prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. All control systems have inherent limitations, and, accordingly, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud will be detected. If we are unable to maintain proper and effective internal controls, we may not be able to produce accurate financial statements on a timely basis, which could adversely affect our ability to operate our business and could result in regulatory action.

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

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

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

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

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

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

We face additional risks in conducting business in international markets.

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

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

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

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

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

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

Goodwill impairment analysis and measurement is a process that requires significant judgment. Our stock price and any estimated control premium are factors affecting the assessment of the fair value of our underlying reporting units for purposes of performing any goodwill impairment assessment. For example, our public market capitalization sustained a decline after December 31, 2012 and June 30, 2014 to a value below the net book carrying value of our equity, triggering the need for a goodwill impairment analysis. As a result of our goodwill impairment analysis, we recorded a goodwill impairment charge in those periods. Additionally, in the third quarter of fiscal year 2016, our stock price experienced volatility and our public market capitalization decreased to a value below the net book carrying value of our equity, triggering the need for an interim impairment test. While no impairment was recorded as a result of the interim impairment test, it is possible that another material change could occur in the future. We will continue to conduct impairment analyses of our goodwill on an annual basis, unless indicators of possible impairment arise that would cause a triggering event, and we would be required to take additional impairment charges in the future if any recoverability assessments reflect estimated fair values that are less than our recorded values. Further impairment charges with respect to our goodwill could have a material adverse effect on our financial condition and results of operations.

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

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

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

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

Risks Related to the Ownership of Our Common Stock

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

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

- our ability to grow our revenues and adjusted EBITDA margin and to manage any such growth effectively;
- changes in earnings estimates or recommendations by securities analysts;
- announcements about our revenue, earnings or other financial results that are not in line with analyst expectations;
- geopolitical and world economic conditions;
- our ability to find, develop or retain high quality targeted media on a cost effective basis;
- relatively low trading volume in our stock, which creates inherent volatility regardless of factors related to our business performance or prospects;
- the sale of, or indication of the intent to sell, substantial amounts of our common stock by our directors, officers or substantial shareholders;
- stock repurchase programs;
- announcements by us or our competitors of new services, significant contracts, commercial relationships, acquisitions or capital commitments;
- our commencement of, involvement in, or a perceived threat of litigation or regulatory enforcement action; and
- negative publicity about us, our industry, our clients or our clients' industries.

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

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

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

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

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

As of June 30, 2018, our directors and executive officers, together with their affiliates, beneficially or otherwise owned approximately 19% of our outstanding common stock. As a result, these stockholders, acting together, have substantial influence over the outcome of matters submitted to our stockholders for approval, including the election of directors and any merger, consolidation or sale of all or substantially all of our assets. In addition, these stockholders, acting together, have significant influence over the management and affairs of our Company. Accordingly, this concentration of ownership may have the effect of:

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

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

As of June 30, 2018, our board of directors has authorized a stock repurchase program allowing us to repurchase up to 966,000 outstanding shares of our common stock. As of June 30, 2018, the number of shares that remains available for repurchase pursuant to our stock repurchase program is 903,636 shares. The timing and actual number of shares repurchased will depend on a variety of factors including the price, cash availability and other market conditions. The stock repurchase program, authorized by our board of directors, does not obligate us to repurchase any specific dollar amount or to acquire any specific number of shares. The stock repurchase program could affect the price of our stock and increase volatility and may be suspended or terminated at any time, which may result in a decrease in the trading price of our stock. The existence of our stock repurchase program could also cause the price of our common stock to be higher than it would be in the absence of such a program and could potentially reduce the market liquidity for our common stock. Additionally, repurchases under our stock repurchase program will diminish our cash reserves. There can be no assurance that any stock repurchases will enhance stockholder value because the market price of our common stock may decline below the levels at which we repurchased such shares. Any failure to repurchase shares after we have announced our intention to do so may negatively impact our reputation and investor confidence in us and may negatively impact our stock price. Although our stock repurchase program is intended to enhance long-term stockholder value, short-term stock price fluctuations could reduce the program's effectiveness.

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

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

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

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

- a classified board of directors with three-year staggered terms, which may delay the ability of stockholders to change the membership of a majority of our board of directors;
- no cumulative voting in the election of directors, which limits the ability of minority stockholders to elect director candidates;

- the exclusive right of our board of directors to elect a director to fill a vacancy created by the expansion of the board of directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors;
- the ability of our board of directors to issue shares of preferred stock and to determine the price and other terms of those shares, including preferences and voting rights, without stockholder approval, which could be used to significantly dilute the ownership of a hostile acquirer;
- a prohibition on stockholder action by written consent, which forces stockholder action to be taken at an annual or special meeting of our stockholders;
- the requirement that a special meeting of stockholders may be called only by the chairman of the board of directors, the chief executive officer or the board of directors, which may delay the ability of our stockholders to force consideration of a proposal or to take action, including the removal of directors; and
- advance notice procedures that stockholders must comply with in order to nominate candidates to our board of directors or to propose matters to be acted upon at a stockholders' meeting, which may discourage or deter a potential 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 also subject to certain anti-takeover provisions under Delaware law. Under Delaware law, a corporation may not, in general, engage in a business combination with any holder of 15% or more of its capital stock unless the holder has held the stock for three years or, among other things, the board of directors has approved the transaction.

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

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

Item 1B. *Unresolved Staff Comments*

None.

Item 2. *Properties*

Our principal executive 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. The lease was amended in April 2018. The extended lease term begins on November 1, 2018 and expires on October 31, 2023 and decreases the square feet of office space to approximately 44,556. This facility accommodates our principal engineering, sales, marketing, operations, finance and administrative activities. We also lease additional facilities to accommodate sales, marketing, and operations throughout the United States. Outside of the United States, we also lease facilities to accommodate engineering, sales, marketing, and operations in Brazil and India.

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

Item 3. *Legal Proceedings*

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

Item 4. *Mine Safety Disclosures*

Not Applicable.

PART II

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

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

Fiscal Year Ended June 30, 2017	High	Low
First quarter ended September 30, 2016	$ 4.06	$ 2.81
Second quarter ended December 31, 2016	$ 4.32	$ 2.61
Third quarter ended March 31, 2017	$ 4.23	$ 2.96
Fourth quarter ended June 30, 2017	$ 4.63	$ 3.44

Fiscal Year Ended June 30, 2018	High	Low
First quarter ended September 30, 2017	$ 8.00	$ 3.36
Second quarter ended December 31, 2017	$ 10.97	$ 6.86
Third quarter ended March 31, 2018	$ 14.65	$ 8.27
Fourth quarter ended June 30, 2018	$ 14.12	$ 9.76

On September 7, 2018, the closing price as reported on the NASDAQ Global Select Market of our common stock was $14.13 per share and we had approximately 70 stockholders of record of our common stock.

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

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

Stock Repurchase Program

In July 2017, the Board of Directors authorized a stock repurchase program allowing the Company to repurchase up to 905,000 outstanding shares of its common stock. In October 2017, the Board of Directors increased the number of outstanding shares that may be repurchased to 966,000 shares. Repurchases under this program took place in the open market and were made under a Rule 10b5-1 plan. There is no guarantee as to the exact number of shares that will be repurchased by the Company, and the Company may discontinue repurchases at any time.

The following table summarizes the stock repurchase activity during the fourth quarter of fiscal year 2018 and the number of shares that may yet be purchased pursuant to our stock repurchase program that was available as of June 30, 2018:

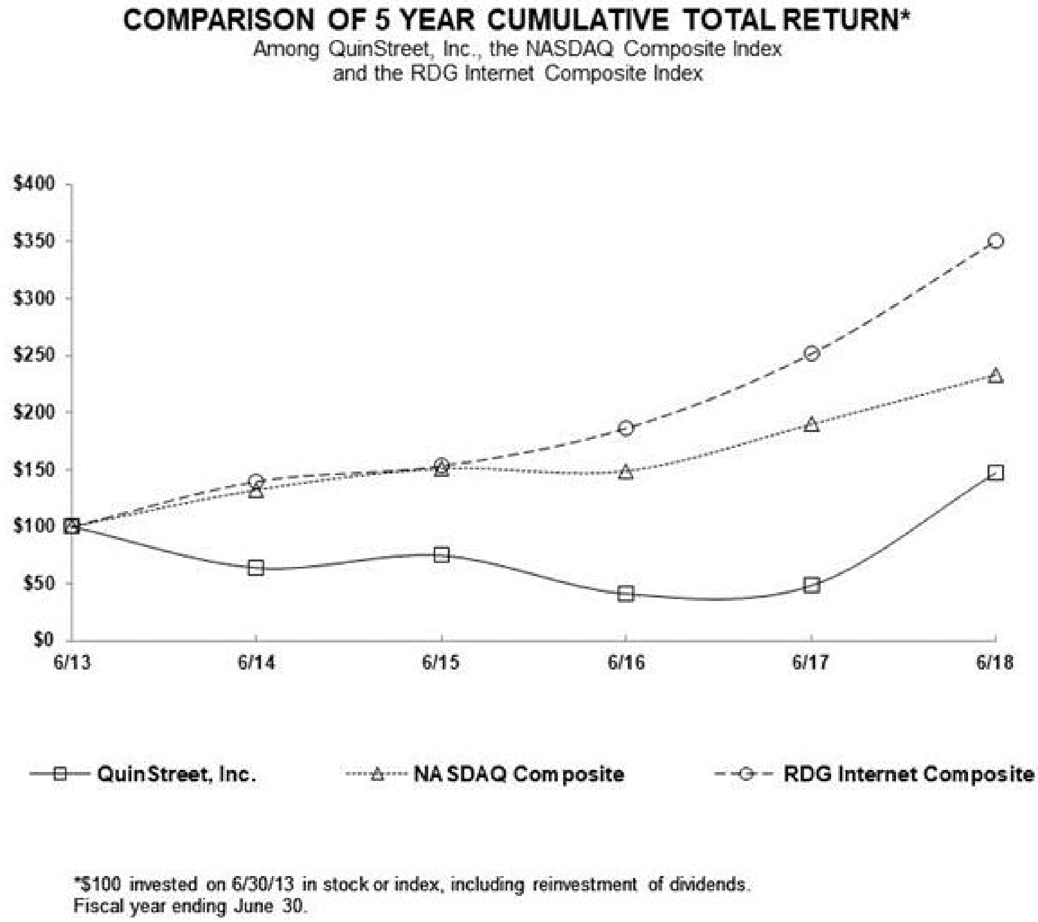
Period	Total Number of Shares Purchased	Weighted Average Price Paid Per Share (1)	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares that May Yet Be Purchased Under the Program
April 1, 2018 - April 30, 2018	—	$ —	—	903,636
May 1, 2018 - May 31, 2018	—	—	—	903,636
June 1, 2018 - June 30, 2018	—	—	—	903,636
Total	—	$ —	—	

(1) Excludes $0.03 per share broker commission.

Performance Graph

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

The following performance graph shows a comparison from June 30, 2013 through June 30, 2018 of cumulative total return for our common stock, the NASDAQ Composite Index and the RDG Internet Composite Index. Such returns are based on historical results and are not intended to suggest future performance. Data for the NASDAQ Composite Index and the RDG Internet Composite Index assume reinvestment of dividends.



Recent Sales of Unregistered Securities

There were no unregistered sales of our equity securities in fiscal year 2018.

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

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

We derived the consolidated statements of operations data for the fiscal years ended June 30, 2018, 2017 and 2016 and the consolidated balance sheets data as of June 30, 2018 and 2017 from our audited consolidated financial statements appearing elsewhere in this report. The consolidated statements of operations data for the fiscal years ended June 30, 2015 and 2014 and the consolidated balance sheets data as of June 30, 2016, 2015 and 2014 are derived from our audited consolidated financial statements, which are not included in this report.

	Fiscal Year Ended June 30,				
	2018	2017	2016	2015	2014
	(In thousands, except per share data)				
Consolidated Statements of Operations Data:					
Net revenue	$ 404,358	$ 299,785	$ 297,706	$ 282,140	$ 282,549
Cost of revenue (1)	345,947	269,409	270,963	252,002	241,907
Gross profit	58,411	30,376	26,743	30,138	40,642
Operating expenses: (1)					
Product development	13,805	13,476	16,431	17,948	19,548
Sales and marketing	10,414	9,189	12,020	14,544	16,385
General and administrative	18,556	15,934	17,166	16,823	17,046
Impairment of goodwill	—	—	—	—	95,641
Restructuring charges	—	2,441	—	—	—
Total operating expenses	42,775	41,040	45,617	49,315	148,620
Operating income (loss)	15,636	(10,664)	(18,874)	(19,177)	(107,978)
Interest income	181	138	61	72	115
Interest expense	—	(346)	(585)	(3,818)	(3,825)
Other income (expense), net	687	(2,416)	112	2,671	1,493
Interest and other income (expense), net	868	(2,624)	(412)	(1,075)	(2,217)
Income (loss) before income taxes	16,504	(13,288)	(19,286)	(20,252)	(110,195)
(Provision for) benefit from income taxes	(574)	1,080	(134)	244	(36,209)
Net income (loss)	$ 15,930	$ (12,208)	$ (19,420)	$ (20,008)	$ (146,404)
Net income (loss) per share: (2)					
Basic	$ 0.34	$ (0.27)	$ (0.43)	$ (0.45)	$ (3.36)
Diluted	$ 0.32	$ (0.27)	$ (0.43)	$ (0.45)	$ (3.36)
Weighted-average shares used in computing net income (loss) per share:					
Basic	46,417	45,594	45,197	44,454	43,528
Diluted	49,872	45,594	45,197	44,454	43,528

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

Cost of revenue	$ 3,982	$ 3,109	$ 3,780	$ 3,120	$ 2,767
Product development	1,949	1,834	2,340	2,395	2,429
Sales and marketing	1,222	1,154	1,825	2,144	2,937
General and administrative	3,029	2,759	3,023	2,196	2,296
Restructuring charges	—	42	—	—	—

(2) See Note 3, Net Income (Loss) per Share, to our consolidated financial statements for an explanation of the method used to calculate basic and diluted net income (loss) per share of common stock.

	June 30,				
	2018	2017	2016	2015	2014
	(In thousands)				
Consolidated Balance Sheets Data:					
Cash and cash equivalents	$ 64,700	$ 49,571	$ 53,710	$ 60,468	$ 84,177
Working capital	69,592	47,301	44,264	69,549	110,412
Total assets	220,296	174,308	193,102	205,153	276,843
Long-term liabilities	3,938	3,672	4,631	20,740	65,448
Total debt	—	—	15,000	15,049	77,263
Total stockholders' equity	148,326	118,082	124,752	135,585	145,151

	Fiscal Year Ended June 30,				
	2018	2017	2016	2015	2014
	(In thousands)				
Consolidated Statements of Cash Flows Data:					
Net cash provided by operating activities	$ 26,979	$ 18,536	$ 1,015	$ 6,133	$ 18,377
Depreciation and amortization	7,767	11,377	15,087	18,867	26,097
Capital expenditures	610	1,160	1,859	3,346	5,455

	Fiscal Year Ended June 30,				
	2018	2017	2016	2015	2014
	(In thousands)				
Other Financial Data:					
Adjusted EBITDA (1)	$ 34,679	$ 12,010	$ 7,853	$ 9,984	$ 24,189

(1) We define adjusted EBITDA as net income (loss) less (benefit from) provision for income taxes, depreciation expense, amortization expense, stock-based compensation expense, interest and other income (expense), net, impairment of goodwill, restructuring, legal settlement expense, external expenses related to the material weakness disclosed in our FY 2017 Annual Report on Form 10-K, and acquisition related expense. Please see the "adjusted EBITDA" section within "Management's Discussion and Analysis of Financial Condition and Results of Operations" for more information.

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

	Fiscal Year Ended June 30,				
	2018	2017	2016	2015	2014
	(In thousands)				
Net income (loss)	$ 15,930	$ (12,208)	$ (19,420)	$ (20,008)	$ (146,404)
Interest and other (income) expense, net	(868)	2,624	412	1,075	2,217
Provision for (benefit from) income taxes	574	(1,080)	134	(244)	36,209
Depreciation and amortization	7,767	11,377	15,087	18,867	26,097
Stock-based compensation expense	10,182	8,856	10,968	9,855	10,429
Impairment of goodwill	—	—	—	—	95,641
Restructuring	—	2,441	297	439	—
Acquisition costs	667	—	—	—	—
Material weakness related expense	563	—	—	—	—
Shareholder litigation expense	16	—	375	—	—
Contingent consideration adjustment	(152)	—	—	—	—
Adjusted EBITDA	$ 34,679	$ 12,010	$ 7,853	$ 9,984	$ 24,189

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

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

Management Overview

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

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

- own or access targeted media through business arrangements (e.g., revenue sharing arrangements) or by purchasing media (e.g., clicks from major search engines);
- run advertisements or other forms of marketing messages and programs in that media to create visitor responses typically in the form of leads or inquiries (e.g., contact information), clicks (to further qualification or matching steps, or to online client applications or offerings), calls (to our owned and operated call centers or that of our clients or their agents), applications (e.g., for enrollment or a financial product), or customers (e.g., bound insurance policies);
- match these leads, inquiries, clicks, calls, applications, or customers to client offerings or brands that we believe can meet visitor interests or needs and client targets and requirements; and
- optimize client matches and media costs such that we achieve desired results for clients and a sound financial outcome for us.

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

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

Our two largest client verticals are financial services and education. Our financial services client vertical represented 70%, 62% and 52% of net revenue in fiscal years 2018, 2017 and 2016. Our education client vertical represented 19%, 24% and 30% of net revenue in fiscal years 2018, 2017 and 2016. Our other client vertical, consisting of home services and business-to-business technology, represented 11%, 14% and 18% of net revenue in fiscal years 2018, 2017 and 2016. We generated the majority 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 2019 will continue to be generated from clients in these two client verticals.

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

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

Development, Acquisition and Retention of High Quality Targeted Media

One of the primary challenges of our business is finding or creating media that is high quality and targeted enough to attract prospects for our clients at costs that provide a sound financial outcome for us. In order to grow our business, we must be able to find, develop and retain quality targeted media on a cost-effective basis. Consolidation of media sources, changes in search engine algorithms and increased competition for available media has, during some periods, limited and may continue to limit our ability to generate revenue at acceptable margins. To offset this impact, we have developed new sources of media, including entering into strategic partnerships with other marketing and media companies and acquisitions. Such partnerships include takeovers of performance marketing functions for large web media properties; backend monetization of unmatched traffic for clients with large media buys; and white label products for other performance marketing companies. We have also focused on growing our revenue from email, mobile and social media traffic sources.

Seasonality

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

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

Regulations

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

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

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

Basis of Presentation

Net Revenue

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

Cost of Revenue

Cost of revenue consists primarily of media and marketing costs, personnel costs, amortization of intangible assets, depreciation expense and amortization of internal software development costs related to revenue-producing technologies. Media and marketing costs consist primarily of fees paid to third-party publishers, media owners or managers, or to strategic partners that are directly related to a revenue-generating event and of pay-per-click, or PPC, ad purchases from Internet search companies. We pay these third-party publishers, media owners or managers, strategic partners and Internet search companies on a revenue-share, a cost-per-lead, or CPL, cost-per-click, or CPC, or cost-per-thousand-impressions, or CPM, basis. Personnel costs include salaries, stock-based compensation expense, bonuses, commissions and employee benefit costs. Personnel costs are primarily related to individuals associated with maintaining our servers and websites, our call center operations, our editorial staff, client management, creative team, content, compliance group and media purchasing analysts. Costs associated with software incurred in the development phase or obtained for internal use are capitalized and amortized in cost of revenue over the software's estimated useful life.

Operating Expenses

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

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

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

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

Interest and Other Income (Expense), Net

Interest and other income (expense), net, consists primarily of interest income, interest expense, and other income and expense. Interest income represents interest earned on our cash and cash equivalents, which may increase or decrease depending on market interest rates and the amounts invested. Interest expense is related to our revolving loan facility which matured in June 2017, promissory notes issued in connection with our acquisitions, and imputed interest on non-interest bearing notes. We have no borrowing agreements outstanding as of June 30, 2018; however interest expense could increase if, among other things, we enter into a new borrowing agreement to manage liquidity or make additional acquisitions through debt financing. Other income and expense includes gains and losses on foreign currency exchange, gains and losses on sales of websites and domain names that were not considered to be strategically important to our business, impairment of investments and other non-operating items.

Benefit from (Provision for) Income Taxes

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

Results of Operations

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

	Fiscal Year Ended					
	2018		2017		2016	
	(In thousands)					
Net revenue	$ 404,358	100.0%	$ 299,785	100.0%	$ 297,706	100.0%
Cost of revenue (1)	345,947	85.6	269,409	89.9	270,963	91.0
Gross profit	58,411	14.4	30,376	10.1	26,743	9.0
Operating expenses: (1)						
Product development	13,805	3.3	13,476	4.4	16,431	5.5
Sales and marketing	10,414	2.6	9,189	3.1	12,020	4.0
General and administrative	18,556	4.6	15,934	5.3	17,166	5.8
Restructuring charges	—	—	2,441	0.8	—	—
Operating income (loss)	15,636	3.9	(10,664)	(3.5)	(18,874)	(6.3)
Interest income	181	—	138	—	61	—
Interest expense	—	—	(346)	(0.1)	(585)	(0.2)
Other income (expense), net	687	0.2	(2,416)	(0.8)	112	—
Income (loss) before income taxes	16,504	4.1	(13,288)	(4.4)	(19,286)	(6.5)
(Provision for) benefit from income taxes	(574)	(0.2)	1,080	0.3	(134)	—
Net income (loss)	$ 15,930	3.9%	$ (12,208)	(4.1)%	$ (19,420)	(6.5)%

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

Cost of revenue	$ 3,982	1.0%	$ 3,109	1.0%	$ 3,780	1.3%
Product development	1,949	0.5	1,834	0.6	2,340	0.8
Sales and marketing	1,222	0.3	1,154	0.4	1,825	0.6
General and administrative	3,029	0.7	2,759	0.9	3,023	1.0
Restructuring charges	—	—	42	—	—	—

Gross Profit

	Fiscal Year Ended June 30,			2018 - 2017	2017 - 2016
	2018	2017	2016	% Change	% Change
	(In thousands)				
Net revenue	$ 404,358	$ 299,785	$ 297,706	35%	1%
Cost of revenue	345,947	269,409	270,963	28%	(1%)
Gross profit	$ 58,411	$ 30,376	$ 26,743	92%	14%

Net Revenue

Net revenue increased $104.6 million, or 35%, in fiscal year 2018 compared to fiscal year 2017. Our financial services client vertical revenue increased $98.3 million, or 53%, primarily due to our enhanced product set that provides greater segmentation, matching, transparency, and right pricing of media which have enabled access to more media and client budgets and to additional strategic partnerships that have increased and diversified our access to quality media and client budgets. Our education client vertical revenue increased $5.1 million, or 7%, primarily due to increased client demand from not-for-profit education clients. Revenue from other client vertical increased by $1.1 million, or 3%, primarily due to increased client demand in our home services client vertical, partially offset by decreased client demand in our business-to-business technology vertical.

Net revenue increased $2.1 million, or 1%, in fiscal year 2017 compared to fiscal year 2016. Our financial services client vertical revenue increased $29.6 million, or 19%, primarily due to our enhanced product set that provides greater segmentation, transparency, and right pricing of media which have enabled access to more media and client budgets and to additional strategic partnerships that have increased and diversified our access to quality media and client budgets. Our education client vertical revenue decreased $18.0 million, or 20%, primarily due to exits from the channel of some for-profit education clients, decreased client demand as a result of client initiatives which include campus closures and discontinuation of certain education programs and lower budgets from certain education clients. Revenue from other client vertical decreased $9.5 million, or 18%, primarily due to decreased client demand in our business-to-business technology and medical client verticals, partially offset by increased client demand in our home services client vertical.

Cost of Revenue and Gross Profit Margin

Cost of revenue increased $76.5 million, or 28%, in fiscal year 2018 compared to fiscal year 2017. This was primarily driven by increased media and marketing costs of $81.1 million due to higher revenue volumes, as well as increased stock-based compensation expense of $0.9 million. This was primarily offset by decreased personnel costs of $2.3 million, mainly as a result of decreased average headcount in fiscal 2018 as compared to fiscal 2017 and a decrease of $3.4 million in depreciation and amortization expense. The decrease in personnel costs is primarily related to our corporate restructuring announced in November 2016. The decrease in amortization of intangible assets is attributable to assets from historical acquisitions becoming fully amortized. Depreciation expense declined due to decreased capital investing in recent periods. Gross profit margin, which is the difference between net revenue and cost of revenue as a percentage of net revenue, was 14% in fiscal year 2018 compared to 10% in fiscal year 2017. The increase in gross profit margin was attributable to decreased personnel costs and decreased amortization of intangible assets as a percentage of revenue, partially offset by a higher proportion of our revenue coming from our financial services client vertical, which tend to have higher media and marketing costs as a percentage of revenue.

Cost of revenue decreased $1.6 million, or 1%, in fiscal year 2017 compared to fiscal year 2016, driven by decreased personnel costs of $5.6 million, decreased amortization of intangible assets of $2.7 million, decreased stock-based compensation expense of $0.7 million and decreased depreciation expense of $0.5 million, partially offset by increased media and marketing costs of $8.2 million. The decrease in personnel costs is primarily related to our corporate restructuring announced in November 2016 and decreased incentive compensation associated with the lower achievement of performance objectives. The decrease in amortization of intangible assets is attributable to assets from historical acquisitions becoming fully amortized and decreased spending in recent periods. The increase in media and marketing costs is primarily due to higher revenue volumes from our financial services client vertical, which tend to have higher media and marketing costs as a percentage of revenue. Gross profit margin, which is the difference between net revenue and cost of revenue as a percentage of net revenue, was 10% in fiscal year 2017 compared to 9% in fiscal year 2016. The increase in gross profit margin was attributable to decreased personnel costs and decreased amortization of intangible as a percentage of revenue, partially offset by a higher proportion of our revenue coming from our financial services client vertical, which tend to have higher media and marketing costs as a percentage of revenue.

Operating Expenses

	Fiscal Year Ended June 30,			2018 - 2017	2017 - 2016
	2018	2017	2016	% Change	% Change
		(In thousands)			
Product development	$ 13,805	$ 13,476	$ 16,431	2%	(18%)
Sales and marketing	10,414	9,189	12,020	13%	(24%)
General and administrative	18,556	15,934	17,166	16%	(7%)
Restructuring charges	—	2,441	—	(100%)	100%
Operating expenses	$ 42,775	$ 41,040	$ 45,617	4%	(10%)

Product Development Expenses

Product development expenses increased $0.3 million, or 2%, in fiscal year 2018 compared to fiscal year 2017, primarily due to increased travel expense of $0.3 million mainly attributable to travel costs incurred in connection with our foreign operations.

Product development expenses decreased $3.0 million, or 18%, in fiscal year 2017 compared to fiscal year 2016, primarily due to decreased personnel costs of $1.9 million and decreased stock-based compensation expense of $0.5 million. The decrease in personnel costs was related to our corporate restructuring announced in November 2016 and decreased performance incentive compensation associated with the lower achievement of performance objectives.

Sales and Marketing Expenses

Sales and marketing expenses increased $1.2 million, or 13%, in fiscal year 2018 compared to fiscal year 2017, primarily due to increased personnel costs associated with higher compensation costs and increased performance incentive compensation associated with the achievement of higher performance objectives.

Sales and marketing expenses decreased $2.8 million, or 24%, in fiscal year 2017 compared to fiscal year 2016, primarily due to decreased personnel costs of $1.7 million and decreased stock-based compensation expense of $0.7 million. The decrease in personnel costs was related to our corporate restructuring announced in November 2016 and decreased performance incentive compensation associated with the lower achievement of performance objectives.

General and Administrative Expenses

General and administrative expenses increased $2.6 million, or 16%, in fiscal year 2018 compared to fiscal year 2017, primarily due to increased personnel costs of $0.8 million, increased legal expense of $0.6 million, and increased professional fees of $0.6 million. The increase in personnel costs was related to increased performance incentive compensation associated with the higher achievement of performance objectives. The increase in legal expense was due to higher expenses related to compliance matters. The increase in professional services fees was due to the material weakness identified in fiscal year 2017.

General and administrative expenses decreased $1.2 million, or 7%, in fiscal year 2017 compared to fiscal year 2016, primarily due to decreased personnel costs of $0.7 million and decreased litigation expense of $0.5 million. The decrease in personnel costs was related to our corporate restructuring announced in November 2016 and decreased performance incentive compensation associated with the lower achievement of performance objectives. The decrease in litigation expense was due to lower legal settlements.

Restructuring Charges

In November 2016, we announced a corporate restructuring in order to accelerate margin expansion and grow cash flow. As a result, we recognized total cash and non-cash restructuring costs of $2.4 million related to employee severance and benefits in the fiscal year ended June 30, 2017, which represented substantially all costs expected to be incurred associated with the corporate restructuring. Benefits from the restructuring began to take effect in the three months ended December 31, 2016 and the restructuring was complete as of June 30, 2017.

Interest and Other Income (Expense), Net

	Fiscal Year Ended June 30,			2018 - 2017	2017 - 2016
	2018	2017	2016	% Change	% Change
	(In thousands)				
Interest income	$ 181	$ 138	$ 61	31%	126%
Interest expense	—	(346)	(585)	(100%)	(41%)
Other income (expense), net	687	(2,416)	112	128%	(2257%)
Interest and other income (expense), net	$ 868	$ (2,624)	$ (412)	133%	537%

Interest income was immaterial in fiscal years 2018, 2017 and 2016.

Interest expense decreased $0.3 million, or 100% in fiscal year 2018 compared to fiscal year 2017, and $0.2 million, or 41% in fiscal year 2017 compared to fiscal year 2016, primarily due to decreased debt obligations.

Other income (expense), net increased $3.1 million in fiscal year 2018, or 128% compared to fiscal year 2017 primarily due to the impairment of our investment in a privately held entity of $2.5 million in fiscal year 2017 and income from the sale of other assets and domain names that were not considered strategically important to our business. Other income (expense), net decreased $2.5 million in fiscal year 2017 compared to fiscal year 2016, primarily due to the impairment of our investment in a privately held entity of $2.5 million.

Benefit from (Provision for) Income Taxes

	Fiscal Year Ended June 30,		
	2018	2017	2016
	(In thousands)		
(Provision for) benefit from income taxes	$ (574)	$ 1,080	$ (134)
Effective tax rate	3.5%	8.1%	(0.7%)

We recorded an expense from income taxes of $0.6 million in fiscal year 2018, primarily as a result of current state and foreign income taxes. We recorded a benefit from income taxes of $1.1 million in fiscal year 2017, primarily as a result of a tax refund from an amended state tax return filing.

We recorded a provision for income taxes of $0.1 million in fiscal year 2016 primarily due to the outcome of a state tax examination, partially offset by the release of uncertain tax position reserves due to the expiration of the statute of limitations.

Our effective tax rate was 3.5% in fiscal year 2018, 8.1% in fiscal year 2017 and (0.7%) in fiscal year 2016. Due to the effects of our deferred tax asset valuation allowance and our historical net operating loss, our annual effective tax rate was not meaningful as our income tax amounts were not directly correlated to the amount of income (loss) before income taxes for the periods.

Selected Quarterly Financial Data

The following table sets forth our unaudited quarterly condensed consolidated statements of operations for the eight quarters ended June 30, 2018. We have prepared the statements of operations for each of these quarters on the same basis as the audited consolidated financial statements included elsewhere in this report and, in the opinion of management, each statement of operations includes all adjustments, consisting solely of normal recurring adjustments, necessary for the fair statement of the results of operations for these periods. This information should be read in conjunction with the audited consolidated financial statements and related notes included elsewhere in this report. These quarterly operating results are not necessarily indicative of our operating results for any future period.

	Three Months Ended							
	June 30, 2018	Mar 31, 2018	Dec 31, 2017	Sept 30, 2017	June 30, 2017	Mar 31, 2017	Dec 31, 2016	Sept 30, 2016
	(In thousands, except per share data) (unaudited)							
Net revenue	$ 111,521	$ 117,925	$ 87,494	$ 87,418	$ 81,532	$ 79,205	$ 65,610	$ 73,438
Costs of revenue	94,786	99,982	75,239	75,940	70,606	69,338	61,657	67,808
Gross profit	16,735	17,943	12,255	11,478	10,926	9,867	3,953	5,630
Operating expenses:								
Product development	3,430	3,686	3,475	3,214	3,061	3,147	3,314	3,954
Sales and marketing	2,581	2,789	2,597	2,447	2,188	2,243	2,168	2,590
General and administrative	4,696	4,889	4,511	4,460	4,086	4,023	3,794	4,031
Restructuring charges	—	—	—	—	—	38	2,403	—
Operating income (loss)	6,028	6,579	1,672	1,357	1,591	416	(7,726)	(4,945)
Interest income	63	45	36	37	39	42	36	21
Interest expense	—	—	—	—	(24)	(31)	(135)	(156)
Other (expense) income, net	(182)	583	243	43	(2,668)	142	(25)	135
Income (loss) before income taxes	5,909	7,207	1,951	1,437	(1,062)	569	(7,850)	(4,945)
(Provision for) benefit from income taxes	(488)	(90)	(4)	8	(306)	10	—	1,376
Net income (loss)	$ 5,421	$ 7,117	$ 1,947	$ 1,445	$ (1,368)	$ 579	$ (7,850)	$ (3,569)
Net income (loss) per share: (1)								
Basic	$ 0.11	$ 0.15	$ 0.04	$ 0.03	$ (0.03)	$ 0.01	$ (0.17)	$ (0.08)
Diluted	$ 0.10	$ 0.14	$ 0.04	$ 0.03	$ (0.03)	$ 0.01	$ (0.17)	$ (0.08)
Other Financial Data:								
Adjusted EBITDA	$ 10,313	$ 11,214	$ 6,569	$ 6,583	$ 6,057	$ 5,191	$ (273)	$ 1,035

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

Adjusted EBITDA

We include adjusted EBITDA in this report because (i) we seek to manage our business to a level of adjusted EBITDA as a percentage of net revenue, (ii) is used internally by management for planning purposes, including preparation of internal budgets; to allocate resources; to evaluate the effectiveness of operational strategies and capital expenditures as well as the capacity to service debt, (iii) it is a key basis upon which management assesses our operating performance, (iv) it is one of the primary metrics investors use in evaluating Internet marketing companies, (v) it is a factor in determining compensation, and (vi) it is an element of certain financial covenants under our historical borrowing arrangements. We define adjusted EBITDA as net income (loss) less benefit from (provision for) income taxes, depreciation expense, amortization expense, stock-based compensation expense, interest and other income (expense), net, impairment of goodwill, restructuring expense, external expense related to the material weakness disclosed in our FY 2017 Annual Report on Form 10-K and acquisition related expense.

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), non-recurring charges (such as restructuring expense, external expense related to the material weakness disclosed in our FY 2017 Annual Report on Form 10-K, acquisition related expense and other income and expense) and the non-cash impact of depreciation expense, amortization expense and stock-based compensation expense.

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

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

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

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

	Three Months Ended							
	June 30, 2018	Mar 31, 2018	Dec 31, 2017	Sept 30, 2017	June 30, 2017	Mar 31, 2017	Dec 31, 2016	Sept 30, 2016
	(In thousands) (unaudited)							
Net income (loss)	$ 5,421	$ 7,117	$ 1,947	$ 1,445	$ (1,368)	$ 579	$ (7,850)	$ (3,569)
Interest and other (income) expense, net	119	(628)	(279)	(80)	2,653	(153)	124	—
Provision for (benefit from) income taxes	488	90	4	(8)	306	(10)	—	(1,376)
Depreciation and amortization	1,790	1,906	1,810	2,261	2,394	2,660	2,950	3,373
Stock-based compensation expense	2,565	2,617	2,563	2,437	2,072	2,077	2,100	2,607
Restructuring	—	—	—	—	—	38	2,403	—
Acquisition costs	31	112	524	—	—	—	—	—
Material weakness related expense	35	—	—	528	—	—	—	—
Shareholder litigation expense	16	—	—	—	—	—	—	—
Contingent consideration adjustment	(152)	—	—	—	—	—	—	—
Adjusted EBITDA	$ 10,313	$ 11,214	$ 6,569	$ 6,583	$ 6,057	$ 5,191	$ (273)	$ 1,035
Adjusted EBITDA as a percentage of net revenue	9%	10%	8%	8%	7%	7%	—	1%

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

Liquidity and Capital Resources

As of June 30, 2018, our principal sources of liquidity consisted of cash and cash equivalents of $64.7 million and cash we expect to generate from future operations. Our cash and cash equivalents are maintained in highly liquid investments with remaining maturities of 90 days or less at the time of purchase. We believe our cash equivalents are liquid and accessible.

Our short-term and long-term liquidity requirements primarily arise from our working capital requirements, capital expenditures, internal software development costs and acquisitions from time to time. Our primary operating cash requirements include the payment of media costs, personnel costs, costs of information technology systems, office facilities and an unfunded lending commitment. Our ability to fund these requirements will depend on our future cash flows, which are determined, in part, by future operating performance and are, therefore, subject to prevailing global macroeconomic conditions and financial, business and other factors, some of which are beyond our control. Even though we may not need additional funds to fund anticipated liquidity requirements, we may still elect to obtain debt financing or issue additional equity securities for other reasons.

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

	Fiscal Year Ended June 30,		
	2018	2017	2016
	(In thousands)		
Net cash provided by operating activities	$ 26,979	$ 18,536	$ 1,015
Net cash used in investing activities	(15,849)	(4,137)	(5,202)
Net cash provided by (used in) financing activities	3,894	(18,505)	(2,497)

Net Cash Provided by Operating Activities

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

Cash provided by operating activities was $27.0 million for fiscal year 2018 compared to $18.5 million for fiscal year 2017 and $1.0 million for fiscal year 2016.

Cash provided by operating activities in fiscal year 2018 consisted of net income of $15.9 million, adjusted for non-cash adjustments of $17.4 million. In addition, there was a net decrease in cash from changes in working capital of $6.3 million. The non-cash adjustments primarily consisted of stock-based compensation expense of $10.2 million and depreciation and amortization of $7.8 million. The changes in working capital accounts were primarily due to an increase in accounts receivable of $25.0 million primarily due to increased net revenues, offset by an increase in accounts payable and accrued liabilities of $15.8 million, primarily due to an increase in media costs associated with increased revenue, and an increase in accrued performance incentive compensation associated with the higher achievement of performance objectives. The decrease in prepaid expenses and other assets of $1.9 million was primarily due to timing of payments and the decrease in other assets non-current of $1.1 million was primarily due to amortization expense for the year.

Cash provided by operating activities in fiscal year 2017 consisted of a net loss of $12.2 million, which included a restructuring charge of $2.4 million, offset by non-cash adjustments of $23.0 million. In addition, there was a net increase in cash from changes in working capital of $7.8 million. The non-cash adjustments primarily consisted of depreciation and amortization of $11.4 million, stock-based compensation expense of $8.9 million and impairment of investment of $2.5 million. The changes in working capital accounts were primarily due to an increase in accounts payable and accrued liabilities of $4.2 million, primarily due to the timing of cash payments, partially offset by a decrease in accrued performance incentive compensation of $2.0 million associated with the lower achievement of performance objectives. The decrease in accounts receivable of $2.9 million was primarily due to the timing of cash receipts.

Cash provided by operating activities in fiscal year 2016 consisted of a net loss of $19.4 million, which included a restructuring charge of $0.3 million, offset by non-cash adjustments of $26.8 million. In addition, there was a net decrease in cash from changes in working capital of $6.3 million. The non-cash adjustments primarily consisted of depreciation and amortization of $15.1 million, stock-based compensation expense of $11.0 million, and provision for sales returns and doubtful accounts receivable of $0.8 million. The changes in working capital accounts were primarily due to an increase in other assets, noncurrent of $8.2 million and an increase in accounts receivable of $1.8 million, partially offset by a decrease in prepaid expenses and other assets of $4.5 million. The increase in other assets, noncurrent, was primarily due to a one-time $10.0 million cash payment to All Web Leads, a strategic partner, to be their exclusive click monetization partner for the majority of their insurance categories and the increase in accounts receivable was primarily due to the timing of cash receipts. The decrease in prepaid expenses and other assets was primarily due to a cash receipt from a federal tax refund of $6.5 million.

Net Cash Used in Investing Activities

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

Cash used in investing activities was $15.8 million for fiscal year 2018, compared to $4.1 million in fiscal year 2017 and $5.2 million in fiscal year 2016.

Cash used in investing activities in fiscal year 2018 was primarily due to our acquisition of certain assets of Katch, LLC for $14.0 million and capital expenditures and internal software development costs of $2.8 million offset by proceeds from sales of other assets and domain names of $1.1 million.

Cash used in investing activities in fiscal year 2017 was primarily due to capital expenditures and internal software development costs of $3.3 million and an increase in restricted cash of $0.8 million held as collateral for letters of credit related to our corporate headquarters' operating lease and fidelity bonds placed with an insurance company.

Cash used in investing activities in fiscal year 2016 was primarily due to capital expenditures and internal software development costs of $5.3 million.

Net Cash Provided by (Used in) Financing Activities

Cash from financing activities generally include repayments on loan facilities and acquisition-related notes payable, repurchases of common stock, payment of withholding taxes related to the release of restricted stock, net of share settlement and proceeds from the exercise of stock options.

Cash provided by financing activities was $3.9 million for fiscal year 2018 compared to cash used of $18.5 million for fiscal year 2017 and $2.5 million for fiscal year 2016.

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

Cash used in financing activities in fiscal year 2017 was due to repayment of the revolving loan facility of $15.0 million, repurchases of common stock of $2.5 million and payment of withholding taxes related to the release of restricted stock, net of share settlement of $1.0 million.

Cash used in financing activities in fiscal year 2016 was primarily due to payment of withholding taxes related to the release of restricted stock, net of share settlement of $2.5 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. We have an investment in a variable interest entity of which we are not the primary beneficiary and as to which we do not have any material obligations.

Additionally, in the third quarter of 2018, we entered into an unsecured revolving promissory note as a lender, as part of a strategic partnership intended to increase our presence in the emerging technology career education market. The principal balance at any time cannot exceed $2.5 million and any outstanding principal balance bears interest at an annual rate of 6.00% payable monthly. Repayment of the principal balance can occur without premium or penalty in whole or in part at any time. In the event of an equity offering by the borrower, any outstanding principal balance may be converted into equity securities of the borrower at the mutual agreement of us and the borrower. Any outstanding principal balance and any accrued and unpaid interest is due on January 1, 2019. As of June 30, 2018, there were no amounts outstanding.

Contractual Obligations

The following table sets forth payments due under our contractual obligations as of June 30, 2018:

	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
			(In thousands)		
Operating Leases	$ 16,892	$ 2,149	$ 6,447	$ 6,948	$ 1,348
Lending Commitment(1)	—	—	—	—	—
Total	$ 16,892	$ 2,149	$ 6,447	$ 6,948	$ 1,348

(1) The lending commitment represents the unfunded balance on the unsecured revolving promissory note described under "Off Balance Sheet Arrangements" as of June 30, 2018. The principal balance anytime cannot exceed $2.5 million and repayment of the principal balance can occur without premium or penalty in whole or in part at any time. Refer to Note 9 for more information on the lending commitment.

The above table does not include approximately $2.2 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.

Headquarters Lease

We entered into a lease agreement in February 2010 for approximately 63,998 square feet of office space located at 950 Tower Lane, Foster City, California. The term of the lease began on November 1, 2010 and expires on October 31, 2018. The monthly base rent was abated for the first 12 calendar months under the lease, and remained at $0.1 million through the 24th calendar month of the term of the lease. After this 24 month period, monthly base rent increased to $0.2 million for the subsequent 12 months and now increases approximately 3% after each 12-month anniversary during the remaining term.

In April 2018, we amended the lease agreement. The extended lease term period begins on November 1, 2018 and expires on October 31, 2023. Additionally, the square footage of office space was reduced to approximately 44,556. During the first year of the extended lease term, the monthly base rent will be abated for the first eight months, and increases to $0.2 million for the remaining four months. During the second year of the extended lease term, the monthly base rent will be abated for the first four months, increase to $0.2 million for the fifth month, and increase to $0.3 million for the remaining seven months. Subsequently, after each 12-month anniversary, the monthly base rent will increase by approximately 3%. We have one option to extend the term of the lease for an additional five years following October 31, 2023.

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.

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

Revenue Recognition

Revenue earned through the delivery of qualified leads, inquiries, clicks, calls, applications, customers and, to a lesser extent, display advertisements, or impressions constituted all revenue in fiscal years 2018, 2017 and 2016. 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, inquiry, click, call, application, or customer is delivered to the client provided that no significant obligations remain.

Under our revenue recognition policies, we allocate 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 does 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 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, inquiries, clicks, calls, applications, or customers 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 within our expectations.

Separately from the agreements we have with clients, we have agreements with Internet search companies, third-party publishers and strategic partners to generate potential qualified leads, inquiries, clicks, calls, applications, or customers. We receive a fee from our clients and separately pay a fee to the Internet search companies, third-party publishers and strategic partners. We are the primary obligor in the transaction. As a result, the fees paid by our clients are recognized as revenue and the fees paid to our Internet search companies, third-party publishers and strategic partners are included in cost of revenue.

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 value of the stock-based payment awards as determined on the date of grant. The fair value of restricted stock units with a service condition is determined based on the closing price of our common stock on the date of grant. For stock options, we have selected and used the Black-Scholes option pricing model to estimate the fair value. For restricted stock units with a service and market condition, we have selected and used the Monte Carlo simulation model to estimate the fair value. In applying these models, 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 award and the employees’ actual and projected stock option exercise and pre-vesting employment termination behaviors. We estimate the expected volatility of our common stock based on our historical volatility over the expected term of the award. We have no history or expectation of paying dividends on our common stock. The risk-free interest rate is based on the U.S. Treasury yield for a term consistent with the expected term of the award.

We recognize stock-based compensation expense 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. On an annual basis, we assess changes in our estimate of expected forfeitures based on recent forfeiture activity. The effect of adjustments made to forfeiture rates, if any, is recognized in the period that the change is made.

Goodwill

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

We perform our annual goodwill impairment test on April 30 and conduct a qualitative assessment to determine whether it is necessary to perform a two-step quantitative goodwill impairment test. In assessing the qualitative factors, we consider the impact of key factors such as changes in industry and competitive environment, stock price, actual revenue performance compared to previous years, forecasts and cash flow generation. We had one reporting unit for purposes of allocating and testing goodwill for fiscal years 2018 and 2017. Based on the results of the qualitative assessment completed as of April 30, 2018 and 2017, there were no indicators of impairment.

In the third quarter of fiscal year 2016, our public market capitalization experienced a decline to a value below the net book carrying value of our equity which triggered the necessity to conduct an interim goodwill impairment test as of March 31, 2016. As all revenue in fiscal year 2016 had been earned through the delivery of qualified leads, inquiries, clicks, calls, applications, customers, and to a lesser extent, display advertisements, or impressions, we had one reporting unit as of March 31, 2016. Given that our shares are publicly traded in an active market, we believe that the quoted market price provides evidence of fair value. As of March 31, 2016, our market capitalization exceeded our net book carrying value. Additionally, we estimated fair value utilizing a weighting of the fair values derived from the market and income approach which exceeded our net book carrying value. Based on the results of the step one interim impairment test, we determined there was no goodwill impairment as of March 31, 2016.

We performed our annual goodwill impairment test on April 30, 2016 for fiscal year 2016. We conducted a qualitative assessment to determine whether it was necessary to perform a two-step quantitative goodwill impairment test. In assessing the qualitative factors, we considered any significant changes in key factors such as changes in industry and competitive environment, stock price, actual revenue performance compared to previous years and budget, EBITDA and cash flow generation, since the most recent valuation date, March 31, 2016. Based on the results of the qualitative assessment, there were no indicators of impairment. As of June 30, 2016, we did not identify any indicators of impairment.

Long-Lived Assets

We evaluate long-lived assets, such as property and equipment and purchased intangible assets with finite lives, for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If necessary, a quantitative test is performed that requires the application of judgment when assessing the fair value of an asset. When we identify an impairment, we reduce the carrying amount of the asset to its estimated fair value based on a discounted cash flow approach or, when available and appropriate, to comparable market values. As of April 30, 2018, 2017 and 2016, we evaluated our long-lived assets and concluded there were no indicators of impairment.

Income Taxes

We account for income taxes using an asset and liability approach to record deferred taxes. Our deferred income tax assets represent temporary differences between the financial statement carrying amount and the tax basis of existing assets and liabilities that will result in deductible amounts in future years, including net operating loss carry forwards. A valuation allowance is recorded against our deferred tax assets which are not expected to be realized. Our judgment regarding future profitability may change due to future market conditions, changes in U.S. or international tax laws and other factors. We recorded a valuation allowance against the majority of our deferred tax assets at the end of fiscal year 2014 due to the significant negative evidence that the near term realization of certain assets were deemed unlikely. We continue to maintain the valuation allowance as of June 30, 2018.

Recent Accounting Pronouncements

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

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

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

Interest Rate Risk

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

Foreign Currency Exchange Risk

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

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

QUINSTREET, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of QuinStreet, Inc

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of QuinStreet, Inc. and its subsidiaries as of June 30, 2018 and 2017, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for each of the three years in the period ended June 30, 2018 including the related notes and financial statement schedule appearing under Item 15(a)(2) (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of June 30, 2018, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of June 30, 2018 and 2017, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2018 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2018, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Basis for Opinions

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

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

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

Definition and Limitations of Internal Control over Financial Reporting

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

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

/s/ PricewaterhouseCoopers LLP
San Jose, California
September 11, 2018

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

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

	June 30, 2018	June 30, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 64,700	$ 49,571
Accounts receivable, net	68,492	44,059
Prepaid expenses and other assets	4,432	6,225
Total current assets	137,624	99,855
Property and equipment, net	4,211	5,613
Goodwill	62,283	56,118
Other intangible assets, net	8,573	4,105
Other assets, noncurrent	7,605	8,617
Total assets	$ 220,296	$ 174,308
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 32,506	$ 25,205
Accrued liabilities	34,811	26,223
Deferred revenue	715	1,126
Total current liabilities	68,032	52,554
Other liabilities, noncurrent	3,938	3,672
Total liabilities	71,970	56,226
Commitments and contingencies (See Note 9)		
Stockholders' equity:		
Common stock: $0.001 par value; 100,000,000 shares authorized; 48,146,384 and 45,435,836 shares issued and outstanding at June 30, 2018 and June 30, 2017	48	45
Additional paid-in capital	277,761	263,533
Accumulated other comprehensive loss	(380)	(463)
Accumulated deficit	(129,103)	(145,033)
Total stockholders' equity	148,326	118,082
Total liabilities and stockholders' equity	$ 220,296	$ 174,308

See notes to consolidated financial statements

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

	Fiscal Year Ended June 30,		
	2018	2017	2016
Net revenue	$ 404,358	$ 299,785	$ 297,706
Cost of revenue (1)	345,947	269,409	270,963
Gross profit	58,411	30,376	26,743
Operating expenses: (1)			
Product development	13,805	13,476	16,431
Sales and marketing	10,414	9,189	12,020
General and administrative	18,556	15,934	17,166
Restructuring charges	—	2,441	—
Operating income (loss)	15,636	(10,664)	(18,874)
Interest income	181	138	61
Interest expense	—	(346)	(585)
Other income (expense), net	687	(2,416)	112
Income (loss) before income taxes	16,504	(13,288)	(19,286)
(Provision for) benefit from income taxes	(574)	1,080	(134)
Net income (loss)	$ 15,930	$ (12,208)	$ (19,420)
Net income (loss) per share:			
Basic	$ 0.34	$ (0.27)	$ (0.43)
Diluted	$ 0.32	$ (0.27)	$ (0.43)
Weighted-average shares used in computing net income (loss) per share:			
Basic	46,417	45,594	45,197
Diluted	49,872	45,594	45,197

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

Cost of revenue	$ 3,982	$ 3,109	$ 3,780
Product development	1,949	1,834	2,340
Sales and marketing	1,222	1,154	1,825
General and administrative	3,029	2,759	3,023
Restructuring charges	—	42	—

See notes to consolidated financial statements

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

	Fiscal Year Ended June 30,		
	2018	2017	2016
Net income (loss)	$ 15,930	$ (12,208)	$ (19,420)
Other comprehensive income (loss):			
Foreign currency translation adjustment	83	(45)	(5)
Total other comprehensive income (loss)	83	(45)	(5)
Comprehensive income (loss)	$ 16,013	$ (12,253)	$ (19,425)

See notes to consolidated financial statements

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

	Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				
Balance at June 30, 2015	44,617,850	$ 45	—	$ —	$ 249,358	$ (413)	$ (113,405)	$ 135,585
Issuance of common stock upon exercise of stock options	4,531	—	—	—	26	—	—	26
Release of restricted stock, net of share settlement	934,914	—	—	—	—	—	—	—
Stock-based compensation expense	—	—	—	—	11,048	—	—	11,048
Withholding taxes related to release of restricted stock, net of share settlement	—	—	—	—	(2,482)	—	—	(2,482)
Net loss	—	—	—	—	—	—	(19,420)	(19,420)
Other comprehensive loss	—	—	—	—	—	(5)	—	(5)
Balance at June 30, 2016	45,557,295	$ 45	—	$ —	$ 257,950	$ (418)	$ (132,825)	$ 124,752
Release of restricted stock, net of share settlement	597,564	—	—	—	—	—	—	—
Stock-based compensation expense	—	—	—	—	9,088	—	—	9,088
Withholding taxes related to release of restricted stock, net of share settlement	—	—	—	—	(1,018)	—	—	(1,018)
Repurchase of common stock	—	—	(719,023)	(2,487)	—	—	—	(2,487)
Retirement of treasury stock	(719,023)	—	719,023	2,487	(2,487)	—	—	—
Net loss	—	—	—	—	—	—	(12,208)	(12,208)
Other comprehensive loss	—	—	—	—	—	(45)	—	(45)
Balance at June 30, 2017	45,435,836	$ 45	—	$ —	$ 263,533	$ (463)	$ (145,033)	$ 118,082
Issuance of common stock upon exercise of stock options	1,465,265	1	—	—	11,114	—	—	11,115
Release of restricted stock, net of share settlement	1,338,624	2	—	—	(2)	—	—	—
Stock-based compensation expense	—	—	—	—	10,250	—	—	10,250
Withholding taxes related to release of restricted stock, net of share settlement	—	—	—	—	(6,487)	—	—	(6,487)
Repurchase of common stock	—	—	(93,341)	(647)	—	—	—	(647)
Retirement of treasury stock	(93,341)	—	93,341	647	(647)	—	—	—
Net income	—	—	—	—	—	—	15,930	15,930
Other comprehensive income	—	—	—	—	—	83	—	83
Balance at June 30, 2018	48,146,384	$ 48	—	$ —	$ 277,761	$ (380)	$ (129,103)	$ 148,326

See notes to consolidated financial statements

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

	Fiscal Year Ended June 30,		
	2018	**2017**	**2016**
Cash Flows from Operating Activities			
Net income (loss)	$ 15,930	$ (12,208)	$ (19,420)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	7,767	11,377	15,087
Impairment of investment	—	2,500	—
Provision for sales returns and doubtful accounts receivable	525	291	789
Stock-based compensation	10,182	8,898	10,968
Other adjustments, net	(1,108)	(116)	(65)
Changes in assets and liabilities:			
Accounts receivable	(24,958)	2,868	(1,767)
Prepaid expenses and other assets	1,910	830	4,448
Deferred taxes	(51)	(430)	(496)
Other assets, noncurrent	1,096	891	(8,179)
Accounts payable	7,350	5,394	(505)
Accrued liabilities	8,489	(1,155)	608
Deferred revenue	(411)	(74)	(8)
Other liabilities, noncurrent	258	(530)	(445)
Net cash provided by operating activities	26,979	18,536	1,015
Cash Flows from Investing Activities			
Capital expenditures	(610)	(1,160)	(1,859)
Business acquisitions	(14,154)	—	—
Internal software development costs	(2,146)	(2,185)	(3,482)
Restricted cash	—	(766)	—
Other investing activities	1,061	(26)	139
Net cash used in investing activities	(15,849)	(4,137)	(5,202)
Cash Flows from Financing Activities			
Proceeds from exercise of common stock options	11,028	—	26
Repayment of revolving loan facility	—	(15,000)	—
Principal payments on acquisition-related notes payable	—	—	(41)
Payment of withholding taxes related to release of restricted stock, net of share settlement	(6,487)	(1,018)	(2,482)
Repurchases of common stock	(647)	(2,487)	—
Net cash provided by (used in) financing activities	3,894	(18,505)	(2,497)
Effect of exchange rate changes on cash and cash equivalents	105	(33)	(74)
Net increase (decrease) in cash and cash equivalents	15,129	(4,139)	(6,758)
Cash and cash equivalents at beginning of period	49,571	53,710	60,468
Cash and cash equivalents at end of period	$ 64,700	$ 49,571	$ 53,710
Supplemental Disclosure of Cash Flow Information			
Cash paid for interest	—	295	643
Cash paid for income taxes	245	390	863
Supplemental Disclosure of Noncash Investing and Financing Activities			
Purchases of property and equipment included in accrued liabilities	215	98	—
Retirement of treasury stock	(647)	(2,487)	—

See notes to consolidated financial statements

1. The Company

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

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. The Company also evaluates its ownership in entities to determine if they are variable interest entities ("VIEs"), if the Company has a variable interest in those entities, and if the nature and extent of those interests result in consolidation. Refer to Note 4 for more information on VIEs. The Company applies the cost method of accounting for investments in entities if the Company does not have the ability to exercise significant influence over the entities. The interests held at cost are periodically evaluated for impairment. 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

Revenue earned through the delivery of qualified leads, clicks, calls, customers and, to a lesser extent, display advertisements, or impressions constituted all revenue in fiscal years 2018, 2017 and 2016. 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, inquiry, click, call, application, or customer is delivered to the client provided that no significant obligations remain.

The Company allocates 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 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, inquiries, clicks, calls, applications, customers 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 within the Company's estimates.

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

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 and accounts receivable. The Company's investment portfolio consists of money market funds. Cash is deposited with financial institutions that management believes are creditworthy. To date, the Company has not experienced any material losses on its investment portfolio.

The Company maintains contracts with its clients, most of which are cancelable with little or no prior notice. In addition, these contracts do not contain penalty provisions for cancellation before the end of the contract term. In fiscal years 2018, 2017 and 2016, the Company had one client, The Progressive Corporation that accounted for 23%, 17% and 12% of net revenue. No other client accounted for 10% or more of net revenue in fiscal years 2018, 2017 and 2016.

The Company's accounts receivable are derived from clients located principally in the United States. The Company performs ongoing credit evaluation of its clients, does not require collateral, and maintains allowances for potential credit losses on client accounts when deemed necessary. The Company had two clients, The Progressive Corporation, that accounted for 13% and 14% of net accounts receivable as of June 30, 2018 and 2017, and Dream Center Education Holdings, that accounted for 13% and 0% of net accounts receivable as of June 30, 2018 and 2017. No other client accounted for 10% or more of net accounts receivable as of June 30, 2018.

Fair Value of Financial Instruments

The Company's financial instruments consist principally of cash equivalents, accounts receivable and accounts payable. The fair value of the Company's cash equivalents is determined based on quoted prices in active markets for identical assets for its money market funds. The recorded values of the Company's accounts receivable and accounts payable approximate their current fair values due to the relatively short-term nature of these accounts.

Cash, Cash Equivalents and Restricted Cash

All highly liquid investments with maturities of three months or less at the date of purchase are classified as cash equivalents. As of June 30, 2018, the Company maintains $0.9 million cash restricted as collateral for letters of credit that is reflected within other assets, noncurrent, in the Company's consolidated balance sheet.

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 within cost of revenue in the Company's consolidated statements of operations. The Company's policy is to amortize capitalized internal software development costs on a product-by-product basis using the straight-line method over the estimated economic life of the application, which is generally two years. The Company capitalized $2.0 million, $2.1 million and $3.5 million in fiscal years 2018, 2017 and 2016. Amortization of internal software development costs is reflected within cost of revenue in the Company's consolidated statements of operations.

Goodwill

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

The Company performs its annual goodwill impairment test on April 30 and conducts a qualitative assessment to determine whether it is necessary to perform a two-step quantitative goodwill impairment test. In assessing the qualitative factors, the Company considers the impact of key factors such as changes in industry and competitive environment, stock price, actual revenue performance compared to previous years, forecasts and cash flow generation. The Company had one reporting unit for purposes of allocating and testing goodwill for fiscal years 2018 and 2017. Based on the results of the qualitative assessment completed as of April 30, 2018 and 2017, there were no indicators of impairment.

In the third quarter of fiscal year 2016, the Company's public market capitalization experienced a decline to a value below the net book carrying value of the Company's equity which triggered the necessity to conduct an interim goodwill impairment test as of March 31, 2016. As all revenue in fiscal year 2016 had been earned through the delivery of qualified leads, inquiries, clicks, calls, applications, customers, and to a lesser extent, display advertisements, or impressions, the Company had one reporting unit as of March 31, 2016. Given that the Company's shares are publicly traded in an active market, the Company believes that the quoted market price provides evidence of fair value. As of March 31, 2016, the Company's market capitalization exceeded the Company's net book carrying value. Additionally, the Company estimated fair value utilizing a weighting of the fair values derived from the market and income approach which exceeded the Company's net book carrying value. Based on the results of the step one interim impairment test, the Company determined there were no indicators of impairment as of March 31, 2016.

The Company performed its annual goodwill impairment test on April 30, 2016 for fiscal year 2016. The Company conducted a qualitative assessment to determine whether it is necessary to perform a two-step quantitative goodwill impairment test. In assessing the qualitative factors, the Company considered any significant change in key factors such as industry and competitive environment, stock price, actual revenue performance compared to previous years and budget, EBITDA and cash flow generation, since the most recent valuation date, March 31, 2016. Based on the results of the qualitative assessment, there were no indicators of impairment. As of June 30, 2016, the Company did not identify any indicators of impairment.

Long-Lived Assets

The Company evaluates long-lived assets, such as property and equipment and purchased intangible assets with finite lives, for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If necessary, a quantitative test is performed that requires the application of judgment when assessing the fair value of an asset. When the Company identifies an impairment, it reduces the carrying amount of the asset to its estimated fair value based on a discounted cash flow approach or, when available and appropriate, to comparable market values. As of April 30, 2018, 2017 and 2016, the Company evaluated its long-lived assets and concluded there were no indicators of impairment. The weighted-average useful life of intangible assets was 5.6 years as of June 30, 2018.

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 not 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 (expense) income, net in the Company's consolidated statements of operations. Certain foreign subsidiaries designate the local currency as their functional currency. For those subsidiaries, the assets and liabilities are translated into U.S. dollars at exchange rates in effect at the balance sheet date. Income and expense items are translated at average exchange rates for the period. The foreign currency translation adjustments are included in accumulated other comprehensive loss as a separate component of stockholders' equity. Foreign currency transaction gains and losses are recorded within other (expense) income, net in the Company's consolidated statements of operations and were not material for any period presented.

Comprehensive Income (Loss)

Comprehensive income (loss) consists of two components, net income (loss) and other comprehensive (loss) income. Other comprehensive (loss) income refers to revenue, expenses, gains, and losses that under GAAP are recorded as an element of stockholders' equity but are excluded from net income (loss). The Company's comprehensive (loss) income and accumulated other comprehensive loss consists of foreign currency translation adjustments from those subsidiaries not using the U.S. dollar as their functional currency. Total accumulated other comprehensive loss is 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. The fair value of restricted stock units with a service condition is determined based on the closing price of the Company's common stock on the date of grant. To estimate the fair value of stock options, the Company selected the Black-Scholes option pricing model. To estimate the fair value of restricted stock units with a service and market condition, the Company selected the Monte Carlo simulation model. In applying these models, the Company's determination of the fair value of the award 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 award and the employees' actual and projected stock option exercise and pre-vesting employment termination behaviors.

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. On an annual basis, the Company assesses changes to its estimate of expected forfeitures based on recent forfeiture activity. The effect of adjustments made to the forfeiture rates, if any, is recognized in the period that change is made. Refer to Note 11, Stock Benefit Plans, for additional information regarding stock-based compensation.

401(k) Savings Plan

The Company sponsors a 401(k) defined contribution plan covering all U.S. employees. There were no employer contributions under this plan in fiscal years 2018, 2017 or 2016.

Recent Accounting Pronouncements

In May 2014, the FASB issued a new accounting standard update on revenue from contracts with clients. The new guidance provides that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In March and April 2016, the FASB amended this standard to clarify implementation guidance on principal versus agent considerations and the identification of performance obligations and licensing. In May 2016, the FASB amended this standard to address improvements to the guidance on collectability, noncash consideration, and completed contracts at transition as well as provide a practical expedient for contract modifications at transition and an accounting policy election related to the presentation of sales taxes and other similar taxes collected from customers. The new standard becomes effective for fiscal years beginning after December 15, 2017, and interim periods within those years with early adoption permitted. The Company will adopt the new standard effective July 1, 2018 using the modified retrospective approach. The Company has evaluated the overall impact of the new standard on its consolidated financial statements, related disclosures and internal control over financial reporting and has not identified any provisions that are expected to have a material impact on how the Company recognizes revenue and related expenses. The Company is expecting to include additional financial statement disclosures upon the adoption.

In February 2016, the FASB issued a new accounting standard update which replaces ASC 840, "Leases." The new guidance requires a lessee to recognize on its balance sheet a right-of-use asset representing its right to use the underlying asset for the lease term and a lease liability representing its lease payment obligations. The guidance also requires a lessee to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, on a generally straight-line basis. The guidance becomes effective for fiscal years beginning after December 15, 2018, and interim periods within those years, with early adoption permitted. The Company is currently assessing the impact of this new guidance and has not made any decisions with respect to the timing of adoption.

In March 2016, the FASB issued a new accounting standard update on the accounting for share-based payments. The new guidance simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statement of cash flows. The guidance becomes effective for fiscal years beginning after December 15, 2016, and interim periods within those years, with early adoption permitted. The guidance became effective in the current fiscal year and did not have an impact on the Company's consolidated financial statements.

In November 2016, the FASB issued a new accounting standard update on the disclosure of restricted cash on the statement of cash flows. The new guidance requires the statement of cash flows explain the changes during a reporting period of the totals for cash, cash equivalents, restricted cash, and restricted cash equivalents. Additionally, amounts for restricted cash and restricted cash equivalents are to be included with cash and cash equivalents if the cash flow statement includes a reconciliation of the total cash balances for a reporting period. The guidance becomes effective for fiscal years beginning after December 15, 2017, and interim periods within those years, with early application permitted. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

In January 2017, the FASB issued a new accounting standard update to simplify the measurement of goodwill by eliminating the Step 2 impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. The new guidance requires an entity to compare the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The new guidance becomes effective for goodwill impairment tests in fiscal years beginning after December 15, 2019, with early adoption permitted. The adoption of this standard is not expected to have an impact on the Company's consolidated financial statements.

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

In May 2017, the FASB issued a new accounting standard update to amend the scope of modification accounting for share-based payment arrangements. The amendments in the update provide guidance on types of changes to the terms or conditions of share-based payment awards would be required to apply modification accounting under ASC 718, Compensation-Stock Compensation. The new guidance becomes effective for fiscal years beginning after December 15, 2017, with early adoption permitted. The adoption of this standard is not expected to have an impact on the Company's consolidated financial statements.

3. Net Income (Loss) per Share

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

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

	Fiscal Year Ended June 30,		
	2018	2017	2016
	(In thousands, except per share data)		
Numerator:			
Basic and Diluted:			
Net income (loss)	$ 15,930	$ (12,208)	$ (19,420)
Denominator:			
Basic:			
Weighted-average shares of common stock used in computing basic net income (loss) per share	46,417	45,594	45,197
Diluted:			
Weighted average shares of common stock used in computing basic net income (loss) per share	46,417	45,594	45,197
Weighted average effect of dilutive securities:			
Stock options	1,334	—	—
Restricted stock units	2,121	—	—
Weighted average shares of common stock used in computing diluted net income (loss) per share	49,872	45,594	45,197
Net income (loss) per share:			
Basic	$ 0.34	$ (0.27)	$ (0.43)
Diluted (1)	$ 0.32	$ (0.27)	$ (0.43)
Securities excluded from weighted-average shares used in computing diluted net income (loss) per share because the effect would have been anti-dilutive: (2)	1,129	7,060	5,331

(1) In fiscal 2017 and 2016, diluted EPS does not reflect any potential common stock relating to stock options or restricted stock units due to net losses incurred as the assumed issuance of any additional shares would be anti-dilutive.

(2) 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.

4. Fair Value Measurements, Cash Equivalents and Variable Interest Entities

Fair Value Measurements

Fair value is defined as the price that would be received on sale of an asset or paid to transfer a liability ("exit price") in an orderly transaction between market participants at the measurement date. The FASB has established a fair value hierarchy that distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

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

Level 1 — Inputs are unadjusted quoted prices in active markets for identical assets or liabilities. Pricing inputs are based upon quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The valuations are based on quoted prices of the underlying security that are readily and regularly available in an active market, and accordingly, a significant degree of judgment is not required. As of June 30, 2018 and 2017, the Company used Level 1 assumptions for its money market funds.

Level 2 — Pricing inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities. As of June 30, 2018 and 2017, the Company did not have any Level 2 financial assets or liabilities.

Level 3 — Pricing inputs are generally unobservable for the assets or liabilities and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require management's judgment or estimation of assumptions that market participants would use in pricing the assets or liabilities. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques. As of June 30, 2018 and 2017, the Company did not have any Level 3 financial assets or liabilities.

The Company measures certain assets, including its cost method investment, at fair value on a nonrecurring basis only if an impairment is recognized. The resulting fair value is considered to be a Level 3 measurement.

Cash Equivalents

The Company held money market funds of $10.9 million as of June 30, 2018 and $10.3 million as of June 30, 2017 which are classified as cash equivalents.

Variable Interest Entities

A VIE is consolidated by its primary beneficiary. The primary beneficiary has both the power to direct the activities that most significantly impact the entity's economic performance and the obligation to absorb losses or the right to receive benefits from the entity that could potentially be significant to the VIE. The assessment of whether the Company is the primary beneficiary of the VIE requires significant assumptions and judgments, including the identification of significant activities and an assessment of the Company's ability to direct those activities. The Company has an equity interest in a privately held entity that is a VIE, of which the Company is not the primary beneficiary. Accordingly, the equity interest is recognized at cost.

The Company's policy is to recognize an impairment in the carrying value of its equity interest in the privately held entity when clear identified events or changes in conditions have a material adverse effect on the fair value of the equity interest. Determining the fair value requires management's judgement based on the specific facts and circumstances. Events and conditions that could lead to an impairment include a prolonged period of decline in the operating performance and financial condition of the privately held entity or adverse changes in the regulatory environment or market conditions in which the privately held entity operates. During the fourth quarter of 2017, the Company became aware of adverse changes in the privately held entity's expected future operating performance which indicated that its equity interest in the privately held entity of $2.5 million would not be recoverable. Accordingly, in the fourth quarter of 2017, the Company recorded an impairment of $2.5 million in other income (expense), net in the Company's consolidated statements of operations. As of June 30, 2017, the Company has no remaining exposure to loss related to the Company's investment in the privately held entity.

5. Acquisitions

In November 2017, the Company acquired certain assets relating to the auto insurance, home insurance and mortgage verticals of Katch, LLC, an online performance marketing company, for $14.0 million in cash to broaden its customer and publisher relationships. The acquisition was accounted for as a business combination. The results of the acquired assets of Katch, LLC have been included in the Company's consolidated financial statements since the acquisition date. The Company allocated the purchase price to identifiable intangible assets acquired based on their estimated fair values. The excess of the purchase price over the aggregate fair value of the identifiable intangible assets acquired was recorded as goodwill and is primarily attributable to synergies the Company expects to achieve related to the acquisition. Accounting guidance provides that the allocation of the purchase price may be modified for up to one year from the date of the acquisition to the extent that additional information is obtained about the facts and circumstances that existed as of the acquisition date. 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 (in thousands):

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

6. Balance Sheet Components

Accounts Receivable, Net

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

	June 30, 2018	June 30, 2017
Accounts receivable	$ 70,317	$ 46,009
Less: Allowance for doubtful accounts	(727)	(547)
Less: Allowance for sales returns	(1,098)	(1,403)
Total	$ 68,492	$ 44,059

Property and Equipment, Net

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

	June 30, 2018	June 30, 2017
Computer equipment	$ 12,266	$ 12,581
Software	11,513	11,386
Furniture and fixtures	3,060	3,020
Leasehold improvements	1,937	1,917
Internal software development costs	33,654	31,605
Total property plant and equipment, gross	62,430	60,509
Less: Accumulated depreciation and amortization	(58,219)	(54,896)
Total property plant and equipment, net	$ 4,211	$ 5,613

Depreciation expense was $1.5 million, $2.3 million and $3.8 million for fiscal years 2018, 2017 and 2016. Amortization expense related to internal software development costs was $2.8 million, $2.9 million and $2.4 million for fiscal years 2018, 2017 and 2016.

Prepaid Expenses and Other Assets

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

	June 30, 2018	June 30, 2017
Income tax receivable	$ 909	$ 2,761
Prepaid expenses	3,030	3,051
Other assets	493	413
Total	$ 4,432	$ 6,225

In fiscal year 2016, the Company entered into a 10-year partnership agreement with a large online customer acquisition marketing company focused on the U.S. insurance industry to be its exclusive click monetization partner for the majority of its insurance categories. The agreement included a one-time upfront cash payment of $10.0 million. The payment is being amortized on a straight-line basis over the life of the contract and is assessed for impairment annually. As of June 30, 2018, the Company had recorded $1.0 million within prepaid expenses and other assets and $6.3 million within other assets, noncurrent on the Company’s consolidated balance sheet. As of June 30, 2017, the Company had recorded $1.0 million within prepaid expenses and other assets and $7.3 million within other assets, noncurrent in the Company’s consolidated balance sheet. Amortization expense was $1.0 million, $1.0 million and $0.7 million for fiscal years 2018, 2017 and 2016.

Accrued liabilities

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

	June 30, 2018	June 30, 2017
Accrued media costs	$ 25,612	$ 19,917
Accrued compensation and related expenses	5,332	1,936
Accrued professional service and other business expenses	3,867	4,370
Total	$ 34,811	$ 26,223

7. Intangible Assets, Net and Goodwill

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

	June 30, 2018			June 30, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer/publisher/advertiser relationships	$ 41,101	$ (37,286)	$ 3,815	$ 36,908	$ (36,689)	$ 219
Content	60,969	(60,930)	39	61,521	(60,629)	892
Website/trade/domain names	31,098	(29,369)	1,729	31,287	(28,723)	2,564
Acquired technology and others	38,900	(35,910)	2,990	36,733	(36,303)	430
Total	$ 172,068	$ (163,495)	$ 8,573	$ 166,449	$ (162,344)	$ 4,105

Amortization of intangible assets was $3.5 million, $6.2 million and $8.9 million for fiscal years 2018, 2017 and 2016.

Future amortization expense for the Company's intangible assets as of June 30, 2018 was as follows (in thousands):

Fiscal Year Ending June 30,	Amortization
2019	$ 2,908
2020	2,812
2021	1,491
2022	533
2023	343
Thereafter	486
Total	$ 8,573

The changes in the carrying amount of goodwill for fiscal years 2018 and 2017 were as follows (in thousands):

	Goodwill
Balance at June 30, 2016	$ 56,118
Additions	—
Impairment	—
Balance at June 30, 2017	56,118
Additions	6,165
Impairment	—
Balance at June 30, 2018	$ 62,283

8. Income Taxes

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

	Fiscal Year Ended June 30,		
	2018	2017	2016
US	$ 17,218	$ (12,286)	$ (18,291)
Foreign	(714)	(1,002)	(995)
Total	$ 16,504	$ (13,288)	$ (19,286)

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

	Fiscal Year Ended June 30,		
	2018	2017	2016
Current			
Federal	$ (2)	$ (16)	$ (131)
State	479	(1,270)	(23)
Foreign	210	191	271
Total current provision for (benefit from) income taxes	687	(1,095)	117
Deferred			
Federal	(113)	15	15
State	—	—	—
Foreign	—	—	2
Total deferred (benefit from) provision for income taxes	(113)	15	17
Total provision for (benefit from) income taxes	$ 574	$ (1,080)	$ 134

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

	Fiscal Year Ended June 30,		
	2018	2017	2016
Federal tax rate	27.6%	34.0%	34.0%
States taxes, net of federal benefit	(1.4)%	14.5%	7.7%
Foreign rate differential	0.3%	(0.3)%	(1.1)%
Stock-based compensation expense	(20.8)%	(23.9)%	(15.7)%
Change in valuation allowance	(151.3)%	(18.7)%	(25.2)%
Research and development credits	(4.8)%	2.5%	2.7%
Federal tax rate change impact	146.3%	—	—
Other	7.6%	—	(3.1)%
Effective income tax rate	3.5%	8.1%	(0.7)%

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

	Fiscal Year Ended June 30,	
	2018	2017
Noncurrent:		
Reserves and accruals	$ 2,072	$ 2,198
Stock options	2,590	4,805
Intangible assets	22,716	41,639
Net operating loss	22,791	27,719
Fixed assets	188	194
Tax credits	6,320	4,488
Other	580	868
Total noncurrent deferred tax assets	57,257	81,911
Valuation allowance - Long-term	(57,197)	(81,964)
Noncurrent deferred tax assets (liabilities), net	$ 60	$ (53)

The Company recorded a valuation allowance against the majority of the Company's deferred tax assets at the end of fiscal year 2014 due to the significant negative evidence that the near term realization of certain assets were deemed unlikely. The Company regularly assesses the continuing need for a valuation allowance against its deferred tax assets. Significant judgment is required to determine whether a valuation allowance continues to be necessary and the amount of such valuation allowance, if appropriate. The Company considers all available evidence, both positive and negative to determine, based on the weight of available evidence, whether it is more likely than not that some or all of the deferred tax assets will not be realized. In evaluating the continued need for a valuation allowance the Company considers, among other things, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability, and the duration of statutory carryforward periods. As of June 30, 2018, the Company believes it is not more likely than not that the net deferred tax assets will be fully realizable and continues to maintain a full valuation allowance against its deferred tax assets.

As of June 30, 2018 and 2017, the Company had a federal operating loss carryforward of approximately $82.4 million and $69.5 million. As of June 30, 2018 and 2017, the Company's state operating loss carryforward was approximately $47.1 million and $37.1 million. The federal and state net operating losses, if not used, will begin to expire on June 30, 2035 and June 30, 2034. The operating loss carryforward in Brazil was approximately $2.5 million and does not have an expiration date. The operating loss carryforward in the India jurisdiction was approximately $5.5 million which will begin to expire on June 30, 2021. The Company has federal and California research and development tax credit carry-forwards of approximately $3.1 million and $6.3 million to offset future taxable income. The federal research and development tax credits, if not used, will begin to expire on June 30, 2033, while the state tax credit carry-forwards do not have an expiration date and may be carried forward indefinitely.

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

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act makes broad and complex changes to the U.S. tax code effective January 1, 2018 and onwards, including, but not limited to, a reduction of the U.S. federal corporate tax rate from 35% to 21%, implementation of a territorial tax system, imposing a one-time transition tax on deemed repatriated earnings of non-US subsidiaries, net operating loss deduction limitations, expensing for fixed assets, revenue recognition changes and 100% disallowance of entertainment expense. The Company continues to analyze the Tax Act and implement relevant changes in the accounting for income taxes.

In addition on December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 which provides guidance on accounting for the tax effects of the Tax Act. The guidance provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting. In accordance with the guidance, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting is complete. The Company has determined that the inclusion of the transition tax calculation requires more time to analyze and apply recent IRS guidance. The Company has recognized provisional tax impacts related to deemed repatriated earnings. The Company does not expect the one-time transition tax to have a material impact on the consolidated financial statements due to overall accumulated earnings deficit in the Company's international subsidiaries for which the transition tax applies. The Company believes accounting for the change to the US statutory tax rate to its deferred tax balances is complete and appropriately reflected in the financial statements for the year ended June 30, 2018. In the current year the change to the corporate tax rate resulted in a reduction of the Company's deferred tax assets by $24.2 million which is offset with a valuation allowance and is presented in the disclosures above. The Company is still within the measurement period as of June 30, 2018 and no further conclusions have been made. The ultimate impact of the Tax Act on the Company's consolidated financial statements may differ from the provisional amounts, due to, among other things, additional analysis, changes in interpretations and assumptions the Company has made, additional regulatory guidance that may be issued and actions the Company may take as a result of the Tax Act.

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

	Fiscal Year Ended June 30,		
	2018	2017	2016
Balance at the beginning of the year	$ 2,838	$ 3,175	$ 3,263
Gross increases - current period tax positions	429	295	362
Gross increases - prior period tax positions	70	51	38
Gross decreases - prior period tax positions	—	(429)	—
Reductions as a result of lapsed statute of limitations	(81)	(254)	(488)
Balance at the end of the year	$ 3,256	$ 2,838	$ 3,175

The Company's policy is to include interest and penalties related to unrecognized tax benefits within the Company's benefit from (provision for) income taxes. As of June 30, 2018, the Company has accrued $1.1 million for interest and penalties related to the unrecognized tax benefits. The balance of interest and penalties is recorded as a noncurrent liability in the Company's consolidated balance sheet.

As of June 30, 2018, unrecognized tax benefits of $1.1 million, if recognized, would affect the Company's effective tax rate. The Company does not anticipate that the amount of existing unrecognized tax benefits will significantly increase or decrease within the next 12 months.

The Company is no longer subject to U.S. federal, state and local, or non-U.S., income tax examinations by tax authorities for years before 2013. The Company files income tax returns in the United States, various U.S. states and certain foreign jurisdictions. As of June 30, 2018, the tax years 2013 through 2017 remain open in the U.S., the tax years 2012 through 2017 remain open in the various state jurisdictions, and the tax years 2014 through 2017 remain open in various foreign jurisdictions.

9. Commitments and Contingencies

Leases

The Company leases office space under non-cancelable operating leases with various expiration dates through fiscal year 2024. Rent expense for fiscal years 2018, 2017 and 2016 was $3.4 million, $3.4 million and $3.4 million. The Company recognizes rent expense on a straight-line basis over the lease period and accrues for rent expense incurred but not paid.

Future annual minimum lease payments under noncancelable operating leases as of June 30, 2018 were as follows (in thousands):

Fiscal Year Ending June 30,		Operating Leases
2019	$	2,149
2020		2,854
2021		3,593
2022		3,580
2023		3,368
Thereafter		1,348
Total	$	16,892

In February 2010, the Company entered into a lease agreement for its corporate headquarters 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 was abated for the first 12 calendar months under the lease, and was $0.1 million through the 24th calendar month of the term of the lease. Monthly base rent increased to $0.2 million for the subsequent 12 months and now increases approximately 3% after each 12-month anniversary during the remaining term.

In April 2018, the Company amended the lease agreement. The extended lease term period begins on November 1, 2018 and expires on October 31, 2023. During the first year of the extended lease term, the monthly base rent will be abated for the first eight months and increases to $0.2 million for the remaining four months. During the second year of the extended lease term, the monthly base rent will be abated for the first four months, increase to $0.2 million for the fifth month, and increase to $0.3 million for the remaining seven months. Subsequently, after each 12-month anniversary, the monthly base rent will increase by approximately 3%. The Company has one remaining option to extend the term of the lease for an additional five years following October 31, 2023.

Guarantor Arrangements

The Company has agreements whereby it indemnifies its officers and directors for certain events or occurrences while the officer or director is, or was, serving at the Company's request in such capacity. The term of the indemnification period is for the officer or director's lifetime. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, the Company has a director and officer insurance policy that limits its exposure and enables the Company to recover a portion of any future amounts under certain circumstances and subject to deductibles and exclusions. As a result of its insurance policy coverage, the Company believes the estimated fair value of these indemnification agreements is not material. Accordingly, the Company had no liabilities recorded for these agreements as of June 30, 2018 and June 30, 2017.

In the ordinary course of its business, the Company from time to time enters into standard indemnification provisions in its agreements with its clients. Pursuant to these provisions, the Company may be obligated to indemnify its clients for certain losses suffered or incurred, including losses arising from violations of applicable law by the Company or by its third-party publishers, losses arising from actions or omissions of the Company or its third-party publishers, and for third-party claims that a Company product infringed upon any United States patent, copyright, or other intellectual property rights. Where practicable, the Company limits its liabilities under such indemnities. Subject to these limitations, the term of such indemnification provisions is generally coterminous with the corresponding agreements and survives for the duration of the applicable statute of limitations after termination of the agreement. The potential amount of future payments to defend lawsuits or settle indemnified claims under these indemnification provisions is generally limited and the Company believes the estimated fair value of these indemnity provisions is not material. Accordingly, the Company had no liabilities recorded for these agreements as of June 30, 2018 and 2017.

Lending Commitments

In the third quarter of fiscal 2018, the Company entered into an unsecured revolving promissory note as a lender, as part of a strategic partnership intended to increase the Company's presence in the emerging technology career education market. The principal balance at any time cannot exceed $2.5 million and any outstanding principal balance bears interest at 6.00% payable monthly. Repayment of the principal balance can occur without premium or penalty in whole or in part at any time. In the event of an equity offering by the borrower, any outstanding principal balance may be converted to equity securities at the mutual agreement of the Company and borrower. The principal balance and any accrued interest is due on January 1, 2019. No amounts were outstanding as of June 30, 2018.

Letters of Credit

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

10. Stockholders' Equity

Stock Repurchases

In November 2016, the Board of Directors authorized a stock repurchase program to repurchase up to 750,000 outstanding shares of its common stock. Under this program, in fiscal year 2017, the Company repurchased 719,023 shares of its common stock at a weighted-average price of $3.43 per share, excluding a broker commission of $0.03 per share, at a total cost of $2.5 million. In fiscal year 2018, the Company repurchased and retired 30,977 shares of its common stock at a weighted-average price of $3.99 per share, excluding a broker commission of $0.03 per share, at a total cost of $0.1 million. Repurchases under this program took place in the open market and were made under a Rule 10b5-1 plan. This program was completed in July 2017.

In July 2017, the Board of Directors authorized a stock repurchase program to repurchase up to 905,000 outstanding shares of its common stock. In October 2017, the Board of Directors increased the number of outstanding shares that may be repurchased to 966,000 shares. Under this program, during fiscal year 2018, the Company repurchased and retired 62,364 shares of its common stock at a weighted-average price of $8.36 per share, excluding a broker commission of $0.03 per share, at a total cost of $0.5 million. Repurchases under this program took place in the open market and were made under a Rule 10b5-1 plan.

Retirement of Treasury Stock

In fiscal year 2017, the Company retired 719,023 shares of its common stock with a carrying value of $2.5 million and in fiscal year 2018, the Company retired 93,341 shares of its common stock with a carrying value of $0.6 million. The Company's accounting policy upon the retirement of treasury stock is to deduct its par value from common stock and reduce additional paid-in capital by the amount recorded in additional paid-in capital when the stock was originally issued.

11. Stock Benefit Plans

Stock-Based Compensation

In fiscal years 2018, 2017 and 2016, the Company recorded stock-based compensation expense of $10.2 million, $8.9 million and $11.0 million. There were no tax benefits realized in fiscal years 2018, 2017 and 2016 due to the Company's full valuation allowance.

Stock Incentive Plans

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

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

Prior to fiscal year 2016, the Company granted restricted stock units with a service condition ("service-based RSUs"). Beginning in fiscal year 2016, the Company also began granting to employees RSUs with a service and market condition ("market-based RSUs") that requires that the Company's stock price achieve a specified price above the grant date stock price before it can be eligible for service vesting conditions. To date, the Company has issued ISOs, NQSOs, RSUs and performance-based stock awards under the 2010 Incentive Plan. ISOs and NQSOs are generally granted to employees with an exercise price equal to the market price of the Company's common stock at the date of grant. Stock options granted to employees generally have a contractual term of seven years and vest over four years of continuous service, with 25 percent of the stock options vesting on the one-year anniversary of the date of grant and the remaining 75 percent vesting in equal monthly installments over the three year period thereafter. RSUs granted to employees prior to fiscal year 2013 generally vest over five years of continuous service, with 15 percent of the RSUs 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. RSUs granted to employees starting in fiscal year 2013 generally vest over four years of continuous service, with 25 percent of the RSUs vesting on the one-year anniversary of the date of grant and 6.25% vesting quarterly thereafter for the next 12 quarters. In fiscal year 2018, a portion of the RSUs granted to employees fully vest after one year of continuous service.

An aggregate of 18,192,370, shares of the Company's common stock were reserved for issuance under the 2010 Incentive Plan as of June 30, 2018, 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 is increased annually through July 1, 2019 by up to five percent of the total number of shares of the Company's common stock outstanding on the last day of the preceding fiscal year. The maximum number of shares that may be issued under the 2010 Incentive Plan is 30,000,000. There were 13,924,924 shares available for issuance under the 2010 Incentive Plan as of June 30, 2018.

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

An aggregate of 3,989,463 shares of the Company's common stock were reserved for issuance under the Directors' Plan as of June 30, 2018. This amount is 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. There were 1,994,521 shares available for issuance under the Directors' Plan as of June 30, 2018.

Valuation Assumptions

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

The weighted-average Black-Scholes model assumptions and the weighted-average grant date fair value of stock options in fiscal years 2018, 2017 and 2016 were as follows:

	Fiscal Year Ended June 30,		
	2018	2017	2016
Expected term (in years)	4.6	4.5	3.9
Expected volatility	48%	45%	43%
Expected dividend yield	—	—	—
Risk-free interest rate	1.9%	1.3%	1.0%
Grant date fair value	$ 2.09	$ 1.41	$ 1.83

The Company estimates the fair value of market-based RSUs at the date of the grant using the Monte Carlo simulation model. The weighted-average Monte Carlo simulation model assumptions in fiscal years 2018, 2017 and 2016 were as follows:

	Fiscal Year Ended June 30,		
	2018	2017	2016
Expected term (in years)	4.0	4.0	4.0
Expected volatility	50%	45%	47%
Expected dividend yield	—	—	—
Risk-free interest rate	2.4%	1.1%	1.3%
Grant date fair value	$ 7.66	$ 3.01	$ 5.04

The fair value of service-based RSUs 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.

Stock Option Award Activity

The following table summarizes the stock option award activity under the plans in fiscal years 2018 and 2017:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding at June 30, 2016	4,307,248	$ 9.78	2.67	$ 15
Granted	1,767,018	3.62		
Exercised	—	—		
Forfeited	(137,925)	4.31		
Expired	(1,714,762)	12.15		
Outstanding at June 30, 2017	4,221,579	$ 6.50	4.17	$ 996
Granted	802,080	4.98		
Exercised	(1,465,265)	7.59		
Forfeited	(6,700)	4.01		
Expired	(37,731)	11.73		
Outstanding at June 30, 2018	3,513,963	$ 5.65	4.18	$ 24,989
Vested and expected-to-vest at June 30, 2018 (1)	3,368,259	$ 5.71	4.11	$ 23,779
Vested and exercisable at June 30, 2018	1,812,483	$ 6.98	2.82	$ 10,593

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

The following table summarizes outstanding and exercisable stock options by range of exercise price as of June 30, 2018:

	Options Outstanding				Options Exercisable		
Range or Exercise Prices	Number of Shares	Weighted Average Remaining Contractual Term		Weighted Average Exercise Price	Number of Shares		Weighted Average Exercise Price
$3.40 - $3.40	50,000	5.59	$	3.40	16,666	$	3.40
$3.59 - $3.59	366,667	5.43	$	3.59	131,771	$	3.59
$3.63 - $3.63	818,365	5.08	$	3.63	219,905	$	3.63
$3.91 - $3.91	75,000	3.34	$	3.91	69,791	$	3.91
$4.01 - $4.01	635,896	6.07	$	4.01	—	$	—
$4.31 - $5.65	356,993	3.10	$	4.84	305,949	$	4.84
$5.72 - $6.90	402,548	2.64	$	6.20	399,907	$	6.20
$7.01 - $9.55	506,039	3.30	$	9.17	373,539	$	9.31
$9.64 - $12.40	222,455	0.84	$	11.05	214,955	$	11.02
$15.60 - $15.60	80,000	1.55	$	15.60	80,000	$	15.60
$3.40 - $15.60	3,513,963	4.18	$	5.65	1,812,483	$	6.98

The following table summarizes the total intrinsic value, the cash received and the actual tax benefit of all options exercised in fiscal years 2018, 2017 and 2016 (in thousands):

	Fiscal Year Ended June 30,					
		2018		2017		2016
Intrinsic value	$	6,440	$	—	$	1
Cash received		11,115		—		26
Tax benefit		—		—		—

As of June 30, 2018, there was $2.3 million of total unrecognized compensation expense related to unvested stock options which are expected to be recognized over a weighted-average period of 2.62 years.

Service-Based Restricted Stock Unit Activity

The following table summarizes the service-based RSU activity under the plans in fiscal years 2018 and 2017:

	Shares		Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Life (In years)		Aggregate Intrinsic Value (In thousands)
Outstanding at June 30, 2016	1,911,909	$	5.79	1.33	$	6,691
Granted	1,904,506		3.55			
Vested	(907,288)		6.10			
Forfeited	(359,464)		4.90			
Outstanding at June 30, 2017	2,549,663	$	4.12	1.11	$	10,632
Granted	1,622,672		4.63			
Vested	(1,408,386)		4.33			
Forfeited	(96,422)		4.57			
Outstanding at June 30, 2018	2,667,527	$	4.33	0.86	$	33,878

As of June 30, 2018, there was $6.4 million of total unrecognized compensation expense related to service-based RSUs which are expected to be recognized over a weighted-average period of 1.75 years.

Market-Based Restricted Stock Unit Activity

The following table summarizes the market-based RSU activity under the 2010 Incentive Plan in fiscal years 2018 and 2017:

	Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Life (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding at June 30, 2016	1,005,602	$ 5.03	1.36	$ 3,570
Granted	312,660	3.01		
Vested	—	—		
Forfeited	(224,973)	4.20		
Outstanding at June 30, 2017	1,093,289	$ 4.57	1.22	$ 4,559
Granted	68,840	$ 7.66		
Vested	(617,435)	4.75		
Forfeited	(46,426)	3.84		
Outstanding at June 30, 2018	498,268	$ 4.89	0.96	$ 6,328

As of June 30, 2018, there was $0.6 million of total unrecognized compensation expense related to market-based RSUs which are expected to be recognized over a weighted average period of 0.96 years.

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

The total aggregate intrinsic value of service-based RSUs and market-based RSUs that vested and were issued was $19.0 million, $2.9 million and $6.9 million for the fiscal years 2018, 2017 and 2016. There were no tax benefits realized in fiscal 2018, 2017 and 2016 due to the Company’s full valuation allowance.

12. Segment Information

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

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

	Fiscal Year Ended June 30,		
	2018	2017	2016
Net revenue:			
United States	$ 395,880	$ 292,370	$ 291,526
International	8,478	7,415	6,180
Total net revenue	$ 404,358	$ 299,785	$ 297,706

	June 30, 2018	June 30, 2017
Property and equipment, net:		
United States	$ 3,875	$ 5,116
International	336	497
Total property and equipment, net	$ 4,211	$ 5,613

	June 30, 2018	June 30, 2017
Other intangible assets, net:		
United States	$ 8,441	$ 4,007
International	132	98
Total other intangible assets, net	$ 8,573	$ 4,105

13. Restructuring Costs

In November 2016, the Company announced a corporate restructuring in order to accelerate margin expansion and grow cash flow. The following table summarizes the restructuring charges for the fiscal year 2017 (in thousands):

	Fiscal Year Ended June 30, 2017
Employee severance and benefits	$ 2,399
Non-cash employee severance and benefits - stock-based compensation	42
Total restructuring charges	$ 2,441

The costs were paid in cash in fiscal year 2017. The corporate restructuring was complete as of June 30, 2017. There were no restructuring charges for fiscal year 2018.

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, 2018. 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, 2018, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosures and procedures were effective at the reasonable assurance level.

Management's Report on Internal Control Over Financial Reporting

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

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

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

Our management has assessed the effectiveness of the internal control over financial reporting as of June 30, 2018. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control — Integrated Framework (2013 Framework). Based on this evaluation, our management has concluded that our internal control over financial reporting was effective as of June 30, 2018.

The effectiveness of our internal control over financial reporting as of June 30, 2018 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.

Remediation of Previously Reported Material Weakness

As disclosed in our fiscal year 2017 10-K, our management determined that we had a material weakness in internal control over financial reporting over the completeness and accuracy of the accounting for non-standard revenue credits. Specifically, our internal controls did not identify non-standard revenue credits authorized but not timely communicated to finance to ensure proper accounting evaluation. We have taken steps to remediate the material weakness previously reported. Specifically, we have:

- Designed and implemented a control to identify non-standard revenue credits issued to ensure proper accounting evaluation;
- Developed and communicated a formal policy relating to non-standard revenue credits; and
- Implemented annual revenue recognition training requirements focused on senior-level management, customer-facing employees as well as finance, sales and marketing personnel.

Based on our evaluation and testing of the controls implemented, we believe they are designed appropriately, operating effectively, and provide reasonable assurance that our financial statements are fairly presented in all material respects. As such, management determined that, as of June 30, 2018, our implementation of the enhanced controls fully remediated the material weakness previously reported.

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, 2018 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 and executive officers is incorporated herein by reference from the sections to be titled "Election of Class III Directors," "Board of Directors" and "Directors and Executive Officers" in our definitive proxy statement to be filed with the Securities and Exchange Commission in connection with our 2018 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, 2018.

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

Code of Ethics

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

Item 11. *Executive Compensation*

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

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

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

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

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

Item 14. *Principal Accountant Fees and Services*

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

PART IV

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

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

1. Consolidated Financial Statements

2. Financial Statement Schedules

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

Schedule II: Valuation and Qualifying Accounts

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

	Balance at the beginning of the year	Charged to expenses/against revenue	Write-offs net of recoveries	Balance at the end of the year
Allowance for doubtful accounts and sales returns				
Fiscal year 2016	$ 2,064	$ 789	$ (568)	$ 2,285
Fiscal year 2017	$ 2,285	$ 291	$ (626)	$ 1,950
Fiscal year 2018	$ 1,950	$ 525	$ (650)	$ 1,825
Deferred tax asset valuation allowance				
Fiscal year 2016	$ 73,241	$ 6,627	$ —	$ 79,868
Fiscal year 2017	$ 79,868	$ 2,096	$ —	$ 81,964
Fiscal year 2018	$ 81,964	$ (24,767)	$ —	$ 57,197

Note: Additions to the allowance for doubtful accounts and the valuation allowance 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

See the exhibit index immediately following the signature page of this Annual Report on Form 10-K.

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

None.

EXHIBIT INDEX

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

10.16	Second Amended and Restated Revolving Credit and Term Loan Agreement, by and among QuinStreet, Inc., the lenders thereto and Comerica Bank as Administrative Agent Sole Lead Arranger and Sole Bookrunner, Bank of America N.A. as Syndication Agent, and Union Bank, N.A. as Documentation Agent dated as of November 4, 2011.	10-Q	001-34628	10.1	November 8, 2011
10.17	First Amendment to Second Amended and Restated Revolving Credit and Term Loan Agreement and Amendment to Guaranty dated as of February 15, 2013.	10-Q	001-34628	10.1	February 15, 2013
10.18	Office Lease Metro Center, dated as of February 25, 2010, between the registrant and CA-Metro Center Limited Partnership.	10-Q	001-34628	10.1	May 12, 2010
10.19+	Form of Indemnification Agreement made by and between QuinStreet, Inc. and each of its directors and executive officers.	S-1/A	333-163228	10.19	January 26, 2010
10.20	Assurance of Voluntary Compliance dated June 26, 2012 by and among QuinStreet, Inc. and the Attorneys General of the States of Alabama, Arizona, Arkansas, Delaware, Florida, Idaho, Illinois, Iowa, Kentucky, Massachusetts, Mississippi, Missouri, Nevada, New York, North Carolina, Ohio, Oregon, South Carolina, Tennessee and West Virginia.	8-K	001-34628	10.1	June 27, 2012
10.21	License and Investment Agreement by and among QuinStreet, Inc., Bronwyn Syiek and TownB Corporation dated August 23, 2012.	10-K	001-34628	10.19	August 23, 2012
10.23	Transition Agreement dated September 18, 2013 between the Company and Scott Mackley.	8-K	001-34628	10.1	September 19, 2013
10.24	Transition Agreement dated September 18, 2013 between the Company and Bronwyn Syiek.	8-K	001-34628	10.2	September 19, 2013
10.26	Second Amendment to the Second Amended and Restated Revolving Credit and Term Loan Agreement, as amended from time to time, dated as of July 17, 2014, by and among QuinStreet, Inc., Comerica Bank, as administrative agent, and certain lenders party thereto.	8-K	001-34628	10.1	July 22, 2014
10.27+	Forms of Senior Management Performance-Based Restricted Stock Unit (RSU) Grant Notice and Agreement under 2010 Equity Incentive Plan (for executive officers).	10-K	001-34628	10.27	September 12, 2014
10.28+	Form of Deferred Restricted Stock Unit Agreement under 2010 Non-Employee Directors' Stock Award Plan.	10-Q	001-34628	10.1	February 6, 2015
10.29	Third Amendment, to the Second Amended and Restated Revolving Credit and Term Loan Agreement, as amended from time to time, dated as of June 11, 2015, by and among QuinStreet, Inc., Comerica Bank, as administrative agent, and certain lenders party thereto.	8-K	001-34628	10.1	June 12, 2015
10.30+	Forms of Performance-Based Restricted Stock Unit (RSU) Grant Notice and Agreement under 2010 Equity Incentive Plan (for non-executive officer employees).	10-K	001-34628	10.30	August 19, 2015
10.31	Counselor Agreement dated December 31, 2015 between the Company and William Bradley.	10-Q	001-34628	10.1	February 9, 2016

10.32	Form of Change in Control Severance Agreement.	10-Q	001-34628	10.1	November 9, 2016
10.33+	Forms of Restricted Stock Unit (RSU) Grant Notice and Agreement under 2010 Equity Incentive Plan (for employees with a Change in Control Severance Agreement).	10-K	001-34628	10.33	September 8, 2017
10.34+	Forms of Option Agreement and Option Grant Notice under 2010 Equity Incentive Plan (for employees with a Change in Control Severance Agreement).	10-K	001-34628	10.34	September 8, 2017
10.35*	Amended Office Lease Metro Center, dated February 25, 2010 between the registrant and CA-Metro Center Limited Partnership				
23.1*	Consent of Independent Registered Public Accounting Firm.				
24.1*	Power of Attorney (incorporated by reference to the signature page of this Annual Report on Form 10-K).				
31.1*	Certification of the Chief Executive Officer of QuinStreet, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act.				
31.2*	Certification of the Chief Financial Officer of QuinStreet, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act.				
32.1**	Section 1350 Certifications of Chief Executive Officer and Chief Financial Officer.				
101.INS*	XBRL Instance Document				
101.SCH*	XBRL Taxonomy Extension Schema Document				
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document				
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document				
101. LAB*	XBRL Taxonomy Extension Label Linkbase Document				
101. PRE*	XBRL Taxonomy Extension Presentation Linkbase Document				

* Filed herewith.

** Furnished herewith.

\+ Indicates management contract or compensatory plan.

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 September 11, 2018.

QuinStreet, Inc.

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

POWER OF ATTORNEY

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

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

Signature	Title	Date
/s/ Douglas Valenti Douglas Valenti	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	September 11, 2018
/s/ Gregory Wong Gregory Wong	Chief Financial Officer and Senior Vice President (Principal Financial and Accounting Officer)	September 11, 2018
/s/ Matthew Glickman Matthew Glickman	Director	September 11, 2018
/s/ Stuart Huizinga Stuart Huizinga	Director	September 11, 2018
/s/ Robin Josephs Robin Josephs	Director	September 11, 2018
/s/ David Pauldine David Pauldine	Director	September 11, 2018
/s/ Gregory Sands Gregory Sands	Director	September 11, 2018
/s/ Marjorie T. Sennett Marjorie T. Sennett	Director	September 11, 2018
/s/ Andrew Sheehan Andrew Sheehan	Director	September 11, 2018
/s/ James Simons James Simons	Director	September 11, 2018

EXHIBIT 10.35

CONFORMED COPY TO REFLECT AMENDMENTS #1 THROUGH #5

OFFICE LEASE

METRO CENTER

METRO CENTER TOWER
FOSTER CITY, CALIFORNIA

Between

HUDSON METRO CENTER, LLC, a Delaware limited partnership

as Landlord,

and

QUINSTREET, INC., a Delaware corporation
as Tenant

OFFICE LEASE

This Office Lease (this "**Lease**"), dated as of the date set forth in Section 1.1, is made by and between HUDSON METRO CENTER, LLC, a Delaware limited liability company as successor in interest to CA-METRO CENTER LIMITED PARTNERSHIP, a Delaware limited partnership ("Landlord"); and QUINSTREET, INC., a Delaware corporation ("**Tenant**"). The following exhibits are incorporated herein and made a part hereof: **Exhibit A** (Outline of Premises); **Exhibit A-1** (Outline of Reserved Parking Space); **Exhibit B** (Work Letter); **Exhibit C** (Form of Confirmation Letter); **Exhibit D** (Rules and Regulations); **Exhibit E** (Judicial Reference); **Exhibit F** (Additional Provisions); **Exhibit G** (Asbestos Notification); **Exhibit H** (Outdoor Patios); **Exhibit I** (Letter of Credit); **Exhibit J** (Landlord Work Letter); **Exhibit K** (Extension Work Letter); and **Exhibit S** (Form of Agreement of Approved User).

1 BASIC LEASE INFORMATION

1.1 Date: February 25, 2010

1.2 Premises:

1.2.1 **"Building":** 950 Tower Lane, Foster City, California, commonly known as Metro Center Tower.

1.2.2 **"Premises":** Subject to Section 2.1.1, 63,998 rentable square feet of space located on the 4th and 6th floors of the Building and described as: (i) Suite 400 ("**Suite 400**") consisting of approximately 10,011 rentable square feet; (ii) Suite 450 ("**Suite 450**") consisting of approximately 9,431 rentable square feet; (iii) Suite 500 ("**Suite 500**") consisting of approximately 21,958 rentable square feet; and (iv) Suite 600 ("**Suite 600**") consisting of approximately 22,598 rentable square feet, the outline and location of which is set forth in **Exhibit A**. If the Premises includes any floor in its entirety, all corridors and restroom facilities located on such floor shall be considered part of the Premises.

1.2.3 **"Property":** The Building, the parcel(s) of land upon which it is located, and, at Landlord's discretion, any parking facilities and other improvements serving the Building and the parcel(s) of land upon which such parking facilities and other improvements are located.

1.2.4 **"Project":** The Property or, at Landlord's discretion, any project containing the Property and any other land, buildings or other improvements.

1.3 Term:

1.3.1	Term:	The term of this Lease (the **“Term”**) shall commence on the Commencement Date and end on the Expiration Date (or any earlier date on which this Lease is terminated as provided herein).
1.3.2	**“Commencement Date”:**	November 1, 2010; provided, however, that if Landlord fails to deliver the Premises to Tenant pursuant to this Lease on or before such date as a result of any holdover or unlawful possession by another party or otherwise, the Commencement Date shall be the date on which Landlord delivers possession of the Premises to Tenant pursuant to this Lease free from occupancy by any party.
1.3.3	**“Expiration Date”**	October 31, 2018; with respect to Suites 400 and 450 only, which is the last day of the 96th full calendar month commencing on or after the Commencement Date.
1.3.4	**“Extended Expiration Date”:**	October 31, 2023; with respect to Suites 500 and 600 only.
1.3.5	**“Extension Date”:**	The portion of the term of the Lease, with respect to Suites 500 and 600 only, beginning on the date immediately following the Extended Expiration Date.
1.3.6	“**Extended Term”:**	The portion of the term of the Lease, with respect to Suites 500 and 600 only, beginning on the date immediately following the Expiration Date and ending on the Extended Expiration Date.

1.3.7 Suites 400 and 450: The Lease term with respect to Suites 400 and 450 only shall expire on the Expiration Date (or, as applicable, the Accelerated Expiration Date). From and after such date, the Premises shall consist solely of Suites 500 and 600 and shall be deemed to be 44,556 rentable square feet. In addition, (i) on or prior to the Expiration Date (or, as applicable, the Accelerated Expiration Date), Tenant shall surrender Suites 400 and 450 to Landlord in accordance with terms of the Lease (as amended); (ii) Tenant shall remain liable for all Rent and other amounts payable under the Lease (as amended) with respect to Suites 400 and 450 for the period up to and including the Expiration Date (or, as applicable, the Accelerated Expiration Date), even though billings for such amounts may occur after the Expiration Date (or, as applicable, the Accelerated Expiration Date); (iii) notwithstanding anything in the Lease (as amended) to the contrary, Tenant's restoration obligations with respect to Suites 400 and 450 shall be as set forth in Section 7.7; and (iv) if Tenant fails to surrender any portion of Suites 400 and 450 on or before the Expiration Date (or, as applicable, the Accelerated Expiration Date), Tenant's tenancy with respect to Suites 400 and 450 shall be subject to Section 16 of the Lease (as amended).

1.3.8 Landlord Acceleration Option: Landlord shall have the right to accelerate the expiration of the Lease (as amended), with respect to Suites 400 and 450 only to a date (for purposes hereof, "**Accelerated Expiration Date**") that is no earlier than 30 days following written notice to Tenant. With respect to Suites 400 and 450, Tenant shall remain liable for all Rent and other sums due under the Lease (as amended) up to and including the Accelerated Expiration Date even though billings for such amounts may occur subsequent to the Accelerated Expiration Date. For the avoidance of doubt, to the extent that Landlord exercises the Landlord Acceleration Option, the parties acknowledge and agree that Tenant shall not be liable for Monthly Rent (defined in Section 3) applicable to Suites 400 and 450 that would have been due otherwise under the Lease after the Accelerated Expiration Date. To the extent that the Accelerated Expiration Date occurs prior to the Expiration Date, then as of date immediately following the Accelerated Expiration Date and continuing until the date immediately prior to the Extension Date, monthly base rent with respect to the balance of the Premises (i.e. Suite 500 and Suite 600) shall be $149,262.60.

1.4

1.4.1 “**Base Rent**”:

Period During Term	**Annual Base Rent Per Rentable Square Foot**	**Monthly Base Rent Per Rentable Square Foot (rounded to the nearest 100th of a dollar)**	**Monthly Installment of Base Rent**
Commencement Date through last day of 12th full calendar month of Term	$30.00	$2.50	$159,995.00
13th through 24th full calendar months of Term	$22.20	$1.85	$118,39630
25th through 36th full calendar months of Term	$34.20	$2.85	$182,394.30
37th through 48th full calendar months of Term	$35.40	$2.95	$188,794.10
49th through 60th full calendar months of Term	$36.60	$3.05	$195,193.90
61st through 72nd full calendar months of Term	$37.80	$3.15	$201,593.70
73rd through 84th full calendar months of Term	$39.00	$3.25	$207,993.50
85th full calendar month of Term through Expiration Date	$40.20	$3.35	$214,393.30

Notwithstanding the foregoing, so long as no Default (defined in Section 19.1) exists, Tenant shall be entitled to an abatement of Base Rent, in the amount of $159,995.00 per month, for the first 12 full calendar months of the Term.

1.4.2 “**Base Rent**” for the Extended Term: During the Extended Term, the schedule of base rent shall be as follows:

Period of Extended Term	**Annual Rate Per Square Foot (rounded to the nearest 100th of a dollar)**	**Monthly Base Rent**
11/1/18 – 05/31/19	$00.00	$00.00
06/1/19 – 06/30/19	$31.45	$00.00
07/1/19 – 10/31/19	$66.00	$245,058.00
11/1/19 – 02/28/20	$00.00	$00.00
03/01/20 – 03/31/20	$35.82	$249,764.02
04/1/20 – 10/31/20	$67.98	$252,409.74
11/1/20 – 10/31/21	$70.02	$259,982.03
11/1/21 – 10/31/22	$72.12	$267,781.49
11/1/22 – 10/31/23	$74.28	$275,814.94

All such Extended Term Base Rent shall be payable by Tenant in accordance with the terms of the Lease, as amended.

1.5 **“Base Year”** for Expenses**:** During the Term, the Base Year shall be the calendar year 2011. For the Extended Term, the Base Year shall be the calendar year 2018.

“Base Year” for Taxes**:** During the Term, the Base Year shall be the calendar year 2011. For the Extended Term, the Base Year shall be the calendar year 2018.

1.6 **“Tenant’s Share”:** During the Term, 15.8793% (based upon a total of 403,029 rentable square feet in the Building), subject to Section 2.1.1; *provided that*, upon the earlier to occur of (i) the date immediately following the Accelerated Expiration Date and (ii) the Extension Date, Tenant’s Share shall be deemed to be 11.0553%.

1.7 **“Permitted Use”:** General office use consistent with a first-class office building.

1.8 **“Security Deposit”:** None.

Prepaid Base Rent**:** $118,396.30, as more particularly described in Section 3.

1.9 Parking: Effective as of the earlier to occur of (i) the Accelerated Expiration Date and (ii) the Extension Date: 143 unreserved parking spaces, at the rate of $0.00 per space per month, as such rate may be adjusted from time to time to reflect Landlord’s then current rates.

One (1) reserved parking space, at the rate of $0.00 per space per month, as such rate may be adjusted from time to time to reflect Landlord’s then current rates.

1.10	Address of Tenant:	Before the Commencement Date: Quinstreet, Inc. 1051 Hillsdale Blvd., 8th Floor Foster City, CA 94404 Attn: CFO With a copy to: Cooley Godward Kronish LLP 101 California Street, 5th Floor San Francisco, CA 94111 Attn: Anna B. Pope, Esq. From and after the Commencement Date: the Premises. With a copy to: Cooley Godward Kronish LLP 101 California Street, 5th Floor San Francisco, CA 94111 Attn: Anna B. Pope, Esq.
1.11	Address of Landlord:	Hudson Metro Center, LLC c/o Hudson Pacific Properties 950 Tower Lane, Suite 1800 Foster City, California 94404 Attn: Building Manager with copies to: Hudson Metro Center, LLC c/o Hudson Pacific Properties 950 Tower Lane, Suite 1800 Foster City, California 94404 Attn: Managing Counsel And Hudson Metro Center, LLC c/o Hudson Pacific Properties 11601 Wilshire Boulevard, Suite 900 Los Angeles, California 90025 Attn: Lease Administration Notwithstanding anything to the contrary contained in the Lease, Rent shall be made payable to the entity, and sent to the address, Landlord designates and shall be made by good and sufficient check or by other means acceptable to Landlord.

1.12	Broker(s):	Colliers Parrish International (**"Tenant's Broker"**), representing Tenant, and NaiBT Commercial (**"Landlord's Broker"**), representing Landlord.
1.13	Building Hours and Holidays:	**"Building Hours"** mean 7:00 a.m. to 6:00 p.m., Monday through Friday, excluding the day of observation of New Year's Day, Presidents Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, Christmas Day, and, at Landlord's discretion, any other locally or nationally recognized holiday that is observed by other buildings comparable to and in the vicinity of the Building (collectively, **"Holidays"**).
1.14	**"Transfer Radius":**	None.
1.15	**"Tenant Improvements":**	Defined in **Exhibit B**, if any.
1.16	**"Guarantor":**	As of the date hereof, there is no Guarantor.
1.17	**"Letter of Credit":**	$500,000.00, as more fully described in Section 3 of **Exhibit F**

2 PREMISES AND COMMON AREAS.

2.1 **The Premises.**

2.1.1 Subject to the terms hereof, Landlord hereby leases the Premises to Tenant and Tenant hereby leases the Premises from Landlord. Landlord and Tenant acknowledge that the rentable square footage of the Premises is as set forth in Section 1.2.2 and the rentable square footage of the Building is as set forth in Section 1.6. At any time Landlord may deliver to Tenant a notice substantially in the form of **Exhibit C**, as a confirmation of the information set forth therein. Tenant shall execute and return (or, by notice to Landlord, reasonably object to) such notice within ten (10) days after receiving it, and if Tenant fails to do so, Tenant shall be deemed to have executed and returned it without exception.

2.1.2 Except as expressly provided in this Lease, the Premises is accepted by Tenant in its condition and configuration existing on the date hereof, without any obligation of Landlord to perform or pay for any alterations to the Premises, and without any representation or warranty regarding the condition of the Premises, the Building or the Project or their suitability for Tenant's business. By taking possession of the Premises pursuant to this Lease, Tenant acknowledges that the Premises and the Building are then in the condition and configuration required hereunder.

2.2 **Common Areas.** Tenant may use, in common with Landlord and other parties and subject to the Rules and Regulations (defined in **Exhibit D),** any portions of the Property that are designated from time to time by Landlord for such use (the **"Common Areas").**

2.3 **Rooftop Space.**

2.3.1 Subject to the terms of this Section 2.3, during the Term, and any extension thereof, if any, Tenant may use the Roof Space (defined below) for the purpose of installing, operating, maintaining and removing a 24-inch Dish/Antenna or other communication device approved by the Landlord (the "**Dish/Antenna**"). As used herein, "**Roof Space**" means space on the roof of the Building, not exceeding two (2) square feet in size, and otherwise reasonably designated by Landlord. Landlord may relocate the Roof Space from time to time as reasonably necessary during the Term. In consideration of its right to use the Roof Space under this Section 2.3, Tenant shall pay to Landlord the monthly Dish/Antenna Payments (defined below). As used herein, "**Dish/Antenna Payments**" means $200.00 per month. Notwithstanding any contrary provision of the Lease, the Dish/Antenna Payments shall be included in Monthly Rent (defined below).

2.3.2 Tenant's design and installation of the Dish/Antenna shall be subject to Sections 7.2 and 7.3 of this Lease as if the Dish/Antenna were being installed in the Premises. Without limiting the foregoing, Landlord shall have the right to approve Tenant's plans and specifications for the Dish/Antenna, the manner in which the Dish/Antenna is attached to the roof of the Building, and the manner in which any cables are run to and from the Dish/Antenna. Tenant shall be responsible for obtaining all necessary governmental and regulatory approvals and for the cost of installing, operating, maintaining and removing the Dish/Antenna. The Dish/Antenna shall be tagged with weatherproof labels showing manufacturer, model, frequency range, and Tenant's name. All cable connected to the Dish/Antenna (the "**Dish/Antenna Cable**") shall be tagged in the telecom closet on each floor with a label showing Tenant's name, phone number and suite number. Tenant shall notify Landlord upon completion of the installation of the Dish/Antenna. If Landlord determines that the Dish/Antenna equipment does not comply with the approved plans and specifications, that the installation was defective, or that the Building has been damaged during installation of the Dish/Antenna, Tenant shall cure such defective condition promptly upon Landlord's request. If Tenant fails to promptly perform such cure, Landlord may do so, in which event Tenant shall pay Landlord, upon demand, the reasonable cost of such cure. If at any time Landlord, in its sole discretion, deems it necessary, Tenant, at its expense, shall provide and install appropriate aesthetic screening, reasonably satisfactory to Landlord, for the Dish/Antenna (the "**Aesthetic Screening**").

2.3.3 Tenant, after reasonable notice to Landlord, may access the roof of the Building and the Roof Space for the purpose of installing, maintaining, repairing and removing the Dish/Antenna, Dish/Antenna Cable, the appurtenances and the Aesthetic Screening, if any (collectively, the **"Dish/Antenna Items").** Notwithstanding the foregoing, only authorized engineers, employees or properly authorized contractors of Tenant, FCC inspectors, or persons under their direct supervision shall have access to the roof of the Building and the Roof Space. Tenant shall use diligent efforts to minimize the number of people having access to the roof of the Building and the Roof Space and the frequency of their visits.

2.3.4 Tenant shall ensure that the installation, maintenance, operation and removal of the Dish/Antenna Items does not damage, or unreasonably interfere with Landlord's or any other occupant's use of, the Building or its roof. Notwithstanding Sections 7 and 10.4 of this Lease, Tenant shall be responsible for any damage caused to the roof or any other part of the Building that may be caused by Tenant or any of its agents or representatives in exercising Tenant's rights or performing Tenant's obligations under this Section 2.3. For purposes of Sections 5, 7 and 10 of this Lease, the Roof Space shall be deemed part of the Premises.

2.3.5 Tenant shall install only equipment of types and frequencies that will not unreasonably interfere with Landlord or existing tenants of the Building. If Tenant's equipment causes such interference, Tenant shall change the frequency on which it transmits and/or receives and take any other steps necessary to eliminate the interference. If, in Landlord's reasonable judgment, such interference cannot be eliminated within a reasonable period of time, Tenant shall remove the Dish/Antenna from the Roof Space and remove such other Dish/Antenna Items as Landlord may request.

2.3.6 Tenant, at its expense, shall install, operate and maintain the Dish/Antenna Items in a good and workmanlike manner, and in compliance with all Building, electric, communication, and safety codes, ordinances, standards, regulations and requirements, now in effect or hereafter promulgated, of the Federal Government, including the Federal Communications Commission (the "**FCC**"), the Federal Aviation Administration ("**FAA**") or any successor agency of either the FCC or FAA having jurisdiction over radio or telecommunications, and of the state, city and county in which the Building is located. No Landlord Party shall be responsible for any licensing, operation or maintenance of Tenant's equipment. Tenant shall be responsible for performing any obligations under its FCC license. The Dish/Antenna shall be connected to Landlord's power supply in strict compliance with all applicable Building, electrical, fire and safety codes. No Landlord Party shall be liable for any stoppage or shortage of electrical power furnished to the Dish/Antenna or the Roof Space because of (i) any act, omission or requirement of the public utility serving the Building, (ii) any act or omission of any other tenant, invitee or licensee or their respective agents, employees or contractors, or (iii) any other cause beyond Landlord's reasonable control, and Tenant shall not be entitled to any rental abatement for any such stoppage or shortage of electrical power. No Landlord Party shall have any liability for the conduct or safety of any of Tenant's representatives, repair, maintenance and engineering personnel while in or on any part of the Building or the Roof Space.

2.3.7 The Dish/Antenna Items shall remain the personal property of Tenant, and shall be removed by Tenant at its own expense at the expiration or earlier termination of this Lease or Tenant's right to possession hereunder. Tenant shall repair any damage caused by such removal, including by patching any holes to match, as closely as possible, the color surrounding the area where the equipment and appurtenances were attached. Tenant shall maintain the Dish/Antenna Items in a safe and aesthetically satisfactory condition, as reasonably determined by Landlord, and in good operating condition. Tenant shall keep the roof of the Building and the Roof Space free of all trash or waste materials produced by Tenant or Tenant's agents, employees or contractors.

2.3.8 Before commencing any installation, operation, repair or removal of the Dish/Antenna Items, Tenant shall (a) obtain Landlord's reasonable approval of the service provider retained to perform such work for Tenant, and (b) notify Landlord of such work and coordinate such work with Landlord in order to avoid impairing any warranties relating to the roof. For the performance of any such work affecting the roof, Tenant, upon Landlord's request, shall, at Tenant's expense, retain (or cause its contractor to retain) any contractor having a then existing warranty in effect relating to the roof. Except in an emergency, Landlord shall notify Tenant 30 days before commencing any roof repairs that could interrupt Tenant's telecommunication service or otherwise adversely affect Tenant's Dish/Antenna.

2.3.9 Tenant shall not allow any provider of telecommunication, video, data or related services ("**Communication Services**") to locate any equipment on the roof of the Building or in the Roof Space for any purpose, nor may Tenant use the Roof Space and/or Dish/Antenna to provide Communication Services to an unaffiliated tenant, occupant or licensee of another building, or to facilitate the provision of Communication Services on behalf of another Communication Services provider to an unaffiliated tenant, occupant or licensee of the Building or any other building.

2.3.10 If a Default occurs as a result of any failure by Tenant to perform any obligation under this Section 2.3, Landlord, without limiting any other rights or remedies, may remove all or any of the Dish/Antenna Items and restore the Building and the Roof Space to the conditions existing before the Dish/Antenna Items were installed, in which event Tenant shall reimburse Landlord, upon demand, for all reasonable expenses of such removal and restoration.

2.3.11 Tenant's rights under this Section 2.3 may not be transferred to any other party except in connection with a Transfer permitted under this Lease. If Landlord establishes a standard license agreement with respect to the use of roof space by tenants of the Building, Tenant, upon Landlord's request, shall enter into such license agreement with Landlord provided that such license agreement does not materially reduce Tenant's rights or increase Tenant's obligations under this Section 2.3.

2.3.12 Subject to the provisions hereof and solely with respect to the parties' rights and obligations under this Section 2.3, the term of the Lease shall expire on February 16, 2011 (the **"Dish Accelerated Expiration Date")** with the same force and effect as if such term were, by such provisions of the Lease, fixed to expire on the Dish Accelerated Expiration Date (the **"Dish Provisions Acceleration").** Without limiting the foregoing, any rights or obligations of Landlord or Tenant under this Section 2.3 of the Lease that, in the absence of the Dish Provisions Acceleration, would have survived the scheduled expiration or earlier termination of the Lease shall survive the Dish Accelerated Expiration Date.

3 RENT. Tenant shall pay all Base Rent, and Additional Rent (defined below) (collectively, **"Rent")** to Landlord or Landlord's agent, without prior notice or demand or any setoff or deduction, at the place Landlord may designate from time to time. As used herein, **"Additional Rent"** means all amounts, other than Base Rent, that Tenant is required to pay Landlord hereunder. Monthly payments of Base Rent and monthly payments of Additional Rent for Expenses (defined in Section 4.2.2), Taxes (defined in Section 4.2.3) and parking (collectively, **"Monthly Rent")** shall be paid in advance on or before the first day of each calendar month during the Term and Extended Term; provided, however, that the installment of Base Rent for the first full calendar month for which Base Rent is payable hereunder shall be paid upon Tenant's execution and delivery hereof. Except as otherwise provided herein, all other items of Additional Rent shall be paid within 30 days after Landlord's request for payment. Rent for any partial calendar month shall be prorated based on the actual number of days in such month. Without limiting Landlord's other rights or remedies, (a) if any installment of Rent is not received by Landlord or its designee within five (5) business days after its due date, Tenant shall pay Landlord a late charge equal to 5% of the overdue amount; and (b) any Rent that is not paid within 10 days after its due date shall bear interest, from its due date until paid, at the lesser of 10% per annum or the highest rate permitted by Law (defined in Section 5). Tenant's covenant to pay Rent is independent of every other covenant herein.

4 EXPENSES AND TAXES.

4.1 **General Terms.** In addition to Rent, Tenant shall pay, in accordance with Section 4.4, for each Expense Year (defined in Section 4.2.1), an amount equal to the sum of (a) Tenant's Share of any amount (the **"Expense Excess")** by which Expenses for such Expense Year exceed Expenses for the Base Year, plus (b) Tenant's Share of any amount (the **"Tax Excess")** by which Taxes for such Expense Year exceed Taxes for the Base Year. No decrease in Expenses or Taxes for any Expense Year below the corresponding amount for the Base Year shall entitle Tenant to any decrease in Base Rent or any credit against amounts due hereunder. Tenant's Share of the Expense Excess and Tenant's Share of the Tax Excess for any partial Expense Year shall be prorated based on the number of days in such Expense Year.

4.1.2 During the Extended Term, Tenant shall pay for Tenant's Share of Expenses and Taxes in accordance with the terms of the Lease; provided, however, that during the Extended Term, the Base Year for Expenses and Taxes shall be 2018.

4.2 **Definitions.** As used herein, the following terms have the following meanings:

4.2.1 **"Expense Year"** means each calendar year, other than the Base Year, in which any portion of the Term or Extended Term occurs.

4.2.2 **"Expenses"** means all expenses, costs and amounts that Landlord pays or accrues during the Base Year or any Expense Year because of or in connection with the ownership, management, maintenance, security, repair, replacement, restoration or operation of the Property. Landlord shall act in a reasonable manner in incurring Expenses. Expenses shall include (i) the cost of supplying all utilities, the cost of operating, repairing, maintaining and renovating the utility, telephone, mechanical, sanitary, storm-drainage, and elevator systems, and the cost of maintenance and service contracts in connection therewith; (ii) the cost of licenses, certificates, permits and inspections, the cost of contesting any Laws that may affect Expenses, and the costs of complying with any governmentally-mandated transportation-management or similar program; (iii) the cost of all insurance premiums and deductibles; (iv) the cost of landscaping and relamping; (v) the cost of parking-area operation, repair, restoration, and maintenance; (vi) fees and other costs, including management and/or incentive fees, consulting fees, legal fees and accounting fees, of all contractors and consultants in connection with the management, operation, maintenance and repair of the Property; (vii) payments under any **equipment-rental agreements and the** fair rental value of any management office space; (viii) wages, salaries and other compensation, expenses and benefits, including taxes levied thereon, of all persons engaged in the operation, maintenance and security of the Property, and costs of training, uniforms, and employee enrichment for such persons; (ix) the costs of operation, repair, maintenance and replacement of all systems and equipment (and components thereof) of the Property; (x) the cost of janitorial, alarm, security and other services, replacement of wall and floor coverings, ceiling tiles and fixtures in Common Areas, maintenance and replacement of curbs and walkways, repair to roofs and re-roofing; (xi) rental or acquisition costs of supplies, tools, equipment, materials and personal property used in the maintenance, operation and repair of the Property; (xii) the cost of capital improvements or any other items that are (A) intended to effect economies in the operation or maintenance of the Property, reduce current or future Expenses, enhance the safety or security of the Property or its occupants, or enhance the environmental sustainability of the Property's operations, (B) replacements or modifications of nonstructural items located in the Base Building (defined in Section 7) or Common Areas that are required to keep the Base Building or Common Areas in good condition, or (C) required under any Law; (xiii) the cost of tenant-relation programs reasonably established by Landlord; (xiv) payments under any existing or future reciprocal easement agreement, transportation management agreement, cost-sharing agreement or other covenant, condition, restriction or similar instrument affecting the Property; and (xv) any fees or other charges (other than taxes) imposed by any governmental or quasi-governmental agency in connection with the Parking Facility.

Notwithstanding the foregoing, Expenses shall not include: (a) capital expenditures not described in clauses (xi) or (xii) above (in addition, any capital expenditure shall be included in Expenses only if paid or accrued after the Base Year and shall be amortized (including actual or imputed interest on the amortized cost) over the lesser of (i) the useful life of the applicable item, as reasonably determined by Landlord, or (ii) the period of time that Landlord reasonably estimates will be required for any cost savings resulting from such item to equal the cost of such item); (b) depreciation; (c) principal payments of mortgage or other non-operating debts of Landlord; (d) costs of repairs to the extent Landlord is reimbursed by insurance or condemnation proceeds; (e) except as provided in clause (xiii) above, costs of leasing space in the Building, including brokerage commissions, lease concessions, rental abatements and construction allowances granted to specific tenants; (f) costs of selling, financing or refinancing the Building; (g) fines, penalties or interest resulting from late payment of Taxes or Expenses; (h) organizational expenses of creating or operating the entity that constitutes Landlord; (i) damages paid to Tenant hereunder or to other tenants of the Building under their respective leases; (j) amounts (other than management fees) paid to Landlord's affiliates for services, but only to the extent such amounts exceed the prices charged for such services by parties having similar skill and experience; (k) fines or penalties resulting from any violations of Law, negligence or willful misconduct of Landlord or its employees, agents or contractors; (1) advertising and promotional expenses; (m) Landlord's charitable and political contributions; (n) ground lease rental; (o) attorney's fees and other expenses incurred in connection with negotiations or disputes with tenants or other occupants of the Building; (p) costs of services or benefits made available to other tenants of the Building but not to Tenant; (q) costs of purchasing or leasing major sculptures, paintings or other artwork (as opposed to decorations purchased or leased by Landlord for display in the Common Areas of the Building); (r) any expense for which Landlord has received actual reimbursement (other than from a tenant of the Building pursuant to its lease); (s) costs of curing defects in design or original construction of the Property; (t) costs that Landlord is entitled to recover under a warranty, except to the extent it would not be fiscally prudent to pursue legal action to recover such costs; (u) reserves; (v) had debt expenses; (w) wages, salaries, fees or fringe benefits **("Labor Costs")** paid to executive personnel or officers or partners of Landlord (provided, however, that if such individuals provide services directly related to the operation, maintenance or ownership of the Property that, if provided directly by a general manager or property manager or his or her general support staff, would normally be chargeable as an operating expense of a comparable office building, then the Labor Costs of such individuals may be included in Expenses to the extent of the percentage of their time that is spent providing such services to the Property) or (x) costs of cleaning up Hazardous Materials, except for routine cleanup performed as part of the ordinary operation and maintenance of the Property (as used herein, **"Hazardous Materials"** means any material now or hereafter defined or regulated by any Law or governmental authority as radioactive, toxic, hazardous, or waste, or a chemical known to the state of California to cause cancer or reproductive toxicity, including (1) petroleum and any of its constituents or byproducts, (2) radioactive materials, (3) asbestos in any form or condition, and (4) materials regulated by any of the following, as amended from time to time, and any rules promulgated thereunder: the Comprehensive Environmental Response, Compensation and Liability Act of 1980, 42 U.S.C. §§9601 et seq.; the Resource Conservation and Recovery Act, 42 U.S.C. §§6901, et seq.; the Toxic Substances Control Act, 15 U.S.C. §§2601, et seq.; the Clean Water Act, 33 U.S.C. §§1251 et seq; the Clean Air Act, 42 U.S.C. §§7401 et seq.; The California Health and Safety Code; The California Water Code; The California Labor Code; The California Public Resources Code; and The California Fish and Game Code.).

If, in the Base Year or any Expense Year, the Property is not 100% occupied (or a service provided by Landlord to tenants of the Building generally is not provided by Landlord to a tenant that provides such service itself, or any tenant of the Building is entitled to free rent, rent abatement or the like), Expenses for such year shall be determined as if the Property had been 100% occupied (and all services provided by Landlord to tenants of the Building generally had been provided by Landlord to all tenants, and no tenant of the Building had been entitled to free rent, rent abatement or the like) throughout such year. Notwithstanding any contrary provision hereof, Expenses for the Base Year shall exclude (a) any market-wide cost increases resulting from extraordinary circumstances, including Force Majeure (defined in Section 25.2), boycotts, strikes, conservation surcharges, embargoes or shortages, and (b) at Landlord's option, the cost of any repair or replacement resulting from extraordinary circumstances.

Landlord shall keep its books and records relating to Expenses in accordance with generally accepted accounting principles, consistently applied.

4.2.3 **"Taxes"** means all federal, state, county or local governmental or municipal taxes, fees, charges, assessments, levies, licenses or other impositions, whether general, special, ordinary or extraordinary, that are paid or accrued during the Base Year or any Expense Year (without regard to any different fiscal year used by such governmental or municipal authority) because of or in connection with the ownership, leasing or operation of the Property. Taxes shall include (a) real estate taxes; (b) general and special assessments; (c) transit taxes; (d) leasehold taxes; (e) personal property taxes imposed upon the fixtures, machinery, equipment, apparatus, systems, appurtenances, furniture and other personal property used in connection with the Property; (f) any tax on the rent, right to rent or other income from any portion of the Property or as against the business of leasing any portion of the Property; (g) any assessment, tax, fee, levy or charge imposed by any governmental agency, or by any non-governmental entity pursuant to any private cost-sharing agreement, in order to fund the provision or enhancement of any fire-protection, street-, sidewalk- or road-maintenance, refuse-removal or other service that is (or, before the enactment of Proposition 13, was) normally provided by governmental agencies to property owners or occupants without charge (other than through real property taxes); (h) any assessment, tax, fee, levy or charge allocable or measured by the area of the Premises or by the Rent payable hereunder, including any business, gross income, gross receipts, sales or excise tax with respect to the receipt of such Rent and (i) any taxes imposed by any governmental or quasi-governmental agency in connection with the Parking Facility. Any costs and expenses (including reasonable attorneys' and consultants' fees) incurred in attempting to protest, reduce or minimize Taxes shall be included in Taxes for the year in which they are incurred. Notwithstanding any contrary provision hereof, Taxes shall be determined without regard to any "green building" credit and shall exclude (i) all excess profits taxes, franchise taxes, gift taxes, capital stock taxes, inheritance and succession taxes, estate taxes, federal and state income taxes, and other taxes to the extent applicable to Landlord's general or net income (as opposed to rents, receipts or income attributable to operations at the Property), (ii) any Expenses, and (iii) any items required to be paid by Tenant under Section 4.5.

4.3 **Allocation.** Landlord, in its reasonable discretion, may equitably allocate Expenses among office, retail or other portions or occupants of the Property. If Landlord incurs Expenses or Taxes for the Property together with another property, Landlord, in its reasonable discretion, shall equitably allocate such shared amounts between the Property and such other property.

4.4 **Calculation and Payment of Expense Excess and Tax Excess.**

4.4.1 **Statement of Actual Expenses and Taxes; Payment by Tenant.** Landlord shall give to Tenant, after the end of each Expense Year, a statement (the **"Statement")** setting forth the actual Expenses, Taxes, Expense Excess and Tax Excess for such Expense Year. If the amount paid by Tenant for such Expense Year pursuant to Section 4.4.2 is less or more than the sum of Tenant's Share of the actual Expense Excess plus Tenant's Share of the actual Tax Excess (as such amounts are set forth in such Statement), Tenant shall pay Landlord the amount of such underpayment, or receive a credit in the amount of such overpayment, with or against the Rent then or next due hereunder; provided, however, that if this Lease has expired or terminated and Tenant has vacated the Premises, Tenant shall pay Landlord the amount of such underpayment, or Landlord shall pay Tenant the amount of such overpayment (less any Rent due), within 30 days after delivery of such Statement. Landlord shall use reasonable efforts to deliver the Statement on or before June 1 of the calendar year immediately following the Expense Year to which it applies. Any failure of Landlord to timely deliver the Statement for any Expense Year shall not diminish either party's rights under this Section 4.

4.4.2 **Statement of Estimated Expenses and Taxes**. Landlord shall give to Tenant, for each Expense Year, a statement (the "Estimate **Statement")** setting forth Landlord's reasonable estimates of the Expenses, Taxes, Expense Excess (the **"Estimated Expense Excess")** and Tax Excess (the **"Estimated Tax Excess")** for such Expense Year. Upon receiving an Estimate Statement, Tenant shall pay, with its next installment of Base Rent, an amount equal to the excess of (a) the amount obtained by multiplying (i) the sum of Tenant's Share of the Estimated Expense Excess plus Tenant's Share of the Estimated Tax Excess (as such amounts are set forth in such Estimate Statement), by (ii) a fraction, the numerator of which is the number of months that have elapsed in the applicable Expense Year (including the month of such payment) and the denominator of which is 12, over (b) any amount previously paid by Tenant for such Expense Year pursuant to this Section 4.4.2 (the **"Catch-up Payment").** Notwithstanding the foregoing, if an Estimated Statement is delivered with respect to a particular Expense Year after April 1 of such year, and the amount of the Catch-up Payment exceeds $10,000.00, then the Tenant shall be entitled to pay such Catch-up Payment in equal monthly installments over the shorter period of (x) six (6) months and (y) the remainder of the Lease term. Until Landlord delivers a new Estimate Statement, Tenant shall pay monthly, with the monthly Base Rent installments, an amount equal to one-twelfth (1/12) of the sum of Tenant's Share of the Estimated Expense Excess plus Tenant's Share of the Estimated Tax Excess, as such amounts are set forth in the previous Estimate Statement. Landlord shall use reasonable efforts to deliver an Estimate Statement for each Expense Year on or before January **1** of such Expense Year. Any failure of Landlord to timely deliver any Estimate Statement shall not diminish Landlord's rights to receive payments and revise any previous Estimate Statement under this Section 4.

4.4.3 **Retroactive Adjustment of Taxes.** Notwithstanding any contrary provision hereof, if, after Landlord's delivery of any Statement, an increase or decrease in Taxes occurs for the applicable Expense Year or for the Base Year (whether by reason of reassessment, error, or otherwise), Taxes for such Expense Year or the Base Year, as the case may be, and the Tax Excess for such Expense Year shall be retroactively adjusted. If, as a result of such adjustment, it is determined that Tenant has under- or overpaid Tenant's Share of such Tax Excess, Tenant shall pay Landlord the amount of such underpayment, or receive a credit in the amount of such overpayment, with or against the Rent then or next due hereunder; provided, however, that if this Lease has expired or terminated and Tenant has vacated the Premises, Tenant shall pay Landlord the amount of such underpayment, or Landlord shall pay Tenant the amount of such overpayment (less any Rent due), within 30 days after such adjustment is made.

4.5 **Charges for Which Tenant Is Directly Responsible.** Tenant shall pay, 10 days before delinquency, any taxes levied against Tenant's equipment, furniture, fixtures and other personal property located in or about the Premises. If any such taxes are levied against Landlord or its property (or if the assessed value of Landlord's property is increased by the inclusion therein of a value placed upon such equipment, furniture, fixtures or other personal property of Tenant), Landlord may pay such taxes (or such increased assessment) regardless of their (or its) validity, in which event Tenant, upon demand, shall repay to Landlord the amount so paid. If the Leasehold Improvements (defined in Section 7.1) are assessed for real property tax purposes at a valuation higher than the valuation at which tenant improvements conforming to Landlord's "building standard" in other space in the Building are assessed, the Taxes levied against Landlord or the Property by reason of such excess assessed valuation shall be deemed taxes levied against Tenant's personal property for purposes of this Section 4.5. Notwithstanding any contrary provision hereof, Tenant shall pay, 10 days before delinquency, (i) any rent tax, sales tax, service tax, transfer tax or value added tax, or any other tax respecting the rent or services described herein or otherwise respecting this transaction or this Lease; and (ii) any taxes assessed upon the possession, leasing, operation, management, maintenance, alteration, repair, use or occupancy by Tenant of any portion of the Property.

4.6 **Books and Records.** Within 60 days after receiving any Statement (the **"Review Notice Period"),** Tenant may give Landlord notice **("Review Notice")** stating that Tenant elects to review Landlord's calculation of the Expense Excess and/or Tax Excess for the Expense Year to which such Statement applies and identifying with reasonable specificity the records of Landlord reasonably relating to such matters that Tenant desires to review. Within a reasonable time after receiving a timely Review Notice (and, at Landlord's option, an executed confidentiality agreement as described below), Landlord shall deliver to Tenant, or make available for inspection at a location reasonably designated by Landlord, copies of such records. Within 60 days after such records are made available to Tenant (the **"Objection Period"),** Tenant may deliver to Landlord notice (an **"Objection Notice")** stating with reasonable specificity any objections to the Statement, in which event Landlord and Tenant shall work together in good faith to resolve Tenant's objections. Tenant may not deliver more than one Review Notice or more than one Objection Notice with respect to any Expense Year. If Tenant fails to give Landlord a Review Notice before the expiration of the Review Notice Period or fails to give Landlord an Objection Notice before the expiration of the Objection Period, Tenant shall be deemed to have approved the Statement. Notwithstanding any contrary provision hereof, Landlord shall not be required to deliver or make available to Tenant records relating to the Base Year, and Tenant may not object to Expenses or Taxes for the Base Year, other than in connection with the first review for an Expense Year performed by Tenant pursuant to this Section 4.6. If Tenant retains an agent to review Landlord's records, the agent must be with a CPA firm licensed to do business in the State of California and its fees shall not be contingent, in whole or in part, upon the outcome of the review_ Tenant shall be responsible for all costs of such review; provided, however, that if Landlord and Tenant determine that the sum of Expenses and Taxes for the Expense Year in question was overstated by more than 5%, Landlord, within 30 days after receiving paid invoices therefor from Tenant, shall reimburse Tenant for the reasonable amounts paid by Tenant to third parties in connection with such review. The records and any related information obtained from Landlord shall be treated as confidential, and as applicable only to the Premises, by Tenant, its auditors, consultants, and any other parties reviewing the same on behalf of Tenant (collectively, **"Tenant's Auditors").** Before making any records available for review, Landlord may require Tenant and Tenant's Auditors to execute a reasonable confidentiality agreement, in which event Tenant shall cause the same to be executed and delivered to Landlord within 30 days after receiving it from Landlord, and if Tenant fails to do so, the Objection Period shall be reduced by one day for each day by which such execution and delivery follows the expiration of such 30-day period. Notwithstanding any contrary provision hereof, Tenant may not examine Landlord's records or dispute any Statement if any Rent remains unpaid past its due date. If, for any Expense Year, Landlord and Tenant determine that the sum of Tenant's Share of the actual Expense Excess plus Tenant's Share of the actual Tax Excess is less or more than the amount reported, Tenant shall receive a credit in the amount of its overpayment against Rent then or next due hereunder, or pay Landlord the amount of its underpayment with the Rent next due hereunder; provided, however, that if this Lease has expired or terminated and Tenant has vacated the Premises, Landlord shall pay Tenant the amount of its overpayment (less any Rent due), or Tenant shall pay Landlord the amount of its underpayment, within 30 days after such determination.

5 USE; COMPLIANCE WITH LAWS.

5.1 Tenant shall not (a) use the Premises for any purpose other than the Permitted Use, or (b) do anything in or about the Premises that violates any of the Rules and Regulations, damages the reputation of the Project, interferes with, injures or unreasonably annoys other occupants of the Building, or constitutes a nuisance. Tenant, at its expense, shall comply with all Laws relating to (i) the operation of its business at the Project, or (ii) the use, occupancy and, other than with respect to elements of the Base Building, the condition and configuration of the Premises. If, in order to comply with any such Law, Tenant must obtain or deliver any permit, certificate or other document evidencing such compliance, Tenant shall provide a copy of such document to Landlord promptly after obtaining or delivering it. If a change to the Common Areas or any component of the Base Building becomes required under Law because any Tenant-Insured Improvement (defined in Section 10.2.2) is not a type customarily required for general office use or because any use of the Premises is not general office use, Tenant, upon demand, shall (x) at Landlord's option, either make such change at Tenant's cost or pay Landlord the cost of making such change, and (y) pay Landlord a coordination fee equal to 5% of the cost of such change . Notwithstanding the foregoing, the aforementioned 5% coordination fee shall not be due hereunder unless both of the following conditions are satisfied: (1) **Landlord** has performed the change to the Common Areas or a component of the Base Building in accordance with the foregoing sentence, and (2) Tenant is in Default of its obligations under this Section 5. As used herein, **"Law"** means any existing or future law, ordinance, regulation or requirement of any governmental authority having jurisdiction over the Project or the parties.

5.2 Landlord, at its expense (subject to Section 4), shall cause the Base Building and the Common Areas to comply with all Laws (including the Americans with Disabilities Act ("**ADA**")) to the extent that (a) such compliance is necessary for Tenant to use the Premises for general office use in a normal and customary manner and for Tenant's employees and visitors to have reasonably safe access to and from the Premises, or (b) Landlord's failure to cause such compliance would impose liability upon Tenant under Law; provided, however, that Landlord shall not be required to cause such compliance to the extent non-compliance (x) is triggered by any matter that is Tenant's responsibility under Section 5.1 or 7.3 or any other provision hereof, or (y) arises under any provision of the ADA other than Title III thereof. Notwithstanding the foregoing, Landlord may contest any alleged violation in good faith, including by applying for and obtaining a waiver or deferment of compliance, asserting any defense allowed by Law, and appealing any order or judgment to the extent permitted by Law; provided, however, that, after exhausting any rights to contest or appeal, Landlord shall perform any work necessary to comply with any final order or judgment.

5.3 **California Civil Code Section 1938**. Pursuant to California Civil Code § 1938, Landlord hereby states that the Premises have not undergone inspection by a Certified Access Specialist (CASp) (defined in California Civil Code § 55.52). Accordingly, pursuant to California Civil Code § 1938(e), Landlord hereby further states as follows: "A Certified Access Specialist (CASp) can inspect the subject premises and determine whether the subject premises comply with all of the applicable construction-related accessibility standards under state law. Although state law does not require a CASp inspection of the subject premises, the commercial property owner or lessor may not prohibit the lessee or tenant from obtaining a CASp inspection of the subject premises for the occupancy or potential occupancy of the lessee or tenant, if requested by the lessee or tenant. The parties shall mutually agree on the arrangements for the time and manner of the CASp inspection, the payment of the fee for the CASp inspection, and the cost of making any repairs necessary to correct violations of construction-related accessibility standards within the premises". In accordance with the foregoing, Landlord and Tenant agree that if Tenant requests a CASp inspection of the Premises, then Tenant shall pay (i) the fee for such inspection, and (ii) except as may be otherwise expressly provided in this Amendment, the cost of making any repairs necessary to correct violations of construction-related accessibility standards within the Premises.

6 SERVICES.

6.1 **Standard Services.** Landlord shall provide the following services on all days (unless otherwise stated below): (a) subject to limitations imposed by Law, customary heating, ventilation and air conditioning **("HVAC")** in season during Building Hours; (b) electricity supplied by the applicable public utility, stubbed to the Premises; (c) water supplied by the applicable public utility (i) for use in lavatories and any drinking facilities located in Common Areas within the Building, and (ii) stubbed to the Building core for use in any plumbing fixtures located in the Premises; (d) janitorial services to the Premises, except on weekends and Holidays; and (e) elevator service (subject to scheduling by Landlord, and payment of Landlord's standard usage fee, for any freight service). Notwithstanding the foregoing, Landlord shall waive all freight elevator charges in connection with Tenant's move into the Premises.

6.2 **Above-Standard Use.** Landlord shall provide HVAC service outside Building Hours if Tenant gives Landlord such prior notice and pays Landlord such hourly cost per zone as Landlord may require. The parties acknowledge that, as of the date hereof, Landlord's charge for HVAC service outside Building Hours is $60.00 per hour per zone, subject to change from time to time. Tenant shall not, without Landlord's prior consent, use equipment that may affect the temperature maintained by the air conditioning system or consume above-Building-standard amounts of any water furnished for the Premises by Landlord pursuant to Section 6.1. If Tenant's consumption of electricity or water exceeds the rate Landlord reasonably deems to be standard for the Building, Tenant shall pay Landlord, upon billing, the cost of such excess consumption, including any costs of installing, operating and maintaining any equipment that is installed in order to supply or measure such excess electricity or water. The connected electrical load of Tenant's incidental-use equipment shall not exceed the Building-standard electrical design load, and Tenant's electrical usage shall not exceed the capacity of the feeders to the Project or the risers or wiring installation. For purposes hereof, the Building "electrical standard" is 3.5 watts per usable square foot of connected load to the Premises, exclusive of Base Building HVAC.

6.3 **Interruption.** Any failure to furnish, delay in furnishing, or diminution in the quality or quantity of any service resulting from any application of Law, failure of equipment, performance of maintenance, repairs, improvements or alterations, utility interruption, or event of Force Majeure (each, a

"Service Interruption") shall not render Landlord liable to Tenant, constitute a constructive eviction, or excuse Tenant from any obligation hereunder. Notwithstanding the foregoing, if all or a material portion of the Premises is made untenantable or inaccessible for more than three (3) consecutive business days after notice from Tenant to Landlord by a Service Interruption that Landlord can correct through reasonable efforts, then, as Tenant's sole remedy, Monthly Rent shall abate for the period beginning on the day immediately following such 3-business-day period and ending on the day such Service Interruption ends, but only in proportion to the percentage of the rentable square footage of the Premises made untenantable or inaccessible.

7 REPAIRS AND ALTERATIONS.

7.1 **Repairs.** Tenant, at its expense, shall perform all maintenance and repairs (including replacements) to the Premises that are not Landlord's express responsibility hereunder, and shall keep the Premises in good condition and repair, reasonable wear and tear and damage due to Casualty or Taking excepted. Tenant's maintenance and repair obligations shall include (a) all leasehold improvements in the Premises, whenever and by whomever installed or paid for, including any Tenant Improvements, any Alterations (defined in Section 7.2), and any leasehold improvements installed pursuant to any prior lease, but excluding the Base Building (the **"Leasehold Improvements");** (b) all supplemental heating, ventilation and air conditioning units, kitchens (including hot water heaters, dishwashers, garbage disposals, insta-hot dispensers, and plumbing) and similar facilities exclusively serving Tenant, whether located inside or outside of the Premises, and whenever and by whomever installed or paid for; and (c) all Lines (defined in Section 23). Notwithstanding the foregoing, if Tenant is in Default or in the case of an emergency, Landlord may, at its option, perform such maintenance and repairs on Tenant's behalf, in which case Tenant shall pay Landlord, upon demand, the cost of such work plus a coordination fee equal to 5% of such cost. Landlord shall perform all maintenance and repairs to (i) the roof and exterior walls, exterior doors and windows of the Building, (ii) the Base Building, and (iii) the Common Areas. As used herein, **"Base Building"** means the structural portions of the Building, together with all mechanical (including HVAC), electrical, plumbing and fire/life-safety systems serving the Building in general, whether located inside or outside of the Premises.

7.2 **Alterations.** Tenant may not make any improvement, alteration, addition or change to the Premises or to any mechanical, plumbing or HVAC facilities or other systems serving the Premises (an **"Alteration")** without Landlord's prior consent, which consent shall be requested by Tenant not less than 15 days before commencement of work and shall not be unreasonably withheld by Landlord. Notwithstanding anything to the contrary contained herein, Landlord's prior consent shall not be required for any Alteration that is decorative only *(e.g.*, carpet installation or painting) provided that Landlord receives 10 business days' prior notice. For any Alteration, (a) Tenant, before commencing work, shall deliver to Landlord, and obtain Landlord's approval of, plans and specifications; (b) Landlord, in its discretion, may require Tenant to obtain security for performance satisfactory to Landlord for a proposed Alteration the cost of which is anticipated to be $50,000.00 or more; (c) Tenant shall deliver to Landlord "as built" drawings (in CAD format, if requested by Landlord), completion affidavits, full and final lien waivers, and all governmental approvals; and (d) Tenant shall pay Landlord upon demand (i) Landlord's reasonable out-of-pocket expenses incurred in reviewing the work, and (ii) a coordination fee equal to 3% of the cost of the work; provided, however, that this clause (d) shall not apply to any Tenant Improvements.

7.3 **Tenant Work.** Before commencing any repair or Alteration **("Tenant Work"),** Tenant shall deliver to Landlord, and obtain Landlord's approval of, (a) names of contractors, subcontractors, mechanics, laborers and materialmen; (b) evidence of contractors' and subcontractors' insurance; and (c) any required governmental permits. Tenant shall perform all Tenant Work (i) in a good and workmanlike manner using materials of a quality reasonably approved by Landlord; (ii) in compliance with any approved plans and specifications, all Laws, the National Electric Code, and Landlord's construction rules and regulations; and (iii) in a manner that does not impair the Base Building. If, as a result of any Tenant Work, Landlord becomes required under Law to perform any inspection, give any notice, or cause such Tenant Work to be performed in any particular manner, Tenant shall comply with such requirement and promptly provide Landlord with reasonable documentation of such compliance. Landlord's approval of Tenant's plans and specifications shall not relieve Tenant from any obligation under this Section 7.3. In performing any Tenant Work, Tenant shall not use contractors, services, labor, materials or equipment that, in Landlord's reasonable judgment, would disturb labor harmony with any workforce or trades engaged in performing other work or services at the Project.

7.4 **Configuration and Condition of Premises.** Tenant acknowledges that it is in possession of the Premises and agrees to accept them "as is" without any representation by Landlord regarding their configuration or condition and without any obligation on the part of Landlord to perform or pay for any alteration or improvement, except as may be otherwise expressly provided in this Lease

7.5 **Responsibility for Improvements Suites 400, 450 and 500.** Landlord shall perform improvements to Suites 400, 450 and 500 in accordance with the Landlord Work Letter attached hereto as **Exhibit J**.

7.6 **Responsibility for Improvements to Suite 500 and 600.** After Landlord's completion of the Tenant Improvement Work (as defined in **Exhibit J** hereto), Tenant shall be entitled to perform improvements to Suites 500 and 600, and to receive an allowance from Landlord for such improvements, in accordance with the Extension Work Letter attached hereto as **Exhibit K**.

7.7 **Restoration**. Tenant's restoration obligations with respect to the Premises shall be as set forth in the Lease (as amended); provided, however, that Landlord irrevocably acknowledges and agrees that (a) for purposes of Sections 8 and 15 of the Lease, all Leasehold Improvements in the Premises as of the date hereof (and any Leasehold Improvements made pursuant to **Exhibit J**) are deemed Building-standard and Tenant shall have no obligation to remove (nor pay for the removal of) such improvements upon the expiration or earlier termination of the Lease (as amended). Nothing herein shall be deemed to modify Tenant's removal or restoration obligations pursuant to the Lease with respect to any Lines, signage, and/or Tenant's Security System.

8 LANDLORD'S PROPERTY. All Leasehold Improvements shall become Landlord's property upon installation and without compensation to Tenant. Notwithstanding the foregoing, unless otherwise notified by Landlord, Tenant, at its expense and before the expiration or earlier termination hereof, shall (a) remove any Tenant-Insured Improvements, (b) repair any resulting damage to the Premises or Building, and (c) restore the affected portion of the Premises to its condition existing before the installation of such Tenant-Insured Improvements. If, when it requests Landlord's approval of any Tenant Improvements or Alterations, Tenant specifically requests that Landlord identify any such Tenant Improvements or Alterations that will not be required to be removed pursuant to the preceding sentence, Landlord shall do so when it provides such approval. If Tenant fails to complete any removal, repair or restoration when required under this Section 8, Landlord may do so at Tenant's expense. Notwithstanding the foregoing, Tenant shall have no obligation to remove any improvements existing in the Premises as of the date Tenant takes possession thereof.

9 LIENS. Tenant shall keep the Project free from any lien arising out of any work performed, material furnished or obligation incurred by or on behalf of Tenant. Tenant shall remove any such lien within 10 business days after notice from Landlord, and if Tenant fails to do so, Landlord, without limiting its remedies, may pay the amount necessary to cause such removal, whether or not such lien is valid. The amount so paid, together with reasonable attorneys' fees and expenses, shall be reimbursed by Tenant upon demand.

10 INDEMNIFICATION; INSURANCE.

10.1 **Waiver and Indemnification.** Tenant waives all claims against Landlord, its Security Holders (defined in Section 17), Landlord's managing agent(s), their (direct or indirect) owners, and the beneficiaries, trustees, officers, directors, employees and agents of each of the foregoing (including Landlord, the **"Landlord Parties")** for (i) any damage to person or property (or resulting from the loss of use thereof), except to the extent such damage is caused by the negligence or willful misconduct of any Landlord Party, or (ii) any failure to prevent or control any criminal or otherwise wrongful conduct by any third party or to apprehend any third party who has engaged in such conduct. Tenant shall indemnify, defend, protect, and hold the Landlord Parties harmless from any obligation, loss, claim, action, liability, penalty, damage, cost or expense (including reasonable attorneys' and consultants' fees and expenses) (each, a **"Claim")** that is imposed or asserted by any third party and arises from (a) occupancy of the Premises by, or any negligence or willful misconduct of, Tenant, any party claiming by, through or under Tenant, their (direct or indirect) owners, or any of their respective beneficiaries, trustees, officers, directors, employees, agents, contractors, licensees or invitees, or (b) any breach by Tenant of any representation, covenant or other term contained herein, except to the extent such Claim arises from the negligence or willful misconduct of any Landlord Party. Landlord shall indemnify, defend, protect, and hold Tenant, its (direct or indirect) owners, and their respective beneficiaries, trustees, officers, directors, employees and agents (including Tenant, the **"Tenant Parties")** harmless from any Claim that is imposed or asserted by any third party and arises from (a) any negligence or willful misconduct of any Landlord Party, or (b) any breach by Landlord of any representation, covenant or other term contained herein, except to the extent such Claim arises from the negligence or willful misconduct of any Tenant Party.

10.2 **Tenant's Insurance.** Tenant shall maintain the following coverages in the following amounts:

10.2.1 Commercial General Liability Insurance covering claims of bodily injury, personal injury and property damage arising out of Tenant's operations and contractual liabilities, including coverage formerly known as broad form, on an occurrence basis, with minimum primary limits of $1,000,000 each occurrence and $2,000,000 annual aggregate (and not more than $25,000 self-insured retention) and a minimum excess/umbrella limit of $2,000,000.

10.2.2 Property Insurance covering (i) all office furniture, business and trade fixtures, office equipment, free-standing cabinet work, movable partitions, merchandise and all other items of Tenant's property in the Premises installed by, for, or at the expense of Tenant, and (ii) any Leasehold Improvements installed by or for the benefit of Tenant pursuant to this Lease **("Tenant-Insured Improvements").** Such insurance shall be written on an "all risks" of physical loss or damage basis, for the full replacement cost value (subject to reasonable deductible amounts) new without deduction for depreciation of the covered items and in amounts that meet any co-insurance clauses of the policies of insurance, and shall include coverage for damage or other loss caused by tire or other peril, including vandalism and malicious mischief, theft, water damage of any type, including sprinkler leakage, bursting or stoppage of pipes, and explosion, and providing business interruption coverage for a period of one year.

10.2.3 Worker's Compensation and Employer's Liability or other similar insurance to the extent required by Law.

10.3 **<u>Form of Policies</u>.** The minimum limits of insurance required to be carried by Tenant shall not limit Tenant's liability. Such insurance shall be issued by an insurance company that has an A.M. Best rating of not less than A-V111 and shall be in form and content reasonably acceptable to Landlord. Tenant's Commercial General Liability Insurance shall (a) name the Landlord Parties **("Additional Insured Parties")** as additional insureds; and (b) be primary insurance as to all claims thereunder and provide that any insurance carried by Landlord is excess and non-contributing with Tenant's insurance. Landlord shall be designated as a loss payee with respect to Tenant's Property Insurance on any Tenant-Insured Improvements. Tenant shall deliver to Landlord, on or before the Commencement Date and at least 15 days before the expiration dates thereof, certificates from Tenant's insurance company on the forms currently designated "ACORD 28" (Evidence of Commercial Property Insurance) and "ACORD 25-S" (Certificate of Liability Insurance) or the equivalent. Attached to the ACORD 25-S (or equivalent) there shall be an endorsement naming the Additional Insured Parties as additional insureds which shall be binding on Tenant's insurance company. Upon Landlord's request, Tenant shall deliver to Landlord, in lieu of such certificates, copies of the policies of insurance required to be carried under <u>Section 10.2</u> showing that the Additional Insured Parties are named as additional insureds.

10.4 **<u>Subrogation</u>.** Each party waives, and shall cause its insurance carrier to waive, any right of recovery against the other party, any of its (direct or indirect) owners, or any of their respective beneficiaries, trustees, officers, directors, employees or agents for any loss of or damage to property which loss or damage is (or, if the insurance required hereunder had been carried, would have been) covered by insurance. For purposes of this <u>Section 10.4</u> only, (a) any deductible with respect to a party's insurance shall be deemed covered by, and recoverable by such party under, valid and collectable policies of insurance, and (b) any contractor retained by Landlord to install, maintain or monitor a fire or security alarm for the Building shall be deemed an agent of Landlord.

10.5 **<u>Additional Insurance Obligations</u>.** Tenant shall maintain such increased amounts of the insurance required to be carried by Tenant under this <u>Section 10</u>, and such other types and amounts of insurance covering the Premises and Tenant's operations therein, as may be reasonably requested by Landlord (not more than once in any 36-month period), but not in excess of the amounts and types of insurance then being required by landlords of buildings comparable to and in the vicinity of the Building.

11 CASUALTY DAMAGE. With reasonable promptness after discovering any damage to the Premises, or to the Common Areas necessary for access to the Premises, resulting from any fire or other casualty (a **"Casualty"),** Landlord shall notify Tenant of Landlord's reasonable estimate of the time required to substantially complete repair of such damage (the **"Landlord Repairs").** If, according to such estimate, the Landlord Repairs cannot be substantially completed within 210 days after they are commenced, either party may terminate this Lease upon 60 days' notice to the other party delivered within 10 days after Landlord's delivery of such estimate. Within 90 days after discovering any damage to the Project resulting from any Casualty, Landlord may, whether or not the Premises is affected, terminate this Lease by notifying Tenant if (i) any Security Holder terminates any ground lease or requires that any insurance proceeds be used to pay any mortgage debt; (ii) any damage to Landlord's property is not fully covered by Landlord's insurance policies; (iii) Landlord decides to rebuild the Building or Common Areas so that it or they will be substantially different structurally or architecturally; (iv) the damage occurs during the last 12 months of the Term or Extended Term; or (v) any owner, other than Landlord, of any damaged portion of the Project does not intend to repair such damage. If this Lease is not terminated pursuant to this <u>Section 11</u>, Landlord shall promptly and diligently perform the Landlord Repairs, subject to reasonable delays for insurance adjustment and other events of Force Majeure. The Landlord Repairs shall restore the Premises and the Common Areas necessary for access to the Premises to substantially the same condition that existed when the Casualty occurred, except for (a) any modifications required by Law or any Security Holder, and (b) any modifications to the Common Areas that are deemed desirable by Landlord, are consistent with the character of the Project, and do not materially impair use of or access to the Premises. Notwithstanding Section 10.4, Tenant shall assign to Landlord (or its designee) all insurance proceeds payable to Tenant under Tenant's insurance required under Section 10.2 with respect to any Tenant-Insured Improvements, and if the estimated or actual cost of restoring any Tenant-Insured Improvements exceeds the insurance proceeds received by Landlord from Tenant's insurance carrier, Tenant shall pay such excess to Landlord within 15 days after Landlord's demand. No Casualty and no restoration performed as required hereunder shall render Landlord liable to Tenant, constitute a constructive eviction, or excuse Tenant from any obligation hereunder; provided, however, that if the Premises or any Common Area necessary for Tenant's access to the Premises is damaged by a Casualty, then, during any time that, as a result of such damage, any portion of the Premises is untenantable or inaccessible and is not occupied by Tenant, Monthly Rent shall be abated in proportion to the rentable square footage of such portion of the Premises. If Landlord does not substantially complete the Landlord Repairs on or before the Outside Restoration Date (defined below), then, provided that the Casualty was not caused by the negligence or willful misconduct of Tenant or any party claiming by, through or under Tenant, Tenant may terminate this Lease by notifying Landlord within 15 days after the Outside Restoration Date. As used herein, **"Outside Restoration Date"** means the date occurring 60 days after the expiration of the time set forth in Landlord's estimate described in the first sentence of this Section 11; provided, however, that the Outside Restoration Date shall be extended to the extent of (i) any delay caused by the insurance adjustment process; (ii) any other delay caused by events of Force Majeure (up to 90 days), and (iii) any delay caused by Tenant or any party claiming by, through or under Tenant. Notwithstanding the foregoing, if Landlord determines in good faith that it will be unable to substantially complete the Landlord Repairs on or before the Outside Restoration Date, Landlord may cease its performance of the Landlord Repairs and provide Tenant with notice (the **"Restoration Date Extension Notice")** stating such inability and identifying the date on which Landlord reasonably believes such substantial completion will occur, in which event Tenant may terminate this Lease by notifying Landlord within five (5) business days after receiving the Restoration Date Extension Notice. If Tenant does not terminate this Lease within such 5-business day period, the Outside Restoration Date shall be automatically amended to be the date identified in the Restoration Date Extension Notice.

12 **NON WAIVER.** No provision hereof shall be deemed waived by either party unless it is waived by such party expressly and in writing, and no waiver of any breach of any provision hereof shall be deemed a waiver of any subsequent breach of such provision or any other provision hereof. Landlord's acceptance of Rent shall not be deemed a waiver of any preceding breach of any provision hereof, other than Tenant's failure to pay the particular Rent so accepted, regardless of Landlord's knowledge of such preceding breach at the time of such acceptance. No acceptance of payment of an amount less than the Rent due hereunder shall be deemed a waiver of Landlord's right to receive the full amount of Rent due, whether or not any endorsement or statement accompanying such payment purports to effect an accord and satisfaction. No receipt of monies by Landlord from Tenant after the giving of any notice, the commencement of any suit, the issuance of any final judgment, or the termination hereof shall affect such notice, suit or judgment, or reinstate or extend the Term or Tenant's right of possession hereunder.

13 **CONDEMNATION.** If any part of the Premises, Building or Project is taken for any public or quasi-public use by power of eminent domain or by private purchase in lieu thereof (a **"Taking")** for more than 180 consecutive days, Landlord may terminate this Lease. If more than 25% of the rentable square footage of the Premises is Taken, or access to the Premises is substantially impaired as a result of a Taking, for more than 180 consecutive days, Tenant may terminate this Lease. Any such termination shall be effective as of the date possession must be surrendered to the authority, and the terminating party shall provide termination notice to the other party within 45 days after receiving written notice of such surrender date. Except as provided above in this Section 13, neither party may terminate this Lease as a result of a Taking. Tenant shall not assert any claim for compensation because of any Taking; provided, however, that Tenant may file a separate claim for any Taking of Tenant's personal property or any fixtures that Tenant is entitled to remove upon the expiration hereof, and for moving expenses, so long as such claim does not diminish the award available to Landlord or any Security Holder and is payable separately to Tenant. If this Lease is terminated pursuant to this Section 13, all Rent shall be apportioned as of the date of such termination. If a Taking occurs and this Lease is not so terminated, Monthly Rent shall be abated for the period of such Taking in proportion to the percentage of the rentable square footage of the Premises, if any, that is subject to, or rendered inaccessible by, such Taking.

14 ASSIGNMENT AND SUBLETTING.

14.1 Transfers. Tenant shall not, without Landlord's prior consent (except in connection with a Permitted Transfer as defined in Section 14.8 below), assign, mortgage, pledge, hypothecate, encumber, permit any lien to attach to, or otherwise transfer this Lease or any interest hereunder, permit any assignment or other transfer hereof or any interest hereunder by operation of law, enter into any sublease or license agreement, otherwise permit the occupancy or use of any part of the Premises by any persons other than Tenant and its employees and contractors, or permit a Change of Control (defined in Section 14.6) to occur (each, a **"Transfer").** If Tenant desires Landlord's consent to any Transfer, Tenant shall provide Landlord with (i) notice of the terms of the proposed Transfer, including its proposed effective date (the **"Contemplated Effective Date"),** a description of the portion of the Premises to be transferred (the **"Contemplated Transfer Space"),** a calculation of the Transfer Premium (defined in Section 14.3), and a copy of all existing executed and/or proposed documentation pertaining to the proposed Transfer, and (ii) current financial statements of the proposed transferee (or, in the case of a Change of Control, of the proposed new controlling party(ies)) certified by an officer or owner thereof and any other information reasonably required by Landlord in order to evaluate the proposed Transfer (collectively, the **"Transfer Notice").** Within 30 days after receiving the Transfer Notice, Landlord shall notify Tenant of (a) its consent to the proposed Transfer, (b) its refusal to consent to the proposed Transfer, or (c) its exercise of its rights under Section 14.4. Any Transfer (other than a Permitted Transfer) made without Landlord's prior consent shall, at Landlord's option, be void and shall, at Landlord's option, constitute a Default (defined in Section 19). Tenant shall pay Landlord a fee of $1,500.00 for Landlord's review of any proposed Transfer (other than a Permitted Transfer), whether or not Landlord consents to it.

14.2 **Landlord's Consent.** Subject to Section 14.4, Landlord shall not unreasonably withhold, condition or delay its consent to any proposed Transfer. Without limiting other reasonable grounds for withholding consent, it shall be deemed reasonable for Landlord to withhold consent to a proposed Transfer if:

14.2.1 The proposed transferee is not a party of reasonable financial strength in light of the responsibilities to be undertaken in connection with the Transfer on the date the Transfer Notice is received; or 14.2.2 The proposed transferee has a character or reputation or is engaged in a business that is not consistent with the quality of the Building or the Project; or 14.2.3 The proposed transferee is a governmental entity or a nonprofit organization; or

14.2.4 In the case of a proposed sublease, license or other occupancy agreement, the rent or occupancy fee charged by Tenant to the transferee during the term of such agreement, calculated using a present value analysis, is less than 95% of the rent being quoted by Landlord or its Affiliate (defined in Section 14.8) at the time of such Transfer for comparable space in the Project for a comparable term, calculated using a present value analysis; or

14.2.5 Both (i) the proposed transferee or any of its Affiliates, on the date the Transfer Notice is received, leases or occupies (or, at any time during the 6-month period ending on the date the

Transfer Notice is received, has negotiated with Landlord to lease) space in the Project and (ii) on or about the Contemplated Effective Date, Landlord shall have space for lease in the Complex that is comparable to the Contemplated Transfer Space. As used herein, the term "Complex" shall mean, collectively, the Building, the building located at 919 East Hillsdale Boulevard, Foster City, California and the building located at 989 East Hillsdale Boulevard, Foster City, California.

Notwithstanding any contrary provision hereof, (a) if Landlord consents to any Transfer pursuant to this Section 14.2 but Tenant does not enter into such Transfer within six (6) months thereafter, such consent shall no longer apply and such Transfer shall not be permitted unless Tenant again obtains Landlord's consent thereto pursuant and subject to the terms of this Section 14; and (b) if Landlord unreasonably withholds its consent under this Section 14.2, Tenant's sole remedies shall be contract damages (subject to Section 20) or specific performance, and Tenant waives all other remedies, including any right to terminate this Lease.

14.3 **Transfer Premium.** If Landlord consents to a Transfer, Tenant shall pay Landlord an amount equal to 50% of any Transfer Premium (defined below). As used herein, **"Transfer Premium"** means (a) in the case of an assignment, any consideration (including payment for Leasehold Improvements) paid by the assignee for such assignment, less any reasonable and customary expenses directly incurred by Tenant on account of such assignment, including brokerage fees, legal fees, and Landlord's review fee; (b) in the case of a sublease, license or other occupancy agreement, the amount by which all rent and other consideration paid by the transferee to Tenant pursuant to such agreement (less all reasonable and customary expenses directly incurred by Tenant on account of such agreement, including brokerage fees, legal fees, construction costs and Landlord's review fee) exceeds the Monthly Rent payable by Tenant hereunder with respect to the Contemplated Transfer Space for the term of such agreement; and (c) in the case of a Change of Control, any consideration (including payment for Leasehold Improvements) paid by the new controlling party(ies) to the prior controlling party(ies) solely on account of this Lease. Payment of Landlord's share of the Transfer Premium shall be made (x) in the case of an assignment or a Change of Control, within 10 days after Tenant or the prior controlling party(ies), as the case may be, receive(s) the consideration described above, and (y) in the case of a sublease, license or other occupancy agreement, on the first day of each month during the term of such agreement, in the amount of 50% of the amount by which the rent and other consideration paid by the transferee to Tenant under such agreement for such month (less all reasonable and customary expenses directly incurred by Tenant on account of such agreement, including brokerage fees, legal fees, construction costs and Landlord's review fee, as amortized on a monthly, straight-line basis over the term of such agreement) exceeds the Monthly Rent payable by Tenant hereunder with respect to the Contemplated Transfer Space for such month.

14.4 **Landlord's Right to Recapture.** Notwithstanding any contrary provision hereof, except in the case of a Permitted Transfer, Landlord, by notifying Tenant within 15 days after receiving the Transfer Notice, may terminate this Lease with respect to the Contemplated Transfer Space as of the Contemplated Effective Date; provided, however, that such termination shall not be effective if Tenant, by notifying Landlord within five (5) days after receiving Landlord's notice of termination, withdraws the Transfer Notice. If Tenant does not withdraw the Transfer Notice, and if the Contemplated Transfer Space is less than the entire Premises, then Base Rent, Tenant's Share, and the number of parking spaces to which Tenant is entitled under Section 1.9 shall be deemed adjusted on the basis of the percentage of the rentable square footage of the Premises retained by Tenant. Upon request of either party, the parties shall execute a written agreement prepared by Landlord memorializing such termination.

14.5 **Effect of Consent.** If Landlord consents to a Transfer, (i) such consent shall not be deemed a consent to any further Transfer, (ii) Tenant shall deliver to Landlord, promptly after execution, an executed copy of all documentation pertaining to the Transfer in form reasonably acceptable to

Landlord, and (iii) Tenant shall deliver to Landlord, upon Landlord's request, a complete statement, certified by an independent CPA or Tenant's chief financial officer, setting forth in detail the computation of any Transfer Premium. In the case of an assignment, the assignee shall assume in writing, for Landlord's benefit, all of Tenant's obligations hereunder. No Transfer, with or without Landlord's consent, shall relieve Tenant or any guarantor hereof from any liability hereunder.

14.6 **Change of Control**. As used herein, **"Change of Control"** means (a) if Tenant is a closely held professional service firm, the withdrawal or change (whether voluntary, involuntary or by operation of law) of 50% or more of its equity owners within a 12-month period; and (b) in all other cases, any transaction(s) resulting in the acquisition of a Controlling Interest (defined below) by one or more parties that did not own a Controlling Interest immediately before such transaction(s). As used herein, **"Controlling Interest"** means any direct or indirect equity or beneficial ownership interest in Tenant that confers upon its holder(s) the direct or indirect power to direct the ordinary management and policies of Tenant, whether through the ownership of voting securities, by contract or otherwise (but not through the ownership of voting securities listed on a recognized securities exchange).

14.7 **Effect of Default.** If Tenant is in Default, Landlord is irrevocably authorized, as Tenant's agent and attorney-in-fact, to direct any transferee under any sublease, license or other occupancy agreement to make all payments under such agreement directly to Landlord (which Landlord shall apply towards Tenant's obligations hereunder) until such Default is cured. Such transferee shall rely upon any representation by Landlord that Tenant is in Default, whether or not confirmed by Tenant.

14.8 **Permitted Transfers.** Notwithstanding any contrary provision hereof, if Tenant is not in Default, Tenant may, without Landlord's consent pursuant to Section 14.1, permit a Change of Control to occur, sublease any portion of the Premises to an Affiliate of Tenant or assign this Lease to (a) an Affiliate of Tenant, (b) a successor to Tenant by merger or consolidation, or (c) a successor to Tenant by purchase of all or substantially all of Tenant's assets (a **"Permitted Transfer"),** provided that (i) at least 10 business days before the Permitted Transfer, Tenant notifies Landlord of such Permitted Transfer and delivers to Landlord any documents or information reasonably requested by Landlord relating thereto (provided that if advanced notice is prohibited by a confidentiality agreement or Law, then Tenant shall give Landlord written notice and deliver such documents within 10 days after the effective date of the proposed Permitted Transfer), including reasonable documentation that the Permitted Transfer satisfies the requirements of this Section 14.8; (ii) in the case of a sublease, the subtenant executes and delivers to Landlord, at least 10 business days before taking occupancy, an agreement reasonably acceptable to Landlord which (A) requires the subtenant to assume all of Tenant's indemnity and insurance obligations hereunder with respect to the Contemplated Transfer Space and to be bound by each provision hereof that limits the liability of any Landlord Party, and (B) provides that if either a Landlord Party or the subtenant institutes a suit against the other for violation of or to enforce such agreement, or in connection with any matter relating to the sublease or the subtenant's occupancy of the Contemplated Transfer Space, the prevailing party shall be entitled to all of its costs and expenses, including reasonable attorneys' fees; (iii) in the case of an assignment pursuant to clause (a) or (c) above, the assignee executes and delivers to Landlord, at least 10 business days before the assignment(provided that if advanced notice is prohibited by a confidentiality agreement or Law, then Tenant shall deliver to Landlord within 10 days after the effective date of the proposed Permitted Transfer), a commercially reasonable instrument pursuant to which the assignee assumes, for Landlord's benefit, all of Tenant's obligations hereunder; (iv) in the case of an assignment pursuant to clause (b) above, (A) the successor entity has a net worth (as determined in accordance with GAAP, but excluding intellectual property and any other intangible assets **("Net Worth"))** immediately after the Permitted Transfer that is not less than the Net Worth of Tenant immediately before the Permitted Transfer, and (B) if Tenant is a closely held professional service firm, at least 50% of its equity owners existing 12 months before the Transfer are also equity owners of the successor entity; (v) except in the case of a Change of Control, the transferee is qualified to conduct business in the State of California; (vi) in the case of a Change of Control, (a) Tenant is not a closely held professional service firm, and (b) the Tenant's Net Worth immediately after the Change of Control is not less then its Net Worth immediately before the change of Control; and (vii) the Permitted Transfer is made for a good faith operating business purpose and not in order to evade the requirements of this Section 14. As used herein, **"Affiliate"** means, with respect to any party, a person or entity that controls, is under common control with, or is controlled by such party.

14.9 **Approved Users**. Notwithstanding any contrary provision of this Section 14, Tenant may, from time to time during the Term (as the same may be extended, without Landlord's consent and without application of Sections 14.3 or 14.4, permit other professionals (each, an "**Approved User**") to occupy space within the Premises during the Term (as the same may be extended) while such party is performing services with, or for, Tenant, provided that (a) Tenant does not separately demise such space and the Approved User uses, in common with Tenant, one common entryway to the Premises; (b) Approved Users do not occupy, in the aggregate, more than 15% of the rentable square footage of the Premises; (c) the Approved User uses such space for the Permitted Use and for no other purpose; and (d) before the Approved User begins occupancy, (i) Tenant notifies Landlord in writing of the Approved User's identity, and (ii) the Approved User executes and delivers to Landlord an agreement substantially in the form of **Exhibit S**. Tenant shall cause each Approved User, and each of its employees and licensees, to comply with the provisions of the Lease, and each Approved User, and each of its employees and licensees, shall be deemed licensees of Tenant for purposes of Tenant's obligations under Section 10.1. No use or occupancy of any portion of the Premises by an Approved User shall release or excuse

Tenant from any obligation hereunder or create a landlord/tenant relationship between Landlord and such Approved User. Landlord shall not be required to provide any notice to any Approved User.

15 SURRENDER. Upon the expiration or earlier termination hereof, and subject to Section 8 hereof, Sections 2.2.1 and 2.2.2 of **Exhibit B** hereto and this Section 15, Tenant shall surrender possession of the Premises to Landlord in as good condition as when Tenant took possession and as thereafter improved by Landlord and/or Tenant, except for reasonable wear and tear and repairs that are Landlord's express responsibility hereunder. Before such expiration or termination, Tenant, without expense to Landlord, shall (a) remove from the Premises all debris and rubbish and all furniture, equipment, business and trade fixtures, Lines, free-standing cabinet work, movable partitions and other articles of personal property that are owned or placed in the Premises by Tenant or any party claiming by, through or under Tenant (except for any Lines not required to be removed under Section 23), and (b) repair all damage to the Premises and Building resulting from such removal. If Tenant fails to timely perform such removal and repair, Landlord may do so at Tenant's expense (including storage costs). If Tenant fails to remove such property from the Premises, or from storage, within 30 days after notice from Landlord, any part of such property shall be deemed, at Landlord's option, either (x) conveyed to Landlord without compensation, or (y) abandoned.

16 HOLDOVER. If Tenant fails to surrender the Premises upon the expiration or earlier termination hereof, Tenant's tenancy shall be subject to the terms and conditions hereof; provided, however, that such tenancy shall be a tenancy at sufferance only, for the entire Premises, and Tenant shall pay Monthly Rent (on a per-month basis without reduction for any partial month) at a rate equal to 150% of the Monthly Rent applicable during the last calendar month of the Term or Extended Term. Nothing in this Section 16 shall limit Landlord's rights or remedies or be deemed a consent to any holdover. If Landlord is unable to deliver possession of the Premises to a new tenant or to perform improvements for a new tenant as a result of Tenant's holdover, Tenant shall be liable for all resulting damages, including lost profits, incurred by Landlord.

17 SUBORDINATION; ESTOPPEL CERTIFICATES.

17.1 This Lease shall be subject and subordinate to all existing and future ground or underlying leases, mortgages, trust deeds and other encumbrances against the Building or Project, all renewals, extensions, modifications, consolidations and replacements thereof (each, a **"Security Agreement"),** and all advances made upon the security of such mortgages or trust deeds, unless in each case the holder of such Security Agreement (each, a **"Security Holder")** requires in writing that this Lease be superior thereto. Upon any termination or foreclosure (or any delivery of a deed in lieu of foreclosure) of any Security Agreement, Tenant, upon request, shall attorn, without deduction or set-off, to the Security Holder or purchaser or any successor thereto and shall recognize such party as the lessor hereunder provided that such party agrees not to disturb Tenant's occupancy so long as Tenant timely pays the Rent and otherwise performs its obligations hereunder. Within 10 days after request by Landlord, Tenant shall execute such further instruments as Landlord may reasonably deem necessary to evidence the subordination or superiority of this Lease to any Security Agreement. Tenant waives any right it may have under Law to terminate or otherwise adversely affect this Lease or Tenant's obligations hereunder upon a foreclosure. Within 10 business days after Landlord's request, Tenant shall execute and deliver to Landlord a commercially reasonable estoppel certificate in favor of such parties as Landlord may reasonably designate, including current and prospective Security Holders and prospective purchasers. Notwithstanding any provision herein to the contrary, if, within 10 days after the date of this Lease, a non-disturbance, subordination and attornment agreement is not executed and delivered by Landlord, Tenant and Mortgagee (as hereinafter defined), then Tenant shall have the right to terminate this Lease by delivery of written notice to Landlord prior to the date that is the earlier to occur of (i) the date upon which such non-disturbance, subordination and attornment agreement is fully executed and delivered by such parties, and (ii) the date that is 5 days after the expiration of such 10 day period. If Tenant timely delivers such termination notice to Landlord, this Lease shall terminate effective as of the date such notice is delivered to Landlord; provided, however, that (w) Sections 8, 20, 25.1, 25.5, 25.6, 25.7, 25.9 and **Exhibit E** shall survive such termination; (x) if Landlord has received any security deposit, other collateral or prepaid Rent from Tenant pursuant to this Lease, Landlord shall promptly return the same to Tenant; and (y) if Tenant has entered the Premises pursuant to this Lease for any reason, the provisions hereof governing such entry shall, with respect to such entry, survive such termination to the same extent as if this Lease had expired in accordance with its terms. Tenant shall be responsible for any fee or review costs charged by the Mortgagee in connection with such non-disturbance, subordination and attornment agreement between Landlord, Tenant and Mortgagee. As used herein, the term **"Mortgagee"** shall mean the holder of a mortgage or deed of trust recorded against the Property as of the date hereof.

17.2 Notwithstanding Section 17.1, Tenant's agreement to subordinate this Lease to a future Security Agreement shall not be effective unless Landlord has provided Tenant with a commercially reasonable non-disturbance agreement from the Security Holder. For purposes of the preceding sentence, a non-disturbance agreement shall not be deemed commercially reasonable unless it provides that: (a) so long as no Default exists, this Lease and Tenant's right to possession hereunder shall remain in full force and effect; (b) the Security Holder shall have additional time (not to exceed 90 days after written notice from Tenant) to cure any default of Landlord; and (c) neither the Security Holder nor any successor in interest shall be (i) bound by (A) any payment of Rent for more than one (1) month in advance, or (B) any amendment of this Lease made without the written consent of the Security Holder or such successor in interest, (ii) liable for (A) the return of any security deposit, letter of credit or other collateral, except to the extent it was received by the Security Holder, or (B) any act, omission, representation, warranty or default of any prior landlord (including Landlord); or (iii) subject to any offset or defense that Tenant might have against any prior landlord (including Landlord).

18 ENTRY BY LANDLORD. At all reasonable times and upon no less than 24 hours prior notice to Tenant, Landlord may enter the Premises to (i) inspect the Premises; (ii) show the Premises to prospective purchasers, current or prospective Security Holders or insurers, or, during the last 9 months of the Term or Extended Term (or while an uncured Default exists), prospective tenants; (iii) post notices of non-responsibility; or (iv) perform maintenance, repairs or alterations. Notwithstanding the foregoing, at any time and without notice to Tenant, (a) Landlord may enter the Premises to perform required services (provided, however, that Landlord shall provide Tenant with 24 hours prior notice (which notice, notwithstanding Section 25.1, may be delivered by e-mail, fax, telephone or orally and in person) of any entry to perform a service that is not performed on a monthly or more frequent basis) and (b) Landlord may enter the Premises in the case of an emergency to inspect the Premises and/or to perform maintenance, repairs or alterations in connection with such emergency. If reasonably necessary, Landlord may temporarily close any portion of the Premises to perform maintenance, repairs or alterations. In an emergency, Landlord may use any means it deems proper to open doors to and in the Premises. Except in an emergency, Landlord shall use reasonable efforts to minimize interference with Tenant's use of the Premises. Except in an emergency, Tenant may have one of its employees accompany Landlord if Tenant makes such employee available when Landlord enters the Premises. No entry into or closure of any portion of the Premises pursuant to this Section 18 shall render Landlord liable to Tenant, constitute a constructive eviction, or excuse Tenant from any obligation hereunder.

19 DEFAULTS; REMEDIES.

19.1 **Events of Default.** The occurrence of any of the following shall constitute a **"Default":**

19.1.1 Any failure by Tenant to pay any Rent when due unless such failure is cured within five (5) business days after notice; or

19.1.2 Except where a specific time period is otherwise set forth for Tenant's performance herein (in which event the failure to perform by Tenant within such time period shall be a Default), and except as otherwise provided in this Section 19.1, any failure by Tenant to observe or perform any other provision, covenant or condition hereof where such failure continues for 30 days after notice from Landlord; provided that if such failure cannot reasonably be cured within such 30-day period, Tenant shall not be in Default as a result of such failure if Tenant diligently commences such cure within such period, thereafter diligently pursues such cure, and completes such cure within 60 days after Landlord's notice (or within such longer period as may be reasonably required provided that such failure can be cured and Tenant diligently pursues such cure); or

19.1.3 Abandonment of all or a substantial portion of the Premises by Tenant; or

19.1.4 Any failure by Tenant to observe or perform the provisions of Sections 5, 14, 17 or 18 where such failure continues for more than two (2) business days after notice from Landlord; or

19.1.5 Tenant becomes in breach of Section 25.3.

If Tenant breaches a particular material provision hereof (other than a provision requiring payment of Rent) on three (3) separate occasions during any 12-month period, Tenant's subsequent breach of such provision shall be, at Landlord's option, an incurable Default. The notice periods provided herein are in lieu of, and not in addition to, any notice periods provided by Law, and Landlord shall not be required to give any additional notice in order to be entitled to commence an unlawful detainer proceeding.

19.2 **Remedies Upon Default.** Upon any Default, Landlord shall have, in addition to any other remedies available to Landlord at law or in equity (which shall be cumulative and nonexclusive), the option to pursue any one or more of the following remedies (which shall he cumulative and nonexclusive) without any notice or demand:

19.2.1 Landlord may terminate this Lease, in which event Tenant shall immediately surrender the Premises to Landlord, and if Tenant fails to do so, Landlord may, without prejudice to any other remedy it may have for possession or arrearages in Rent, enter upon and take possession of the Premises and expel or remove Tenant and any other person who may be occupying the Premises or any part thereof, without being liable for prosecution or any claim or damages therefor; and Landlord may recover from Tenant the following:

(a) The worth at the time of award of the unpaid Rent which has been earned at the time of such termination; plus

(b) The worth at the time of award of the amount by which the unpaid Rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus

(c) The worth at the time of award of the amount by which the unpaid Rent for the balance of the Term and Extended Term after the time of award exceeds the amount of such Rent loss that Tenant proves could have been reasonably avoided; plus

(d) Any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations hereunder or which in the ordinary course of things would be likely to result therefrom, including brokerage commissions, advertising expenses, expenses of remodeling any portion of the Premises for a new tenant (whether for the same or a different use), and any special concessions made to obtain a new tenant; plus

(e) At Landlord's option, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by Law.

As used in Sections 19.2.1(a) and (b), the **"worth at the time of award"** shall be computed by allowing interest at a rate per annum equal to the lesser of (i) the annual "Bank Prime Loan" rate cited in the Federal Reserve Statistical Release Publication G.13(415), published on the first Tuesday of each calendar month (or such other comparable index as Landlord shall reasonably designate if such rate ceases to be published) plus two (2) percentage points, or (ii) the highest rate permitted by Law. As used in Section 19.2.1(c), the **"worth at the time of award"** shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus 1%.

19.2.2 Landlord shall have the remedy described in California Civil Code § 1951.4 (lessor may continue lease in effect after lessee's breach and abandonment and recover Rent as it becomes due, if lessee has the right to sublet or assign, subject only to reasonable limitations). Accordingly, if Landlord does not elect to terminate this Lease on account of any default by Tenant, Landlord may, from time to time, without terminating this Lease, enforce all of its rights and remedies hereunder, including the right to recover all Rent as it becomes due.

19.2.3 Landlord shall at all times have the rights and remedies (which shall be cumulative with each other and cumulative and in addition to those rights and remedies available under Sections 19.2.1 and 19.2.2, or any Law or other provision hereof), without prior demand or notice except as required by Law, to seek any declaratory, injunctive or other equitable relief, and specifically enforce this Lease, or restrain or enjoin a violation or breach of any provision hereof.

19.3 **Efforts to Relet.** Unless Landlord provides Tenant with express notice to the contrary, no re-entry, repossession, repair, maintenance, change, alteration, addition, reletting, appointment of a receiver or other action or omission by Landlord shall (a) be construed as an election by Landlord to terminate this Lease or Tenant's right to possession, or to accept a surrender of the Premises, or (b) operate to release Tenant from any of its obligations hereunder. Tenant waives, for Tenant and for all those claiming by, through or under Tenant, California Civil Code § 3275 and California Code of Civil Procedure §§ 1174(c) and 1179 and any existing or future rights to redeem or reinstate, by order or judgment of any court or by any legal process or writ, this Lease or Tenant's right of occupancy of the Premises after any termination hereof.

19.4 **Landlord Default.** Landlord shall not be in default hereunder unless it fails to begin within 30 days after notice from Tenant, or fails to pursue with reasonable diligence thereafter, the cure of any failure of Landlord to meet its obligations hereunder. Before exercising any remedies for a default by Landlord, Tenant shall give notice and a reasonable time to cure to any Security Holder of which Tenant has been notified.

20 LANDLORD EXCULPATION. Notwithstanding any contrary provision hereof, (a) the liability of the Landlord Parties to Tenant shall be limited to an amount equal Landlord's interest in the Building; (b) Tenant shall look solely to Landlord's interest in the Building for the recovery of any judgment or award against any Landlord Party; (c) no Landlord Party shall have any personal liability for any judgment or deficiency, and Tenant waives and releases such personal liability on behalf of itself and all parties claiming by, through or under Tenant; and (d) no Landlord Party shall be liable for any injury or damage to, or interference with, Tenant's business, including loss of profits, loss of rents or other revenues, loss of business opportunity, loss of goodwill or loss of use, or for any form of special or consequential damage.

21 INTENTIONALLY OMITTED.

22 INTENTIONALLY OMITTED.

23 COMMUNICATIONS AND **COMPUTER LINES.** All Lines installed pursuant to this Lease shall be (a) installed in accordance with Section 7; and (b) clearly marked with adhesive plastic labels (or plastic tags attached to such Lines with wire) to show Tenant's name, suite number, and the purpose of such Lines (i) every six (6) feet outside the Premises (including the electrical room risers and any Common Areas), and (ii) at their termination points. Landlord may designate specific contractors for work relating to vertical Lines. Sufficient spare cables and space for additional cables shall be maintained for other occupants, as reasonably determined by Landlord. Unless otherwise notified by Landlord, Tenant, at its expense and before the expiration or earlier termination hereof, shall remove all Lines and repair any resulting damage. As used herein, **"Lines"** means all communications or computer wires and cables serving the Premises, whenever and by whomever installed or paid for, including any such wires or cables installed pursuant to any prior lease.

24 PARKING. Tenant may park in the Building's parking facilities (the **"Parking Facility"),** in common with other tenants of the Building, upon the following terms and conditions. Tenant shall not use more than the number of unreserved and/or reserved parking spaces set forth in Section 1.9. The reserved parking space shall be located on the fourth level of the Parking Facility in the location shown on **Exhibit A-1** hereto. Landlord shall not be liable to Tenant, nor shall this Lease be affected, if any parking is impaired by (or any parking charges are imposed as a result of) any Law. Tenant shall comply with all rules and regulations established by Landlord from time to time for the orderly operation and use of the Parking Facility, including any sticker or other identification system and the prohibition of vehicle repair and maintenance activities in the Parking Facility. Landlord may, in its discretion, allocate and assign parking passes among Tenant and the other tenants in the Building. Tenant's use of the Parking Facility shall be at Tenant's sole risk, and Landlord shall have no liability for any personal injury or damage to or theft of any vehicles or other property occurring in the Parking Facility or otherwise in connection with any use of the Parking Facility by Tenant, its employees or invitees. Landlord may alter the size, configuration, design, layout or any other aspect of the Parking Facility, and, in connection therewith, temporarily deny or restrict access **to** the Parking Facility, in each case without abatement of Rent or liability to Tenant. Landlord may delegate its responsibilities hereunder to a parking operator, in which case (i) such parking operator shall have all the rights of control reserved herein by Landlord, (ii) Tenant shall enter into a parking agreement with such parking operator, and (iii) Landlord shall have no liability for claims arising through acts or omissions of such parking operator except to the extent caused by Landlord's gross negligence or willful misconduct. Tenant's parking rights under this Section 24 are solely for the benefit of Tenant's employees and such rights may not be transferred without Landlord's prior consent, except pursuant to a Transfer permitted under Section 14.

25 MISCELLANEOUS.

25.1 **Notices.** Except as provided in Section 18, no notice, demand, statement, designation, request, consent, approval, election or other communication given hereunder **("Notice")** shall be binding upon either party unless (a) it is in writing; (b) it is (i) sent by certified or registered mail, postage prepaid, return receipt requested, (ii) delivered by a nationally recognized courier service, or (iii) delivered personally; and (c) it is sent or delivered to the address set forth in Section 1.10 or 1.11, as applicable, or to such other place (other than a P.O. box) as the recipient may from time to time designate in a Notice to the other party. Any Notice shall be deemed received on the earlier of the date of actual delivery or the date on which delivery is refused, or, if Tenant is the recipient and has vacated its notice address without providing a new notice address, three (3) days after the date the Notice is deposited in the U.S. mail or with a courier service as described above.

25.2 **Force Majeure.** If either party is prevented from performing any obligation hereunder by any strike, act of God, war, terrorist act, shortage of labor or materials, governmental action, civil commotion or other cause beyond such party's reasonable control **("Force Majeure"),** such obligation shall be excused during (and any time period for the performance of such obligation shall be extended by) the period of such prevention; provided, however, that this Section 25.2 shall not (a) permit Tenant to hold over in the Premises after the expiration or earlier termination hereof, or (b) excuse any of Tenant's obligations under Sections 3, 4, 5, 21 or 25.3 or any of Tenant's obligations whose nonperformance would interfere with another occupant's use, occupancy or enjoyment of its premises or the Project.

25.3 **Representations and Covenants.** Tenant represents, warrants and covenants that (a) Tenant is, and at all times during the Term and Extended Term will remain, duly organized, validly existing and in good standing under the Laws of the state of its formation and qualified to do business in the state of California; (b) neither Tenant's execution of nor its performance under this Lease will cause Tenant to be in violation of any agreement or Law; (c) Tenant (and any guarantor hereof) has not, and at no time during the Term or Extended Term will have, (i) made a general assignment for the benefit of creditors, (ii) filed a voluntary petition in bankruptcy or suffered the filing of an involuntary petition by creditors (in the later case which is not dismissed within 30 days), (iii) suffered the appointment of a receiver to take possession of all or substantially all of its assets (which is not dismissed within 30 days), (iv) suffered the attachment or other judicial seizure of all or substantially all of its assets (which is not dismissed within 30 days), (v) admitted in writing its inability to pay its debts as they come due, or (vi) made an offer of settlement, extension or composition to its creditors generally; and (d) each party that (other than through the passive ownership of interests traded on a recognized securities exchange) constitutes, owns, controls, or is owned or controlled by Tenant, any guarantor hereof or any subtenant of Tenant is not, and at no time during the Term or Extended Term will be, (i) in violation of any Laws relating to terrorism or money laundering, or (ii) among the parties identified on any list compiled pursuant to Executive Order 13224 for the purpose of identifying suspected terrorists or on the most current list published by the U.S. Treasury Department Office of Foreign Assets Control at its official website, http://www.treas.gov/ofac/tllsdn.pdf or any replacement website or other replacement official publication of such list.

25.4 **Signs.** Landlord shall include Tenant's name in any tenant directory located in the main lobby on the first floor of the Building and in the parking garage elevator lobby on the first floor of the Building. If any part of the Premises is located on a multi-tenant floor, Landlord, at Tenant's cost, shall provide identifying suite signage for Tenant comparable to that provided by Landlord on similar floors in the Building. Tenant may not install (a) any signs outside the Premises, or (b) without Landlord's prior consent in its sole and absolute discretion, any signs, window coverings, blinds or similar items that are visible from outside the Premises.

25.5 **Attorneys' Fees.** In any action or proceeding between the parties, including any appellate or alternative dispute resolution proceeding, the prevailing party may recover from the other party all of its costs and expenses in connection therewith, including reasonable attorneys' fees and costs. Tenant shall pay all reasonable attorneys' fees and other fees and costs that Landlord incurs in interpreting or enforcing this Lease or otherwise protecting its rights hereunder (a) where Tenant has failed to pay Rent when due, or (b) in any bankruptcy case, assignment for the benefit of creditors, or other insolvency, liquidation or reorganization proceeding involving Tenant or this Lease.

25.6 **Brokers.** Tenant represents to Landlord that it has dealt only with Tenant's Broker as its broker in connection with this Lease. Tenant shall indemnify, defend, and hold Landlord harmless from all claims of any brokers, other than Tenant's Broker, claiming to have represented Tenant in connection with this Lease. Landlord shall indemnify, defend and hold Tenant harmless from all claims of any brokers, including Landlord's Broker, claiming to have represented Landlord in connection with this Lease. Tenant acknowledges that any Affiliate of Landlord that is involved in the negotiation of this Lease is representing only Landlord, and that any assistance rendered by any agent or employee of such

Affiliate in connection with this Lease or any subsequent amendment or other document related hereto has been or will be rendered as an accommodation to Tenant solely in furtherance of consummating the transaction on behalf of Landlord, and not as agent for Tenant. Landlord shall pay a brokerage commission to Tenant's Broker subject to the terms of a separate written agreement entered into between Landlord and Tenant's Broker.

25.7 **Governing Law; WAIVER OF TRIAL BY JURY.** This Lease shall be construed and enforced in accordance with the Laws of the State of California. THE PARTIES WAIVE, TO THE FULLEST EXTENT PERMITTED BY LAW, THE RIGHT TO TRIAL BY JURY IN ANY LITIGATION ARISING OUT OF OR RELATING TO THIS LEASE, THE RELATIONSHIP OF LANDLORD AND TENANT, TENANT'S USE OR OCCUPANCY OF THE PREMISES, AND/OR ANY CLAIM FOR INJURY OR DAMAGE OR ANY EMERGENCY OR STATUTORY REMEDY.

25.8 **Waiver of Statutory Provisions.** Each party waives California Civil Code §§ 1932(2) and 1933(4). Tenant waives (a) any rights under (i) California Civil Code §§ 1932(1), 1941, 1942, 1950.7 or any similar Law, or (ii) California Code of Civil Procedure § 1265.130; and (b) any right to terminate this Lease under California Civil Code § 1995.310.

25.9 **Interpretation.** As used herein, the capitalized term "Section" refers to a section hereof unless otherwise specifically provided herein. As used in this Lease, the terms "herein," "hereof," "hereto" and "hereunder" refer to this Lease and the term "include" and its derivatives are not limiting. Any reference herein to "any part" or "any portion" of the Premises, the Property or any other property shall be construed to refer to all or any part of such property. Wherever this Lease requires Tenant to comply with any Law, rule, regulation, procedure or other requirement or prohibits Tenant from engaging in any particular conduct, this Lease shall be deemed also to require Tenant to cause each of its employees, licensees, invitees and subtenants, and any other party claiming by, through or under Tenant, to comply with such requirement or refrain from engaging in such conduct, as the case may be. Wherever this Lease requires Landlord to provide a customary service or to act in a reasonable manner (whether in incurring an expense, establishing a rule or regulation, providing an approval or consent, or performing any other act), this Lease shall be deemed also to provide that whether such service is customary or such conduct is reasonable shall be determined by reference to the practices of owners of buildings that (i) are comparable to the Building in size, age, class, quality and location, and (ii) at Landlord's option, have been, or are being prepared to be, certified under the U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED) rating system or a similar rating system. Tenant waives the benefit of any rule that a written agreement shall be construed against the drafting party.

25.10 **Entire Agreement.** This Lease sets forth the entire agreement between the parties relating to the subject matter hereof and supersedes any previous agreements (none of which shall be used to interpret this Lease). Tenant acknowledges that in entering into this Lease it has not relied upon any representation, warranty or statement, whether oral or written, not expressly set forth herein. This Lease can be modified only by a written agreement signed by both parties.

25.11 **Other.** Landlord, at its option, may cure any Default, without waiving any right or remedy or releasing Tenant from any obligation, in which event Tenant shall pay Landlord, upon demand, the cost of such cure. If any provision hereof is void or unenforceable, no other provision shall be affected. Submission of this instrument for examination or signature by Tenant does not constitute an option or offer to lease, and this instrument is not binding until it has been executed and delivered by both parties. If Tenant is comprised of two or more parties, their obligations shall be joint and several. Time is of the essence with respect to the performance of every provision hereof in which time of performance is a factor. So long as Tenant performs its obligations hereunder, Tenant shall have peaceful and quiet possession of the Premises against any party claiming by, through or under Landlord, subject to the terms hereof. Landlord may transfer its interest herein, in which event Landlord shall be released from, and Tenant shall look solely to the transferee for the performance of, and the transferee shall be deemed to have assumed, all of Landlord's obligations arising hereunder after the date of such transfer, but only to the extent the transferee has assumed such obligations (whether by agreement or by operation of Law), and Tenant shall attorn to the transferee. Landlord reserves all rights not expressly granted to Tenant hereunder, including the right to make alterations to the Project. No rights to any view or to light or air over any property are granted to Tenant hereunder. The expiration or termination hereof shall not relieve either party of any obligation that accrued before, or continues to accrue after, such expiration or termination.

[SIGNATURES ARE ON THE FOLLOWING PAGE]

IN WITNESS WHEREOF, Landlord and Tenant have caused this Lease to be executed the day and date first above written.

LANDLORD:

HUDSON METRO CENTER, LLC, a Delaware limited liability company

By: Hudson Pacific Properties, L.P.,
a Maryland limited partnership,
its sole member

By: Hudson Pacific Properties, Inc.,
a Maryland corporation,
its general partner

By: ____________________
Name: ____________________
Title: ____________________

TENANT:

QUINSTREET, INC., a Delaware corporation

By: ____________________
Name: ____________________
Title: ____________________

EXHIBIT A

METRO CENTER

METRO CENTER TOWER
FOSTER CITY, CALIFORNIA

OUTLINE OF PREMISES

SUITE 400

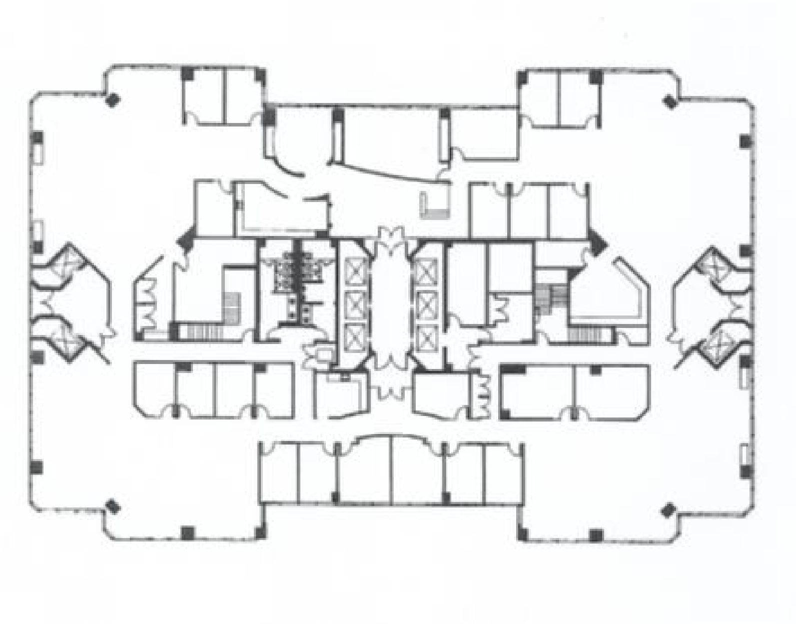


EXHIBIT A

METRO CENTER

METRO CENTER TOWER
FOSTER CITY, CALIFORNIA

OUTLINE OF PREMISES

Suite 500

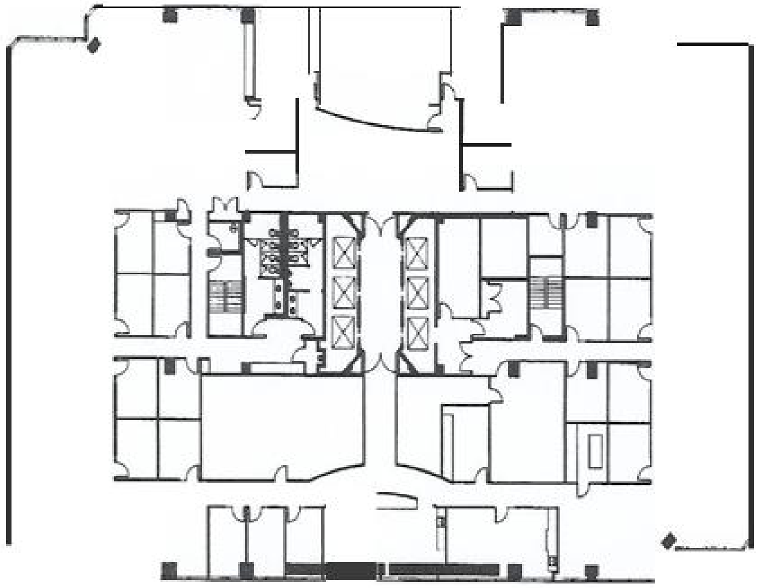


EXHIBIT A

METRO CENTER
METRO CENTER TOWER
FOSTER CITY, CALIFORNIA

OUTLINE OF PREMISES

Suite 600

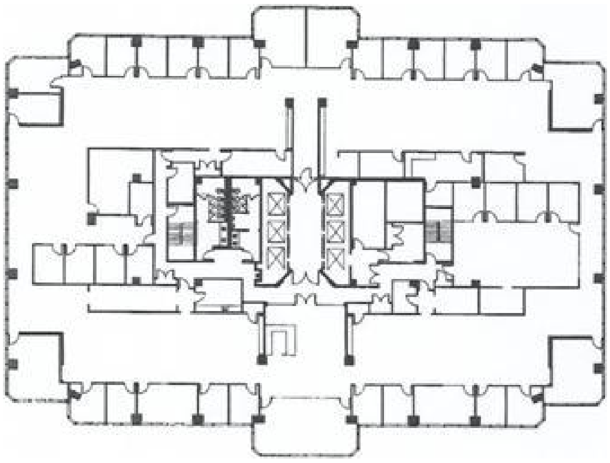


EXHIBIT A-1

METRO CENTER

METRO CENTER TOWER

FOSTER CITY, CALIFORNIA

OUTLINE OF RESERVED PARKING SPACE

<u>EXHIBIT B</u>

METRO CENTER
METRO CENTER TOWER
FOSTER CITY, CALIFORNIA

<u>WORK LETTER</u>

As used in this **<u>Exhibit B</u>** (this **"Work Letter"),** the following terms shall have the following meanings: **"Agreement"** means the lease of which this Work Letter is a part. **"Tenant Improvements"** means the initial Alterations performed by Tenant in order to prepare the Premises for occupancy. **"Tenant Improvement Work"** means the construction of the Tenant Improvements, together with any related work (including demolition) that is necessary to construct the Tenant Improvements.

1 ALLOWANCE.

1.1 **<u>Allowance</u>.** Tenant shall be entitled to a one-time tenant improvement allowance (the **"Allowance")** in the amount of $4,159,870.00 to be applied toward the Allowance Items (defined in <u>Section 1.2</u> below). Tenant shall be responsible for all costs associated with the Tenant Improvement Work, including the costs of the Allowance Items, to the extent such costs exceed the lesser of (a) the Allowance, or (b) the aggregate amount that Landlord is required to disburse for such purpose pursuant to this Work Letter. Notwithstanding any contrary provision hereof, if Tenant fails to use the entire Allowance by April 30, 2011, the unused amount shall revert to Landlord and Tenant shall have no further rights with respect thereto.

1.2 **<u>Disbursement</u>**.

1.2.1 **<u>Allowance Items.</u>** Except as otherwise provided in this Work Letter, the Allowance shall be disbursed by Landlord only for the following items (the **"Allowance Items"):** (a) the fees of Tenant's architect and engineers, if any, and any fees reasonably incurred by Landlord for review of Tenant's plans and specifications (the **"Plans")** by Landlord's third party consultants; (b) plan-check, permit and license fees relating to performance of the Tenant Improvement Work; (c) the cost of performing the Tenant Improvement Work, including after hours charges, testing and inspection costs, hoisting and trash removal costs, construction management fees, and contractors' fees and general conditions; (d) the cost of any change to the base, shell or core of the Premises or Building required by the Plans (including if such change is due to the fact that such work is prepared on an unoccupied basis), including all direct architectural and/or engineering fees and expenses incurred in connection therewith; (e) the cost of any change to the Plans or Tenant Improvement Work required by Law; (f) sales and use taxes; and (g) an other costs expended by Landlord in connection with the performance of the Tenant Improvement Work.

1.2.2 **<u>Disbursement</u>.**

1.2.2.1 **<u>Monthly Disbursements</u>.** Not more frequently than once per calendar month, Tenant may deliver to Landlord: (i) a request for payment of Tenant's contractor, approved by Tenant, in AIA G-702/G-703 format or another format reasonably requested by Landlord, showing the schedule of values, by trade, of percentage of completion of the Tenant Improvement Work, detailing the portion of the work completed and the portion not completed (which approved request shall be deemed Tenant's approval and acceptance of the work and materials described therein); (ii) invoices from all parties providing labor or materials to the Premises; (iii) executed conditional mechanic's lien releases from all parties providing labor or materials to the Premises (along with unconditional mechanic's lien releases for any prior payments made pursuant to this paragraph) satisfying California Civil Code § 3262(d); and (iv) all other information reasonably requested by Landlord. Within 30 days after receiving such materials, Landlord shall deliver a check to Tenant, payable jointly to Tenant and its contractor, in the amount of the lesser of (a) the amount requested by Tenant pursuant to the preceding sentence, less a 10% retention (the aggregate amount of such retentions shall be referred to in this Work Letter as the **"Final Retention"),** or (b) the amount of any remaining portion of the Allowance (not including the Final Retention). Landlord's payment of such amounts shall not be deemed Landlord's approval or acceptance of the work or materials described in Tenant's payment request.

1.2.2.2 **Final Retention.** Subject to the terms hereof, Landlord shall deliver to Tenant a check for the Final Retention within 30 days after the latest of (a) the completion of the Tenant Improvement Work in accordance with the approved plans and specifications; (b) Landlord's receipt of (i) paid invoices from all parties providing labor or materials to the Premises; (ii) executed unconditional mechanic's lien releases satisfying California Civil Code §§ 3262(d) and 3262(d)(4); (iii) a certificate Exhibit B from Tenant's architect, in a form reasonably acceptable to Landlord, certifying that the Tenant Improvement Work has been substantially completed; (iv) evidence that all governmental approvals required for Tenant to legally occupy the Premises have been obtained; and (v) any other information reasonably requested by Landlord; (c) Tenant's delivery to Landlord of "as built" drawings (in CAD format, if requested by Landlord); or (d) Tenant's compliance with Landlord's standard "close-out" requirements regarding city approvals, closeout tasks, Tenant's contractor, financial close-out matters, and Tenant's vendors. Landlord's payment of the Final Retention shall not be deemed Landlord's approval or acceptance of the work or materials described in Tenant's payment requests.

2 MISCELLANEOUS.

2.1 **Applicable Lease Provisions.** The Tenant Improvement Work shall be subject to Sections 7.2 and 7.3 of this Agreement.

2.2 **Plans and Specifications.** Landlord shall provide Tenant with notice approving or disapproving any proposed plans and specifications for the Tenant Improvement Work within the Required Period (defined below) after the later of Landlord's receipt thereof from Tenant or the mutual execution and delivery of this Agreement. As used herein, **"Required Period"** means (a) 15 business days in the case of construction drawings, and (b) 10 business days in the case of any other plans and specifications (including a space plan). Any such notice of disapproval shall describe with reasonable specificity the basis of disapproval and the changes that would be necessary to resolve Landlord's objections. Provided that Tenant's written request for approval of the construction drawings for the Tenant Improvement Work (or, as the case may be, other plans and specifications thereto), provides as follows in 14 point bold type on the top of the first page of such written request: **"LANDLORD'S** FAILURE **TO RESPOND WITHIN [15][10] BUSINESS** DAYS **TO THIS** REQUEST **FOR APPROVAL SHALL** BE **DEEMED APPROVAL OF THE ALTERATIONS PROPOSED HEREIN",** then Landlord's failure to respond within the Required Period shall be deemed Landlord's consent to the proposed Tenant Improvement Work described with reasonable particularity in such written request. Notwithstanding the terms of Section 8 of the Lease to the contrary, if (i) when Tenant requests Landlord's approval of any Tenant Improvement Work, Tenant specifically requests that Landlord identify any such Tenant Improvement Work that will not be required to be removed pursuant to Section 8 of the Lease, (ii) Landlord fails to respond within the stated Required Period, and (iii) such Tenant Improvement Work is deemed approved in accordance with the foregoing sentence, then the following provisions shall apply with respect to such Tenant Improvement Work:

2.2.1 All such Tenant Improvement Work shall become Landlord's property upon installation and without compensation to Tenant; provided, however, that unless otherwise notified by Landlord, Tenant, at its expense and before the expiration or earlier termination hereof, shall (a) remove any such Tenant Improvement Work, (b) repair any resulting damage to the Premises or Building, and (c) restore the affected portion of the Premises to its condition existing before the installation of such Tenant Improvement Work. If Tenant fails to complete any removal, repair or restoration when required under this Section 2.2, Landlord may do so at Tenant's expense.

2.2.2 If, subsequent to Landlord's deemed approval of any such Tenant Improvement Work, Tenant specifically requests that Landlord identify any such Tenant Improvement Work that will not be required to be removed pursuant to Section 2.2.1 above, Landlord shall do so within 10 business days of such written request.

2.3 **No Coordination Fee.** Tenant shall not be obligated to pay Landlord a fee in connection with Landlord's review of the Tenant Improvement Work.

2.4 **Tenant Default.** Notwithstanding any contrary provision of this Agreement, if Tenant Defaults, then (a) Landlord's obligations under this Work Letter shall be excused, and Landlord may cause Tenant's contractor to cease performance of the Tenant Improvement Work, until such default is cured, and (b) Tenant shall be responsible for any resulting delay in the completion of the Tenant Improvement Work.

2.5 **Other.** This Work Letter shall not apply to any space other than the Premises.

EXHIBIT C

METRO CENTER
METRO CENTER TOWER
FOSTER CITY, CALIFORNIA

CONFIRMATION LETTER

___________________________________, 20_

To: ___________________________________
____
____
____

Re: Office Lease (the **"Lease")** dated_____________, 2010 between **CA-METRO CENTER LIMITED PARTNERSHIP, a Delaware limited partnership ("Landlord"),** and **QUINSTREET, INC., a Delaware corporation ("Tenant"),** concerning Suites 4(X), 450, 500 and 600 on the 4th, 5th and 6th floor of the building located at 950 Tower Lane, Foster City, California.

Lease **ID:** ________________________________
Business Unit Number: _________________

Dear

In accordance with the Lease, Tenant accepts possession of the Premises and confirms the following:

1. The Commencement Date is _________ and the Expiration Date is

2. The exact number of rentable square feet within the Premises is 63,998 square feet, subject to Section 2.1.1 of the Lease.

3. Tenant's Share, based upon the exact number of rentable square feet within the Premises, is 15.8793%, subject to Section 2.1.1 of the Lease.

Please acknowledge the foregoing by signing all three (3) counterparts of this letter in the space provided below and returning two (2) fully executed counterparts to my attention. Please note that, pursuant to Section 2.1.1 of the Lease, if Tenant fails to execute and return (or, by notice to Landlord, reasonably object to) this letter within ten (10) days after receiving it, Tenant shall be deemed to have executed and returned it without exception.

“Landlord”:

CA-METRO CENTER LIMITED PARTNERSHIP, a Delaware limited partnership

By: EOP Owner GP L.L.C.,
a Delaware limited liability company,
its general partner

By: ______________________________
Name: ______________________________
Title: ______________________________

Agreed and Accepted as of _______________, 200_.

“Tenant”:

QUINSTREET, INC., a Delaware corporation

By: ____________________

Name: ____________________

Title: ____________________

EXHIBIT D

METRO CENTER
METRO CENTER TOWER
FOSTER CITY, CALIFORNIA

RULES AND REGULATIONS

Tenant shall comply with the following rules and regulations (as modified or supplemented from time to time, the **"Rules and Regulations").** Landlord shall not be responsible to Tenant for the nonperformance of any of the Rules and Regulations by any other tenants or occupants of the Project. In the event of any conflict between the Rules and Regulations and the other provisions of this Lease, the latter shall control.

1. Tenant shall not alter any lock or install any new or additional locks or bolts on any doors or windows of the Premises without obtaining Landlord's prior consent. Tenant shall bear the cost of any lock changes or repairs required by Tenant. Two (2) keys will be furnished by Landlord for the Premises, and any additional keys required by Tenant must be obtained from Landlord at a reasonable cost to be established by Landlord. Upon the termination of this Lease, Tenant shall restore to Landlord all keys of stores, offices and toilet rooms furnished to or otherwise procured by Tenant, and if any such keys are lost, Tenant shall pay Landlord the cost of replacing them or of changing the applicable locks if Landlord deems such changes necessary.

2. All doors opening to public corridors shall he kept closed at all times except for normal ingress and egress to the Premises.

3. Landlord may close and keep locked all entrance and exit doors of the Building during such hours as are customary for comparable buildings in the vicinity of the Building. Tenant shall cause its employees, agents, contractors, invitees and licensees who use Building doors during such hours to securely close and lock them after such use. Any person entering or leaving the Building during such hours, or when the Building doors are otherwise locked, may be required to sign the Building register, and access to the Building may be refused unless such person has proper identification or has a previously arranged access pass. Landlord will furnish passes to persons for whom Tenant requests them. Tenant shall be responsible for all persons for whom Tenant requests passes and shall be liable to Landlord for all acts of such persons. Landlord and its agents shall not be liable for damages for any error with regard to the admission or exclusion of any person to or from the Building. In case of invasion, mob, riot, public excitement or other commotion, Landlord may prevent access to the Building or the Project during the continuance thereof by any means it deems appropriate for the safety and protection of life and property.

4. No furniture, freight or equipment shall be brought into the Building without prior notice to Landlord. All moving activity into or out of the Building shall be scheduled with Landlord and done only at such time and in such manner as Landlord designates. Landlord may prescribe the weight, size and position of all safes and other heavy property brought into the Building and also the times and manner of moving the same in and out of the Building. Safes and other heavy objects shall, if considered necessary by Landlord, stand on supports of such thickness as is necessary to properly distribute the weight. Landlord will not be responsible for loss of or damage to any such safe or property. Any damage to the Building, its contents, occupants or invitees resulting from Tenant's moving or maintaining any such safe or other heavy property shall be the sole responsibility and expense of Tenant (notwithstanding Sections 7 and 10.4 of this Lease).

5. No furniture, packages, supplies, equipment or merchandise will be received in the Building or carried up or down in the elevators, except between such hours, in such specific elevator and by such personnel as shall be designated by Landlord.

6. Employees of Landlord shall not perform any work or do anything outside their regular duties unless under special instructions from Landlord.

7. No sign, advertisement, notice or handbill shall be exhibited, distributed, painted or affixed by Tenant on any part of the Premises or the Building without Landlord's prior consent. Tenant shall not disturb, solicit, peddle or canvass any occupant of the Project.

8. The toilet rooms, urinals, wash bowls and other apparatus shall not be used for any purpose other than that for which they were constructed, and no foreign substance shall be thrown therein. Notwithstanding Sections 7 and 10.4 of this Lease, Tenant shall bear the expense of any breakage, stoppage or damage resulting from any violation of this rule by Tenant or any of its employees, agents, contractors, invitees or licensees.

9. Tenant shall not overload the floor of the Premises, or mark, drive nails or screws or drill into the partitions, woodwork or drywall of the Premises, or otherwise deface the Premises, without Landlord's prior consent. Tenant shall not purchase bottled water, ice, towel, linen, maintenance or other like services from any person not approved by Landlord.

10. Except for vending machines intended for the sole use of Tenant's employees and invitees, no vending machine or machines other than fractional horsepower office machines shall be installed, maintained or operated in the Premises without Landlord's prior consent.

11. No inflammable, explosive or dangerous fluids or substances shall be used or kept by Tenant in the Premises or about the Project, except for such substances as are typically found in similar premises used for general office purposes and are being used by Tenant in a safe manner and in accordance with all Laws. Without limiting the foregoing, Tenant shall not, without Landlord's prior consent, use, store, install, disturb, spill, remove, release or dispose of, within or about the Premises or any other portion of the Project, any asbestos-containing materials or any solid, liquid or gaseous material now or subsequently considered toxic or hazardous under the provisions of 42 U.S.C. Section 9601 et seq. or any other applicable environmental Law. Tenant shall comply with all Laws pertaining to and governing the use of these materials by Tenant and shall remain solely liable for the costs of abatement and removal. No burning candle or other open flame shall be ignited or kept by Tenant in the Premises or about the Project.

12. Tenant shall not, without Landlord's prior consent, use any method of heating or air conditioning other than that supplied by Landlord.

13. Tenant shall not use or keep any foul or noxious gas or substance in or on the Premises, or occupy or use the Premises in a manner offensive or objectionable to Landlord or other occupants of the Project by reason of noise, odors or vibrations, or interfere with other occupants or those having business therein, whether by the use of any musical instrument, radio, CD player or otherwise. Tenant shall not throw anything out of doors, windows or skylights or down passageways.

14. Tenant shall not bring into or keep within the Project, the Building or the Premises any animals (other than service animals), birds, aquariums, or, except in areas designated by Landlord, bicycles or other vehicles.

15. No cooking shall be done in the Premises, nor shall the Premises be used for lodging, for living quarters or sleeping apartments, or for any improper, objectionable or immoral purposes. Notwithstanding the foregoing, Underwriters' laboratory-approved equipment and microwave ovens may be used in the Premises for heating food and brewing coffee, tea, hot chocolate and similar beverages for employees and invitees, provided that such use complies with all Laws.

16. The Premises shall not be used for manufacturing or for the storage of merchandise except to the extent such storage may be incidental to the Permitted Use. Tenant shall not occupy the Premises as an office for a messenger-type operation or dispatch office, public stenographer or typist, or for the manufacture or sale of liquor, narcotics or tobacco, or as a medical office, a barber or manicure shop, or an employment bureau, without Landlord's prior consent. Tenant shall not engage or pay any employees in the Premises except those actually working for Tenant in the Premises, nor advertise for laborers giving an address at the Premises.

17. Landlord may exclude from the Project any person who, in Landlord's judgment, is intoxicated or under the influence of liquor or drugs, or who violates any of these Rules and Regulations.

18. Tenant shall not loiter in or on the entrances, corridors, sidewalks, lobbies, courts, halls, stairways, elevators, vestibules or any Common Areas for the purpose of smoking tobacco products or for any other purpose, nor in any way obstruct such areas, and shall use them only as a means of ingress and egress for the Premises.

19. Tenant shall not waste electricity, water or air conditioning, shall cooperate with Landlord to ensure the most effective operation of the Building's heating and air conditioning system, and shall not attempt to adjust any controls. Tenant shall install and use in the Premises only ENERGY STAR rated equipment, where available. Tenant shall use recycled paper in the Premises to the extent consistent with its business requirements.

20. Tenant shall store all its trash and garbage inside the Premises. No material shall be placed in the trash or garbage receptacles if, under Law, it may not be disposed of in the ordinary and customary manner of disposing of trash and garbage in the vicinity of the Building. All trash, garbage and refuse disposal shall be made only through entryways and elevators provided for such purposes at such times as Landlord shall designate. Tenant shall comply with Landlord's recycling program, if any.

21. Tenant shall comply with all safety, fire protection and evacuation procedures and regulations established by Landlord or any governmental agency.

22. Any persons employed by Tenant to do janitorial work shall be subject to Landlord's prior consent and, while in the Building and outside of the Premises, shall be subject to the control and direction of the Building manager (but not as an agent or employee of such manager or Landlord), and Tenant shall be responsible for all acts of such persons.

23. No awning or other projection shall be attached to the outside walls of the Building without Landlord's prior consent. Other than Landlord's Building-standard window coverings, no curtains, blinds, shades or screens shall be attached to or hung in, or used in connection with, any window or door of the Premises. All electrical ceiling fixtures hung in the Premises or spaces along the perimeter of the Building must be fluorescent and/or of a quality, type, design and a warm white bulb color approved in advance by Landlord. Neither the interior nor exterior of any windows shall be coated or otherwise sunscreened without Landlord's prior consent. Tenant shall abide by Landlord's regulations concerning the opening and closing of window coverings.

24. Tenant shall not obstruct any sashes, sash doors, skylights, windows or doors that reflect or admit light or air into the halls, passageways or other public places in the Building, nor shall Tenant place any bottles, parcels or other articles on the windowsills.

25. Tenant must comply with requests by Landlord concerning the informing of their employees of items of importance to the Landlord.

26. Tenant must comply with the State of California “No-Smoking” law set forth in California Labor Code Section 6404.5 and with any local “No-Smoking” ordinance that is not superseded by such law.

27. Tenant shall cooperate in any reasonable safety or security program developed by Landlord or required by Law.

28. All office equipment of an electrical or mechanical nature shall be placed by Tenant in the Premises in settings approved by Landlord, to absorb or prevent any vibration, noise or annoyance.

29. Tenant shall not use any hand trucks except those equipped with rubber tires and rubber side guards.

30. No auction, liquidation, fire sale, going-out-of-business or bankruptcy sale shall be conducted in the Premises without Landlord’s prior consent.

31. Without Landlord’s prior consent, Tenant shall not use the name of the Project or Building or use pictures or illustrations of the Project or Building in advertising or other publicity or for any purpose other than as the address of the business to be conducted by Tenant in the Premises.

Landlord may from time to time modify or supplement these Rules and Regulations in a manner that, in Landlord’s reasonable judgment, is appropriate for the management, safety, care and cleanliness of the Premises, the Building, the Common Areas and the Project, for the preservation of good order therein, and for the convenience of other occupants and tenants thereof, provided that (a) no such modification or supplement shall materially reduce Tenant’s rights or materially increase Tenant’s obligations hereunder and (b) in the event of any conflict between such modification or supplement and the other provisions of this Lease (other than those set forth in this **Exhibit D**), the other provisions of the Lease shall control. Landlord may waive any of these Rules and Regulations for the benefit of any tenant, but no such waiver shall be construed as a waiver of such Rule and Regulation in favor of any other tenant nor prevent Landlord from thereafter enforcing such Rule and Regulation against any tenant.

EXHIBIT E

METRO CENTER
METRO CENTER TOWER
FOSTER CITY, CALIFORNIA

JUDICIAL REFERENCE

IF (AND ONLY IF) THE JURY-WAIVER PROVISIONS OF SECTION 25.7 OF THIS LEASE ARE NOT ENFORCEABLE UNDER CALIFORNIA LAW, THE PROVISIONS SET FORTH BELOW SHALL APPLY.

It is the desire and intention of the parties to agree upon a mechanism and procedure under which controversies and disputes arising out of this Lease or related to the Premises will be resolved in a prompt and expeditious manner. Accordingly, except with respect to actions for unlawful or forcible detainer or with respect to the prejudgment remedy of attachment, any action, proceeding or counterclaim brought by either party hereto against the other (and/or against its officers, directors, employees, agents or subsidiaries or affiliated entities) on any matters arising out of or in any way connected with this Lease, Tenant's use or occupancy of the Premises and/or any claim of injury or damage, whether sounding in contract, tort, or otherwise, shall be heard and resolved by a referee under the provisions of the California Code of Civil Procedure, Sections 638 — 645.1, inclusive (as same may be amended, or any successor statute(s) thereto) (the "Referee Sections"). Any fee to initiate the judicial reference proceedings and all fees charged and costs incurred by the referee shall be paid by the party initiating such procedure (except that if a reporter is requested by either party, then a reporter shall be present at all proceedings where requested and the fees of such reporter — except for copies ordered by the other parties — shall be borne by the party requesting the reporter); provided however, that allocation of the costs and fees, including any initiation fee, of such proceeding shall be ultimately determined in accordance with Section 25.5 of this Lease. The venue of the proceedings shall be in the county in which the Premises is located. Within 10 days of receipt by any party of a request to resolve any dispute or controversy pursuant to this Exhibit E, the parties shall agree upon a single referee who shall try all issues, whether of fact or law, and report a finding and judgment on such issues as required by the Referee Sections. If the parties are unable to agree upon a referee within such 10-day period, then any party may thereafter file a lawsuit in the county in which the Premises is located for the purpose of appointment of a referee under the Referee Sections. If the referee is appointed by the court, the referee shall be a neutral and impartial retired judge with substantial experience in the relevant matters to be determined, from Jams/Endispute, Inc., ADR Services, Inc. or a similar mediation/arbitration entity approved by each party in its sole and absolute discretion. The proposed referee may be challenged by any party for any of the grounds listed in the Referee Sections. The referee shall have the power to decide all issues of fact and law and report his or her decision on such issues, and to issue all recognized remedies available at law or in equity for any cause of action that is before the referee, including an award of attorneys' fees and costs in accordance with this Lease. The referee shall not, however, have the power to award punitive damages, nor any other damages that are not permitted by the express provisions of this Lease, and the parties waive any right to recover any such damages. The parties may conduct all discovery as provided in the California Code of Civil Procedure, and the referee shall oversee discovery and may enforce all discovery orders in the same manner as any trial court judge, with rights to regulate discovery and to issue and enforce subpoenas, protective orders and other limitations on discovery available under California Law. The reference proceeding shall be conducted in accordance with California Law (including the rules of evidence), and in all regards, the referee shall follow California Law applicable at the time of the reference proceeding. The parties shall promptly and diligently cooperate with one another and the referee, and shall perform such acts as may be necessary to obtain a prompt and expeditious resolution of the dispute or controversy in accordance with the terms of this Exhibit E. In this regard, the parties agree that the parties and the referee shall use best efforts to ensure that (a) discovery be conducted for a period no longer than 6 months from the date the referee is appointed, excluding motions regarding discovery, and (b) a trial date be set within 9 months of the date the referee is appointed. In accordance with Section 644 of the California Code of Civil Procedure, the decision of the referee upon the whole issue must stand as the decision of the court, and upon the filing of the statement of decision with the clerk of the court, or with the judge if there is no clerk, judgment may be entered thereon in the same manner as if the action had been tried by the court. Any decision of the referee and/or judgment or other order entered thereon shall be appealable to the same extent and in the same manner that such decision, judgment, or order would be appealable if rendered by a judge of the superior court in which venue is proper hereunder. The referee shall in his/her statement of decision set forth his/her findings of fact and conclusions of law. The parties intend this general reference agreement to be specifically enforceable in accordance with the Code of Civil Procedure. Nothing in this Exhibit E shall prejudice the right of any party to obtain provisional relief or other equitable remedies from a court of competent jurisdiction as shall otherwise be available under the Code of Civil Procedure and/or applicable court rules.

EXHIBIT F

METRO CENTER

METRO CENTER TOWER
FOSTER CITY, CALIFORNIA

ADDITIONAL PROVISIONS

1. **Asbestos Notification.** Tenant acknowledges that it has received the asbestos notification letter attached to this Lease as **Exhibit G**, disclosing the existence of asbestos in the Building. Tenant agrees to comply with the California “Connelly Act” and other applicable laws, including by providing copies of Landlord’s asbestos notification letter to all of Tenant’s “employees” and “owners”, as those terms are defined in the Connelly Act and other applicable laws.

2. **Outdoor Patio**.

2.1. During the Term and subject to the terms of this Section 2, Tenant shall have the right to use the areas shown on Exhibit H attached hereto for outdoor seating (each an “Outdoor Patio” and collectively, the “Outdoor Patios”). Tenant, at its cost, shall obtain any governmental approvals that may be necessary for Tenant to lawfully use the Outdoor Patios, and in all other respects Tenant’s use of the Outdoor Patios shall comply with all applicable Laws. The Outdoor Patios shall be deemed part of the Premises for purposes of Tenant’s insurance, waiver, release and indemnification obligations under the Lease. Upon the earlier to occur of (i) the Accelerated Expiration Date and (ii) the Extension Date, Tenant’s rights to use the Outdoor Patios pursuant to this Section 2 of Exhibit F to the Lease shall be deemed to have expired.

2.2. Tenant shall not construct any improvements in or on the Outdoor Patios; provided, however, that, subject to applicable Law and Landlord’s prior written consent (which consent shall not be unreasonably withheld, conditioned or delayed), Tenant, at its cost, may fabricate and install signage at the entrance to the Outdoor Patios which indicates that such Outdoor Patios are for the exclusive use of the Tenant. Tenant shall remove any such signage upon the expiration or earlier termination of the Term and restore such areas of the Building to the condition which existed prior to such signage installation. Notwithstanding any provision in the Lease to the contrary, Landlord shall have no obligation to restrict others from entering into or using the Outdoor Patios; provided, however, that Landlord shall not enter into a license or lease with another person or entity for such Outdoor Patios. Tenant, at its expense, may furnish each of the Outdoor Patios with up to 4 tables, 4 chairs, and a reasonable number of trash receptacles (collectively, the “Outdoor Furniture”); provided, however, that the color, design, material, finish, size, location and method of installation of the Outdoor Furniture shall be subject to Landlord’s prior approval in its reasonable discretion. No item of Outdoor Furniture shall display any logo or graphics, and no material component of any item of Outdoor Furniture shall be made of plastic. Except as otherwise explicitly permitted in this Section 2, Tenant shall not place any furniture or other personalty in or on the Outdoor Patios.

2.3. Tenant, at its cost, shall (i) keep the Outdoor Patios and the Outdoor Furniture free of trash and litter and otherwise in a sanitary, clean, neat and orderly condition; (ii) keep the Outdoor Furniture and any Tenant installed signage in good working order and condition; and (iii) maintain the appearance of the Outdoor Furniture and any Tenant installed signage. Without limiting the foregoing, upon Landlord’s request from time to time, Tenant, at its expense, shall refurbish or replace any item of Outdoor Furniture or Tenant installed signage that Landlord determines in good faith requires such refurbishment or replacement.

2.4. If Tenant fails to perform any of its obligations under this Section 2, beyond any applicable notice and cure period, then Landlord, at its option, may (i) perform such obligation at Tenant's cost, or (ii) by notice to Tenant, terminate Tenant's rights to use the Outdoor Patios. No reduction or termination of Tenant's rights with respect to the Outdoor Patios shall diminish or otherwise affect Tenant's obligations under the Lease.

3. **Letter of Credit.**

3.1 General Provisions. Concurrently with Tenant's execution of this Lease, Tenant shall deliver to Landlord, as collateral for the full performance by Tenant of all of its obligations under this Lease and for all losses and damages Landlord may suffer as a result of any default by Tenant under this Lease, including, but not limited to, any post lease termination damages under Section 1951.2 of the California Civil Code, a standby, unconditional, irrevocable, transferable letter of credit (the "Letter of Credit") in either (i) the form of Exhibit I hereto and containing the terms required herein or (ii) in such other standard form of the financial institution issuing such Letter of Credit, so long as (a) such standard form contains the terms required herein, (b) such standard form contains terms that are materially consistent with the terms set forth in the form attached hereto as Exhibit I, and (c) such standard form contains only those other terms that are acceptable to the Landlord in its reasonable discretion. The Letter of Credit shall be in the face amount of $500,000.00 (the "Letter of Credit Amount"), name Landlord as beneficiary, and permit multiple and partial draws. The Letter of Credit shall be issued (or confirmed) by a financial institution that meets the Minimum Financial Requirement and is otherwise reasonably acceptable to Landlord. For purposes hereof, a financial institution shall be deemed to meet the "Minimum Financial Requirement" on a particular date if and only if, as of such date, such financial institution (x) has not been placed into receivership by the FDIC; and (y) has a financial strength that, in Landlord's good faith judgment, is not less than that which is then generally required by Landlord and its affiliates as a condition to accepting letters of credit in support of new leases. Tenant shall cause the Letter of Credit to be continuously maintained in effect (whether through replacement, renewal or extension) in the Letter of Credit Amount through the date (the "Final LC Expiration Date") that is 120 days after the scheduled expiration date of the Term, the Extended Term, the Second Extension Term (as applicable) or any other renewal term. If the Letter of Credit held by Landlord expires earlier than the Final LC Expiration Date (whether by reason of a stated expiration date or a notice of termination or non-renewal given by the issuing bank), Tenant shall deliver a new Letter of Credit or certificate of renewal or extension to Landlord not later than 30 days prior to the expiration date of the Letter of Credit then held by Landlord. Any renewal or replacement Letter of Credit shall comply with all of the provisions of this Section 3, shall be irrevocable, transferable and shall remain in effect (or be automatically renewable) through the Final LC Expiration Date.

3.2 Drawings under Letter of Credit. Landlord shall have the immediate right to draw upon the Letter of Credit, in whole or in part, at any time and from time to time: (i) If a Default occurs; or (ii) If the Letter of Credit held by Landlord expires earlier than the Final LC Expiration Date (whether by reason of a stated expiration date or a notice of termination or non-renewal given by the issuing bank), and Tenant fails to deliver to Landlord, at least 30 days prior to the expiration date of the Letter of Credit then held by Landlord, a renewal or substitute Letter of Credit that is in effect and that complies with the provisions of this Section 3. No condition or term of this Lease shall be deemed to render the Letter of Credit conditional to justify the issuer of the Letter of Credit in failing to honor a drawing upon such Letter of Credit in a timely manner. Tenant hereby acknowledges and agrees that Landlord is entering into this Lease in material reliance upon the ability of Landlord to draw upon the Letter of Credit upon the occurrence of any Default by Tenant under this Lease or upon the occurrence of any of the other events described above in this Section 3.

3.3 Use of Proceeds by Landlord. The proceeds of the Letter of Credit shall constitute Landlord's sole and separate property (and not Tenant's property or the property of Tenant's bankruptcy estate) and Landlord may immediately upon any draw (and without notice to Tenant) apply or offset the proceeds of the Letter of Credit: (i) against any Rent payable by Tenant under this Lease that is not paid when due; (ii) against all losses and damages that Landlord has suffered or that Landlord reasonably estimates that it may suffer as a result of any Default by Tenant under this Lease, including any damages arising under Section 1951.2 of the California Civil Code following termination of the Lease; (iii) against any costs incurred by Landlord in connection with the Lease (including attorneys' fees); and (iv) against any other amount that Landlord may spend or become obligated to spend by reason of Tenant's Default. Provided Tenant is not in Default of any of its obligations under this Lease, Landlord agrees to pay to Tenant within 30 days after the Final LC Expiration Date the amount of any proceeds of the Letter of Credit received by Landlord and not applied as allowed above; provided, that if prior to the Final LC Expiration Date a voluntary petition is filed by Tenant, or an involuntary petition is filed against Tenant by any of Tenant's creditors, under the Federal Bankruptcy Code, then Landlord shall not be obligated to make such payment in the amount of the unused Letter of Credit proceeds until either all preference issues relating to payments under this Lease have been resolved in such bankruptcy or reorganization case or such bankruptcy or reorganization case has been dismissed, in each case pursuant to a final court order not subject to appeal or any stay pending appeal.

3.4 Additional Covenants of Tenant. If, as result of any proper application or use by Landlord of all or any part of the Letter of Credit, the amount of the Letter of Credit shall be less than the Letter of Credit Amount, Tenant shall, within five days thereafter, provide Landlord with additional letter(s) of credit in an amount equal to the deficiency (or a replacement letter of credit in the total Letter of Credit Amount), and any such additional (or replacement) letter of credit shall comply with all of the provisions of this Section 3, and if Tenant fails to comply with the foregoing, notwithstanding anything to the contrary contained in this Lease, the same shall constitute an uncurable Default by Tenant. Tenant further covenants and warrants that it will neither assign nor encumber the Letter of Credit or any part thereof and that neither Landlord nor its successors or assigns will be bound by any such assignment, encumbrance, attempted assignment or attempted encumbrance.

3.5 Transfer of Letter of Credit. Landlord may, at any time and without notice to Tenant and without first obtaining Tenant's consent thereto, transfer all or any portion of its interest in and to the Letter of Credit to another party, person or entity, including Landlord's mortgagee and/or to have the Letter of Credit reissued in the name of Landlord's Mortgagee. If Landlord transfers its interest in the Building and transfers the Letter of Credit (or any proceeds thereof then held by Landlord) in whole or in part to the transferee, Landlord shall, without any further agreement between the parties hereto, thereupon be released by Tenant from all liability therefor. The provisions hereof shall apply to every transfer or assignment of all or any part of the Letter of Credit to a new landlord. In connection with any such transfer of the Letter of Credit by Landlord, Tenant shall, at Tenant's sole cost and expense, execute and submit to the issuer of the Letter of Credit such applications, documents and instruments as may be necessary to effectuate such transfer. Tenant shall be responsible for paying the issuer's transfer and processing fees in connection with any transfer of the Letter of Credit and, if Landlord advances any such fees (without having any obligation to do so), Tenant shall reimburse Landlord for any such transfer or processing fees within ten days after Landlord's written request therefor.

3.6 Nature of Letter of Credit. Landlord and Tenant (1) acknowledge and agree that in no event or circumstance shall the Letter of Credit or any renewal thereof or substitute therefor or any proceeds thereof (including the LC Proceeds Account) be deemed to be or treated as a "security deposit" under any Law applicable to security deposits in the commercial context including Section 1950.7 of the California Civil Code, as such section now exist or as may be hereafter amended or succeeded ("Security Deposit Laws"), acknowledge and agree that the Letter of Credit (including any renewal thereof or substitute therefor or any proceeds thereof) is not intended to serve as a security deposit, and the Security Deposit Laws shall have no applicability or relevancy thereto, and waive any and all rights, duties and obligations either party may now or, in the future, will have relating to or arising from the Security Deposit Laws.

3.7 Not a Security Deposit. Tenant hereby waives the provisions of Section 1950.7 of the California Civil Code and all other provisions of Law, now or hereafter in effect, which (i) establish the time frame by which Landlord must refund a security deposit under a lease, and/or (ii) provide that Landlord may claim from the security deposit only those sums reasonably necessary to remedy defaults in the payment of rent, to repair damage caused by Tenant or to clean the Premises, it being agreed that Landlord may, in addition, claim those sums specified in this Section 3 above and/or those sums reasonably necessary to compensate Landlord for any loss or damage caused by Tenant's breach of this Lease or the acts or omission of Tenant or any other Tenant Parties (as defined below), including any damages Landlord suffers following termination of the Lease. As used herein, "Tenant Parties" shall mean Tenant and its (direct or indirect) owners, and their respective beneficiaries, trustees, officers, directors, employees and agents.

4. **Early Entry for Suites 400, 450 and 500**. After the final execution and delivery (in each parties' sole and absolute discretion) of this Lease and provided Tenant has delivered the prepaid Base Rent, the Letter of Credit and insurance certificates (pursuant to Section 10.3 of this Lease), Tenant may enter Suites 400, 450 and 500 of the Building prior to the Commencement Date, at its sole risk for the purpose of performing the Tenant Improvement Work (as defined in **Exhibit B** hereto) and for the Permitted Use. Other than the obligation to pay Base Rent and Tenant's Share of any Expense Excess or Tax Excess, all of Tenant's obligations hereunder shall apply during any period of such early entry.

5. **Early Entry for Suite 600**. Effective as of April 1, 2010 (the "**Suite 600 Early Access Date**"), so long as this Lease has been fully executed and delivered (in each parties' sole and absolute discretion) and Tenant has delivered the prepaid Base Rent, the Letter of Credit and insurance certificates (pursuant to Section 10.3 of this Lease), Tenant may enter Suite 600 of the Building prior the Commencement Date, at its sole risk for the purpose of performing the Tenant Improvement Work (as defined in Exhibit B hereto) and for the Permitted Use. Other than the obligation to pay Base Rent and Tenant's Share of any Expense Excess or Tax Excess, all of Tenant's obligations hereunder shall apply during any period of such early entry. Notwithstanding the foregoing, if Landlord fails to provide Tenant with early access to Suite 600 of the Building on or before the Suite 600 Early Access Date, as a result of any holdover or unlawful possession by another party, Landlord shall use reasonable efforts to obtain possession of such space and the Suite 600 Early Access Date shall be the date on which Landlord provides access to Suite 600 of the Building to Tenant free from occupancy by any party. Any such delay in the Suite 600 Early Access Date shall not subject Landlord to any liability for any loss or damage resulting therefrom. If the Suite 600 Early Access Date is delayed, the expiration date under the Lease shall not be similarly extended.

6. **Second Extension Option.**

6.1 Grant of Option; Conditions. Tenant shall have the right (the "Second Extension Option") to extend the Extended Term for one (1) additional period of five (5) years beginning on the day immediately following the Extended Expiration Date and ending on the fifth anniversary of such date (the "Second Extension Term"), if:

A. Not less than 12 and not more than 15 full calendar months before the Extended Expiration Date, Tenant delivers written notice to Landlord (for purposes of this Section 6, the "**Extension Notice**") electing to exercise the Second Extension Option and stating Tenant's estimate of the Prevailing Market (defined in Section 6.5 below) rate for the Second Extension Term;

B. No Default exists when Tenant delivers the Extension Notice;

C. No part of the Premises is sublet (other than with respect to Approved Users) when Tenant delivers the Extension Notice; and

D. The Lease, as amended, has not been assigned before Tenant delivers the Extension Notice.

6.2 Terms Applicable to Second Extension Term.

A. During the Second Extension Term, (a) the Base Rent rate per rentable square foot shall be equal to the Prevailing Market rate per rentable square foot; (b) Base Rent shall increase, if at all, in accordance with the increases assumed in the determination of Prevailing Market rate; and (c) Base Rent shall be payable in monthly installments in accordance with the terms and conditions of the Lease, as amended.

B. During the Second Extension Term Tenant shall pay Tenant's Share of Expenses and Taxes for the Premises in accordance with the Lease, as amended.

6.3 Procedure for Determining Prevailing Market.

A. Initial Procedure. Within 30 days after receiving the Extension Notice, Landlord shall give Tenant either (i) written notice (for purposes of this Section 6, "**Landlord's Binding Notice**") accepting Tenant's estimate of the Prevailing Market rate for the Second Extension Term stated in the Extension Notice, or (ii) written notice (for purposes of this Section 6, "**Landlord's Rejection Notice**") rejecting such estimate and stating Landlord's estimate of the Prevailing Market rate for the Second Extension Term. If Landlord gives Tenant a Landlord's Rejection Notice, Tenant, within 15 days thereafter, shall give Landlord either (i) written notice (for purposes of this Section 6, "Tenant's Binding Notice") accepting Landlord's estimate of the Prevailing Market rate for the Second Extension Term stated in such Landlord's Rejection Notice, or (ii) written notice (for purposes of this Section 6, "**Tenant's Rejection Notice**") rejecting such estimate. If Tenant gives Landlord a Tenant's Rejection Notice, Landlord and Tenant shall work together in good faith to agree in writing upon the Prevailing Market rate for the Second Extension Term. If, within 30 days after delivery of a Tenant's Rejection Notice, the parties fail to agree in writing upon the Prevailing Market rate, the provisions of Section 6.3.B below shall apply.

B. Dispute Resolution Procedure.

(i) If, within 30 days after delivery of a Tenant's Rejection Notice, the parties fail to agree in writing upon the Prevailing Market rate, Landlord and Tenant, within five (5) days thereafter, shall each simultaneously submit to the other, in a sealed envelope, its good faith estimate of the Prevailing Market rate for the Second Extension Term (collectively, for purposes of this Section 6, the "**Estimates**"). Within seven (7) days after the exchange of Estimates, Landlord and Tenant shall each select a broker or agent (for purposes of this Section 6, an "**Agent**") to determine which of the two Estimates most closely reflects the Prevailing Market rate for the Second Extension Term. Each Agent so selected shall be licensed as a real estate broker or agent and in good standing with the California Department of Real Estate, and shall have had at least five (5) years' experience within the previous 10 years as a commercial real estate broker or agent working in Foster City, California, with working knowledge of current rental rates and leasing practices relating to buildings similar to the Building.

(ii) If each party selects an Agent in accordance with Section 6.3.B.i above, the parties shall cause their respective Agents to work together in good faith to agree upon which of the two Estimates most closely reflects the Prevailing Market rate for the Second Extension Term. The Estimate, if any, so agreed upon by such Agents shall be final and binding on both parties as the Prevailing Market rate for the Second Extension Term and may be entered in a court of competent jurisdiction. If the Agents fail to reach such agreement within 20 days after their selection, then, within 10 days after the expiration of such 20-day period, the parties shall instruct the Agents to select a third Agent meeting the above criteria (and if the Agents fail to agree upon such third Agent within 10 days after being so instructed, either party may cause a court of competent jurisdiction to select such third Agent). Promptly upon selection of such third Agent, the parties shall instruct such Agent (or, if only one of the parties has selected an Agent within the 7-day period described above, then promptly after the expiration of such 7-day period the parties shall instruct such Agent) to determine, as soon as practicable but in any case within 14 days after his selection, which of the two Estimates most closely reflects the Prevailing Market rate. Such determination by such Agent (for purposes of this Section 6, the "**Final Agent**") shall be final and binding on both parties as the Prevailing Market rate for the Second Extension Term and may be entered in a court of competent jurisdiction. If the Final Agent believes that expert advice would materially assist him, he may retain one or more qualified persons to provide such expert advice. The parties shall share equally in the costs of the Final Agent and of any experts retained by the Final Agent. Any fees of any other broker, agent, counsel or expert engaged by Landlord or Tenant shall be borne by the party retaining such broker, agent, counsel or expert.

(iii) Adjustment. If the Prevailing Market rate has not been determined by the commencement date of the Second Extension Term, Tenant shall pay Base Rent for the Second Extension Term upon the terms and conditions in effect during the last month ending on or before the expiration date of the Lease (as amended) until such time as the Prevailing Market rate has been determined. Upon such determination, the Base Rent for the Second Extension Term shall be retroactively adjusted. If such adjustment results in an under- or overpayment of Base Rent by Tenant, Tenant shall pay Landlord the amount of such underpayment, or receive a credit in the amount of such overpayment, with or against the next Base Rent due under the Lease (as amended).

6.4 **Extension Amendment**. If Tenant is entitled to and properly exercises its Second Extension Option, and if the Prevailing Market rate for the Second Extension Term is determined in accordance with Section 6.3 above, Landlord, within a reasonable time thereafter, shall prepare and deliver to Tenant an amendment (for purposes of this Section 6, the "Extension Amendment") reflecting changes in the Base Rent, the term of the Lease, the expiration date of the Lease, and other appropriate terms in accordance with this Section 6, and Tenant shall execute and return (or provide Landlord with reasonable objections to) the Extension Amendment within 15 days after receiving it. Notwithstanding the foregoing, upon determination of the Prevailing Market rate for the Second Extension Term in accordance with Section 6.3 above, an otherwise valid exercise of the Second Extension Option shall be fully effective whether or not the Extension Amendment is executed.

6.5 **Definition of Prevailing Market**. For purposes of this Second Extension Option, "Prevailing Market" shall mean the arms-length, fair-market, annual rental rate per rentable square foot under extension and renewal leases and amendments entered into on or about the date on which the Prevailing Market is being determined hereunder for space comparable to the Premises in the Building and office buildings comparable to the Building in the Foster City, California area. The determination of Prevailing Market shall take into account (i) any material economic differences between the terms of the Lease, as amended and any comparison lease or amendment, such as rent abatements, construction costs and other concessions, and the manner, if any, in which the landlord under any such lease is reimbursed for operating expenses and taxes; (ii) any material differences in configuration or condition between the Premises and any comparison space, including any cost that would have to be incurred in order to make the configuration or condition of the comparison space similar to that of the Premises; and (iii) any reasonably anticipated changes in the Prevailing Market rate from the time such Prevailing Market rate is being determined and the time such Prevailing Market rate will become effective under the Lease, as amended.

7.6 **Intentionally Omitted.**

7. **Tenant Security System**. Subject to all provisions of this Lease applicable to Alterations and Tenant-Insured Improvements, Tenant shall be permitted to install a security system for the Premises ("Tenant Security System"). Tenant shall provide Landlord with such access cards, keys, code information and other materials and information as may be necessary for Landlord to access the Premises. From time to time Landlord may review any Tenant Security System, and if Landlord reasonably determines that such Tenant Security System adversely affects the Premises, the Base Building, the Building, or any other occupants of the Building, then, within a reasonable time after Landlord's written request, Tenant shall make reasonable changes in personnel and/or equipment in order to eliminate such adverse effect.

8. **Supplemental HVAC**.

8.1 Subject to the terms of this Section 8, Tenant may install and operate in the Premises up to twelve (12) supplemental HVAC units (each, a "**Supplemental HVAC Unit**"). Two (2) of the Supplemental HVAC Units may be up to twenty tons each and four (4) of the Supplemental HVAC Units may be up to two (2) tons each. Each of the Supplemental HVAC Units shall be connected to the Building's condenser water loop; provided, however, that Tenant shall not use more than its proportionate share of the Building's excess water condenser capacity. All aspects of each Supplemental HVAC Unit, including its location within the Premises, the manner in which it is vented, and the manner in which it is connected to the Building's condenser water loop, shall be subject to Landlord's prior approval pursuant to Sections 7.2 and 7.3 of this Lease. Tenant shall pay the cost of all electricity consumed in connection with the operation of each Supplemental HVAC Unit, together with the cost of installing a submeter to measure such electrical consumption. Tenant, at its expense, shall maintain and repair each Supplemental HVAC Unit in good working order and condition. Without limiting the foregoing, Tenant, at its expense, shall procure and maintain in effect throughout the Term and Extended Term a contract (the "Service Contract") for the maintenance, repair and replacement of the Supplemental HVAC Units with a contractor reasonably approved by Landlord. Tenant shall follow all reasonable recommendations of such contractor for the maintenance, repair and replacement of the Supplemental HVAC Units. The Service Contract shall require the contractor, at intervals of not less than three (3) months, to inspect the Supplemental HVAC Units and provide to Tenant a report of any defective conditions, together with any recommendations for maintenance, repair and/or replacement. Tenant shall provide Landlord with a copy of the Service Contract and each quarterly service report issued thereunder promptly upon mutual execution or receipt thereof. Upon the expiration or earlier termination of this Lease, Tenant shall convey title to the Supplemental HVAC Unit(s) to Landlord, free of any encumbrance; provided, however, that to the extent required by Section 8 of the Lease or Section 2.2 of **Exhibit B** hereto (as applicable), Tenant, at its expense, shall remove the Supplemental HVAC Unit(s) and repair any resulting damage.

8.2 Notwithstanding anything in the Lease (as amended) to the contrary, (a) upon the earlier to occur of (i) the Accelerated Expiration Date and (ii) the Extension Date, Tenant shall convey title to the Supplemental HVAC Unit(s) servicing Suites 400 and 450, and (b) upon the expiration or early termination of Lease (as amended), Tenant shall convey title to the Supplemental HVAC Unit(s) servicing Suites 500 and 600.

9. **Energy Usage**. If Tenant (or any party claiming by, through or under Tenant) pays directly to the provider for any energy consumed at the Project, Tenant, promptly upon request, shall deliver to Landlord (or, at Landlord's option, execute and deliver to Landlord an instrument enabling Landlord to obtain from such provider) any data about such consumption that Landlord, in its reasonable judgment, is required for benchmarking purposes or to disclose to a prospective buyer, tenant or mortgage lender under any applicable law.

EXHIBIT G

METRO CENTER

METRO CENTER TOWER
FOSTER CITY, CALIFORNIA

ASBESTOS NOTIFICATION

Asbestos-containing materials (“ACMs”) were historically commonly used in the construction of commercial buildings across the country. ACMs were commonly used because of their beneficial qualities; ACMs are fire-resistant and provide good noise and temperature insulation.

Some common types of ACMs include surfacing materials (such as spray-on fireproofing, stucco, plaster and textured paint), flooring materials (such as vinyl floor tile and vinyl floor sheeting) and their associated mastics, carpet mastic, thermal system insulation (such as pipe or duct wrap, boiler wrap and cooling tower insulation), roofing materials, drywall, drywall joint tape and drywall joint compound, acoustic ceiling tiles, transite board, base cove and associated mastic, caulking, window glazing and fire doors. These materials are not required under law to be removed from any building (except prior to demolition and certain renovation projects). Moreover, ACMs generally are not thought to present a threat to human health unless they cause a release of asbestos fibers into the air, which does not typically occur unless (1) the ACMs are in a deteriorated condition, or (2) the ACMs have been significantly disturbed (such as through abrasive cleaning, or maintenance or renovation activities).

It is possible that some of the various types of ACMs noted above (or other types) are present at various locations in the Building. Anyone who finds any such materials in the building should assume them to contain asbestos unless those materials are properly tested and determined to be otherwise. In addition, Landlord has identified the presence of certain ACMs in the Building. For information about the specific types and locations of these identified ACMs, please contact the Building manager. The Building manager maintains records of the Building’s asbestos information including any Building asbestos surveys, sampling and abatement reports. This information is maintained as part of Landlord’s asbestos Operations and Maintenance Plan (“O&M Plan”).

The O&M Plan is designed to minimize the potential of any harmful asbestos exposure to any person in the building. Because Landlord is not a physician, scientist or industrial hygienist, Landlord has no special knowledge of the health impact of exposure to asbestos. Therefore, Landlord hired an independent environmental consulting firm to prepare the Building’s O&M Plan. The O&M Plan includes a schedule of actions to be taken in order to (1) maintain any building ACMs in good condition, and (2) to prevent any significant disturbance of such ACMs. Appropriate Landlord personnel receive regular periodic training on how to properly administer the O&M Plan.

The O&M Plan describes the risks associated with asbestos exposure and how to prevent such exposure. The O&M Plan describes those risks, in general, as follows: asbestos is not a significant health concern unless asbestos fibers are released and inhaled. If inhaled, asbestos fibers can accumulate in the lungs and, as exposure increases, the risk of disease (such as asbestosis and cancer) increases. However, measures taken to minimize exposure and consequently minimize the accumulation of fibers, can reduce the risk of adverse health effects.

The O&M Plan also describes a number of activities which should be avoided in order to prevent a release of asbestos fibers. In particular, some of the activities which may present a health risk (because those activities may cause an airborne release of asbestos fibers) include moving, drilling, boring or otherwise disturbing ACMs. Consequently, such activities should not be attempted by any person not qualified to handle ACMs. In other words, the approval of Building management must be obtained prior to engaging in any such activities. Please contact the Building manager for more information in this regard. A copy of the written O&M Plan for the Building is located in the Building Management Office and, upon your request, will be made available to tenants to review and copy during regular business hours.

Because of the presence of ACM in the Building, Landlord is also providing the following warning, which is commonly known as a California Proposition 65 warning:

WARNING: This building contains asbestos, a chemical **known to** the State of California to cause cancer.

Please contact the Building manager with any questions regarding the contents of this Exhibit G.

EXHIBIT H

METRO CENTER

METRO CENTER TOWER
FOSTER CITY, CALIFORNIA

OUTDOOR PATIOS

EXHIBIT I

METRO CENTER
METRO CENTER TOWER
FOSTER CITY, CALIFORNIA

LETTER OF CREDIT

(Name of Financial Institution]

Irrevocable Standby Letter of Credit
No. ________________________________
Issuance Date: ________________________
Expiration Date: ________________________
Applicant: ________________________

Beneficiary

CA-METRO CENTER LIMITED PARTNERSHIP
____
____
____

Ladies/Gentlemen:

We hereby establish our Irrevocable Standby Letter of Credit in your favor for the account of the above referenced Applicant in the amount of Five Hundred Thousand U.S. Dollars ($500,000.00) available for payment at sight by your draft drawn on us when accompanied by the following documents:

1. An original copy of this Irrevocable Standby Letter of Credit.

2. Beneficiary's dated statement purportedly signed by an authorized signatory or agent reading: "This draw in the amount of ________________ U.S. Dollars ($________________) under your Irrevocable Standby Letter of Credit No. ________________ represents funds due and owing to us pursuant to the terms of that certain lease by and between , as landlord, and ________________, as tenant, and/or any amendment to the lease or any other agreement between such parties related to the lease."

It is a condition of this Irrevocable Standby Letter of Credit that it will be considered automatically renewed for a one year period upon the expiration date set forth above and upon each anniversary of such date, unless at least 60 days prior to such expiration date or applicable anniversary thereof, we notify you in writing, by certified mail return receipt requested or by recognized overnight courier service, that we elect not to so renew this Irrevocable Standby Letter of Credit. A copy of any such notice shall also be sent, in the same manner, to: Equity Office Properties, 2 North Riverside Plaza, Suite 2100, Chicago, Illinois 60606, Attention: Treasury Department. In addition to the foregoing, we understand and agree that you shall be entitled to draw upon this Irrevocable Standby Letter of Credit in accordance with 1 and 2 above in the event that we elect not to renew this Irrevocable Standby Letter of Credit and, in addition, you provide us with a dated statement purportedly signed by an authorized signatory or agent of Beneficiary stating that the Applicant has failed to provide you with an acceptable substitute irrevocable standby letter of credit in accordance with the terms of the above referenced lease. We further acknowledge and agree that: (a) upon receipt of the documentation required herein, we will honor your draws against this Irrevocable Standby Letter of Credit without inquiry into the accuracy of Beneficiary's signed statement and regardless of whether Applicant disputes the content of such statement; (b) this Irrevocable Standby Letter of Credit shall permit partial draws and, in the event you elect to draw upon less than the full stated amount hereof, the stated amount of this Irrevocable Standby Letter of Credit shall be automatically reduced by the amount of such partial draw; and (c) you shall be entitled to transfer your interest in this Irrevocable Standby Letter of Credit from time to time and more than one time without our approval and without charge. In the event of a transfer, we reserve the right to require reasonable evidence of such transfer as a condition to any draw hereunder.

This Irrevocable Standby Letter of Credit is subject to the International Standby Practices (ISP 98) International Chamber of Commerce (Publication No. 590).

We hereby engage with you to honor drafts and documents drawn under and in compliance with the terms of this Irrevocable Standby Letter of Credit.

All communications to us with respect to this Irrevocable Standby Letter of Credit must be addressed to our office located at to ______________________________ the attention of ____.

Very truly yours
Very truly yours,

____

[name]

[title]

EXHIBIT J

LANDLORD WORK LETTER

As used in this **Exhibit A** (this "**Landlord's Work Letter**"), the following terms shall have the following meanings:

(i) For purposes of this **Exhibit A**, "**Tenant Improvements**" means all improvements to be constructed in Suites 400, 450 and 500 pursuant to this Landlord's Work Letter;

(ii) For purposes of this **Exhibit A**, "**Tenant Improvement Work**" means the construction of the Tenant Improvements, together with any related work (including demolition) that is necessary to construct the Tenant Improvements; and

(iii) "**Agreement**" means the amendment of which this Landlord's Work Letter is a part.

1 COST OF TENANT IMPROVEMENT WORK. Except as provided in Section 2.7 below, the Tenant Improvement Work shall be performed at Landlord's expense.

2 WORK LIST.

2.1 **Work List.** Landlord shall perform improvements in Suites 400, 450 and 500 in accordance with the following work list (for purposes of this **Exhibit A**, the "**Work List**") using Building-standard methods, materials and finishes.

WORK LIST

	ITEM
	Remove the Premises' interior stairway between the fourth and fifth floors and patch the floor.

2.2 [Intentionally Omitted]

2.3 [Intentionally Omitted]

2.4 [Intentionally Omitted]

2.5 [Intentionally Omitted]

2.6 [Intentionally Omitted]

2.7 **Revisions to Work List.** The Work List shall not be revised without Landlord's agreement, which agreement may be withheld or conditioned in Landlord's sole and absolute discretion. If Tenant requests any revision to the Work List, Landlord shall provide Tenant with notice approving or disapproving such revision, and, if Landlord approves such revision, Landlord shall have such revision made and delivered to Tenant, together with notice of any resulting change in the cost of the Tenant Improvement Work, within 10 business days after the later of Landlord's receipt of such request or the mutual execution and delivery of this Agreement if such revision is not material, and within such longer period of time as may be reasonably necessary (but not more than 15 business days after the later of such receipt or such execution and delivery) if such revision is material, whereupon Tenant, within one (1) business day, shall notify Landlord whether it desires to proceed with such revision. If Landlord has begun performing the Tenant Improvement Work, then, in the absence of such authorization, Landlord shall have the option to continue such performance disregarding such revision. Landlord shall not revise the Work List without Tenant's consent, which shall not be unreasonably withheld or conditioned. Tenant shall approve, or reasonably disapprove (and state, with reasonable specificity, its reasons for disapproving), any revision to the Work List within two (2) business days after receiving Landlord's request for approval thereof. Any change order affecting the Work List shall be deemed a revision to the Work List. Tenant shall reimburse Landlord, immediately upon demand, for any increase in the total cost associated with the Tenant Improvement Work that results from any revision to the Work List requested by Tenant, including the cost of preparing such revision.

2.8 [Intentionally Omitted]

3 CONSTRUCTION.

3.1 Contractor**.** Landlord shall retain a contractor of its choice (for purposes of this **<u>Exhibit A</u>**, the "**Contractor**") to perform the Tenant Improvement Work. In addition, Landlord may select and/or approve of any subcontractors, mechanics and materialmen used in connection with the performance of the Tenant Improvement Work.

3.2 [Intentionally Omitted]

3.3 **<u>Permits</u>.** Landlord shall cause the Contractor to apply to the appropriate municipal authorities for, and obtain from such authorities, all permits necessary for the Contractor to complete the Tenant Improvement Work (for purposes of this Exhibit A, the "Permits").

3.4 **<u>Construction</u>**

3.4.1 **Performance of Tenant Improvement Work.** Landlord shall cause the Contractor to perform the Tenant Improvement Work in accordance with the Work List.

3.4.2 **Contractor's Warranties.** Tenant waives all claims against Landlord relating to any defects in the Tenant Improvements; provided, however, that if, within 30 days after substantial completion of the Tenant Improvement Work, Tenant provides notice to Landlord of any non-latent defect in the Tenant Improvements, or if, within 11 months after substantial completion of the Tenant Improvement Work, Tenant provides notice to Landlord of any latent defect in the Tenant Improvements, then Landlord shall promptly cause such defect to be corrected.

4 COMPLIANCE WITH LAW; SUITABILITY FOR TENANT'S USE. Landlord shall cause the Work List to comply with Law. Except as provided in the preceding sentence, Tenant shall be responsible for ensuring that the Work List is suitable for Tenant's use of Suites 500 and 600, and neither the preparation nor the approval of the Work List by Landlord or its consultants shall relieve Tenant from such responsibility. Landlord may contest any alleged violation of Law in good faith, including by seeking a waiver or deferment of compliance, asserting any defense allowed by Law, and exercising any right of appeal (provided that, after completing such contest, Landlord makes any modification to the Work List or any alteration to Suites 400, 450 and 500 that is necessary to comply with any final order or judgment).

5 COMPLETION. Tenant acknowledges and agrees that the Tenant Improvement Work may be performed after Building Hours before or after the Extension Date. Landlord and Tenant shall cooperate with each other in order to enable the Tenant Improvement Work to be performed in a timely manner and with as little inconvenience to the operation of Tenant's business as is reasonably possible. Notwithstanding any contrary provision of this Agreement, any delay in the completion of the Tenant Improvement Work or inconvenience suffered by Tenant during the performance of the Tenant Improvement Work shall not delay the Extension Date, nor shall it subject Landlord to any liability for any loss or damage resulting therefrom or entitle Tenant to any credit, abatement or adjustment of rent or other sums payable under the Lease.

6 MISCELLANEOUS. Notwithstanding any contrary provision of this Agreement, if Tenant Defaults under this Agreement before the Tenant Improvement Work is completed, Landlord's obligations under this Work Letter shall be excused until such Default is cured and Tenant shall be responsible for any resulting delay in the completion of the Tenant Improvement Work. This Work Letter shall not apply to any space other than Suites 400, 450 and 500.

EXHIBIT K

EXTENSION WORK LETTER

As used in this **Exhibit B** (this "**Extension Work Letter**"), the following terms shall have the following meanings:

(i) For purposes of this **Exhibit B**, "**Tenant Improvements**" means all improvements to be constructed in Suites 500 and 600 pursuant to this Extension Work Letter;

(ii) For purposes of this **Exhibit B**, "**Tenant Improvement Work**" means the construction of the Tenant Improvements, together with any related work (including demolition) that is necessary to construct the Tenant Improvements; and

(iii) "**Agreement**" means the amendment of which this Extension Work Letter is a part.

1 **ALLOWANCE.**

1.1 **Allowance.** Tenant shall be entitled to a one-time tenant improvement allowance (for purposes of this **Exhibit B**, the "**Allowance**") in the amount of $200,000.00 to be applied toward the Allowance Items (defined in Section 1.2 below). Tenant shall be responsible for all costs associated with the Tenant Improvement Work, including the costs of the Allowance Items, to the extent such costs exceed the lesser of (a) the Allowance, or (b) the aggregate amount that Landlord is required to disburse for such purpose pursuant to this Extension Work Letter. Notwithstanding any contrary provision of this Agreement, if Tenant fails to use the entire Allowance by December 31, 2019, the unused amount shall revert to Landlord and Tenant shall have no further rights with respect thereto.

1.2 **Disbursement of Allowance.**

1.2.1 **Allowance Items.** Except as otherwise provided in this Extension Work Letter, the Allowance shall be disbursed by Landlord only for the following items (for purposes of this **Exhibit B**, the "**Allowance Items**"): (a) the fees of Tenant's architect and engineers, if any, and any Review Fees (defined in Section 2.3 below); (b) [Intentionally Omitted]; (c) plan-check, permit and license fees relating to performance of the Tenant Improvement Work; (d) the cost of performing the Tenant Improvement Work, including after hours charges, testing and inspection costs, freight elevator usage, hoisting and trash removal costs, and contractors' fees and general conditions; (e) the cost of any change to the base, shell or core of Suites 500 and 600 or Building required by Tenant's plans and specifications (for purposes of this **Exhibit B**, the "**Plans**") (including if such change is due to the fact that such work is prepared on an unoccupied basis), including all direct architectural and/or engineering fees and expenses incurred in connection therewith; (f) the cost of any change to the Plans or the Tenant Improvement Work required by Law; and (g) the Coordination Fee (defined in Section 2.3 below).

1.2.2 **Disbursement.** Subject to the terms hereof, Landlord shall make monthly disbursements of the Allowance for Allowance Items as follows:

1.2.2.1 Monthly Disbursements. Not more frequently than once per calendar month, Tenant may deliver to Landlord: (i) a request for payment of Tenant's contractor, approved by Tenant, in AIA G-702/G-703 format or another format reasonably requested by Landlord, showing the schedule of values, by trade, of percentage of completion of the Tenant Improvement Work, detailing the portion of the work completed and the portion not completed (which approved request shall be deemed

Tenant's approval and acceptance of the work and materials described therein); (ii) copies of all third-party contracts (including change orders) pursuant to which Allowance Items have been incurred (for purposes of this **Exhibit B**, collectively, the "**Tenant Improvement Contracts**"); (iii) copies of invoices for all labor and materials provided to Suites 500 and 600 and covered by such request for payment; (iv) executed conditional mechanic's lien releases from all parties who have provided such labor or materials to Suites 500 and 600 (along with executed unconditional mechanic's lien releases for any prior payments made pursuant to this paragraph) satisfying California Civil Code §§ 8132 and/or 8134, as applicable; and (v) all other information reasonably requested by Landlord. Subject to the terms hereof, within 30 days after receiving such materials, Landlord shall deliver a check to Tenant, payable jointly to Tenant and its contractor, in the amount of the lesser of (a) Landlord's Share (defined below) of the amount requested by Tenant pursuant to the preceding sentence, less a 10% retention (the aggregate amount of such retentions shall be referred to in this Extension Work Letter as the "**Final Retention**"), or (b) the amount of any remaining portion of the Allowance (not including the Final Retention). Landlord's payment of such amounts shall not be deemed Landlord's approval or acceptance of the work or materials described in Tenant's payment request. As used in this Section 1.2.2.1, "**Landlord's Share**" means the lesser of (i) 100%, or (ii) the percentage obtained by dividing the Allowance by the estimated sum of all Allowance Items, as determined based on the Tenant Improvement Contracts.

1.2.2.2 Final Retention. Subject to the terms hereof, Landlord shall deliver to Tenant a check for the Final Retention, together with any other undisbursed portion of the Allowance required to pay for the Allowance Items, within 30 days after the latest of (a) the completion of the Tenant Improvement Work in accordance with the approved plans and specifications; (b) Landlord's receipt of (i) copies of all Tenant Improvement Contracts; (ii) copies of invoices for all labor and materials provided to Suites 500 and 600; (iii) executed unconditional mechanic's lien releases satisfying California Civil Code § 8134 for all prior payments made pursuant to Section 1.2.2.1 above (to the extent not previously provided to Landlord), together with executed unconditional final mechanic's lien releases satisfying California Civil Code § 8138 for all labor and materials provided to Suites 500 and 600 subject to the Final Retention; (iv) a certificate from Tenant's architect, in a form reasonably acceptable to Landlord, certifying that the Tenant Improvement Work has been substantially completed; (v) evidence that all governmental approvals required for Tenant to legally occupy Suites 500 and 600 have been obtained; and (vi) any other information reasonably requested by Landlord; (c) Tenant's delivery to Landlord of "as built" drawings (in CAD format, if requested by Landlord); or (d) Tenant's compliance with Landlord's standard "close-out" requirements regarding city approvals, closeout tasks, Tenant's contractor, financial close-out matters, and Tenant's vendors. Landlord's payment of the Final Retention shall not be deemed Landlord's approval or acceptance of the work or materials described in Tenant's payment requests.

2 **MISCELLANEOUS.**

2.1 **Applicable Lease Provisions.** Without limitation, the Tenant Improvement Work shall be subject to Sections 7.2, 7.3 and 8 of the Lease (as amended).

2.2 **Plans and Specifications.** Landlord shall provide Tenant with notice approving or disapproving any proposed plans and specifications for the Tenant Improvement Work within the Required Period (defined below) after the later of Landlord's receipt thereof from Tenant or the mutual execution and delivery of this Agreement. As used herein, "**Required Period**" means (a) 15 business days in the case of construction drawings, and (b) 10 business days in the case of any other plans and specifications (including a space plan). Any such notice of disapproval shall describe with reasonable specificity the basis for Landlord's disapproval and the changes that would be necessary to resolve Landlord's objections.

2.3 **<u>Review Fees; Coordination Fee</u>.** Tenant shall reimburse Landlord, upon demand, for any fees reasonably incurred by Landlord for review of the Plans by Landlord's third party consultants (for purposes of this **<u>Exhibit B</u>**, "**Review Fees**"). In consideration of Landlord's coordination of the Tenant Improvement Work, Tenant shall pay Landlord a fee (for purposes of this **<u>Exhibit B</u>**, the "**Coordination Fee**") in an amount equal to 3% of the cost of the Tenant Improvement Work.

2.4 **<u>Tenant Default</u>.** Notwithstanding any contrary provision of this Agreement, if Tenant defaults under this Agreement before the Tenant Improvement Work is completed, then (a) Landlord's obligations under this Extension Work Letter shall be excused, and Landlord may cause Tenant's contractor to cease performance of the Tenant Improvement Work, until such default is cured, and (b) Tenant shall be responsible for any resulting delay in the completion of the Tenant Improvement Work.

2.5 **<u>Other</u>.** This Extension Work Letter shall not apply to any space other than Suites 500 and 600.

EXHIBIT S

FORM OF AGREEMENT OF APPROVED USER

AGREEMENT OF APPROVED USER

This Agreement (this "**Agreement**") is entered into as of ______________, 20__ by ________________________**, a(n) ____________________** ("**Approved User**"), in favor of **HUDSON METRO CENTER, LLC, a Delaware limited liability company** ("**Landlord**"), pursuant to Section 14.9 of that certain Office Lease (the "**Lease**"), dated as of February 25, 2010, between Landlord, as landlord, and **QUINSTREET, INC., a Delaware corporation** ("**Tenant**"), as tenant, for space in the building located at 950 Tower Lane, Foster City, California, and commonly known as Metro Center Tower. Capitalized terms used but not defined herein shall have the meanings given in the Lease.

In consideration of, and as a condition to, Landlord's consent, pursuant to Section 14.9 of the Lease, to Approved User using all or a portion of the Premises consisting of ____ rentable square feet and described on **Exhibit A** attached hereto (the "**Approved User Premises**") during the Term and Extended Term, and in consideration of other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, Approved User acknowledges and agrees, for the benefit of Landlord, as follows:

1. Approved User agrees that if, for any reason (including, without limitation, any surrender of the Lease by Tenant with respect to all or any portion of the Approved User Premises), the Lease or Tenant's right to possession thereunder terminates with respect to all or any portion of the Approved User Premises, all rights of Approved User in the Approved User Premises (or such portion thereof) shall terminate on the date of such termination.

2. Approved User shall have no right to exercise any rights of Tenant or enforce any obligations of Landlord under the Lease. Without limiting the foregoing, Approved User shall have no right to require Landlord to furnish any services, and Approved User shall look solely to Tenant for the furnishing of any such services. No landlord-tenant relationship exists between Landlord and Approved User.

3. Approved User agrees, for the benefit of Landlord, to be bound by all of the indemnity, insurance, release and waiver obligations of Tenant under the Lease with respect to the Approved User Premises. Without limiting the foregoing, Approved User agrees, for the benefit of Landlord, to be bound by all of the indemnity, insurance, release and waiver obligations of Tenant under Sections 10 and 20 of the Lease with respect to the Approved User Premises. Notwithstanding the foregoing, Approved User shall not be required to maintain the insurance described in Section 10.2.2 of the Lease; provided, however, that Approved User shall be deemed to be required to maintain such insurance for purposes of Section 10.4 of the Lease.

4. If either party institutes a suit against the other for violation of or to enforce any provision of this Agreement, or in connection with any matter relating to the Approved User's use of the Approved User Premises, the prevailing party shall be entitled to all of its costs and expenses, including, without limitation, reasonable attorneys' fees.

IN WITNESS WHEREOF, Approved User has executed this Agreement as of the date set forth above.

APPROVED USER:

_________________________, a(n) _____________________

By: _______________________________________

Name: _______________________________________

Title: _______________________________________

EXHIBIT A TO AGREEMENT OF APPROVED USER

OUTLINE AND LOCATION OF APPROVED USER PREMISES

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-220397, 333-213220, 333-206472, 333-198714, 333-190735, 333-183517, 333-176272, 333-168322, 333-165534) of QuinStreet, Inc. of our report dated September 11, 2018 relating to the consolidated financial statements, financial statement schedules and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
San Jose, California
September 11, 2018

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: September 11, 2018

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

Exhibit 31.2

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT

I, Gregory Wong, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: September 11, 2018

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

Exhibit 32.1

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

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

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

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

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

Date: September 11, 2018

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

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