MOLSON COORS BREWING CO
Form 3/A
June 20, 2005

FORM 3

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL	
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INITIAL STATEMENT OF BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
Â WALKER SAMUEL D
(Last) (First) (Middle)

C/O MOLSON COORS BREWING COMPANY,Â 311 10TH STREET, NH314
(Street)

GOLDEN,Â COÂ 80401
(City) (State) (Zip)

2. Date of Event Requiring Statement (Month/Day/Year)
05/12/2005

3. Issuer Name **and** Ticker or Trading Symbol
MOLSON COORS BREWING CO [TAP.A; TAP]

4. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Chief Legal Counsel

5. If Amendment, Date Original Filed(Month/Day/Year)
05/20/2005

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Beneficially Owned

1.Title of Security (Instr. 4)	2. Amount of Securities Beneficially Owned (Instr. 4)	3. Ownership Form: Direct (D) or Indirect (I) (Instr. 5)	4. Nature of Indirect Beneficial Ownership (Instr. 5)
Class B Common Stock (non-voting)	2,106 (2)	D	Â

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

SEC 1473 (7-02)

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

Table II - Derivative Securities Beneficially Owned (*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 4)	2. Date Exercisable and Expiration Date (Month/Day/Year)	3. Title and Amount of Securities Underlying Derivative Security (Instr. 4)	4. Conversion or Exercise Price of Derivative	5. Ownership Form of Derivative Security:	6. Nature of Indirect Beneficial Ownership (Instr. 5)

	Date Exercisable	Expiration Date	Title	Amount or Number of Shares	Security	Direct (D) or Indirect (I) (Instr. 5)	
Employee Stock Option (right to buy)	Â (1)	Â (1)	Class B Common Stock	70,000 (2)	$ (1)	D	Â

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
WALKER SAMUEL D C/O MOLSON COORS BREWING COMPANY 311 10TH STREET, NH314 GOLDEN,Â COÂ 80401	Â	Â	Â Chief Legal Counsel	Â

Signatures

Annita M. Menogan as agent for Samuel D. Walker	06/20/2005
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 5(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The Reporting Person owns an aggregate of 70,000 options with various exercise prices, grant dates and expiration dates.

(2) This amendment corrects the originally reported numbers of derivative and non-derivative shares held by Mr. Walker as of the event date.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *See* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. ">$77,500 $17,500 $60,000 $ $

Operating Leases

14,409 3,541 6,707 4,161

Promissory Notes

610 560 50

Total					
	$92,519	$21,601	$66,757	$4,161	$

The above table does not include approximately $3.1 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.

Credit Facility

In November 2011, we entered into the Second Amended and Restated Revolving Credit and Term Loan Agreement (Second Loan Agreement) with Comerica Bank (the Bank), the administrative agent and lead arranger. The Second Loan Agreement consists of a $100.0 million five-year term loan, with annual principal amortization of 5%, 10%, 15%, 20% and 50%, and a $200.0 million five-year revolving credit line. On February 15, 2013, we entered into the First Amendment to Credit Agreement and Amendment to Guaranty (First Amendment) with the Bank to, among other things: (1) amend the definition of EBITDA, effective as of December 31, 2012, to exclude extraordinary or non-recurring non-cash expenses or losses including, without limitation, goodwill impairments, and any extraordinary or non-recurring cash expenses in an aggregate amount not to exceed $5.0 million for the life of the Second Loan Agreement; and (2) reduce the $200.0 million five-year revolving credit line portion of the facility to $100.0 million, effective as of February 15, 2013. On July 17, 2014, we entered into the Second Amendment to Credit Agreement (Second Amendment) with the Bank to, among other things, amend the financial covenants and reduce the revolving loan facility from $100.0 million to $50.0 million, each effective as of June 30, 2014.

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Borrowings under the Second Loan Agreement are secured by substantially all of our assets. Interest is payable at a rate computed using either Base rate or Eurodollar rate plus an applicable margin, at our option. Base rate is defined as an applicable margin plus the greatest of (a) the Prime Rate for such day, (b) the Federal Funds Effective Rate in effect on such day, plus 1% and (c) the Daily Adjusting LIBOR Rate plus 1%. Base rate borrowings bear interest at a Base rate plus an applicable margin which varies from (1) 0.625% to 1.375% for revolving loans and (2) 1.00% to 1.75% for term loans, depending on our funded debt to EBITDA ratio. Eurodollar rate borrowings bear interest at the Eurodollar rate plus an applicable margin which varies from (1) 1.625% to 2.375% for revolving loans and (2) 2.00% to 2.75% for term loans, depending on our funded debt to EBITDA ratio. Pursuant to the Second Amendment, for the period beginning on the effective date of the Second Amendment until the delivery of financial statements for the fiscal quarter ending December 31, 2015, (1) the applicable margin for Base rate borrowings is set at (a) 1.375% for revolving loans or (b) 1.75% for term loans, and (2) the applicable margin for Eurodollar rate borrowings is set at (a) 2.375% for revolving loans or (b) 2.75% for term loans. Thereafter, the applicable margin varies depending on our funded debt to EBITDA ratio, as described above.

EBITDA is defined as net (loss) income less (provision for) benefit from taxes, depreciation expense, amortization expense, stock-based compensation expense, interest and other income (expense), acquisition costs for business combinations, extraordinary or non-recurring non-cash expenses or losses including, without limitation, goodwill impairments, and any extraordinary or non-recurring cash expenses in an aggregate amount not to exceed $5 million for the life of this Second Loan Agreement. The revolving loan facility requires an annual facility fee of 0.375% of the revolving credit line capacity. The Second Loan Agreement expires in November 2016. The Second Loan Agreement, as amended, restricts our ability to raise additional debt financing and pay dividends, and also requires us to comply with other nonfinancial covenants. In addition, we are required to maintain financial covenants as follows:

1. A minimum fixed charge coverage ratio as of the end of each fiscal quarter of not less than:

(a) 1.00:1:00 for the period between September 30, 2015 and June 30, 2016; and

(b) 1.15:1:00 for the period beginning July 1, 2016 and thereafter.

The fixed charge coverage ratio is not tested until the fiscal quarter ending September 30, 2015.

2. Minimum EBITDA as of the end of each fiscal quarter of not less than:

(a) $1 for the period between April 1, 2014 and June 30, 2015;

(b) $3,400,000 for the period between July 1, 2015 and September 30, 2015;

(c) $3,200,000 for the period between October 1, 2015 and December 31, 2015.

EBITDA is not tested after the fiscal quarter ending December 31, 2015.

3. Minimum liquidity as of the end of each month of not less than $20,000,000.

We were in compliance with the covenants of our Second Loan Agreement, as amended, as of June 30, 2014 and 2013.

Upfront arrangement fees incurred in connection with the Second Amendment totaled $0.3 million and will be deferred and amortized over the remaining term of the arrangement.

Upfront arrangement fees incurred in connection with the First Amendment totaled $0.2 million and were deferred and will be amortized over the remaining term of the arrangement. In connection with the reduction of the revolving credit line capacity, during the third quarter of fiscal year 2013 we accelerated amortization of approximately $0.7 million of unamortized deferred upfront costs.

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Interest Rate Swap

In February 2012, we entered into an interest rate swap to reduce our exposure to the financial impact of changing interest rates under our term loan. We do not speculate using derivative instruments. The swap encompasses the principal balances outstanding as of January 1, 2014 and scheduled to be outstanding thereafter, such principal and notional amount totaling $85 million in January 2014 and amortizing to $35 million in November 2016. The effective date of the swap was April 9, 2012 with a maturity date of November 4, 2016. At June 30, 2014, we had approximately $77.5 million of notional amount outstanding in the swap agreement that exchanges a variable interest rate base (Eurodollar rate) for a fixed interest rate of 0.97% over the term of the agreement. This interest rate swap is designated as a cash flow hedge of the interest rate risk attributable to forecasted variable interest payments. The effective portion of the fair value gains or losses on this swap are included as a component of accumulated other comprehensive loss.

At June 30, 2014, our interest rate swap qualified as a cash flow hedge. For this qualifying hedge, the effective portion of the change in fair value will be recognized through earnings when the underlying transaction being hedged affects earnings, thereby allowing the swap s gains and losses to offset interest expense from the term loan in the consolidated statements of operations. Any hedge ineffectiveness is recognized in earnings in the current period.

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

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.

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Revenue Recognition

More than 99% of total revenue is derived from the DMS business. DMS revenue is derived primarily from fees which are earned through the delivery of qualified leads, clicks, calls, customers and, to a lesser extent, display advertisements, or impressions. We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectability is reasonably assured. Delivery is deemed to have occurred at the time a qualified lead or click is delivered to the client provided that no significant obligations remain.

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 new standard. We establish best estimates within a range of selling prices considering multiple factors including, but not limited to, factors such as class of client, size of transaction, available media inventory, pricing strategies and market conditions. We believe the use of the best estimate of selling price allows revenue recognition in a manner consistent with the underlying economics of the transaction.

From time to time, we may agree to credit a client for certain leads, clicks, calls 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.

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

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

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

Stock-Based Compensation

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

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

Goodwill

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 have two reporting units for purposes of allocating and testing goodwill, DMS and DSS. We performed our annual goodwill impairment test on April 30, 2014 in our quarter ending June 30, 2014. While we are permitted to conduct a qualitative assessment to determine whether it is necessary to perform a two-step quantitative goodwill impairment test, for our annual goodwill impairment test in the fourth quarter of fiscal 2014, we performed a quantitative test for both of our reporting units.

In the first step of the annual impairment test, we compare the fair value of each reporting unit to its carrying value. We estimated the fair value of the DSS reporting unit using only the income approach as market comparables were not meaningful. We have concluded that the carrying value of the DSS reporting unit exceeded its estimated fair value therefore we performed Step 2 analysis, as required and recorded a goodwill impairment charge of $1.2 million for the entire goodwill of our DSS reporting unit. We estimated the fair value of our DMS reporting unit based on our market capitalization and determined that there were no instances of impairment in our DMS reporting unit.

Our public market capitalization sustained a decline after June 30, 2014 primarily due to our operating results in the fourth quarter of fiscal year 2014, to a value below the net book carrying value of our equity. As a result, we determined that this triggered the necessity to conduct an interim goodwill impairment test as of June 30, 2014. We first tested the long-lived assets related to the DMS reporting unit as of June 30, 2014 and, based on the undiscounted cash flows, determined that these assets were not impaired.

A two-step process was then required to test goodwill impairment. The first step is to determine if there is an indication of impairment by comparing the estimated fair value to its carrying value including goodwill. Goodwill is considered impaired if the carrying value exceeds the estimated fair value. Upon indication of impairment, a second step is performed to determine the amount of the impairment by comparing the implied fair value of the reporting unit s goodwill with its carrying value.

We estimated the fair value of our DMS reporting unit using a weighting of fair values derived most significantly from the market approach which approximated our market capitalization and to a lesser extent the income approach. Under the market approach, we utilize publicly-traded comparable company information to determine revenue and earnings multiples that are used to value our reporting units adjusted for an estimated control premium. As the DMS reporting unit represents substantially the entire Company, the market approach has been reconciled to our market capitalization. Under the income approach, we estimate the fair value of a reporting unit based on the present value of estimated future cash flows. Cash flow projections are based on management s estimates of revenue growth rates and operating margins, taking into consideration industry and market conditions. The discount rate used is based on the weighted-average cost of capital adjusted for the relevant risk associated with business-specific characteristics and the uncertainty related to the reporting unit s ability to execute on the projected cash flows.

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The second step of the goodwill impairment test required us to fair value all assets and liabilities of our DMS reporting unit to determine the implied fair value of goodwill. We compared the implied fair value of the reporting unit s goodwill to its carrying value. This test resulted in a non-cash goodwill impairment charge in aggregate of $95.6 million for the year ended June 30, 2014. The inputs used to measure the estimated fair value of goodwill are classified as a Level 3 fair value measurement due to the significance of unobservable inputs in income approach using company-specific information.

Long-Lived Assets

We evaluate long-lived assets, such as property and equipment and purchased intangible assets with finite lives, for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. We apply judgment when estimating the fair value of the assets based on the undiscounted future cash flows the assets are expected to generate and recognize an impairment loss if estimated undiscounted future cash flows expected to result from the use of the asset plus net proceeds expected from disposition of the asset, if any, are less than the carrying value of the asset. We tested our long-lived assets related to the DMS reporting unit as of June 30, 2014 and based on the undiscounted cash flows, determined that these assets were not impaired.

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.

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 foreign currency exchange and interest rate risks.

Interest Rate Risk

We invest our cash equivalents and short-term investments primarily in liquid, highly-rated U.S. government or municipal fixed income securities, certificates of deposit with financial institutions and money market funds. Unrestricted cash, cash equivalents and short-term investments are held for working capital purposes and acquisition financing. We do not enter into investments for trading or speculative purposes. We believe that we do not have material exposure to changes in the fair value 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. However, a hypothetical decline of 1% in the interest rate on our investments would not have a material effect on our consolidated financial statements.

As of June 30, 2014, our credit facility had $77.5 million in term loans outstanding, and a borrowing capacity of $50.0 million under our revolving line of credit with no amounts outstanding. Interest on borrowings under the credit facility is payable quarterly at specified margins above either the Eurodollar rate or the Prime

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Rate. Our exposure to interest rate risk under the credit facility will depend on the extent to which we utilize such facility. To reduce our exposure to rising interest rates under the term loan, on February 24, 2012, we entered into an interest rate swap encompassing the principal balances scheduled to be outstanding in January 2014 and thereafter, such principal amount totaling $85.0 million on January 1, 2014 and amortizing to $35.0 million on November 4, 2016. The interest rate swap exchanges a variable interest rate base (Eurodollar rate) for a fixed interest rate of 0.97% over the term of the agreement. This interest rate swap is designated as a cash flow hedge of the interest rate risk attributable to forecasted variable interest payments. A hypothetical change of 1% from prevailing interest rates as of June 30, 2014 would not have an effect on our interest rate expense.

Foreign Currency Exchange Risk

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

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

QUINSTREET, INC.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of QuinStreet, Inc. and its subsidiaries at June 30, 2014 and June 30, 2013, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2014 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2014, based on criteria established in *Internal Control Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management s Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

/s/ PricewaterhouseCoopers LLP

San Jose, California

September 12, 2014

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QUINSTREET, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	June 30, 2014	June 30, 2013
Assets		
Current assets		
Cash and cash equivalents	$ 84,177	$ 90,117
Marketable securities	38,630	37,847
Accounts receivable, net	41,979	38,391
Deferred tax assets	223	6,753
Prepaid expenses and other assets	11,647	4,623
Total current assets	176,656	177,731
Property and equipment, net	11,126	9,707
Goodwill	55,451	150,456
Other intangible assets, net	31,441	50,486
Deferred tax assets, noncurrent	1,712	40,289
Other assets, noncurrent	457	878
Total assets	$ 276,843	$ 429,547
Liabilities and Stockholders Equity		
Current liabilities		
Accounts payable	$ 19,517	$ 18,722
Accrued liabilities	27,854	30,903
Deferred revenue	1,175	1,638
Debt	17,698	15,428
Total current liabilities	66,244	66,691
Deferred revenue, noncurrent		239
Debt, noncurrent	59,565	77,249
Other liabilities, noncurrent	5,883	6,473
Total liabilities	131,692	150,652
Commitments and contingencies (See Note 10)		
Stockholders equity		
Common stock: $0.001 par value; 100,000,000 shares authorized; 44,025,908 and 42,886,884 shares issued and outstanding at June 30, 2014 and June 30, 2013, respectively	44	43
Additional paid-in capital	239,558	226,857
Accumulated other comprehensive loss	(1,054)	(1,012)
(Accumulated deficit) retained earnings	(93,397)	53,007
Total stockholders equity	145,151	278,895
Total liabilities and stockholders equity	$ 276,843	$ 429,547

See notes to condensed consolidated financial statements

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QUINSTREET, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Fiscal Year Ended June 30, 2014	2013	2012
Net revenue	$ 282,549	$ 305,101	$ 370,468
Cost of revenue [(1)]	241,907	251,591	283,466
Gross profit	40,642	53,510	87,002
Operating expenses: [(1)]			
Product development	19,548	19,048	21,051
Sales and marketing	16,385	14,705	14,074
General and administrative	17,046	16,226	23,375
Impairment of goodwill	95,641	92,350	
Operating (loss) income	(107,978)	(88,819)	28,502
Interest income	115	115	134
Interest expense	(3,825)	(5,200)	(4,462)
Other income (expense), net	1,493	(69)	(42)
(Loss) income before income taxes	(110,195)	(93,973)	24,132
(Provision for) benefit from taxes	(36,209)	26,601	(11,131)
Net (loss) income	$ (146,404)	$ (67,372)	$ 13,001
Net (loss) income per share:			
Basic	$ (3.36)	$ (1.57)	$ 0.28
Diluted	$ (3.36)	$ (1.57)	$ 0.28
Weighted average shares used in computing net (loss) income per share			
Basic	43,528	42,816	45,846
Diluted	43,528	42,816	46,859

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

Cost of revenue	$ 2,767	$ 3,930	$ 4,293
Product development	2,429	2,765	2,570
Sales and marketing	2,937	3,264	3,096
General and administrative	2,296	2,057	3,037

See notes to condensed consolidated financial statements

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QUINSTREET, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(In thousands)

	Fiscal Year Ended June 30,		
	2014	2013	2012
Net (loss) income	$ (146,404)	$ (67,372)	$ 13,001
Other comprehensive (loss) income			
Unrealized loss on investments	(17)	(16)	(2)
Foreign currency translation adjustment	(49)	(32)	(358)
Interest rate swap			
Change in unrealized gain (loss)	24	483	(1,138)
Less: reclassification adjustment for gain included in net (loss) income		(8)	8
Net change	24	475	(1,130)
Other comprehensive (loss) income	(42)	427	(1,490)
Comprehensive (loss) income	$ (146,446)	$ (66,945)	$ 11,511

See notes to condensed consolidated financial statements

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QUINSTREET, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(In thousands, except share data)

	Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Total Shareholders Equity
	Shares	Amount	Shares	Amount				
Balance at June 30, 2011	49,564,877	$ 50	(2,177,452)	$ (7,779)	$ 255,689	$ 51	$ 107,378	$ 355,389
Issuance of common stock upon exercise of stock options	525,995	1			4,697			4,698
Release of RSUs	62,530							
Stock-based compensation					12,996			12,996
Withholding taxes on the net settlement of RSUs					(417)			(417)
Excess tax losses from stock-based compensation					(694)			(694)
Repurchase of common stock			(4,753,919)	(45,126)				(45,126)
Retirement of treasury stock	(6,802,571)	(8)	6,802,571	51,727	(51,719)			
Comprehensive income:								
Net income							13,001	13,001
Unrealized gain (loss) on investments						(2)		(2)
Currency translation adjustments						(358)		(358)
Unrealized (loss) gain on interest rate swap						(1,130)		(1,130)
Balance at June 30, 2012	43,350,831	$ 43	(128,800)	$ (1,178)	$ 220,552	$ (1,439)	$ 120,379	$ 338,357
Issuance of common stock upon exercise of stock options	120,508				457			457
Release of RSUs	53,910							
Stock-based compensation					12,109			12,109
Withholding taxes on the net settlement of RSUs					(244)			(244)
Excess tax benefits from stock-based compensation					140			140
Repurchase of common stock			(509,565)	(4,979)				(4,979)
Retirement of treasury stock	(638,365)		638,365	6,157	(6,157)			
Comprehensive loss:								
Net loss							(67,372)	(67,372)
Unrealized gain (loss) on investments						(16)		(16)
Currency translation adjustments						(32)		(32)
Unrealized (loss) gain on interest rate swap						475		475
Balance at June 30, 2013	42,886,884	$ 43		$	$ 226,857	$ (1,012)	$ 53,007	$ 278,895
Issuance of common stock upon exercise of stock options	731,936	1			3,652			3,653
Release of RSUs	407,088							
Stock-based compensation					10,562			10,562
Withholding taxes on the net settlement of RSUs					(1,958)			(1,958)
					445			445

Excess tax benefits from stock-based compensation							
Comprehensive loss:							
Net loss						(146,404)	(146,404)
Unrealized gain (loss) on investments					(17)		(17)
Currency translation adjustments					(49)		(49)
Unrealized (loss) gain on interest rate swap					24		24
Balance at June 30, 2014	44,025,908	$ 44	$	$ 239,558	$ (1,054)	$ (93,397)	$ 145,151

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QUINSTREET, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Fiscal Year Ended June 30,		
	2014	**2013**	**2012**
Cash Flows from Operating Activities			
Net (loss) income	$ (146,404)	$ (67,372)	$ 13,001
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation and amortization	26,097	32,325	31,150
Impairment of goodwill	95,641	92,350	
Write-off of bank loan upfront fees		680	
Provision for sales returns and doubtful accounts receivable	(104)	(781)	84
Stock-based compensation	10,429	12,016	12,996
Excess tax benefits from stock-based compensation	(543)	(156)	(197)
Other adjustments, net	(1,117)	146	598
Changes in assets and liabilities, net of effects of acquisitions:			
Accounts receivable	(3,484)	15,309	(1,983)
Prepaid expenses and other assets	(6,331)	3,344	(2,617)
Deferred taxes	45,075	(30,758)	2,782
Accounts payable	539	(4,582)	(376)
Accrued liabilities	(161)	(1,382)	(7,405)
Deferred revenue	(702)	(725)	(242)
Other liabilities, noncurrent	(558)	251	(1,416)
Net cash provided by operating activities	18,377	50,665	46,375
Cash Flows from Investing Activities			
Capital expenditures	(5,455)	(1,341)	(2,268)
Business acquisitions	(875)		(60,075)
Other intangibles	(2,816)	(2,515)	
Internal software development costs	(2,494)	(2,511)	(2,379)
Purchases of marketable securities	(50,770)	(51,030)	(46,864)
Proceeds from sales and maturities of marketable securities	49,768	49,911	45,002
Proceeds from sale of investment	1,437		
Other investing activities	474	17	30
Net cash used in investing activities	(10,731)	(7,469)	(66,554)
Cash Flows from Financing Activities			
Proceeds from exercise of common stock options	3,329	457	4,698
Proceeds from bank debt			5,884
Principal payments on bank debt	(12,500)	(7,500)	(5,125)
Payment of bank loan upfront fees		(200)	(1,370)
Principal payments on acquisition-related notes payable	(2,953)	(8,128)	(3,366)
Excess tax benefits from stock-based compensation	543	156	197
Withholding taxes related to restricted stock net share settlement	(1,958)	(244)	(417)
Repurchases of common stock		(6,157)	(43,948)
Net cash used in financing activities	(13,539)	(21,616)	(43,447)

Effect of exchange rate changes on cash and cash equivalents	(47)	6	(133)
Net (decrease) increase in cash and cash equivalents	(5,940)	21,586	(63,759)
Cash and cash equivalents at beginning of period	90,117	68,531	132,290
Cash and cash equivalents at end of period	$ 84,177	$ 90,117	$ 68,531
Supplemental Disclosure of Cash Flow Information			
Cash paid for interest	3,762	4,333	3,786
Cash paid for taxes	1,569	2,163	13,721
Supplemental Disclosure of Noncash Investing and Financing Activities			
Notes payable issued in connection with business acquisitions			5,096
Retirement of treasury stock		6,157	51,727
Short term payables		2,500	
Purchases of property and equipment		2,041	

See notes to condensed consolidated financial statements

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QUINSTREET, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. The Company

QuinStreet, Inc. (the Company) is a leader in performance marketing online. The Company was incorporated in California on April 16, 1999 and reincorporated in Delaware on December 31, 2009. The Company provides vertically oriented customer acquisition programs for its clients. The corporate headquarters are located in Foster City, California, with additional offices in the United States, 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. 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

Direct Marketing Services (DMS) revenue, which constituted more than 99% in fiscal year 2014, 2013 and 2012, is derived from fees which are earned through the delivery of qualified leads, clicks, calls, customers and, to a lesser extent, display advertisements (impressions). The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectability is reasonably assured. Delivery is deemed to have occurred at the time a qualified lead, click, call, customer or impression 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 new standard. The Company establishes best estimates within a range of selling prices considering multiple factors including, but not limited to, class of client, size of transaction, available media inventory, pricing strategies and market conditions. The Company believes the use of the best estimate of selling price allows revenue recognition in a manner consistent with the underlying economics of the transaction.

From time to time, the Company may agree to credit a client for certain leads, clicks, calls, 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 management s expectations.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

All other revenue, which constituted less than 1% in fiscal year 2014, 2013 and 2012, comprises (i) set-up and professional services fees and (ii) usage fees. Set-up and professional service fees that do not provide stand-alone value to a client are recognized over the contractual term of the agreement or the expected client relationship period, whichever is longer, effective when the application reaches the go-live date. The Company defines the go-live date as the date when the application enters into a production environment or all essential functionalities have been delivered. Usage fees are recognized on a monthly basis as earned.

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

Concentrations of Credit Risk

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

The Company s accounts receivable are derived from clients located principally in the United States. The Company performs ongoing credit evaluation of its clients, does not require collateral, and maintains allowances for potential credit losses on client accounts when deemed necessary. No client accounted for 10% or more of net accounts receivable or net revenue for either fiscal year 2014 or 2013.

Fair Value of Financial Instruments

The Company s financial instruments consist principally of cash equivalents, marketable securities, accounts receivable, accounts payable, acquisition-related promissory notes, an interest rate swap, short term payables, and a term loan. 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; and quoted prices for similar instruments in active markets for its U.S municipal securities and certificates of deposit that mature within 90 days. The recorded values of the Company s accounts receivable and accounts payable approximate their current fair values due to the relatively short-term nature of these accounts. The fair value of acquisition-related promissory notes and short term payables approximate their recorded amounts as the interest rates on similar financing arrangements available to the Company at June 30, 2014 approximate the interest rates implied when these acquisition-related promissory notes and short term payables were originally issued and recorded. The fair value of the interest rate swap is based upon fair value quotes from the issuing bank and the Company assesses the quotes for reasonableness by comparing them to the present values of expected cash flows. The present value approach is based on observable market interest rate curves that are commensurate with the terms of the interest rate swaps. The carrying value represents the fair value of the swaps, as adjusted for any non-performance risk associated with the Company at June 30, 2014. The Company believes that the fair value of the term loan approximates its recorded amount at June 30, 2014 as the interest rate on the term loan is variable and is based on market interest rates and after consideration of default and credit risk.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Cash and Cash Equivalents

All highly liquid investments with maturities of three months or less at the date of purchase are classified as cash equivalents. Cash equivalents consist primarily of money market funds, municipal securities and certificates of deposit with original maturities of three months or less.

Property and Equipment

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

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

Internal Software Development Costs

The Company incurs costs to develop software for internal use. The Company expenses all costs that relate to the planning and post-implementation phases of development as product development expense. Costs incurred in the development phase are capitalized and amortized over the product s estimated useful life if the product is expected to have a useful life beyond six months. Costs associated with repair or maintenance of existing sites or the developments of website content are included in cost of revenue in the accompanying statements of operations. The Company s policy is to amortize capitalized internal software development costs on a product-by-product basis using the straight-line method over the estimated economic life of the application, which is generally two years. The Company capitalized $2.5 million, $2.5 million, and $1.9 million in fiscal years 2014, 2013 and 2012. Amortization of internal software development costs is reflected in cost of revenue.

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 has two reporting units for purposes of allocating and testing goodwill, DMS and DSS. The Company performed its annual goodwill impairment test on April 30, 2014. While the Company is permitted to conduct a qualitative assessment to determine whether it is necessary to perform a two-step quantitative goodwill impairment test, for its annual goodwill impairment test in the fourth quarter of fiscal 2014, the Company performed a quantitative test for both of its reporting units.

In the first step of the annual impairment test, the Company compared the fair value of each reporting unit to its carrying value. The Company estimated the fair value of the DSS reporting unit using only the income approach as market comparables were not meaningful. The Company concluded that the carrying value of the

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DSS reporting unit exceeded its estimated fair value therefore it performed a Step 2 analysis, as required and recorded a goodwill impairment charge of $1.2 million for the entire goodwill of its DSS reporting unit. The Company estimated the fair value of our DMS reporting unit based on the Company s market capitalization and determined that there were no instances of impairment in its DMS reporting unit.

The Company s public market capitalization sustained a decline after June 30, 2014 primarily due to the Company s operating results in the fourth quarter of fiscal year 2014, to a value below the net book carrying value of the Company s equity. As a result, the Company determined that this triggered the necessity to conduct an interim goodwill impairment test as of June 30, 2014. The Company first tested the long-lived assets related to the DMS reporting unit as of June 30, 2014 and, based on the undiscounted cash flows, determined that these assets were not impaired.

A two-step process was then required to test goodwill impairment. The first step is to determine if there is an indication of impairment by comparing the estimated fair value to its carrying value including goodwill. Goodwill is considered impaired if the carrying value exceeds the estimated fair value. Upon indication of impairment, a second step is performed to determine the amount of the impairment by comparing the implied fair value of the reporting unit s goodwill with its carrying value.

The Company estimated the fair value of its DMS reporting unit using a weighting of fair values derived most significantly from the market approach which approximated the Company s market capitalization and to a lesser extent the income approach. Under the market approach, the Company utilize publicly-traded comparable company information to determine revenue and earnings multiples that are used to value its reporting units adjusted for an estimated control premium. As the DMS reporting unit represents substantially the entire Company, the market approach has been reconciled to the Company market capitalization. Under the income approach, the Company estimate the fair value of a reporting unit based on the present value of estimated future cash flows. Cash flow projections are based on management s estimates of revenue growth rates and operating margins, taking into consideration industry and market conditions. The discount rate used is based on the weighted-average cost of capital adjusted for the relevant risk associated with business-specific characteristics and the uncertainty related to the reporting unit s ability to execute on the projected cash flows.

The second step of the goodwill impairment test required the Company to fair value all assets and liabilities of its DMS reporting unit to determine the implied fair value of goodwill. The Company compared the implied fair value of the reporting unit s goodwill to its carrying value. This test resulted in a non-cash goodwill impairment charge in aggregate of $95.6 million for the year ended June 30, 2014. The inputs used to measure the estimated fair value of goodwill are classified as a Level 3 fair value measurement due to the significance of unobservable inputs in income approach using company specific information.

The Company recorded a non-cash goodwill impairment charge in aggregate of $92.4 million for the year ended June 30, 2013.

Long-Lived Assets

The Company evaluates long-lived assets, such as property and equipment and purchased intangible assets with finite lives, for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The Company applies judgment when assessing the fair value of the assets based on the undiscounted future cash flows the assets are expected to generate and recognizes an impairment loss if estimated undiscounted future cash flows expected to result from the use of the asset plus net proceeds expected from disposition of the asset, if any, are less than the carrying value of the asset. When the Company identifies an impairment, it reduces the carrying amount of the asset to its estimated fair value based on a

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

discounted cash flow approach or, when available and appropriate, to comparable market values. The Company tested its long-lived assets related to the DMS reporting unit as of June 30, 2014 and, based on the undiscounted cash flows, determined that these assets were not impaired.

Advertising Costs

The Company expenses advertising costs the first time the advertising takes place. The Company s advertising costs were $1.1 million in fiscal 2014. The Company did not incur any advertising costs for fiscal year 2013 and advertising costs were $0.2 million in fiscal year 2012.

Income Taxes

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

Foreign Currency Translation

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

Comprehensive (Loss) Income

Comprehensive (loss) income consists of two components, net (loss) income and other comprehensive loss. Other comprehensive loss refers to revenue, expenses, gains, and losses that under GAAP are recorded as an element of stockholders equity but are excluded from net (loss) income. 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, unrealized gains and losses on marketable securities categorized as available-for-sale and unrealized gains and losses on the interest rate swap. Total accumulated other comprehensive loss is displayed as a separate component of stockholders equity.

Derivative Instrument

During the third quarter of fiscal year 2012, the Company entered into an interest rate swap agreement to hedge the interest rate exposure relating to its borrowing under its term loan. The Company does not speculate using derivative instruments. The Company entered into this derivative instrument arrangement solely for the purpose of risk management.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The current and noncurrent portion of the interest rate swap is recorded in accrued liabilities and other liabilities, noncurrent, respectively, on the consolidated balance sheets at fair value based upon quoted market prices. Changes in the fair value of this interest rate swap are recorded in other comprehensive (loss) income because the Company has designated the swap as a cash flow hedge. Gains or losses on the interest rate swap as reported in other comprehensive (loss) income are classified to interest expense in the period the hedged item affects earnings. If the term loan ceases to exist, any associated amounts reported in other comprehensive (loss) income are reclassified to earnings at that time. Any hedge ineffectiveness is recognized immediately in earnings in the current period. Refer to Note 9, Debt, for additional information regarding the Company s credit facility and interest rate swap.

Loss Contingencies

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

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

Stock-Based Compensation

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

For awards with graded vesting the Company recognizes stock-based compensation expense over the requisite service period using the straight-line method, based on awards ultimately expected to vest. The Company estimates future forfeitures at the date of grant and revises the estimates, if necessary, in subsequent periods if actual forfeitures differ from those estimates. 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 for fiscal years 2014, 2013 or 2012.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Recent Accounting Pronouncements

In July 2012, the FASB issued an update to the accounting standard for intangibles. The revised standard update allows entities to use a qualitative approach to test indefinite-lived intangible assets for impairment. It permits an entity to first perform a qualitative assessment to determine whether it is more-likely-than-not that the fair value of an indefinite-lived intangible asset is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the currently prescribed quantitative impairment test by comparing the fair value of the indefinite-lived intangible asset with its carrying value. Otherwise, the quantitative impairment test is not required. The Company s adoption of this accounting standard update during the fourth quarter of fiscal 2014 did not have a material effect on the Company s consolidated financial statements.

In February 2013, the FASB issued an update to the accounting standard for accumulated other comprehensive income (loss). The revised standard update requires entities to present information about significant items reclassified out of accumulated other comprehensive income (loss) by component either on the face of the statement where net (loss) income is presented or as a separate disclosure in the notes to the financial statements. The Company s adoption of this revised standard update in the first quarter of fiscal year 2014 did not have a material impact on its financial position, results of operations or cash flows.

In July 2013, the FASB issued a new accounting standard update on the financial presentation of unrecognized tax benefits. The new guidance provides that a liability related to an unrecognized tax benefit would be presented as reduction of a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax position is disallowed. The new guidance becomes effective July 1, 2015 for the Company and it should be applied prospectively to unrecognized tax benefits that exist at the effective date, although retrospective application is permitted. The Company does not believe that the adoption will have a material effect on the Company s consolidated financial statements.

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. The new guidance becomes effective July 1, 2017 for the Company. The Company is currently assessing the impact of this new guidance.

In June 2014, the FASB issued a new accounting standard update on accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period, which amends ASC 718, Compensation Stock Compensation. The amendment provides guidance on the treatment of shared-based payment awards with a specific performance target, requiring that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. The new guidance becomes effective for fiscal years, and interim periods within those years, beginning after December 15, 2015 with early adoption permitted. The Company is currently evaluating the impact of this guidance.

3. Net (Loss) Income per Share

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	2014	Fiscal Year Ended 2013 (In thousands, except per share data)	2012
Numerator:			
Basic and Diluted:			
Net (loss) income	$ (146,404)	$ (67,372)	$ 13,001
Denominator:			
Basic and Diluted:			
Weighted average shares of common stock used in computing basic and diluted net (loss) income per share	43,528	42,816	45,846
Diluted:			
Weighted average shares of common stock used in computing basic net (loss) income per share	43,528	42,816	45,846
Weighted average effect of dilutive securities:			
Stock options			1,004
Restricted stock units			9
Weighted average shares of common stock used in computing diluted net (loss) income per share	43,528	42,816	46,859
Net (loss) income per share:			
Basic	$ (3.36)	$ (1.57)	$ 0.28
Diluted [(1)]	$ (3.36)	$ (1.57)	$ 0.28
Securities excluded from weighted average shares used in computing diluted net loss per share because the effect would have been anti-dilutive: [(2)]	8,843	9,417	6,749

(1) Diluted EPS does not reflect any potential common stock relating to stock options or restricted stock units due to net loss incurred for the years ended June 30, 2014 and 2013. 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 and Marketable Securities

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).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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, 2014 and 2013, 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, 2014 and 2013, the Company used Level 2 assumptions for its U.S. municipal securities, certificates of deposit, acquisition-related promissory notes, term loan, and interest rate swap.

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, 2014 and 2013, the Company did not have any Level 3 financial assets or liabilities.

The Company s financial assets and liabilities as of June 30, 2014 and 2013 were categorized as follows in the fair value hierarchy (in thousands):

	Fair Value Measurements as of June 30, 2014 Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Assets:			
U.S. municipal securities	$	$ 12,816	$ 12,816
Certificates of deposit		26,293	26,293
Money market funds	38,641		38,641
	$ 38,641	$ 39,109	$ 77,750
Liabilities:			
Acquisition-related promissory notes (1)	$	$ 603	$ 603
Term loan (1)		76,660	76,660
Interest rate swap		630	630
	$	$ 77,893	$ 77,893

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Fair Value Measurements as of June 30, 2013 Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Assets:			
U.S. municipal securities	$	$ 25,544	$ 25,544
Certificates of deposit		16,923	16,923
Money market funds	38,465		38,465
	$ 38,465	$ 42,467	$ 80,932
Liabilities:			
Acquisition-related promissory notes [1]	$	$ 3,875	$ 3,875
Term loan [1]		88,802	88,802
Interest rate swap		655	655
	$	$ 93,332	$ 93,332

(1) These liabilities are carried at historical cost on the Company s consolidated balance sheet.

Marketable Securities

All liquid investments with maturities of three months or less at the date of purchase are classified as cash equivalents. Investments with maturities greater than three months at the date of purchase are classified as marketable securities. The Company s marketable securities have been classified and accounted for as available-for-sale. Management determines the appropriate classification of its investments at the time of purchase and reevaluates the available-for-sale designation as of each balance sheet date. Available-for-sale securities are carried at fair value, with unrealized gains and losses, net of tax, reported in accumulated comprehensive loss as a component of stockholders equity. These available-for-sale securities are presented as current assets as they are available for current operations.

The following table summarizes unrealized gains and losses related to available-for-sale securities held by the Company as of June 30, 2014 and 2013 (in thousands):

	As of June 30 2014			
	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. municipal securities	$ 12,812	$ 4	$	$ 12,816
Certificates of deposit	26,330		37	26,293
Money market funds	38,641			38,641
	$ 77,783	$ 4	$ 37	$ 77,750

	As of June 30, 2013			
	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. municipal securities	$ 25,538	$ 6	$	$ 25,544
Certificates of deposit	16,945		22	16,923
Money market funds	38,465			38,465
	$ 80,948	$ 6	$ 22	$ 80,932

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Balance Sheet Components

Accounts Receivable, Net

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

	June 30, 2014	June 30, 2013
Accounts receivable	$ 43,901	$ 40,417
Less: Allowance for doubtful accounts	(364)	(264)
Less: Allowance for sales returns	(1,558)	(1,762)
	$ 41,979	$ 38,391

Property and Equipment, Net

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

	June 30, 2014	June 30, 2013
Computer equipment	$ 15,111	$ 12,293
Software	10,508	9,145
Furniture and fixtures	3,024	2,780
Leasehold improvements	1,796	1,862
Internal software development costs	23,603	21,108
	54,042	47,188
Less: Accumulated depreciation and amortization	(42,916)	(37,481)
	$ 11,126	$ 9,707

Depreciation expense was $3.9 million, $3.3 million and $3.3 million for fiscal years 2014, 2013 and 2012. Amortization expense related to internal software development costs was $2.6 million, $2.2 million and $1.9 million for fiscal years 2014, 2013 and 2012.

Accrued liabilities

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

	June 30, 2014	June 30, 2013
Accrued media costs	$ 14,407	$ 14,657
Accrued compensation and related expenses and taxes payable	7,103	8,179

Accrued professional service and other business expenses	6,344	8,067
Total accrued liabilities	$ 27,854	$ 30,903

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Acquisitions

Acquisitions in Fiscal Year 2014

In December 2013, the Company acquired the operations of an online publishing business in exchange for $0.9 million in cash paid upon closing of the acquisition.

Acquisitions in Fiscal Year 2013

The Company did not complete any acquisitions during fiscal year 2013.

Acquisitions in Fiscal Year 2012

Acquisition of Ziff Davis Enterprise

On February 3, 2012, the Company acquired certain assets of Ziff Davis Enterprise from Enterprise Media Group, Inc., a New York-based online media and marketing company in the business-to-business technology market, for $17.3 million in cash, to broaden its registered user database and brand name in the business-to-business technology market. The results of the acquired assets of Ziff Davis Enterprise have been included in the consolidated financial statements since the acquisition date.

	Amount (in thousands)
Cash	$ 17,270

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

	Estimated Fair Value	Estimated Useful Life
Liabilities assumed	$ (255)	
Customer/publisher/advertiser relationships	4,120	5 years
Content	500	2 years
Website/trade/domain names	4,630	5 years
Registered user database	6,320	3 years
Goodwill	1,955	Indefinite
	$ 17,270	

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

On August 25, 2011, the Company acquired 100% of the outstanding equity interests of ITBE, in exchange for $24.0 million in cash, to broaden its registered user database and media access in the business-to-business technology market. The results of ITBE s operations have been included in the consolidated financial statements since the acquisition date.

	Amount (in thousands)
Cash	$ 23,961

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

	Estimated Fair Value	Estimated Useful Life
Tangible assets acquired	$ 3,597	
Liabilities assumed	(1,868)	
Customer/publisher/advertiser relationships	3,230	5 years
Content	420	2 years
Website/trade/domain names	2,220	5 years
Registered user database	4,220	3 years
Noncompete agreements	100	3 years
Goodwill	12,042	Indefinite
	$ 23,961	

Other Acquisitions in Fiscal Year 2012

During fiscal year 2012, in addition to the acquisition of certain assets of Ziff Davis Enterprise, and the acquisition of ITBE, the Company also acquired operations from eleven other online publishing businesses in exchange for an aggregate of $14.6 million in cash, $3.1 million in non-interest-bearing, promissory notes payable over a period of two years, secured by the assets acquired in respect to which the notes were issued and $2.1 million in non-interest-bearing, unsecured promissory notes payable over a period of one year. The Company also recorded $4.6 million in earn-out payments related to a prior period acquisition as an addition to goodwill. The aggregate purchase price recorded was as follows (in thousands):

	Amount
Cash	$ 14,620
Fair value of debt (net of $99 of imputed interest)	9,696
	$ 24,316

The acquisitions were accounted for as purchase business combinations. In each of the acquisitions, the Company allocated the purchase price to identifiable intangible assets acquired based on their estimated fair values. The excess of the purchase price over the aggregate fair value was recorded as goodwill. 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	$ 435	3-5 years

Content	4,540	2-5 years
Website/trade/domain names	1,250	4-8 years
Acquired technology and other	561	4-5 years
Noncompete agreements	87	1-3.5 years
Goodwill	17,443	Indefinite
	$ 24,316	

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Intangible Assets, Net and Goodwill

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

	June 30, 2014			June 30, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer/publisher/advertiser relationships	$ 37,040	$ (31,185)	$ 5,855	$ 37,035	$ (28,321)	$ 8,714
Content	62,196	(50,348)	11,848	62,028	(43,054)	18,974
Website/trade/domain names	31,652	(21,482)	10,170	31,597	(17,403)	14,194
Acquired technology and others	36,744	(33,176)	3,568	36,425	(27,821)	8,604
	$ 167,632	$ (136,191)	$ 31,441	$ 167,085	$ (116,599)	$ 50,486

Amortization of intangible assets was $19.6 million, $26.8 million and $26.0 million for fiscal years 2014, 2013 and 2012.

The Company licensed certain patents for $4.9 million during the second quarter of fiscal year 2013, and these patents and related short term payables are recorded in other intangible assets, net and accrued liabilities, respectively, on the condensed consolidated balance sheet. Based on the Company s analysis, using a relief from royalty method, the Company determined that a portion of the license fee for these patents represents the cumulative cost relating to prior years. As such, the Company recorded $2.4 million as a charge to cost of revenue during the second quarter of fiscal year 2013. The remaining amount will be amortized over the remaining life of the patents.

Amortization expense for the Company s acquisition-related intangible assets as of June 30, 2014 for each of the next five years and thereafter is as follows (in thousands):

Year Ending June 30,	Amortization
2015	$ 12,512
2016	8,947
2017	6,114
2018	2,203
2019	767
Thereafter	898
	$ 31,441

The changes in the carrying amount of goodwill for fiscal years 2014 and 2013 were as follows (in thousands):

	DMS	DSS	Total
Balance at June 30, 2012	$ 241,818	$ 1,231	$ 243,049
Additions			
Other	(243)		(243)

Impairment	(92,350)		(92,350)
Balance at June 30, 2013	$ 149,225	$ 1,231	$ 150,456
Additions	636		636
Other			
Impairment	(94,410)	(1,231)	(95,641)
Balance at June 30, 2014	$ 55,451	$	$ 55,451

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The additions to goodwill relate to the Company s acquisitions as described in Note 6, Acquisitions, and primarily reflect the value of the synergies expected to be generated from combining the Company s technology and know-how with the acquired businesses access to online visitors. Any change in goodwill amounts resulting from foreign currency translation are presented as Other in the above table. The impairment charge recorded during fiscal years 2014 and 2013 is described in Note 2, Summary of Significant Accounting Policies.

8. Income Taxes

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

	Fiscal Year Ended June 30,		
	2014	**2013**	**2012**
US	$ (109,257)	$ (89,087)	$ 23,957
Foreign	(938)	(4,886)	175
	$ (110,195)	$ (93,973)	$ 24,132

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

	Fiscal Year Ended June 30,		
	2014	**2013**	**2012**
Current			
Federal	$ (8,885)	$ 3,388	$ 10,417
State	(374)	577	413
Foreign	361	365	291
Total current provision for income taxes	(8,898)	4,330	11,121
Deferred			
Federal	$ 42,842	$ (29,763)	$ (719)
State	2,265	(1,249)	664
Foreign		81	65
Total deferred provision for (benefit from) income taxes	45,107	(30,931)	10
Provision for (benefit from) income taxes	$ 36,209	$ (26,601)	$ 11,131

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

	Fiscal Year Ended June 30,		
	2014	**2013**	**2012**
Federal tax rate	34.0%	35.0%	35.0%

States taxes, net of federal benefit	2.4%	0.9%	3.7%
Foreign rate differential	(0.6)%	(1.1)%	
Stock-based compensation expense	(3.6)%	(1.7)%	8.2%
Change in valuation allowance	(60.5)%	(1.0)%	
Impairment of goodwill	(4.3)%	(4.6)%	
Research and development credits	0.3%		
Other	(0.7)%	0.8%	(0.8)%
Effective income tax rate	(32.8)%	28.3%	46.1%

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

	Fiscal Year Ended June 30, 2014	2013
Current:		
Reserves and accruals	$ 2,686	$ 2,883
Stock options	2,035	2,647
Deferred revenue		95
Intangible assets		
Other	91	1,128
Net operating loss		
Total current deferred tax assets	4,812	6,753
Valuation allowance - ST	(4,589)	
Current deferred tax assets, net	$ 223	$ 6,753
Noncurrent:		
Reserves and accruals	$ 1,309	$ 2,067
Stock options	6,106	7,942
Intangible assets	57,083	32,669
Net operating loss	255	
Fixed assets	(1,193)	(1,442)
Foreign		
Tax Credits	1,568	
Other	167	
Total noncurrent deferred tax assets	65,295	41,236
Valuation allowance - LT	(63,583)	(947)
Noncurrent deferred tax assets, net	$ 1,712	$ 40,289
Total deferred tax assets, net	$ 1,935	$ 47,042

The Company regularly assesses the need for a valuation allowance against its deferred tax assets. Significant judgment is required to determine whether a valuation allowance is necessary and the amount of such valuation allowance, if appropriate. The Company considers all available evidence, both positive and negative to determine, based on the weight of available evidence, whether it is more likely than not that some or all of the deferred tax assets will not be realized. In evaluating the need 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. The Company determined that the significant negative evidence associated with cumulative losses in recent periods and current results outweighed the positive evidence as of December 31, 2013 and accordingly, the near-term realization of certain of these assets was deemed unlikely. The Company recorded a one-time, non-cash charge to income tax expense of $40.2 million to establish a valuation allowance against a significant portion of its deferred tax assets in the second quarter of fiscal 2014. The Company will continue to assess the likelihood that the deferred tax assets will be realizable at each reporting period and the valuation allowance will be adjusted accordingly.

The change in the valuation allowance was $67.2 million primarily related to setting up the valuation allowance and including a valuation of the Company s deferred tax assets in the United States.

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As of June 30, 2014, the Company had no Federal operating loss carry-forwards. The state operating loss carryforward is approximately $5.2 million. Included in the California and other state NOL carryovers above $0.2 million and $0.2 million, respectively, relate to stock option windfall deductions which, when realized will be credited to equity. The operating loss carryforward in the India jurisdiction is approximately $2.7 million which will begin to expire on June 30, 2020. The Company has Federal and California research and development tax credit carry-forwards of approximately $0.3 million and $2.8 million, respectively, to offset future taxable income. The Federal research and development tax credits, if not used, will begin to expire on June 30, 2034, while the state tax credit carry-forwards do not have an expiration date and may be carried forward indefinitely.

United States federal income taxes have not been provided for the $2.1 million of cumulative undistributed earnings of the Company s foreign subsidiaries as of June 30, 2014. The Company s present intention is that such undistributed earnings be permanently reinvested offshore, with the exception of the undistributed earnings of its Canadian subsidiary. The Company would be subject to additional United States taxes if these earnings were repatriated. The amount of the unrecognized deferred income tax liability related to these earnings is not practical to estimate.

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

		Fiscal Year	
	2014	**2013**	**2012**
Balance at the beginning of the year	$ 2,692	$ 2,436	$ 2,312
Gross increases - current period tax positions	379	389	351
Gross increases - prior period tax positions	323	132	
Reductions as a result of lapsed statute of limitations	(317)	(265)	(227)
Balance at the end of the year	$ 3,077	$ 2,692	$ 2,436

The Company s policy is to include interest and penalties related to unrecognized tax benefits within the Company s (provision for) benefit from income taxes. As of June 30, 2014, the Company has accrued $1.0 million for interest and penalties related to the unrecognized tax benefits. The balance of unrecognized tax benefits and the related interest and penalties is recorded as a noncurrent liability on the Company s consolidated balance sheet.

As of June 30, 2014, unrecognized tax benefits of $3.1 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 2009. The Company files income tax returns in the United States, various U.S. states and certain foreign jurisdictions. As of June 30, 2014, the tax years 2011 through 2013 remain open in the U.S., the tax years 2009 through 2013 remain open in the various state jurisdictions, and the tax years 2011 through 2013 remain open in various foreign jurisdictions.

9. Debt

Credit Facility

In November 2011, the Company entered into the Second Amended and Restated Revolving Credit and Term Loan Agreement (Second Loan Agreement) with Comerica Bank (the Bank), the administrative agent and lead arranger. The Second Loan Agreement consists of a $100.0 million five-year term loan, with annual principal amortization of 5%, 10%, 15%, 20% and 50%, and a $200.0 million five-year revolving credit line.

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On February 15, 2013, the Company entered into the First Amendment to Credit Agreement and Amendment to Guaranty (First Amendment) with the Bank to, among other things: (1) amend the definition of EBITDA, effective as of December 31, 2012, to exclude extraordinary or non-recurring non-cash expenses or losses including, without limitation, goodwill impairments, and any extraordinary or non-recurring cash expenses in an aggregate amount not to exceed $5.0 million for the life of the Second Loan Agreement; and (2) reduce the $200.0 million five-year revolving credit line portion of the facility to $100.0 million, effective as of February 15, 2013. On July 17, 2014, the Company entered into the Second Amendment to Credit Agreement (Second Amendment) with the Bank to, among other things, amend the financial covenants and reduce the revolving loan facility from $100.0 million to $50.0 million, each effective as of June 30, 2014.

Borrowings under the Second Loan Agreement are secured by substantially all of the Company s assets. Interest is payable at a rate computed using either Base rate or Eurodollar rate plus an applicable margin, at the Company s option. Base rate is defined as the applicable margin plus the greatest of (a) the Prime Rate for such day, (b) the Federal Funds Effective Rate in effect on such day, plus 1% and (c) the Daily Adjusting LIBOR Rate plus 1%. Base rate borrowings bear interest at a Base rate plus an applicable margin which varies from (1) 0.625% to 1.375% for revolving loans and (2) 1.00% to 1.75% for term loans, depending on the Company s funded debt to EBITDA ratio. Eurodollar rate borrowings bear interest at the Eurodollar rate plus an applicable margin which varies from (1) 1.625% to 2.375% for revolving loans and (2) 2.00% to 2.75% for term loans, depending on the Company s funded debt to EBITDA ratio. Pursuant to the Second Amendment, for the period beginning on the effective date of the Second Amendment until the delivery of financial statements for the fiscal quarter ending December 31, 2015, (1) the applicable margin for Base rate borrowings is set at (a) 1.375% for revolving loans or (b) 1.75% for term loans, and (2) the applicable margin for Eurodollar rate borrowings is set at (a) 2.375% for revolving loans or (b) 2.75% for term loans. Thereafter, the applicable margin varies depending on our funded debt to EBITDA ratio, as described above.

EBITDA is defined as net (loss) income less (provision for) benefit from taxes, depreciation expense, amortization expense, stock-based compensation expense, interest and other income (expense), acquisition costs for business combinations, extraordinary or non-recurring non-cash expenses or losses including, without limitation, goodwill impairments, and any extraordinary or non-recurring cash expenses in an aggregate amount not to exceed $5.0 million for the life of this Second Loan Agreement. The revolving loan facility requires an annual facility fee of 0.375% of the revolving credit line capacity.

The Second Loan Agreement expires in November 2016. The Second Loan Agreement, as amended, restricts the Company s ability to raise additional debt financing and pay dividends, and also requires the Company to comply with other nonfinancial covenants. In addition, the Company is required to maintain financial covenants as follows:

1. A minimum fixed charge coverage ratio as of the end of each fiscal quarter of not less than:

(a) 1.00:1:00 for the period between September 30, 2015 and June 30, 2016; and

(b) 1.15:1:00 for the period beginning July 1, 2016 and thereafter.

The fixed charge coverage ratio is not tested until the fiscal quarter ending September 30, 2015.

2. Minimum EBITDA as of the end of each fiscal quarter of not less than:

(a) $1 for the period between April 1, 2014 and June 30, 2015;

(b) $3,400,000 for the period between July 1, 2015 and September 30, 2015;

(c) $3,200,000 for the period between October 1, 2015 and December 31, 2015.

EBITDA is not tested after the fiscal quarter ending December 31, 2015.

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3. Minimum liquidity as of the end of each month of not less than $20,000,000.

The Company was in compliance with the covenants of the Second Loan Agreement, as amended, as of June 30, 2014 and 2013.

Upfront arrangement fees incurred in connection with the Second Amendment totaled $0.3 million and will be deferred and amortized over the remaining term of the arrangement.

Upfront arrangement fees incurred in connection with the First Amendment totaled $0.2 million and were deferred and will be amortized over the remaining term of the arrangement. In connection with the reduction of the revolving credit line capacity, during the third quarter of fiscal year 2013 the Company accelerated amortization of approximately $0.7 million of unamortized deferred upfront costs.

As of June 30, 2014 and June 30, 2013, $77.5 million and $90.0 million were outstanding under the term loan. There were no outstanding balances under the revolving credit line as of June 30, 2014 or 2013.

Interest Rate Swap

As discussed in the derivative instrument section in Note 2, Summary of Significant Accounting Policies, the Company entered into an interest rate swap to reduce its exposure to the financial impact of changing interest rates under its term loan. The swap encompasses the principal balances scheduled to be outstanding as of January 1, 2014 and thereafter, such principal amount totaling $85.0 million in January 2014 and amortizing to $35.0 million in November 2016. The effective date of the swap is April 9, 2012 with a maturity date of November 4, 2016. At June 30, 2014, the Company had approximately $77.5 million of notional amount outstanding in the swap agreement that exchanges a variable interest rate base (Eurodollar margin) for a fixed interest rate of 0.97% over the term of the agreement. This interest rate swap is designated as a cash flow hedge of the interest rate risk attributable to forecasted variable interest payments. The effective portion of the fair value gains or losses on this swap are included as a component of accumulated other comprehensive loss.

At June 30, 2014, the fair value of the interest rate swap liability was $0.6 million, of which $0.5 million was classified in current accrued liabilities and $0.1 million was classified as noncurrent other liabilities, and the hedge effective portion of the interest rate swap was $0.6 million.

Promissory Notes

The Company did not issue any promissory notes in fiscal year 2014 and 2013. During fiscal year 2012, the Company issued total promissory notes for the acquisition of businesses of $5.1 million net of imputed interest amount of $0.1 million. All of the promissory notes are non-interest-bearing. For these notes, interest was imputed such that the notes carry an interest rate commensurate with that available to the Company in the market for similar debt instruments. Accretion of promissory notes of $0.1 million, $0.1 million and $0.3 million was recorded as interest expense during fiscal years 2014, 2013 and 2012. Certain of the promissory notes are collateralized by the assets acquired with respect to which the notes were issued.

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Debt Maturities

The maturities of debt as of June 30, 2014 were as follows (in thousands):

Year Ending June 30,	**Promissory Notes**	**Second Loan Agreement**
2015	$ 560	$ 17,500
2016	50	20,000
2017		40,000
2018		
2019		
	610	77,500
Less: imputed interest and unamortized discounts	(7)	(840)
Less: current portion	(556)	(17,142)
Noncurrent portion of debt	$ 47	$ 59,518

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. Commitments and Contingencies

Leases

The Company leases office space and equipment under non-cancelable operating leases with various expiration dates through fiscal year 2019. Rent expense for fiscal years 2014, 2013 and 2012 was $3.6 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 all noncancelable operating leases as of June 30, 2014 were as follows (in thousands):

Year Ending June 30,	**Operating Leases**
2015	$ 3,541
2016	3,582
2017	3,125
2018	3,062
2019	1,099
	$ 14,409

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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, including any extensions under options to extend.

Guarantor Arrangements

The Company has agreements whereby it indemnifies its officers and directors for certain events or occurrences while the officer or director is, or was, serving at the Company s request in such capacity. The term of the indemnification period is for the officer or director s lifetime. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, the Company has a director and officer insurance policy that limits its exposure and enables the Company to recover a portion of any future amounts paid 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, 2014 and June 30, 2013.

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 a third party s intellectual property rights. Where practicable, the Company limits its liabilities under such indemnities. Subject to these limitations, the term of such indemnity provisions is generally coterminous with the corresponding agreements but in some cases survives for a short period of time 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. The payments under such agreements to date have not been significant and accordingly, the Company had no liabilities recorded for these agreements as of June 30, 2014 and 2013.

Litigation

In December 2012, Internet Patents Corporation (IPC) filed a patent infringement lawsuit against the Company in the United States District Court for the Northern District of California, alleging that the Company has infringed a patent held by IPC. In September 2013, the court dismissed a related case because it found that the patent is invalid, and on the same date, the court issued IPC an Order to Show Cause that the lawsuit against the Company should not be dismissed. In October 2013, IPC filed a response to the order and the court subsequently dismissed the case against the Company. In January 2014, IPC filed its appeal in the United States Court of Appeals for the Federal Circuit. While the Company denies IPC s claims and believes that the probability of any loss is remote, there can be no assurance that the Company will prevail in this matter and any adverse ruling or settlement may have a significant impact on its business and operating results. In addition, regardless of the outcome of the matter, the Company may incur significant legal fees defending the action until it is resolved.

11. Stock Benefit Plans

Stock-Based Compensation

In fiscal years 2014, 2013 and 2012, the Company recorded stock-based compensation expense of $10.4 million, $12.0 million, and $13.0 million resulting in the recognition of related excess tax benefits (loss) of $0.5

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

million, $0.1 million and $(0.7) million. The Company included as part of cash flows from financing activities a gross benefit of tax deductions of $0.5 million, $0.2 million and $0.2 million in fiscal years 2014, 2013 and 2012 related to stock-based compensation.

Stock Incentive Plans

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

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

To date, the Company has issued only ISOs, NQSOs and restricted stock units under the 2010 Incentive Plan. ISOs and NQSOs are generally granted to employees with an exercise price equal to the market price of the Company s common stock at the date of grant. Stock options granted to employees generally have a contractual term of seven years and vest over four years of continuous service, with 25 percent of the stock options vesting on the one-year anniversary of the date of grant and the remaining 75 percent vesting in equal monthly installments over the three year period thereafter. Restricted stock units granted to employees prior to fiscal year 2013 generally vest over five years of continuous service, with 15 percent of the restricted stock units vesting on the one-year anniversary of the date of grant, 60 percent vesting in equal quarterly installments over the following three years and the remaining 25 percent vesting in equal quarterly installments over the last year of the vesting period. Restricted stock units granted to employees starting in fiscal year 2013 generally vest over four years of continuous service, with 25 percent of the restricted stock units vesting on the one-year anniversary of the date of grant and 6.25% vesting quarterly thereafter for the next 12 quarters.

An aggregate of 9,210,527 shares of the Company s common stock were reserved for issuance under the 2010 Incentive Plan as of June 30, 2014, 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 7,576,412 shares available for issuance under the 2010 Incentive Plan as of June 30, 2014.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

An aggregate of 1,593,162 shares of the Company s common stock were reserved for issuance under the Directors Plan as of June 30, 2014. 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 1,187,035 shares available for issuance under the Directors Plan as of June 30, 2014.

Valuation Assumptions

The Company estimates the fair value of stock option awards at the date of grant using the Black-Scholes option-pricing model. Options are granted with an exercise price equal to the fair value of the common stock as of the date of grant. The Company calculates the weighted average expected life of options using the simplified method pursuant to the accounting guidance for share-based payments as it does not have sufficient historical exercise experience. The Company estimates the expected volatility of its common stock based on its historical volatility over the stock option s expected term. 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 options.

The weighted average Black-Scholes model assumptions and the weighted average grant date fair value of employee stock options in fiscal years 2014, 2013 and 2012 were as follows:

	Fiscal Year Ended June 30,		
	2014	**2013**	**2012**
Expected term (in years)	4.6	4.6	4.6
Expected volatility	48%	54%	55%
Expected dividend yield	0.0%	0.0%	0.0%
Risk-free interest rate	1.4%	0.7%	1.1%
Grant date fair value	$ 3.67	$ 3.82	$ 5.31

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

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

Stock Option Award Activity

The following table summarizes the stock option award activity under the Plans from June 30, 2012 to June 30, 2014:

	Shares	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Life (in years)**	**Aggregate Intrinsic Value (in thousands)**
Outstanding at June 30, 2012	9,712,316	$ 10.62		
Granted	1,450,662	8.52		
Exercised	(120,508)	3.79		
Forfeited	(612,138)	10.87		
Expired	(390,882)	12.65		
Outstanding at June 30, 2013	10,039,450	$ 10.31	3.39	$ 5,693,691

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Granted	1,449,608	$ 8.98		
Exercised	(731,936)	4.99		
Forfeited	(790,175)	10.75		
Expired	(2,454,355)	10.93		
Outstanding at June 30, 2014	7,512,592	$ 10.32	3.27	$ 225,182
Vested and expected-to-vest at June 30, 2014 [(1)]	7,262,396	$ 10.37	3.18	$ 225,182
Vested and exercisable at June 30, 2014	5,697,399	$ 10.64	2.51	$ 225,182

[(1)] The expected-to-vest options are the result of applying the pre-vesting forfeiture assumption to total outstanding options.
The following table summarizes additional information regarding outstanding and exercisable stock options at June 30, 2014.

	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
$4.60-$6.90	801,563	3.67	$ 5.76	544,039	$ 5.63
$7.01-$9.00	254,719	3.26	$ 8.20	180,719	$ 8.17
$9.01-$9.01	1,382,452	1.68	$ 9.01	1,382,452	$ 9.01
$9.23-$9.44	381,274	4.29	$ 9.34	306,270	$ 9.34
$9.55-$9.55	790,750	6.07	$ 9.55		$
$9.64-$9.91	755,205	4.72	$ 9.67	404,420	$ 9.70
$10.28-$10.28	955,053	0.96	$ 10.28	955,053	$ 10.28
$10.34-$11.26	436,231	3.10	$ 10.85	427,261	$ 10.84
$11.67-$11.67	848,350	4.09	$ 11.67	598,256	$ 11.67
$12.43-$19.00	906,995	3.04	$ 17.11	898,929	$ 17.13
$4.60-$19.00	7,512,592	3.27	$ 10.32	5,697,399	$ 10.64

The following table summarizes the total intrinsic value, the cash received and the actual tax benefit of all options exercised during fiscal years 2014, 2013 and 2012:

Fiscal Year Ended June 30,

	2014	2013	2012
Intrinsic value	$ 1,875	$ 423	$ 1,197
Cash received	3,652	457	4,697
Tax benefit	(470)	113	511

As of June 30, 2014, there was $6.9 million of total unrecognized compensation expense related to unvested stock options which is expected to be recognized over a weighted average period of 2.59 years.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Restricted Stock Unit Activity

The following table summarizes the restricted stock unit activity under the Plans from June 30, 2012 to June 30, 2014:

	Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at June 30, 2012	379,555	$ 13.76	1.95	$ 3,515
Granted	1,658,613	8.75		
Vested	(87,578)	6.95		
Forfeited	(290,381)	10.41		
Outstanding at June 30, 2013	1,660,209	$ 9.70	1.47	$ 14,328
Granted	1,049,276	9.11		
Vested	(650,254)	7.81		
Forfeited	(411,894)	9.57		
Outstanding at June 30, 2014	1,647,337	$ 10.10	1.32	$ 9,077

As of June 30, 2014, there was $12.2 million of total unrecognized compensation expense related to restricted stock units which is expected to be recognized over a weighted average period of 2.72 years.

12. Stockholders Equity

Stock Repurchases

During the fiscal year ended 2014, the Company did not repurchase any shares of common stock.

On November 3, 2011, the Board of Directors authorized a stock repurchase program allowing the Company to repurchase up to $50.0 million of its outstanding shares of its common stock. During fiscal year 2012, the Company repurchased 4,753,919 shares of its common stock for a total of $45.0 million. The Company completed its repurchase program during the first quarter of fiscal year 2013, purchasing 509,565 shares of its common stock for $5.0 million. The Company repurchased an aggregate of 5,263,484 shares of its common stock at a weighted average price of $9.50 per share. Repurchases under this program took place in the open market and were made under a Rule 10b5-1 plan.

Retirement of Treasury Stock

During the fiscal year ended 2014, the Company did not retire any shares of treasury stock.

During the fiscal year ended 2013, the Company retired 638,365 shares of treasury stock, with a carrying value of approximately $6.2 million. These retired shares are now included in the Company s pool of authorized but unissued shares. The retired treasury stock was initially recorded using the cost method. The Company s accounting policy upon the retirement of treasury stock is to deduct its par value from common stock, reduce additional paid-in capital by the amount recorded in additional paid-in capital when the stock was originally issued and any remaining excess of cost as a deduction (increase) of retained earnings (accumulated deficit).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Related Party Transactions

On April 22, 2013, the Company entered into an agreement (the Transition Agreement) with Bronwyn Syiek, the Company s President, which provides for the transition and conclusion of Ms. Syiek s employment with the Company. Pursuant to the Transition Agreement, Ms. Syiek continued to work full time as the Company s President at her existing base salary through September 30, 2013. Ms. Syiek was eligible for, and received, a bonus for fiscal year 2013. On September 18, 2013, the Company entered into an amendment to the Transition Agreement, (the Amended Transition Agreement) whereby the amendment replaced the agreement in its entirety. Pursuant to the Amended Transition Agreement Ms. Syiek s employment with the Company terminated on October 1, 2013, at which point Ms. Syiek entered into a consulting agreement with the Company, in consideration for which her Continuous Service (as defined in the Company s 2010 Equity Incentive Plan) continued for certain of her equity awards. Ms. Syiek received $37,400 in cash compensation under the consulting agreement. The consulting agreement terminated on March 30, 2014.

In connection with its continuing review of non-strategic assets in March 2014, the Company elected to dispose of its equity investment in DemandBase, Inc. (DemandBase). In this regard, the Company contacted a number of existing DemandBase investors, including Split Rock Partners II, LP (Split Rock). Split Rock is managed by Split Rock Partners II Management, LLC, of which one of the Company s directors Mr. James Simons is a managing director. In addition, one of the Company s directors Mr. Gregory Sands is a member of the board of directors of DemandBase and is also a managing partner of Costanoa Venture Capital, which is an investor in DemandBase. The Company conducted an auction process with respect to the sale of the DemandBase shares. Split Rock ultimately prevailed in that process, and the Company s Audit Committee approved the sale in accordance with the Company s related person transactions policy. On April 11, 2014 the Company entered into a Stock Purchase Agreement with Split Rock whereby the partnership purchased all 1,436,781 shares of Series D Preferred Stock of DemandBase owned by the Company for a total purchase price of $1,436,781.

14. Segment Information

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. The Company s chief operating decision maker is its chief executive officer. The Company s chief executive officer reviews financial information presented on a consolidated basis, accompanied by information about operating segments, including net sales and operating income before depreciation, amortization and stock-based compensation expense.

The Company determined its reportable operating segment is DMS, which derives revenue from fees earned through the delivery of qualified leads, clicks, calls, customers and, to a lesser extent, impressions. DSS does not meet the quantitative threshold for an individually reportable segment and is therefore included in the All other line in the following table.

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Summarized information by segment was as follows (in thousands):

	Fiscal Year Ended June 30,		
	2014	2013	2012
Net revenue by segment:			
DMS	$ 281,490	$ 304,085	$ 369,023
All other	1,059	1,016	1,445
Total net revenue	282,549	305,101	370,468
Segment operating income before depreciation, amortization, stock-based compensation expense, and goodwill impairment:			
DMS	23,558	47,316	71,840
All other	631	556	808
Total segment operating income before depreciation, amortization, stock-based compensation expense, and goodwill impairment	24,189	47,872	72,648
Depreciation and amortization	(26,097)	(32,325)	(31,150)
Stock-based compensation expense	(10,429)	(12,016)	(12,996)
Impairment of goodwill	(95,641)	(92,350)	
Total operating (loss) income	$ (107,978)	$ (88,819)	$ 28,502

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

	Fiscal Year Ended June 30,		
	2014	2013	2012
Net revenue:			
United States	$ 278,791	$ 302,178	$ 369,081
International	3,758	2,923	1,387
Total net revenue	$ 282,549	$ 305,101	$ 370,468

	June 30, 2014	June 30, 2013
Property and equipment, net:		
United States	$ 10,878	$ 9,502
International	248	205
Total property and equipment, net	$ 11,126	$ 9,707

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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, 2014. 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, 2014, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Management s Report on Internal Control Over Financial Reporting

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

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

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

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

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

Our management has assessed the effectiveness of the internal control over financial reporting as of June 30, 2014. 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 (1992 Framework). Based on this evaluation, our management has concluded that our internal control over financial reporting was effective as of June 30, 2014.

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The effectiveness of our internal control over financial reporting as of June 30, 2014 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears in this annual report on Form 10-K.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the three months ended June 30, 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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

None.

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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 II 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 2014 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, 2014.

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.

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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 receivables, 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
Accounts receivable and sales returns				
Fiscal year 2012	$ 2,723	$ 2,185	$ (2,101)	$ 2,807
Fiscal year 2013	$ 2,807	$ 97	$ (878)	$ 2,026
Fiscal year 2014	$ 2,026	$ 322	$ (426)	$ 1,922
Deferred tax asset valuation allowance				
Fiscal year 2013	$	$ 947	$	$ 947
Fiscal year 2014	$ 947	$ 67,225	$	$ 68,172

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.

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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 12, 2014.

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 12, 2014
/s/ Gregory Wong Gregory Wong	Chief Financial Officer and Senior Vice President (Principal Financial and Accounting Officer)	September 12, 2014
/s/ William Bradley William Bradley	Director	September 12, 2014
/s/ Robin Josephs Robin Josephs	Director	September 12, 2014
/s/ John G. McDonald John G. McDonald	Director	September 12, 2014
/s/ Gregory Sands Gregory Sands	Director	September 12, 2014

/s/ James Simons	Director	September 12, 2014
James Simons		
/s/ Dana Stalder	Director	September 12, 2014
Dana Stalder		

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EXHIBIT INDEX

Exhibit No.	Description of Exhibit
2.1[8]	Stock Purchase Agreement, dated November 5, 2010, by and among QuinStreet, Inc., Car Insurance.com, Inc., Car Insurance Agency, Inc., Car Insurance Holdings, Inc., CarInsurance.com, Inc., Lloyd Register IV, Lloyd Register III, David Fitzgerald, Timothy Register, Randy Horowitz and Erick Pace.
3.1[6]	Amended and Restated Certificate of Incorporation.
3.2[7]	Bylaws.
4.1[3]	Form of QuinStreet, Inc. s Common Stock Certificate.
4.2[1]	Second Amended and Restated Investor Rights Agreement, by and between QuinStreet, Inc., Douglas Valenti and the investors listed on Schedule 1 thereto, dated May 28, 2003.
10.1[1]+	QuinStreet, Inc. 2008 Equity Incentive Plan.
10.2[1]+	Forms of Option Agreement and Option Grant Notice under 2008 Equity Incentive Plan (for non-executive officer employees).
10.3[1]+	Forms of Option Agreement and Option Grant Notice under 2008 Equity Incentive Plan (for executive officers).
10.4[1]+	Forms of Option Agreement and Option Grant Notice under 2008 Equity Incentive Plan (for non-employee directors).
10.5[2]+	QuinStreet, Inc. 2010 Equity Incentive Plan.
10.6[19]+	Forms of Option Agreement and Option Grant Notice under 2010 Equity Incentive Plan (for non-executive officer employees).
10.7[23]+	Forms of Option Agreement and Option Grant Notice under 2010 Equity Incentive Plan (for executive officers).
10.8[17]+	Forms of Senior Management Restricted Stock Unit (RSU) Grant Notice and Agreement under 2010 Equity Incentive Plan (for executive officers).
10.9[17]+	Forms of Restricted Stock Unit (RSU) Grant Notice and Agreement under 2010 Equity Incentive Plan (for non-executive officer employees).
10.10[24]+	Form of Restricted Stock Unit Agreement under 2010 Equity Incentive Plan (for non-employee directors)
10.11[13]+	QuinStreet, Inc. 2010 Non-Employee Directors Stock Award Plan.
10.12[14]+	Forms of Option Agreement and Option Grant Notice for Initial Grants under the 2010 Non-Employee Directors Stock Award Plan.
10.13[15]+	Forms of Option Agreement and Option Grant Notice for Annual Grants under the 2010 Non-Employee Directors Stock Award Plan.
10.14[11]+	Form of Incremental Bonus Plan.
10.15[12]+	Annual Incentive Plan.
10.16[9]	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.

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Exhibit No.	Description of Exhibit
10.17(18)	First Amendment to Credit Agreement and Amendment to Guaranty dated as of February 15, 2013.
10.18(5)	Office Lease Metro Center, dated as of February 25, 2010, between the registrant and CA-Metro Center Limited Partnership
10.19(4)+	Form of Indemnification Agreement made by and between QuinStreet, Inc. and each of its directors and executive officers.
10.20(10)	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.
10.21(26)	License and Investment Agreement by and among QuinStreet, Inc., Bronwyn Syiek and TownB Corporation dated August 23, 2012.
10.22(16)	Transition Agreement dated April 9, 2013 between the Company and Bronwyn Syiek.
10.23(20)	Transition Agreement dated September 18, 2013 between the Company and Scott Mackley.
10.24(21)	Transition Agreement dated September 18, 2013 between the Company and Bronwyn Syiek.
10.25(22)	Amendment to Consulting Services Agreement dated October 30, 2013 to the Transition Agreement dated September 18, 2013 between the Company and Bronwyn Syiek.
10.26(25)	Second Amendment to Credit Agreement dated as of July 17, 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).
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.

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

(2) Incorporated by reference Exhibit 99.9 to QuinStreet Inc. s Registration Statement on Form S-8 (SEC File No. 333-165534) filed on March 17, 2010.

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

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

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

(6) Incorporated by reference to Exhibit 3.2 to QuinStreet, Inc. s Amendment No. 1 to Registration Statement on Form S-1 (SEC File No. 333-163228) filed on December 22, 2009.

(7) Incorporated by reference to Exhibit 3.4 to QuinStreet, Inc. s Amendment No. 1 to Registration Statement on Form S-1 (SEC File No. 333-163228) filed on December 22, 2009.

(8) Incorporated by reference to the same numbered exhibit to QuinStreet, Inc. s Current Report on Form 8-K (SEC File No. 001-34628) filed on November 8, 2010.

(9) Incorporated by reference to Exhibit 10.1 to QuinStreet, Inc. s Quarterly Report on Form 10-Q (SEC File No. 001-34628) filed on November 8, 2011.

(10) Incorporated by reference to Exhibit 10.1 to QuinStreet, Inc. s Current Report on Form 8-K (SEC File No. 001-34628) filed on June 27, 2012.

(11) Incorporated by reference to Exhibit 10.11 to QuinStreet, Inc. s Annual Report on Form 10-K (SEC File No. 001- 34628) filed on August 30, 2011.

(12) Incorporated by reference to Exhibit 10.12 to QuinStreet, Inc. s Amendment No. 2 to Registration Statement on Form S-1 (SEC File No. 333- 163228) filed on January 14, 2010.

(13) Incorporated by reference to Exhibit 99.12 to QuinStreet Inc. s Registration Statement on Form S-8 (SEC File No. 333-165534) filed on March 17, 2010.

(14) Incorporated by reference to Exhibit 99.13 to QuinStreet Inc. s Registration Statement on Form S-8 (SEC File No. 333-165534) filed on March 17, 2010.

(15) Incorporated by reference to Exhibit 99.14 to QuinStreet Inc. s Registration Statement on Form S-8 (SEC File No. 333-165534) filed on March 17, 2010.

(16) Incorporated by reference to Exhibit 10.1 to QuinStreet, Inc. s Current Report on Form 8-K (SEC File No. 001-34628) filed on April 23, 2013.

(17) Incorporated by reference to the same numbered exhibit to QuinStreet, Inc. s Annual Report on Form 10-K (SEC File No. 001-34628) filed on August 23, 2012.

(18) Incorporated by reference to Exhibit 10.1 to QuinStreet, Inc. s Quarterly Report on Form 10-Q (SEC File No. 001-34628) filed on February 15, 2013.

(19) Incorporated by reference to Exhibit 99.10 to QuinStreet Inc. s Registration Statement on Form S-8 (SEC File No. 333-165534) filed on March 17, 2010.

(20) Incorporated by reference to Exhibit 10.1 to QuinStreet, Inc. s Current Report on Form 8-K (SEC File No. 001-34628) filed on September 19, 2013.

(21) Incorporated by reference to Exhibit 10.2 to QuinStreet Inc. s Current Report on Form 8-K (SEC File No. 001-34628) filed on September 19, 2013.

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(22) Incorporated by reference to Exhibit 10.3 to QuinStreet, Inc. s Quarterly Report on Form 10-Q (SEC File No. 001-34628) filed on November 6, 2013.

(23) Incorporated by reference to Exhibit 99.11 to QuinStreet Inc. s Registration Statement on Form S-8 (SEC File No. 333-165534) filed on March 17, 2010.

(24) Incorporated by reference to the same numbered exhibit to QuinStreet Inc. s Annual Report on Form 10-K (SEC File No. 001-34628) filed on August 20, 2013.

(25) Incorporated by reference to Exhibit 10.1 to QuinStreet, Inc. s Current Report on Form 8-K (SEC File No. 001-34628) filed on July 22, 2014.

(26) Incorporated by reference to Exhibit 10.19 to QuinStreet, Inc. s Annual Report on Form 10-K (SEC File No. 001-34628) filed on August 23, 2012.