

QUINSTREET, INC
Form 10-Q
February 07, 2014
Table of Contents

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

FORM 10-Q

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

For the quarterly period ended December 31, 2013

or

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

For the transition period from _____ to _____

Commission File No. 001-34628

QuinStreet, Inc.

(Exact Name of Registrant as Specified in Its Charter)

| | |
|---|--|
| Delaware (State or Other Jurisdiction of | 77-0512121 (I.R.S. Employer |
| Incorporation or Organization) | Identification No.) |
| 950 Tower Lane, 6th Floor Foster City, California (Address of principal executive offices) | 94404 (Zip Code) |
| 650-578-7700 | |

Registrant's telephone number, including area code

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

Number of shares of common stock outstanding as of January 31, 2014: 43,491,287

Table of Contents

QUINSTREET, INC.

INDEX

| | |
|---|----|
| <u>PART I. FINANCIAL INFORMATION</u> | 3 |
| <u>Item 1. Financial Statements</u> | 3 |
| <u>Condensed Consolidated Balance Sheets at December 31, 2013 and June 30, 2013</u> | 3 |
| <u>Condensed Consolidated Statements of Operations for the Three and Six Months Ended December 31, 2013 and 2012</u> | 4 |
| <u>Condensed Consolidated Statements of Comprehensive Loss for the Three and Six Months Ended December 31, 2013 and 2012</u> | 5 |
| <u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended December 31, 2013 and 2012</u> | 6 |
| <u>Notes to Condensed Consolidated Financial Statements</u> | 7 |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 21 |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u> | 33 |
| <u>Item 4. Controls and Procedures</u> | 33 |
| <u>PART II. OTHER INFORMATION</u> | 34 |
| <u>Item 1. Legal Proceedings</u> | 34 |
| <u>Item 1A. Risk Factors</u> | 35 |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | 49 |
| <u>Item 3. Defaults Upon Senior Securities</u> | 49 |
| <u>Item 4. Mine Safety Disclosures</u> | 49 |
| <u>Item 5. Other Information</u> | 49 |
| <u>Item 6. Exhibits</u> | 50 |
| <u>SIGNATURES</u> | 51 |

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

| | December 31, 2013 | June 30, 2013 |
|--|------------------------------|--------------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 83,247 | \$ 90,117 |
| Marketable securities | 39,243 | 37,847 |
| Accounts receivable, net | 35,072 | 38,391 |
| Deferred tax assets | 981 | 6,753 |
| Prepaid expenses and other assets | 5,136 | 4,623 |
| Total current assets | 163,679 | 177,731 |
| Property and equipment, net | 10,866 | 9,707 |
| Goodwill | 151,092 | 150,456 |
| Other intangible assets, net | 40,819 | 50,486 |
| Deferred tax assets, noncurrent | 5,828 | 40,289 |
| Other assets, noncurrent | 937 | 878 |
| Total assets | \$ 373,221 | \$ 429,547 |
| Liabilities and Stockholders Equity | | |
| Current liabilities | | |
| Accounts payable | \$ 17,890 | \$ 18,722 |
| Accrued liabilities | 22,233 | 30,903 |
| Deferred revenue | 1,222 | 1,638 |
| Debt | 16,008 | 15,428 |
| Total current liabilities | 57,353 | 66,691 |
| Deferred revenue, noncurrent | 17 | 239 |
| Debt, noncurrent | 69,445 | 77,249 |
| Other liabilities, noncurrent | 6,263 | 6,473 |
| Total liabilities | 133,078 | 150,652 |

Commitments and contingencies (See Note 9)

| | | |
|--|------------|------------|
| Stockholders' equity | | |
| Common stock: \$0.001 par value; 100,000,000 shares authorized; 43,485,157 and 42,886,884 shares issued and outstanding at December 31, 2013 and June 30, 2013, respectively | | |
| | 43 | 43 |
| Additional paid-in capital | 233,188 | 226,857 |
| Accumulated other comprehensive loss | (1,127) | (1,012) |
| Retained earnings | 8,039 | 53,007 |
| | | |
| Total stockholders' equity | 240,143 | 278,895 |
| | | |
| Total liabilities and stockholders' equity | \$ 373,221 | \$ 429,547 |

See notes to condensed consolidated financial statements

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

| | Three Months Ended | | Six Months Ended | |
|--|---------------------------|-------------|-------------------------|-------------|
| | December 31, | | December 31, | |
| | 2013 | 2012 | 2013 | 2012 |
| Net revenue | \$ 66,145 | \$ 71,751 | \$ 143,106 | \$ 150,377 |
| Cost of revenue ⁽¹⁾ | 56,116 | 61,712 | 119,708 | 126,902 |
| Gross profit | 10,029 | 10,039 | 23,398 | 23,475 |
| Operating expenses: ⁽¹⁾ | | | | |
| Product development | 4,776 | 4,504 | 9,935 | 9,397 |
| Sales and marketing | 3,659 | 3,496 | 7,815 | 7,187 |
| General and administrative | 4,411 | 4,019 | 8,545 | 7,945 |
| Impairment of goodwill | | 92,350 | | 92,350 |
| Operating loss | (2,817) | (94,330) | (2,897) | (93,404) |
| Interest income | 27 | 28 | 54 | 56 |
| Interest expense | (976) | (1,354) | (2,002) | (2,366) |
| Other (expense) income, net | (29) | (4) | (48) | 42 |
| Loss before income taxes | (3,795) | (95,660) | (4,893) | (95,672) |
| (Provision for) benefit from taxes | (40,234) | 32,169 | (40,075) | 32,044 |
| Net loss | \$ (44,029) | \$ (63,491) | \$ (44,968) | \$ (63,628) |
| Net loss per share: | | | | |
| Basic | \$ (1.01) | \$ (1.48) | \$ (1.04) | \$ (1.49) |
| Diluted | \$ (1.01) | \$ (1.48) | \$ (1.04) | \$ (1.49) |
| Weighted average shares used in computing net loss per share | | | | |
| Basic | 43,420 | 42,777 | 43,268 | 42,795 |
| Diluted | 43,420 | 42,777 | 43,268 | 42,795 |

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

| | | | | |
|-----------------|--------|--------|----------|----------|
| Cost of revenue | \$ 721 | \$ 963 | \$ 1,595 | \$ 1,886 |
|-----------------|--------|--------|----------|----------|

Edgar Filing: QUINSTREET, INC - Form 10-Q

| | | | | |
|----------------------------|-----|-----|-------|-------|
| Product development | 610 | 698 | 1,342 | 1,391 |
| Sales and marketing | 598 | 858 | 1,368 | 1,623 |
| General and administrative | 697 | 510 | 1,356 | 899 |

See notes to condensed consolidated financial statements

Table of Contents**QUINSTREET, INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS****(In thousands)****(Unaudited)**

| | Three Months Ended December 31, | | Six Months Ended December 31, | |
|--|--|-------------|--|-------------|
| | 2013 | 2012 | 2013 | 2012 |
| Net loss | \$ (44,029) | \$ (63,491) | \$ (44,968) | \$ (63,628) |
| Other comprehensive loss | | | | |
| Unrealized (loss) gain on investments | (6) | (12) | | (8) |
| Foreign currency translation adjustment | 4 | (160) | (71) | 93 |
| Interest rate swap | | | | |
| Change in unrealized gain (loss) | 93 | 185 | (44) | (213) |
| Less: reclassification adjustment for loss (gain) included in net loss | | 138 | | (8) |
| Net change | 93 | 323 | (44) | (221) |
| Other comprehensive income (loss) | 91 | 151 | (115) | (136) |
| Comprehensive loss | \$ (43,938) | \$ (63,340) | \$ (45,083) | \$ (63,764) |

See notes to condensed consolidated financial statements

Table of Contents**QUINSTREET, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)****(Unaudited)**

| | Six Months Ended December 31, | |
|---|--|----------------|
| | 2013 | 2012 |
| Cash Flows from Operating Activities | | |
| Net loss | \$ (44,968) | \$ (63,628) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation and amortization | 13,344 | 18,458 |
| Impairment of goodwill | | 92,350 |
| Provision for sales returns and doubtful accounts receivable | (243) | (468) |
| Stock-based compensation | 5,661 | 5,799 |
| Excess tax benefits from stock-based compensation | (309) | (50) |
| Other non-cash adjustments, net | 538 | 608 |
| Changes in assets and liabilities, net of effects of acquisition: | | |
| Accounts receivable | 3,562 | 12,191 |
| Prepaid expenses and other assets | (513) | (4,615) |
| Other assets, noncurrent | (59) | 107 |
| Deferred taxes | 40,393 | (28,914) |
| Accounts payable | (196) | (4,295) |
| Accrued liabilities | (5,861) | (5,650) |
| Deferred revenue | (638) | (598) |
| Other liabilities, noncurrent | (370) | 344 |
| Net cash provided by operating activities | 10,341 | 21,639 |
| Cash Flows from Investing Activities | | |
| Capital expenditures | (4,179) | (821) |
| Business acquisition | (875) | |
| Other intangibles | (2,692) | (2,500) |
| Internal software development costs | (1,204) | (1,257) |
| Purchases of marketable securities | (23,236) | (28,431) |
| Proceeds from sales and maturities of marketable securities | 21,345 | 25,108 |
| Net cash used in investing activities | (10,841) | (7,901) |
| Cash Flows from Financing Activities | | |
| Proceeds from exercise of common stock options | 1,927 | 269 |
| Principal payments on bank debt | (5,000) | (2,500) |
| Principal payments on acquisition-related notes payable | (2,237) | (5,472) |

Edgar Filing: QUINSTREET, INC - Form 10-Q

| | | |
|--|------------------|------------------|
| Excess tax benefits from stock-based compensation | 309 | 50 |
| Withholding taxes related to restricted stock net share settlement | (1,328) | (148) |
| Repurchases of common stock | | (6,157) |
| Net cash used in financing activities | (6,329) | (13,958) |
| Effect of exchange rate changes on cash and cash equivalents | (41) | 12 |
| Net decrease in cash and cash equivalents | (6,870) | (208) |
| Cash and cash equivalents at beginning of period | 90,117 | 68,531 |
| Cash and cash equivalents at end of period | \$ 83,247 | \$ 68,323 |

Supplemental Disclosure of Cash Flow Information

| | | |
|------------------------|-------|-------|
| Cash paid for interest | 1,987 | 2,257 |
| Cash paid for taxes | 1,221 | 1,776 |

Supplemental Disclosure of Noncash Investing and Financing Activities

| | | |
|------------------------------|--|-------|
| Retirement of treasury stock | | 6,157 |
| Short term payables | | 2,500 |

See notes to condensed consolidated financial statements

Table of Contents

QUINSTREET, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. The Company

QuinStreet, Inc. (the Company) is an online performance marketing company. The Company was incorporated in California in April 1999 and reincorporated in Delaware in December 2009. The Company provides customer acquisition programs for clients in various industry verticals such as education and financial services. The corporate headquarters are located in Foster City, California, with additional offices throughout the United States, Brazil and India.

2. Summary of Significant Accounting Policies

Basis of Presentation

Principles of Consolidation

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

Unaudited Interim Financial Information

The accompanying condensed consolidated financi