

QUINSTREET, INC  
Form 10-Q  
February 11, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2018

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 77-0512121  
(State or Other Jurisdiction of (I.R.S. Employer  
Incorporation or Organization) Identification No.)

950 Tower Lane, 6th Floor  
Foster City, California 94404  
(Address of principal executive offices) (Zip Code)

650-578-7700

Registrant's telephone number, including area code

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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, every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

Number of shares of common stock outstanding as of January 31, 2019: 49,807,261

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QUINSTREET, INC.

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## 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, 2018	June 30, 2018
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$62,447	\$64,700
Accounts receivable, net	63,122	68,492
Prepaid expenses and other assets	4,927	4,432
Total current assets	130,496	137,624
Property and equipment, net	4,575	4,211
Goodwill	67,429	62,283
Other intangible assets, net	28,984	8,573
Deferred tax assets, noncurrent	50,132	60
Other assets, noncurrent	6,133	7,545
Total assets	\$287,749	\$220,296
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$34,759	\$32,506
Accrued liabilities	28,592	34,811
Deferred revenue	892	715
Other liabilities	3,903	—
Total current liabilities	68,146	68,032
Other liabilities, noncurrent	8,397	3,938
Total liabilities	76,543	71,970
Commitments and contingencies (See Note 10)		
Stockholders' equity:		
Common stock: \$0.001 par value; 100,000,000 shares authorized; 49,771,433 and 48,146,384 shares issued and outstanding at December 31, 2018 and June 30, 2018	50	48
Additional paid-in capital	282,493	277,761
Accumulated other comprehensive loss	(357 )	(380 )
Accumulated deficit	(70,980 )	(129,103)
Total stockholders' equity	211,206	148,326

Total liabilities and stockholders' equity	\$287,749	\$220,296
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See notes to condensed consolidated financial statements

QUINSTREET, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months		Six Months Ended	
	Ended		December 31,	
	December 31,		December 31,	
	2018	2017	2018	2017
Net revenue	\$ 104,096	\$ 87,494	\$ 216,965	\$ 174,912
Cost of revenue <sup>(1)</sup>	90,915	75,239	187,728	151,179
Gross profit	13,181	12,255	29,237	23,733
Operating expenses: <sup>(1)</sup>				
Product development	2,995	3,475	6,300	6,689
Sales and marketing	2,283	2,597	4,327	5,044
General and administrative	5,049	4,511	10,443	8,971
Operating income	2,854	1,672	8,167	3,029
Interest income	69	36	135	73
Interest expense	(98 )	—	(98 )	—
Other income, net	115	243	48	286
Income before taxes	2,940	1,951	8,252	3,388
Benefit from (provision for) taxes	49,886	(4 )	49,871	4
Net income	\$ 52,826	\$ 1,947	\$ 58,123	\$ 3,392
Net income per share:				
Basic	\$ 1.07	\$ 0.04	\$ 1.18	\$ 0.07
Diluted	\$ 1.00	\$ 0.04	\$ 1.11	\$ 0.07
Weighted-average shares used in computing net income per share:				
Basic	49,490	45,974	49,077	45,776
Diluted	52,682	49,614	52,562	48,172

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

Cost of revenue	\$ 2,001	\$ 1,001	\$ 3,540	\$ 1,926
Product development	427	484	828	960
Sales and marketing	429	306	713	605
General and administrative	1,022	772	1,909	1,509

See notes to condensed consolidated financial statements





QUINSTREET, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
Net income	\$52,826	\$1,947	\$58,123	\$3,392
Other comprehensive (loss) income:				
Foreign currency translation adjustment	(55 )	(26 )	23	(17 )
Total other comprehensive (loss) income	(55 )	(26 )	23	(17 )
Comprehensive income	\$52,771	\$1,921	\$58,146	\$3,375

See notes to condensed consolidated financial statements

QUINSTREET, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands, except share data)

(Unaudited)

	Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance at September 30, 2018	49,145,985	\$ 49	—	\$ —	\$ 277,084	\$ (302 )	\$ (123,806 )	\$ 153,025
Issuance of common stock upon exercise of stock options	397,306	1	—	—	3,071	—	—	3,072
Release of restricted stock, net of share settlement	228,142	—	—	—	—	—	—	—
Stock-based compensation expense	—	—	—	—	3,899	—	—	3,899
Withholding taxes related to release of restricted stock, net of share settlement	—	—	—	—	(1,561 )	—	—	(1,561 )
Net income	—	—	—	—	—	—	52,826	52,826
Other comprehensive loss	—	—	—	—	—	(55 )	—	(55 )
Balance at December 31, 2018	49,771,433	\$ 50	—	\$ —	\$ 282,493	\$ (357 )	\$ (70,980 )	\$ 211,206

	Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance at September 30, 2017	45,713,248	\$ 46	—	\$ —	\$ 265,137	\$ (454 )	\$ (143,588 )	\$ 121,141
Issuance of common stock upon exercise of stock options	181,175	—	—	—	898	—	—	898
Release of restricted stock, net of share settlement	388,821	—	—	—	—	—	—	—
Repurchases of common stock	—	—	(62,364)	(523 )	—	—	—	(523 )
Retirement of treasury stock	(62,364 )	—	62,364	523	(523 )	—	—	—
Stock-based compensation expense	—	—	—	—	2,579	—	—	2,579
Withholding taxes related to release of restricted stock, net of	—	—	—	—	(1,109 )	—	—	(1,109 )

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share settlement								
Net income	—	—	—	—	—	—	1,947	1,947
Other comprehensive loss	—	—	—	—	—	(26 )	—	(26 )
Balance at December 31, 2017	46,220,880	\$ 46	—	\$—	\$266,982	\$ (480 )	\$(141,641 )	\$ 124,907

See notes to condensed consolidated financial statements

QUINSTREET, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands, except share data)

(Unaudited)

	Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance at June 30, 2018	48,146,384	\$ 48	—	\$ —	\$ 277,761	\$ (380 )	\$ (129,103 )	\$ 148,326
Issuance of common stock upon exercise of stock options	701,386	1	—	—	5,123	—	—	5,124
Release of restricted stock, net of share settlement	923,663	1	—	—	(1 )	—	—	—
Stock-based compensation expense	—	—	—	—	7,028	—	—	7,028
Withholding taxes related to release of restricted stock, net of share settlement	—	—	—	—	(7,418 )	—	—	(7,418 )
Net income	—	—	—	—	—	—	58,123	58,123
Other comprehensive income	—	—	—	—	—	23	—	23
Balance at December 31, 2018	49,771,433	\$ 50	—	\$ —	\$ 282,493	\$ (357 )	\$ (70,980 )	\$ 211,206

	Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance at June 30, 2017	45,435,836	\$ 45	—	\$ —	\$ 263,533	\$ (463 )	\$ (145,033 )	\$ 118,082
Issuance of common stock upon exercise of stock options	181,175	—	—	—	898	—	—	898
Release of restricted stock, net of share settlement	697,210	1	—	—	(1 )	—	—	—
Repurchases of common stock	—	—	(93,341)	(648 )	—	—	—	(648 )
Retirement of treasury stock	(93,341 )	—	93,341	648	(648 )	—	—	—
Stock-based compensation expense	—	—	—	—	5,035	—	—	5,035
Withholding taxes related to release of restricted stock, net of	—	—	—	—	(1,835 )	—	—	(1,835 )

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share settlement								
Net income	—	—	—	—	—	—	3,392	3,392
Other comprehensive loss	—	—	—	—	—	(17 )	—	(17 )
Balance at December 31, 2017	46,220,880	\$ 46	—	\$—	\$266,982	\$ (480 )	\$(141,641 )	