QUINSTREET, INC
Form 10-Q
February 06, 2015
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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, 2014

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

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 x 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 x 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 x
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 x

Number of shares of common stock outstanding as of January 31, 2015: 44,492,160

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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, 2014	June 30, 2014
Assets		
Current assets		
Cash and cash equivalents	$ 87,940	$ 84,177
Marketable securities	27,951	38,630
Accounts receivable, net	41,115	41,979
Deferred tax assets	223	223
Prepaid expenses and other assets	11,668	11,647
Total current assets	168,897	176,656
Property and equipment, net	9,405	11,126
Goodwill	55,451	55,451
Other intangible assets, net	24,305	31,441
Deferred tax assets, noncurrent	1,710	1,712
Other assets, noncurrent	479	457
Total assets	$ 260,247	$ 276,843
Liabilities and Stockholders Equity		
Current liabilities		
Accounts payable	$ 21,610	$ 19,517
Accrued liabilities	23,328	27,854
Deferred revenue	1,353	1,175
Debt	19,714	17,698
Total current liabilities	66,005	66,244
Debt, noncurrent	49,764	59,565
Other liabilities, noncurrent	5,630	5,883
Total liabilities	121,399	131,692

Commitments and contingencies (See Note 8)			
Stockholders equity			
Common stock: $0.001 par value; 100,000,000 shares authorized; 44,485,717 and 44,025,908 shares issued and outstanding at December 31, 2014 and June 30, 2014, respectively		44	44
Additional paid-in capital		244,777	239,558
Accumulated other comprehensive loss		(812)	(1,054)
Accumulated deficit		(105,161)	(93,397)
Total stockholders equity		138,848	145,151
Total liabilities and stockholders equity	$	260,247	$ 276,843

See notes to condensed consolidated financial statements

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QUINSTREET, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended December 31, 2014	Three Months Ended December 31, 2013	Six Months Ended December 31, 2014	Six Months Ended December 31, 2013
Net revenue	$ 66,694	$ 66,145	$ 135,883	$ 143,106
Cost of revenue (1)	60,395	56,116	123,804	119,708
Gross profit	6,299	10,029	12,079	23,398
Operating expenses: (1)				
Product development	4,244	4,776	9,200	9,935
Sales and marketing	3,357	3,659	7,024	7,815
General and administrative	4,079	4,411	8,694	8,545
Operating loss	(5,381)	(2,817)	(12,839)	(2,897)
Interest income	28	27	54	54
Interest expense	(786)	(976)	(1,966)	(2,002)
Other income (expense), net	636	(29)	2,961	(48)
Loss before income taxes	(5,503)	(3,795)	(11,790)	(4,893)
Benefit from (provision for) taxes	26	(40,234)	26	(40,075)
Net loss	$ (5,477)	$ (44,029)	$ (11,764)	$ (44,968)
Net loss per share:				
Basic	$ (0.12)	$ (1.01)	$ (0.27)	$ (1.04)
Diluted	$ (0.12)	$ (1.01)	$ (0.27)	$ (1.04)
Weighted average shares used in computing net loss per share				
Basic	44,440	43,420	44,353	43,268
Diluted	44,440	43,420	44,353	43,268

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

Cost of revenue	$ 785	$ 721	$ 1,429	$ 1,595
Product development	594	610	1,189	1,342
Sales and marketing	562	598	1,026	1,368
General and administrative	585	697	1,157	1,356

See notes to condensed consolidated financial statements

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QUINSTREET, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

(Unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2014	**2013**	**2014**	**2013**
Net loss	$ (5,477)	$ (44,029)	$ (11,764)	$ (44,968)
Other comprehensive loss				
Unrealized gain (loss) on investments	5	(6)	13	
Foreign currency translation adjustment	(18)	4	(25)	(71)
Change in unrealized gain (loss) on interest rate swap	28	93	254	(44)
Other comprehensive income (loss)	15	91	242	(115)
Comprehensive loss	$ (5,462)	$ (43,938)	$ (11,522)	$ (45,083)

See notes to condensed consolidated financial statements

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QUINSTREET, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended December 31, 2014	Six Months Ended December 31, 2013
Cash Flows from Operating Activities		
Net loss	$ (11,764)	$ (44,968)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	10,408	13,344
Provision for sales returns and doubtful accounts receivable	470	(243)
Write-off of bank loan upfront fees	328	
Stock-based compensation	4,801	5,661
Excess tax benefits from stock-based compensation	(51)	(309)
Gain on sale of domain names	(3,158)	
Other adjustments, net	99	538
Changes in assets and liabilities, net of effects of acquisition:		
Accounts receivable	394	3,562
Prepaid expenses and other assets	(369)	(513)
Other assets, noncurrent		(59)
Deferred taxes	2	40,393
Accounts payable	2,964	(196)
Accrued liabilities	(3,449)	(5,861)
Deferred revenue	178	(638)
Other liabilities, noncurrent	(253)	(370)
Net cash provided by operating activities	600	10,341
Cash Flows from Investing Activities		
Capital expenditures	(2,285)	(4,179)
Business acquisition		(875)
Other intangibles		(2,692)
Internal software development costs	(933)	(1,204)
Purchases of marketable securities	(16,600)	(23,236)
Proceeds from sales and maturities of marketable securities	27,287	21,345
Proceeds from sale of domain names	3,158	
Proceeds from sale of property and equipment	10	
Net cash provided by (used in) investing activities	10,637	(10,841)
Cash Flows from Financing Activities		

Proceeds from exercise of common stock options	1,300	1,927
Principal payments on bank debt	(7,500)	(5,000)
Payment of bank loan upfront fees	(272)	
Principal payments on acquisition-related notes payable	(444)	(2,237)
Excess tax benefits from stock-based compensation	51	309
Withholding taxes related to restricted stock net share settlement	(626)	(1,328)
Net cash used in financing activities	(7,491)	(6,329)
Effect of exchange rate changes on cash and cash equivalents	17	(41)
Net increase (decrease) in cash and cash equivalents	3,763	(6,870)
Cash and cash equivalents at beginning of period	84,177	90,117
Cash and cash equivalents at end of period	$ 87,940	$ 83,247
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	1,602	1,987
Cash paid for taxes	660	1,221

See notes to condensed consolidated financial statements

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QUINSTREET, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. The Company

QuinStreet, Inc. (the Company) is a leader in performance marketing online. 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 financial statements and the notes to the condensed consolidated financial statements as of December 31, 2014 and for the three and six months ended December 31, 2014 and 2013 are unaudited. These unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) and applicable rules and regulations of the Securities and Exchange Commission (SEC) regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Accordingly, these interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company s Annual Report on Form 10-K for the fiscal year ended June 30, 2014, as filed with the SEC on September 12, 2014. The condensed consolidated balance sheet at June 30, 2014 included herein was derived from the audited financial statements as of that date, but does not include all disclosures, including notes, required by GAAP.

The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and, in the opinion of management, include all adjustments (consisting only of normal recurring adjustments) necessary for the fair statement of the Company s condensed consolidated balance sheet at December 31, 2014, its condensed consolidated statements of operations for the three and six months ended December 31, 2014 and 2013, its condensed consolidated statements of comprehensive loss for the three and six months ended December 31, 2014 and 2013, and its condensed consolidated statements of cash flows for the six months ended December 31, 2014 and 2013. The results of operations for the three and six months ended December 31, 2014 are not necessarily indicative of the results to be expected for the fiscal year ending June 30, 2015, or any other future period.

Use of Estimates

The preparation of financial statements in conformity with 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 period. On an ongoing basis, management evaluates these estimates, judgments and assumptions, including those related to revenue recognition, stock-based compensation, goodwill, intangible assets, long-lived assets, contingencies, and income taxes. The Company bases these estimates on historical and anticipated results and trends and on various other assumptions that the Company believes are reasonable under the circumstances, including assumptions as to future events. These estimates form the basis for making judgments about the carrying values of assets and liabilities and recorded revenue and expenses that are not readily apparent from other sources. Actual results could differ from those estimates, and such differences could affect the results of operations reported in future periods.

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QUINSTREET, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Accounting Policies

The significant accounting policies are described in Note 2, Summary of Significant Accounting Policies, to the consolidated financial statements included in the Annual Report on Form 10-K for the fiscal year ended June 30, 2014. There have been no significant changes in the accounting policies subsequent to June 30, 2014.

Concentrations of Credit Risk

No client accounted for 10% or more of net revenue for the three or six months ended December 31, 2014 or for the same period in fiscal year 2014. No client accounted for 10% or more of net accounts receivable as of December 31, 2014 or June 30, 2014.

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, 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 deposits 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 values of acquisition-related promissory notes approximate their recorded amounts as the interest rates on similar financing arrangements available to the Company at December 31, 2014 approximate the interest rates implied when these acquisition-related promissory notes 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 swap. The carrying value represents the fair value of the swap, as adjusted for any non-performance risk associated with the Company at December 31, 2014. The Company believes that the fair value of the term loan approximates its recorded amount at December 31, 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.

Recent Accounting Pronouncements

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 beginning after December 15, 2015, and interim periods within those years, with early adoption permitted. The adoption of this standard is not expected to have a material impact on the Company s consolidated financial statements.

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