VECTOR GROUP LTD
Form DEF 14A
April 30, 2007

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SCHEDULE 14A
(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant þ

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement

o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

þ Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

Vector Group Ltd.
(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

þ No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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VECTOR GROUP LTD.
100 S.E. Second Street
Miami, Florida 33131

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To Be Held June 13, 2007

To the Stockholders of Vector Group Ltd.:

The Annual Meeting of Stockholders of Vector Group Ltd., a Delaware corporation (the Company), will be held at the Bank of America Tower, 100 S.E. Second Street, 19th Floor Auditorium, Miami, Florida 33131 on Wednesday, June 13, 2007 at 11:00 a.m. local time, and at any postponement or adjournment thereof, for the following purposes:

1. To elect seven directors to hold office until the next annual meeting of stockholders and until their successors are elected and qualified.

2. To amend the Company s Certificate of Incorporation to increase the authorized shares of Common Stock of the Company from 100,000,000 to 150,000,000.

3. To transact such other business as properly may come before the meeting or any adjournments or postponements of the meeting.

Every holder of record of Common Stock of the Company at the close of business on April 17, 2007 is entitled to notice of the meeting and any adjournments or postponements thereof and to vote, in person or by proxy, one vote for each share of Common Stock held by such holder. A list of stockholders entitled to vote at the meeting will be available to any stockholder for any purpose germane to the meeting during ordinary business hours from June 1, 2007 to June 13, 2007, at the headquarters of the Company located at 100 S.E. Second Street, 32nd Floor, Miami, Florida 33131. A proxy statement, form of proxy and the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2006 are enclosed herewith.

By Order of the Board of Directors,

Howard M. Lorber
President and Chief Executive Officer

Miami, Florida
April 30, 2007

IT IS IMPORTANT THAT PROXIES BE RETURNED PROMPTLY. THEREFORE, WHETHER OR NOT YOU EXPECT TO ATTEND THE MEETING IN PERSON, PLEASE SIGN AND RETURN THE ENCLOSED PROXY AS SOON AS POSSIBLE IN THE ENCLOSED POSTAGE PRE-PAID ENVELOPE.

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VECTOR GROUP LTD.
100 S.E. Second Street
Miami, Florida 33131

PROXY STATEMENT

INTRODUCTION

The enclosed proxy is solicited on behalf of the board of directors of Vector Group Ltd., a Delaware corporation (the Company). The proxy is solicited for use at the annual meeting of stockholders to be held at the Bank of America Tower, 100 S.E. Second Street, 19th Floor Auditorium, Miami, Florida 33131 on Wednesday, June 13, 2007, at 11:00 a.m. local time, and at any postponement or adjournment. The Company s offices are located at 100 S.E. Second Street, 32nd Floor, Miami, Florida 33131, and its telephone number is (305) 579-8000.

VOTING RIGHTS AND SOLICITATION OF PROXIES

Every holder of record of common stock of the Company at the close of business on April 17, 2007 is entitled to notice of the meeting and any adjournments or postponements and to vote, in person or by proxy, one vote for each share of Common Stock held by such holder. At the record date, the Company had outstanding 57,107,481 shares of Common Stock. This proxy statement, accompanying notice and proxy and the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2006 are first being mailed to stockholders on or about May 4, 2007.

Any stockholder giving a proxy has the power to revoke the proxy prior to its exercise. A proxy can be revoked by an instrument of revocation delivered at or prior to the annual meeting to the secretary of the Company, by a duly executed proxy bearing a date or time later than the date or time of the proxy being revoked, or at the annual meeting if the stockholder is present and elects to vote in person. Mere attendance at the annual meeting will not serve to revoke a proxy. Abstentions and shares held of record by a broker or its nominee that are voted on any matter are included in determining the number of votes present for quorum purposes. Broker shares that are not voted on any matter will not be included in determining whether a quorum is present.

All proxies received and not revoked will be voted as directed. If no directions are specified, such proxies will be voted **FOR** the election of the board s nominees and **FOR** the amendment to the Company s Certificate of Incorporation to increase the number of shares of Common Stock authorized for issuance. The nominees receiving a plurality of the votes cast will be elected as directors. With respect to the election of directors, shares as to which authority is withheld and broker shares that are not voted will not be included in determining the number of votes cast. The affirmative vote of a majority of the outstanding shares of Common Stock will be required to approve the amendment to the Company s Certificate of Incorporation and, therefore, abstentions and broker non-votes will have the same effect as votes against this proposal. For any other matter to come before the meeting, abstentions will have the same effect as votes against these proposals, and broker non-votes will not have any effect on the outcome of the vote. A New York Stock Exchange member broker who holds shares in street name for a customer has the authority to vote on certain items if the broker does not receive instructions from the customer. New York Stock Exchange rules permit member brokers who do not receive instructions to vote on proposal one to elect directors, proposal two to

amend the Company s Certificate of Incorporation to increase the number of shares of Common Stock authorized for issuance and proposal three for any other matter to come before the meeting.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of the record date, the beneficial ownership of the Company s Common Stock, the only class of voting securities, by:

each person known to the Company to own beneficially more than five percent of the Common Stock;

each of the Company s directors and nominees;

each of the Company s named executive officers (as such term is defined in the Summary Compensation Table below); and

all directors and executive officers as a group.

Unless otherwise indicated, each person possesses sole voting and investment power with respect to the shares indicated as beneficially owned, and the business address of each person is 100 S.E. Second Street, Miami, Florida 33131.

Name and Address of Beneficial Owner	Number of Shares	Percent of Class
High River Limited Partnership(1) Hopper Investments, LLC Barberry Corp. Tortoise Corp. Reindeer Holding LLC Reindeer Subsidiary LLC Arnos Corp. Unicorn Associates Corporation ACF Industries Holding Corp. Highcrest Investors Corp. Buffalo Investors Corp. Starfire Holding Corporation Little Meadow Corp. Carl C. Icahn 767 Fifth Avenue New York, NY 10153	11,596,086	20.3%
Bennett S. LeBow(2)(6)(7)	10,895,197	17.1%
Howard M. Lorber(3)(6)(7)	4,195,856	7.2%
Dr. Phillip Frost(4) 4400 Biscayne Boulevard Miami, FL 33137	3,637,513	6.4%
Jefferies Group, Inc.(5) 520 Madison Avenue New York, NY 10022	3,171,787	5.6%
Henry C. Beinstein(6)(8) Gagnon Securities LLC	37,934	(*)

1370 Avenue of the Americas New York, NY 10019		
Robert J. Eide(6)(10) Aegis Capital Corp. 810 Seventh Avenue New York, NY 10019	55,211	(*)
Jeffrey S. Podell(6)(9) 173 Doral Court Roslyn, NY 11576	65,397	(*)
Jean E. Sharpe(6) 15 Silo Ridge Road North Salem, NY 10560	41,096	(*)
Richard J. Lampen(7)(9)	341,322	(*)

Name and Address of Beneficial Owner	Number of Shares	Percent of Class
J. Bryant Kirkland III(7)(9)	117,514	(*)
Joselynn D. Van Siclen(7)	21,103	(*)
Ronald J. Bernstein(6)(7)(9)(11) Liggett Vector Brands Inc. One Park Drive Research Triangle Park, NC 27709	118,125	(*)
All directors and executive officers as a group (10 persons)	15,943,255	24.5%

(*) The percentage of shares beneficially owned does not exceed 1% of the Common Stock.

(1) Based upon an amendment to a Schedule 13D filed by the named entities on June 19, 2006. Barberry Corp. (Barberry) is the sole member of Hopper Investments LLC, which is the general partner of High River Limited Partnership. Starfire Holding Corporation (Starfire) owns 100% of Buffalo Investors Corp., which owns 99.34% of Highcrest Investors Corp., which owns 100% of ACF Industries Holding Corp., which owns 100% of Unicorn Associates Corporation, which owns 100% of Arnos Corp., which owns 100% of Tortoise Corp, which owns 100% of Reindeer Holding LLC, which owns 100% of Reindeer Subsidiary LLC. Each of Barberry, Starfire and Little Meadow Corp. are 100% owned by Mr. Icahn. Mr. Icahn, by virtue of his relationship to these entities, may be deemed to indirectly beneficially own the shares held by these entities.

(2) Includes 4,316,488 shares of Common Stock held by LeBow Gamma Limited Partnership, a Nevada limited partnership, 104,379 shares held by The Bennett and Geraldine LeBow Foundation, Inc., a Florida not-for-profit corporation, 2,770,227 shares acquirable by LeBow Gamma Limited Partnership, as assignee of Mr. LeBow, upon exercise of currently exercisable options to purchase Common Stock, and 3,704,102 shares acquirable by LeBow Epsilon Investments Trust, as assignee of Mr. LeBow, upon exercise of currently exercisable options. Mr. LeBow indirectly exercises sole voting power and sole dispositive power over the shares of Common Stock held or acquirable by the partnerships and trust. LeBow Holdings, Inc., a Nevada corporation, is the sole stockholder of LeBow Gamma, Inc., a Nevada corporation, which is the general partner of LeBow Gamma Limited Partnership. Mr. LeBow is a director, officer and sole shareholder of LeBow Holdings, Inc., a director and officer of LeBow Gamma, Inc. and the sole trustee of LeBow Epsilon Investments Trust. Mr. LeBow and family members serve as directors and executive officers of the foundation, and Mr. LeBow possesses shared voting power and shared dispositive power with the other directors of the foundation with respect to the foundation s shares of Common Stock.

(3) Includes 1,180,484 shares held directly by Mr. Lorber, 1,908,763 shares of Common Stock held by Lorber Epsilon 1999 Limited Partnership, a Delaware limited partnership, 68,040 shares held by Lorber Alpha II Limited Partnership, a Nevada limited partnership, and 1,038,569 shares acquirable by Mr. Lorber upon exercise of currently exercisable options to purchase Common Stock. Of the shares owned by Lorber Epsilon 1999 Limited Partnership, 1,272,348 shares are pledged to secure a bank line of credit. Mr. Lorber exercises sole voting power and sole dispositive power over the shares of Common Stock held by the partnership and by himself. Lorber Epsilon 1999 LLC, a Delaware limited liability company, is the general partner of Lorber Epsilon 1999 Limited Partnership. Lorber Alpha II Limited Partnership is the sole member of, and Mr. Lorber is the manager of, Lorber Epsilon 1999 LLC. Lorber Alpha II, Inc., a Nevada corporation, is the general partner of Lorber Alpha II Limited Partnership. Mr. Lorber is a director, officer and controlling shareholder of Lorber Alpha II, Inc. Mr. Lorber disclaims beneficial ownership of 12,505 shares of Common Stock held by

Lorber Charitable Fund. Lorber Charitable Fund is a New York not-for-profit corporation, of which family members of Mr. Lorber serve as directors and executive officers.

(4) Based on Schedule 13D filed by Dr. Frost on July 20, 2006. The shares shown in the table above as owned by Dr. Frost represent shares held by Frost Gamma Investments Trust, a trust organized under Florida law. Dr. Frost is the sole trustee of Frost Gamma Investments Trust. As the sole trustee, Dr. Frost may be deemed the beneficial owner of all shares owned by the trust, by virtue of his power to vote or direct the vote of such shares or to dispose or direct the disposition of such shares owned by the trust.

(5) Based on Schedule 13G filed by the named entity on February 14, 2007. Jefferies Group, Inc. (Jefferies) is a publicly-traded Delaware corporation that is managed by its Board of Directors. Richard Handler is the Chairman and Chief Executive Officer of Jefferies. Jefferies disclaims beneficial ownership of 1,828,200 shares of Common Stock beneficially owned by Jefferies Paragon Master Fund, Ltd., for which Jefferies Asset Management, LLC, a Jefferies affiliate, serves as investment manager.

(6) The named individual is a director of the Company.

(7) The named individual is an executive officer of the Company or, in the case of Ms. Van Siclen, retired as an executive officer in 2006.

(8) Includes 471 shares beneficially owned by Mr. Beinstein s spouse, as to which shares Mr. Beinstein disclaims beneficial ownership.

(9) Includes shares issuable upon exercise of currently exercisable options to purchase Common Stock as follows: Mr. Podell, 14,068; Mr. Lampen, 140,708; Mr. Kirkland, 63,316; and Mr. Bernstein, 65,625.

(10) The shares are pledged to secure a margin loan to Mr. Eide.

(11) The named individual is an executive officer of the Company s subsidiaries Liggett Vector Brands Inc. and Liggett Group LLC (Liggett).

NOMINATION AND ELECTION OF DIRECTORS

The by-laws of the Company provide, among other things, that the board, from time to time, shall determine the number of directors of the Company. The size of the board is presently set at seven. The present term of office of all directors will expire at the annual meeting. Seven directors are to be elected at the annual meeting to serve until the next annual meeting of stockholders and until their respective successors are duly elected and qualified.

It is intended that proxies received will be voted **FOR** election of the nominees named below unless marked to the contrary. In the event any such person is unable or unwilling to serve as a director, proxies may be voted for substitute nominees designated by the present board. The board has no reason to believe that any of the persons named below will be unable or unwilling to serve as a director if elected.

The board recommends that stockholders vote **FOR** election of the nominees named below.

Information with Respect to Nominees

The following table sets forth certain information, as of the record date, with respect to each of the nominees. Each nominee is a citizen of the United States.

Name and Address	Age	Principal Occupation
Bennett S. LeBow Vector Group Ltd. 100 S.E. Second Street Miami, FL 33131	69	Executive Chairman

Howard M. Lorber Vector Group Ltd. 100 S.E. Second Street Miami, FL 33131	58	President and Chief Executive Officer
Ronald J. Bernstein Liggett Vector Brands Inc. One Park Drive Research Triangle Park, NC 27709	53	President and Chief Executive Officer, Liggett and Liggett Vector Brands Inc.
Henry C. Beinstein Gagnon Securities LLC 1370 Avenue of the Americas New York, NY 10022	64	Partner, Gagnon Securities LLC

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Name and Address	Age	Principal Occupation
Robert J. Eide Aegis Capital Corp. 810 Seventh Avenue New York, NY 10019	54	Chairman and Chief Executive Officer, Aegis Capital Corp.
Jeffrey S. Podell 173 Doral Court Roslyn, NY 11576	66	Chairman of the Board and President, Newsote, Inc.
Jean E. Sharpe 15 Silo Ridge Road North Salem, NY 10560	60	Private Investor

Each director is elected annually and serves until the next annual meeting of stockholders and until his successor is duly elected and qualified.

Business Experience of Nominees

Bennett S. LeBow has been Executive Chairman since January 2006 and has been a director of the Company since October 1986. He served as the Chairman and Chief Executive Officer of the Company from June 1990 to December 2005. Mr. LeBow has served as President and Chief Executive Officer of Vector Tobacco Inc., a subsidiary of the Company engaged in the development and marketing of low nicotine and nicotine-free cigarette products and the development of reduced risk cigarette products, since January 2001 and as a director since October 1999. Mr. LeBow was Chairman of the Board of New Valley Corporation from January 1988 to December 2005 and served as its Chief Executive Officer from November 1994 to December 2005. New Valley Corporation was a majority-owned subsidiary of the Company until December 2005, when the Company acquired the remaining minority interest, engaged in the real estate business and seeking to acquire additional operating companies and real estate properties.

Howard M. Lorber has been President and Chief Executive Officer of the Company since January 2006 and has served as a director of the Company since January 2001. He served as President and Chief Operating Officer of the Company from January 2001 to December 2005. From November 1994 to December 2005, Mr. Lorber served as President and Chief Operating Officer of New Valley Corporation, where he also served as a director. Mr. Lorber was Chairman of the Board of Directors of Hallman & Lorber Assoc. Inc., consultants and actuaries of qualified pension and profit sharing plans, and various of its affiliates from 1975 to December 2004 and has been a consultant to these entities since January 2005; a stockholder and a registered representative of Aegis Capital Corp., a broker-dealer and a member firm of the National Association of Securities Dealers, since 1984; Chairman of the Board of Directors since 1987 and Chief Executive Officer from November 1993 to December 2006 of Nathan s Famous, Inc., a chain of fast food restaurants; a director of United Capital Corp., a real estate investment and diversified manufacturing company, since May 1991; and the Vice Chairman of the Board of Ladenburg Thalmann Financial Services Inc. since May 2001. He is also a trustee of Long Island University.

Ronald J. Bernstein has served as President and Chief Executive Officer of Liggett since September 1, 2000 and of Liggett Vector Brands since March 2002 and has been a director of the Company since March 2004. From July 1996 to December 1999, Mr. Bernstein served as General Director and, from December 1999 to September 2000, as Chairman of Liggett-Ducat Ltd., the Company s former Russian tobacco business sold in 2000. Prior to that time, Mr. Bernstein served in various positions with Liggett commencing in 1991, including Executive Vice President and Chief Financial Officer.

Henry C. Beinstein has been a director of the Company since March 2004. Since January 2005, Mr. Beinstein has been a partner of Gagnon Securities LLC, a broker-dealer, and has been a money manager and registered representative at such firm since August 2002. He retired in August 2002 as the Executive Director of Schulte Roth & Zabel LLP, a New York-based law firm, a position he had held since August 1997. Before that, Mr. Beinstein had served as the Managing Director of Milbank, Tweed, Hadley & McCloy LLP, a New York-based law firm, commencing November 1995. Mr. Beinstein was the Executive Director of Proskauer Rose LLP, a New York-based law firm, from April 1985 through October 1995. Mr. Beinstein is a certified public accountant in New York and

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New Jersey and prior to joining Proskauer was a partner and National Director of Finance and Administration at Coopers & Lybrand. Mr. Beinstein also serves as a director of Ladenburg Thalmann Financial Services Inc.

Robert J. Eide has been a director of the Company since November 1993. Mr. Eide has been the Chairman and Chief Executive Officer of Aegis Capital Corp., a registered broker-dealer, since 1984. Mr. Eide also serves as a director of Nathan s Famous, Inc. and Ladenburg Thalmann Financial Services Inc.

Jeffrey S. Podell has been a director of the Company since November 1993. Mr. Podell has been the Chairman of the Board and President of Newsote, Inc., a privately-held holding company, since 1989. Mr. Podell also serves as a director of Ladenburg Thalmann Financial Services Inc.

Jean E. Sharpe has been a director of the Company since May 1998. Ms. Sharpe is a private investor and has engaged in various philanthropic activities since her retirement in September 1993 as Executive Vice President and Secretary of the Company and as an officer of various of its subsidiaries. Ms. Sharpe previously served as a director of the Company from July 1990 until September 1993.

Board of Directors and Committees

The board of directors, which held eight meetings in 2006, currently has seven members. The board has determined that all four of the Company s non-employee directors have no material relationship with the Company and meet the New York Stock Exchange listing standards for independence. Each director attended at least 75% of the aggregate number of meetings of the board and of each committee of which the director was a member held during such period. To ensure free and open discussion and communication among the non-employee directors of the board, the non-employee directors meet in executive sessions periodically, with no members of management present. The chair of the corporate governance and nominating committee presides at the executive sessions.

The board of directors has four committees established in accordance with the Company s bylaws: the executive committee, audit committee, compensation committee, and corporate governance and nominating committee. Each of the members of the audit committee, compensation committee, and corporate governance and nominating committee meets the New York Stock Exchange listing standards for independence.

The executive committee, whose members are Messrs. LeBow, chairman, Lorber and Eide, did not meet in 2006. The executive committee exercises, in the intervals between meetings of the board, all the powers of the board in the management and affairs of the Company, except for matters expressly reserved by law for board action.

The audit committee, whose members are currently Messrs. Beinstein, chairman, Eide and Podell and Ms. Sharpe, met twelve times in 2006. The committee is governed by a written charter. The audit committee oversees the Company s financial statements, system of internal controls, and auditing, accounting and financial reporting processes; appoints, compensates, evaluates and, where appropriate, replaces the Company s independent accountants; reviews annually the audit committee charter; and reviews and pre-approves audit and permissible non-audit services. See Audit Committee Report . Each of the members of the audit committee is financially literate as required of audit committee members by the New York Stock Exchange and independent as defined by the rules of the Securities and Exchange Commission. The board of directors has determined that Mr. Beinstein is an audit committee financial expert as defined by the rules of the Securities and Exchange Commission.

The compensation committee, whose members are currently Messrs. Eide, chairman, Beinstein and Podell, met five times in 2006. The committee is governed by a written charter. The compensation committee reviews, approves and administers management compensation and executive compensation plans. The compensation committee also administers the Company s 1998 Long-Term Incentive Plans and the Amended and Restated 1999 Long-Term

Incentive Plan. See Compensation Discussion and Analysis on page 7.

The corporate governance and nominating committee, whose members are Ms. Sharpe, chair, and Messrs. Eide and Beinstein, met twice in 2006. The committee is governed by a written charter. This committee assists the board of directors in identifying individuals qualified to become board members and recommends to the board the nominees for election as directors at the next annual meeting of stockholders, develops and recommends to the board the corporate governance guidelines applicable to the Company, and oversees the evaluation of the board and

management. In recommending candidates for the board, the committee takes into consideration the following criteria established by the board in the Company s corporate governance guidelines:

- personal qualities and characteristics, accomplishments and reputation in the business community;
- current knowledge and contacts in the communities in which the Company does business and in the Company s industry or other industries relevant to the Company s business;
- ability and willingness to commit adequate time to board and committee matters;
- the fit of the individual s skills and personality with those of other directors and potential directors in building a board that is effective, collegial and responsive to the needs of the Company; and
- diversity of viewpoints, background, experience and other demographics.

The committee also considers such other factors as it deems appropriate, including judgment, skill, diversity, experience with businesses and other organizations of comparable size, the interplay of the candidate s experience with the experience of other board members, and the extent to which the candidate would be a desirable addition to the board and any committees of the board. The committee will consider nominees recommended by stockholders, which nominations should be submitted by directing an appropriate letter and resume to the secretary of the Company. If the Company were to receive recommendations of candidates from the Company s stockholders, the committee would consider such recommendations in the same manner as all other candidates.

Corporate Governance Materials

The Company s corporate governance guidelines, code of business conduct and ethics and current copies of the charters of the Company s audit committee, compensation committee, and corporate governance and nominating committee are all available in the investor relations section of the Company s website (www.vectorgroupltd.com) and are also available in print to any stockholder who requests it.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Compensation Objectives

The primary objectives of the Compensation Committee of the board of directors with respect to executive compensation is:

- to base management s pay, in part, on achievement of the Company s goals;
- to provide incentives to enhance stockholder value;
- to provide competitive levels of compensation;
- to recognize individual initiative and achievement; and
- to assist the Company in attracting talented executives to a challenging and demanding environment and to retain such executives for the benefit of the Company and its subsidiaries.

The Company attempts to achieve these objectives through its compensation plans that tie a substantial portion of the executives overall compensation to the Company s financial performance. While the Company s executives compensation is largely the result of negotiated agreement, the Company s compensation philosophy is intended to reward its executives with compensation targeted at market competitive levels, while rewarding outstanding performance with above-average total compensation.

Independent compensation consultants may be retained from time to time for advice and guidance in assessing whether our compensation program is reasonable and competitive. During 2005 and 2006, the Compensation Committee engaged the services of GK Partners as consultants to help the Compensation Committee evaluate the compensation of the Company s Executive Chairman of the Board, Bennett S. LeBow, and its President and

Chief Executive Officer, Howard M. Lorber, in each instance in connection with the Company entering into an Amended and Restated Employment Agreement, effective January 1, 2006, with these executives, as well as the compensation of the President and Chief Executive of the Company s Liggett and Liggett Vector Brands subsidiaries, Ronald J. Bernstein, in connection with entering into an amended Employment Agreement, effective October 1, 2005, with him. Based on the opinion of GK Partners with respect to Mr. Lorber s, Mr. LeBow s and Mr. Bernstein s compensation, the Compensation Committee believes that the compensation of Mr. Lorber, Mr. LeBow and Mr. Bernstein is reasonable and competitive with the compensation of similarly situated executives.

Compensation arrangements, as reflected in the employment agreements with the Company s executive officers, are usually negotiated on an individual basis between the Chief Executive Officer and each of the other executives. While the Compensation Committee has delegated to the Chief Executive Officer the responsibility of negotiating these employment agreements and his input is given significant consideration by the Compensation Committee, the Compensation Committee and the Board have final authority over all compensation matters.

Compensation Components

The key components of the Company s executive compensation program consist of a base salary, an annual bonus pursuant to the Senior Executive Annual Bonus Plan, and various benefits, including the Company s Supplemental Retirement Plan, the Liggett Vector Brands Inc. 401(k) plan and the use of corporate aircraft by the Executive Chairman and the President and Chief Executive Officer. The employment agreements with the Company s executive officers also provide for severance compensation in the event of termination other than for cause during the term of the agreement or, in certain cases, following a change in control during the term of the agreements.

Prior to 2002, equity and other long-term incentive awards were generally granted on an annual basis to the Company s executive officers pursuant to the 1998 Long-Term Incentive Plan (the 1998 Plan) and the 1999 Amended and Restated Long-Term Incentive Plan (the 1999 Plan and together with the 1998 Plan, the Plans). However, beginning in 2002, with the exception of restricted stock awards to Messrs. Lorber and Bernstein in 2005 and replacement stock options granted to Mr. Bernstein in May 2006, the Company s executive officers have not received awards of stock options, restricted stock awards or other forms of equity compensation. The Compensation Committee has not granted additional equity compensation to our Executive Chairman and President and Chief Executive Officer in recent years, other than the restricted stock grant to Mr. Lorber in 2005, because they currently have a substantial equity interest in the Company. Pursuant to an agreement with the Company dated November 11, 2005, Mr. Bernstein agreed to the cancellation of an option to purchase 319,069 shares of Common Stock at $30.09 per share granted under the 1999 Plan in September 2001. In connection with such cancellation, the Company agreed after the passage of more than six months and assuming Mr. Bernstein s continued employment with the Company or an affiliate of the Company, to grant Mr. Bernstein another stock option under the 1999 Plan covering 262,500 shares of Common Stock with the exercise price equal to the value of the Common Stock on the grant date of the replacement option. The grant of the replacement options was made in August 2006 at an exercise price of $16.89.

Base Salary

Base salaries for the Company s executive officers are established based on their core competence in the executive role, experience and contributions to the Company, taking into account competitive market compensation paid by other companies for similar positions. The Compensation Committee believes that executive base salaries should be targeted at competitive levels while rewarding outstanding performance with above-average total compensation. Except for Mr. LeBow s base salary which is fixed for the three-year term of his employment agreement, base salaries are reviewed annually and may be increased from time to time based on the Compensation Committee s review of Company and individual executive performance. Notwithstanding the foregoing, under the terms of their respective employment agreements, the salaries of Messrs. Lorber and Bernstein automatically include cost of living

adjustments.

In connection with becoming Chief Executive Officer, Mr. Lorber s base salary was set at $2,581,286, effective January 1, 2006, which approximately equaled what his combined base salaries would have been under his prior

agreements with the Company and New Valley Corporation, its former majority-owned subsidiary. In conjunction with Mr. Kirkland becoming Chief Financial Officer, the Compensation Committee approved an increase to his annual base salary from $250,000 to $300,000, effective April 1, 2006.

Effective January 1, 2007, as a result of the cost of living provision, the base salary of Mr. Lorber was increased to $2,666,727 and the base salary of Mr. Bernstein to $799,459. In March 2007, as part of the annual compensation review process, the Compensation Committee increased Mr. Kirkland s base salary from $300,000 to $350,000, effective January 1, 2007, and did not increase the salaries of the other named executive officers or adjust the target bonus opportunities primarily because these elements of compensation were the result of negotiated employment agreements.

Annual Bonus Plan

The Company s executive officers are eligible to participate in the Senior Executive Annual Bonus Plan (the Bonus Plan), which was adopted by the board of directors in January 2006 and approved by the Company s shareholders in May 2006. Under the Bonus Plan, unless another committee is designated by the Board, the Compensation Committee selects participants in the Bonus Plan, determines the amount of their award opportunities, selects the performance criteria and the performance goals for each year and administers and interprets the Bonus Plan. An eligible executive may (but need not) be selected to participate in the Bonus Plan each year.

No later than 90 days after the commencement of each year (or by such other deadline as may apply under Internal Revenue Code Section 162(m)(4)(C) or the Treasury Regulations thereunder), the Compensation Committee will select the persons who will participate in the Bonus Plan in such year and establish in writing the performance goals for that year as well as the method for computing the amount of compensation which each such participant will be paid if such goals are attained in whole or in part. Such method will be stated in terms of an objective formula or standard that precludes discretion to increase the amount that will be due upon attainment of the goals. The Compensation Committee retains discretion under the Bonus Plan to reduce an award at any time before it is paid. The maximum amount of compensation that may be paid under the Bonus Plan to any participant for any year is $5 million.

Under the Bonus Plan, the performance goals for any year may be based on any of the following criteria, either alone or in any combination, and on either a consolidated or business unit or divisional level, and may include or exclude discontinued operations, acquisition expenses and restructuring expenses, as the Compensation Committee may in each case determine: net earnings (either before or after interest, taxes, depreciation and amortization), economic value-added (as determined by the Compensation Committee), sales or revenue, net income (either before or after taxes), operating earnings, cash flow (including, but not limited to, operating cash flow and free cash flow), cash flow return on capital, return on net assets, return on stockholders equity, cash dividends and/or other distributions, return on assets, return on capital, stockholder returns, return on sales, gross or net profit margin, productivity, expense, margins, operating efficiency, customer satisfaction, working capital, debt, debt reduction, earnings per share, price per share of stock, market share, completion of acquisitions, business expansion, product diversification, new or expanded market penetration and other non-financial operating and management performance objectives. Performance goals may be absolute or relative and may be expressed in terms of a progression within a specified range. The foregoing terms shall have any reasonable definitions that the Compensation Committee may specify, which may include or exclude any or all of the following items, as the Compensation Committee may specify: extraordinary, unusual or non- recurring items; effects of changes in tax law, accounting principles or such laws or provisions affecting reported assets; effects of currency fluctuations; effects of financing activities (e.g., effect on earnings per share of issuing convertible debt securities); expenses of restructuring, productivity initiatives or new business initiatives; impairment of tangible or intangible assets; litigation or claim judgments or settlements; non-operating items; acquisition expenses; and effects of asset sales or divestitures. Any of the foregoing criteria may apply to a

participant s award opportunity for any year in its entirety or to any designated portion of the award opportunity, as the Compensation Committee may specify.

Awards may be paid under the Bonus Plan for any year only if and to the extent the participant is continuously employed by us throughout such year. The only exceptions to the continued employment requirement are if employment terminates by reason of death, disability or retirement (as determined by the Compensation

Committee), in which case a prorated award may be paid after the close of the year in which such termination occurs if the applicable performance goals are met. If a participant s employment terminates for any reason other than death, disability or retirement, any award for the year in which such termination occurs will be forfeited.

All payments pursuant to the Bonus Plan are to be made in cash, only after the Compensation Committee certifies that the performance goals for the year have been satisfied. The Board may terminate the Bonus Plan in whole or in part without stockholder approval at any time. However, no such termination may adversely affect any rights or obligations with respect to awards previously made under the Bonus Plan.

In 2006, each of the Company s executive officers, other than Mr. LeBow, participated in the Bonus Plan. Under the terms of Mr. LeBow s employment agreement, he does not receive bonus compensation. The Bonus Plan performance criteria for 2006, which varied among the participants depending upon the entity that employed the participant, were as follows: (i) for Messrs. Lorber, Lampen and Kirkland, the criteria were adjusted earnings before interest and taxes (Adjusted EBIT) for Liggett, cash distributions to stockholders of the Company and adjusted earnings before interest, taxes and amortization for Douglas Elliman Realty, LLC and (ii) for Mr. Bernstein, the criteria were Adjusted EBIT for Liggett and for Vector Tobacco Inc. Under the terms of their respective employment agreements, for 2006, Messrs. Lorber, Lampen, Kirkland and Bernstein were eligible to receive a target bonus of 100%, 33%, 25% and 50% of their respective base salaries. The Committee may exercise negative discretion with respect to any award to reduce any amount that would otherwise be payable under the Bonus Plan. However, depending on the level of achievement of the performance criteria, the actual amounts of incentive bonuses could also exceed the target bonus amounts. In 2006, the performance goals were set at levels which were believed to be reasonably achievable based on internal corporate plans. The actual bonus payments made to the selected participants for the year ended December 31, 2006 are set forth below in the Summary Compensation Table on page 13.

Supplemental Retirement Plan

The Company s executive officers and certain other management employees are eligible to participate in the Supplemental Retirement Plan, which was adopted by the board of directors in January 2002 to promote retention of key executives and to provide them with financial security following retirement. As described more fully and quantified in the Pension Benefits table on page 19, the Supplemental Retirement Plan provides for the payment to a participant at his normal retirement date of a lump sum amount that is the actuarial equivalent of a single life annuity commencing on that date. The single life annuity amounts for the named executives were determined by the Company s board of directors.

In January 2006, the Company amended and restated its Supplemental Retirement Plan. The amendments to the Supplemental Retirement Plan were intended, among other things, to cause the plan to meet the applicable requirements of the deferred compensation provisions of Section 409A of the Internal Revenue Code. The Supplemental Retirement Plan is intended to be unfunded for tax purposes, and payments under the Supplemental Retirement Plan will be made out of the Company s general assets except that, under the terms of the Company s employment agreement with Mr. LeBow, it agreed during 2006, 2007 and 2008 to pay $125,000 per quarter into a separate trust for him that will be used to fund a portion of his benefits under the Supplemental Retirement Plan.

Other Benefits

The Company s executive officers are eligible to participate in all of its employee benefit plans, such as medical, dental, vision, group life, disability and accidental death and dismemberment insurance and Liggett Vector Brands 401(k) plan. The Company also provides vacation and other paid holidays to its executive officers, as well as certain other perquisites further described below and in the Summary Compensation Table. Finally, the Company s executive officers are eligible to receive certain payments upon retirement pursuant to the Supplemental Retirement Plan.

Perquisites

The Company provides the perquisites or personal benefits to its executive officers discussed below. The Company s corporate aircraft are made available for the personal use of Messrs. LeBow and Lorber and, at their discretion, other executive officers. The Company has a corporate aircraft policy which permits personal use of corporate aircraft by executives, subject to annual limits on cost of $200,000 for Mr. LeBow and $100,000 for

Mr. Lorber. For purposes of the policy, the value of the personal usage is calculated using the applicable standard industry fare level formula established by the Internal Revenue Service, and Messrs. LeBow, Lorber and any other executive officers pay income tax on such value. In addition, Mr. LeBow is entitled to a $7,500 personal allowance for lodging and related business expense, and Mr. Lorber is entitled to a car and driver provided by the Company, a $7,500 per month allowance for lodging and related business expenses and two club memberships. See the Summary Compensation Table for details regarding the value of perquisites received by the named executive officers for the year ended December 31, 2006.

Change in Control Provisions

Each of the employment agreements entered into between the Company and Messrs. LeBow and Lorber contain change in control provisions. The purpose of these provisions is to avoid the distraction and loss of key management personnel that may occur in connection with rumored or actual fundamental corporate changes and to provide adequate protection to key management personnel in the event that their employment is terminated following a change of control. A change in control provision protects stockholder interests by enhancing employee focus during rumored or actual change in control activity through incentives to remain with the Company despite uncertainties while a transaction is under consideration or pending and assurance of severance and benefits for terminated executives. A detailed summary of these provisions is set forth under the heading Payments Made Upon a Change in Control on page 21.

Dividend Equivalents

Under the terms of various stock option grants made to the Company s named executive officers under the Plans, dividend equivalent payments are made to the executive officers with respect to the shares of Common Stock underlying the unexercised portion of the options. These payments are made at the same rate as dividends paid on the Company s issued and outstanding shares of Common Stock. Named executive officers received payments for such dividend equivalent rights on options for 2006 as follows: Mr. LeBow $4,290,215; Mr. Lorber $1,602,366; Mr. Lampen $217,093; Mr. Kirkland $97,687; and Ms. Van Siclen $32,560. In accordance with the rules of the SEC, these amounts have not been included in the Summary Compensation Table because the dividend equivalent rights were included in the initial fair value of the underlying options grants.

Inter-Relationship of Elements of Compensation Packages

The various elements of the compensation package for the Company s executive officers are not inter-related. For example, if it does not appear as though the target bonus will be achieved, the number of options that will be granted is not affected. There is no significant interplay of the various elements of total compensation between each other. If options that are granted in one year become underwater due to a decrease in the Company s stock price, the amount of the bonus amount or compensation to be paid the executive officer for the next year is not impacted. Similarly, if options become extremely valuable due to a rising stock price, the amount of compensation or bonus to be award for the next year is not affected. While the Compensation Committee has discretion to make exceptions to any compensation or bonus payouts under the Bonus Plan, it has not approved any exceptions to the Bonus Plan with regard to any executive officers. The Compensation Committee exercised negative discretion in determining not to pay a bonus to Mr. Bernstein for failure to meet one of the performance criteria established for him by the Compensation Committee under the Bonus Plan in 2006.

Employment Agreements

In January 2006, the Company negotiated and entered into employment agreements with Messrs. Lorber, Lampen and Kirkland, which replaced existing agreements with the Company or New Valley Corporation, its former

majority-owned subsidiary. In addition, Mr. LeBow s employment agreement, which was entered into in September 2005, was amended in January 2006, and Mr. Bernstein entered into an amended employment agreement in November 2005. In exchange for the benefits offered under the agreements, these executives have agreed not to engage in competitive activities or to interfere with the Company s business relations for specified periods following the termination of their employment. A summary of the employment agreements is set forth under the heading Employment Agreements and Severance Arrangements on page 14.

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Tax and Accounting Implications

Deductibility of Executive Compensation

The Compensation Committee reviews and considers the deductibility of executive compensation under Section 162(m) of the Internal Revenue Code, which generally provides that no publicly held company may deduct compensation in excess of $1,000,000 paid in any taxable year to its chief executive officer or any of its four other highest paid officers unless:

- the compensation is payable solely on account of the attainment of performance goals;
- the performance goals are determined by a compensation committee of two or more outside directors;
- the material terms under which compensation is to be paid are disclosed to and approved by the stockholders of the Company; and
- the compensation committee certifies that the performance goals were met.

In certain situations, the Compensation Committee has in the past and may in the future approve compensation that will not meet these deductibility requirements in order to ensure competitive levels of total compensation for our executive officers. In this regard, for fiscal 2006, the amount of base salary and restricted stock in excess of $1,000,000 for any named executive officer was not deductible for federal income tax purposes.

Accounting for Stock-Based Compensation

Beginning on January 1, 2006, the Company began accounting for stock-based payments including stock option and restricted stock awards under the Plans in accordance with the requirements of SFAS 123(R).

Compensation Committee Report

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis set forth above with management and, based on such review and discussion, has recommended to the board of directors that the Compensation Discussion and Analysis be included in this proxy statement.

THE COMPENSATION COMMITTEE

Robert J. Eide, Chairman
Henry C. Beinstein
Jeffrey S. Podell

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SUMMARY COMPENSATION TABLE

The following table below summarizes the compensation of the named executive officers for the year ended December 31, 2006. The named executive officers are the Company s Chief Executive Officer, Chief Financial Officer, and the three other most highly compensated executive officers ranked by their total compensation in the table below (not taking into account the amount in the Change in Pension Value and Nonqualified Deferred Compensation Earnings). Effective April 1, 2006, Mr. Kirkland, who had previously served as a Vice President, became Chief Financial Officer and Treasurer. Mr. Kirkland succeeded Ms. Joselynn Van Siclen, who resigned as Chief Financial Officer and Treasurer, effective March 31, 2006, and retired from the Company on June 30, 2006. Ms. Van Siclen s compensation for 2006 is also included below.

rincipal Position	Year	Salary ($)(1)	Bonus ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)(3)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)(4)	All Other Compensation ($)	
eBow airman of the	2006	$ 3,950,000	$ 0	$ 0	$ 0	$ 0	$ 3,500,000	$ 335,127(5)	$
orber Chief Executive	2006	$ 2,581,286	$ 0	$ 2,987,458	$ 0	$ 2,581,286	$ 2,100,000	$ 264,274(6)	$
mpen ce President	2006	$ 750,000	$ 0	$ 0	$ 0	$ 250,000	$ 190,000	$ 6,600(7)	$
kland III nt, Chief Financial Treasurer	2006	$ 287,500	$ 0	$ 0	$ 0	$ 75,000	$ 40,000	$ 6,600(7)	$
rnstein Chief Executive ggett Vector iggett	2006	$ 776,400	$ 0	$ 254,375	$ 59,444(2)	$ 0	$ 301,580	$ 12,001(8)	$
Siclen President and ial Officer	2006	$ 86,250	$ 0	$ 0	$ 0	$ 0	$ 0	$ 90,096(9)	$

(1) Reflects actual base salary amounts paid for 2006.

(2) Represents the dollar amount recognized for financial statement reporting purposes (excluding forfeitures) for the year ended December 31, 2006, in accordance with SFAS 123(R) for the grant of options under the 1999 Plan, rather than an amount paid to or realized by the named executive officer. Assumptions used in the calculation of such amount are included in note 11 to the Company s audited financial statements for the year

ended December 31, 2006 included in its Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 16, 2007. The SFAS 123(R) value as of the grant date for options is spread over the number of months of service required for the grant to become non-forfeitable. The SFAS 123(R) amounts from these grants may never be realized by the named executive officer.

(3) These amounts reflect cash awards under the Bonus Plan paid during 2007 in respect of service performed in 2006. This plan is discussed in further detail on page 9 under the heading Annual Bonus Plan .

(4) Amounts shown are solely an estimate of the increase in actuarial present value of the named executive officer s accrued benefit at the latter of age 60 during active service or the completion of eight years of full-time continuous service under the Company s pension plans for 2006. Assumptions are further described under the Pension Benefits at 2006 Fiscal Year End table on page 21. The amounts reflect the actuarial increase in the present value of the named executive officer s benefits under the Supplemental Retirement Plan determined using interest rate and mortality rate assumptions consistent with those used in the Company s financial statements. Except in the case of Mr. LeBow, no amount is payable from this plan before a participant attains the latter of age 60 during active service or the completion of eight years of full-time continuous service (except in the case of death, disability or termination without cause). There can be no assurance that the amounts shown will ever be realized by the named executive officers. For Mr. Bernstein, the reported amount also includes $1,580 in connection with Liggett Group Inc. Retirement Plan for Salaried Non-Bargaining Unit Employees (the Qualified Plan).

(5) Represents $238,527 for personal use of corporate aircraft, a $90,000 allowance paid to an entity affiliated with him for lodging and related business expenses and $6,600 for 401(k) plan matching contributions.*

(6) Represents $167,674 for personal use of corporate aircraft, a $90,000 allowance for lodging and related business expenses and $6,600 for 401(k) plan contributions.*

(7) Represents 401(k) plan matching contributions.

(8) Represents $5,401 for personal use of corporate aircraft, and $6,600 for 401(k) contributions.*

(9) Includes $3,846 for 401(k) plan matching contributions and $86,250 of retirement payments. In connection with her retirement, Ms. Van Siclen is entitled to continue to receive her base salary ($172,500) for a two-year period ending June 30, 2008. In connection with Internal Revenue Code Section 409A, the $86,250 of retirement payments were deferred and paid, along with interest of $1,742, on January 5, 2007.

* For purposes of determining the value of corporate aircraft use, the personal use is calculated based on the aggregate incremental cost to the Company. For flights on corporate aircraft, aggregate incremental cost is calculated based on a cost-per-flight-mile charge developed by a nationally recognized and independent service as reflective of the operating costs of the aircraft.

Employment Agreements and Severance Arrangements

On September 27, 2005, Mr. Lorber was named Chief Executive Officer of the Company and Mr. LeBow was named Executive Chairman of the Board. These new appointments were effective January 1, 2006.

In connection with the foregoing, on September 27, 2005, the Company and Mr. LeBow entered into an Amended and Restated Employment Agreement (the Amended LeBow Agreement), under which Mr. LeBow has agreed to serve as the Executive Chairman of the Board of the Company from January 1, 2006 through December 30, 2008, unless his employment is terminated earlier in accordance with the Amended LeBow Agreement. The Amended LeBow Agreement replaced his prior employment agreements with the Company and with New Valley Corporation. The Amended LeBow Agreement provides that Mr. LeBow will receive an annual salary of $3,950,000. Following termination of Mr. LeBow s employment or his retirement, Mr. LeBow shall be subject to certain non-competition, non-hire, and other provisions in favor of the Company. The Amended LeBow Agreement provides Mr. LeBow will be treated as having reached normal retirement date under the Company s Supplemental Retirement Plan if he is employed through December 30, 2008. In addition, the Company has agreed to establish a separate trust for Mr. LeBow that is not subject to the claims of the Company s creditors and shall make a contribution to such trust of $125,000 per quarter during each year of the employment term, and a proportional part of each payment to Mr. LeBow under the Supplemental Retirement Plan will be made from the assets of such trust. During the period of his employment, Mr. LeBow will be entitled to various benefits including a $7,500 per month allowance for lodging and related business expenses and use of corporate aircraft in accordance with the Company s Corporate Aircraft Policy. In addition, for a period of five years following such retirement, Mr. LeBow will be required to provide consulting services and advice to the Company for up to 15 days per year, for which he will be paid a daily fee of $17,000.

On January 27, 2006, the Company and Howard M. Lorber entered into an Amended and Restated Employment Agreement (the Amended Lorber Agreement), which replaced his prior employment agreements with the Company and with New Valley Corporation. The Amended Lorber Agreement has an initial term of three years effective as of January 1, 2006, with an automatic one-year extension on each anniversary of the effective date unless notice of

non-extension is given by either party within 60 days before this date. As of January 1, 2007, Mr. Lorber s annual base salary was $2,666,727. Mr. Lorber s salary is subject to an annual cost of living adjustment. In addition, the Company s board must periodically review his base salary and may increase but not decrease it from time to time in its sole discretion. Mr. Lorber will be eligible on an annual basis to receive a target bonus of 100% of his base salary under the Bonus Plan. During the period of his employment, Mr. Lorber will be entitled to various benefits, including a Company-provided car and driver, a $7,500 per month allowance for lodging and related business expenses, two club memberships and dues, and use of corporate aircraft in accordance with the Company s Corporate Aircraft Policy. Following termination of his employment by the Company without cause (as defined in the Amended Lorber Agreement), termination of his employment by him for certain reasons specified in the Amended Lorber Agreement or upon death or disability, he (or his beneficiary in the case of death)

would continue to receive for a period of 36 months following the termination date his base salary and the bonus amount earned by him for the prior year (with such bonus amount limited to 100% of base salary). In addition, all of Mr. Lorber s outstanding equity awards would be vested with any stock options granted after January 27, 2006 remaining exercisable for no less than two years or the remainder of the original term if shorter. Following termination of his employment for any of the reasons described above (other than death or disability) within two years of a change in control (as defined in the Amended Lorber Agreement), he would receive a lump sum payment equal to 2.99 times the sum of his then current base salary and the bonus amount earned by him for the prior year (with such bonus amount limited to 100% of base salary). In addition, Mr. Lorber is indemnified against excise taxes that are imposed on change-of-control payments under Section 4999 of the Internal Revenue Code of 1986. In the event of a termination of his employment under the circumstances where he is entitled to the severance payments discussed above, Mr. Lorber will also be credited with an additional 36 months of service under the Company s Supplemental Retirement Plan.

On January 27, 2006, the Company entered into Employment Agreements (the Other Executive Agreements) with Richard J. Lampen, the Company s Executive Vice President, and J. Bryant Kirkland III, the Company s Vice President and, effective April 1, 2006, Chief Financial Officer. The Other Executive Agreements replaced prior employment agreements with the Company or New Valley Corporation. The Other Executive Agreements have an initial term of two years effective as of January 1, 2006, with an automatic one-year extension on each anniversary of the effective date unless notice of non-extension is given by either party within 60 days before this date. As of January 1, 2007, the annual base salaries provided for in these Other Executive Agreements were $750,000 for Mr. Lampen and $350,000 for Mr. Kirkland (increased from $300,000 in March 2007, effective as of January 1, 2007). In addition, the Company s board must periodically review these base salaries and may increase but not decrease them from time to time in its sole discretion. These executives will be eligible to receive a target bonus of 33.3% for Mr. Lampen, and 25% for Mr. Kirkland, of their base salaries under the Bonus Plan. Following termination of their employment by the Company without cause (as defined in the Other Executive Agreements), termination of their employment by the executives for certain reasons specified in the Other Executive Agreements or upon death or disability, they (or their beneficiaries in the case of death) would continue to receive for a period of 24 months following the termination date their base salary and the bonus amount earned by them for the prior year (with such bonus amount limited to 33.3% of base salary for Mr. Lampen and 25% of base salary for Mr. Kirkland).

Effective April 1, 2006, Joselynn D. Van Siclen resigned as Chief Financial Officer of the Company and retired from the Company on June 30, 2006. On January 27, 2006, the Company and Ms. Van Siclen entered into an Executive Retirement Agreement and Release, whereby she will continue to receive her base salary of $172,500 and other of her current benefits for a two-year period following the termination of her employment.

On November 11, 2005, Liggett, a wholly-owned subsidiary of the Company, and Ronald J. Bernstein entered into an Employment Agreement (the Bernstein Employment Agreement), pursuant to which Mr. Bernstein will continue to serve as President and Chief Executive Officer of Liggett and affiliated companies. The Bernstein Employment Agreement has an initial term expiring December 31, 2008, with an automatic one-year extension on each anniversary of the effective date unless notice of non-extension is given by either party within six months before this date. As of January 1, 2007, Mr. Bernstein s annual base salary was $799,459. Mr. Bernstein s salary is subject to an annual cost of living adjustment. Under the terms of the Bernstein Employment Agreement, Mr. Bernstein received a $500,000 special bonus from Liggett within 10 days of execution of the Bernstein Employment Agreement and is eligible on an annual basis to receive a bonus of up to 100% of his base salary under the Bonus Plan predicated on Liggett and Vector Tobacco meeting certain pre-established operating goals. Following termination of his employment without cause, he would continue to receive his base salary for a period of 24 months.

On November 11, 2005, Mr. Bernstein agreed to the cancellation of an option to purchase 319,069 shares of the Company s common stock at $30.09 per share granted under the 1999 Plan in September 2001. In this regard,

Mr. Bernstein and the Company entered into an agreement, in which the Company, in accordance with the 1999 Plan, agreed after the passage of more than six months and assuming Mr. Bernstein s continued employment with the Company or an affiliate of the Company, to grant Mr. Bernstein another stock option under the 1999 Plan covering 262,500 shares of the Company s Common Stock with the exercise price equal to the value of the Common Stock on the grant date of the replacement option. The grant of the replacement option was made in August 2006 with an exercise price of $16.89.

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Restricted Stock Awards

On January 10, 2005, New Valley Corporation awarded Mr. Lorber, the President and Chief Operating Officer of New Valley Corporation, who also served in the same positions with the Company, a restricted stock grant of 1,250,000 shares of New Valley Corporation s common shares pursuant to New Valley Corporation s 2000 Long-Term Incentive Plan. Under the terms of the award, one-seventh of the shares vested on July 15, 2005, with an additional one-seventh vesting on each of the five succeeding one-year anniversaries of the first vesting date through July 15, 2010 and an additional one-seventh vesting on January 15, 2011. In the event his employment with New Valley Corporation was terminated for any reason other than his death, his disability or a change of control of New Valley Corporation or the Company, any remaining balance of the shares not previously vested would be forfeited by him. On September 27, 2005, in connection with Mr. Lorber s election as Chief Executive Officer of the Company, he renounced and waived, as of that date, the unvested 1,071,429 common shares deliverable by New Valley Corporation to him in the future.

On September 27, 2005, Mr. Lorber was awarded a restricted stock grant of 525,000 shares of the Company s Common Stock and, on November 16, 2005, Mr. Lorber was awarded an additional restricted stock grant of 82,498 shares of the Company s Common Stock, in each case, pursuant to the Company s 1999 Plan. In connection with the grants, the Company entered into separate Restricted Share Award Agreements with Mr. Lorber on those dates. Pursuant to the Restricted Share Agreements, one-fourth of the shares vest on September 15, 2006, with an additional one-fourth vesting on each of the three succeeding one-year anniversaries of the first vesting date through September 15, 2009. In the event Mr. Lorber s employment with the Company is terminated for any reason other than his death, his disability or a change of control (as defined in the Restricted Share Agreements) of the Company, any remaining balance of the shares not previously vested will be forfeited by Mr. Lorber. These restricted stock awards by the Company replaced the unvested portion of the New Valley Corporation restricted stock grant relinquished by Mr. Lorber. The number of restricted shares of the Company s Common Stock awarded to Mr. Lorber by the Company (607,498 shares) was the equivalent of the number of shares of the Company s Common Stock that would have been issued to Mr. Lorber had he retained his unvested New Valley Corporation restricted shares and those shares were exchanged for the Company s Common Stock in the exchange offer and subsequent merger whereby the Company acquired the remaining minority interest in New Valley Corporation in December 2005.

On November 11, 2005, Mr. Bernstein was awarded a restricted stock grant of 52,500 shares of the Company s Common Stock pursuant to the 1999 Plan, in connection with the grant, the Company entered into a Restricted Share Award Agreement with Mr. Bernstein on that date. Pursuant to his Restricted Share Agreement, one-fourth of the shares vest on November 1, 2006, with an additional one-fourth vesting on each of the three succeeding one-year anniversaries of the first vesting date through November 1, 2009. In the event Mr. Bernstein s employment with the Company is terminated for any reason other than his death, his disability or a change of control (as defined in his Restricted Share Agreement) of the Company, any remaining balance of the shares not previously vested will be forfeited by Mr. Bernstein.

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Grants of Plan-Based Awards

The table below provides information with respect to stock options, restricted stock awards and non-equity incentive compensation granted to each of the named executive officers for the year ended December 31, 2006. There can be no assurance that the Grant Date Fair Value of Stock and Option Awards will ever by realized by the individual. The amount of these awards that were expensed is shown in the Summary Compensation Table on page 13.

GRANTS OF PLAN-BASED AWARDS

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards(1)			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock	All Other Option Awards: Number of Securities Underlying Options	Exercise or Base Price of Option Awards	Grant Date Fair Value of Stock and Option Awards
Name	**Grant Date**	**Threshold ($)**	**Target ($)**	**Maximum ($)**	**Threshold (#)**	**Target (#)**	**Maximum (#)**	**(#)**	**(#)**	**($)**	**($)**
Bennett S. LeBow		$ 0	$ 0	$ 0							
Howard M. Lorber		$ 0	$ 2,581,286	$ 3,226,607							
Richard J. Lampen		$ 0	$ 250,000	$ 300,000							
J. Bryant Kirkland III		$ 0	$ 75,000	$ 93,750							
Ronald J. Bernstein	8/16/06	$ 0	$ 388,200	$ 776,400					262,500	$ 16.89	$ 535,559(2)
Joselynn Van Siclen		$ 0	$ 0	$ 0							

(1) The amounts shown below represent the target level under the Bonus Plan, which is 100% of base salary for Messrs. Lorber and Bernstein, 33.3% of base salary for Mr. Lampen and 25% of base salary for Mr. Kirkland. The maximum amount is 125% of the target amount for Messrs. Lorber, Lampen and Kirkland and 200% of the target amount for Mr. Bernstein. There is no minimum amount. The Compensation Committee approved the

performance criteria for determining the award opportunities for each named executive officer under the Bonus Plan on March 6, 2006. The actual bonus amounts paid for 2006 are reflected in the Non-Equity Incentive Plan Compensation column in the Summary Compensation Table on page 13.

(2) Represents the dollar amount recognized for financial statement reporting purposes for the grant of options under the Company s 1999 Plan in the year ended December 31, 2006, in accordance with SFAS 123(R). Assumptions used in the calculation of such amount are included in note 11 to the Company s audited financial statements for the fiscal year ended December 31, 2006 included in the Company s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 16, 2007. Pursuant to an amended employment agreement dated November 11, 2005, Mr. Bernstein agreed to the cancellation of an option to purchase 319,069 shares of Common Stock at $30.09 per share granted under the 1999 Plan in September 2001. In connection with such cancellation, the Company agreed that, after the passage of more than six months and assuming Mr. Bernstein s continued employment with the Company or an affiliate of the Company, to grant Mr. Bernstein another stock option under the 1999 Plan covering 262,500 shares of Common Stock with the exercise price equal to the value of the Common Stock on the grant date of the replacement option. The grant of the replacement option was made on August 14, 2006 with a exercise price of $16.89.

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The table below provides information with respect to the outstanding equity awards of the named executive officers as of December 31, 2006, including exercisable option awards granted under the Plans.

OUTSTANDING EQUITY AWARDS AT 2006 FISCAL YEAR-END

	Option Awards					Stock Awards			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)
Bennett S. LeBow(1)	3,693,636			$ 6.60	7/20/08				
	2,110,648			$ 10.97	11/4/09				
	670,045			$ 14.27	1/22/11				
Howard M. Lorber	703,547			$ 10.97	11/4/09	455,624(2)	$ 9,891,931(3)		
	335,022			$ 14.27	1/22/11				
Richard J. Lampen	140,708			$ 10.97	11/4/09				
J. Bryant Kirkland III	63,316			$ 10.97	11/4/09				
Ronald J. Bernstein	65,625	196,875(4)		$ 16.89	8/16/16	39,375(5)	$ 774,656(3)		
Joselynn Van Siclen									

(1) In December 2001, Mr. LeBow sold his beneficial interest in these options to a partnership controlled by Mr. LeBow and certain members of his family in consideration of a private annuity from the partnership to Mr. LeBow. Subsequently, this partnership contributed the options to a subsidiary partnership also controlled by Mr. LeBow and certain members of his family. These options have not been exercised by the partnership. See note 2 to the Security Ownership of Certain Beneficial Owners and Management table on page 2.

(2) Restricted stock award vesting as to 151,875 shares on each of September 15, 2007, September 15, 2008 and September 15, 2009, subject to earlier vesting upon death, disability or change of control. See Restricted Stock Awards on page 16.

(3) The market value of the restricted stock equals the number of shares of restricted stock multiplied by the closing price of the Common Stock on December 29, 2006, which was $17.75 per share, and the dividends payable on non-vested shares upon vesting at December 31, 2006.

(4) Option grant vesting as to 65,625 shares on each of December 31, 2007, December 31, 2008 and December 31, 2009. See Employment Agreements and Severance Arrangements on page 14.

(5) Restricted stock award vesting as to 13,125 shares on each of November 1, 2007, November 1, 2008 and November 1, 2009, subject to earlier vesting upon death, disability or change of control. See Restricted Stock Awards on page 16.

The table below provides information with respect to the number of options or shares of restricted stock granted under the Plans to the named executive officers in previous years that were exercised or vested during 2006, as well as the value of the stock on the exercise or vesting date.

OPTION EXERCISES AND STOCK VESTED IN YEAR ENDED DECEMBER 31, 2006

	Option Awards		Stock Awards(1)	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)
Bennett S. LeBow				
Howard M. Lorber	37,042	$ 306,927(2)	151,875	$ 2,923,464
Richard J. Lampen				
J. Bryant Kirkland III				
Ronald J. Bernstein	125,895	$ 998,347(2)	13,125	$ 244,303
Joselynn Van Siclen	21,103	$ 135,270(2)		

(1) Reflects shares and dividends associated with such shares received upon vesting of restricted stock awards under the 1999 Plan made in 2005. See Restricted Stock Awards on page 16.

(2) Amounts reflect the difference between the exercise price of the option and the market price at the time of exercise.

PENSION BENEFITS AT 2006 FISCAL YEAR END

The table below quantifies the benefits expected to be paid from the Company s Supplemental Retirement Plan and, in the case of Mr. Bernstein, also from Liggett s Qualified Plan. The terms of the plans are described below the table.

PENSION BENEFITS

Name	Plan Name	Number of Years of Credited Service (#)(1)	Present Value of Accumulated Benefit ($)(2),(3)	Payments During Last Fiscal Year ($)
Bennett S. LeBow	Supplemental Retirement Plan	5	$ 12,199,080(4)	$ 0
Howard M. Lorber	Supplemental Retirement Plan	5	$ 8,702,345	$ 0

Richard J. Lampen	Supplemental Retirement Plan	3	$ 476,020	$ 0
J. Bryant Kirkland III	Supplemental Retirement Plan	3	$ 88,593	$ 0
Ronald J. Bernstein	Supplemental Retirement Plan	5	$ 1,202,492	$ 0
	Qualified Plan	2	$ 35,400	$ 0
Joselynn Van Siclen				

(1) Equals number of years of credited service as of December 31, 2006. Credited service under the Supplemental Retirement Plan is based on a named executive officer s period of full time continuous covered employment after commencing participation in the Supplemental Retirement Plan.

(2) Represents actuarial present value in accordance with the same assumptions outlined in note 9 to the Company s audited financial statements for the year ended December 31, 2006 included in its Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 16, 2007.

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(3) Includes amounts which the named executive officer is not currently entitled to receive because such amounts are not vested.

(4) The Company is contributing $125,000 per quarter to a secular trust for Mr. LeBow, who is not vested in that amount.

Supplemental Retirement Plan

The Supplemental Retirement Plan provides for the payment to a participant at his normal retirement date of a lump sum amount that is the actuarial equivalent of a single life annuity commencing on that date. The normal retirement date under the Supplemental Retirement Plan is defined as the January 1st following attainment by a participant of the later age 60 or the completion of eight years of employment following January 1, 2002 (in the case of Messrs. Lorber and Bernstein) or January 1, 2004 (in the case of Messrs. Lampen and Kirkland). Mr. LeBow s normal retirement date is December 30, 2008.

The following table sets forth for each named executive officer his hypothetical single life annuity, his normal retirement date and his projected lump sum payment at his normal retirement date.

Executive Officer	Hypothetical Single Life Annuity	Normal Retirement Date	Lump-Sum Equivalent
Bennett S. LeBow	$ 2,524,163	December 30, 2008	$ 20,584,044
Howard M. Lorber	$ 1,051,875	January 1, 2010	$ 10,855,666
Richard J. Lampen	$ 250,000	January 1, 2014	$ 2,625,275
J. Bryant Kirkland III	$ 202,500	January 1, 2026	$ 2,126,473
Ronald J. Bernstein	$ 438,750	January 1, 2014	$ 4,607,358

No benefits are payable under the Supplement Retirement Plan if a named executive officer resigns without good reason before attaining his normal retirement date. In the case of a participant who becomes disabled prior to his normal retirement date or whose service is terminated without cause, the participant s benefit consists of a pro-rata portion of the full projected retirement benefit to which he would have been entitled had he remained employed through his normal retirement date, as actuarially discounted back to the date of payment. The beneficiary of a participant who dies while working for the Company or a subsidiary (and before becoming disabled or attaining his normal retirement date) will be paid an actuarially discounted equivalent of his projected retirement benefit; conversely, a participant who retires beyond his normal retirement date will receive an actuarially increased lump sum payment to reflect the delay in payment using a post retirement interest rate of 7.5%. The lump sum amount under the Supplemental Retirement Plan is paid six months following the named executive officer s retirement on or after his normal retirement date or termination of employment without cause, along with interest at the prime lending rate as published in the Wall Street Journal on the lump sum amount for this six month period.

Qualified Plan

Liggett s salaried employees are entitled to benefits payable under the Qualified Plan based on a formula that yields an annual amount payable over the participant s life beginning at age 65. Liggett discontinued providing additional benefits under the Qualified Plan for service on and after January 1, 1994. As of December 31, 2006, none of the named executive officers was eligible to receive any benefits under the Qualified Plan, except for Mr. Bernstein who

is entitled to a monthly benefit of $372 at age 65.

Potential Termination and Change in Control Payments

The compensation payable to named executive officers upon voluntary termination, involuntary termination without cause, termination for cause, termination following a change in control and in the event of disability or death of the executive is described below.

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Payments Made Upon Termination

Regardless of the manner in which a named executive officer s employment terminates, he or she may be entitled to receive amounts earned during his or her term of employment. Such amounts include:

- unpaid base salary through the date of termination;
- any accrued and unused vacation pay;
- any unpaid award under the Plans or bonus under the Bonus Plan with respect to a completed performance period;
- all accrued and vested benefits under our compensation and benefit programs, including the pension plan and the Supplemental Retirement Plan; and
- with respect solely to Mr. Lorber, payment by the Company of a tax gross-up for any excise taxes and related income taxes on gross-ups for benefits received upon termination of employment.

Payments Made Upon Involuntary Termination of Employment without Cause or for Good Reason, Death or Disability

In the event of the termination of a named executive officer by the Company without cause or by the named executive officer for good reason, or upon the death or disability of a named executive officer, in addition to the benefits listed under the heading Payments Made Upon Termination , the named executive officer or his designated beneficiary upon his death will receive the following benefits:

- with respect to the named executive officers other than Mr. LeBow, payments for a specified period of either 24 or 36 months (the Severance Period) equal to 100% of the executive s then-current base salary and (except for Mr. Bernstein) the most recent bonus paid to the executive (up to the amount of the executive s target bonus under his employment agreement);
- with respect solely to Mr. LeBow, his annual base salary in effect through December 30, 2008 and the Company shall continue to provide the employee benefits in effect immediately prior to such termination through December 30, 2008;
- with respect to the named executive officers other than Mr. LeBow, continued participation, at the Company s expense, during the Severance Period in all employee welfare and health benefit plans, including life insurance, health, medical, dental and disability plans which cover the executive and the executive s eligible dependents (or, if such plans do not permit the executive and his eligible dependents to participate after his termination, the Company is required to pay an amount each quarter (not to exceed $35,000 per year in the case of Messrs. Lampen and Kirkland) to keep them in the same economic position on an after-tax basis as if they had continued in such plans);
- with respect solely to Mr. LeBow, such additional payments relating to death, retirement and other matters as may be determined by the Board or a committee thereof;
- with respect solely to Mr. Bernstein, a pro rata amount of any award under the Bonus Plan for which the performance period has not been completed based upon 100% of the target bonus amount for such period to the

extent that Mr. Bernstein is terminated on or after July 1 of the applicable year and bonuses are otherwise paid to the management of Liggett for that year;

acceleration of the vesting of his restricted shares upon death or disability; and

with respect solely to Mr. Lorber, acceleration of the vesting of all outstanding equity awards.

Payments Made Upon a Change in Control

The employment agreements with Messrs. LeBow and Lorber have change in control provisions.

Howard M. Lorber

If Mr. Lorber s employment is terminated without cause or by the executive for good reason within two years of a change in control, Mr. Lorber will be entitled to receive the following severance benefits:

- a lump-sum cash payment equal to 2.99 times the sum of his base salary plus the last annual bonus earned by him (including any deferred amount) for the performance period immediately preceding the date of termination;
- participation by Mr. Lorber and his eligible dependents in all welfare benefit plans in which they were participating on the date of termination until the earlier of (x) the end of the employment period under his employment agreement and (y) the date that he receives equivalent coverage and benefit under the plans and programs of a subsequent employer;
- continued participation at the Company s expense for 36 months in life, disability, accident, health and medical insurance benefits substantially similar to those received by Mr. Lorber and his eligible dependents prior to such termination, subject to reduction if comparable benefits are actually received from a subsequent employer;
- full vesting of his outstanding equity awards;
- crediting of an additional period of three years plus any remaining term of his employment agreement as continuous service under the Supplemental Retirement Plan; and
- termination of certain restrictive covenants in his employment agreement, including covenants not to compete and non-solicitation covenants.

Bennett S. LeBow

The employment agreement with Mr. LeBow permits him to terminate his employment for any reason after a change of control , unless such change of control is directly caused by Mr. LeBow through the sale of common stock of which he is the beneficial owner without the approval of the Company s board of directors. In the event of such a termination, Mr. LeBow is entitled to the following benefits:

- a lump sum payment in cash equal to his annual base salary in effect prior to such termination through December 30, 2008;
- his obligation to consult with the Company after his termination under the terms of his employment agreement terminates; and
- such termination will be deemed a termination of the executive without cause under the Supplemental Retirement Plan which is discussed under Supplemental Retirement Plan on page 20.

Richard J. Lampen, J. Bryant Kirkland III and Ronald J. Bernstein

While their respective employment agreements do not contain any change of control provisions, the event of the termination of Messrs. Lampen, Kirkland and Bernstein by the Company without cause or by the named executive officer for good reason upon a change of control, such named executive officers will receive the same severance benefits described in the previous section.

Definition of Change in Control

Pursuant to the employment agreement between the Company and Mr. Lorber, a change in control is deemed to occur if:

- a person unaffiliated with the Company acquires more than 40 percent control over its voting securities;

- the individuals who, as of January 1, 2006 are members of the Company s board of directors (the Incumbent Board), cease to constitute at least two-thirds of the Incumbent Board; however, a newly-elected board

member that was elected or nominated by two-thirds of the Incumbent Board shall be considered a member of the Incumbent Board;

the Company s stockholders approve a merger, consolidation or reorganization with an unrelated entity, unless the Company s stockholders would own at least 51 percent of the voting power of the surviving entity; the individuals who were members of the Incumbent Board constitute at least a majority of the members of the board of directors of the surviving entity; and no person (other than one of the Company s affiliates) has beneficial ownership of 40 percent or more of the combined voting power of the surviving entity s then outstanding voting securities;

the Company s stockholders approve a plan of complete liquidation or dissolution of the Company; or

the Company s stockholders approve the sale or disposition of all or substantially all of the Company s assets.

Pursuant to the employment agreement between the Company and Mr. LeBow, a change in control is deemed to occur if:

a person (other than Mr. LeBow) of beneficial ownership of 40% or more of the Company s Common Stock; and,

the Company sells or transfers 40% or more of its assets.

Definition of Termination for Cause

Under each of the employment agreements with Messrs. Lorber, Lampen and Kirkland, termination by the Company for cause is defined as:

the executive being convicted of or entering a plea of nolo contendere with respect to a criminal offense constituting a felony;

the executive committing in the performance of his duties under his employment agreement one or more acts or omissions constituting fraud, dishonesty or willful injury to the Company which results in a material adverse effect on the business, financial condition or results of operations of the Company;

the executive committing one or more acts constituting gross neglect or willful misconduct which results in a material adverse effect on the business, financial condition or results of operations of the Company;

the executive exposing the Company to criminal liability substantially and knowingly caused by the executive which results in a material adverse effect on the business, financial condition or results of operations of the Company; or

the executive failing to substantially perform his duties under his employment agreement (excluding any failure to meet any performance targets or to raise capital or any failure as a result of an approved absence or any mental or physical impairment that could reasonably be expected to result in a disability), after written warning from the Board specifying in reasonable detail the breach(es) complained of.

Under the employment agreement with Mr. LeBow, cause is defined as an act of fraud or dishonesty by Mr. LeBow which constitutes a violation of the penal law of the State of New York and which results in gain or personal enrichment of Mr. LeBow at the expense of the Company or any affiliated entities.

Under the employment agreement between Liggett and Mr. Bernstein, cause is defined as:

a material breach by Mr. Bernstein of his duties and obligations under his employment agreement which breach is not remedied to the satisfaction of the board of directors of Liggett (Liggett Board), within 30 days after receipt by Mr. Bernstein of written notice of such breach from the Liggett Board;

Mr. Bernstein s conviction or indictment for a felony;

an act or acts of personal dishonesty by Mr. Bernstein intended to result in personal enrichment of Mr. Bernstein at the expense of the Company or any of its affiliates or any other material breach or violation of Mr. Bernstein s fiduciary duty owed to the Company or any of its affiliates;

material violation of any Company or Liggett policy or the Company s Code of Business Conduct and Ethics; or

any grossly negligent act or omission or any willful and deliberate misconduct by Mr. Bernstein that results, or is likely to result, in material economic, or other harm, to the Company or any of its affiliates (other than any act or omission by Mr. Bernstein if it was taken or omitted to be done by Mr. Bernstein in good faith and with a reasonable belief that such action or omission was in the best interests of the Company).

Definition of Termination for Good Reason

Under each of the employment agreements with Messrs. Lorber, Lampen and Kirkland, termination by the executive for good reason is defined as:

a material diminution of the executive s duties and responsibilities provided in his employment agreement, including, without limitation, the failure to elect or re-elect the executive to his position (including with respect solely to Mr. Lorber, his position as a member of the Board) or the removal of the executive from any such position;

a reduction of the executive s base salary or target bonus opportunity as a percentage of base salary or any other material breach of any material provision of his employment agreement by the Company;

relocation of the executive s office from the Miami (or with respect solely to Mr. Lorber, the Miami or New York City) metropolitan areas;

the change in the executive s reporting relationship from direct reporting to the Board, in the case of Mr. Lorber, to the Executive Chairman and the Chief Executive Officer, in the case of Mr. Lampen, or to the Executive Chairman, Chief Executive Officer or the Executive Vice President, in the case of Mr. Kirkland; or

the failure of a successor to all or substantially all of the Company s business or assets to promptly assume and continue his employment agreement obligations whether contractually or as a matter of law, within 15 days of such transaction.

Under the employment agreement with Mr. LeBow, termination by Mr. LeBow for good reason is defined as a material breach by the Company of any of its material obligations under the employment agreement, which breach is not cured by the Company within 30 days after receipt of notice to cure such breach.

Under the employment agreement with Mr. Bernstein, good reason exists if, without the prior written consent of Mr. Bernstein:

the Liggett Board removes Mr. Bernstein as President and Chief Executive Officer of Liggett, other than in connection with the termination of his employment;

Mr. Bernstein is not appointed as a member of the Liggett Board;

the Liggett Board reduces Mr. Bernstein s rate of salary or bonus opportunity or materially reduces Mr. Bernstein s welfare, perquisites or other benefits described in his employment agreement;

Mr. Bernstein s duties and responsibilities at Liggett are significantly diminished or there are assigned to him duties and responsibilities materially inconsistent with his position;

Liggett fails to obtain a written agreement reasonably satisfactory to Mr. Bernstein from any successor of the Company to assume and perform his employment agreement; or

there occurs a change of control and Mr. Bernstein is required to relocate more than 50 miles from Mr. Bernstein s current work location.

Assumptions Regarding Post Termination Payment Tables

The following tables were prepared as though each named executive officer s employment was terminated on December 29, 2006 (the last business day of 2006) using the closing price of the Company s Common Stock as of that day ($17.75). The amounts under the columns which reflect a Change in Control assume that a change in control occurred on December 29, 2006. However, the executives employment was not terminated on December 29, 2006 and a change in control did not occur on that date. There can be no assurance that a termination of employment, a change in control or both would produce the same or similar results as those described if either or both of them occur on any other date or at any other price, or if any assumption is not correct in fact.

Tax Gross-Up Assumptions

Mr. Lorber was assumed to be subject to the maximum federal and state income and other payroll taxes, including excise taxes, aggregating to a net combined effective tax of approximately 61%, when calculating his excise tax gross-up.

Calculations for any tax gross-up are based on Mr. Lorber s taxable wages (Form W-2, Box 1) for the years 2001 through 2005.

No other named executive officer is entitled to an excise tax gross-up under the terms of his employment agreement.

Equity-Based Assumptions

Stock options held by Mr. Bernstein vested on December 29, 2006 with respect to a change in control or termination by him on death or disability.

No other named executive officer held unvested options at that date.

Stock options that become vested due to a change in control are valued based on their spread (i.e., the difference between the stock s fair market value and the exercise price).

It is possible that IRS rules would require these items to be valued using a valuation method such as the Black-Scholes model if they continued after a change in control. Using a Black-Scholes value in lieu of the spread would cause higher value for excise taxes and the related tax gross-up payment.

Restricted stock held by Messrs. Lorber and Bernstein vested on December 29, 2006 with respect to a change of control, or termination by the executive on death or disability.

Incentive Plan Assumptions

All amounts under the Bonus Plan were earned for 2006 in full based on actual performance and are not treated as subject to the excise tax upon a change in control.

Retirement Benefit Assumptions

All benefits are payable in a single lump sum at the participant s earliest retirement-eligible date.

For Mr. Lorber, the present value of the additional service credit for retirement benefits of three additional years is already included in the present value of accumulated benefit disclosed in the Pension Benefits table on page 19.

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Bennett S. LeBow

	Termination by Company without Cause or by Named Executive Officer with Good Reason or Disability	Death	Termination by Company for Cause or Voluntary Termination by Named Executive Officer Without Good Reason	Termination upon Change in Control
Cash Severance(1)	$ 7,900,000	$ 7,900,000		$ 7,900,000(5)
Acceleration of Long Term Incentive Grants at Target				
Value of Accelerated Unvested Equity(2)				
Benefits Continuation(3)	$ 28,805	$ 28,805		$ 28,805
Value of Supplemental Retirement Plan(4)	$ 12,722,863	$ 17,812,009		$ 12,722,863
Excise Tax and Gross-Up				

(1) Reflects the value of the sum of Mr. LeBow s 2006 base salary ($3,950,000) paid from January 1, 2007 through December 30, 2008.

(2) Reflects the value of any unvested stock options or restricted stock and related dividends that vested upon the event using the closing price of the Company s Common Stock on December 29, 2006 ($17.75). The executive also had vested but unexercised stock options on that date. See Outstanding Equity Awards at 2006 Fiscal Year-End on page 18.

(3) Reflects the value of premium payments to be made for life insurance, medical, dental and disability plans for 24 months at the Company s cost, based on 2006 premiums.

(4) This amount includes amounts that the named executive officer has accrued under the Supplemental Retirement Plan as of December 29, 2006, which are disclosed in the Pension Benefits table on page 19.

(5) Under his employment agreement, Mr. LeBow may terminate the agreement for any reason after a change in control, provided that Mr. Le Bow will not receive the cash severance amount set forth in this table if such change of control is directly caused by Mr. LeBow through the sale of common stock of which he is the beneficial owner without the approval of the Company s board of directors.

Howard M. Lorber

	Termination by Company without Cause or by Named Executive Officer with Good Reason or Disability	Death	Termination by Company for Cause or Voluntary Termination by Named Executive Officer Without Good Reason	Termination by Company without Cause or by Named Executive Officer with Good Reason upon a Change in Control
Cash Severance	$ 15,220,068(1)	$ 15,220,068(1)		$ 15,169,334(2)
Acceleration of Long Term Incentive Grants at Target				
Value of Accelerated Unvested Equity(3)	$ 9,891,931	$ 9,891,931		$ 9,891,931
Benefits Continuation(4)	$ 47,475	$ 47,475		$ 47,475
Value of Supplemental Retirement Plan(5)	$ 8,738,346	$ 8,738,346		$ 8,738,346
Excise Tax and Gross-Up				$ 10,302,463

(1) Reflects the value of the sum of Mr. Lorber s 2006 base salary ($2,581,286) and last paid bonus ($2,492,070) paid over a period of 36 months commencing after termination.

(2) Reflects the value of the sum of Mr. Lorber s 2006 base salary ($2,581,286) and last paid bonus ($2,492,070) paid over a period of 2.99 years commencing after termination.

(3) Reflects the value of 455,624 unvested stock options or restricted stock and related dividends that vested upon the event using the closing price of the Company s Common Stock on December 29, 2006 ($17.75). The executive also had vested but unexercised stock options on that date. See Outstanding Equity Awards at 2006 Fiscal Year-End on page 18.

(4) Reflects the value of premium payments to be made for life insurance, medical, dental and disability plans for 36 months at the Company s cost, based on 2006 premiums.

(5) This amount includes amounts that the named executive officer accrued under the Supplemental Retirement Plan as of December 31, 2006, which are disclosed in the Pension Benefits table on page 19.

Richard J. Lampen

	Termination by Company without Cause or by Named Executive Officer with Good Reason or Disability	Death	Termination by Company for Cause or Voluntary Termination by Named Executive Officer Without Good Reason	Termination by Company without Cause or by Named Executive Officer with Good Reason upon a Change in Control
Cash Severance(1)	$ 2,100,000	$ 2,100,000		$ 2,100,000
Acceleration of Long Term Incentive Grants at Target				
Value of Accelerated Unvested Equity(2)				
Benefits Continuation(3)	$ 41,630	$ 41,630		$ 41,630
Value of Supplemental Retirement Plan(4)	$ 474,720	$ 1,582,400		$ 474,720
Excise Tax and Gross-Up				

(1) Reflects the value of the sum of Mr. Lampen s 2006 base salary ($750,000) and last paid bonus ($300,000) paid over a period of 24 months commencing after termination.

(2) Reflects the value of any unvested stock options or restricted stock and related dividends that vested upon the event using the closing price of the Company s Common Stock on December 29, 2006 ($17.75). The executive also had vested but unexercised stock options on that date. See Outstanding Equity Awards at 2006 Fiscal Year-End on page 18.

(3) Reflects the value of premium payments to be made for life insurance, medical, dental and disability plans for 24 months at the Company s cost, based on 2006 premiums.

(4) This amount includes amounts that the named executive officer accrued under the Supplemental Retirement Plan as of December 31, 2006, which are disclosed in the Pension Benefits table on page 19.

J. Bryant Kirkland III

Termination by	Termination by

	Company without Cause or by Named Executive Officer with Good Reason or Disability	Death	Termination by Company for Cause or Voluntary Termination by Named Executive Officer Without Good Reason	Company without Cause or by Named Executive Officer with Good Reason upon a Change in Control
Cash Severance(1)	$ 900,000	$ 900,000		$ 900,000
Acceleration of Long Term Incentive Grants at Target				
Value of Accelerated Unvested Equity(2)				
Benefits Continuation(3)	$ 26,623	$ 26,623		$ 26,623
Value of Supplemental Retirement Plan(4)	$ 73,383	$ 538,144		$ 73,383
Excise Tax and Gross-Up				

(1) Reflects the value of the sum of Mr. Kirkland s 2006 base salary ($300,000) and last paid bonus ($150,000) paid over a period of 24 months commencing after termination.

(2) Reflects the value of any unvested stock options or restricted stock and related dividends that vested upon the event using the closing price of the Company s Common Stock on December 29, 2006 ($17.75). The executive also had vested but unexercised stock options on that date. See Outstanding Equity Awards at 2006 Fiscal Year-End on page 18.

(3) Reflects the value of premium payments to be made for life insurance, medical, dental and disability plans for 24 months at the Company s cost, based on 2006 premiums.

(4) This amount includes amounts that the named executive officer accrued under the Supplemental Retirement Plan as of December 31, 2006, which are disclosed in the Pension Benefits table on page 19.

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Ronald J. Bernstein

	Termination by Company without Cause or by Named Executive Officer with Good Reason or Disability	Death	Termination by Company for Cause or Voluntary Termination by Named Executive Officer Without Good Reason	Termination by Company without Cause or by Named Executive Officer with Good Reason upon a Change in Control
Cash Severance(1)	$ 1,582,800	$ 1,582,800		$ 1,582,800
Acceleration of Long Term Incentive Grants at Target				
Value of Accelerated Unvested Equity(2)	$ 774,656	$ 774,656		$ 774,656
Benefits Continuation(3)	$ 30,272	$ 30,272		$ 30,272
Value of Retirement Benefits(4)	$ 1,157,130	$ 2,777,112		$ 1,157,130
Excise Tax and Gross-Up				

(1) Reflects the value of the sum of Mr. Bernstein s 2006 base salary ($776,400) paid over a period of 24 months commencing after termination.

(2) Reflects the value of any unvested stock options or restricted stock and related dividends that vested upon the event using the closing price of the Company s Common Stock on December 29, 2006 ($17.75). The executive also had vested but unexercised stock options on that date. See Outstanding Equity Awards at 2006 Fiscal Year-End on page 18.

(3) Reflects the value of premium payments to be made for life insurance, medical, dental and disability plans for 24 months at the Company s cost, based on 2006 premiums.

(4) This amount includes amounts that the named executive officer accrued under the Supplement Retirement Plan as of December 31, 2006, which is disclosed in the Pension Benefits table on page 19. The amount does not include the value of Mr. Bernstein s monthly payment of $372 at age 65 under the Qualified Plan, which is disclosed in the Pension Benefits table on page 19 because lump sum payments are not generally available to participants in the Qualified Plan. If the lump sum option had been available to Mr. Bernstein in the Qualified Plan, the amounts shown would have been increased by approximately $29,200.

Compensation of Directors

Each of the non-management directors receives:

- annual cash retainer fee of $35,000;
- $2,500 per annum for each committee membership ($5,000 for the committee chairman);
- $1,000 per meeting for each Board meeting attended in person or by telephone;
- $500 per meeting for each committee meeting attended in person or by telephone;
- reimbursed for reasonable out-of-pocket expenses incurred in serving on our Board; and
- access to our health, dental and life insurance coverage.

No stock options or restricted shares of Common Stock were granted to the non-management directors in 2006.

In June 2004, the Company granted 11,576 restricted shares of Common Stock under the 1999 Plan to each of its four non-management directors of the Company. The stock grant vests over a period of three years, commencing on the first anniversary of the date of grant, based on continued service as a director and subject to accelerated vesting upon death, disability or the occurrence of a change in control.

During the second quarter of 2007, the Company intends to grant 10,000 restricted shares of Common Stock under the 1999 Plan to each of its four non-management directors. The stock grant will vest in three equal annual installments commencing on the first anniversary of the date of grant based on continued service as a director, subject to earlier vesting upon death, disability or the occurrence of a change in control.

The table below summarizes the compensation the Company paid to the non-management directors for the year ended December 31, 2006.

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NON-MANAGEMENT DIRECTOR COMPENSATION IN FISCAL YEAR 2006

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)(1)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Changes in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
Henry C. Beinstein	$ 62,000	$ 53,700				296(2)	$ 115,996
Robert J. Eide	$ 64,500	$ 53,700				300(2)	$ 118,500
Jeffrey S. Podell	$ 56,000	$ 53,700				282(2)	$ 109,982
Jean E. Sharpe	$ 56,500	$ 53,700				$ 21,394(3)	$ 131,594

(1) Represents value of 3,673 shares received upon vesting of restricted stock awards under the 1999 Plan made in 2004, in accordance with SFAS 123(R).

(2) Represents life insurance premiums paid by the Company.

(3) Represents health and life insurance premiums paid by the Company.

Compensation Committee Interlocks and Insider Participation

No member of the Company s Compensation Committee is, or has been, an employee or officer of the Company. During 2006, (i) no member of the Company s Compensation Committee had any relationship with the Company requiring disclosure under Item 404 of Regulation S-K; and (ii) none of the Company s executive officers served on the compensation committee (or equivalent) or board of directors of another entity whose executive officer(s) served on the Company s Compensation Committee.

Audit Committee Report

The audit committee report shall not be deemed incorporated by reference by any general statement incorporating by reference this proxy statement into any filing under the Securities Act of 1933 or under the Securities Exchange Act of 1934, except to the extent the Company specifically incorporates this information by reference, and shall not otherwise be deemed filed under such Acts.

Management is responsible for the Company s internal controls and the financial reporting process including its financial statements and management s assessment of the effectiveness of the Company s internal control over financial reporting. PricewaterhouseCoopers LLP, the Company s independent registered certified public accounting firm, issues opinions on the conformity of the Company s audited financial statements with generally accepted accounting principles and on management s assessment of the effectiveness of the Company s internal control over financial

reporting. In addition, PricewaterhouseCoopers LLP will issue an opinion on the effectiveness of the Company s internal control over financial reporting. The audit committee reviews these processes on behalf of the board of directors. In this context, the committee has reviewed and discussed with management and PricewaterhouseCoopers LLP the audited financial statements for the year ended December 31, 2006, management s assessment of the effectiveness of the Company s internal control over financial reporting and the evaluation by PricewaterhouseCoopers LLP of the Company s internal control over financial reporting.

The committee has discussed with the independent auditors the matters required to be discussed by the Statement on Auditing Standards No. 61 (Communication with Audit Committees), as amended.

The committee has received the written disclosures and the letter from the independent auditors required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), as amended, and has discussed with the independent auditors their independence. The committee has also considered whether the provision of the services described under the caption Audit Fees and Non-Audit Fees is compatible with maintaining the independence of the independent auditors.

Based on the review and discussions referred to above, the committee recommended to the board of directors that the audited financial statements and management s assessment of the effectiveness of the Company s internal control over financial reporting be included in the Company s Annual Report on Form 10-K for the year ended December 31, 2006 filed with the Securities and Exchange Commission.

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This report is submitted by the audit committee of the Company.

Henry C. Beinstein, Chairman
Robert J. Eide
Jeffrey S. Podell
Jean E. Sharpe

Audit and Non-Audit Fees

The audit committee reviews and approves audit and permissible non-audit services performed by PricewaterhouseCoopers LLP, as well as the fees charged by PricewaterhouseCoopers LLP for such services. In accordance with Section 10A(i) of the Securities Exchange Act, before PricewaterhouseCoopers LLP is engaged to render audit or non-audit services, the engagement is approved by the audit committee. All of the services provided and fees charged by PricewaterhouseCoopers LLP in 2006 and 2005 were pre-approved by the audit committee.

Audit Fees. The aggregate fees billed by PricewaterhouseCoopers LLP for professional services for the audit of the annual financial statements of the Company and its consolidated subsidiaries, audit of internal control over financial reporting under Sarbanes-Oxley Section 404, audits of subsidiary financial statements, reviews of the financial statements included in the Company s quarterly reports on Form 10-Q, comfort letters, consents and review of documents filed with the SEC were $2,225,307 for 2006 and $2,003,000 for 2005.

Audit-Related Fees. No fees were billed by PricewaterhouseCoopers LLP for audit-related professional services in 2006 and 2005.

Tax Fees. The aggregate fees billed by PricewaterhouseCoopers LLP for professional services for tax services were $38,940 in 2006 and $22,000 in 2005. The services were primarily for state tax advice.

All Other Fees. The aggregate fees billed by PricewaterhouseCoopers LLP for other services were $4,500 in 2006 and $3,000 in 2005. These amounts consisted of licensing of accounting research software.

Pre-Approval Policies and Procedures

The Audit Committee has adopted a policy that requires advance approval of all audit, audit-related, tax and other services performed by the independent registered certified public accounting firm. The policy provides for pre-approval by the Audit Committee of specifically defined audit and non-audit services. Unless the specific service has been previously pre-approved with respect to that year, the Audit Committee must approve the permitted service before the independent registered certified public accounting firm is engaged to perform it. The Audit Committee approved all services provided by PricewaterhouseCoopers LLP.

Equity Compensation Plan Information

The following table summarizes information about the options, warrants and rights and other equity compensation under the Company s equity plans as of December 31, 2006.

	Number of securities remaining

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)		Weighted-average exercise price of outstanding options, warrants and rights (b)	available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders(1)	8,916,696	$	10.22	5,565,254
Equity compensation plans not approved by security holders(2)	14,068	$	11.90	
Total	8,930,764	$	10.22	5,565,254

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(1) Includes options to purchase shares of the Company s Common Stock under the following stockholder-approved plans: 1998 Long-Term Incentive Plan and Amended and Restated 1999 Long-Term Incentive Plan.

(2) Represents options to purchase shares of the Company s Common Stock granted in December 1999 to the Company s non-management directors, which vested over three years.

Certain Relationships and Related Party Transactions

The board of directors has adopted a written policy for the review and approval of transactions between the Company and its directors, director nominees, executive officers, greater than five percent beneficial owners and their immediate family members. The policy covers any related party transaction that meets the minimum threshold for disclosure in the Company s proxy statement under the relevant Securities and Exchange Commission rules. The Audit Committee is responsible for reviewing and, if appropriate, approving or ratifying any related party transactions. In determining whether to approve, disapprove or ratify a related party transaction, the Audit Committee will take into account, among other factors it deems appropriate, (i) whether the transaction is on terms no less favorable to the Company than terms that would have been reached with an unrelated third party, (ii) the extent of the interest of the related party in the transaction and (iii) the purpose and the potential benefits to the Company of the transaction.

The related party transactions described in this proxy statement were approved by the board of directors or audit committee before this policy was adopted.

In connection with the Company s private offering of convertible notes in November 2004, in order to permit hedging transactions by the purchasers, the purchasers of the notes required Bennett S. LeBow, who serves as Executive Chairman of the Company, to enter into an agreement granting an affiliate of Jefferies, the placement agent for the offering, the right, in its sole discretion, to borrow up to 3,828,843 shares of Common Stock from this stockholder or an entity affiliated with him during a 30-month period through May 2007, subject to extension under various conditions, and that he agree not to dispose of such shares during this period, subject to limited exceptions. In consideration for this stockholder agreeing to lend his shares in order to facilitate the Company s offering and accepting the resulting liquidity risk, the Company agreed to pay him or an affiliate designated by him an annual fee, payable on a quarterly basis in cash or, by mutual agreement of the Company and this stockholder, shares of Common Stock, equal to 1% of the aggregate market value of 3,828,843 shares of Common Stock. In addition, the Company agreed to hold this stockholder harmless on an after-tax basis against any increase, if any, in the income tax rate applicable to dividends paid on the shares as a result of the share loan agreement. For the year ended December 31, 2006, the Company paid an entity affiliated with Mr. LeBow an aggregate of $1,207,000 under this agreement. This stockholder has the right to assign to one of the Company s other principal stockholders, Howard M. Lorber, who serves as the Company s President and Chief Executive Officer and as a director of the Company, some or all of his obligation to lend the shares under such agreement. In May 2006, Mr. LeBow assigned to Mr. Lorber the obligation to lend 562,355 shares of Common Stock under this agreement.

In connection with the April 2005 placement of additional convertible notes, the Company entered into a similar arrangement through May 2007 with Mr. Lorber with respect to 330,750 shares of Common Stock. For the year ended December 31, 2006, the Company paid an entity affiliated with Mr. Lorber an aggregate of $115,000 under this agreement and for the assigned obligation to lend shares.

As of the record date, High River Limited Partnership, an investment entity owned by Carl C. Icahn, and affiliated entities were the beneficial owners of 20.3% of the Common Stock. Until June 2006, Barberry Corp. (Barberry), an investment entity affiliated with Mr. Icahn, owned $20,000,000 of the Company s 6.25% convertible subordinated notes due 2008. Barberry received interest payments on the notes of $1,149,000 during 2006.

In June 2006, Frost Gamma Investments Trust, an investment entity affiliated with Dr. Phillip Frost, and Barberry converted $50,000,000 and $20,000,000 principal amount, respectively, of the Company s 6.25% convertible subordinated notes due July 15, 2008 into 2,345,216 and 938,087 shares, respectively, of Common Stock in accordance with the terms of the notes. In connection with the conversion of the notes, the Company issued an additional 654,784 and 261,913 shares, respectively, of Common Stock to these holders and paid these holders $1,241,500 and $524,306, respectively, of accrued interest. The additional shares and accrued interest were issued and paid as an inducement of these holders to convert the notes.

In August 2006, the Company invested $25,000,000 in Icahn Partners, LP, a privately managed investment partnership, of which Mr. Icahn is the portfolio manager and the controlling person of the general partner, and manager of the partnership.

As of the record date, Jefferies was the beneficial owner of 5.6% of the Common Stock and during 2006, Jefferies owned certain of the Company s 6.25% convertible notes due 2008, 5% variable interest senior convertible notes due 2011 and 3.875% variable interest senior convertible debentures due 2026. During 2006, Jefferies received dividends of $4,804,545 and interest payments of $78,864, $92,729 and $81,585 related to the Company s 6.25% convertible notes, 5% variable interest senior convertible notes and 3.875% variable interest senior convertible notes, respectively. Jefferies or its affiliates have from time to time provided investment banking, general financing and banking services to the Company and its affiliates, for which they have received customary compensation. During 2006, the Company paid to Jefferies and its affiliates fees in the amount of approximately $3,850,000. Jefferies or its affiliates may provide similar services in the future.

Jefferies Paragon Master Fund, Ltd. for which Jefferies Asset Management, LLC, a Jefferies affiliate, serves as investment manager, owned $5,000,000 of the Company s 6.25% convertible notes due 2008. The notes were redeemed in August 2006 at a redemption price of 101.042% of the principal amount plus accrued interest. Jefferies Paragon received interest payments on the notes of approximately $337,674 during 2006. Jefferies Paragon owned 1,824,200 shares of Common Stock at December 31, 2006.

On November 1, 2006, the Company invested $10,000,000 in Jefferies Buckeye Fund, LLC, a privately managed investment partnership, of which Jefferies Asset Management, LLC is the portfolio manager. The Company had invested approximately 15% of the funds invested in the Jefferies Buckeye Fund at December 31, 2006.

In September 2006, the Company entered into an agreement with Ladenburg Thalmann Financial Services Inc. (LTS) pursuant to which the Company agreed to make available to LTS the services of the Company s Executive Vice President, Richard J. Lampen, to serve as the President and Chief Executive Officer of LTS and to provide certain other financial and accounting services, including assistance with complying with Section 404 of the Sarbanes-Oxley Act of 2002. In consideration for such services, LTS pays the Company an annual fee of $250,000 plus reimbursement of expenses and will indemnify the Company. The agreement is terminable by either party upon 30 days prior written notice. LTS paid the Company $83,333 under this agreement in 2006. Various executive officers and directors of the Company and New Valley serve as members of the Board of Directors of LTS, which is indebted to New Valley. For additional information concerning these borrowings, see note 17 to the Company s consolidated financial statements in the accompanying 2006 annual report to stockholders, which note should be deemed part of this proxy statement.

Mr. Lorber serves as a consultant to Hallman & Lorber. During 2006, Mr. Lorber and Hallman & Lorber and its affiliates received ordinary and customary insurance commissions aggregating approximately $273,000 on various insurance policies issued for the Company and its subsidiaries and investees. Mr. Lorber and Hallman & Lorber and its affiliates have continued to provide services to the Company in 2007.

APPROVAL OF INCREASE IN NUMBER OF AUTHORIZED SHARES OF COMMON STOCK

The Board has adopted and declared advisable, subject to stockholder approval, an amendment to the Company s Certificate of Incorporation to increase the Company s number of authorized shares of Common Stock from 100,000,000 shares to 150,000,000 shares.

The additional Common Stock to be authorized by adoption of the amendment would have rights identical to the currently outstanding Common Stock. Adoption of the proposed amendment and issuance of the Common Stock

would not affect the rights of the holders of currently outstanding Common Stock, except for effects incidental to increasing the number of shares of the Common Stock outstanding, such as dilution of the earnings per share and voting rights of current holders of Common Stock. The Common Stock has no preemptive rights. If the amendment is adopted, it will become effective upon filing of a Certificate of Amendment of the Company s Certificate of Incorporation with the Secretary of the State of Delaware.

If the amendment to the Company s Certificate of Incorporation is approved, the increased number of authorized share of Common Stock will be available for issuance, from time to time, for such purposes and consideration, and on such terms, as the Board may approve and no further vote of the stockholders of the Company will be sought, although certain issuances of shares may require stockholder approval in accordance with the requirements of The New York Stock Exchange or the Delaware General Corporation Law. Management believes that the limited number of currently authorized but unissued and unreserved shares of Common Stock may restrict the Company s ability to respond to business needs and opportunities. The availability of additional shares of Common Stock for issuance will afford the Company flexibility in the future by assuring that there will be sufficient authorized but unissued shares of Common Stock for possible acquisitions, financing requirements, stock splits and other corporate purposes. The Company has no definite plans for the use of the Common Stock for which authorization is sought.

The existence of additional authorized shares of Common Stock could have the effect of rendering more difficult or discouraging hostile takeover attempts. The Company is not aware of any existing or planned effort on the part of any party to accumulate material amounts of voting stock, or to acquire the Company by means of a merger, tender offer, solicitation of proxies in opposition to management or otherwise, or to change the Company s management, nor is the Company aware of any person having made any offer to acquire the voting stock or assets of the Company.

In addition to the 57,104,481 shares of Common Stock outstanding at the record date, the Board has reserved an aggregate of 26,146,797 additional shares for future issuance, consisting of the following: (a) 8,854,552 shares reserved for issuance upon exercise of options granted under stock option agreements entered into by the Company with employees of the Company and its subsidiaries; (b) 5,565,243 shares reserved for issuance under the Company s 1998 Long-Term Incentive Plan and Amended and Restated 1999 Long-Term Incentive Plan; and (c) 11,727,002 shares reserved for issuance upon conversion of outstanding convertible debt.

As a result, the Company currently has only 16,748,722 authorized but unissued shares of Common Stock (including treasury shares), which are unreserved and available for future issuance.

The affirmative vote of the holders of a majority of the outstanding shares of Common Stock will be required to approve this amendment to the Company s Certificate of Incorporation. As a result, abstentions and broker shares that are not voted will have the same effect as votes against this proposal. A New York Stock Exchange member broker who holds shares in street name for a customer has the authority to vote on certain items if the broker does not receive instructions from the customer. New York Stock Exchange rules permit member brokers who do not receive instructions to vote on proposal two to amend the Company s Certificate of Incorporation to increase the number of shares of Common Stock authorized for issuance.

The board recommends a vote **FOR** amending the Company s Certificate of Incorporation to increase the number of authorized shares of Common Stock.

INDEPENDENT REGISTERED CERTIFIED PUBLIC ACCOUNTING FIRM

PricewaterhouseCoopers LLP has been the independent registered certified public accounting firm for the Company since December 1986 and will serve in that capacity for the 2007 fiscal year unless the audit committee deems it advisable to make a substitution. It is expected that one or more representatives of such firm will attend the annual meeting and be available to respond to any questions. These representatives will be given an opportunity to make statements at the annual meeting if they desire.

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MISCELLANEOUS

Annual Report

The Company has mailed, with this proxy statement, a copy of the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2006 to each stockholder as of the record date. If a stockholder requires an additional copy of such Annual Report, the Company will provide one, without charge, on the written request of any such stockholder addressed to the Company s secretary at Vector Group Ltd., 100 S.E. Second Street, 32nd Floor, Miami, Florida 33131.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires directors and executive officers of the Company, as well as persons who beneficially own more than 10% of a registered class of the Company s equity securities, to file reports of initial beneficial ownership and changes in beneficial ownership on Forms 3, 4 and 5 with the SEC. These persons are also required by SEC regulations to furnish the Company with copies of all reports that they file. As a practical matter, the Company assists its directors and officers by monitoring transactions and completing and filing Section 16 reports on their behalf.

Basic

$

(0.43

)

$

(0.45

)

$

(3.36

)

$

(1.57

)

$

0.28

Diluted

$

(0.43

)

$

(0.45

)

$

(3.36

)

$

(1.57

)

$

0.28

Weighted average shares used in computing net (loss)

income per share:

Basic

45,197

44,454

43,528

42,816

45,846

Diluted

45,197

44,454

43,528

42,816

46,859

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

Cost of revenue	$3,780	$3,120	$2,767	$3,930	$4,293
Product development	2,340	2,395	2,429	2,765	2,570
Sales and marketing	1,825	2,144	2,937	3,264	3,096
General and administrative	3,023	2,196	2,296	2,057	3,037

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

	June 30,				
	2016	2015	2014	2013	2012
	(In thousands)				
Consolidated Balance Sheets Data:					
Cash and cash equivalents	$53,710	$60,468	$84,177	$90,117	$68,531
Working capital	44,264	69,549	110,412	111,040	103,222
Total assets	193,102	205,153	276,843	429,547	507,160
Long-term liabilities	4,631	20,740	65,448	83,961	98,489
Total debt	15,000	15,049	77,263	92,677	107,596
Total stockholders' equity	124,752	135,585	145,151	278,895	338,357

	Fiscal Year Ended June 30,				
	2016	2015	2014	2013	2012
	(In thousands)				
Consolidated Statements of Cash Flows Data:					
Net cash provided by operating activities	$1,015	$6,133	$18,377	$50,665	$46,375
Depreciation and amortization	15,087	18,867	26,097	32,325	31,150
Capital expenditures	1,859	3,346	5,455	1,341	2,268

	Fiscal Year Ended June 30,				
	2016	2015	2014	2013	2012
	(In thousands)				
Other Financial Data:					
Adjusted EBITDA [(1)]	$7,853	$9,984	$24,189	$47,872	$72,648

(1) We define adjusted EBITDA as net (loss) income less (provision for) benefit from taxes, depreciation expense, amortization expense, stock-based compensation expense, interest and other expense, net, impairment of goodwill, restructuring and legal settlement expense. Please see the “adjusted EBITDA” section within “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for more information.

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

	Fiscal Year Ended June 30,				
	2016	2015	2014	2013	2012
	(In thousands)				
Net (loss) income	$(19,420)	$(20,008)	$(146,404)	$(67,372)	$13,001
Interest and other expense, net	412	1,075	2,217	5,154	4,370
Provision for (benefit from) taxes	134	(244)	36,209	(26,601)	11,131
Depreciation and amortization	15,087	18,867	26,097	32,325	31,150
Stock-based compensation expense	10,968	9,855	10,429	12,016	12,996
Impairment of goodwill	—	—	95,641	92,350	—
Restructuring	297	439	—	—	—
Legal settlement expense	375	—	—	—	—
Adjusted EBITDA	$7,853	$9,984	$24,189	$47,872	$72,648

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

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

Management Overview

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

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

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

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

Our business derives its net revenue from fees earned through the delivery of qualified leads, inquiries, clicks, calls, applications, or customers and, to a lesser extent, display advertisements, or impressions. Through a vertical focus,

targeted media presence and our technology platform, we are able to deliver targeted, measurable marketing results to our clients.

Our two largest client verticals are financial services and education. Our financial services client vertical represented 52%, 42% and 39% of net revenue in fiscal years 2016, 2015 and 2014. Our education client vertical represented 30%, 38% and 43% of net revenue in fiscal years 2016, 2015 and 2014. Other client verticals, consisting primarily of business-to-business technology, home services and medical, represented 18%, 20% and 18% of net revenue in fiscal years 2016, 2015 and 2014. We generated the majority of our revenue from sales to clients in the United States.

Trends Affecting our Business

Client Verticals

To date, we have generated the majority of our revenue from clients in our financial services and education client verticals. We expect that a majority of our revenue in fiscal year 2017 will also be generated from clients in these client verticals. In addition, revenue from our financial services client vertical is expected to increase as a percentage of our total revenue.

Our financial services client vertical has been challenged by a number of factors over the past several years, including the limited availability of high quality media at acceptable margins caused by changes in search engine algorithms, acquisition of media sources by competitors and increased competition for quality media. These effects may continue to impact our business in the near

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future. To offset this impact, we have broadened our product set with enhanced click, lead, call and policy products that have enabled better monetization to provide greater access to high quality media sources. Moreover, we have entered into strategic partnerships to increase and diversify our access to quality media and client budgets.

Our education client vertical has been significantly challenged by regulations and enforcement activity affecting U.S. for-profit education institutions over the past several years. For example, in January 2014, the Department of Education initiated an investigation of a publicly traded U.S. for-profit education client with respect to its enrollment activities and job placement, among other things, and in July 2014, the Department of Education signed an agreement with the client requiring it to wind down or sell its campuses. In July 2015, the Federal Trade Commission initiated an investigation of another publicly traded U.S. for-profit education client with respect to its recruiting and enrollment practices. These and other similar regulatory and enforcement activities have affected and are expected to continue to affect our clients' businesses and marketing practices, which have and may continue to, result in a decrease in these clients' spending with us and other vendors and fluctuations in the volume and mix of our business with these clients. To offset the impact these regulatory and investigative activities have had on the U.S. for-profit education clients, we have broadened our product set from our traditional lead business with the addition of better qualified and matched leads or inquiries, clicks and calls; we believe these new enhanced products better match U.S. for-profit education client needs in the current regulatory environment. We have also broadened our markets in education to include not-for-profit schools and international markets in Brazil and India. Moreover, we have entered into strategic partnerships to increase and diversify our access to quality media and client budgets.

Development, Acquisition and Retention of High Quality Targeted Media

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

Seasonality

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

Regulations

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

Clients in our financial services vertical have been affected by laws and regulations and the increased enforcement of new and pre-existing laws and regulations. In addition, our education client vertical has been significantly affected by the adoption of regulations affecting U.S. for-profit education institutions over the past several years, and a high level

of governmental scrutiny is expected to continue. The effect of these regulations, or any future regulations, may continue to result in fluctuations in the volume and mix of our business with these clients.

An example of a regulatory change that may affect our business is the amendment of the Telephone Consumer Protection Act (the "TCPA"), that affects telemarketing calls. Our efforts to comply with the TCPA have thus far had a relatively small negative effect on traffic conversion rates. However; our clients may make business decisions based on their own experiences with the TCPA regardless of our products, and the changes we implemented to comply with the regulations. Those decisions may negatively affect our revenue or profitability.

Basis of Presentation

Net Revenue

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

Cost of Revenue

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

Operating Expenses

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

Product Development. Product development expenses consist primarily of personnel costs and facilities fees. We are constraining expenses generally to the extent practicable; however we expect product and development expenses to increase in absolute dollars in the future as we accelerate revenue growth and profitability.

Sales and Marketing. Sales and marketing expenses consist primarily of personnel costs, professional services, facilities fees and depreciation expense. We are constraining expenses generally to the extent practicable; however we expect sales and marketing expenses to increase in absolute dollars in the future as we accelerate revenue growth and profitability.

General and Administrative. General and administrative expenses consist primarily of personnel costs of our finance, legal, employee benefits and compliance, technical support and other administrative personnel, as well as accounting and legal professional services fees, and insurance. We are constraining expenses generally to the extent practicable; however we expect general and administrative expenses to increase in absolute dollars in the future as we accelerate revenue growth and profitability.

Interest and Other Expense, Net

Interest and other expense, net, consists primarily of interest income, interest expense, and other income and expense. Interest income represents interest earned on our cash, cash equivalents and marketable securities, which may increase or decrease depending on market interest rates and the amounts invested. Interest expense is related to our term loan facility, revolving loan facility, the related interest rate swap, promissory notes issued in connection with our

acquisitions, and imputed interest on non-interest bearing notes. Borrowings under our revolving loan facility, the aggregate principal amount of outstanding promissory notes and related interest expense could increase if, among other things, we make additional acquisitions through debt financing. Other income and expense includes gains and losses on foreign currency exchange, gains and losses on sales of websites and domain names that were not considered to be strategically important to our business, and other non-operating items.

(Provision for) Benefit from Income Tax

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

Results of Operations

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

	Fiscal Year Ended					
	2016		2015		2014	
	(In thousands)					
Net Revenue	$297,706	100.0%	$282,140	100.0%	$282,549	100.0%
Cost of revenue [1]	270,963	91.0	252,002	89.3	241,907	85.6
Gross profit	26,743	9.0	30,138	10.7	40,642	14.4
Operating expenses: [1]						
Product development	16,431	5.5	17,948	6.4	19,548	6.9
Sales and marketing	12,020	4.0	14,544	5.1	16,385	5.8
General and administrative	17,166	5.8	16,823	6.0	17,046	6.0
Impairment of goodwill	—	—	—	—	95,641	33.8
Operating loss	(18,874)	(6.3)	(19,177)	(6.8)	(107,978)	(38.1)
Interest income	61	—	72	—	115	—
Interest expense	(585)	(0.2)	(3,818)	(1.3)	(3,825)	(1.4)
Other income, net	112	—	2,671	0.9	1,493	0.5
Loss before income taxes	(19,286)	(6.5)	(20,252)	(7.2)	(110,195)	(39.0)
(Provision for) benefit from taxes	(134)	—	244	0.1	(36,209)	(12.8)
Net loss	$(19,420)	(6.5)%	$(20,008)	(7.1)%	$(146,404)	(51.8)%

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

Cost of revenue	$3,780	1.3%	$3,120	1.1%	$2,767	1.0%
Product development	2,340	0.8	2,395	0.8	2,429	0.9
Sales and marketing	1,825	0.6	2,144	0.8	2,937	1.0
General and administrative	3,023	1.0	2,196	0.8	2,296	0.8

Net Revenue

	Fiscal Year Ended June 30,			2016 - 2015 % Change	2015 - 2014 % Change
	2016	2015	2014		
	(In thousands)				
Net revenue	$297,706	$282,140	$282,549	6%	(0%)
Cost of revenue	270,963	252,002	241,907	8%	4%
Gross profit	$26,743	$30,138	$40,642	(11%)	(26%)

Net revenue increased $15.6 million, or 6%, in fiscal year 2016 compared to fiscal year 2015. Our financial services client vertical revenue increased $36.0 million, or 30%, primarily due to the continued rollout of our enhanced products and media management platform and to strategic partnerships that have increased and diversified our access to quality media and client budgets. Our education client vertical revenue decreased $16.3 million, or 15%, primarily due to the exit from the channel by a large U.S. for-profit education client. Revenue from other client verticals

decreased $4.1 million, or 7%, primarily due to decreased client demand in our business-to-business technology, partially offset by increased client demand in our home services client vertical.

Net revenue was approximately flat in fiscal year 2015 compared to fiscal year 2014. Our financial services client vertical revenue increased $7.3 million, or 6%, primarily due to our enhanced click, lead, call and policy products which enabled us to access higher quality media for our clients and has led to increased client budgets. Our education client vertical revenue decreased $14.1 million, or 12%, as a result of our education clients' lower budgets, largely due to uncertainty surrounding regulations and enforcement activity affecting U.S. for-profit education institutions and their operational adjustment to this activity. Revenue from other client verticals increased $6.4 million, or 13%, primarily due to increased client demand in our business-to-business technology and home services client verticals partially offset by decreased client demand in our medical client vertical.

Cost of Revenue and Gross Margin

Cost of revenue increased $19.0 million, or 8%, in fiscal year 2016 compared to fiscal year 2015, driven by increased media costs of $21.6 million and increased stock-based compensation expense of $0.7 million, offset by decreased amortization of intangible assets of $3.6 million. The increased media costs were due to higher revenue volumes. The decreased amortization of intangible assets were related to historical acquisitions becoming fully amortized and reduced spending on acquisitions in recent periods. Gross margin

was 9% in fiscal year 2016 compared to 11% in fiscal year 2015. The decrease in gross margin was attributable to a higher proportion of our revenue coming from our financial services click products, which tend to have higher media costs as a percentage of revenue, partially offset by decreased amortization of intangible assets.

Cost of revenue increased $10.1 million, or 4%, in fiscal year 2015 compared to fiscal year 2014, driven by increased media costs of $11.1 million, increased personnel costs of $3.2 million and increased other expenses of $2.5 million, offset by decreased amortization of intangible assets of $7.1 million. The increased media costs were attributable to increased costs for high quality media. The increased personnel costs were attributable to an increase in average headcount. The decreased amortization of intangible assets were attributable to assets from historical acquisitions becoming fully amortized and reduced spending on acquisitions in recent periods. Gross margin was 11% in fiscal year 2015 compared to 14% in fiscal year 2014. The decrease in gross margin was attributable to increased media costs associated with our investments in optimizing high quality media in our financial services vertical.

Operating Expenses

	Fiscal Year Ended June 30,			2016 - 2015 % Change	2015 - 2014 % Change
	2016	2015	2014		
	(In thousands)				
Product development	$16,431	$17,948	$19,548	(8 %)	(8 %)
Sales and marketing	12,020	14,544	16,385	(17 %)	(11 %)
General and administrative	17,166	16,823	17,046	2 %	(1 %)
Impairment of goodwill	—	—	95,641	0 %	(100 %)
Operating expenses	$45,617	$49,315	$148,620	(7 %)	(67 %)

Product Development Expenses

Product development expenses decreased $1.5 million, or 8%, in fiscal year 2016 compared to fiscal year 2015, primarily due to decreased personnel costs of $1.8 million related to decreased headcount and decreased performance incentive compensation associated with the lower achievement of performance objectives.

Product development expenses decreased $1.6 million, or 8%, in fiscal year 2015 compared to fiscal year 2014, primarily due to decreased personnel costs of $1.1 million due to a decrease in average salaries.

Sales and Marketing Expenses

Sales and marketing expenses decreased $2.5 million, or 17%, in fiscal year 2016 compared to fiscal year 2015, primarily due to decreased personnel costs of $1.5 million related to decreased headcount and decreased performance incentive compensation associated with the lower achievement of performance objectives and decreased advertising costs of $0.4 million.

Sales and marketing expenses decreased $1.8 million, or 11%, in fiscal year 2015 compared to fiscal year 2014, primarily due to decreased stock-based compensation expense of $0.8 million, decreased advertising costs of $0.5 million and decreased personnel costs of $0.4 million.

General and Administrative Expenses

General and administrative expenses increased $0.3 million, or 2%, in fiscal year 2016 compared to fiscal year 2015.

General and administrative expenses decreased $0.2 million, or 1%, in fiscal year 2015 compared to fiscal year 2014.

Impairment of Goodwill

As discussed under “Critical Accounting Policies and Estimates,” there was no goodwill impairment charge recognized in fiscal years 2016 and 2015. We recognized a goodwill impairment charge of $95.6 million in fiscal year 2014 due to declines sustained in our public market capitalization.

Interest and Other Expense, Net

	Fiscal Year Ended June 30,			2016 - 2015 % Change	2015 - 2014 % Change
	2016	2015	2014		
	(In thousands)				
Interest income	$61	$72	$115	(15 %)	(37 %)
Interest expense	(585)	(3,818)	(3,825)	(85 %)	(0 %)
Other income, net	112	2,671	1,493	(96 %)	79 %
Interest and other expense, net	$(412)	$(1,075)	$(2,217)	(62 %)	(52 %)

Interest income was immaterial in fiscal years 2016, 2015 and 2014.

Interest expense decreased $3.2 million, or 85%, in fiscal year 2016 compared to fiscal year 2015, primarily due to decreased debt obligations.

Interest expense was approximately flat in fiscal year 2015 compared to fiscal year 2014.

Other income, net decreased $2.6 million, or 96% in fiscal year 2016 compared to fiscal year 2015, primarily due to a decrease in gains on the sale of domain names that were not considered to be strategically important to our business of $3.2 million, partially offset by an expense of $0.3 million recognized in fiscal year 2015 related to the termination of the interest rate swap.

Other income, net increased $1.2 million, or 79%, in fiscal year 2015 compared to fiscal year 2014, primarily due to an increase in gains on the sale of domain names that were not considered to be strategically important to our business of $2.8 million, offset by a gain of $0.9 million recognized in fiscal year 2014 related to the sale of our shares of preferred stock in our DemandBase investment.

(Provision for) Benefit from Taxes

	Fiscal Year Ended June 30,		
	2016	2015	2014
	(In thousands)		
(Provision for) benefit from taxes	$(134)	$244	$(36,209)
Effective tax rate	(0.7 %)	1.2 %	(32.8 %)

We recorded a provision of $0.1 million in fiscal year 2016 primarily due to the outcome of a state tax examination, partially offset by the release of uncertain tax position reserves due to the expiration of the statue of limitations. Our effective tax rate was relatively flat in fiscal year 2016 compared to fiscal year 2015. Due to the effects of our deferred tax asset valuation allowance and our net operating loss, our annual effective tax rate was not meaningful as our

income tax amounts were not directly correlated to the amount of loss before income taxes for the period.

We recorded a benefit from taxes of $0.2 million in fiscal year 2015 primarily due to the carryback of prior year tax losses. The decrease in our effective tax rate for fiscal year 2015 compared to fiscal year 2014 was primarily due to a one-time, non-cash charge recognized in fiscal year 2014 to establish a valuation allowance for a specific portion of our deferred tax assets.

Selected Quarterly Financial Data

The following table sets forth our unaudited quarterly condensed consolidated statements of operations data for the eight quarters ended June 30, 2016. We have prepared the statements of operations for each of these quarters on the same basis as the audited consolidated financial statements included elsewhere in this report and, in the opinion of management, each statement of operations includes all adjustments, consisting solely of normal recurring adjustments, necessary for the fair statement of the results of operations for these periods. This information should be read in conjunction with the audited consolidated financial statements and related notes included elsewhere in this report. These quarterly operating results are not necessarily indicative of our operating results for any future period.

	Three Months Ended							
	June 30, 2016	Mar 31, 2016	Dec 31, 2015	Sept 30, 2015	June 30, 2015	Mar 31, 2015	Dec 31, 2014	Sept 30, 2014
	(In thousands, except per share data) (unaudited)							
Net revenue	$79,113	$81,243	$64,961	$72,389	$70,912	$75,345	$66,694	$69,189
Costs of revenue	71,743	72,956	60,346	65,918	63,006	65,192	60,395	63,409
Gross profit	7,370	8,287	4,615	6,471	7,906	10,153	6,299	5,780
Operating expenses:								
Product development	3,930	4,214	3,843	4,444	4,095	4,653	4,244	4,956
Sales and marketing	2,518	2,898	2,982	3,622	3,639	3,881	3,357	3,667
General and administrative	4,460	4,348	4,138	4,220	3,829	4,300	4,079	4,615
Operating loss	(3,538)	(3,173)	(6,348)	(5,815)	(3,657)	(2,681)	(5,381)	(7,458)
Interest income	22	23	10	6	11	7	28	26
Interest expense	(152)	(155)	(145)	(133)	(1,092)	(760)	(786)	(1,180)
Other (expense) income, net	(8)	112	65	(57)	(330)	40	636	2,325
Loss before income taxes	(3,676)	(3,193)	(6,418)	(5,999)	(5,068)	(3,394)	(5,503)	(6,287)
Benefit from (provision for) taxes	343	(72)	(40)	(365)	40	178	26	—
Net loss	$(3,333)	$(3,265)	$(6,458)	$(6,364)	$(5,028)	$(3,216)	$(5,477)	$(6,287)
Net loss per share: (1)								
Basic	$(0.07)	$(0.07)	$(0.14)	$(0.14)	$(0.11)	$(0.07)	$(0.12)	$(0.14)
Diluted	$(0.07)	$(0.07)	$(0.14)	$(0.14)	$(0.11)	$(0.07)	$(0.12)	$(0.14)
Other Financial Data:								
Adjusted EBITDA	$3,016	$3,543	$158	$1,136	$2,905	$4,270	$2,131	$678

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

During the quarter ended June 30, 2016, we identified errors related to our stock-based compensation expense included in the unaudited condensed consolidated financial statements for the quarterly periods ended September 30, 2015, December 31, 2015 and March 31, 2016. The stock-based compensation expense related to market-based restricted stock units was understated by $1.1 million through the nine months ended March 31, 2016. We have assessed the materiality of the above errors individually and in the aggregate on prior periods' financial statements in accordance with the Securities and Exchange Commission's Staff Accounting Bulletin No. 99 and 108 and, based on an analysis of quantitative and qualitative factors, concluded that such amounts were not material to our September

30, 2015, December 31, 2015 and March 31, 2016 quarterly condensed consolidated financial statements. Therefore, these previously issued financial statements can continue to be relied upon and amendments of the previously filed Quarterly Reports on Form 10-Q were not required. We will revise our previously issued quarterly condensed consolidated financial statements to correct the errors for the quarterly periods ended September 30, 2015, December 31, 2015 and March 31, 2016 of $0.3 million, $0.4 million and $0.4 million in future Quarterly Reports on Form 10-Q where quarterly condensed consolidated financial statements for such periods are included. We have reflected the correction of these errors in the applicable quarterly financial periods presented in the table above.

Adjusted EBITDA

We include adjusted EBITDA in this report because (i) we seek to manage our business to a level of adjusted EBITDA as a percentage of net revenue, (ii) it is a key basis upon which our management assesses our operating performance, (iii) it is one of the

primary metrics investors use in evaluating Internet marketing companies, (iv) it is a factor in the evaluation of the performance of our management in determining compensation, and (v) it is an element of certain financial covenants under our revolving loan facility. We define adjusted EBITDA as net loss less (provision for) benefit from taxes, depreciation expense, amortization expense, stock-based compensation expense, interest and other (expense) income, net, restructuring and legal settlement expense.

We use adjusted EBITDA as a key performance measure because we believe it facilitates operating performance comparisons from period to period by excluding potential differences caused by variations in capital structures (affecting interest expense), tax positions (such as the impact on periods or companies of changes in effective tax rates or fluctuations in permanent differences or discrete quarterly items), non-recurring charges (such as restructuring and legal settlement expense) and the non-cash impact of depreciation expense, amortization expense and stock-based compensation expense. Since adjusted EBITDA facilitates internal comparisons of our historical operating performance on a more consistent basis, we also use adjusted EBITDA for business planning purposes, to incentivize and compensate our management personnel and in evaluating acquisition opportunities.

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

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

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

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

	June 30, 2016	Mar 31, 2016	Dec 31, 2015	Sept 30, 2015	June 30, 2015	Mar 31, 2015	Dec 31, 2014	Sept 30, 2014
	(In thousands) (unaudited)							
Net loss	$(3,333)	$(3,265)	$(6,458)	$(6,364)	$(5,028)	$(3,216)	$(5,477)	$(6,287)
Interest and other income (expense), net	138	20	70	184	1,411	713	122	(1,171)

(Benefit from) provision for taxes	(343)	72	40	365	(40)	(178)	(26)	—
Depreciation and amortization	3,650	3,721	3,772	3,944	4,089	4,370	4,986	5,422
Stock-based compensation expense	2,629	2,816	2,734	2,789	2,473	2,581	2,526	2,275
Restructuring	—	79	—	218	—	—	—	439
Legal settlement	275	100	—	—	—	—	—	—
Adjusted EBITDA	$3,016	$3,543	$158	$1,136	$2,905	$4,270	$2,131	$678
		.				.		
Adjusted EBITDA as a percentage of net revenue	4 %	4 %	—	2 %	4 %	6 %	3 %	1 %

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

Liquidity and Capital Resources

As of June 30, 2016, our principal sources of liquidity consisted of cash and cash equivalents of $53.7 million, cash we expect to generate from future operations, and available borrowings under our $25.0 million revolving loan facility under which we have drawn $15.0 million. Our cash and cash equivalents are maintained in highly liquid investments with remaining maturities of 90 days or less at the time of purchase. We believe our cash equivalents are liquid and accessible.

Our short-term and long-term liquidity requirements primarily arise from our working capital requirements, capital expenditures, internal software development costs, payment on our revolving loan facility which matures in June 2017, and acquisitions from time to time. Our primary operating cash requirements include the payment of media costs, personnel costs, costs of information technology systems and office facilities. Our ability to fund these requirements will depend on our future cash flows, which are determined, in part, by future operating performance and are, therefore, subject to prevailing global macroeconomic conditions and financial, business and other factors, some of which are beyond our control, and also our ability to access our revolving loan facility. Even though we may not need additional funds to fund anticipated liquidity requirements, we may still elect to obtain additional debt, issue additional equity securities or draw down on or increase our borrowing capacity under our current revolving loan facility for other reasons.

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

	Fiscal Year Ended June 30,		
	2016	2015	2014
	(In thousands)		
Net cash provided by operating activities	$1,015	$6,133	$18,377
Net cash (used in) provided by investing activities	(5,202)	33,270	(10,731)
Net cash used in financing activities	(2,497)	(63,119)	(13,539)

Net Cash Provided by Operating Activities

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

Cash provided by operating activities was $1.0 million for fiscal year 2016 compared to $6.1 million for fiscal year 2015 and $18.4 million for fiscal year 2014.

Cash provided by operating activities in fiscal year 2016 consisted of a net loss of $19.4 million, which included a restructuring charge of $0.3 million, offset by non-cash adjustments of $26.8 million. In addition, there was a net decrease in cash from changes in working capital of $6.3 million. The non-cash adjustments primarily consisted of depreciation and amortization of $15.1 million, stock-based compensation of $11.0 million, and provision for sales returns and doubtful accounts receivable of $0.8 million. The changes in working capital accounts were primarily due to an increase in other assets, noncurrent of $8.2 million and an increase in accounts receivable of $1.8 million,

partially offset by a decrease in prepaid expenses and other assets of $4.5 million. The increase in other assets, noncurrent, was primarily due to a one-time $10.0 million cash payment to All Web Leads, a strategic partner, to be their exclusive click monetization partner for the majority of their insurance categories and the increase in accounts receivable was primarily due to the timing of cash receipts. The decrease in prepaid expenses and other assets was primarily due to a cash receipt from a federal tax refund of $6.5 million.

Cash provided by operating activities in fiscal year 2015 consisted of a net loss of $20.0 million, which included a restructuring charge of $0.4 million, offset by non-cash adjustments of $26.6 million. In addition, there was a net decrease in cash from changes in working capital of $0.4 million. The non-cash adjustments primarily consisted of depreciation and amortization of $18.9 million, stock-based compensation net of tax benefits of $9.9 million, and gain on the sale of domain names that were not considered to be strategically important to our business of $3.3 million. The changes in working capital accounts were primarily due to an increase in accounts receivable of $4.4 million, partially offset by an increase in accounts payable and accrued liabilities of $2.4 million and a decrease in net deferred taxes of $1.8 million. The increase in accounts receivable as well as the increase in accounts payable and accrued liabilities were primarily due to the timing of payments.

Cash provided by operating activities in fiscal year 2014 consisted of a net loss of $146.4 million, offset by non-cash adjustments of $130.4 million. In addition, there was a net increase in cash from changes in working capital of $34.4 million. The non-cash charges primarily consisted of impairment of goodwill of $95.6 million, depreciation, and amortization of $26.1 million, and stock-based compensation expense net of tax benefits of $9.9 million, offset by other adjustments, net of $1.1 million. The changes in working capital accounts were primarily due to a decrease in net deferred taxes of $45.1 million and a net increase in accounts payable and accrued liabilities of $0.4 million partially offset by an increase in prepaid expenses and other current assets of $6.3 million, an increase in accounts receivable of $3.5 million, and a decrease in deferred revenue and other noncurrent liabilities of $1.3 million. The decrease in deferred taxes was due to a one-time charge to establish a valuation allowance. The increase in accounts receivable was due to timing of collections.

Net Cash (Used in) Provided by Investing Activities

Cash from investing activities include capital expenditures, capitalized internal development costs, and purchases, sales and maturities of marketable securities.

Cash used in investing activities was $5.2 million for fiscal year 2016, compared to cash provided by investing activities of $33.3 million for fiscal year 2015 and cash used in investing activities of $10.7 million for fiscal year 2014.

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

Cash provided by investing activities in fiscal year 2015 was primarily due to net sales and maturities of marketable securities of $38.7 million and proceeds from the sale of domain names that were not considered to be strategically important to our business of $3.4 million, offset by capital expenditures and internal software development costs of $5.7 million and a purchase of an investment of $2.5 million.

Cash used in investing activities in fiscal year 2014 was primarily due to capital expenditures and internal software development costs of $7.9 million, licenses of intangible assets of $2.8 million and acquisition costs of $0.9 million offset by proceeds from a sale of an investment of $1.4 million and proceeds from the sale of domain names that were not considered to be strategically important to our business of $0.5 million. Net investments in marketable securities totaled $1.0 million.

Net Cash Used in Financing Activities

Cash from financing activities include proceeds from the exercise of stock options, withholding taxes related to restricted stock net of share settlement, excess tax benefits from stock-based compensation, proceeds from revolving loan facility, and principal payments on term loan facility and acquisition-related notes payable.

Cash used in financing activities was $2.5 million for fiscal year 2016 compared to $63.1 million for fiscal year 2015 and $13.5 million for fiscal year 2014.

Cash used in financing activities in fiscal year 2016 was primarily due to withholding taxes related to restricted stock net share settlement of $2.5 million.

Cash used in financing activities in fiscal year 2015 was primarily due to principal payments on our term loan facility and acquisition-related notes payable of $78.0 million and withholding taxes related to restricted stock net share settlement of $1.2 million, offset by proceeds from the revolving loan facility of $15.0 million and exercises of stock options of $1.3 million.

Cash used in financing activities in fiscal year 2014 was primarily due to principal payments on acquisition-related notes payable and our term loan facility and related fees of $15.5 million and withholding taxes related to restricted stock net of share settlement of $1.9 million, offset by proceeds received from exercises of stock options of $3.3 million and excess tax benefits from exercises of stock options of $0.5 million.

Off-Balance Sheet Arrangements

During the periods presented, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. We have an investment in a variable interest entity of which we are not the primary beneficiary and as to which we do not have any material obligations.

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Contractual Obligations

The following table sets forth payments due under our contractual obligations as of June 30, 2016:

	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
	(In thousands)				
Revolving Loan Facility	$15,000	$ 15,000	$—	$ —	$ —
Operating Leases	8,601	3,545	4,871	185	—
Total	$23,601	$ 18,545	$4,871	$ 185	$ —

The above table does not include approximately $2.5 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.

Loan Facility

As of June 30, 2016, we were party to a credit agreement (the “Credit Agreement”) with Comerica Bank (the “Bank”), as administrative agent and sole lender, which consisted of a $25.0 million revolving loan facility maturing on June 11, 2017. Borrowings under the revolving loan facility bear interest at a rate of the Eurodollar rate plus 3.00%, and are secured by substantially all of our assets. Pursuant to the Credit Agreement, the revolving loan facility is subject to a borrowing base consisting of eligible receivables and certain other customary conditions. We must pay an annual facility fee of $62,500 and an annual unused fee of 0.25% of the undrawn revolving loan facility commitment. We have the right to prepay the revolving loan facility or permanently reduce the revolving loan facility commitment without premium or penalty, in whole or in part at any time.

The Credit Agreement, as amended, contains limitations on our ability to sell assets, make acquisitions, pay dividends, incur capital expenditures and requires us to comply with certain additional covenants. We must also comply with certain financial covenants only when there are amounts outstanding under the revolving loan facility and at the time we draw down amounts under the revolving loan facility.

We were in compliance with all covenants under the Credit Agreement as of June 30, 2016 and 2015.

As of June 30, 2016 and 2015, there was $15.0 million was outstanding under the revolving loan facility.

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.

Revenue Recognition

Revenue earned through the delivery of qualified leads, inquiries, clicks, calls, applications, customers and, to a lesser extent, display advertisements, or impressions constituted all revenue in fiscal year 2016, and more than 99% of revenue in fiscal years 2015 and 2014. We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectability is reasonably assured. Delivery is deemed to have occurred at the time a qualified lead, inquiry, click, call, application, or customer is delivered to the client provided that no significant obligations remain.

Under our revenue recognition policies, we allocate revenue in an arrangement using the estimated selling price ("ESP") of deliverables if vendor-specific objective evidence ("VSOE") of selling price based on historical stand-alone sales or third-party evidence ("TPE") of selling price does not exist. Due to the unique nature of some of our multiple deliverable revenue arrangements, we may not be able to establish selling prices based on historical stand-alone sales or third-party evidence, therefore we may use our best estimate to establish selling prices for these arrangements under the standard. We establish best estimates within a range of selling prices considering multiple factors including, but not limited to, factors such as class of client, size of transaction, available media inventory, pricing strategies and market conditions. We believe the use of the best estimate of selling price allows revenue recognition in a manner consistent with the underlying economics of the transaction.

From time to time, we may agree to credit a client for certain leads, inquiries, clicks, calls, applications, or customers if they fail to meet the contractual or other guidelines of a particular client. We have established a sales reserve based on historical experience. To date, such credits have been within our expectations.

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

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

Stock-Based Compensation

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

employment termination behaviors. We estimate the expected volatility of our common stock based on our historical volatility over the expected term of the award. We have no history or expectation of paying dividends on our common stock. The risk-free interest rate is based on the U.S. Treasury yield for a term consistent with the expected term of the award.

We recognize stock-based compensation expense over the requisite service period using the straight-line method, based on awards ultimately expected to vest. We estimate future forfeitures at the date of grant. On an annual basis, we assess changes in our estimate of expected forfeitures based on recent forfeiture activity. The effect of adjustments made to forfeiture rates, if any, is recognized in the period that the change is made.

Goodwill

We conduct a test for the impairment of goodwill at the reporting unit level on at least an annual basis and whenever there are events or changes in circumstances that would more likely than not reduce the estimated fair value of a reporting unit below its carrying value. Application of the goodwill impairment test requires judgment, including the identification of reporting units,

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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.

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

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

We performed our annual goodwill impairment test on April 30, 2015 for fiscal year 2015. We had two reporting units for purposes of allocating and testing goodwill, DMS and DSS. We conducted a qualitative assessment to determine whether it was necessary to perform a two-step quantitative goodwill impairment test. In assessing the qualitative factors, we considered the impact of key factors such as changes in industry and competitive environment, stock price, actual revenue performance compared to previous years, forecasts and cash flow generation. Based on the results of the qualitative assessment, there were no indicators of impairment.

We performed our annual goodwill impairment test on April 30, 2014 for fiscal year 2014 and concluded that the carrying value of our DSS reporting unit exceeded its estimated fair value. This resulted in the recognition of 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 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 the our equity. As a result, we recognized a non-cash goodwill impairment charge in our DMS reporting unit in the aggregate of $95.6 million for the year ended June 30, 2014.

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. As of April 30, 2016, 2015 and 2014, we evaluated our long-lived assets and concluded there were no indicators of impairment. As mentioned in the Goodwill section above, our public market

capitalization sustained a decline after June 30, 2014, to a value below the net book carrying value of our equity. As such, 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. We recorded a valuation allowance against the majority of our deferred tax assets at the end of fiscal year 2014 due to the significant negative evidence that the near term realization of certain assets were deemed unlikely. We continue to maintain the valuation allowance as of June 30, 2016.

Recent Accounting Pronouncements

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

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

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

Interest Rate Risk

Our cash equivalents are invested in money market funds. Cash and cash equivalents are held for working capital purposes and acquisition financing. We do not enter into investments for trading or speculative purposes. We believe that we do not have material exposure to changes in the fair value of these investments as a result of changes in interest rates due to the short-term nature of our investments. Declines in interest rates may reduce future investment income. 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, 2016, our revolving loan facility had an outstanding balance of $15.0 million. Interest on borrowings under the revolving loan facility is payable quarterly at the Eurodollar rate plus 3.00%. Our exposure to interest rate risk under the revolving loan facility will depend on the extent to which we utilize the facility. A hypothetical change of 1% from prevailing interest rates as of June 30, 2016 would not have a material effect on our interest expense.

Foreign Currency Exchange Risk

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

Item 8. Financial Statements and Supplementary Data
QUINSTREET, INC.

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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 as of June 30, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2016 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 did not maintain, in all material respects, effective internal control over financial reporting as of June 30, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) because a material weakness in internal control over financial reporting related to accuracy of the accounting for stock-based compensation expense for market-based restricted stock units existed as of that date. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness referred to above is described in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A. We considered this material weakness in determining the nature, timing, and extent of audit tests applied in our audit of the June 30, 2016 consolidated financial statements and our opinion regarding the effectiveness of the Company’s internal control over financial reporting does not affect our opinion on those consolidated financial statements. 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 referred to above. 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

August 19, 2016

QUINSTREET, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	June 30, 2016	June 30, 2015
Assets		
Current assets:		
Cash and cash equivalents	$53,710	$60,468
Accounts receivable, net	47,218	46,240
Prepaid expenses and other assets	7,055	11,669
Total current assets	107,983	118,377
Property and equipment, net	7,678	8,565
Goodwill	56,118	56,118
Other intangible assets, net	10,081	19,030
Other assets, noncurrent	11,242	3,063
Total assets	$193,102	$205,153
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$19,814	$20,425
Accrued liabilities	27,705	27,146
Deferred revenue	1,200	1,208
Debt	15,000	49
Total current liabilities	63,719	48,828
Debt, noncurrent	—	15,000
Other liabilities, noncurrent	4,631	5,740
Total liabilities	68,350	69,568
Commitments and contingencies (See Note 9)		
Stockholders' equity:		
Common stock: $0.001 par value; 100,000,000 shares authorized; 45,557,295 and 44,617,850 shares issued and outstanding at June 30, 2016 and June 30, 2015	45	45
Additional paid-in capital	257,950	249,358
Accumulated other comprehensive loss	(418)	(413)
Accumulated deficit	(132,825)	(113,405)
Total stockholders' equity	124,752	135,585
Total liabilities and stockholders' equity	$193,102	$205,153

See notes to consolidated financial statements

QUINSTREET, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Fiscal Year Ended June 30,		
	2016	2015	2014
Net revenue	$297,706	$282,140	$282,549
Cost of revenue [1]	270,963	252,002	241,907
Gross profit	26,743	30,138	40,642
Operating expenses: [1]			
Product development	16,431	17,948	19,548
Sales and marketing	12,020	14,544	16,385
General and administrative	17,166	16,823	17,046
Impairment of goodwill	—	—	95,641
Operating loss	(18,874)	(19,177)	(107,978)
Interest income	61	72	115
Interest expense	(585)	(3,818)	(3,825)
Other income, net	112	2,671	1,493
Loss before income taxes	(19,286)	(20,252)	(110,195)
(Provision for) benefit from taxes	(134)	244	(36,209)
Net loss	$(19,420)	$(20,008)	$(146,404)
Net loss per share:			
Basic	$(0.43)	$(0.45)	$(3.36)
Diluted	$(0.43)	$(0.45)	$(3.36)
Weighted average shares used in computing net loss per share:			
Basic	45,197	44,454	43,528
Diluted	45,197	44,454	43,528

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

Cost of revenue	$3,780	$3,120	$2,767
Product development	2,340	2,395	2,429
Sales and marketing	1,825	2,144	2,937
General and administrative	3,023	2,196	2,296

See notes to consolidated financial statements

QUINSTREET, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

	Fiscal Year Ended June 30,		
	2016	2015	2014
Net loss	$(19,420)	$(20,008)	$(146,404)
Other comprehensive (loss) income:			
Unrealized gain (loss) on investments:			
Change in unrealized gain (loss)	—	13	(17)
Less: reclassification adjustment related to realized loss, net of tax of $0	—	16	—
Net change	—	29	(17)
Foreign currency translation adjustment	(5)	(18)	(49)
Unrealized gain (loss) on interest rate swap:			
Change in unrealized gain	—	225	24
Less: reclassification adjustment related to realized loss, net of tax of $0	—	405	—
Net change	—	630	24
Other comprehensive (loss) income	(5)	641	(42)
Comprehensive loss	$(19,425)	$(19,367)	$(146,446)

See notes to consolidated financial statements

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QUINSTREET, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands, except share data)

	Common Stock Shares	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings (Accumulated Deficit)	Total Shareholders' Equity
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 restricted stock, net	407,088	—	—	—	—	—
Stock-based compensation	—	—	10,562	—	—	10,562
Withholding taxes related to restricted stock net share settlement	—	—	(1,958)	—	—	(1,958)
Excess tax benefits from stock-based compensation	—	—	445	—	—	445
Net loss	—	—	—	—	(146,404)	(146,404)
Other comprehensive loss	—	—	—	(42)	—	(42)
Balance at June 30, 2014	44,025,908	$ 44	$ 239,558	$ (1,054)	$ (93,397)	$ 145,151
Issuance of common stock upon exercise of stock options	211,878	1	974	—	—	975
Release of restricted stock, net	380,064	—	—	—	—	—
Stock-based compensation	—	—	9,989	—	—	9,989
Withholding taxes related to restricted stock net share settlement	—	—	(1,163)	—	—	(1,163)
Net loss	—	—	—	—	(20,008)	(20,008)
Other comprehensive income	—	—	—	641	—	641
Balance at June 30, 2015	44,617,850	$ 45	$ 249,358	$ (413)	$ (113,405)	$ 135,585
Issuance of common stock upon exercise of stock options	4,531	—	26	—	—	26
Release of restricted stock, net	934,914	—	—	—	—	—
Stock-based compensation	—	—	11,048	—	—	11,048
Withholding taxes related to restricted stock net share settlement	—	—	(2,482)	—	—	(2,482)

Net loss	—	—	—	—	(19,420)	(19,420)
Other comprehensive loss	—	—	—	(5)	—	(5)
Balance at June 30, 2016	45,557,295	$ 45	$ 257,950	$ (418)	$ (132,825)	$ 124,752

See notes to consolidated financial statements

QUINSTREET, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Fiscal Year Ended June 30,		
	2016	2015	2014
Cash Flows from Operating Activities			
Net loss	$(19,420)	$(20,008)	$(146,404)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	15,087	18,867	26,097
Impairment of goodwill	—	—	95,641
Write-off of bank loan upfront fees	—	809	—
Provision for sales returns and doubtful accounts receivable	789	142	(104)
Stock-based compensation	10,968	9,855	10,429
Excess tax benefits from stock-based compensation	—	—	(543)
Gains on sale of investment and domain names	(181)	(3,331)	(1,413)
Other adjustments, net	116	247	296
Changes in assets and liabilities, net of effects of acquisitions:			
Accounts receivable	(1,767)	(4,403)	(3,484)
Prepaid expenses and other assets	4,448	(181)	(6,254)
Deferred taxes	(496)	1,786	45,075
Other assets, noncurrent	(8,179)	(5)	(77)
Accounts payable	(505)	2,030	539
Accrued liabilities	608	494	(161)
Deferred revenue	(8)	33	(702)
Other liabilities, noncurrent	(445)	(202)	(558)
Net cash provided by operating activities	1,015	6,133	18,377
Cash Flows from Investing Activities			
Capital expenditures	(1,859)	(3,346)	(5,455)
Business acquisitions	—	(500)	(875)
Other intangibles	—	—	(2,816)
Internal software development costs	(3,482)	(2,342)	(2,494)
Purchases of marketable securities	—	(16,600)	(50,770)
Proceeds from maturities of marketable securities	—	26,849	49,768
Proceeds from sales of marketable securities	—	28,427	—
Purchase of investment	—	(2,500)	—
Proceeds from sale of investment	—	—	1,437
Proceeds from sale of domain names	156	3,371	476
Other investing activities	(17)	(89)	(2)
Net cash (used in) provided by investing activities	(5,202)	33,270	(10,731)
Cash Flows from Financing Activities			
Proceeds from exercise of common stock options	26	1,300	3,329
Proceeds from revolving loan facility	—	15,000	—
Principal payments on term loan facility	—	(77,500)	(12,500)
Payment of bank loan upfront fees	—	(272)	—
Principal payments on acquisition-related notes payable	(41)	(484)	(2,953)
Excess tax benefits from stock-based compensation	—	—	543

Withholding taxes related to restricted stock net share settlement	(2,482)	(1,163)	(1,958)
Net cash used in financing activities	(2,497)	(63,119)	(13,539)
Effect of exchange rate changes on cash and cash equivalents	(74)	7	(47)
Net decrease in cash and cash equivalents	(6,758)	(23,709)	(5,940)
Cash and cash equivalents at beginning of period	60,468	84,177	90,117
Cash and cash equivalents at end of period	$53,710	$60,468	$84,177
Supplemental Disclosure of Cash Flow Information			
Cash paid for interest	643	3,052	3,762
Cash paid for income taxes	863	237	1,569
Supplemental Disclosure of Noncash Investing Activities			
Purchases of property and equipment	—	1,832	—

See notes to consolidated financial statements

QUINSTREET, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. The Company

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

2. Summary of Significant Accounting Policies

Principles of Consolidation

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. These estimates are based on information available as of the date of the financial statements; therefore, actual results could differ from those estimates.

Revenue Recognition

Revenue earned through the delivery of qualified leads, clicks, calls, customers and, to a lesser extent, display advertisements, or impressions constituted substantially all revenue in fiscal year 2016, and more than 99% of revenue in fiscal years 2015 and 2014. The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectability is reasonably assured. Delivery is deemed to have occurred at the time a qualified lead, inquiry, click, call, application, or customer is delivered to the client provided that no significant obligations remain.

The Company allocates revenue in an arrangement using the estimated selling price (“ESP”) of deliverables if it does not have vendor-specific objective evidence (“VSOE”) of selling price based on historical stand-alone sales or third-party evidence (“TPE”) of selling price. Due to the unique nature of some of its multiple deliverable revenue arrangements, the Company may not be able to establish selling prices based on historical stand-alone sales or third-party evidence, therefore the Company may use its best estimate to establish selling prices for these arrangements under the standard. The Company establishes best estimates within a range of selling prices considering multiple factors including, but not limited to, class of client, size of transaction, available media inventory, pricing strategies and market conditions. The Company believes the use of the best estimate of selling price allows revenue recognition in a manner consistent with the underlying economics of the transaction.

From time to time, the Company may agree to credit a client for certain leads, inquiries, clicks, calls, applications, customers or impressions if they fail to meet the contractual or other guidelines of a particular client. The Company has established a sales reserve based on historical experience. To date, such credits have been within the Company’s estimates.

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

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

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents and accounts receivable. The Company's investment portfolio consists of money market funds. Cash is deposited with financial institutions that management believes are creditworthy. To date, the Company has not experienced any material losses on its investment portfolio.

The Company maintains contracts with its clients, most of which are cancelable with little or no prior notice. In addition, these contracts do not contain penalty provisions for cancellation before the end of the contract term. In fiscal year 2016, the Company had one client, The Progressive Corporation, that accounted for 12% of net revenue. No other client accounted for 10% or more of net revenue in fiscal year 2016 and no client accounted for 10% or more of net revenue in fiscal years 2015 or 2014.

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 as of June 30, 2016 or 2015.

Fair Value of Financial Instruments

The Company's financial instruments consist principally of cash equivalents, accounts receivable, accounts payable and a revolving loan facility. The fair value of the Company's cash equivalents is determined based on quoted prices in active markets for identical assets for its money market funds. The recorded values of the Company's accounts receivable and accounts payable approximate their current fair values due to the relatively short-term nature of these accounts. The Company believes that the fair value of the revolving loan facility approximates its recorded amount as of June 30, 2016 as the interest rate on the revolving loan facility is variable and is based on market interest rates and after consideration of default and credit risk.

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 of money market funds as of June 30, 2016.

Property and Equipment

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

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

Internal Software Development Costs

The Company incurs costs to develop software for internal use. The Company expenses all costs that relate to the planning and post-implementation phases of development as product development expense. Costs incurred in the development phase are capitalized and amortized over the product's estimated useful life if the product is expected to have a useful life beyond six months. Costs associated with repair or maintenance of existing sites or the developments of website content are included within cost of revenue in the Company's consolidated statements of operations. The Company's policy is to amortize capitalized internal software development costs on a product-by-product basis using the straight-line method over the estimated economic life of the application, which is generally two years. The Company capitalized $3.5 million, $2.5 million and $2.5 million in fiscal years 2016, 2015 and 2014. Amortization of internal software development costs is reflected within cost of revenue in the Company's consolidated statements of operations.

Goodwill

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

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

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

The Company performed its annual goodwill impairment test on April 30, 2015 for fiscal year 2015. The Company had two reporting units for purposes of allocating and testing goodwill, DMS and DSS. The Company conducted a qualitative assessment to determine whether it was necessary to perform a two-step quantitative goodwill impairment test. In assessing the qualitative factors, the Company considered the impact of key factors such as changes in industry and competitive environment, stock price, actual revenue performance compared to previous years, forecasts and cash flow generation. Based on the results of the qualitative assessment, there were no indicators of impairment.

The Company performed its annual goodwill impairment test on April 30, 2014 for fiscal year 2014 and concluded that the carrying value of the DSS reporting unit exceeded its estimated fair value. This resulted in the recognition of a goodwill impairment charge of $1.2 million for the entire goodwill of its DSS reporting unit. The Company estimated the fair value of its DMS reporting unit 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 recognized a non-cash goodwill impairment charge in its DMS reporting unit in the aggregate of $95.6 million for the year ended June 30, 2014.

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 discounted cash flow approach or, when available and appropriate, to comparable market values. As of April 30, 2016, 2015 and 2014, the Company evaluated its long-lived assets and concluded there were no indicators of impairment. As mentioned in the Goodwill section above, the Company's public market capitalization sustained a decline after June 30, 2014, to a value below the net book carrying value of its equity. As such, the Company tested its long-lived assets related to its DMS reporting unit as of June 30, 2014 and, based on the undiscounted cash flows, determined that these assets were not impaired.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Advertising Costs

The Company expenses advertising costs the first time the advertising takes place. The Company's advertising costs were $0.1 million, $0.7 million and $1.1 million in fiscal years 2016, 2015 and 2014.

Income Taxes

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

Foreign Currency Translation

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

Comprehensive Loss

Comprehensive loss consists of two components, net loss and other comprehensive (loss) income. Other comprehensive (loss) income refers to revenue, expenses, gains, and losses that under GAAP are recorded as an element of stockholders' equity but are excluded from net loss. The Company's comprehensive loss 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.

Loss Contingencies

The Company is subject to the possibility of various loss contingencies arising in the ordinary course of business. Management considers the likelihood of loss or impairment of an asset or the incurrence of a liability, as well as its ability to reasonably estimate the amount of loss, in determining loss contingencies. An estimated loss contingency is accrued when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can

be reasonably estimated. The Company regularly evaluates current information available to its management to determine whether such accruals should be adjusted and whether new accruals are required.

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

Stock-Based Compensation

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

The Company recognizes stock-based compensation expense over the requisite service period using the straight-line method, based on awards ultimately expected to vest. The Company estimates future forfeitures at the date of grant. On an annual basis, the Company assesses changes to its estimate of expected forfeitures based on recent forfeiture activity. The effect of adjustments made to the forfeiture rates, if any, is recognized in the period that change is made. Refer to Note 10, Stock Benefit Plans, for additional information regarding stock-based compensation.

401(k) Savings Plan

The Company sponsors a 401(k) defined contribution plan covering all U.S. employees. There were no employer contributions under this plan in fiscal years 2016, 2015 or 2014.

Recent Accounting Pronouncements

In May 2014, the FASB issued a new accounting standard update on revenue from contracts with clients. The new guidance provides that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In March and April 2016, the FASB amended this standard to clarify implementation guidance on principal versus agent considerations and the identification of performance obligations and licensing. In May 2016, the FASB amended this standard to address improvements to the guidance on collectability, noncash consideration, and completed contracts at transition as well as provide a practical expedient for contract modifications at transition and an accounting policy election related to the presentation of sales taxes and other similar taxes collected from customers. The new standards become effective for fiscal years beginning after December 15, 2017, and interim periods within those years with early adoption permitted. The Company is currently assessing the impact of this new guidance.

In February 2015, the FASB issued a new accounting standard update on consolidating legal entities in which a reporting entity holds a variable interest. The amended guidance modifies the evaluation of whether limited partnerships and similar legal entities are VIEs and affects the consolidation analysis of reporting entities that are involved with VIEs that have fee arrangements and related party relationships. The new guidance becomes effective for fiscal years beginning after December 15, 2015, and interim periods within those years, with early adoption permitted. The Company is currently assessing the impact of this new guidance.

In November 2015, the FASB issued a new accounting standard update on the balance sheet classification of deferred taxes. The new standard requires entities to classify deferred tax liabilities and assets as noncurrent in a classified statement of financial position. The new guidance becomes effective for fiscal years beginning after December 15,

2016, and interim periods within those years, with early adoption permitted. The Company early adopted this amended guidance in the fourth quarter of 2016 on a prospective basis. The adoption of this guidance did not have an impact on the Company's consolidated balance sheet. The Company's June 30, 2015 balances were not retrospectively adjusted.

In February 2016, the FASB issued a new accounting standard update which replaces ASC 840, "Leases." The new guidance requires a lessee to recognize on its balance sheet a right-of-use asset representing its right to use the underlying asset for the lease term and a lease liability representing its lease payment obligations. The guidance also requires a lessee to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, on a generally straight-line basis. The guidance becomes effective for fiscal years beginning after December 15, 2018, and interim periods within those years, with early adoption permitted. The Company is currently assessing the impact of this new guidance.

In March 2016, the FASB issued a new accounting standard update on the accounting for share-based payments. The new guidance simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statement of cash flows. The

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guidance becomes effective for fiscal years beginning after December 15, 2016, and interim periods within those years, with early adoption permitted. The Company is currently assessing the impact of this new guidance.

3. Net Loss per Share

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

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

	Fiscal Year Ended June 30,		
	2016	2015	2014
	(In thousands, except per share data)		
Numerator:			
Basic and Diluted:			
Net loss	$(19,420)	$(20,008)	$(146,404)
Denominator:			
Basic and Diluted:			
Weighted average shares of common stock used in computing basic and diluted net loss per share	45,197	44,454	43,528
Net loss per share:			
Basic and Diluted [1]	$(0.43)	$(0.45)	$(3.36)
Securities excluded from weighted average shares used in computing diluted net loss per share because the effect would have been anti-dilutive: [2]	5,331	8,198	8,843

(1) Diluted EPS does not reflect any potential common stock relating to stock options or restricted stock units due to net losses incurred in fiscal years 2016, 2015 and 2014. 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, Marketable Securities and Variable Interest Entities

Fair Value Measurements

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

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

Level 1 — Inputs are unadjusted quoted prices in active markets for identical assets or liabilities. Pricing inputs are based upon quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The valuations are based on quoted prices of the underlying security that are readily and regularly available in an active market, and accordingly, a significant degree of judgment is not required. As of June 30, 2016 and 2015, 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, 2016 and 2015, the Company used Level 2 assumptions for its acquisition-related promissory notes and revolving loan facility.

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, 2016 and 2015, the Company did not have any Level 3 financial assets or liabilities.

The Company's financial assets and liabilities as of June 30, 2016 and 2015 were categorized as follows in the fair value hierarchy (in thousands):

	Fair Value Measurements as of June 30, 2016 Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Assets:			
Money market funds	$ 20,203	$ —	$ 20,203
Liabilities:			
Revolving loan facility [1]	$ —	$ 15,000	$ 15,000

	Fair Value Measurements as of June 30, 2015 Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Assets:			
Money market funds	$ 20,156	$ —	$ 20,156
Liabilities:			
Acquisition-related promissory note [1]	$ —	$ 49	$ 49
Revolving loan facility [1]	—	15,000	15,000
	$ —	$ 15,049	$ 15,049

(1) These liabilities were carried at historical cost on the Company's consolidated balance sheets.

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. Historically, 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 as a component of accumulated other comprehensive loss within stockholders' equity.

The Company held money market funds of $20.2 million as of June 30, 2016 and June 30, 2015. Gross unrealized gains and losses were not material as the carrying value approximated estimated fair value due to its short maturities. The Company did not hold any marketable securities as of June 30, 2016 and 2015.

The Company did not realize any material gains or losses from sales of its securities in fiscal years 2016, 2015 and 2014. As of June 30, 2016 and 2015, the Company did not hold securities that had maturity dates greater than one year.

Variable Interest Entities

A VIE is consolidated by its primary beneficiary. The primary beneficiary has both the power to direct the activities that most significantly impact the entity's economic performance and the obligation to absorb losses or the right to receive benefits from the entity that could potentially be significant to the VIE. The assessment of whether the Company is the primary beneficiary of the VIE requires significant assumptions and judgments, including the identification of significant activities and an assessment of the Company's ability to direct those activities. The Company has an equity interest in a privately held entity that is a VIE, of which the Company is not the primary beneficiary. Accordingly, the interest of $2.5 million as of June 30, 2016 and 2015 is recognized at cost within other assets, noncurrent in the Company's consolidated balance sheets. The Company's interest was evaluated for impairment as of June 30, 2016 which did not result in any indications of impairment. The Company's maximum exposure to loss as a result of the unconsolidated VIE was $2.5 million as of June 30, 2016, which represents the carrying value of the Company's investment in the VIE.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

5. Balance Sheet Components

Accounts Receivable, Net

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

	June 30,	
	2016	2015
Accounts receivable	$49,503	$48,304
Less: Allowance for doubtful accounts	(441)	(440)
Less: Allowance for sales returns	(1,844)	(1,624)
Total	$47,218	$46,240

Property and Equipment, Net

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

	June 30,	
	2016	2015
Computer equipment	$14,673	$13,656
Software	11,191	11,079
Furniture and fixtures	3,240	3,124
Leasehold improvements	1,957	1,806
Internal software development costs	29,521	26,056
Total property plant and equipment, gross	60,582	55,721
Less: Accumulated depreciation and amortization	(52,904)	(47,156)
Total property plant and equipment, net	$7,678	$8,565

Depreciation expense was $3.8 million, $4.0 million and $3.9 million for fiscal years 2016, 2015 and 2014. Amortization expense related to internal software development costs was $2.4 million, $2.4 million and $2.6 million for fiscal years 2016, 2015 and 2014.

Prepaid Expenses and Other Assets

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

	June 30,	
	2016	2015
Income tax receivable	$3,332	$9,719
Prepaid expenses	3,399	1,571
Other assets	324	379
Total	$7,055	$11,669

During fiscal year 2016, the Company entered into a 10-year partnership agreement with a large online customer acquisition marketing company focused on the U.S. insurance industry to be its exclusive click monetization partner for the majority of its insurance categories. The agreement included a one-time upfront cash payment of $10.0 million. The payment is being amortized on a straight-line basis over the life of the contract. As of June 30, 2016, the Company has recorded $1.0 million within prepaid expenses and other assets and $8.3 million within other assets, noncurrent in the Company's consolidated balance sheet. Amortization expense was $0.7 million for fiscal year 2016.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Accrued liabilities

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

	June 30,	
	2016	2015
Accrued media costs	$17,858	$14,728
Accrued compensation and related expenses and taxes payable	5,468	8,007
Accrued professional service and other business expenses	4,379	4,411
Total	$27,705	$27,146

6. Intangible Assets, Net and Goodwill

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

	June 30, 2016			June 30, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer/publisher/advertiser relationships	$36,669	$ (35,648)	$1,021	$37,056	$ (33,916)	$3,140
Content	61,717	(57,778)	3,939	62,162	(54,629)	7,533
Website/trade/domain names	31,470	(27,288)	4,182	31,533	(24,697)	6,836
Acquired technology and others	36,733	(35,794)	939	36,742	(35,221)	1,521
Total	$166,589	$ (156,508)	$10,081	$167,493	$ (148,463)	$19,030

Amortization of intangible assets was $8.9 million, $12.5 million and $19.6 million for fiscal years 2016, 2015 and 2014.

Future amortization expense for the Company's intangible assets as of June 30, 2016 was as follows (in thousands):

Fiscal Year Ending June 30,	Amortization
2017	$ 6,119
2018	2,238
2019	793
2020	761
2021	170

Thereafter	—
Total	$ 10,081

The changes in the carrying amount of goodwill for fiscal years 2016 and 2015 was as follows (in thousands):

	Total
Balance at June 30, 2014	$55,451
Additions	667
Balance at June 30, 2015	$56,118
Additions	—
Balance at June 30, 2016	$56,118

As of June 30, 2016 and 2015, goodwill was $56.1 million. There were no additions to goodwill in fiscal year 2016. The additions to goodwill in fiscal year 2015 relate to the Company's acquisition of a Brazil-based online lead generation company in exchange for $0.5 million in cash upon closing of the acquisition and estimated payments totaling $0.3 million to be paid in the five years following the acquisition date upon the achievement of certain financial metrics.

There was no impairment charge recorded in fiscal years 2016 and 2015.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

7. Income Taxes

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

	Fiscal Year Ended June 30,		
	2016	2015	2014
US	$(18,291)	$(18,917)	$(109,257)
Foreign	(995)	(1,335)	(938)
Total	$(19,286)	$(20,252)	$(110,195)

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

	Fiscal Year Ended June 30,		
	2016	2015	2014
Current			
Federal	$(131)	$(2,140)	$(8,885)
State	(23)	(149)	(374)
Foreign	271	129	361
Total current provision for (benefit from) income taxes	$117	$(2,160)	$(8,898)
Deferred			
Federal	$15	$1,954	$42,842
State	—	—	2,265
Foreign	2	(38)	—
Total deferred provision for (benefit from) income taxes	17	1,916	45,107
Total provision for (benefit from) income taxes	$134	$(244)	$36,209

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

	Fiscal Year Ended June 30,		
	2016	2015	2014
Federal tax rate	34.0 %	34.0 %	34.0 %
States taxes, net of federal benefit	7.7 %	5.8 %	2.4 %
Foreign rate differential	(1.1)%	(1.1)%	(0.6)%
Stock-based compensation expense	(15.7)%	(13.3)%	(3.6)%
Change in valuation allowance	(25.2)%	(25.0)%	(60.5)%
Impairment of goodwill	—	—	(4.3)%

Research and development credits	2.7 %	1.6 %	0.3 %
Other	(3.1)%	(0.8)%	(0.7)%
Effective income tax rate	(0.7)%	1.2 %	(32.8)%

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

	Fiscal Year Ended June 30,	
	2016	2015
Current:		
Reserves and accruals	$—	$3,091
Stock options	—	1,942
Other	—	74
Total current deferred tax assets	—	5,107
Valuation allowance - ST	—	(4,940)
Current deferred tax assets, net	$—	$166
Noncurrent:		
Reserves and accruals	$3,309	$1,134
Stock options	5,885	5,825
Intangible assets	47,850	53,261
Net operating loss	18,812	5,717
Fixed assets	9	(702)
Tax credits	3,874	2,785
Other	91	93
Total noncurrent deferred tax assets	79,830	68,113
Valuation allowance - LT	(79,868)	(68,301)
Noncurrent deferred tax liabilities, net	$(38)	$(188)
Total deferred tax liabilities, net	$(38)	$(22)

The Company recorded a valuation allowance against the majority of the Company's deferred tax assets at the end of fiscal year 2014 due to the significant negative evidence that the near term realization of certain assets were deemed unlikely. The Company regularly assesses the continuing need for a valuation allowance against its deferred tax assets. Significant judgment is required to determine whether a valuation allowance continues to be necessary and the amount of such valuation allowance, if appropriate. The Company considers all available evidence, both positive and negative to determine, based on the weight of available evidence, whether it is more likely than not that some or all of the deferred tax assets will not be realized. In evaluating the continued need for a valuation allowance the Company considers, among other things, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability, and the duration of statutory carryforward periods. As of June 30, 2016, the Company believes it is not more likely than not that the net deferred tax assets will be fully realizable and continues to maintain a full valuation allowance against its deferred tax assets.

As of June 30, 2016 and 2015, the Company had a federal operating loss carryforward of approximately $45.3 million and $14.1 million. As of June 30, 2016 and 2015, the Company's state operating loss carryforward was approximately $28.7 million and $13.8 million. Included in the federal, California and other state net operating loss carryovers above were approximately $0.1 million, $0.3 million and $0.2 million related to stock option windfall deductions, which when realized will be credited to equity. The federal and state net operating losses, if not used, will begin to expire on June 30, 2035 and June 30, 2034. The operating loss carryforward in the Brazil jurisdiction was approximately $1.8 million and does not have an expiration date. The operating loss carryforward in the India jurisdiction was

approximately $4.0 million which will begin to expire on June 30, 2021. The Company has federal and California research and development tax credit carry-forwards of approximately $1.9 million and $4.7 million to offset future taxable income. The federal research and development tax credits, if not used, will begin to expire on June 30, 2033, while the state tax credit carry-forwards do not have an expiration date and may be carried forward indefinitely.

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

United States federal income taxes have not been provided for the $2.7 million of cumulative undistributed earnings of the Company’s foreign subsidiaries as of June 30, 2016. 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 material to the Company’s consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

	Fiscal Year Ended June 30,		
	2016	2015	2014
Balance at the beginning of the year	$3,263	$3,077	$2,692
Gross increases - current period tax positions	362	337	379
Gross increases - prior period tax positions	38	115	323
Gross decreases - prior period tax positions	—	(44)	—
Reductions as a result of lapsed statute of limitations	(488)	(222)	(317)
Balance at the end of the year	$3,175	$3,263	$3,077

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, 2016, the Company has accrued $1.0 million for interest and penalties related to the unrecognized tax benefits. The balance of interest and penalties is recorded as a noncurrent liability in the Company’s consolidated balance sheet.

As of June 30, 2016, unrecognized tax benefits of $1.5 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 2011. The Company files income tax returns in the United States, various U.S. states and certain foreign jurisdictions. As of June 30, 2016, the tax years 2011 through 2015 remain open in the U.S., the tax years 2011 through 2015 remain open in the various state jurisdictions, and the tax years 2013 through 2015 remain open in various foreign jurisdictions.

8. Debt

Loan Facility

In November 2011, the Company entered into a credit agreement (“Credit Agreement”) with Comerica Bank (the “Bank”), the administrative agent and lead arranger. The Credit Agreement consisted of a $100.0 million five-year term loan facility, with annual principal amortization of 5%, 10%, 15%, 20% and 50%, and a $200.0 million five-year revolving loan facility maturing on November 4, 2016.

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; and (2) reduce the $200.0 million five-year revolving loan facility to $100.0 million. Upfront arrangement fees incurred in connection with the First Amendment totaled $0.2 million. In connection with the reduction of the revolving credit line capacity, during the third quarter of fiscal 2013 the Company accelerated amortization of approximately $0.7 million of unamortized deferred upfront costs.

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. Upfront arrangement fees incurred in connection with the Second Amendment totaled $0.3 million and were deferred and amortized over the remaining term of the arrangement. In connection with the reduction of the revolving loan facility, the Company accelerated amortization of approximately $0.3 million of unamortized deferred upfront costs.

On June 11, 2015, the Company entered into the Third Amendment to Credit Agreement ("Third Amendment") with the Bank to, among other things, pay off in full and terminate the term loan facility, amend the financial covenants, reduce the revolving loan facility from $50.0 million to $25.0 million and extend the expiration date of the Credit Agreement from November 4, 2016 to June 11, 2017. Pursuant to the Third Amendment, each of the revolving loan facility lenders (other than the Bank) assigned its revolving loan facility commitments to the Bank, resulting in the Bank remaining as sole lender under the Credit Agreement. Upfront arrangement fees incurred in connection with the Third Amendment were not material. In connection with the termination of the term loan facility, the Company accelerated amortization of approximately $0.5 million of unamortized deferred upfront costs.

The Credit Agreement, as amended from time to time, is secured by substantially all of the Company's assets. Borrowings under the revolving loan facility are subject to a borrowing base consisting of eligible receivables and certain other customary conditions.

Pursuant to the Second Amendment, (1) the applicable margin for base rate borrowings was set at (a) 1.375% for the revolving loan facility or (b) 1.75% for the term loan facility, and (2) the applicable margin for Eurodollar rate borrowings was set at (a) 2.375% for the revolving loan facility or (b) 2.75% for the term loan facility.

Pursuant to the Third Amendment, borrowings under the revolving loan facility bear interest at a Eurodollar rate plus 3.00%.

EBITDA under the Credit Agreement is defined as net loss less benefit from (provision for) taxes, depreciation expense, amortization expense, stock-based compensation expense, interest and other expense, net, 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 the Credit Agreement, as amended from time to time. The Company must pay an annual facility fee of $62,500 and an annual unused fee of 0.25% of the undrawn revolving loan facility commitment. The Company has the right to prepay the revolving loan facility or permanently reduce the revolving loan facility commitment without premium or penalty, in whole or in part at any time.

The Credit Agreement, as amended, contains limitations on the Company’s ability to sell assets, make acquisitions, pay dividends, incur capital expenditures, and also requires the Company to comply with certain additional covenants. In addition, pursuant to the Third Amendment, the Company is required to maintain financial covenants as follows when there are amounts outstanding under the revolving loan facility and at the time the Company draws down amounts under the revolving loan facility:

1. Minimum EBITDA as of the end of each fiscal quarter for the trailing twelve month period of not less than:

(a) $1 for the quarter ended June 30, 2015;

(b) $2,000,000 for the quarter ended September 30, 2015;

(c) $3,000,000 for the quarter ended December 31, 2015;

(d) $4,000,000 for the quarter ended March 31, 2016; and

(e) $5,000,000 for the quarter ended June 30, 2016.

Thereafter, minimum EBITDA increases each quarter in $1,000,000 increments; provided that there shall be no loss in EBITDA greater than $2,000,000 in any fiscal quarter during such trailing four quarter period.

2. Minimum adjusted quick ratio as of the end of each month of not less than 1.25 to 1.00.

The Company was in compliance with the covenants of the Credit Agreement, as amended, as of June 30, 2016 and 2015.

As of June 30, 2016 and 2015, $15.0 million was outstanding under the revolving loan facility. The Company’s revolving loan facility matures in June 2017 and payment of the outstanding balance is due at that time.

Interest Rate Swap

During fiscal years 2015 and 2014, the Company held an interest rate swap to reduce its exposure to the financial impact of changing interest rates under its term loan facility. This interest rate swap was 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 was included as a component of accumulated other comprehensive loss with any hedge ineffectiveness immediately recognized into earnings.

In June 2015, in connection with the repayment in full and termination of the term loan facility, the Company also terminated the interest rate swap agreement. Upon settlement, the Company recognized an expense of $0.3 million within other income, net, in the Company’s consolidated statement of operations.

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.

9. Commitments and Contingencies

Leases

The Company leases office space under non-cancelable operating leases with various expiration dates through fiscal year 2021. Rent expense for fiscal years 2016, 2015 and 2014 was $3.4 million, $3.5 million and $3.6 million. The Company recognizes rent expense on a straight-line basis over the lease period and accrues for rent expense incurred but not paid.

Future annual minimum lease payments under noncancelable operating leases as of June 30, 2016 were as follows (in thousands):

Fiscal Year Ending June 30,	Operating Leases
2017	$ 3,545
2018	3,422
2019	1,449
2020	159
2021	26
Thereafter	—
Total	$ 8,601

In February 2010, the Company entered into a lease agreement for its corporate headquarters located at 950 Tower Lane, Foster City, California. The term of the lease began on November 1, 2010 and expires on October 31, 2018. The Company has the option to extend the term of the lease twice by one additional year. The monthly base rent was abated for the first 12 calendar months under the lease, and was $0.1 million through the 24th calendar month of the term of the lease. Monthly base rent increased to $0.2 million for the subsequent 12 months and now increases approximately 3% after each 12-month anniversary during the remaining term, 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 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, 2016 and June 30, 2015.

In the ordinary course of its business, the Company from time to time enters into standard indemnification provisions in its agreements with its clients. Pursuant to these provisions, the Company may be obligated to indemnify its clients for certain losses suffered or incurred, including losses arising from violations of applicable law by the Company or

by its third-party publishers, losses arising from actions or omissions of the Company or its third-party publishers, and for third-party claims that a Company product infringed upon any United States patent, copyright, or other intellectual property rights. Where practicable, the Company limits its liabilities under such indemnities. Subject to these limitations, the term of such indemnification provisions is generally coterminous with the corresponding agreements and survives for the duration of the applicable statute of limitations after termination of the agreement. The potential amount of future payments to defend lawsuits or settle indemnified claims under these indemnification provisions is generally limited and the Company believes the estimated fair value of these indemnity provisions is not material. Accordingly, the Company had no liabilities recorded for these agreements as of June 30, 2016 and 2015.

10. Stock Benefit Plans

Stock-Based Compensation

In fiscal years 2016, 2015 and 2014, the Company recorded stock-based compensation expense of $11.0 million, $9.9 million and $10.4 million. There were no excess tax benefits recognized in fiscal years 2016 and 2015 due to the Company’s full valuation allowance. The Company recognized related excess tax benefits of $0.5 million in fiscal year 2014.

There was no gross benefit of tax deductions recognized in fiscal years 2016 and 2015 due to the Company's full valuation allowance. The Company included as part of cash flows from financing activities a gross benefit of tax deductions of $0.5 million in fiscal year 2014 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. All outstanding stock awards granted before January 2008 continue to be governed by the terms of the Company's amended and restated 1999 Equity Incentive Plan.

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

Prior to fiscal year 2016, the Company granted restricted stock units with a service condition ("service-based RSUs"). In fiscal year 2016, the Company also began granting to employees RSUs with a service and market condition ("market-based RSUs") that requires that the Company's stock price achieve a specified price above the grant date stock price before it can be eligible for service vesting conditions. To date, the Company has issued ISOs, NQSOs, RSUs and performance-based stock awards under the 2010 Incentive Plan. ISOs and NQSOs are generally granted to employees with an exercise price equal to the market price of the Company's common stock at the date of grant. Stock options granted to employees generally have a contractual term of seven years and vest over four years of continuous service, with 25 percent of the stock options vesting on the one-year anniversary of the date of grant and the remaining 75 percent vesting in equal monthly installments over the three year period thereafter. RSUs granted to employees prior to fiscal year 2013 generally vest over five years of continuous service, with 15 percent of the RSUs vesting on the one-year anniversary of the date of grant, 60 percent vesting in equal quarterly installments over the following three years and the remaining 25 percent vesting in equal quarterly installments over the last year of the vesting period. RSUs granted to employees starting in fiscal year 2013 generally vest over four years of continuous service, with 25 percent of the RSUs vesting on the one-year anniversary of the date of grant and 6.25% vesting quarterly thereafter for the next 12 quarters.

An aggregate of 13,642,714 shares of the Company's common stock were reserved for issuance under the 2010 Incentive Plan as of June 30, 2016, 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 12,665,625 shares available for issuance under the 2010 Incentive Plan as of June 30, 2016.

In November 2009, the Company's board of directors adopted the 2010 Non-Employee Directors' Stock Award Plan (the "Directors' Plan") and the stockholders approved the Directors' Plan in January 2010. The Directors' Plan became effective upon the completion of the Company's IPO. The Directors' Plan provides for the automatic grant of NQSOs and RSUs to non-employee directors and also provides for the discretionary grant of NQSOs and RSUs. Stock options

granted to new non-employee directors vest in equal monthly installments over four years and annual stock option grants to existing directors vest in equal monthly installments over one year. In fiscal years 2016 and 2015, initial RSU grants vest daily over a period of four years and annual RSU grants vest daily over a period of one year. Prior to fiscal year 2015, the annual RSU grants vested quarterly over a period of four years and the initial RSU grants vested quarterly over a period of one year.

An aggregate of 2,789,628 shares of the Company’s common stock were reserved for issuance under the Directors’ Plan as of June 30, 2016. 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 1,357,702 shares available for issuance under the Directors’ Plan as of June 30, 2016.

Valuation Assumptions

The Company estimates the fair value of stock options at the date of grant using the Black-Scholes option-pricing model. Options are granted with an exercise price equal to the fair value of the common stock at the date of grant. The Company calculates the weighted average expected life of options using the simplified method pursuant to the accounting guidance for share-based

payments as its historical exercise experience does not provide a reasonable basis upon which to estimate expected term. The Company estimates the expected volatility of its common stock based on its historical volatility over the expected term of the stock option and market-based RSU. The Company has no history or expectation of paying dividends on its common stock. The risk-free interest rate is based on the U.S. Treasury yield for a term consistent with the expected term of the stock option and market-based RSU.

The weighted average Black-Scholes model assumptions and the weighted average grant date fair value of stock options in fiscal years 2016, 2015 and 2014 were as follows:

	Fiscal Year Ended June 30,		
	2016	2015	2014
Expected term (in years)	3.9	4.6	4.6
Expected volatility	43 %	46 %	48 %
Expected dividend yield	—	—	—
Risk-free interest rate	1.0 %	1.6 %	1.4 %
Grant date fair value	$1.83	$1.87	$3.67

The Company estimates the fair value of market-based RSUs at the date of the grant using the Monte Carlo simulation model. The weighted average Monte Carlo simulation model assumptions in fiscal years 2016, 2015 and 2014 were as follows:

	Fiscal Year Ended June 30,		
	2016	2015	2014
Expected term (in years)	4.0	—	—
Expected volatility	47 %	—	—
Expected dividend yield	—	—	—
Risk-free interest rate	1.3 %	—	—
Grant date fair value	$5.04	—	—

The fair value of service-based RSUs is determined based on the closing price of the Company’s common stock on the grant date. Compensation expense is amortized net of estimated forfeitures on a straight-line basis over the requisite service period of the stock-based compensation awards.

Stock Option Award Activity

The following table summarizes the stock option award activity under the plans in fiscal years 2016 and 2015:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding at June 30, 2014	7,512,592	$ 10.32	3.27	$ 225,182
Granted	453,608	4.65		
Exercised	(211,878)	4.60		
Forfeited	(292,815)	9.92		
Expired	(1,583,066)	10.46		
Outstanding at June 30, 2015	5,878,441	$ 10.07	2.88	$ 950,759
Granted	297,586	5.41		
Exercised	(4,531)	5.79		
Forfeited	(143,863)	7.84		
Expired	(1,720,385)	10.18		
Outstanding at June 30, 2016	4,307,248	$ 9.78	2.67	$ 14,573
Vested and expected-to-vest at June 30, 2016 (1)	4,251,699	$ 9.81	2.65	$ 14,573
Vested and exercisable at June 30, 2016	3,834,714	$ 10.10	2.41	$ 14,573

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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

The following table summarizes outstanding and exercisable stock options by range of exercise price as of June 30, 2016:

	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
$2.99 - $5.65	472,211	5.00	$ 4.56	360,251	$ 4.44
$5.79 - $6.38	442,014	5.10	$ 5.90	290,716	$ 5.89
$6.59 - $9.01	673,568	1.33	$ 8.37	637,567	$ 8.41
$9.23 - $9.44	321,274	2.06	$ 9.34	313,461	$ 9.33
$9.55 - $9.55	508,750	4.07	$ 9.55	369,383	$ 9.55
$9.64 - $9.64	442,500	3.07	$ 9.64	416,405	$ 9.64
$9.81 - $11.26	454,436	0.87	$ 10.60	454,436	$ 10.60
$11.67 - $11.67	465,200	2.09	$ 11.67	465,200	$ 11.67
$12.43 - $16.89	207,395	1.94	$ 15.78	207,395	$ 15.78
$19.00 - $19.00	319,900	0.41	$ 19.00	319,900	$ 19.00
$2.99 - $19.00	4,307,248	2.67	$ 9.78	3,834,714	$ 10.10

The following table summarizes the total intrinsic value, the cash received and the actual tax benefit of all options exercised in fiscal years 2016, 2015 and 2014:

	Fiscal Year Ended June 30,		
	2016	2015	2014
Intrinsic value	$1	$131	$1,875
Cash received	26	975	3,652
Tax benefit	—	—	—

As of June 30, 2016, there was $1.2 million of total unrecognized compensation expense related to unvested stock options which are expected to be recognized over a weighted average period of 1.82 years.

Service-Based Restricted Stock Unit Activity

The following table summarizes the service-based RSU activity under the plans in fiscal years 2016 and 2015:

	Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Life (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding at June 30, 2014	1,647,337	$ 10.10	1.32	$ 9,077
Granted	3,443,278	5.26		
Vested	(606,209)	5.11		
Forfeited	(751,776)	7.04		
Outstanding at June 30, 2015	3,732,630	$ 7.06	1.32	$ 24,064
Granted	98,999	5.99		
Vested	(1,481,325)	6.09		
Forfeited	(438,395)	6.12		
Outstanding at June 30, 2016	1,911,909	$ 5.79	1.33	$ 6,691

At the time of vesting, a portion of service-based RSUs are relinquished and cancelled by the Company to provide for federal and state tax withholding obligations resulting from the service-based RSU release. As of June 30, 2016, there was $8.2 million of

total unrecognized compensation expense related to service-based RSUs which are expected to be recognized over a weighted average period of 2.24 years.

Market-Based Restricted Stock Unit Activity

The following table summarizes the market-based RSU activity under the plans in fiscal year 2016:

	Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Life (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding at June 30, 2015	—	$ —	—	$ —
Granted	1,069,162	5.03		
Vested	—	—		
Forfeited	(63,560)	5.11		
Outstanding at June 30, 2016	1,005,602	$ 5.03	1.36	$ 3,570

As of June 30, 2016, there was $2.0 million of total unrecognized compensation expense related to market-based RSUs which are expected to be recognized over a weighted average period of 1.36 years.

11. 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 the Company's director Mr. Simons is a managing director. In addition, Mr. 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. Accordingly, as the Company's sale of the shares to Split Rock could be deemed a related person transaction, 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.

12. Segment Information

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

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

	Fiscal Year Ended June 30,		
	2016	2015	2014
Net revenue:			
United States	$291,526	$276,182	$278,791
International	6,180	5,958	3,758
Total net revenue	$297,706	$282,140	$282,549

	June 30, 2016	June 30, 2015
Property and equipment, net:		
United States	$6,973	$8,313
International	705	252
Total property and equipment, net	$7,678	$8,565

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, 2016. 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, 2016, our Chief Executive Officer and Chief Financial Officer concluded that, due to the existence of a material weakness as discussed further below, our disclosure controls and procedures were not effective at the reasonable assurance level. Notwithstanding the identified material weakness, our management believes the consolidated financial statements included in this Annual Report on Form 10-K fairly represent in all material respects our consolidated position, results of operations and cash flows at and for the periods presented in accordance with U.S. GAAP.

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, 2016. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) in Internal Control — Integrated Framework (2013).

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or quarterly financial statements will not be prevented or detected on a timely basis.

We did not maintain effective internal control over financial reporting over the accuracy of the accounting for stock-based compensation expense for market-based restricted stock units. Specifically our internal controls with respect to stock-based compensation were not designed to appropriately identify and apply different expense recognition methodologies and, as a result, the compensation expense for market-based restricted stock units was incorrectly accounted for using straight-line basis rather than accelerated basis over the requisite service period.

This control deficiency resulted in an audit adjustment to our operating expenses and the revision of our quarterly financial statements used to derive the selected quarterly financial data table included in Item 7 in this Annual Report on Form 10-K for the

periods ended September 30, 2015, December 31, 2015 and March 31, 2016. Additionally, management assessed that this control deficiency could result in a misstatement of the aforementioned account balances and disclosures that would result in a material misstatement to our annual or quarterly financial statements that would not be prevented or detected on a timely basis. Accordingly, we determined that this control deficiency constitutes a material weakness. Based on this evaluation, our management has concluded that our internal control over financial reporting was not effective.

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, 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Plan for Remediation of Material Weakness in Internal Control over Financial Reporting

We have begun taking steps to remediate the material weakness identified above primarily through enhancing the stock-based compensation process to include formal documentation and review of the expense recognition policy for new award types granted, and modifications to existing awards in the period such awards are granted or modified.

The effectiveness of our internal control over financial reporting as of June 30, 2016 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.

Item 9B. Other Information

On August 12, 2016, the Board of Directors of QuinStreet, Inc. (the “Company”), upon recommendation of the Compensation Committee (the “Committee”), as part of its ongoing review of market practices for compensatory matters and recommendations by the Committee’s outside compensation consultant, approved a change in control severance agreement to be entered into with each of our named executive officers to provide “double-trigger” change in control severance benefits.

Under the change in control severance agreements, if the officer is terminated without cause, or resigns due to certain adverse changes in his or her job or compensation, within 3 months before or within 12 months following a change of control, the officer will be eligible to receive severance benefits consisting of a cash payment equivalent to 12 months of salary, target bonus and health benefits, as well as full vesting of outstanding equity awards. The agreements do not include any golden parachute excise tax gross-up provisions. Instead, in accordance with the Committee’s review of best practices, an officer’s severance benefits will either be reduced below the level at which the excise tax applies or the officer will be responsible for paying the excise tax, whichever is better for the officer on an after-tax basis. Any change in control severance benefits are subject to execution of general release of claims against the Company by the officer.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item concerning directors and executive officers is incorporated herein by reference from the sections to be titled “Election of Class III Directors,” “Board of Directors” and “Directors and Executive Officers” in our definitive proxy statement to be filed with the Securities and Exchange Commission in connection with our 2016 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, 2016.

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

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accounting officer or controller, or persons performing similar functions or our directors on the investor relations page of our corporate website (www.quinstreet.com).

Item 11. Executive Compensation

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

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

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

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

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

Item 14. Principal Accountant Fees and Services

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

PART IV

Item 15. Exhibits, Financial Statement Schedules
(a) We have filed the following documents as part of this Annual Report on Form 10-K:

1. Consolidated Financial Statements

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Report of Independent Registered Public Accounting Firm	45
Consolidated Balance Sheets	46
Consolidated Statements of Operations	47
Consolidated Statements of Comprehensive Loss	48
Consolidated Statements of Stockholders' Equity	49
Consolidated Statements of Cash Flows	50
Notes to Consolidated Financial Statements	51

2. Financial Statement Schedules

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

Schedule II: Valuation and Qualifying Accounts

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

	Balance at the beginning of the year	Charged to expenses/against revenue	Write-offs net of recoveries	Balance at the end of the year
Allowance for doubtful accounts and sales returns				
Fiscal year 2014	$ 2,026	$ 322	$ (426)	$ 1,922
Fiscal year 2015	$ 1,922	$ 923	$ (781)	$ 2,064
Fiscal year 2016	$ 2,064	$ 789	$ (568)	$ 2,285
Deferred tax asset valuation allowance				
Fiscal year 2014	$ 947	$ 67,225	$ —	$ 68,172
Fiscal year 2015	$ 68,172	$ 5,069	$ —	$ 73,241
Fiscal year 2016	$ 73,241	$ 6,627	$ —	$ 79,868

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.

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 August 19, 2016.

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)	August 19, 2016
/s/ Gregory Wong Gregory Wong	Chief Financial Officer and Senior Vice President (Principal Financial and Accounting Officer)	August 19, 2016
/s/ Stuart M. Huizinga Stuart Huizinga	Director	August 19, 2016
/s/ Robin Josephs Robin Josephs	Director	August 19, 2016
/s/ John G. McDonald John G. McDonald	Director	August 19, 2016
/s/ David Pauldine David Pauldine	Director	August 19, 2016

/s/ Gregory Sands Gregory Sands	Director	August 19, 2016
/s/ Marjorie T. Sennett Marjorie T. Sennett	Director	August 19, 2016
/s/ James Simons James Simons	Director	August 19, 2016

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.
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(17)+	Forms of Option Agreement and Option Grant Notice under 2010 Equity Incentive Plan (for non-executive officer employees).
10.7(20)+	Forms of Option Agreement and Option Grant Notice under 2010 Equity Incentive Plan (for executive officers).
10.8(15)+	Forms of Senior Management Restricted Stock Unit (RSU) Grant Notice and Agreement under 2010 Equity Incentive Plan (for executive officers).
10.9(15)+	Forms of Restricted Stock Unit (RSU) Grant Notice and Agreement under 2010 Equity Incentive Plan (for non-executive officer employees).
10.10(21)+	Form of Restricted Stock Unit Agreement under 2010 Equity Incentive Plan (for non-employee directors).
10.11(12)+	QuinStreet, Inc. 2010 Non-Employee Directors' Stock Award Plan.
10.12(13)+	Forms of Option Agreement and Option Grant Notice for Initial Grants under the 2010 Non-Employee Directors' Stock Award Plan.

10.13(14)+ Forms of Option Agreement and Option Grant Notice for Annual Grants under the 2010 Non-Employee Directors' Stock Award Plan.

10.15(11)+ 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.

10.17(16) First Amendment to Second Amended and Restated Revolving Credit and Term Loan 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(23)	License and Investment Agreement by and among QuinStreet, Inc., Bronwyn Syiek and TownB Corporation dated August 23, 2012.
10.23(18)	Transition Agreement dated September 18, 2013 between the Company and Scott Mackley.
10.24(19)	Transition Agreement dated September 18, 2013 between the Company and Bronwyn Syiek.
10.26(22)	Second Amendment to the Second Amended and Restated Revolving Credit and Term Loan Agreement, as amended from time to time, dated as of July 17, 2014, by and among QuinStreet, Inc., Comerica Bank, as administrative agent, and certain lenders party thereto.
10.27(24)+	Forms of Senior Management Performance-Based Restricted Stock Unit (RSU) Grant Notice and Agreement under 2010 Equity Incentive Plan (for executive officers).
10.28(25)+	Form of Deferred Restricted Stock Unit Agreement under 2010 Non-Employee Directors’ Stock Award Plan.
10.29(26)	Third Amendment, to the Second Amended and Restated Revolving Credit and Term Loan Agreement, as amended from time to time, dated as of June 11, 2015, by and among QuinStreet, Inc., Comerica Bank, as administrative agent, and certain lenders party thereto.
10.30(27)+	Forms of Performance-Based Restricted Stock Unit (RSU) Grant Notice and Agreement under 2010 Equity Incentive Plan (for non-executive officer employees).
10.31(28)	Counselor Agreement dated December 31, 2015 between the Company and William Bradley.
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.
(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 10.12 to QuinStreet, Inc.'s Amendment No. 2 to Registration Statement on Form S-1 (SEC File No.333-163228) filed on January 14, 2010.
(12) 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.
(13) 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.
(14) 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.
(15) 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.
(16) 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.
(17) 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.
(18) 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.
(19) 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.
(20) 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.
(21) 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.
(22) 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.
(23) 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.
(24) Incorporated by reference to Exhibit 10.27 to QuinStreet, Inc.'s Annual Report on Form 10-K (SEC File No. 001-34628) filed on September 12, 2014.
(25) 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 6, 2015.
(26) Incorporated by reference to Exhibit 10.1 to QuinStreet, Inc.'s Current Report on Form Annual Report on Form 8-K (SEC File No. 001-34628) filed on June 12, 2015.
(27) Incorporated by reference to Exhibit 10.30 to QuinStreet, Inc.'s Annual Report on Form 10-K (SEC File No. 001-34628) filed on August 19, 2015.
(28) 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 9, 2016.