

BANKRATE INC  
Form 10-Q  
August 10, 2009  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2009**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_**  
Commission File No. 0-25681

(Exact name of registrant as specified in its charter)

**Florida**  
(State or other jurisdiction of incorporation or  
organization)

**65-0423422**  
(I.R.S. Employer Identification No.)

**11760 U.S. Highway One, Suite 200**

**North Palm Beach, Florida**  
(Address of principal executive offices)

**33408**  
(Zip Code)

**Registrant's telephone number, including area code: (561) 630-2400**

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

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

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

Edgar Filing: BANKRATE INC - Form 10-Q

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if smaller

Smaller reporting company

reporting company)

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

The number of outstanding shares of the issuer's common stock as of July 31, 2009 was as follows: 18,885,504 shares of Common Stock, \$.01 par value.

---

**Table of Contents**

**Bankrate, Inc.**

**Quarterly Report on Form 10-Q for the Quarter Ended June 30, 2009**

**Index**

	<b>PAGE NO.</b>
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements (Unaudited)	
<u>Condensed Consolidated Balance Sheets at June 30, 2009 and December 31, 2008</u>	4
<u>Condensed Consolidated Statements of Income for the Three and Six Months Ended June 30, 2009 and 2008</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2009 and 2008</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	29
Item 4. <u>Controls and Procedures</u>	29
PART II. OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	29
Item 1A. <u>Risk Factors</u>	30
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	31
Item 3. <u>Defaults Upon Senior Securities</u>	31
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	31
Item 5. <u>Other Information</u>	32
Item 6. <u>Exhibits</u>	32
<u>Signatures</u>	32

---

**Table of Contents**

Introductory Note

**CAUTION CONCERNING FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q contains forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, among others, statements about our beliefs, plans, objectives, goals, expectations, estimates and intentions that are subject to significant risks and uncertainties and are subject to change based on various factors, many of which are beyond our control. The words may, could, should, would, believe, anticipate, estimate, expect, intend, plan, target, goal, and similar words are intended to identify forward-looking statements.

All forward-looking statements, by their nature, are subject to risks and uncertainties. Our actual future results may differ materially from those set forth in our forward-looking statements.

Our ability to achieve our financial objectives could be adversely affected by the factors discussed in detail in Part I, Item 2., Management's Discussion and Analysis of Financial Condition and Results of Operations and Part II, Item 1A. Risk Factors in this Quarterly Report on Form 10-Q, and the following sections of our Annual Report on Form 10-K for the year ended December 31, 2008 (the 2008 Form 10-K):

(a) Introductory Note in Part I, Item 1. Business; (b) Risk Factors in Part I, Item 1A., as updated in our subsequent quarterly reports filed on Form 10-Q; and (c) Introduction in Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7. as well as:

Ability of the parties making the pending tender offer for shares of the Company (as defined below) to complete such tender offer, the risk that a condition to the completion of such tender offer shall not be satisfied, the terms and conditions on which such tender offer is made and developments regarding such tender offer;

Impact of the pendency of the tender offer on our business generally, including relationships with advertisers, online partners and employees;

the willingness of our advertisers to advertise on our web sites;

interest rate volatility and our ability to manage the fluctuations in the demand for our advertisements;

our ability to develop and maintain a strong brand;

our ability to establish and maintain distribution arrangements;

our ability to integrate the business and operations of companies that we have acquired, and those we may acquire in the future;

our ability to realize expected benefits, including synergies, of companies that we have acquired, and those that we may acquire in the future;

our ability to maintain the confidence of our advertisers by detecting click-through fraud and unscrupulous advertisers;

## Edgar Filing: BANKRATE INC - Form 10-Q

the effect of unexpected liabilities we assume from our acquisitions;

the effects of expanding our operations internationally;

the impact of lawsuits to which we are a party;

the ability of consumers to access our Online Network through non-PC devices;

increased competition and its effect on our web site traffic, advertising rates, margins, and market share;

our ability to manage traffic on our web sites and service interruptions;

our ability to protect our intellectual property;

the effects of facing liability for content on our web sites;

the concentration of ownership of our common stock;

the fluctuations of our results of operations from period to period;

the accuracy of our financial statement estimates and assumptions;

our ability to adapt to technological changes;

the impact of legislative or regulatory changes affecting our business;

changes in consumer spending and saving habits;

changes in accounting principles, policies, practices or guidelines;

the effect of provisions in our Articles of Incorporation, Bylaws and certain laws on change-in-control transactions;

effect of changes in the stock market and other capital markets;

the strength of the United States economy in general;

## Edgar Filing: BANKRATE INC - Form 10-Q

changes in monetary and fiscal policies of the United States Government;

other risks described from time to time in our filings with the Securities and Exchange Commission; and

our ability to manage the risks involved in the foregoing.

Other factors besides those referenced could adversely affect our results, and you should not consider any such list of factors to be a complete set of all potential risks or uncertainties. Any forward-looking statements made by us herein speak as of the date of this Quarterly Report. We do not undertake to update any forward-looking statement, except as required by law.

**Table of Contents****Part I. FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS****Bankrate, Inc.**

## Condensed Consolidated Balance Sheets

(Unaudited)

*(In thousands, except share and per share data)*

	June 30, 2009	December 31, 2008
<b>Assets</b>		
Cash and cash equivalents	\$ 55,089	\$ 46,055
Accounts receivable, net of allowance for doubtful accounts of approximately \$964 and \$1,566 at June 30, 2009 and December 31, 2008, respectively	15,181	22,567
Deferred income taxes, current portion	816	816
Prepaid expenses and other current assets	1,614	1,608
<b>Total current assets</b>	<b>72,700</b>	<b>71,046</b>
Furniture, fixtures and equipment, net of accumulated depreciation and amortization of \$6,349 and \$5,302 at June 30, 2009 and December 31, 2008, respectively	6,939	2,521
Deferred income taxes	7,413	7,413
Intangible assets, net of accumulated amortization of \$15,530 and \$10,403 at June 30, 2009 and December 31, 2008, respectively	78,077	83,347
Goodwill	101,886	101,856
Other assets	712	4,567
<b>Total assets</b>	<b>\$ 267,727</b>	<b>\$ 270,750</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities:</b>		
Accounts payable	\$ 2,993	\$ 3,723
Accrued expenses	4,371	5,665
Acquisition earn-outs payable		11,750
Deferred revenue	953	1,018
Other current liabilities	5	16
<b>Total current liabilities</b>	<b>8,322</b>	<b>22,172</b>
Other liabilities	153	148
<b>Total liabilities</b>	<b>8,475</b>	<b>22,320</b>
<b>Commitments and contingencies</b>		
<b>Stockholders' equity:</b>		
Preferred stock, 10,000,000 shares authorized and undesignated		
Common stock, par value \$.01 per share-100,000,000 shares authorized; 18,885,504 and 18,816,986 shares issued and outstanding at June 30, 2009 and December 31, 2008, respectively	189	188
Additional paid-in capital	224,122	219,294
Retained earnings	34,941	28,948

Edgar Filing: BANKRATE INC - Form 10-Q

Total stockholders' equity	259,252	248,430
Total liabilities and stockholders' equity	\$ 267,727	\$ 270,750

*See accompanying notes to condensed consolidated financial statements.*



**Table of Contents****Bankrate, Inc.**

## Condensed Consolidated Statements of Income

(Unaudited)

*(In thousands, except share and per share data)*

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Revenue	\$ 31,027	\$ 40,193	\$ 69,364	\$ 82,656
Cost of revenue	12,907	17,359	27,902	33,766
Gross margin	18,120	22,834	41,462	48,890
Operating expenses:				
Sales	2,187	2,207	4,621	4,285
Marketing	2,170	3,115	4,647	5,943
Product development	1,837	1,890	3,654	3,591
General and administrative	5,259	6,580	10,772	13,370
Depreciation and amortization	3,344	2,246	6,327	4,043
	14,797	16,038	30,021	31,232
Income from operations	3,323	6,796	11,441	17,658
Interest income	16	360	26	1,206
Income before income taxes	3,339	7,156	11,467	18,864
Income tax expense	1,409	3,077	4,822	7,951
Net income	\$ 1,930	\$ 4,079	\$ 6,645	\$ 10,913
Basic and diluted net income per share:				
Basic	\$ 0.10	\$ 0.22	\$ 0.35	\$ 0.58
Diluted	\$ 0.10	\$ 0.21	\$ 0.34	\$ 0.55
Shares used in computing basic net income per share	18,824,428	18,907,321	18,816,667	18,893,682
Shares used in computing diluted net income per share	19,379,325	19,557,759	19,296,985	19,678,146

*See accompanying notes to condensed consolidated financial statements.*

**Table of Contents****Bankrate, Inc.**

## Condensed Consolidated Statements of Cash Flows

(Unaudited)

*(In thousands)*

	<b>Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 6,645	\$ 10,913
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization	6,327	4,043
Provision for doubtful accounts receivable	63	477
Share-based compensation	4,770	7,155
Excess tax benefits from share-based compensation	(136)	(283)
Loss on disposal of assets	(7)	
<b>Changes in operating assets and liabilities, net of effects from business acquisitions:</b>		
Decrease in accounts receivable	7,323	721
Decrease (increase) in prepaid expenses and other assets	95	(3,099)
(Decrease) increase in accounts payable	(730)	349
Decrease in accrued expenses	(1,294)	(2,260)
(Decrease) increase in other liabilities	(6)	197
(Decrease) increase in deferred revenue	(65)	501
<b>Net cash provided by operating activities</b>	<b>22,985</b>	<b>18,714</b>
<b>Cash flows from investing activities:</b>		
Purchases of furniture, fixtures and equipment and capitalized web site development costs	(1,579)	(1,837)
Cash used in business acquisitions, net of cash acquired	(11,780)	(68,329)
Restricted cash	1	1
<b>Net cash used in investing activities</b>	<b>(13,358)</b>	<b>(70,165)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from the exercise of stock options	395	1,279
Cash used in issuance of common stock related to restricted stock awards	(395)	
Repurchase of Company common stock	(729)	
Excess tax benefits from share-based compensation	136	283
<b>Net cash (used in) provided by financing activities</b>	<b>(593)</b>	<b>1,562</b>
Net increase (decrease) in cash and cash equivalents	9,034	(49,889)
Cash and equivalents, beginning of period	46,055	125,058
<b>Cash and equivalents, end of period</b>	<b>\$ 55,089</b>	<b>\$ 75,169</b>
<b>Supplemental disclosures of noncash investing information:</b>		
Web site development costs reclassified from other assets to furniture, fixtures and equipment	\$ 4,597	\$

*See accompanying notes to condensed consolidated financial statements.*



---

**Table of Contents**

**BANKRATE, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2009**

(Unaudited)

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***The Company***

Bankrate, Inc. ( Bankrate ) and its subsidiaries (the Company, We, Us, Our ) own and operate an Internet-based consumer banking and personal finance network ( Online Network ). Our flagship site, Bankrate.com, is one of the web's leading aggregators of information on more than 300 financial products and fees, including mortgages, credit cards, new and used automobile loans, money market accounts, certificates of deposit, checking and ATM fees, home equity loans and online banking fees. We also market a comprehensive line of consumer and business credit cards as well as competitive insurance rates for auto, home, life, health and long-term care. Additionally, we provide financial applications and information to a network of distribution partners and through national and state publications. We are organized under the laws of the State of Florida.

***Acquisition Accounting***

We completed four acquisitions in 2008, two acquisitions in 2007 and one acquisition in 2006. The purchase method of accounting requires companies to assign values to assets and liabilities acquired based upon their fair values. In most instances, there is not a readily defined or listed market price for individual assets and liabilities acquired in connection with a business, including intangible assets. The determination of fair value for assets and liabilities in many instances requires a high degree of estimation. The valuation of intangible assets, in particular, is very subjective. We generally use internal cash flow models. The use of different valuation techniques and assumptions can change the amounts and useful lives assigned to the assets and liabilities acquired, including goodwill and other intangible assets and the related amortization expense we record in periods subsequent to the date of acquisition.

***Basis of Presentation***

The accompanying unaudited condensed consolidated financial statements include the accounts of Bankrate and its wholly-owned subsidiaries, Wescoco LLC, Mortgage Market Information Services, Inc., Interest.com, and Rate Holding Company (100% owner of Bankrate Information Consulting (Beijing) Co., Ltd.) after elimination of all intercompany accounts and transactions. We have prepared the accompanying financial statements in conformity with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States for complete annual financial statements. The interim financial information is unaudited but reflects all adjustments that are, in the opinion of management, necessary to provide a fair statement of our results for the interim periods presented. Such adjustments are normal and recurring except as otherwise noted. Operating results for the three and six months ended June 30, 2009 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2009 ( fiscal 2009 ), or for any future periods.

The unaudited condensed consolidated financial statements included herein should be read in conjunction with the financial statements and related footnotes included in our 2008 Annual Report on Form 10-K.

The condensed consolidated income statement for the three and six months ended June 30, 2008 has been reclassified to conform with the 2009 presentation.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent gains and losses at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. We believe that the judgments, estimates and assumptions involved in the accounting for income taxes, the allowance for doubtful accounts receivable, share-based

## Edgar Filing: BANKRATE INC - Form 10-Q

compensation, useful lives of intangible assets and intangible asset impairment, goodwill impairment, acquisition accounting, and contingencies have the greatest potential

---

**Table of Contents**

impact on our financial statements, so we consider these to be our critical accounting policies. Actual results could differ from those estimates.

***Basic and Diluted Earnings Per Share***

We compute basic earnings per share by dividing net income for the period by the weighted average number of shares outstanding for the period. Diluted earnings per share includes the dilutive effect of common stock equivalents, consisting of outstanding share-based awards and unrecognized compensation expense and tax benefits in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 123R, Share-Based Payment, to the extent the effect is not anti-dilutive, using the treasury stock method.

The weighted average number of common shares outstanding used in computing diluted earnings per share for the three and six months ended June 30, 2009 and 2008 includes 554,897 and 650,438 shares, and 480,318 and 634,242 shares, respectively, resulting from the dilutive effect of outstanding stock options and restricted stock awards. For the three and six months ended June 30, 2009, 1,319,502 shares attributable to the assumed exercise of outstanding stock options were excluded from the calculation of diluted earnings per share because the effect was anti-dilutive. For the three and six months ended June 30, 2008, 403,500 and 407,500 shares, respectively, attributable to the assumed exercise of outstanding stock options were excluded from the calculation of diluted earnings per share because the effect was anti-dilutive.

***Allowance for Doubtful Accounts***

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability or unwillingness of our customers to make required payments. We look at historical write-offs and sales growth when determining the adequacy of the allowance. Should the financial condition of our customers deteriorate, resulting in an impairment of their ability to make payments, or if the level of accounts receivable increases, the need for possible additional allowances may be necessary. Any additions to the allowance for doubtful accounts are recorded as bad debt expense and included in general and administrative expenses. During the three months ended June 30, 2009 and 2008, we charged approximately \$54,000 and \$119,000 respectively, to bad debt expense, and wrote off (net of recoveries) approximately \$116,000 and \$413,000, respectively, of accounts deemed uncollectible. During the six months ended June 30, 2009 and 2008, we charged approximately \$63,000 and \$477,000 respectively, to bad debt expense, and wrote off (net of recoveries) approximately \$665,000 and \$1,429,000 (which had been fully reserved for), respectively, of accounts deemed uncollectible.

***Goodwill***

In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, we review our goodwill for impairment annually, or more frequently, if facts and circumstances warrant a review, at the reporting unit level. We have determined that we have one segment. The provisions of SFAS No. 142 require that a two-step test be performed to assess goodwill for impairment. First, the fair value of the reporting unit is compared to its carrying value. If the fair value exceeds the carrying value, goodwill is not impaired and no further testing is performed. The second step is performed if the carrying value exceeds the fair value. The implied fair value of the reporting unit's goodwill must be determined and compared to the carrying value of the goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied value, an impairment loss equal to the difference will be recorded. In determining the fair value of our reporting units, we relied on the Income Approach and the Market Approach. Under the Income Approach, the fair value of a business unit is based on the cash flows it can be expected to generate over its remaining life. The estimated cash flows are converted to their present value equivalent using an appropriate rate of return. The Market Approach utilizes a market comparable method whereby similar publicly traded companies are valued using Market Values of Invested Capital ( MVIC ) multiples (i.e., MVIC to revenue, MVIC to earnings before interest and taxes, MVIC to cash flow, etc.) and then these MVIC multiples are applied to a company's operating results to arrive at an estimate of value.

We completed our annual goodwill impairment test during the fourth quarter of 2008 and determined that the carrying amount of goodwill was not impaired.

***Useful Lives and Impairment of Long-Lived Assets***

We evaluate long-lived assets and intangible assets subject to amortization for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to future cash flows expected to be generated

## **Table of Contents**

by the asset. If the carrying amount of the asset exceeds its estimated future cash flows, an impairment charge is recorded in the amount by which the carrying amount of the asset exceeds the fair value of the asset.

SFAS No. 142 also requires that intangible assets with finite lives be amortized over their estimated useful life and reviewed for impairment in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. We continually monitor events and changes in circumstances that could indicate carrying amounts of our intangible assets may not be recoverable. When such events or changes in circumstances occur, we assess the recoverability of intangible assets by determining whether the carrying value of such assets will be recovered through the undiscounted expected future cash flows. If the future undiscounted cash flows are less than the carrying amount of the intangible assets, we recognize an impairment loss based on the excess of the carrying amount over the fair value of the assets. In the fourth quarter of 2008, we recorded impairment charges of approximately \$519,000 related to certain developed technology and Internet domain names that we have ceased using. We also recorded an impairment charge in the fourth quarter of 2008 of approximately \$1,914,000 related to customer relationships in our print publishing and licensing reporting unit due to the continuing trend of declining revenue and operating margins with no indications of improvement in the near future. After these impairment charges, there were no remaining intangible asset related to the print publishing and licensing reporting unit as of December 31, 2008.

### ***Web Site Development***

We account for our web site development costs under Emerging Issues Task Force Abstract ( EITF ) Issue number 00-2, Accounting for Web Site Development Costs. EITF 00-2 provides guidance on the accounting for the costs of development of company web sites, dividing the web site development costs into five stages: (1) the planning stage, during which the business and/or project plan is formulated and functionalities, necessary hardware and technology are determined, (2) the web site application and infrastructure development stage, which involves acquiring or developing hardware and software to operate the web site, (3) the graphics development stage, during which the initial graphics and layout of each page are designed and coded, (4) the content development stage, during which the information to be presented on the web site, which may be either textual or graphical in nature, is developed, and (5) the operating stage, during which training, administration, maintenance and other costs to operate the existing web site are incurred. The costs incurred in the web site application and infrastructure stage, the graphics development stage and the content development stage are capitalized; all other costs are expensed as incurred. We capitalized web site development costs totaling \$683,000 and \$3.2 million during the years ended December 31, 2007 and 2008, respectively, and \$300,000 and \$1,008,000, respectively, during the three and six months ended June 30, 2009. These amounts are included in furniture, fixtures and equipment in the accompanying condensed consolidated balance sheet as of June 30, 2009. Total capitalized costs are being amortized over a 36-month period that began on April 1, 2009, the launch date.

### ***Share-Based Compensation***

We account for share-based compensation in accordance with SFAS No. 123R, *Share-Based Payment*. Under the fair value recognition provisions of SFAS No. 123R, share-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as an expense on a straight-line basis over the requisite service period, which is generally the vesting period. See Note 2 for further information regarding our share-based compensation assumptions and expense.

### ***Stockholders' Equity***

The activity in stockholders' equity for the six months ended June 30, 2009 is shown below.

**Table of Contents**

<i>(In thousands)</i>	Common Stock		Additional	Retained	Total
	Shares	Amount	Paid-in Capital	Earnings	
Balances, December 31, 2008	18,817	\$ 188	\$ 219,294	\$ 28,948	\$ 248,430
Common stock repurchased	(40)		(472)	(257)	(729)
Stock options exercised and restricted stock awards vested, net	108	1	394	(395)	
Tax benefit-stock options			136		136
Share-based compensation			4,770		4,770
Net income for the period				6,645	6,645
Balances, June 30, 2009	18,885	\$ 189	\$ 224,122	\$ 34,941	\$ 259,252

**Income Taxes**

We account for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes* as clarified by Financial Accounting Standards Board ( FASB ) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ( FIN No. 48 ). Under this method, deferred income taxes are determined based on the estimated future tax effects of differences between the financial statement and tax basis of assets and liabilities given the provisions of enacted tax laws. Deferred income tax provisions and benefits are based on changes to the assets or liabilities from year to year. In providing for deferred taxes, we consider tax regulations of the jurisdictions in which we operate, estimates of future taxable income, and available tax planning strategies. If tax regulations, operating results, or the ability to implement tax-planning strategies varies, adjustments to the carrying value of the deferred tax assets and liabilities may be required. Valuation allowances are based on the more likely than not criteria of SFAS No. 109.

FIN No. 48 requires that we recognize the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

**Segment Reporting**

Through the quarter ended September 30, 2008, we operated in two reportable business segments: online publishing, and print publishing and licensing. The online publishing segment was primarily engaged in the sale of advertising, sponsorships, leads and hyperlinks, and the print publishing and licensing segment was primarily engaged in the sale of advertising in the *Mortgage Guide* and *Deposit and CD & Guide* rate tables, newsletter subscriptions, and licensing of research information. Prior to our acquisitions in 2007 and 2008, the print publishing and licensing business represented as much as 20% of consolidated revenue for the year ended December 31, 2006. As discussed above, we acquired seven online businesses that significantly increased our online revenue by enhancing our existing product lines as well as adding lead generating businesses in the credit card and insurance product lines. Print publishing and licensing revenue dropped to under 5% of consolidated revenue for the quarter ended December 31, 2008, and was 6% of consolidated revenue for the first six months of 2009. In integrating our 2007 and 2008 acquisitions, we completed certain changes in our organizational structure during the fourth quarter of 2007, including the review by our chief operating decision maker of our financial information presented on a consolidated basis, and determined that we now operate as one reportable segment.

We evaluate the operating performance of our business as a whole. Our chief operating decision maker (i.e., chief executive officer) reviews financial information presented on a consolidated basis, accompanied by disaggregated information about revenues by type for purposes of allocating resources and evaluating financial performance. There are no business unit managers who are held accountable by our chief operating decision-maker, or anyone else, for operations, operating results, budgeting and strategic planning for levels or components below the consolidated unit level.

**Comprehensive Income**

Comprehensive income is the same as net income for the three and six months ended June 30, 2009 and 2008.



---

**Table of Contents*****Recent Accounting Pronouncements***

With the exception of those disclosed below, there have been no recent accounting pronouncements or changes in accounting pronouncements during the six months ended June 30, 2009, as compared to the recent accounting pronouncements described in our 2008 Annual Report on Form 10-K.

In June 2009, the FASB issued FAS No. 168, *The FASB Accounting Standards Codification (Codification) and the Hierarchy of GAAP* (FAS No. 168), which replaces FAS No. 162, *The Hierarchy of GAAP* and establishes the Codification as the single source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. SEC rules and interpretive releases are also sources of authoritative GAAP for SEC registrants. FAS No. 168 modifies the GAAP hierarchy to include only two levels of GAAP: authoritative and non-authoritative. FAS No. 168 is effective beginning for periods ended after September 15, 2009. As FAS No. 168 is not intended to change or alter existing GAAP, it will not impact our financial condition, results of operations and cash flows.

In May 2009, the FASB issued FAS No. 165, *Subsequent Events* ( FAS 165 ), which introduces the concept of financial statements being *available to be issued* and requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date as either the date the financial statements were issued or were available to be issued. This standard became effective for us in the quarter ended June 30, 2009. The implementation of this standard did not have a significant impact on our financial condition, results of operations or cash flows. We evaluated all events and transactions that occurred after June 30, 2009 up through August 10, 2009, the date we issued these financial statements. During this period, we did not have any material recognizable subsequent events; however, we did have the following unrecognizable subsequent events: we awarded 30,000 shares of restricted stock to an executive officer discussed in Note 2; three potential class action lawsuits were filed against us in July 2009 as discussed in Note 4 related to the definitive agreement we entered into on July 22, 2009 discussed in Note 5.

In April 2009, the FASB issued FASB Staff Position ( FSP ) FSP FAS No. 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*. FSP FAS No. 107-1 and APB 28-1 enhance consistency in financial reporting by increasing the frequency of fair value disclosures. The FSP relates to fair value disclosures for any financial instruments that are not currently reflected on a company's balance sheet at fair value. Prior to the effective date of this FSP, fair values for these assets and liabilities have only been disclosed once a year. The FSP will now require these disclosures on a quarterly basis, providing qualitative and quantitative information about fair value estimates for all those financial instruments not measured on the balance sheet at fair value. We adopted this FSP during the quarter ended June 30, 2009. We do not currently have any instruments eligible for these disclosures and therefore there was no impact on our consolidated financial statements upon adoption.

In April 2008, the FASB issued FSP FAS No. 142-3, *Determination of the Useful Life of Intangible Assets*, to provide guidance for determining the useful life of recognized intangible assets and to improve consistency between the period of expected cash flows used to measure the fair value of a recognized intangible asset and the useful life of the intangible asset as determined under SFAS No. 142, *Goodwill and Other Intangible Assets*. The FSP requires that an entity consider its own historical experience in renewing or extending similar arrangements. However, the entity must adjust that experience based on entity-specific factors included in SFAS No. 142. If the company lacks historical experience to consider for similar arrangements, it would consider assumptions that market participants would use about renewal or extension, as adjusted for the entity-specific factors under SFAS No. 142. We adopted FSP FAS No. 142-3 as of the required effective date of January 1, 2009. We did not acquire any intangible assets during the six months ended June 30, 2009 nor did we have intangible assets with implicit or explicit renewal or extension terms and thus the adoption of FSP FAS No. 142-3 did not have a significant effect on our condensed consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141R, *Business Combinations*. SFAS No. 141R requires an acquirer to measure the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree at their fair values on the acquisition date, with goodwill being the excess value over the net identifiable assets acquired. SFAS No. 141R significantly changes the accounting for business combinations in a number of areas including the treatment of contingent consideration, preacquisition contingencies, transaction costs, in-process research and development and restructuring costs. In addition, under SFAS No. 141R, changes in an acquired entity's deferred tax assets and uncertain tax positions after the measurement period will impact income tax expense. SFAS No. 141R is effective for fiscal years beginning after December 15, 2008 with early application prohibited. We adopted SFAS No. 141R beginning January 1, 2009 and will change our accounting treatment for business combinations on a prospective basis.

**Table of Contents**

In December 2007, the FASB also issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an Amendment of Accounting Research Bulletin No. 51*. This standard clarifies that a noncontrolling interest in a subsidiary should be reported as equity in the consolidated financial statements. The calculation of earnings per share will continue to be based on income amounts attributable to the parent. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008 with early application prohibited. We adopted SFAS No. 160 beginning January 1, 2009 with no material impact on our condensed consolidated financial statements.

**NOTE 2 SHARE-BASED COMPENSATION*****Stock Options***

Our stock option program is a long-term retention program that is intended to attract, retain and provide incentives for directors, officers and employees in the form of incentive and non-qualified stock options and restricted stock. Until June 17, 2008, when our stockholders approved the 2008 Equity Compensation Plan (the 2008 Plan), we granted stock options from the Second Amended and Restated 1999 Equity Compensation Plan (the 1999 Plan) and the 1997 Equity Compensation Plan (the 1997 Plan). The 1997 Plan terminated in 2007 and the 1999 Plan terminated in March 2009. Under the 2008 Plan, the Compensation Committee of the Board of Directors or its delegate has the sole authority to determine who receives such grants, the type, size and timing of such grants, and to specify the terms of any non-competition agreements relating to the grants. The 2008 Plan was authorized to grant share-based awards for up to 1,500,000 shares of our common stock. The purpose of the 2008 Plan is to advance our interests by providing eligible participants in the 2008 Plan with the opportunity to receive equity-based or cash incentive awards, thereby aligning their economic interests with those of our stockholders. The 2008 Plan is intended to accomplish these goals by enabling us to grant awards in the form of stock options, stock appreciation rights, restricted or unrestricted stock, restricted or unrestricted stock units, performance awards, any other awards that are convertible into or otherwise based on our common stock, or cash awards.

***Restricted Stock***

In April 2007, we awarded 200,000 shares of restricted common stock to seven executive officers. In April 2008 and February 2009, we modified these awards. The original terms were as follows: The awards have an eight-year term and only vest if, at any point during the term of the award, the closing price of our stock is at or above the following specific thresholds for ninety consecutive days; \$44.00 25% of award shares vest; \$50.00 33% of award shares vest; \$56.00 remaining 42% of award shares vest. Once the specific threshold has been satisfied, the applicable percentage of award shares vest as follows; one-third upon satisfying the incremental threshold; one-third on the first anniversary of satisfying the incremental threshold; and the remaining one-third on the second anniversary of satisfying the incremental threshold. The awards also vest on a change in control provided certain conditions are met. We valued the awards using a Monte Carlo simulation model that used the following assumptions: volatility factor 61.8% based on a weighted average of historical stock price volatility and implied volatility in market traded options; risk-free interest rate 4.73% on U.S. Treasury constant maturity issues having remaining terms similar to the expected term of the awards; and the dividend yield is 0%. The weighted average grant date fair value was \$35.59 and the weighted average expected time to vest as of grant date was 2.37 years.

In April 2008, all seven restricted stock award agreements were amended to provide for vesting of 40,000 shares as follows: 10,000 shares upon the earlier of (i) the date on which the \$44 threshold is satisfied or (ii) April 30, 2009; 13,200 shares upon the earlier of (i) the date on which the \$50 threshold is satisfied or (ii) April 30, 2009; and 16,800 shares upon the earlier of (i) the date on which the \$56 threshold is satisfied; or (ii) April 30, 2009. The incremental share-based compensation expense related to the modification was approximately \$91,000.

In August 2008, a restricted stock award agreement for 25,000 shares was amended pursuant to the terms of a Severance and General Release Agreement (the Agreement) for one of the executive officers. The Agreement provided for post-termination vesting of 5,000 shares on April 30, 2009. The grant date fair value of the 20,000 shares forfeited was approximately \$712,000. Approximately \$158,000 of compensation expense was recorded related to the modification and approximately \$307,000 of previously recognized compensation expense was reversed.

In February 2009, all six remaining restricted stock award agreements were again amended to provide for vesting of the remaining 140,000 shares as follows: 35,000 shares upon the earlier of (i) the date on which the \$44 threshold is satisfied or (ii) April 30, 2009; 35,000 shares upon the earlier of (i) the date on which the \$50 threshold is satisfied or (ii) April 30, 2010; and 35,000 shares upon the earlier of (i) the date on which the \$56 threshold is satisfied or (ii) April 30, 2011; and 35,000 shares upon the earlier of (i) the date on which the \$56 threshold is satisfied or (ii) April 30, 2012. The incremental

---

**Table of Contents**

share-based compensation expense related to the modification was approximately \$776,000 and will be amortized over the remaining service period.

Also in February 2009, we awarded 110,000 shares of restricted common stock to three executive officers. The awards have a 7-year term and vest as follows: 29,792 shares on April 30, 2010; 27,500 shares on April 30, 2011; 27,500 shares on April 30, 2012; and 25,208 shares on April 30, 2013. The awards also vest on a change in control provided certain conditions are met. We valued these awards at \$27.75, the grant date fair value and the weighted average expected time to vest was 2.31 years. We also awarded 17,499 shares of restricted common stock to seven executive officers. The awards have a 7-year term and vest as follows: 6,319 shares on February 11, 2010; 5,833 shares on February 11, 2011; and 5,347 shares on February 11, 2012. The awards also vest on a change in control provided certain conditions are met. We valued these awards at \$27.75, the grant date fair value and the weighted average expected time to vest was 1.81 years.

In accordance with the amendments to the restricted stock agreements described above, 70,000 shares vested on April 30, 2009 (excluding the 5,000 shares that vested pursuant to the Agreement described above). Since the vesting date was within a Blackout Period, as defined, in the Bankrate, Inc. Insider Trading Policy, the shares were distributed, and tax withholdings were calculated, on May 12, 2009. We withheld 23,982 shares to cover tax withholdings and issued 46,018 shares to the executive officers.

On July 15, 2009, we awarded 30,000 shares of restricted stock to an executive officer. The award has a 7-year term and vests as follows: 7,500 shares on July 15, 2010; 7,500 shares on July 15, 2011; 7,500 shares on July 15, 2012; and 7,500 shares on July 15, 2013. The awards also vests on a change in control provided certain conditions are met. We valued this award at \$24.96, the grant date fair value, and the weighted average expected time to vest was 2.5 years.

Share-based compensation expense for the three and six months ended June 30, 2009 included approximately \$622,000 and \$1,336,000, respectively, related to the restricted stock awards; and for the three and six months ended June 30, 2008 included approximately \$899,000 and \$1,761,000, respectively, related to the restricted stock awards. Additionally, as of June 30, 2009, there was approximately \$4.5 million of unrecognized compensation costs, adjusted for estimated forfeitures, which will be recognized over a weighted average period of approximately 1.45 years, related to non-vested restricted stock awards.

**Share-Based Compensation**

We currently use the Black-Scholes option pricing model to determine the fair value of our stock options. The determination of the fair value of the awards on the date of grant using an option-pricing model is affected by the price of our common stock, as well as assumptions regarding a number of complex and subjective variables. These variables include expected stock price volatility over the term of the awards, actual and projected employee stock option exercise behaviors, risk-free interest rates, expected dividends and the estimated forfeiture rate.

We estimated the expected term of outstanding stock options by taking the average of the vesting term and the contractual term of the option, as illustrated in Staff Accounting Bulletin ( SAB ) 107. We currently use the simplified method to estimate the expected term for employee stock option grants as adequate historical experience is not available to provide a reasonable estimate. SAB 110 is effective for stock options granted after December 31, 2007. We adopted SAB 110 effective January 1, 2008 and will continue to apply the simplified method until enough historical experience is available to provide a reasonable estimate of the expected term for stock option grants. We estimated the volatility of our common stock by using a weighted average of historical stock price volatility and implied volatility in market traded options in accordance with SAB 107. The decision to use a weighted average volatility factor was based upon the relatively short period of availability of data on actively traded options on our common stock, and our assessment that implied volatility is more representative of future stock price trends than historical volatility. We based the risk-free interest rate used in the option pricing model on U.S. Treasury constant maturity issues having remaining terms similar to the expected terms of the options. We do not anticipate paying any cash dividends in the foreseeable future and therefore use an expected dividend yield of zero in the option pricing model. We are required to estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. We use historical data to estimate pre-vesting option forfeitures and record share-based compensation expense only for those awards that are expected to vest. All share-based payment awards are amortized on a straight-line basis over the requisite service periods, which is generally the vesting period.

**Table of Contents**

If factors change and we employ different assumptions for estimating share-based compensation expense in future periods or if we decide to use a different valuation model, the future periods may differ significantly from what we have recorded in the current period and could materially affect our operating income, net income and net income per share.

The following table provides the weighted average fair value of the stock options granted during the three and six-month periods ended June 30, 2009 and 2008 using the Black-Scholes option pricing model together with a description of the weighted average assumptions used to calculate the fair value. Options exercisable into 67,500 shares were granted during the three and six months ended June 30, 2009, and options exercisable into 82,500 shares and 667,500 shares, respectively, were granted during the three and six months ended June 30, 2008.

	Three Months Ended June 30,		Six Months Ended June 30,			
	2009	2008	2009	2008		
Weighted average fair value	\$	21.88	\$	16.90	\$	25.72
Expected volatility		54.4%		57.8%		58.0%
Weighted average risk free rate		3.6%		1.7%		2.9%
Expected lives		4.75 years		4.19 years		4.99 years
Expected dividend yield		0%		0%		0%

The share-based compensation expense for stock options and restricted stock awards recognized in our condensed consolidated statements of income for the three and six months ended June 30, 2009 and 2008 is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,					
	2009	2008	2009	2008				
<i>(In thousands)</i>								
<b>Income Statement Classifications</b>								
Cost of revenue	\$	352	\$	618	\$	724	\$	1,221
<b>Other expenses:</b>								
Sales		533		525		1,112		1,020
Marketing		152		204		330		401
Product development		175		287		408		554
General and administrative		1,547		2,105		2,196		3,959
Total		\$ 2,759		\$ 3,739		\$ 4,770		\$ 7,155

Pursuant to the income tax provisions of SFAS No. 123R, we follow the long-haul method of computing our hypothetical additional paid-in capital, or APIC, pool. As of June 30, 2009, there was approximately \$11.4 million of unrecognized compensation costs, adjusted for estimated forfeitures, related to non-vested stock options, which will be recognized over a weighted average period of approximately 1.94 years. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures. The total fair value of stock options that vested during the three and six months ended June 30, 2009 and 2008 was approximately \$2.0 million and \$5.0 million, and \$2.2 million and \$3.8 million respectively.

**General Stock Option Information**

The following table sets forth the summary of option activity under our stock option plans for the six months ended June 30, 2009:

**Table of Contents**

	Number of Shares	Price Per Share	Weighted Average Exercise Price	Aggregate Intrinsic Value
Balance, December 31, 2008	2,843,610	\$0.85 to \$53.68	\$ 25.52	
Granted	67,500	\$26.61 - \$38.93	\$ 36.61	
Exercised	(57,499)	\$0.85 - \$18.44	\$ 11.83	
Forfeited	(229,849)	\$18.44 - \$53.68	\$ 52.11	
Expired				
Balance, June 30, 2009	2,623,762	\$0.85 - \$53.68	\$ 23.78	\$ 20,675,000

The aggregate intrinsic value of stock options outstanding as of June 30, 2009 is calculated as the difference between the market value at June 30, 2009 (\$25.24) and the exercise price of the stock options.

Additional information with respect to outstanding stock options as of June 30, 2009, was as follows:

Prices	Options Outstanding		Number of Shares	Options Exercisable		Aggregate Intrinsic Value
	Number of Shares	Weighted Average Remaining Contractual Term (Years)		Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	
\$0.85 - \$8.46	806,623	2.15	806,623	\$ 7.59	2.15	
\$10.01 to \$13.32	391,826	2.27	391,826	\$ 10.60	2.27	
\$14.96 to \$18.44	100,811	2.71	100,811	\$ 18.27	2.71	
\$26.61 to \$32.75	381,335	4.33	221,405	\$ 29.52	4.14	
\$35.75 to \$40.36	446,429	4.76	255,637	\$ 36.94	4.36	
\$40.42 to \$53.68	496,738	5.14	254,027	\$ 44.41	4.87	
	2,623,762	3.52	2,030,329	\$ 20.27	3.04	\$ 20,675,000

**NOTE 3 INCOME TAXES**

We recognize the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

We have not recorded a liability for unrecognized tax benefits as of December 31, 2008, and there have been no material changes in the liability for unrecognized tax benefits through June 30, 2009.

We are subject to income taxes in the U.S. federal jurisdiction, various states, and foreign jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. With few exceptions, we are no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for the years before 2005.

There are no accruals for the payment of interest and penalties at June 30, 2009. We would recognize interest accrued related to any liability for unrecognized tax benefits in interest expense and penalties in operating expenses.

**NOTE 4 COMMITMENTS AND CONTINGENCIES****Stock Repurchase Plan**

In April 2008, our board of directors approved a stock repurchase plan (the Repurchase Plan). According to the terms of the Repurchase Plan, we may repurchase up to \$50 million of our outstanding common stock. Stock repurchases under the Repurchase Plan may be made through open market and privately negotiated transactions at times and in such amounts as management deems appropriate and will be funded using our working capital. The timing and amount of specific repurchases are subject to the requirements of the Securities and Exchange Commission,

## Edgar Filing: BANKRATE INC - Form 10-Q

market conditions, alternative uses of capital and other factors. The Repurchase Plan does not obligate us to acquire any particular amount of shares and the Repurchase Plan may be limited or terminated at any time without prior notice. Shares of stock repurchased under the

---

## **Table of Contents**

Repurchase Plan will be cancelled. As of June 30, 2009, 205,000 shares were purchased for an average price of \$24.94 under the Repurchase Plan and were subsequently cancelled. No shares were repurchased during the quarter ended June 30, 2009.

### ***Legal Proceedings***

#### **Potential Class Action Matter**

In July and August 2009, four lawsuits have been filed on behalf of a putative class of our public shareholders against us, our directors and officers, and the parties to the definitive agreement (the agreement) to be acquired discussed in Note 5. Three of the actions are pending in the Florida Circuit Court, Fifteenth Judicial Circuit, Palm Beach County, styled *Pfeiffer v. Evans, et al.* (2009-CA-025137-xxxx-MB-AO), *Bloch v. Bankrate, Inc., et al.* (2009-CA-025312-xxxx-MB-AO), and *KBC Asset Management N.V. v. Bankrate, Inc., et al.*, (2009-CA-025313-xxxx-MB-AJ). The fourth is pending in the United States District Court for the Southern District of Florida: *Novick v. Bankrate, Inc. et al.* (09-81138-Civ.). The complaints variously allege, among other things, that the defendants breached their fiduciary duties in connection with the agreement and the transactions contemplated by the agreement by failing to ensure that shareholders would obtain fair and maximum consideration under the circumstances, and by failing to disclose material information in the public filings. The *Pfeiffer* complaint alleges that Bankrate and an affiliate of Apax Partners LLP, and the *KBC* and *Novick* complaints allege that Apax Partners LLP and certain of its affiliates, aided and abetted the breaches of duty. Certain of the complaints variously seek, among other things, certification of a class consisting of owners of our common stock excluding the defendants and their affiliates, an order preliminarily and permanently enjoining the proposed transaction, accounting by the defendants to plaintiff for all damages allegedly caused by them and for all profits and any special benefits obtained as a result of their purported breaches of fiduciary duties, awarding plaintiff appropriate damages plus interest, rescission of the transaction if it is consummated, a judgment directing the directors to exercise their fiduciary duties to obtain a transaction that is in the best interests of shareholders until the process for the sale or auction of the Company is completed and the highest possible price is obtained, and attorneys' fees and expenses. On July 30, 2009, the plaintiff in the *Bloch* action filed an amended complaint, motion for expedited proceedings, and motion to consolidate the three actions pending in the Florida Circuit Court. On July 31, 2009, the plaintiff in the *KBC Asset Management* action also filed an amended complaint, motion for expedited proceedings, and motion to consolidate the three actions pending in the Florida Circuit Court. The court in the *Bloch* action has scheduled a hearing on a plaintiff's motion for preliminary injunction for August 20, 2009.

Because the outcome of these matters are uncertain at this time, we cannot estimate the amount of loss, if any, that could result from an adverse resolution of the matters.

#### **Variant, Inc. Litigation**

On April 23, 2009, Variant, Inc. filed complaints against five companies, including Bankrate, Inc. Variant claims the companies' web sites infringe on a patent for the online marketing of goods.

The complaint claims that the defendants' separate web sites and associated technology infringe U.S. Patent Number 7,379,000, titled "System for Marketing Goods and Services Utilizing Computerized Central and Remote Facilities". Wisconsin-based Variant holds an exclusive license to the patent, according to the complaint. The patent describes a method in which consumers and sales representatives can exchange images and data and maintain voice contact via computer. The patent also describes a method for customers inexperienced with computers to easily access a presentation about products.

The complaint is seeking injunctive relief, treble damages and interest, as well as attorneys' fees and costs. The plaintiffs are further asking the court to order the impoundment and destruction of all infringing apparatuses.

We believe that the allegations in the complaint are without merit, intend to vigorously defend against them. Because the outcome of the suit is uncertain at this time, we cannot estimate the amount of loss, if any, that could result from an adverse resolution of this matter.

#### **Lower Fees, Inc. Litigation**

On or about November 20, 2008, Lower Fees, Inc. (LF) filed in the Circuit Court in and for Palm Beach County, Florida a civil action against us and our Chief Executive Officer and our Chief Financial Officer. The complaint is designated as an Amended Complaint, even though a complaint had not been served on us previously. The one-count Amended Complaint alleges fraud in the inducement by the defendants in respect of us having entered into an asset purchase agreement with LF dated February 5, 2008. Pursuant to that agreement, we purchased certain assets and assumed certain liabilities of LF and made a cash payment of the consideration specified in the agreement. The Amended Complaint is for unspecified monetary relief.





---

**Table of Contents**

On December 15, 2008, we filed a motion to dismiss the Amended Complaint because we believe the material allegations of the complaint are baseless and fail to state a cause of action. Following a court hearing on March 23, 2009, the court dismissed the Amended Complaint, and allowed plaintiff 30 days within which to file an amended complaint. Plaintiff filed a Second Amended Complaint on April 22, 2009 listing us and our Chief Executive Officer as defendants. The Second Amended Complaint contains only one count that alleges fraud in the inducement by the defendants in respect of us having entered into an asset purchase agreement dated February 5, 2008. Plaintiff seeks rescission as its only remedy. We believe that the allegations in the Second Amended Complaint are without merit and intend to vigorously defend against them.

Because the outcome of this suit is uncertain at this time, we cannot estimate the amount of loss, if any, that could result from an adverse resolution of this matter.

**BanxCorp Litigation**

On July 20, 2007, BanxCorp, a privately held company located in White Plains, New York, filed a complaint against us in the United States District Court for the District of New Jersey. The complaint alleged that we engaged in a plan of misconduct that has unreasonably restrained trade and substantially lessened competition in the marketplace, thereby monopolizing trade and commerce. BanxCorp alleged that we engaged in predatory pricing, vendor lock-in, exclusionary product and distribution bundling and tie-in arrangements, anticompetitive acquisitions and market division agreements.

The action brought by the complaint is for unspecified equitable and monetary relief under the Sherman and Clayton Acts, including treble damages, and under state statutes, including the New Jersey Antitrust Act.

On October 19, 2007, we filed a motion to dismiss the complaint for failure to state a claim upon which relief could be granted. On July 7, 2008, the Court issued an opinion, in which it found that the complaint failed to state claims under the Sherman Act, but denied the motion to dismiss and directed the plaintiff to file an amended complaint providing greater detail regarding the Sherman Act claims and certain other claims. On August 21, 2008, the plaintiff filed its First Amended Complaint. In the First Amended Complaint, the plaintiff added new causes of action under the Sherman Act. We moved to dismiss the First Amended Complaint. While that motion was pending, on October 31, 2008 the plaintiff filed its Second Amended Complaint, in which it alleges violations of the Sherman Act, the Clayton Act, and New Jersey State antitrust laws. We believe that the allegations in the Second Amended Complaint are without merit, intend to vigorously defend against them, and have moved to dismiss the Second Amended Complaint. That motion is currently pending.

Because the outcome of the suit is uncertain at this time, we cannot estimate the amount of loss, if any, that could result from an adverse resolution of this matter.

***Acquisition Earn-Out Payments***

Pursuant to the terms of our acquisition agreements, there are potential cash earn-out payments to the former owners of acquired businesses of approximately \$28.0 million in the aggregate through December 31, 2010 based on the businesses acquired achieving certain financial performance metrics.

**NOTE 5 SUBSEQUENT EVENT**

On July 22, 2009, we entered into a definitive agreement (the Merger Agreement) to be acquired by funds advised by Apax Partners (Apax). Under the terms of the Merger Agreement, BEN Merger Sub, Inc., a newly formed entity wholly owned by Apax, commenced a tender offer on July 28, 2009 to acquire all of our outstanding common stock for \$28.50 per share in cash (the Offer), to be followed by a merger to acquire all remaining outstanding shares at the same price paid in the Offer. The Offer will expire on August 24, 2009, unless extended in accordance with the terms of the Merger Agreement. The aggregate value of the proposed transaction is approximately \$571 million. Our Board of Directors unanimously approved the transaction, which is subject to customary closing conditions, including minimum levels of participation in the Offer and regulatory approvals. The accompanying condensed consolidated financial statements do not reflect any purchase accounting adjustments that the surviving company in the merger will be required to make upon completion of the proposed transaction.

---

**Table of Contents**

**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Certain statements contained in this Management's Discussion and Analysis of Financial Conditions and Results of Operations (MD&A) constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, among others, statements about our beliefs, plans, objectives, goals, expectations, estimates and intentions that are subject to significant risks and uncertainties and are subject to change based on various factors, many of which are beyond our control. The words may, could, should, would, believe, anticipate, estimate, expect, intend, plan, target, goal, and similar expressions are intended to identify forward-looking statements.

All forward-looking statements, by their nature, are subject to risks and uncertainties. Our actual future results may differ materially from those set forth in our forward-looking statements. Please see the Introductory Note and Item 1A. Risk Factors in our 2008 Annual Report on Form 10-K, as updated in our subsequent reports filed on Form 10-Q, and in our other filings made from time to time with the SEC after the date of this report, for a more detailed discussion of factors that could cause our actual results to differ materially from those in the forward-looking statements. However, factors other than those discussed in the Introductory Note, in Items 1A. Risk Factors or elsewhere in this Quarterly Report or our 2008 Annual Report on Form 10-K also could adversely affect our results, and you should not consider any such list of factors to be a complete set of all potential risks or uncertainties. Any forward-looking statements made by us or on our behalf speak only as of the date they are made. We do not undertake to update any forward-looking statement, except as required by applicable law.

The MD&A is divided into sections entitled Executive Summary, Critical Accounting Policies, Results of Operations, Liquidity and Capital Resources, and Off Balance Sheet Arrangements. Information therein should help provide a better understanding of the major factors and trends that affect our earnings performance and financial condition, and how our performance during 2009 compares to prior periods.

**EXECUTIVE SUMMARY**

**Overview**

Bankrate, Inc. and its subsidiaries (the Company, Bankrate, we, us, our) operate a traditional media business on the Internet. Bankrate.com, our flagship Web site, is one of the leading web sites for financial information and advice according to comScore Media Metrix. Bankrate.com had nearly 53 million unique visitors for the year ended December 31, 2006, nearly 60 million unique visitors for the year ended December 31, 2007, and nearly 72 million unique visitors for the year ended December 31, 2008 according to Omniture, a web analytics tool. Since 2007, we have strategically broadened and diversified our product offerings through acquisitions. We now:

Aggregate information on over 300 financial products and fees including mortgages, home equity loans, credit cards, automobile loans, money market accounts, certificates of deposit, checking and ATM and online banking fees;

Market a comprehensive line of consumer and business credit cards;

Offer online visitors competitive insurance rates for auto, home life, health and long-term care;

Maintain an open marketplace to break down complicated vendor fees associated with the mortgage loan process, empowering consumers with comprehensive information to make informed decisions and reduce their real estate and mortgage transaction costs;

Offer editorial listings and other products that assist consumers and financial professionals learn more about options for college financing; and

Provide financial applications and information to a network of online distribution partners and national, regional and local publications.

## Edgar Filing: BANKRATE INC - Form 10-Q

Our entire Internet-based consumer banking and personal finance network ( Online Network ) includes Bankrate.com, Interest.com, Bankaholic.com, Mortgage-calc.com, CreditCardGuide.com, Nationwidecardservices.com, creditcardsearchengine.com, Savingforcollege.com, Feedisclosure.com, Insureme.com, and Bankrate.com.cn (China).

In addition to our Online Network, we also produce traditional print products, including the *Mortgage Guide* and the *CD & Deposit Guide*, as well as three newsletters. We also syndicate our original editorial content to major print publications such as *The Wall Street Journal*, *The New York Times*, *USA Today* and others.

---

## **Table of Contents**

### **Proposed Merger**

On July 22, 2009, we entered into a definitive agreement (the *Merger Agreement*) to be acquired by funds advised by Apax Partners ( *Apax* ). Under the terms of the *Merger Agreement*, BEN Merger Sub, Inc. a newly formed entity wholly owned by Apax, commenced a tender offer on July 28, 2009 to acquire all of our outstanding common stock for \$28.50 per share in cash (the *Offer*), to be followed by a merger to acquire all remaining outstanding shares at the same price paid in the *Offer*. The *Offer* will expire on August 24, 2009, unless extended in accordance with the terms of the *Merger Agreement*. The aggregate value of the proposed transaction is approximately \$571 million. Our Board of Directors unanimously approved the transaction, which is subject to customary closing conditions, including minimum levels of participation in the *Offer* and regulatory approvals.

### **Our Growth**

Bankrate was founded approximately 30 years ago as a print publisher of the newsletter *Bank Rate Monitor*. From 1976 through 1996, our principal business was the publication of print newsletters, the syndication of unbiased editorial bank and credit product research to newspapers and magazines and advertising sales of the *Mortgage Guide* and the *CD & Deposit Guide*, a newspaper-advertising table consisting of product and rate information from local mortgage companies and financial institutions. The company that we operate today was incorporated in the State of Florida in 1993.

In 1996, we began our online operations by placing our editorially unbiased research on our web site, Bankrate.com. By offering our information online, we created new revenue opportunities through the sale of graphical and hyperlink advertising associated with our rate and yield tables. Over the following decade, we implemented a strategy to concentrate on building our online operations, and have added to and complimented these operations through acquisitions.

We now regularly survey more than 4,800 financial institutions in more than 575 markets in all 50 states to compile current, objective, and unbiased information. Because we have developed a reputation of providing current, objective, and unbiased information, hundreds of print and online partner publications have come to depend on us as their trusted source for financial rates and information.

As part of our strategic expansion, several developments have occurred since January 1, 2008. First, on February 5, 2008, we acquired certain assets and liabilities of InsureMe, Inc. ( *InsureMe* ) for \$65 million in cash with an additional \$20 million in potential cash earn-out payments (\$10 million paid in February 2009 related to the year ended December 31, 2008) based on achieving certain performance metrics over the next two years. InsureMe, based in Englewood, Colorado, operates a web site and has a relationship with a network of hundreds of affiliates that offer consumers competitive insurance rates for auto, home, life, health and long-term care. InsureMe sells consumer leads to insurance providers who in turn provide consumers quotes for a variety of consumer insurance products.

Second, also on February 5, 2008, we acquired certain assets and liabilities of Lower Fees, Inc. ( *Fee Disclosure* ) for \$2.85 million in cash and an additional amount in cash in potential earn-out payments based on the achievement of certain financial performance metrics over the next five years. Fee Disclosure, based in Westlake Village, California, developed a patent pending online portal to create an open marketplace to break down complicated vendor fees associated with the mortgage closing process. Fee Disclosure empowers consumers with comprehensive information to make informed real estate decisions and reduce their real estate and mortgage transaction costs. We expect this acquisition will begin to make a revenue contribution later in fiscal 2009. See Note 4 in Notes to Condensed Consolidated Financial Statements for a discussion of a legal matter concerning this acquisition.

Third, in April 2008, we launched our Bankrate China web site (Bankrate.com.cn). Bankrate China provides Chinese consumers with similar types of financial education programs that Bankrate.com provides to the domestic consumer with our financial basics, guides, calculators, product comparisons and rate information. To date, no material revenue has been generated by Bankrate China nor do we anticipate a material revenue contribution in 2009.

Fourth, on September 5, 2008, we completed the acquisition of certain assets and liabilities of LinkSpectrum Co., a North Carolina corporation, for \$34.1 million in cash with an additional \$10 million in potential cash earn-out payments based on achieving certain financial performance metrics over the next two years. The principal asset of LinkSpectrum Co. was its web site, CreditCardGuide.com ( *CCG* ), which offers online users the ability to shop, compare and apply for credit cards online. We paid \$30.9 million in cash on September 5, 2008, and \$3.2 million in cash was placed in escrow to satisfy certain indemnification obligations of LinkSpectrum Co. and its sole shareholder. No cash earn-out payments or escrow payments have been made to date.



---

## **Table of Contents**

Fifth, on September 23, 2008, we completed the acquisition of certain assets and liabilities of Blackshore Properties, Inc. ( Blackshore ), a California corporation, for \$12.4 million in cash with an additional \$2.5 million in potential cash earn-out payments based on achieving certain performance metrics over the next twelve months. The principal asset of Blackshore was its web site, Bankaholic.com ( Bankaholic ), which offers online users rate and product information as well as research tools on a variety of financial products including mortgage loans and lender information, certificates of deposit, money market accounts, savings accounts, credit cards, insurance quotes and college savings plans. We paid \$11.9 million in cash on September 23, 2008, and \$500,000 in cash was placed in escrow to satisfy certain indemnification obligations of Blackshore and its sole shareholder. The purchase price was paid with cash on hand. No cash earn-out payments or escrow payments have been made to date.

### **Our Business**

We operate a traditional media business on the Internet. We believe we have a high quality, informed audience who stand ready to transact with our advertisers. Bankrate.com is one of the leading web sites for financial information and advice according to comScore Media Metrix.

We believe that an important component of our success has resulted from being recognized as a leader in providing fully researched, comprehensive, independent, objective financial content and data. As a result, we continue to maximize distribution of our research to gain brand recognition as a research authority. We continue to build greater brand awareness of our Online Network and to reach a greater number of online users.

We generate revenue through advertising sales, lead generation, distribution arrangements, and traditional media avenues such as syndication of editorial content and subscriptions. We operate in one industry segment.

We sell to advertisers targeting a specific audience in a city or state and also to national advertisers targeting the entire country.

Our most common graphic advertisement sizes are leader boards banners (728 x 90 pixels), which are prominently displayed at the top or bottom of a page, skyscrapers (160 x 600 or 300 x 600), rectangles (300 x 250 pixels, 300 x 100, 180 x 150), and posters (330 x 275 pixels). These advertisements are sold according to the cost-per-thousand impressions ( CPM ) the advertiser receives, and in fixed-billed campaigns. In addition to the aforementioned creative specifications for our redesigned site we also accommodate additional advertisement configurations including video. The new re-designed web site will also provide dynamic page reformatting to help optimize the monetization of the site. These advertisements can be targeted to specific areas of our Online Network or on a general rotation basis. In addition, we offer product specific issues that are available for single sponsorships. Rates for product special issues are based on expected impression levels and additional content requirements. Advertising rates may vary depending upon the product areas targeted (home equity has a higher CPM than auto), geo-targeting (a premium for targeting advertisements to a specific state), the quantity of advertisements purchased by an advertiser, and the length of time an advertiser runs an advertisement on our Online Network.

Financial institutions that are listed in our rate tables have the opportunity to hyperlink their listings. By clicking on the hyperlink, users are taken to the institution s web site. We typically sell our hyperlinks on a cost-per-click ( CPC ) pricing model. Under this arrangement, advertisers pay Bankrate a specific, pre-determined cost each time a consumer clicks on that advertiser s hyperlink or phone icon (usually found under the advertiser s name in the rate table listings). All clicks are screened for fraudulent characteristics by an independent third party vendor and then charged to the advertiser s account.

We also generate revenue through the sale of leads in the mortgage, credit card and insurance channels. Through Bankrate Select and FastFind, Nationwide Card Services, CreditCardGuide.com and InsureMe, we sell leads to mortgage lenders and brokers, to credit card issuers, and to insurance agents, respectively. In the mortgage and insurance categories, we receive revenue on a cost-per-lead ( CPL ) basis, while credit card issuers pay us on a per approved application basis. Leads are generated through the various affiliate networks, via co-brands, and through display advertisements.

Although graphic advertisements, hyperlink listings, and lead generation represented approximately 95% and 94%, respectively, of our revenue for the year ended December 31, 2008 and the six months ended June 30, 2009, we also derive revenue through the sale of print advertisements and the distribution (or syndication) of our editorial content.

The key drivers of our business include the content we produce, the number of in-market consumers visiting our Online Network, the number of page views they generate, and the demand of our Online Network advertisers. Since 2001 and through mid-2008,



**Table of Contents**

the number of advertisers on our web sites has grown steadily. Through the six months ended June 30, 2009, the number of advertisers has declined by approximately 30% due to the factors discussed in Our 2009 Outlook below. Annual unique visitors and page views have grown from approximately 40 million and 237 million, respectively, in 2001, to almost 72 million and 687 million, respectively, in 2008. Page views for the three and six months ended June 30, 2009 were 128.4 million and 327.8 million, respectively, representing declines of 13% and 10%, due primarily to the factors discussed below in Our 2009 Outlook, and a planned reduction in page views of between approximately 15% and 20% related to our web site re-design launched April 1, 2009.

Our gross margin as a percentage of revenue averaged 75% from 2002 to 2005. Our gross margin percentage decreased for the year ended December 31, 2006 to 69%, due to the inclusion of the results of FastFind, MMIS and Interest.com, which we acquired in the fourth quarter of 2005, and increased to 73% for the year ended December 31, 2007. The newspaper rate table business gross margin percentage averaged 11% for 2007 and 2006, declined to 7% for the year ended December 31, 2008 and the six months ended June 30, 2009. As revenue from our Online Network continued to grow as a percentage of total revenue, our overall gross margin percentage expanded. Through the end of 2007, revenue from our Online Network represented 88% of total revenue and 98% of gross margin dollars, compared to 80% of total revenue and 97% of gross margin dollars for the year ended December 31, 2006. For the year ended December 31, 2008 and the six months ended June 30, 2009, revenue from our Online Network represented 95% and 94%, respectively, of total revenue and 99% of gross margin dollars. With the addition of Nationwide Card Services ( NCS ), and InsureMe, Inc. ( InsureMe ), whose affiliate driven business models operate at significantly lower gross margins than our graphic ads and lead generation, and hyperlink businesses, our gross margin declined to 60% for the year ended December 31, 2008 and remained at 60% through the six months ended June 30, 2009. If we can drive Bankrate traffic to NCS and InsureMe through our advertising efforts, our content sharing and other products, we believe we can improve gross margins. As we further integrate the CreditCardGuide.com and Bankaholic acquisitions we can expect further margin improvement if we can reduce affiliate and revenue sharing expenses. However, the current market turmoil and tightening of credit have led to an increased level of consumer and commercial delinquencies, lack of consumer confidence, increased market volatility and widespread reduction of business activity generally. The resulting economic pressure on consumers and lack of confidence in the financial markets has, in some cases, adversely affected the financial services industry. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on our advertisers and our online visitors, which would continue to have a negative impact on our revenues and gross margins.

We expect revenue from our Online Network to command a larger percentage of revenue in the future while *Mortgage* and *CD & Deposit Guide* and other revenue remains flat or decreases.

We have generally reduced operating expenses as a percentage of total revenue from 58% in 2002 to 41% in 2008. This percentage was higher in the second quarter of 2009 due to the decline in online revenue. We continue to generate cash from operations. Our cash balance was \$55.1 million as of June 30, 2009 after spending an aggregate of approximately \$155.8 million for acquisitions in the fourth quarter of 2007 and first and third quarters of 2008.

(In thousands)	Q2 09	Q1 09	Q4 08	Q3 08	Q2 08	Q1 08	2007	2006	2005
Total revenue	\$ 31,027	\$ 38,337	\$ 40,166	\$ 44,033	\$ 40,193	\$ 42,463	\$ 95,592	\$ 79,650	\$ 49,049
Operating expenses	14,797	15,224	17,384	16,607	16,038	15,195	42,099	40,749	21,993
Operating expenses as a									
percentage of total revenue	48%	40%	43%	38%	40%	36%	44%	51%	45%

**Our 2009 Outlook**

The global and U.S. economies are experiencing significantly reduced business activity as a result of, among other factors, disruptions in the financial system in the past year, and that trend appears to continue into 2009. Dramatic declines in the housing market during the past year, with falling home prices and increasing foreclosures and unemployment, have resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities and major commercial and investment banks. These write-downs, initially of mortgage-backed securities but spreading to credit default swaps and other derivative securities have caused many financial institutions to seek additional capital, to merge with larger and stronger institutions and, in some cases, to fail.

Current market turmoil and tightening of credit have led to an increased level of consumer and commercial delinquencies, lack of consumer confidence, increased market volatility and widespread reduction of business activity generally. The resulting economic pressure on consumers and lack of confidence in the financial markets has, in many cases, adversely affected the financial services industry, and has impacted our revenues and profitability. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on our advertisers and our online users, which may have a negative impact on our revenues and profitability in a variety of ways, including but not limited to the following:





## **Table of Contents**

Consolidation of our advertisers can impact our revenues due to the tiered pricing structure of most advertising agreements, which typically offer lower pricing as higher business volumes are achieved.

Consolidation of and the financial challenges confronting our advertisers can increase the bargaining power of our advertisers during new and renewal contract negotiations which may lower our net revenues.

Our advertisers may decrease advertising, thereby reducing our net revenues.

Tightening of credit availability can impact our revenues by limiting the need to advertise for loan and deposit products. With the backdrop of the severe global economic crisis, in 2009, we are focusing on:

Integrating our recent acquisitions to maximize synergies and efficiencies.

Optimizing the revenue of our cost per thousand impressions ( CPMs ) and cost per clicks ( CPCs ) on our Online Network including the integration of the new acquisitions.

Completing the successful launch and integration of our web site re-design.

Enhancing search engine marketing and keyword buying to drive targeted impressions into our Online Network.

Expanding our co-brand and affiliate footprint.

Increasing advertising for our *Deposit Guide* rate tables.

Broadening the breadth and depth of the personal finance content and products that we offer on our Online Network.

Containing our costs and expenses.

## **CRITICAL ACCOUNTING POLICIES**

### **Critical Accounting Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent gains and losses at the date of the financial statements and the reported amounts of revenue and expenses during the period. We base our judgments, estimates and assumptions on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual results could differ materially from these estimates under different assumptions or conditions. We evaluate our judgments, estimates and assumptions on a regular basis and make changes accordingly. There have been no significant changes in our critical accounting policies or estimates during the six months ended June 30, 2009 as compared to the critical accounting policies and estimates disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2008.

**Recent Accounting Pronouncements**

See Note 1 in Notes to Condensed Consolidated Financial Statements.

**RESULTS OF OPERATIONS**

The following is our analysis of the results of operations for the periods covered by our financial statements. This analysis should be read in conjunction with our interim condensed consolidated financial statements, including the related notes thereto.

**Table of Contents****Results of Operations****Revenue****Total Revenue**

<i>(In thousands)</i>	<b>Q2 09</b>	<b>Q1 09</b>	<b>Q4 08</b>	<b>Q3 08</b>	<b>Q2 08</b>	<b>Q1 08</b>
Graphic ads and lead generation	\$ 20,866	\$ 25,415	\$ 25,330	\$ 27,838	\$ 27,139	\$ 26,445
Hyperlinks	8,156	11,039	12,958	14,108	10,675	13,560
<i>Mortgage and CD &amp; Deposit Guides</i> and other	2,005	1,883	1,878	2,087	2,379	2,458
	\$ 31,027	\$ 38,337	\$ 40,166	\$ 44,033	\$ 40,193	\$ 42,463

We sell graphic advertisements on our Online Network consisting primarily of leaderboards, banners, badges, islands, posters, and skyscraper advertisements. These advertisements are typically sold to advertisers according to the cost-per-thousand impressions ( CPM ) or cost-per-lead ( CPL ) the advertiser receives, and in fixed-billed campaigns. The amount of advertising we sell is a function of (1) the number of visitors to our Online Network, (2) the number of ad pages we serve to those visitors, (3) the click through rate of our visitors on hyperlinks, (4) the number of advertisements per page, (5) the rate at which consumers apply for financial product offerings, and (6) advertiser demand. Advertising sales are invoiced monthly at amounts based on specific contract terms. When the number of impressions over the contract term is guaranteed, the monthly invoiced amount is based on the monthly contractual number of impressions delivered at the contractual price or CPM. Revenue is recognized monthly based on the actual number of impressions delivered, and the revenue corresponding to any under-delivery is deferred as unearned income on the balance sheet and is recognized later when the under-delivery is served. When the number of impressions over the contract term is not guaranteed, the monthly invoiced amount is determined and revenue is recognized based on the actual number of impressions delivered at the contractual price or CPM.

We also recognize revenue based on the actual number of leads generated in the month the lead is approved. Additionally, we generate revenue on a per action basis (i.e., a purchase or completion of an application) when a visitor to our Online Network transacts with one of our advertisers after viewing an advertisement. Revenue is recognized monthly based on the number of actions reported by the advertiser, subject to our verification.

We are involved in revenue sharing arrangements with our online partners where the consumer uses co-branded sites hosted by us. Revenue is effectively allocated to each partner based on the total revenue earned by us from each site. The allocated revenue is shared according to distribution agreements. Revenue is recorded at gross amounts and partnership payments are recorded in cost of revenue, pursuant to the provisions of Emerging Issues Task Force ( EITF ) Issue No. 99-19, Reporting Revenue Gross as a Principal versus Net as an Agent.

We sell hyperlinks (interest rate table listings) on our Online Network on a cost-per-click, or CPC basis. Advertisers pay us each time a visitor to our Online Network clicks on a rate table listing, net of invalid clicks. We also sell text links on our rate pages to advertisers on a CPC basis. Advertisers enter an auction bidding process on a third-party web site for placement of their text link based on the amount they are willing to pay for each click through to their web site. We recognize revenue monthly for each text link based on the number of clicks at the CPC amount contracted for during the auction bidding process.

*Mortgage and CD & Deposit Guide* and other revenue represents advertising revenue from the sale of advertising in the *Mortgage Guide* and *CD & Deposit Guide* (formerly called *Consumer Mortgage Guide*) rate tables, newsletter subscriptions, and licensing of research information. We charge a commission for placement of the *Mortgage Guide* and *CD & Deposit Guides* in a print publication. Advertising revenue and commission income is recognized when the *Mortgage Guide* and *CD & Deposit Guides* run in the publication. Revenue from our newsletters is recognized ratably over the period of the subscription, which is generally up to one year. Revenue from the sale of research information is recognized ratably over the contract period. We also earn fees from distributing editorial rate tables that are published in newspapers and magazines across the United States, from paid subscriptions to three newsletters, and from providing rate surveys to institutions and government agencies. In addition, we license research data under agreements that permit the use of rate information we develop to advertise the licensee's products in print, radio, television and web site promotions. Revenue for these products is recognized ratably over the contract/subscription periods.



---

**Table of Contents**

Total revenue of \$31,027,000 for the three months ended June 30, 2009 was approximately \$9,166,000, or 23%, lower than the \$40,193,000 reported for the same period in 2008. This decrease was due to a \$6,272,000, or 23%, decline in graphic ad and lead generation revenue, a \$2,519,000, or 24%, decrease in hyperlink revenue, and a \$375,000, or 16%, decline in *Mortgage* and *CD & Deposit Guide* and other revenue.

Page views for the quarter ended June 30, 2009 were 128.4 million and were 19.5 million, or 13%, lower than the 147.9 million reported in the same period in 2008.

The 23% decline in graphic ad and lead generation revenue during the quarter ended June 30, 2009 compared to the quarter ended June 30, 2008 was driven by a decrease in advertiser demand for graphic advertising; a decrease in our Bankrate *Select* lead generation revenue due to the loss of a significant partner; and a decline in our credit card business; all of which we believe are consequences of the global problems in the banking and financial sectors. These declines were partially offset by growth in our insurance lead generation business.

Hyperlink revenue for the quarter ended June 30, 2009 of \$8,156,000 was \$2,519,000, or 24%, lower than the \$10,675,000 reported in the second quarter of 2008 due primarily to a 34% decline in the number of clicks processed (lower page views and lower click rates).

*Mortgage* and *CD & Deposit Guide* and other revenue for the quarter ended June 30, 2009 was down \$375,000, or 16%, compared to the same period in 2008, primarily due to a \$349,000, or 15%, decline in *Mortgage* and *CD & Deposit Guide* revenue due to lower advertising demand in 2009 compared to 2008, and lower editorial sales revenue. We expect quarterly *Mortgage* and *CD & Deposit Guide* revenue to remain flat or possibly decline for the remainder of 2009.

Total revenue of \$69,364,000 for the six months ended June 30, 2009 was approximately \$13,292,000, or 16%, lower than the \$82,656,000 reported for the same period in 2008. This decrease was due to a \$7,302,000, or 14%, decline in graphic ad and lead generation revenue, a \$5,040,000, or 21%, decrease in hyperlink revenue, and a \$950,000, or 20%, decline in *Mortgage* and *CD & Deposit Guide* and other revenue.

Page views for the six months ended June 30, 2009 were 327.9 million and were 34.4 million, or 10%, lower than the 362.3 million reported in the same period in 2008.

The 14% decline in graphic ad and lead generation revenue during the six months ended June 30, 2009 compared to the same period in 2008 was driven by a decrease in advertiser demand for graphic advertising; a decrease in our Bankrate *Select* lead generation revenue due to the loss of a significant partner; and a decline in our credit card business; all of which we believe are consequences of the global problems in the banking and financial sectors. These declines were partially offset by growth in our insurance lead generation business.

Hyperlink revenue for the six months ended June 30, 2009 of \$19,195,000 was \$5,040,000, or 21%, lower than the \$24,235,000 reported in the second quarter of 2008 due primarily to a 34% decline in the number of clicks processed (lower page views and lower click rates).

*Mortgage* and *CD & Deposit Guide* and other revenue for the first half of 2009 was down \$950,000, or 20%, compared to the same period in 2008, primarily due to a \$912,000, or 20%, decline in *Mortgage* and *CD & Deposit Guide* revenue due to lower advertising demand in 2009 compared to 2008, and lower editorial sales revenue.

The majority of our advertising customers purchase advertising under short-term contracts. Revenue from our Online Network would be adversely impacted if we experienced contract terminations, or if we were not able to renew contracts with existing customers or obtain new customers. The market for Internet advertising is intensely competitive and has, in the past, experienced downturns in demand that could adversely impact advertising rates. Future revenue would be further adversely affected if advertising demand declined and we were forced to reduce our advertising rates or if we were to experience lower CPMs.

In terms of page views, we believe our online business' s quarterly page view volumes will continue to be relatively consistent quarter to quarter with the exception of the fourth quarter where we typically experience lower traffic volume due to the holiday season. The first quarter of 2008 was atypically high in page view volume due to favorable mortgage interest rates and re-finance activity. Page views in the first and second quarters of 2009 were 7% and 13%, respectively, lower than the comparable quarters in 2008. Contributing to these declines were the factors discussed in Our 2009 Outlook above, and a planned decline of between approximately 15% and 20% related to our web site re-design launched on April 1, 2009.

**Table of Contents****Page Views***(In millions)*

	2009	2008	2007	2006	2005	2004
<b>Q1</b>	199.5	214.4	143.2	124.2	111.0	117.2
<b>Q2</b>	128.4	147.9	136.1	116.0	113.8	92.6
<b>Q3</b>		160.1	144.2	126.6	107.8	92.0
<b>Q4</b>		164.7	131.0	120.6	97.6	91.3
<b>Year</b>		687.1	554.5	487.4	430.2	393.1

**Cost of Revenue**

Cost of revenue represents expenses directly associated with the creation of revenue. These costs include contractual revenue sharing obligations resulting from our distribution arrangements (distribution payments), salaries, editorial costs, market analysis and research costs, share-based compensation expense, and allocated overhead. Distribution payments are made to web site operators for visitors directed to our Online Network as well as to affiliates for leads directed to our Online Network. These costs increase proportionately with gains related to revenue from our Online Network. Editorial costs relate to writers and editors who create original content for our online publications and associates who build web pages. These costs have increased as we have added online publications and co-branded versions of Bankrate.com under distribution arrangements. These sites must be maintained on a daily basis. Research costs include expenses related to gathering data on banking and credit products and consist primarily of compensation and benefits and allocated overhead.

Cost of revenue also includes expenses associated with *Mortgage* and *CD & Deposit Guide* and other revenue. These costs include contractual revenue sharing obligations with newspapers related to the *Mortgage Guide* and *CD & Deposit Guide*, compensation and benefits, printing, share-based compensation expense, and allocated overhead, and exclude depreciation and amortization. These costs typically vary proportionately with the related revenue.

**Gross Margin**

<i>(In thousands)</i>	Q2 09	Q1 09	Q4 08	Q3 08	Q2 08	Q1 08
Total revenue	\$ 31,027	\$ 38,337	\$ 40,166	\$ 44,033	\$ 40,193	\$ 42,463
Cost of revenue	12,907	14,995	15,044	17,286	17,359	16,406
<b>Gross margin</b>	<b>\$ 18,120</b>	<b>\$ 23,342</b>	<b>\$ 25,122</b>	<b>\$ 26,747</b>	<b>\$ 22,834</b>	<b>\$ 26,057</b>

Gross margin as a percentage of revenue

	58%	61%	63%	61%	57%	61%
--	-----	-----	-----	-----	-----	-----

Cost of revenue for the three months ended June 30, 2009 was \$4,453,000, or 26%, lower than in the same period in 2008. This decline is due to the following: a \$3,390,000 decrease in affiliate lead generated payments in our credit card business which relates directly to the decline in credit card revenue; a \$598,000 decline in online revenue sharing payments to our distribution partners in line with the decline in graphic ad and CPC revenue; a \$598,000 decrease in Internet hosting, phones and other infrastructure costs; a \$320,000 decline in *Mortgage* and *CD & Deposit Guide* revenue sharing payments; and a \$267,000 decrease in share-based compensation expense. These decreases were offset by a \$720,000 increase in costs related to our insurance lead generation business, primarily affiliate lead generated payments, consistent with higher revenue volumes.

Cost of revenue for the first half of 2009 was \$5,864,000, or 17%, lower than in the same period in 2008. This decline is due to the following: a \$6,234,000 decrease in affiliate lead generated payments in our credit card business which relates directly to the decline in credit card revenue; a \$1,420,000 decline in online revenue sharing payments to our distribution partners in line with the decline in graphic ad and CPC revenue; a \$1,546,000 decrease in Internet hosting, phones and other infrastructure costs; a \$796,000 decline in *Mortgage* and *CD & Deposit Guide* revenue sharing payments; and a \$497,000 decrease in share-based compensation expense. These decreases were offset by a \$4,629,000 increase in costs related to our insurance lead generation business, primarily affiliate lead generated payments, consistent with higher revenue volumes.





---

## **Table of Contents**

### **Operating Expenses**

#### ***Sales***

Sales costs represent direct selling expenses, principally for online advertising, and include compensation and benefits, sales commissions, allocated overhead, and share-based compensation expense.

Sales costs for the three months ended June 30, 2009 were \$2,187,000, and were \$20,000, or 1%, lower than the comparable amount reported in the second quarter of 2008. The decrease is due primarily to \$53,000 higher commissions, offset by \$72,000 lower infrastructure and other costs.

Sales costs for the six months ended June 30, 2009 were \$4,621,000, and were \$336,000, or 8%, higher than the comparable amount reported in the second quarter of 2008. The increase is due primarily to \$201,000 net higher payroll and other infrastructure costs; \$92,000 higher share-based compensation expense; and \$43,000 higher commissions.

#### ***Marketing***

Marketing costs represent expenses associated with expanding brand awareness of our products and services to consumers and include key word (pay-per-performance) campaigns on Internet search engines, print and Internet advertising, marketing and promotion costs, and share-based compensation expense.

Marketing costs for the three months ended June 30, 2009 were \$2,170,000 and were \$945,000, or 30%, lower than the comparable amount reported in the same period in 2008 due to the following: we spent \$671,000 less, as planned, during the quarter on keyword campaigns to drive traffic to our Online Network compared to the same period in 2008 as more traffic continues to reach our Online Network from unpaid sources, and we continue to improve our efficiencies in monetizing that traffic; \$83,000 lower annual partner conference expenses; \$79,000 lower media production costs; \$52,000 lower web analytics costs; \$52,000 lower share-based compensation expense; and \$8,000 lower other infrastructure costs.

Marketing costs for the six months ended June 30, 2009 were \$4,647,000 and were \$1,296,000, or 22%, lower than the comparable amount reported in the same period in 2008 due to the following: we spent \$1,057,000 less, as planned, during the quarter on keyword campaigns to drive traffic to our Online Network compared to the same period in 2008 as more traffic continues to reach our Online Network from unpaid sources, and we continue to improve our efficiencies in monetizing that traffic; \$83,000 lower annual partner conference expenses; \$181,000 lower media production costs; \$70,000 lower web analytics costs; \$71,000 lower share-based compensation expense; offset by \$89,000 higher market research costs and \$77,000 other infrastructure costs.

#### ***Product Development***

Product development costs represent compensation and benefits related to site development, network systems and telecommunications infrastructure support, programming, new product design and development, other technology costs and share-based compensation expense.

Product development costs for the three months ended June 30, 2009 were \$53,000, or 3%, lower than the comparable amount reported in the first quarter of 2008 due primarily to \$112,000 lower share-based compensation expense; and \$59,000 lower other infrastructure costs; offset by \$80,000 higher web analytics costs; and \$38,000 higher consulting costs.

Product development costs for the first half of 2009 were \$63,000, or 2%, higher than the comparable amount reported in the second quarter of 2008 due primarily to \$144,000 higher web analytics costs; and \$44,000 higher consulting expenses; offset by \$146,000 lower share-based compensation expense; and \$21,000 higher other infrastructure costs.

#### ***General and Administrative***

General and administrative expenses represent compensation and benefits for executive, finance and administrative personnel, professional fees, non-allocated overhead, other general corporate expenses and share-based compensation expense. In the second quarter of 2009, these costs were \$1,321,000, or 20% lower than the comparable amount reported in



**Table of Contents**

the second quarter of 2008 due primarily to an \$832,000 lower incentive compensation plan expense; and \$557,000 lower share-based compensation expense; offset by \$67,000 net higher other costs and infrastructure expenses.

General and administrative expenses in the first half of 2009 were \$2,598,000, or 19%, lower than the amount reported in the first half of 2008 due primarily to \$1,764,000 lower share-based compensation expense (\$919,000 reversed in the first quarter for terminated employees whose stock options had not vested); an \$867,000 lower incentive compensation plan expense; and \$424,000 lower bad debt expense; offset by \$247,000 higher payroll costs and net \$210,000 higher other infrastructure costs.

**Depreciation and Amortization**

Depreciation and amortization expense represents the cost of capital asset acquisitions spread over their expected useful lives. These expenses are spread over three to seven years and are calculated on a straight-line basis. Depreciation and amortization also includes the amortization of intangible assets, consisting primarily of trademarks and URLs, software licenses, customer relationships, agent/vendor relationships, developed technologies and non-compete agreements, all of which were either acquired separately or as part of business combinations recorded under the purchase method of accounting. Intangible assets are being amortized over their estimated useful lives ranging from 2 years to 20 years, on a straight-line basis.

Depreciation and amortization expense for the three and six months ended June 30, 2009 was \$1,098,000, or 49%, and \$2,284,000, or 57%, higher, respectively, than the amounts reported in the comparable periods in 2008 mainly due to \$664,000 and \$1,863,000, respectively, higher amortization of intangible assets related to our first and third quarter 2008 acquisitions and \$384,000 additional depreciation expense in the second quarter of 2009 related to capitalized web site development costs.

**Interest Income**

Interest income consists of income generated from invested cash and cash equivalents. Interest income for the three and six months ended June 30, 2009 was lower than the amounts reported in the comparable periods in 2008 due to declines in interest rates and lower cash balances during the periods due to the cash payments made for our third quarter 2008 acquisitions.

**LIQUIDITY AND CAPITAL RESOURCES**

<i>(In thousands)</i>	June 30, 2009	December 31, 2008	Change
Cash, cash equivalents and short-term investments	\$ 55,089	\$ 46,055	\$ 9,034
Working capital	64,378	48,874	15,504
Stockholders' equity	259,252	248,430	10,822

Our principal ongoing source of operating liquidity is the cash generated by our business operations. We consider all highly liquid debt investments purchased with an original maturity of less than three months to be cash equivalents. The carrying value of these investments approximates fair value. As of June 30, 2009, we were not invested in any investment grade auction rate securities.

As of June 30, 2009, we had working capital of \$64.4 million and our primary commitments were approximately \$8.6 million in operating lease payments over the next ten years, and capital expenditures and recurring payables and accruals arising during the course of operating our business, estimated at approximately \$9.4 million through June 30, 2010. We generally establish payment terms with our vendors that extend beyond the amount of time required to collect from our customers. As discussed in Note 1 of Notes to Condensed Consolidated Financial Statements, we acquired the assets of four companies in 2008 and two companies in 2007 for which we made immediate cash payments of approximately \$144.1 million. In addition, there are potential remaining cash earn-out payments of over \$28.0 million in the aggregate through December 31, 2010 based on the businesses acquired achieving certain financial performance metrics. In February and April 2009, we paid cash acquisition earn-outs of \$10 million and \$1.75 million to InsureMe and NCS, respectively, all of which was accrued for as of December 31, 2008.

**Table of Contents**

We assess acquisition opportunities as they arise. Financing may be required if we decide to make additional acquisitions, or if we are required to make all of the potential cash earn-out payments to which the former owners of our acquired businesses may be entitled. There can be no assurance, however, that any such opportunities may arise, or that any such acquisitions may be consummated. Additional financing may not be available on satisfactory terms when required.

**Stock Repurchase Plan**

In April 2008, our board of directors approved a stock repurchase plan (the Repurchase Plan). According to the terms of the Repurchase Plan, we may repurchase up to \$50 million of our outstanding common stock. Stock repurchases under the Repurchase Plan may be made through open market and privately negotiated transactions at times and in such amounts as management deems appropriate and will be funded using our working capital. The timing and amount of specific repurchases are subject to the requirements of the Securities and Exchange Commission, market conditions, alternative uses of capital and other factors. The Repurchase Plan does not obligate us to acquire any particular amount of shares and the Repurchase Plan may be limited or terminated at any time without prior notice. Shares of stock repurchased under the Repurchase Plan will be cancelled. As of June 30, 2009, 205,000 shares were purchased for an average price of \$24.94 under the Repurchase Plan and were subsequently cancelled. No shares were repurchased during the quarter ended June 30, 2009.

**Contractual Obligations**

The following table represents the amounts due under the specified types of contractual obligations as of June 30, 2009.

<i>(In thousands)</i>	Payments Due				
	Total	Less than One Year	One to Three Years	Three to Five Years	More than Five Years
Operating lease obligations (1)	\$ 8,049	\$ 1,309	\$ 2,449	\$ 2,060	\$ 2,231
Purchase obligations (2)	599	496	103		
	\$ 8,648	\$ 1,805	\$ 2,552	\$ 2,060	\$ 2,231

(1) Includes our obligations under existing operating leases.

(2) Represents base contract amounts for Internet hosting, co-location, content distribution and other infrastructure costs. During the six months ended June 30, 2009, we generated \$23.0 million of net cash from operating activities. Our net income of \$6.6 million was adjusted for the impact of depreciation and amortization of \$6.3 million; share-based compensation expense of \$4.8 million; bad debt expense of \$63,000; excess tax benefits from share-based compensation of \$136,000; a loss on disposal of assets of \$7,000; and a net positive change in the components of operating assets and liabilities of \$5.3 million. Of this positive change in operating assets and liabilities, \$7.3 million resulted from a decrease in accounts receivable; \$95,000 resulted from an increase in prepaid expenses and other assets; \$2.0 million resulted from an increase in accounts payable and accrued expenses; and a \$71,000 decrease in deferred revenue and other liabilities.

Cash used in investing activities includes a \$10 million acquisition earn-out payment to InsureMe, and a \$1.75 million acquisition earn-out payment to NCS; and \$1.6 million in purchases of furniture, fixtures, equipment and capitalized web site development costs.

Cash used in financing activities includes \$729,000 in cash used to repurchase 40,000 shares of our common stock, and \$136,000 excess tax benefits from share-based compensation.

Our existing cash and cash equivalents may decline in the event of further weakening of the economy or changes in our planned cash outlay. However, based on our current business plan and revenue prospects, we believe that our existing balances together with our anticipated cash flows from operations will be sufficient to meet our working capital and operating resource expenditure requirements for the next twelve months. Also, assuming the transaction described in Significant Development above closes, we should have access to capital as needed.



## **Table of Contents**

### **OFF-BALANCE SHEET ARRANGEMENTS**

Off-balance sheet arrangements include the following four categories: obligations under certain guarantees or contracts; retained or contingent interests in assets transferred to an unconsolidated entity or similar arrangements; obligations under certain derivative arrangements; and obligations under material variable interests.

We have not entered into any material arrangements which would fall under any of these four categories and which would be reasonably likely to have a current or future material effect on our results of operations, liquidity or financial condition.

### **Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

#### **Interest Rate Risk**

The primary objective of our investment strategy is to preserve principal while maximizing the income we receive from investments without significantly increasing risk. To minimize this risk, to date we have maintained our portfolio of cash equivalents in short-term and overnight investments that are not subject to market risk, as the interest paid on such investments fluctuates with the prevailing interest rates. As of June 30, 2009, all of our cash equivalents mature in less than three months.

#### **Exchange Rate Sensitivity**

Our exposure to foreign currency exchange rate fluctuations is minimal to none as we do not have any material revenues denominated in foreign currencies. Additionally, we have not engaged in any derivative or hedging transactions to date.

### **Item 4. CONTROLS AND PROCEDURES**

#### **Disclosure Controls and Procedures**

As of June 30, 2009, our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e)) under the Securities Exchange Act of 1934, as amended. Based on that evaluation our management, including the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective.

Management, including our Chief Executive Officer and Chief Financial Officer, does not expect our disclosure controls and procedures will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

#### **Changes in Internal Control over Financial Reporting**

Our management, including the Chief Executive Officer and Chief Financial Officer, has reviewed our internal control. There have been no changes in our internal control over financial reporting during the quarter ended June 30, 2009, nor subsequent to the date of their evaluation, that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

## **Part II OTHER INFORMATION**

### **Item 1. LEGAL PROCEEDINGS**

Several class action lawsuits have been filed in connection with the proposed merger with Apax. See Note 4 Commitments and Contingencies in the Condensed Consolidated Financial Statements for litigation and regulatory disclosure that supplements the disclosure in our 2008 Annual

Report on Form 10-K.

---

**Table of Contents**

**Item 1A. RISK FACTORS**

In addition to the other information set forth in this Quarterly Report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our 2008 Form 10-K, as updated in our subsequent quarterly reports. The risks described in the our 2008 Form 10-K are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results. There have been no material changes in our risk factors from those disclosed in our 2008 Form 10-K, except for the following.

***The Market Price of our Common Stock Has Been, and May Continue to Be, Materially Affected by the Proposed Tender Offer***

The current market price of our common stock may reflect, among other things, the anticipated commencement and completion of the Offer. The current market price is higher than the price before the proposed Offer was announced on July 28, 2009. To the extent that the current market price of our common stock reflects market assumptions that the proposed Offer will be completed, it is possible that the price of our common stock could decline if these market assumptions are not realized. However, there can be no assurance in this regard or as to any other forward-looking statements or matters relating to our stock price or otherwise, which are subject to numerous uncertainties and matters beyond the control of the Company, including the closing conditions set forth in the Merger Agreement. In addition, please note that the Company has published a Solicitation/ Recommendation Statement on Schedule 14D-9 in accordance with the requirements of the Securities Exchange Act of 1934 and filed such Schedule 14D-9 with the Securities and Exchange Commission, which contains the recommendation of the board of directors of the Company with respect to the Offer. The statements in this report are not a solicitation or recommendation of the Company to its shareholders in connection with the proposed Offer, and shareholders should carefully review the Solicitation/Recommendation Statement before making any decision as to the Offer.

We may also be subject to additional risks, whether or not the Offer is commenced or completed, including:

our management having spent a significant amount of their time and efforts directed toward the proposed Offer, which time and efforts otherwise would have been spent on our business and other opportunities that could have been beneficial to us;

costs relating to the proposed Offer, such as legal, financial, and accounting fees, much of which must be paid regardless of whether the proposed Offer is completed;

uncertainties relating to the proposed Offer may adversely affect our relationships with our employees, online partners, advertisers and other key constituencies; and

the outcome of the pending litigation that has been instituted against us, or new litigation that may be instituted against us, our board of directors and others relating to the proposed Offer or any settlement of such litigation or judicial actions.

Accordingly, investors should not place undue reliance on the occurrence of the proposed Offer. The realization of any of these risks may materially adversely affect our business, financial condition, results of operations or the market price of our common stock.

***Uncertainties Associated with the Proposed Offer May Cause a Loss of Employees and May Otherwise Materially Adversely Affect our Business Operations.***

Our future results of operations will depend in part upon our ability to retain existing highly skilled and qualified employees and to attract new employees. The failure to continue to attract and retain such individuals could materially adversely affect our ability to compete. In addition, current and prospective employees may experience uncertainty about their roles if the proposed Offer is commenced and completed. This uncertainty may materially adversely affect our ability to attract and retain key management, sales, marketing, and other personnel. An inability to retain key personnel could have an adverse effect on our ability to operate the business as a stand-alone enterprise in the event the proposed Offer is not consummated.

In connection with the proposed Offer, some of our vendors, advertisers and strategic partners may delay or defer decisions relating to their ongoing and future relationships with us, which could negatively affect our revenues, earnings and cash flows and adversely affect our prospects and which could be detrimental to our stockholders if the Offer is not completed.





**Table of Contents**

*The Merger Agreement contains restrictive covenants that may limit our ability to respond to changes in market conditions or pursue business opportunities.*

The Merger Agreement contains restrictive covenants that limit our ability to take certain significant actions during the period prior to the completion of the proposed Offer. Although the Merger Agreement provides that BEN Holdings, Inc., the parent of BEN Merger Sub, Inc., will not unreasonably withhold its consent to us taking otherwise prohibited actions, there can be no assurances that BEN Holdings, Inc. will grant such consent. These restrictions may materially adversely affect our ability to react to changes in market conditions, take advantage of business opportunities, obtain future financing, fund needed capital expenditures, or finance equipment purchases, any of which could have a material and adverse effect on the prospects of our business, which could be detrimental to our stockholders in the event the Offer and subsequent merger are not completed.

*In certain circumstances, the Merger Agreement requires us to pay BEN Holdings, Inc. a termination fee of \$30 million or to reimburse up to \$3 million of expenses of BEN Holdings, Inc. and its affiliates.*

Under the Merger Agreement, we may be required to pay to BEN Holdings, Inc. a termination fee of \$30 million or to reimburse up to \$3 million of expenses incurred by BEN Holdings, Inc. and its affiliates in connection with the transactions contemplated by the Merger Agreement if the Merger Agreement is terminated under certain circumstances. Should the Merger Agreement be terminated in circumstances under which the termination fee or such expense reimbursement are payable, the payment could have material and adverse consequences to our financial condition and operations after such time.

**Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

**Item 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

The Company held its annual meeting of stockholders on June 17, 2009. At the meeting, the stockholders elected Robert O Block (14,845,189 affirmative votes and 972,633 votes withheld) and Randall E. Poliner (15,663,854 affirmative votes and 153,968 votes withheld) to the Company's Board of Directors. The stockholders also ratified the appointment of Grant Thornton LLP to serve as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2009 (15,809,788 affirmative votes; 3,263 votes against; and 4,771 votes abstained).

---

**Table of Contents**

**Item 5. OTHER INFORMATION**

None.

**Item 6. EXHIBITS**

(a) Exhibits

- 2.1 Agreement and Plan of Merger, dated as of July 22, 2009, among Ben Holdings, Inc., Ben Merger Sub, Inc., and Bankrate, Inc. incorporated herein by reference to Exhibit 2.1 of the Registrant's Form 8-K/A (filed July 23, 2009) (No. 0-25681).
- 2.2 Equity Commitment Letter of Apax US VII, L.P., Apax Europe VII-A, L.P., Apax Europe VII-B, L.P., and Apax Europe VII-I, L.P. and Ben Holdings, Inc. incorporated herein by reference to Exhibit 2.2 of Registrant's Form 8-K/A (filed July 23, 2009) (No. 0-25681).
- 2.3 Equity Commitment Letter of Apax US VII, L.P., Apax Europe VII-A, L.P., Apax Europe VII-B, L.P., and Apax Europe VII-I, L.P. and Ben Holdings, Inc. and Bankrate, Inc. incorporated herein by reference to Exhibit 2.3 of Registrant's Form 8-K/A (filed July 23, 2009) (No. 0-25681).
- 31.1 Certification of Thomas R. Evans, Chief Executive Officer and President of Bankrate, Inc., Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
- 31.2 Certification of Edward J. DiMaria, Senior Vice President and Chief Financial Officer of Bankrate, Inc., Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
- 32.1 Certification of Thomas R. Evans, Chief Executive Officer and President of Bankrate, Inc., Pursuant to 18 U.S.C. Section 1350.
- 32.2 Certification of Edward J. DiMaria, Senior Vice President and Chief Financial Officer of Bankrate, Inc., Pursuant to 18 U.S.C. Section 1350.
- 99.1 Form of Non-Tender and Support Agreement, dated as of July 22, 2009, by and among BEN Holdings, Inc., BEN Merger Sub, Inc., and each of Edward J. DiMaria, Daniel P. Hoogterp, Steven L. Horowitz, Michael Ricciardelli, Donaldson M. Ross and Bruce J. Zanca incorporated herein by reference to Exhibit 9.(c)(6) of Registrant's Form 14D-9 (filed July 22, 2009) (No. 0-25681).
- 99.2 Non-Tender and Support Agreement, dated as of July 22, 2009, by and among BEN Holdings, Inc., BEN Merger Sub, Inc., and Thomas R. Evans incorporated herein by reference to Exhibit 9.(c)(7) of Registrant's Form 14D-9 (filed July 22, 2009) (No. 0-25681).
- 99.3 Non-Tender and Support Agreement, dated as of July 22, 2009, by and among BEN Holdings, Inc., BEN Merger Sub, Inc., Peter Christopher Morse and the other parties named therein incorporated herein by reference to Exhibit 9.(c)(8) of Registrant's Form 14D-9 (filed July 22, 2009) (No. 0-25681).
- 99.4 Non-Tender and Support Agreement, dated as of July 22, 2009, by and among BEN Holdings, Inc., BEN Merger Sub, Inc., and Robert P. O Block incorporated herein by reference to Exhibit 9.(c)(9) of Registrant's Form 14D-9 (filed July 22, 2009) (No. 0-25681).

Filed herewith.

**SIGNATURES**

Pursuant to the requirements 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.

**Bankrate, Inc.**

Dated: August 10, 2009

By: /s/ EDWARD J. DIMARIA  
Edward J. DiMaria

Edgar Filing: BANKRATE INC - Form 10-Q

Senior Vice President and Chief Financial Officer

(Mr. DiMaria is the Principal Financial Officer and has  
been duly authorized to sign on behalf of the Registrant)