BANKRATE INC
Form 10-Q
May 08, 2009
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 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** | **65-0423422** |
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |

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

| | |
|---|---|
| **North Palm Beach, Florida** | **33408** |
| **(Address of principal executive offices)** | **(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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ 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.

| | | | |
|---|---|---|---|
| Large accelerated filer ¨ | Accelerated filer x | Non-accelerated filer ¨<br>(Do not check if smaller<br>reporting company) | Smaller reporting company ¨ |

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

The number of outstanding shares of the issuer s common stock as of April 30, 2009 was as follows: 18,782,185 shares of Common Stock, $.01 par value.

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**Bankrate, Inc.**

**Quarterly Report on Form 10-Q for the Quarter Ended March 31, 2009**

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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 si 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 Annual Report on 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:

- 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;
- 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;
- 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.

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**Part I. FINANCIAL INFORMATION**

**Item 1. FINANCIAL STATEMENTS**

**Bankrate, Inc.**

Condensed Consolidated Balance Sheets

(Unaudited)

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

| | March 31, 2009 | December 31, 2008 |
|---|---|---|
| Assets | | |
| Cash and cash equivalents | $ 47,038 | $ 46,055 |
| Accounts receivable, net of allowance for doubtful accounts of approximately $1,026 and $1,566 at March 31, 2009 and December 31, 2008, respectively | 21,023 | 22,567 |
| Deferred income taxes, current portion | 816 | 816 |
| Prepaid expenses and other current assets | 1,215 | 1,608 |
| Total current assets | 70,092 | 71,046 |
| Furniture, fixtures and equipment, net of accumulated depreciation and amortization of $5,634 and $5,302 at March 31, 2009 and December 31, 2008, respectively | 7,026 | 2,521 |
| Deferred income taxes | 7,413 | 7,413 |
| Intangible assets, net of accumulated amortization of $12,909 and $10,403 at March 31, 2009 and December 31, 2008, respectively | 80,694 | 83,347 |
| Goodwill | 101,886 | 101,856 |
| Other assets | 667 | 4,567 |
| Total assets | $ 267,778 | $ 270,750 |
| Liabilities and Stockholders Equity | | |
| Liabilities: | | |
| Accounts payable | $ 3,470 | $ 3,723 |
| Accrued expenses | 8,638 | 5,665 |
| Acquisition earn-outs payable | | 11,750 |
| Deferred revenue | 1,086 | 1,018 |
| Other current liabilities | 15 | 16 |
| Total current liabilities | 13,209 | 22,172 |
| Other liabilities | 142 | 148 |
| Total liabilities | 13,351 | 22,320 |
| Commitments and contingencies | | |
| Stockholders equity: | | |
| Preferred stock, 10,000,000 shares authorized and undesignated | | |
| Common stock, par value $.01 per share-100,000,000 shares authorized; 18,776,986 and 18,816,986 shares issued and outstanding at March 31, 2009 and December 31, 2008, respectively | 188 | 188 |
| Additional paid-in capital | 220,833 | 219,294 |
| Retained earnings | 33,406 | 28,948 |

| | | |
|---|---|---|
| Total stockholders equity | 254,427 | 248,430 |
| Total liabilities and stockholders equity | $ 267,778 | $ 270,750 |

*See accompanying notes to condensed consolidated financial statements.*

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**Bankrate, Inc.**

Condensed Consolidated Statements of Income

(Unaudited)

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

| | Three Months Ended March 31, 2009 | Three Months Ended March 31, 2008 |
|---|---|---|
| Revenue | $ 38,337 | $ 42,463 |
| Cost of revenue | 14,995 | 16,406 |
| Gross margin | 23,342 | 26,057 |
| Operating expenses: | | |
| Sales | 2,434 | 2,078 |
| Marketing | 2,477 | 2,828 |
| Product development | 1,817 | 1,702 |
| General and administrative | 5,513 | 6,790 |
| Depreciation and amortization | 2,983 | 1,797 |
| | 15,224 | 15,195 |
| Income from operations | 8,118 | 10,862 |
| Interest income | 10 | 846 |
| Income before income taxes | 8,128 | 11,708 |
| Income tax expense | 3,413 | 4,874 |
| Net income | $ 4,715 | $ 6,834 |
| Basic and diluted net income per share: | | |
| Basic | $ 0.25 | $ 0.36 |
| Diluted | $ 0.25 | $ 0.35 |
| Shares used in computing basic net income per share | 18,808,819 | 18,880,521 |
| Shares used in computing diluted net income per share | 19,203,903 | 19,607,246 |

*See accompanying notes to condensed consolidated financial statements.*

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**Bankrate, Inc.**

Condensed Consolidated Statements of Cash Flows

(Unaudited)

*(In thousands)*

| | Three Months Ended March 31, 2009 | 2008 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $ 4,715 | $ 6,834 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 2,983 | 1,797 |
| Provision for doubtful accounts receivable | 9 | 358 |
| Share-based compensation | 2,011 | 3,416 |
| Excess tax benefits from share-based compensation | | (33) |
| Changes in operating assets and liabilities, net of effects from business acquisitions: | | |
| Decrease (increase) in accounts receivable | 1,535 | (4,425) |
| Decrease in prepaid expenses and other assets | 402 | 3,531 |
| Decrease in accounts payable | (253) | (346) |
| Increase (decrease) in accrued expenses | 2,973 | (1,559) |
| (Decrease) increase in other liabilities | (7) | 246 |
| Increase in deferred revenue | 68 | 504 |
| Net cash provided by operating activities | 14,436 | 10,323 |
| Cash flows from investing activities: | | |
| Purchases of furniture, fixtures and equipment and capitalized web site development costs | (946) | (1,219) |
| Cash used in business acquisitions, net of cash acquired | (11,780) | (68,329) |
| Restricted cash | 2 | 2 |
| Net cash used in investing activities | (12,724) | (69,546) |
| Cash flows from financing activities: | | |
| Proceeds from the exercise of stock options | | 204 |
| Repurchase of Company common stock | (729) | |
| Excess tax benefits from share-based compensation | | 33 |
| Net cash (used in) provided by financing activities | (729) | 237 |
| Net increase (decrease) in cash and cash equivalents | 983 | (58,986) |
| Cash and equivalents, beginning of period | 46,055 | 125,058 |
| Cash and equivalents, end of period | $ 47,038 | $ 66,072 |
| Supplemental disclosures of noncash investing information: | | |
| Web site development costs reclassified from other assets to furniture, fixtures and equipment | $ 4,597 | $ |

*See accompanying notes to condensed consolidated financial statements.*

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**BANKRATE, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**March 31, 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 person 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 intangibles 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 months ended March 31, 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 months ended March 31, 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 compensation, useful lives of intangible assets and intangible asset impairment, goodwill impairment, acquisition accounting, and contingencies have the greatest potential impact on our financial statements, so we consider these to be our critical accounting policies. Actual results could differ from those estimates.

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***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 months ended March 31, 2009 and 2008 includes 395,083 and 726,725 shares, respectively, resulting from the dilutive effect of outstanding stock options and restricted stock awards. For the three months ended March 31, 2009 and 2008, 1,338,561 and 411,500 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 March 31, 2009 and 2008, we charged approximately $9,000 and $358,000 respectively, to bad debt expense, and wrote off (net of recoveries) approximately $549,000 and $1,016,000, 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 with two reporting units, online publishing and print publishing and licensing. 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 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 $708,000 during the first quarter of 2009. These amounts are included in furniture, fixtures and equipment in the accompanying condensed consolidated balance sheet as of March 31, 2009. Total capitalized costs will be amortized over a 36-month period beginning 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 three months ended March 31, 2009 is shown below.

| | Common Stock | | Additional Paid-in | Retained | |
|---|---|---|---|---|---|
| | Shares | Amount | Capital | Earnings | Total |
| Balances, December 31, 2008 | 18,817 | $ 188 | $ 219,294 | $ 28,948 | $ 248,430 |
| Common stock repurchased | (40) | | (472) | (257) | (729) |
| Share-based compensation | | | 2,011 | | 2,011 |
| Net income for the period | | | | 4,715 | 4,715 |
| Balances, March 31, 2009 | 18,777 | $ 188 | $ 220,833 | $ 33,406 | $ 254,427 |

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***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 is 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 has continued for the quarter ended March 31, 2009. In integrating our 2007 and 2008 acquisitions, we made certain changes in our organizational structure, 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 months ended March 31, 2009 and 2008.

***Recent Accounting Pronouncements***

With the exception of those disclosed below, there have been no recent accounting pronouncements or changes in accounting pronouncements during the three months ended March 31, 2009, as compared to the recent accounting pronouncements described in our 2008 Annual Report on Form 10-K.

In April 2009, the FASB issued FSP SFAS No. 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*. FSP SFAS 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. The disclosure requirements under this FSP are effective for our interim reporting period ending on June 30, 2009. We do not currently have any instruments eligible for these disclosures and we do not expect any impact on our consolidated financial statements upon adoption.

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In April 2008, the FASB issued FASB Staff Position FSP FAS 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 three months ended March 31, 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.

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

Share-based compensation expense for the three months ended March 31, 2009 and 2008 included approximately $714,000 and $862,000, respectively, related to the restricted stock awards. Additionally, as of March 31, 2009, there was approximately $5.1 million of unrecognized compensation costs, adjusted for estimated forfeitures, which will be recognized over a weighted average period of approximately 1.7 years, related to non-vested restricted stock awards. No restricted stock award shares were vested as of March 31, 2009.

***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 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

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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.

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-month periods ended March 31, 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 and 585,000 shares, respectively, were granted during the three months ended March 31, 2009 and 2008.

| | **Three Months Ended March 31,** | |
|---|---|---|
| | **2009** | **2008** |
| Weighted average fair value | $ 16.90 | $ 26.27 |
| Expected volatility | 57.8% | 58.5% |
| Weighted average risk free rate | 1.7% | 2.8% |
| Expected lives | 4.19 years | 5.03 years |
| Expected dividend yield | 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 months ended March 31, 2009 and 2008 is as follows:

| | **Three Months Ended March 31,** | |
|---|---|---|
| ***(In thousands)*** | **2009** | **2008** |
| **Income Statement Classifications** | | |
| **Cost of revenue** | $ 372 | $ 603 |
| **Other expenses:** | | |
| Sales | 579 | 495 |
| Marketing | 178 | 196 |
| Product development | 233 | 267 |
| General and administrative | 649 | 1,855 |
| Total | $ 2,011 | $ 3,416 |

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 March 31, 2009, there was approximately $13.6 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 2.11 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 months ended March 31, 2009 and 2008 was approximately $3.4 million and $1.5 million, respectively.

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**General Stock Option Information**

The following table sets forth the summary of option activity under our stock option plans for the three months ended March 31, 2009:

| | 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 | | | | |
| Forfeited | (212,913) | $18.44 - $53.68 | $ 53.04 | |
| Expired | | | | |
| Balance, March 31, 2009 | 2,698,197 | $0.85 - $53.68 | $ 23.63 | $ 21,055,000 |

The aggregate intrinsic value of stock options outstanding as of March 31, 2009 is calculated as the difference between the market value at March 31, 2009 ($24.95) and the exercise price of the stock options.

Additional information with respect to outstanding stock options as of March 31, 2009, was as follows:

| | Options Outstanding | | Options Exercisable | | | |
|---|---|---|---|---|---|---|
| Prices | Number of Shares | Weighted Average Remaining Contractual Term (Years) | Number of Shares | Average Exercise Price | Weighted Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value |
| $0.85 - $8.46 | 822,373 | 2.38 | 822,373 | $ 7.46 | 2.38 | |
| $10.01 to $13.32 | 409,535 | 2.49 | 409,535 | $ 10.69 | 2.49 | |
| $14.96 to $18.44 | 125,228 | 2.93 | 121,769 | 18.30 | 2.93 | |
| $26.61 to $32.75 | 381,335 | 4.58 | 195,249 | 29.53 | 4.37 | |
| $35.75 to $40.36 | 458,780 | 4.99 | 241,820 | 36.94 | 4.59 | |
| $40.42 to $53.68 | 500,946 | 5.40 | 215,143 | 44.41 | 5.04 | |
| | 2,698,197 | 3.74 | 2,005,889 | $ 18.44 | 3.18 | $ 21,032,000 |

**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.

There were no unrecognized tax benefits as of December 31, 2008, and there have been no material changes in unrecognized tax benefits through March 31, 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 March 31, 2009. We would recognize interest accrued related to 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, 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

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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 March 31, 2009, 205,000 shares were purchased for an average price of $24.94 under the Repurchase Plan and were subsequently cancelled.

*Legal Proceedings*

**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.

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 a second 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 $29.8 million in the aggregate through December 31, 2010 based on the businesses acquired achieving certain financial performance metrics.

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**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 t 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, 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, o 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.

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).

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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.

**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.

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 (728 x 90 pixels) and banners (486 x 60 pixels), which are prominently displayed at the top or bottom of a page, skyscrapers (160 x 600 or 120 x 600 pixels), islands (250 x 250 pixels), 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. Our re-designed web site accommodates 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% of our revenue for the year ended December 31, 2008, 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, the number of advertisers on our web sites has grown steadily. 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 months ended March 31, 2009 were 199.5 million, the second highest quarterly page view amount in our history behind the 214.4 million in the first quarter of 2008 which was atypically high in volume due to favorable mortgage interest rates and re-finance activity.

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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 to 5% for the quarter ended March 31, 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 three months ended March 31, 2009, revenue from our Online Network represented 95% 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 61% for the quarter ended March 31, 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 may 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 steadily reduced operating expenses as a percentage of total revenue from 58% in 2002 to 41% in 2008, and 40% for the three months ended March 31, 2009. We continue to generate cash from operations. Our cash balance was $47.0 million as of March 31, 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.

**Operating Expenses as a Percentage of Total Revenue**

| ***(In thousands)*** | **Q1 09** | **Q4 08** | **Q3 08** | **Q2 08** | **Q1 08** | **2007** | **2006** | **2005** | **2004** |
|---|---|---|---|---|---|---|---|---|---|
| Total revenue | $ 38,337 | $ 40,166 | $ 44,033 | $ 40,193 | $ 42,463 | $ 95,592 | $ 79,650 | $ 49,049 | $ 39,204 |
| Operating expenses | 15,224 | 17,384 | 16,607 | 16,038 | 15,195 | 42,099 | 40,749 | 21,993 | 21,130 |
| Operating expenses as a percentage of total revenue | 40% | 43% | 38% | 40% | 36% | 44% | 51% | 45% | 54% |

**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:

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.

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- 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 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 three months ended March 31, 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.

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**Results of Operations**

**Revenue**

**Total Revenue**

| *(In thousands)* | Q1 09 | Q4 08 | Q3 08 | Q2 08 | Q1 08 | Q4 07 | Q3 07 | Q2 07 |
|---|---|---|---|---|---|---|---|---|
| Graphic ads and lead generation | $ 25,415 | $ 25,330 | $ 27,838 | $ 27,139 | $ 26,445 | $ 12,503 | $ 11,747 | $ 12,040 |
| Hyperlinks | 11,039 | 12,958 | 14,108 | 10,675 | 13,560 | 10,276 | 9,877 | |