

Bankrate, Inc.
Form 10-Q
May 10, 2013
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2013

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission File No. 1-35206

(Exact name of registrant as specified in its charter)

Edgar Filing: Bankrate, Inc. - Form 10-Q

Delaware
(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.

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of outstanding shares of the issuer's common stock as of April 22, 2013 was as follows: 100,047,441 shares of Common Stock, \$.01 par value.

Table of Contents

Table of Contents

Bankrate, Inc. and Subsidiaries

Quarterly Report on Form 10-Q for the Quarter Ended March 31, 2013

<u>PART I. FINANCIAL INFORMATION</u>	5
<u>Item 1. Condensed Consolidated Financial Statements (Unaudited)</u>	5
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	25
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	33
<u>Item 4. Controls and Procedures</u>	33
<u>PART II. OTHER INFORMATION</u>	33
<u>Item 1. Legal Proceedings</u>	33
<u>Item 1A. Risk Factors</u>	33
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	34
<u>Item 5. Other Information</u>	34
<u>Item 6. Exhibits</u>	34
<u>Signatures</u>	35

Table of Contents

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q contains forward-looking statements which involve risks and uncertainties. You can identify forward-looking statements because they contain words such as believes, expects, may, should, seeks, approximately, intends, plans, or anticipates or similar expressions that relate to our strategy, plans or intentions. All statements we make relating to our estimated and projected earnings, margins, revenues, costs, expenditures, cash flows, growth rates and financial results or to our expectations regarding future industry trends are forward-looking statements. In addition, we, through our senior management, from time to time make forward-looking public statements concerning our expected future operations and performance and other developments. These forward-looking statements are subject to risks and uncertainties that may change at any time, and, therefore, our actual results may differ materially from those that we expected. We derive many of our forward-looking statements from our operating budgets and forecasts, which are based upon certain assumptions. While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors, and it is impossible for us to anticipate all factors that could affect our actual results. All forward-looking statements are based upon information available to us on, and speak only as of, the date of this report.

Important factors that could cause actual results to differ materially from our expectations, which we refer to as cautionary statements, are discussed in detail in Part I, Item 1A. Risk Factors in our annual report on Form 10-K filed with the Securities and Exchange Commission on March 1, 2013. All forward-looking information in this quarterly report and subsequent written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the cautionary statements. Some of the factors that we believe could affect our results include without limitation:

the willingness of our advertisers to advertise on our websites;

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

our dependence on internet search engines to attract a significant portion of the visitors to our websites;

interest rate volatility;

technological changes;

our ability to manage traffic on our websites and service interruptions;

our ability to maintain and develop our brands and content;

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

our indebtedness and the effect such indebtedness may have on our business;

our need and our ability to incur additional debt or equity financing;

Edgar Filing: Bankrate, Inc. - Form 10-Q

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

the effect of unexpected liabilities we assume from our acquisitions;

changes in application approval rates by our credit card issuer customers;

our ability to successfully execute on our strategy, including without limitation our insurance quality initiative, and the effectiveness of our strategy;

our ability to attract and retain executive officers and personnel;

the impact of resolution of lawsuits to which we are a party;

our ability to protect our intellectual property;

the effects of facing liability for content on our websites;

Table of Contents

our ability to establish and maintain distribution arrangements;

our ability to maintain good working relationships with our customers and third-party providers and to continue to attract new customers;

the effect of our expansion of operations in the United Kingdom and China and possible expansion to other international markets, in which we may have limited experience;

the willingness of consumers to accept the Internet and our online network as a medium for obtaining financial product information;

the strength of the U.S. economy in general and the financial services industry in particular;

changes in monetary and fiscal policies of the U.S. Government;

changes in consumer spending and saving habits;

changes in the legal and regulatory environment;

changes in accounting principles, policies, practices or guidelines;

our ability to manage the risks involved in the foregoing.

We caution you that the foregoing list of important factors may not contain all of the material factors that are important to you. In addition, in light of these risks and uncertainties, the matters referred to in the forward-looking statements contained in this quarterly report may not in fact occur. Accordingly, investors should not place undue reliance on those statements. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law.

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Condensed Consolidated Financial Statements (Unaudited)
Bankrate, Inc. and Subsidiaries**

Condensed Consolidated Balance Sheets

(In thousands, except share and per share data)

	(Unaudited) March 31, 2013	December 31, 2012
Assets		
Cash and cash equivalents	\$ 89,240	\$ 83,590
Accounts receivable, net of allowance for doubtful accounts of \$421 and \$658 at March 31, 2013 and December 31, 2012	59,221	52,598
Deferred income taxes	3,763	3,763
Prepaid expenses and other current assets	11,040	13,691
Total current assets	163,264	153,642
Furniture, fixtures and equipment, net of accumulated depreciation of \$14,471 and \$12,851 at March 31, 2013 and December 31, 2012	10,716	10,024
Intangible assets, net of accumulated amortization of \$141,189 and \$128,366 at March 31, 2013 and December 31, 2012	381,378	382,732
Goodwill	602,398	602,173
Other assets	11,172	11,579
Total assets	\$ 1,168,928	\$ 1,160,150
Liabilities and Stockholders Equity		
Liabilities		
Accounts payable	\$ 7,524	\$ 8,227
Accrued expenses	22,755	22,033
Deferred revenue and customer deposits	3,926	3,861
Accrued interest	4,860	10,588
Other current liabilities	19,056	6,399
Total current liabilities	58,121	51,108
Deferred income taxes	64,482	64,482
Senior secured notes, net of unamortized discount	194,033	193,943
Other liabilities	20,013	22,466
Total liabilities	336,649	331,999
Commitments and contingencies (Note 9)		
Stockholders equity		
Common stock, par value \$.01 per share - 300,000,000 shares authorized at March 31, 2013 and December 31, 2012; 100,097,969 shares issued at March 31, 2013 and December 31, 2012; 100,047,441 shares outstanding at March 31, 2013 and December 31, 2012	1,000	1,000

Edgar Filing: Bankrate, Inc. - Form 10-Q

Additional paid-in capital	845,634	843,393
Accumulated deficit	(13,081)	(15,264)
Less: Treasury stock, at cost - 50,528 shares at March 31, 2013 and December 31, 2012	(591)	(591)
Accumulated other comprehensive loss	(683)	(387)
Total stockholders equity	832,279	828,151
Total liabilities and stockholders equity	\$ 1,168,928	\$ 1,160,150

The accompanying notes are an integral part of these condensed consolidated financial statements.

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

Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

(In thousands, except share and per share data)

	Three months ended	
	March 31, 2013	March 31, 2012
Revenue	\$ 108,448	\$ 125,020
Cost of revenue (excludes depreciation and amortization)	36,039	40,278
Gross margin	72,409	84,742
Operating expenses:		
Sales	3,787	3,939
Marketing	26,232	31,250
Product development	4,492	4,424
General and administrative	11,700	9,982
Legal settlements		62
Acquisition, offering and related expenses and related party fees		197
Depreciation and amortization	14,511	11,769
	60,722	61,623
Income from operations	11,687	23,119
Interest and other expenses, net	6,530	6,437
Change in fair value of contingent acquisition consideration	1,149	43
Income before income taxes	4,008	16,639
Income tax expense	1,825	6,488
Net income	\$ 2,183	\$ 10,151
Basic and diluted net income per share:		
Basic	\$ 0.02	\$ 0.10
Diluted	0.02	0.10
Weighted average common shares outstanding:		
Basic	100,047,441	99,879,865
Diluted	100,053,107	101,712,071
Comprehensive income	\$ 1,887	\$ 10,303

The accompanying notes are an integral part of these condensed consolidated financial statements.

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

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)

	Three months ended	
	March 31,	March 31,
	2013	2012
Cash flows from operating activities		
Net income	\$ 2,183	\$ 10,151
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	14,511	11,769
Provision for doubtful accounts receivable	96	180
Amortization of deferred financing charges and original issue discount	671	596
Stock-based compensation	2,241	2,698
Change in fair value of contingent acquisition consideration	1,149	43
Change in operating assets and liabilities, net of effect of business acquisitions		
Accounts receivable	(6,719)	(578)
Prepaid expenses and other assets	2,590	(13)
Accounts payable	(703)	1,132
Accrued expenses	1,972	(5,424)
Other liabilities	(5,638)	(5,600)
Deferred revenue	65	(2,179)
Net cash provided by operating activities	12,418	12,775
Cash flows from investing activities		
Purchases of furniture, fixtures and equipment and capitalized website development costs	(3,688)	(2,079)
Cash used in business acquisitions, net	(3,000)	(1,713)
Restricted cash		4
Net cash used in investing activities	(6,688)	(3,788)
Cash flows from financing activities		
Cash paid for acquisition earnouts and contingent liabilities		(1,000)
Net cash used in financing activities		(1,000)
Effect of exchange rate on cash and cash equivalents	(80)	323
Net increase in cash	5,650	8,310
Cash - beginning of period	83,590	56,213
Cash - end of period	\$ 89,240	\$ 64,523
Supplemental disclosure of other cash flow activities		
Cash paid for interest	\$ 11,578	\$ 11,456
Cash paid (refunded) for taxes, net of refunds (payments)	654	(1,605)
Supplemental disclosure of non-cash investing and financing activities		
Contingent acquisition consideration	\$ 8,800	\$
Acquisition related payables		4,000

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

BANKRATE, INC., AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2013

(Unaudited)

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company

Bankrate, Inc. and its subsidiaries (Bankrate or the Company, we, us, our) own and operate an Internet-based consumer banking and personal finance network (Online Network). Our flagship website, Bankrate.com, is one of the Internet's leading aggregators of information on more than 300 financial products and fees, including mortgages, deposits, insurance, credit cards, and other personal finance categories. Additionally, we provide financial applications and information to a network of distribution partners and through national and state publications.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Bankrate, Inc., and subsidiaries NetQuote Holdings, Inc., NetQuote Inc., CreditCards.com, Inc., LinkOffers, Inc., CreditCards.com Limited (United Kingdom), Freedom Marketing Limited (United Kingdom), and Rate Holding Company (100% owner of Bankrate Information Consulting (Beijing) Co., Ltd.) after elimination of all intercompany accounts and transactions.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) 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 footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for the fair statement of our results have been included. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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. Actual results could differ from those estimates. Operating results for the three months ended March 31, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013, for any other interim period or for any other future year.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's 2012 Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on March 1, 2013.

There have been no significant changes in the Company's accounting policies from those disclosed in the Company's 2012 Annual Report on Form 10-K filed with the SEC on March 1, 2013.

Reclassification

Certain reclassifications have been made to the Condensed Consolidated Statements of Comprehensive Income for the three months ended March 31, 2012 and to the Condensed Consolidated Statement of Cash Flows for the three months ended March 31, 2012 to conform to the presentation for the three months ended March 31, 2013.

New Accounting Pronouncements

Recently Adopted Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and IFRSs. ASU 2011-04 amends Topic 820, Fair Value Measurement to change the wording used to describe the requirements in GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments include wording changes that clarify the FASB's intent about the

Edgar Filing: Bankrate, Inc. - Form 10-Q

application of existing fair value measurement and disclosure requirements and those that change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The adoption of ASU 2011-04 as of January 1, 2012 did not have a material impact on the Company's consolidated financial statements.

Table of Contents

BANKRATE, INC., AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2013

(Unaudited)

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. ASU 2011-05 amends Topic 220, Comprehensive Income, to give an entity the option for presenting the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The amendment in this update is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and should be applied retrospectively. In December 2011, the FASB issued ASU 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU 2011-05. The amendments in this update defers only those changes in ASU 2011-05 that relate to the presentation of reclassification adjustments. The adoption of ASU 2011-05 and subsequent amendment in ASU 2011-12 as of January 1, 2012 did not have a material impact on the Company's consolidated financial statements and the deferred changes in ASU 2011-12 are not expected to have a material impact upon adoption.

In July 2012, the FASB issued ASU 2012-02, Intangibles—Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment to reduce the cost and complexity of performing an impairment test for indefinite-lived intangible assets by simplifying how an entity tests those assets for impairment and to improve consistency in impairment testing guidance among long-lived asset categories. The amendments permit an entity first to assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test in accordance with Subtopic 350-30, Intangibles—Goodwill and Other—General Intangibles Other than Goodwill. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012 and early adoption is permitted. The adoption of ASU 2012-02 as of August 1, 2012 did not have a material impact on the Company's consolidated financial statements.

In December 2011, the FASB issued ASU 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. This amendment requires entities to disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. The amendment is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. The adoption of ASU 2011-11 as of January 1, 2013 did not have a material impact on the Company's consolidated financial statements.

In February 2013, the FASB issued ASU 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income to update the presentation of reclassifications from comprehensive income to net income in consolidated financial statements. Under this new guidance, an entity is required to provide information about the amounts reclassified out of accumulated other comprehensive income either by the respective line items of net income or by cross-reference to other required disclosures. The new guidance does not change the requirements for reporting net income or other comprehensive income in financial statements. This guidance is effective for fiscal years beginning after December 15, 2012. We adopted this guidance effective January 1, 2013, and it did not have any effect on our consolidated financial statements.

Recently Issued Pronouncements, Not Adopted as of March 31, 2013

In March 2013, the FASB issued ASU 2013-05, Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity. Under this guidance, when a reporting entity (parent) ceases to have a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity, the parent is required to apply the guidance in Subtopic 830-30 to release any related cumulative translation adjustment into net income. This amendment is effective prospectively for fiscal years (and interim reporting periods within those years) beginning after December 15, 2013 and early adoption is permitted. We do not expect the adoption of this amendment to have a material impact on the Company's consolidated financial statements.

Table of Contents**BANKRATE, INC., AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****March 31, 2013**

(Unaudited)

NOTE 2 GOODWILL AND INTANGIBLE ASSETS

Goodwill activity for the three months ended March 31, 2013 is shown below:

Balance, December 31, 2012	\$ 602,173
Acquisition of certain assets and liabilities of various entities	225
Balance, March 31, 2013	\$ 602,398

Intangible assets consist primarily of domain names and URLs, customer relationships, affiliate relationships and developed technologies. Intangible assets are being amortized over their estimated useful lives on both straight-line and accelerated bases.

Intangible assets subject to amortization were as follows as of March 31, 2013:

<i>(In thousands)</i>	Cost	Accumulated Amortization	Net
Trademarks and URLs	\$ 255,170	\$ (38,323)	\$ 216,847
Customer Relationships	228,871	(78,440)	150,431
Affiliate Network	20,840	(11,103)	9,737
Developed technology	17,686	(13,323)	4,363
	\$ 522,567	\$ (141,189)	\$ 381,378

Intangible assets subject to amortization were as follows as of December 31, 2012:

<i>(In thousands)</i>	Cost	Accumulated Amortization	Net
Trademarks and URLs	\$ 243,557	\$ (33,738)	\$ 209,819
Customer Relationships	229,009	(71,745)	157,264
Affiliate Network	20,840	(10,926)	9,914
Developed technology	17,692	(11,957)	5,735
	\$ 511,098	\$ (128,366)	\$ 382,732

Amortization expense for the three months ended March 31, 2013 and 2012 was \$12.9 million and \$10.5 million, respectively.

Future amortization expense as of March 31, 2013 is expected to be:

<i>(In thousands)</i>	Amortization Expense
Remainder of 2013	\$ 38,241
2014	49,366
2015	47,828
2016	46,058
2017	41,170
Thereafter	158,715
Total expected amortization expense for intangible assets	\$ 381,378

Table of Contents**BANKRATE, INC., AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****March 31, 2013**

(Unaudited)

NOTE 3 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 effects of dilutive common stock equivalents, consisting of outstanding stock-based awards, unrecognized compensation expense and tax benefits in accordance with FASB Accounting Standards Codification (ASC) 718, Compensation Stock Compensation, to the extent the effect is not anti-dilutive, using the treasury stock method.

The following table presents the computation of basic and diluted earnings per share:

<i>(In thousands, except share and per share data)</i>	Three months ended	
	March 31, 2013	March 31, 2012
Net income	\$ 2,183	\$ 10,151
Weighted average common shares outstanding for basic earnings per share	100,047,441	99,879,865
Additional dilutive shares related to share based awards	5,666	1,832,206
Weighted average common shares outstanding for diluted earnings per share	100,053,107	101,712,071
Basic and diluted earnings per share:		
Basic	\$ 0.02	\$ 0.10
Diluted	\$ 0.02	\$ 0.10

For the three months ended March 31, 2013 and 2012 there were 4,982,738 and 0 stock options, respectively, which are not included in the calculation of diluted earnings per share because their impact would have been anti-dilutive.

NOTE 4 STOCKHOLDERS EQUITY

The activity in stockholders equity for the three months ended March 31, 2013 is shown below:

	Common Stock				Treasury Stock	Accumulated Other Comprehensive Loss - Foreign Currency Translation	Total Stockholders Equity
	Shares	Amount	Additional paid-in capital	Accumulated Deficit			
Balance at December 31, 2012	100,048	\$ 1,000	\$ 843,393	\$ (15,264)	\$ (591)	\$ (387)	\$ 828,151
Other comprehensive income, net of taxes						(296)	(296)
Stock-based compensation			2,241				2,241

Edgar Filing: Bankrate, Inc. - Form 10-Q

Net income					2,183				2,183
Balance at March 31, 2013	100,048	\$ 1,000	\$ 845,634	\$ (13,081)	\$ (591)	\$ (683)	\$ 832,279		

NOTE 5 GEOGRAPHIC DATA AND CONCENTRATIONS

No single country outside of the U.S. accounted for more than 10% of revenue during the three months ended March 31, 2013 and 2012. There was one customer that accounted for 10% of net sales during the three months ended March 31, 2013. There was one customer that accounted for 11% of net sales during the three months ended March 31, 2012. One customer's accounts receivable balances constituted 11% of the accounts receivable balance as of March 31, 2013. One customer's accounts receivable balances constituted more than 13% of the accounts receivable balance at December 31, 2012.

Table of Contents**BANKRATE, INC., AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****March 31, 2013**

(Unaudited)

Revenue related to the U.S. and international operations and revenue by type for the three months ended March 31, 2013 and 2012, and long-lived assets related to the U.S. and international operations as of March 31, 2013 and December 31, 2012 are as follows:

<i>(In thousands)</i>	Three months ended	
	March 31, 2013	March 31, 2012
Revenue:		
USA	\$ 106,941	\$ 123,193
International	1,507	1,827
	\$ 108,448	\$ 125,020
Revenue:		
Online	\$ 106,465	\$ 123,007
Print	1,983	2,013
	\$ 108,448	\$ 125,020
<i>(In thousands)</i>	March 31, 2013	December 31, 2012
Long lived assets:		
USA	\$ 990,185	\$ 990,290
International	4,307	4,639
Balance, end of period	\$ 994,492	\$ 994,929

NOTE 6 FAIR VALUE MEASUREMENT

Given their short-term nature, the carrying amounts of cash, accounts receivable, accounts payable and accrued expenses including accrued interest approximate estimated fair value. The U.S. Treasury securities, classified as cash equivalents, are measured using quoted market prices available on active markets. In measuring the fair value of the Senior Secured Notes, the Company used market information. These estimates require considerable judgment in interpreting market data, and changes in assumptions or estimation methods could significantly affect the fair value estimates.

The following table presents estimated fair value, and related carrying amounts, as of March 31, 2013 and December 31, 2012:

<i>(In thousands)</i>	March 31, 2013		December 31, 2012	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value

Edgar Filing: Bankrate, Inc. - Form 10-Q

Financial Liabilities:

Senior Secured Notes	\$ 194,033	\$ 210,600	\$ 193,943	\$ 215,231
----------------------	------------	------------	------------	------------

In addition, the Company makes recurring fair value measurements of its contingent acquisition consideration using Level 3 unobservable inputs. The Company recognizes the fair value of contingent acquisition consideration based on its estimated fair value at the date of acquisition using discounted cash flows and subsequent adjustments to the fair value are due to the passage of time as we approach the payment date or changes to management's estimates. The following tables present the Company's fair value measurements of its contingent acquisition consideration as of March 31, 2013 and December 31, 2012 using the fair value hierarchy.

Table of Contents**BANKRATE, INC., AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****March 31, 2013**

(Unaudited)

<i>(In thousands)</i>	Fair Value Measurement at March 31, 2013 Using			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Recurring fair value measurement				
Contingent acquisition consideration	\$	\$	\$ 27,046	\$ 27,046
Total recurring fair value measurements	\$	\$	\$ 27,046	\$ 27,046

<i>(In thousands)</i>	Fair Value Measurement at December 31, 2012 Using			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Recurring fair value measurement				
Contingent acquisition consideration	\$	\$	\$ 17,197	\$ 17,197
Total recurring fair value measurements	\$	\$	\$ 17,197	\$ 17,197

The following table sets forth a reconciliation of changes in the fair value of the Company's Level 3 financial assets, contingent acquisition consideration, for the three months ended March 31, 2013:

<i>(In thousands)</i>	Three months ended March 31, 2013
Balance at beginning of period	\$ 17,197
Additions to Level 3	8,800
Transfers into Level 3	
Transfers out of Level 3	(100)
Change in fair value	1,149
Payments	
Balance at end of period	\$ 27,046

NOTE 7 STOCK-BASED COMPENSATION

Edgar Filing: Bankrate, Inc. - Form 10-Q

In June 2011, the Company established the 2011 Equity Compensation Plan (the 2011 Plan) to grant stock-based awards for up to 12,120,000 shares of our common stock. Under the 2011 Plan, 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 purpose of the 2011 Plan is to advance our interests by providing eligible participants in the Plan with the opportunity to receive equity-based or cash incentive awards, thereby aligning their economic interests with those of our stockholders. As of March 31, 2013, 6,867,758 shares were available for future issuance under the 2011 plan.

Table of Contents**BANKRATE, INC., AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****March 31, 2013**

(Unaudited)

The stock-based compensation expense for stock options and restricted stock awards recognized in our condensed consolidated statements of comprehensive income for the three months ended March 31, 2013 and 2012 are as follows:

<i>(In thousands)</i>	Three months ended	
	March 31, 2013	March 31, 2012
Cost of revenue	\$ 128	\$ 209
Operating expenses:		
Sales	344	415
Marketing	263	285
Product development	325	488
General and administrative	1,181	1,301
Total stock-based compensation	\$ 2,241	\$ 2,698

Restricted Stock

Stock-based compensation expense for the three months ended March 31, 2013 and 2012 included approximately \$0 and \$442,000 related to restricted stock awards, respectively. As of March 31, 2013, there was no unrecognized compensation cost related to non-vested restricted stock awards.

Stock Options

During the three months ended March 31, 2013 we granted stock options for 75,000 shares. The stock options granted have a weighted average exercise price of \$12.05 per option and a contractual term of seven years.

Stock option activity was as follows for the three months ended March 31, 2013:

	Number of Shares	Price Per Share	Weighted Average Exercise Price	Aggregate Intrinsic Value
Balance, December 31, 2012	5,005,654	\$ 11.17 - \$24.25	\$ 15.49	\$ 51,200
Granted	75,000	\$ 11.05 - \$12.81	\$ 12.05	
Exercised				
Forfeited	(27,916)	\$ 14.32 - \$15.00	\$ 14.83	
Expired				
Balance, March 31, 2013	5,052,738	\$ 11.05 - \$24.25	\$ 15.42	\$ 57,500

The following table provides the weighted average grant date fair value of the stock options granted during the three months ended March 31, 2013 using the Black-Scholes option pricing model together with a description of the weighted average assumptions used to calculate the fair

value.

	Three months ended March 31, 2013
Weighted average assumptions:	
Weighted average grant date fair value	\$ 5.96
Expected volatility	59.85%
Risk free rate	0.73%
Expected lives	4.75 Years
Expected dividend yield	0.00%

Table of Contents

BANKRATE, INC., AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2013

(Unaudited)

Pursuant to the income tax provisions of ASC 718, we follow the long-haul method of computing our hypothetical additional paid-in capital, or APIC, pool. Approximately 318,000 stock options vested during the three months ended March 31, 2013.

The aggregate intrinsic value of stock options outstanding in the table above is calculated as the difference between the closing price of Bankrate's common stock on the last trading day of the reporting period (\$11.94) and the exercise price of the stock options multiplied by the number of shares underlying options with an exercise price less than the closing price on the last trading day of the reporting period.

As of March 31, 2013, approximately \$21.2 million of total unrecognized compensation costs, net of forfeitures, related to non-vested stock option awards is expected to be recognized over a weighted average period of 2.33 years.

NOTE 8 INCOME TAXES

We calculate our income tax provision for interim periods based on two components: 1) the estimate of the annual effective tax rate and 2) the addition of any required period (i.e., discrete) events. The difference between income tax expense computed at the statutory rate and the reported income tax expense is primarily due to state income taxes incurred during the three months ended March 31, 2013 and 2012.

We have approximately \$9.6 million of unrecognized tax benefits as of March 31, 2013 and December 31, 2012.

We are subject to income taxes in the U.S. federal jurisdiction, various state and local jurisdictions, 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 2008.

We accrued approximately \$96,000 and \$143,000 for the payment of interest and penalties for the respective three months ended March 31, 2013 and 2012, which was recorded as an income tax expense during the respective three months ended March 31, 2013 and 2012.

Our effective tax rate changed from approximately 39% during the three months ended March 31, 2012 to approximately 46% in the same period in 2013 due to foreign losses and interest incurred during the three months ended March 31, 2013 on liabilities related to unrecognized tax benefits.

NOTE 9 COMMITMENTS AND CONTINGENCIES

Legal Proceedings

BanxCorp Litigation

In July 2007, BanxCorp, an online publisher of rate information provided by financial institutions with respect to various financial products, filed suit against the Company in the United States District Court for the District of New Jersey alleging violations of Federal and New Jersey State antitrust laws, including the Sherman Act and the Clayton Act. BanxCorp has alleged that it has been injured as a result of monopolistic and otherwise anticompetitive conduct on the part of the Company and is seeking approximately \$180 million in compensatory damages, treble damages, and attorneys' fees and costs. In October 2012, BanxCorp filed a Seventh Amended Complaint, alleging violations of Section 2 of the Sherman Act, Section 7 of the Clayton Act and parallel provisions of New Jersey antitrust laws, and dropping its claims under Section 1 of the Sherman Act. Discovery closed on December 21, 2012 and both parties have filed motions seeking summary judgment. The Company will continue to vigorously defend this lawsuit. The Company cannot presently estimate the amount of loss, if any, that would result from an adverse resolution of this matter.

Speight Litigation

On October 5, 2012, a putative class action lawsuit styled *Stephanie Speight v. Bankrate, Inc.* was filed against the Company in the United States District Court for the District of Colorado alleging violations of the Telephone Consumer Protection Act and seeking statutory damages, injunctive relief and attorney fees. The plaintiff alleges that the Company contacted her and the members of the class she seeks to represent on their cellular telephones without their prior express consent. The Company will vigorously defend this lawsuit. The Company cannot presently estimate the amount of loss, if any, that would result from an adverse resolution of this matter.

NOTE 10 DEBT

Senior Secured Notes

On July 13, 2010, the Company issued \$300 million of 11 3/4% Senior Secured Notes due July 15, 2015 (the Original Notes) in a private placement at an Offering Price of 99.077% with an original issue discount of \$2.8 million. The net proceeds of approximately

Table of Contents

BANKRATE, INC., AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2013

(Unaudited)

\$286.9 million were used to fund the acquisitions of NetQuote and CreditCards, pay related fees and expenses and for general corporate purposes. In June 2011, the Company redeemed \$105 million aggregate principal amount of the outstanding Original Notes. As a result of the redemption, the Company incurred charges of approximately \$16.6 million, including charges of approximately \$828,000 and \$3.5 million for the write-off of unamortized original issue discount and deferred financing costs, respectively, and \$12.3 million for the redemption fee. These charges are recorded within loss on redemption of notes for the year ended December 31, 2011 on the accompanying consolidated statements of comprehensive income. In August 2011, the Company completed an exchange offer pursuant to which all of the Original Notes were exchanged for a new issue of substantially identical notes (the Exchange Notes and together with the Original Notes, the Senior Secured Notes) registered under the Securities Act, as amended (the Securities Act).

On or after July 15, 2013, the Company may redeem some or all of the Senior Secured Notes at a premium that will decrease over time as set forth in Bankrate, Inc.'s Indenture, dated as of July 13, 2010 (the Indenture). Additionally, if the Company experiences a change of control, the holders of the Senior Secured Notes have the right to require the Company to purchase the Senior Secured Notes at a price in cash equal to 101% of the principal amount thereof, together with accrued and unpaid interest, if any, to the date of purchase. The Indenture contains other restrictions and limitations. The Senior Secured Notes are collateralized by all of the Company's assets subject to certain excluded properties and have no financial covenant measurement.

Interest on the Senior Secured Notes accrues daily on the outstanding principal amount at 11 3/4% and is payable semi-annually, in arrears, on July 15 and January 15, beginning on January 15, 2011, in cash.

For the three months ended March 31, 2013 and 2012, interest expense, excluding the amortization of deferred financing costs and the original issue discounts, related to the Senior Secured Notes was \$5.7 million and \$5.7 million, respectively.

During the three months ended March 31, 2013 and 2012, the Company amortized original issue discount which is included within interest and other expenses on the accompanying condensed consolidated statements of comprehensive income of \$89,000 and \$79,000, respectively. At March 31, 2013 and December 31, 2012, the Company had approximately \$967,000 and \$1.1 million, respectively, in original issue discounts remaining to be amortized.

During the three months ended March 31, 2013 and 2012, the Company amortized deferred loan fees related to the Senior Secured Notes which are included within interest and other expenses on the accompanying consolidated statement of comprehensive income of \$374,000 and \$329,000, respectively. At March 31, 2013 and December 31, 2012, the Company had approximately \$4.0 million and \$4.4 million, respectively, in deferred loan fees remaining to be amortized.

The Company had a balance of approximately \$194.0 million and \$193.9 million in Senior Secured Notes, net of amortization, as of March 31, 2013 and December 31, 2012, respectively recorded on the accompanying consolidated balance sheet.

Revolving Credit Facilities

On June 10, 2011, we entered into Revolving Credit Facilities in an aggregate amount of \$100.0 million, consisting of two tranches, tranche A for \$30.0 million which matures on July 15, 2015 and tranche B for \$70.0 million which matures on April 15, 2015 (Revolving Credit Facilities). Our obligations under the Revolving Credit Facilities are guaranteed by each direct and indirect, existing and future, domestic restricted subsidiary that guarantees our obligations under the Senior Secured Notes. The obligations under such credit facilities are equally and ratably secured by liens on the same collateral that secures our Senior Secured Notes (it being understood that upon any enforcement of remedies resulting in the realization of proceeds from such collateral, up to \$30.0 million of revolving tranche A loans under the tranche A facility would be paid in full first before applying any such amount to pay the Notes and the tranche B revolving loans under the tranche B credit facility on a pari passu basis). The agreements governing such credit facilities contain terms generally commensurate with issuers of the same debt rating, and our ability to draw down any such credit facilities is subject to certain limitations, including that at the time of and immediately after giving

Edgar Filing: Bankrate, Inc. - Form 10-Q

effect to such drawing and the application proceeds thereof the Consolidated Secured Debt Ratio (as defined in the revolving credit facilities) on a pro forma basis shall not exceed 3.50:1.00.

At the Company's election, the interest rate per annum applicable to the loans under the Revolving Credit Facilities is based on a fluctuating rate of interest determined by reference to either (i) a base rate determined by reference to the higher of (a) the prime rate quoted in the print edition of *The Wall Street Journal*, Money Rates Section as the prime rate and (b) the federal funds effective rate plus 0.50%, plus an applicable margin equal to 2.00%, or (ii) a Eurodollar rate determined by reference to LIBOR, adjusted for statutory reserve requirements, plus an applicable margin equal to 3.00%; provided, however, that at any time less than \$20,000,000 in aggregate principal amount of loans are drawn under the tranche A credit facility, the applicable margin with respect to loans under the tranche B credit facility at the base rate will be 2.25% and the applicable margin with respect to loans under the tranche B credit facility at the Eurodollar rate will be 3.25%.

Table of Contents**BANKRATE, INC., AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****March 31, 2013**

(Unaudited)

Interest accrues daily and is payable in arrears for both base rate and Eurodollar loans. For base rate loans, interest is payable on the last business day of March, June, September and December. For Eurodollar loans interest is payable on electable periods of one, two, three or six months (or, if each affected lender so agrees, nine or twelve months). As of March 31, 2013 and December 31, 2012, the Company had \$100.0 million available for borrowing under the Revolving Credit Facilities and there were no amounts outstanding. During the three months ended March 31, 2013 and 2012, the Company amortized \$207,000 and \$189,000 of deferred loan fees, respectively, which is included in interest and other expenses on the accompanying condensed consolidated statements of comprehensive income. At March 31, 2013 and December 31, 2012, the Company had approximately \$1.6 million and \$1.8 million, respectively, in deferred loan fees remaining to be amortized.

The Revolving Credit Agreement contains customary financial and other covenants, including maximum consolidated leverage ratio of 4.25:1.00. In addition, the Company is subject to covenants limiting incurrence of debt, liens on properties, investments, loans and advances, mergers and consolidations, asset sales, dividends and transactions with affiliates. The Company was in compliance with all required covenants as of March 31, 2013.

NOTE 11 ACQUISITIONS*Fiscal Year 2013*

On March 15, 2013, the Company acquired certain assets and liabilities of an entity for an aggregate purchase price of \$11.8 million, including \$8.8 million in fair value of contingent acquisition consideration. The Company paid \$3.0 million during the three months ended March 31, 2013 and assumed a net liability of \$165,000. This entity is individually immaterial to the Company's net assets and operations. This acquisition was accounted for as a purchase and is included in the Company's consolidated results from its acquisition date. The preliminary purchase accounting recorded by the Company included \$225,000 in goodwill and \$11.7 million in intangible assets for trademarks and URLs related to this acquisition. The Company has not yet finalized the purchase accounting of this acquisition as it continues to analyze certain documentation and amounts.

Fiscal Year 2012

During the fiscal year ended December 31, 2012, the Company acquired certain assets and liabilities of certain entities for an aggregate purchase price of \$52.7 million, including \$20.8 million in fair value of contingent acquisition consideration and \$5.9 million in fair value of guaranteed purchase price payments to be made at a later date. The Company paid \$30.2 million, inclusive of \$4.5 million related to the guaranteed purchase price, during the fiscal year ended December 31, 2012 and assumed a net liability of \$0.3 million. The Company recorded a reduction in fair value of the contingent acquisition consideration during the year of \$2.8 million and made payments of \$2.2 million resulting in a net contingent acquisition consideration liability for these acquisitions of \$15.8 million. Additionally, the Company recorded a \$100,000 change in fair value related to the guaranteed purchase price resulting in a net acquisition related payable at December 31, 2012 of \$1.5 million. These certain entities are individually and in the aggregate immaterial to the Company's net assets and operations. All acquisitions were accounted for as purchases and are included in the Company's consolidated results from their acquisition dates. The Company recorded \$6.7 million in goodwill and \$46.0 million in intangible assets related to these acquisitions consisting of \$33.7 million of trademarks and URLs, \$8.0 million of affiliate network, \$4.0 million of customer relationships and \$0.3 million of developed technology.

NOTE 12 CONDENSED CONSOLIDATING FINANCIAL STATEMENT INFORMATION

On July 13, 2010, the Company completed its offering of the Original Notes. The Original Notes were sold to qualified institutional buyers in accordance with Rule 144A under the Securities Act or to Non-US buyers in accordance with regulation S under the Securities Act. In connection with the sale of the Original Notes, the Company entered into a Registration Rights Agreement with the initial purchasers of the Original Notes party thereto, pursuant to which the Company and its Subsidiary Guarantors (as defined below) agreed to file a registration statement with respect to an offer to exchange the Original Notes for the Exchange Notes. On June 30, 2011, the Company's Form S-4

Edgar Filing: Bankrate, Inc. - Form 10-Q

registration statement for the Exchange Notes filed with the Securities and Exchange Commission become effective, and all of the original notes were exchanged for Exchange Notes on August 1, 2011. The Senior Secured Notes are fully and unconditionally guaranteed on a joint and several senior unsecured basis by the Company and certain of its wholly owned domestic subsidiaries (the "Subsidiary Guarantors").

Table of Contents

BANKRATE, INC., AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2013

(Unaudited)

The following consolidating financial information, which has been prepared in accordance with the requirements for presentation of Rule 3-10(f) of Regulation S-X promulgated under the Securities Act, presents the consolidating financial information separately for:

- i. Bankrate, Inc., as the issuer of the Senior Secured Notes;
- ii. The Subsidiary Guarantors, on a combined basis, which are 100% owned by Bankrate, Inc., and which are guarantors of the Senior Secured Notes;
- iii. The Subsidiary Non-Guarantors, on a combined basis, which are 100% owned by Bankrate, Inc., and which are not guarantors of the Senior Secured Notes;
- iv. Consolidating entries and eliminations representing adjustments to:
 - a. Eliminate intercompany transactions between or among the Company, the Subsidiary Guarantors and those subsidiaries of the Company that are not Subsidiary Guarantors and
 - b. Eliminate the investments in the Company's subsidiaries;
- v. The Company and its subsidiaries on a consolidated basis.

As the Subsidiary Guarantors have guaranteed the Senior Secured Notes and have pledged their assets as collateral, the Company has pushed down the recording of the Senior Secured Notes and related interest expense to the Subsidiary Guarantors balance sheet and statement of comprehensive income as a non-cash transaction.

Table of Contents**BANKRATE, INC., AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****March 31, 2013**

(Unaudited)

Condensed Consolidating Balance Sheet

As of March 31, 2013

(In thousands)

	Bankrate	Guarantor Subsidiary	Non-Guarantor Subsidiary	Eliminations	Consolidated
Assets					
Cash and cash equivalents	\$ 79,372	\$ 7,869	\$ 1,999	\$	\$ 89,240
Accounts receivable, net of allowance for doubtful accounts	34,884	22,868	1,469		59,221
Deferred income taxes	3,422	335	6		3,763
Prepaid expenses and other current assets	10,090	872	78		11,040
Total current assets	127,768	31,944	3,552		163,264
Furniture, fixtures and equipment, net of accumulated depreciation	5,724	4,448	544		10,716
Intangible assets, net of accumulated amortization	266,476	111,139	3,763		381,378
Goodwill	388,408	213,990			602,398
Other assets	1,210	9,962			11,172
Intercompany	(209,137)	218,513	(9,376)		
Investments in subsidiary	362,530	(2,963)		(359,567)	
Total assets	\$ 942,979	\$ 587,033	\$ (1,517)	\$ (359,567)	\$ 1,168,928
Liabilities and Stockholders Equity					
Liabilities					
Accounts payable	\$ 3,249	\$ 4,181	\$ 94	\$	\$ 7,524
Accrued expenses	19,782	2,907	66		22,755
Deferred revenue and customer deposits	2,816	1,038	72		3,926
Accrued interest		4,860			4,860
Other current liabilities	19,045		11		19,056
Total current liabilities	44,892	12,986	243		58,121
Deferred income taxes, net	45,815	17,342	1,325		64,482
Senior secured notes, net of unamortized discount		194,033			194,033
Other liabilities	19,993	20			20,013
Total liabilities	110,700	224,381	1,568		336,649
Total stockholders equity	832,279	362,652	(3,085)	(359,567)	832,279

Total liabilities and stockholders equity	\$ 942,979	\$ 587,033	\$ (1,517)	\$ (359,567)	\$ 1,168,928
--	------------	------------	------------	--------------	--------------

Table of Contents**BANKRATE, INC., AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****March 31, 2013**

(Unaudited)

Condensed Consolidating Balance Sheet

As of December 31, 2012

(In thousands)

	Bankrate	Guarantor Subsidiary	Non-Guarantor Subsidiary	Eliminations	Consolidated
Assets					
Cash and cash equivalents	\$ 65,454	\$ 16,452	\$ 1,684	\$	\$ 83,590
Accounts receivable, net of allowance for doubtful accounts	29,789	20,835	1,974		52,598
Deferred income taxes	3,402	355	6		3,763
Prepaid expenses and other current assets	12,843	763	85		13,691
Total current assets	111,488	38,405	3,749		153,642
Furniture, fixtures and equipment, net of accumulated depreciation	5,796	3,690	538		10,024
Intangible assets, net of accumulated amortization	263,415	115,216	4,101		382,732
Goodwill	388,183	213,990			602,173
Other assets	1,807	9,772			11,579
Intercompany	(197,184)	206,415	(9,231)		
Investments in subsidiary	355,867	(2,305)		(353,562)	
Total assets	\$ 929,372	\$ 585,183	\$ (843)	\$ (353,562)	\$ 1,160,150
Liabilities and Stockholders Equity					
Liabilities					
Accounts payable	\$ 5,214	\$ 2,782	\$ 231	\$	\$ 8,227
Accrued expenses	18,485	3,281	267		22,033
Deferred revenue and customer deposits	2,875	875	111		3,861
Accrued interest		10,588			10,588
Other current liabilities	6,390		9		6,399
Total current liabilities	32,964	17,526	618		51,108
Deferred income taxes, net	45,815	17,342	1,325		64,482
Senior secured notes, net of unamortized discount		193,943			193,943
Other liabilities	22,442	24			22,466
Total liabilities	101,221	228,835	1,943		331,999
Total stockholders equity	828,151	356,348	(2,786)	(353,562)	828,151

Total liabilities and stockholders equity	\$ 929,372	\$ 585,183	\$ (843)	\$ (353,562)	\$ 1,160,150
--	------------	------------	----------	--------------	--------------

Table of Contents**BANKRATE, INC., AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****March 31, 2013**

(Unaudited)

Condensed Consolidating Statement of Comprehensive Income

For the three months ended March 31, 2013

(In thousands)

	Bankrate	Guarantor Subsidiary	Non-Guarantor Subsidiary	Eliminations	Consolidated
Revenue	\$ 69,749	\$ 55,810	\$ 1,507	\$ (18,618)	\$ 108,448
Cost of revenue (excludes depreciation and amortization)	35,791	18,860	6	(18,618)	36,039
Gross margin	33,958	36,950	1,501		72,409
Operating expenses:					
Sales	2,063	1,714	10		3,787
Marketing	16,406	8,461	1,365		26,232
Product development	2,616	1,873	3		4,492
General and administrative	8,551	2,755	394		11,700
Depreciation and amortization	9,578	4,715	218		14,511
	39,214	19,518	1,990		60,722
(Loss) income from operations	(5,256)	17,432	(489)		11,687
Interest and other (income) expenses, net	(15)	6,375	170		6,530
Change in fair value of contingent acquisition consideration	1,149				1,149
(Earnings) loss on equity investments, net of tax	(6,223)	352		5,871	
Income (loss) before income taxes	(167)	10,705	(659)	(5,871)	4,008
Income tax (benefit) expense	(2,350)	4,175			1,825
Net income (loss)	\$ 2,183	\$ 6,530	\$ (659)	\$ (5,871)	\$ 2,183
Comprehensive income (loss)	\$ 1,887	\$ 6,235	\$ (955)	\$ (5,280)	\$ 1,887

Table of Contents**BANKRATE, INC., AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****March 31, 2013**

(Unaudited)

Condensed Consolidating Statement of Comprehensive Income

For the three months ended March 31, 2012

(In thousands)

	Bankrate	Guarantor Subsidiary	Non-Guarantor Subsidiary	Eliminations	Consolidated
Revenue	\$ 89,324	\$ 57,469	\$ 1,827	\$ (23,600)	\$ 125,020
Cost of revenue (excludes depreciation and amortization)	37,738	26,133	7	(23,600)	40,278
Gross margin	51,586	31,336	1,820		84,742
Operating expenses:					
Sales	2,223	1,716			3,939
Marketing	19,396	10,317	1,537		31,250
Product development	2,357	2,064	3		4,424
General and administrative	6,947	2,698	337		9,982
Legal settlements	62				62
Acquisition, offering and related expenses and related party fees	197				197
Depreciation and amortization	6,943	4,640	186		11,769
	38,125	21,435	2,063		61,623
Income (loss) from operations	13,461	9,901	(243)		23,119
Interest and other (income) expenses, net	(48)	6,319	166		6,437
Change in fair value of contingent acquisition consideration	43				43
(Earnings) loss on equity investments, net of tax	(1,705)	274		1,431	
Income (loss) before income taxes	15,171	3,308	(409)	(1,431)	16,639
Income tax expense	5,020	1,359	109		6,488
Net income (loss)	\$ 10,151	\$ 1,949	\$ (518)	\$ (1,431)	\$ 10,151
Comprehensive income (loss)	\$ 10,303	\$ 2,272	\$ (366)	\$ (1,906)	\$ 10,303

Table of Contents**BANKRATE, INC., AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****March 31, 2013**

(Unaudited)

Condensed Consolidating Statement of Cash Flows

For the three months ended March 31, 2013

(In thousands)

	Bankrate	Guarantor Subsidiary	Non-Guarantor Subsidiary	Consolidated
Cash flows from operating activities				
Net cash provided by (used in) operating activities	\$ 19,121	\$ (7,182)	\$ 479	\$ 12,418
Cash flows from investing activities				
Purchases of furniture, fixtures and equipment and capitalized website development costs	(2,203)	(1,401)	(84)	(3,688)
Cash used in business acquisitions, net	(3,000)			(3,000)
Net cash used in investing activities	(5,203)	(1,401)	(84)	(6,688)
Effect of exchange rate on cash and cash equivalents			(80)	(80)
Net increase (decrease) in cash	13,918	(8,583)	315	5,650
Cash - beginning of period	65,454	16,452	1,684	83,590
Cash - end of period	\$ 79,372	\$ 7,869	\$ 1,999	\$ 89,240

Table of Contents**BANKRATE, INC., AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****March 31, 2013**

(Unaudited)

Condensed Consolidating Statement of Cash Flows

For the three months ended March 31, 2012

(In thousands)

	Bankrate	Guarantor Subsidiary	Non-Guarantor Subsidiary	Consolidated
Cash flows from operating activities				
Net cash provided by (used in) operating activities	\$ 15,000	\$ (2,055)	\$ (170)	\$ 12,775
Cash flows from investing activities				
Purchases of furniture, fixtures and equipment and capitalized website development costs	(1,335)	(658)	(86)	(2,079)
Cash used in business acquisitions, net	(1,713)			(1,713)
Restricted cash	4			4
Net cash used in investing activities	(3,044)	(658)	(86)	(3,788)
Cash flows from financing activities				
Cash paid for acquisition earnouts and contingent liabilities	(1,000)			(1,000)
Net cash used in financing activities	(1,000)			(1,000)
Effect of exchange rate on cash and cash equivalents			323	323
Net increase (decrease) in cash	10,956	(2,713)	67	8,310
Cash - beginning of period	44,476	10,066	1,671	56,213
Cash - end of period	\$ 55,432	\$ 7,353	\$ 1,738	\$ 64,523

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion of our results of operations and financial condition with the financial statements and related notes included elsewhere in this quarterly report. The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs, and that involve numerous risks and uncertainties, including, but not limited to, those described in the Cautionary Statement Concerning Forward-Looking Statements section of this quarterly report and in the materials referenced therein. Actual results may differ materially from those contained in any forward-looking statements. See Cautionary Statement Concerning Forward-Looking Statements.

Introduction

Our Company

We are a leading publisher, aggregator and distributor of personal finance content on the Internet. We provide consumers with proprietary, fully researched, comprehensive, independent and objective personal finance editorial content across multiple vertical categories including mortgages, deposits, insurance, credit cards, and other personal finance categories.

Our sources of revenue include display advertising, performance-based advertising, lead generation, distribution arrangements and traditional media avenues, such as syndication of editorial content and subscriptions.

We generate revenue through the sale of leads in the credit card and insurance vertical categories. Through our Nationwide Card Services, *CreditCardGuide.com*, and *CreditCards.com* brands, we sell leads to credit card issuers. Through our InsWeb, *InsureMe.com* and NetQuote brands, we sell leads to insurance agents and insurance carriers. We generate revenue on a per-lead basis based on the actual number of qualified insurance leads generated, and on a per-action basis for credit card applications (i.e., upon approval or completion of an application). Leads are generated not only organically within the Bankrate network of websites, but also through our various affiliate networks, via co-brands, and through display advertisements. We sell to advertisers targeting a specific audience in a city or state and also to national advertisers targeting the entire country.

Advertisers that are listed in our mortgage and deposit rate tables have the opportunity to hyperlink their listings. Additionally, advertisers can buy hyperlinked placement within our qualified insurance listings. By clicking on the hyperlink, users are taken to the advertiser's website. We typically sell our hyperlinks on a per-click 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 or insurance table listings). All clicks are screened for fraudulent characteristics in accordance with IAB advertising standards by either an independent third party vendor (for our mortgage and deposit products) or internally (for our insurance products) and then charged to the customer's account.

We provide a variety of digital display formats. Our most common digital display advertisement sizes are leader boards and banners, which are prominently displayed at the top or bottom of a page, as well as skyscrapers, islands, and posters. We charge for these advertisements based on the number of times the advertisement is displayed or based on a fixed amount for a campaign. Advertising rates may vary depending upon the product areas targeted, geo-targeting, the quantity of advertisements purchased by an advertiser, and the length of time an advertiser runs an advertisement on our online network. We sell to advertisers targeting a specific audience in a city or state and also to national advertisers targeting the entire country.

Lead generation, display advertisements and hyperlink listings, which we refer to as online revenue, represented approximately 98% of our revenue for the three months ended March 31, 2013 and 2012. We also derive revenue through the sale of print advertisements and the distribution (or syndication) of our editorial content, which we refer to as print publishing and licensing revenue.

Significant Developments

Acquisitions Fiscal Year 2013

During the three months ended March 31, 2013, the Company acquired certain assets and liabilities of an entity for an aggregate purchase price of \$11.8 million, including \$8.8 million in fair value of contingent acquisition consideration. The Company paid \$3.0 million during the three months ended March 31, 2013 and assumed a net liability of \$165,000. This entity is individually immaterial to the Company's net assets and operations. This acquisition was accounted for as a purchase and is included in the Company's consolidated results from its acquisition date. The preliminary purchase accounting recorded by the Company included \$225,000 in goodwill and \$11.7 million in intangible assets for trademarks and URLs related to this acquisition.

Table of Contents

Acquisitions Fiscal Year 2012

During the fiscal year ended December 31, 2012, the Company acquired certain assets and liabilities of certain entities for an aggregate purchase price of \$52.7 million, including \$20.8 million in potential earn out consideration. These certain entities are individually and in the aggregate immaterial to the Company's net assets and operations. All acquisitions were accounted for as purchases and are included in the Company's consolidated results from their acquisition dates. The Company recorded \$6.7 million in goodwill and \$46.0 million in intangible assets related to these acquisitions consisting of \$33.7 million of trademarks and URLs, \$8.0 million of affiliate network, \$4.0 million of customer relationships and \$0.3 million of developed technology.

Certain Trends Influencing Our Business

Our business benefits from the secular shift toward consumer use of the Internet to research and shop for personal finance products coupled with increased consumer interest in comparison shopping for such products, and the related shift by advertiser demand from offline to online and targeting of in-market consumers. Our ability to benefit from these trends depends on the strength of our position in the personal finance services markets driven by our brands, proprietary and aggregated content, breadth and depth of personal finance products, distribution, position in algorithmic search results and monetization capabilities. The key drivers of our business include the number of ready-to-transact consumers visiting our online network, including the number of page views they generate, the availability of financial products and the demand of our online network advertisers, each of which are correlated to general macroeconomic conditions in the United States. We believe that increases in housing activity and general consumer financial activity and fluctuations in interest rates positively impact these drivers while decreases in these areas, or a deterioration in macroeconomic conditions, could have a negative impact on these drivers.

Key Initiatives

We are focused on several key initiatives to drive our business:

increasing the visitor traffic to our online network of websites;

optimizing the revenue of our cost-per-thousand-impressions and cost-per-click models on our online network including the integration of the new acquisitions;

revenue optimization associated with the new look, design and functionality of our mortgage and deposit cost-per-click as well as cost-per-call initiatives;

enhancing search engine marketing and keyword buying to drive targeted impressions into our online network;

expanding our co-brand and affiliate footprint;

broadening the breadth and depth of the personal finance content and products that we offer on our online network;

transition to a higher conversion lead model with a greater percentage of owned and operated traffic from a high volume third party lead model,

containing our costs and expenses; and

Edgar Filing: Bankrate, Inc. - Form 10-Q

continuing to integrate our recent acquisitions to maximize synergies and efficiencies.

Revenue

The amount of advertising we sell is a function of (1) the number of visitors to our online network and our affiliates' websites, (2) the number of ad pages we serve to those visitors, (3) the click through rate of 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.

Display Advertising Revenue

We sell display advertisements on our online network consisting primarily of leaderboards, banners, badges, islands, posters, and skyscraper advertisements. We typically charge for these advertisements based on the number of times the advertisement is displayed.

Table of Contents

Hyperlink Revenue

We also sell hyperlinks (e.g., in our interest rate or insurance table listings) on our online network on a cost-per-click and on a cost-per-call basis. We generate revenue upon delivery of qualified and reported click-throughs to our advertisers from a hyperlink in a rate or insurance provider/carrier listing listing and qualified phone calls. These advertisers pay us a designated transaction fee for each click-through or phone call, which occurs when a user clicks on any of their advertisement listings or makes a phone call to the advertiser. Each phone call or click-through on an advertisement listing represents a completed transaction once it passes our filtering validation process.

Lead Generation Revenue

We also generate revenue by delivering measurable online marketing results to our clients in the credit card and personal insurance vertical categories. These results are typically in the form of qualified leads or clicks, the outcomes of customers submitting an application for a credit card, or customers being contacted regarding a quote for a personal insurance product. These qualified leads are generated from our marketing activities on our websites or on third party websites with whom we have relationships.

Print Publishing and Licensing Revenue

Print publishing and licensing revenue represent advertising revenue from the sale of advertising in our *Mortgage Guide* (formerly called the *Consumer Mortgage Guide*) and *CD & Deposit Guide*, rate tables, newsletter subscriptions, and licensing of research information.

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 website promotions.

Cost of Revenue (excludes depreciation and amortization)

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, stock-based compensation expense, and allocated overhead. Distribution payments are made to website operators for visitors directed to our online network as well as to affiliates for leads directed to our online network and lead generation websites. These costs increase proportionately with gains related to revenue from our online network and lead generation websites. 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 websites 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 along with allocated overhead.

We are also involved in revenue sharing arrangements with our online partners where the consumer uses co-branded websites to which we provide web services. Revenue is effectively allocated to each partner based on the revenue earned from each website. The allocated revenue is shared according to distribution agreements.

Operating Expenses

Sales

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

Marketing

Marketing expenses represent expenses associated with expanding brand awareness of our products and services to consumers and include search engine marketing (SEM) expense, print and Internet advertising, marketing and promotion costs including email marketing, and stock-based compensation expense.

Product Development

Edgar Filing: Bankrate, Inc. - Form 10-Q

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 stock-based compensation expense.

Table of Contents*General and Administrative*

General and administrative expenses represent compensation and benefits for executive, finance and administrative personnel, professional fees, stock-based compensation expense, allocated overhead and other general corporate expenses.

Acquisition, Offering and Related Expenses and Related Party Fees

Acquisition, offering and related expenses and related party fees represent direct expenses incurred as a result of the acquisition of Bankrate by an affiliate of Apax Partners L.P., expenses related to our acquisitions, fees associated with our various offerings (the June 2011 Initial Public Offering, the Senior Secured Notes Exchange Offer, the December 2011 Secondary Offering, etc.) and advisory fees to our shareholders.

Depreciation and Amortization

Depreciation and amortization expense includes the cost of capital asset acquisitions spread over their expected useful lives. These expenses are spread over 1 to 25 years and are calculated mostly 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 acquisition method of accounting. The amortization periods for intangible assets are as follows:

	Estimated Useful Life
Trademarks and URLs	2-25 years
Customer relationships	3-15 years
Affiliate network relationships	1-15 years
Developed technologies	1-6 years

Interest and Other Expenses, Net

Interest and other expenses, net primarily consists of expenses associated with our long-term debt, amortization of the debt issuance costs, interest on acquisition-related payments, interest income earned on cash and cash equivalents and other income.

Income Tax Expense

Income tax expense consists of federal and state income taxes in the United States and taxes in certain foreign jurisdictions.

Critical Accounting Policies*Critical Accounting Estimates*

The preparation of financial statements in conformity with GAAP, 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. There have been no significant changes in our critical accounting policies or estimates during the three months ended March 31, 2013 as compared to the critical accounting policies and estimates disclosed in management's discussion and analysis of financial condition and results of operations included our Annual Report dated March 1, 2013 and filed with the SEC on Form 10-K.

Recent Accounting Pronouncements

See Note 1 in Notes to Condensed Consolidated Financial Statements.

Results of Operations

Edgar Filing: Bankrate, Inc. - Form 10-Q

The following is our analysis of the results of operations for the periods covered by our interim consolidated financial statements. This analysis should be read in conjunction with our annual financial statements, including the related notes to the annual financial statements included within our Annual Report dated March 1, 2013 and filed with the SEC on Form 10-K.

Table of Contents

The following table displays our results for the respective periods expressed as a percentage of total revenue.

	Three months ended	
	March 31, 2013	March 31, 2012
Statement of Operations Data:		
Revenue	100%	100%
Cost of revenue (excludes depreciation and amortization)	33%	32%
Gross margin	67%	68%
Operating expenses:		
Sales	4%	3%
Marketing	24%	25%
Product development	4%	4%
General and administrative	11%	8%
Legal settlements	0%	0%
Acquisition, offering and related expenses and related party fees	0%	0%
Depreciation and amortization	13%	10%
	56%	50%
Income from operations	11%	18%
Interest and other expenses, net	6%	5%
Change in fair value of contingent acquisition consideration	1%	0%
Income before income taxes	4%	13%
Income tax expense	2%	5%
Net income	2%	8%

Revenue

	Three months ended	
	March 31, 2013	March 31, 2012
<i>(In thousands)</i>		
Online (1)	\$ 106,465	\$ 123,007
Print publishing	1,983	2,013
Total revenue	\$ 108,448	\$ 125,020

(1) Consists of display advertising, hyperlink and lead generation.

Cost of Revenue (excludes depreciation and amortization) and Gross Margin

	Three months ended	
	March 31, 2013	March 31, 2012
<i>(In thousands)</i>		

Edgar Filing: Bankrate, Inc. - Form 10-Q

Revenue	\$ 108,448	\$ 125,020
Cost of revenue	36,039	40,278
Gross margin	\$ 72,409	\$ 84,742
Gross margin as a percentage of revenue	67%	68%

Table of Contents

Three Months Ended March 31, 2013 Compared to Three Months Ended March 31, 2012

Revenue

Total revenue was \$108.4 million and \$125.0 million for the three months ended March 31, 2013 and 2012, respectively, representing a decrease of 13%, due to the reasons set forth below.

Display advertising revenue increased by \$961,000 for the three months ended March 31, 2013 compared to the same period in 2012, which was driven by the increase in page views (\$1.4 million impact), offset by a decrease in cost per impressions yield per page (\$474,000 impact).

Hyperlink revenue decreased by \$1.3 million for the three months ended March 31, 2013 compared to the same period in 2012, due to a decrease in the number of clicks (\$1.9 million impact) and an increase in the overall rate (\$611,000 impact). The decline in click volume was primarily in the insurance vertical which offset increases in mortgage and deposits. The increase in the overall rate is driven by increased rates in mortgage and deposit products.

Per approved lead and per application lead generation revenue combined decreased by \$16.3 million for the three months ended March 31, 2013 compared to the same period in 2012. The overall decrease consisted of a blend of insurance lead revenue decreasing by approximately 44% due to our strategic quality initiative while card product revenue increased by approximately 15%, as a result of an increase in marketing activities and purchasing on the part of the credit card issuers.

Cost of Revenue (excludes depreciation and amortization) and Gross Margin

Cost of revenue for the three months ended March 31, 2013 of \$36.0 million was \$4.2 million lower than the same period in 2012. The Company incurred \$4.9 million less in distribution payments to our online partners and affiliates as a result of lower online revenue on affiliate sites partially offset by \$430,000 in higher outside labor costs and \$268,000 in higher compensation. The Company also incurred \$128,000 for stock-based compensation expense for the three months ended March 31, 2013 and \$209,000 for the same period in 2012. Our gross margin for the three months ended March 31, 2013 was 67%, compared to 68% for the same period in 2012, decreasing primarily due to higher share of direct traffic to insurance lead business and growth in margin in cost per click and display business.

Operating Expenses

Sales

Sales expenses for the three months ended March 31, 2013 of \$3.8 million were approximately \$152,000 lower than the same period in 2012, primarily due to \$162,000 in lower compensation costs due to decreased commissions on lower sales.

Marketing

Marketing expenses for the three months ended March 31, 2013 of \$26.2 million were \$5.0 million lower than the same period in 2012. The decrease is primarily due to the Company incurring \$5.2 million in lower search engine marketing (SEM) expense partially offset by \$194,000 higher agency marketing expense.

Product Development

Product development costs for the three months ended March 31, 2013 of \$4.5 million were approximately \$68,000 higher than the comparable period in 2012, primarily due to \$123,000 in higher outside labor costs and \$74,000 in higher internet data transmission costs, offset by \$163,000 in lower stock compensation expense.

General and Administrative

General and administrative expenses for the three months ended March 31, 2013 of \$11.7 million were \$1.7 million higher than the same period in 2012, due primarily to increases of \$1.2 million in professional fees and \$241,000 in employee costs due to increased head count.

Acquisition, Offering and Related Expenses and Related Party Fees

Edgar Filing: Bankrate, Inc. - Form 10-Q

Acquisition, offering and related expenses and related party fees for the three months ended March 31, 2013 was \$0 as compared to \$197,000 for the same period in 2012. The acquisition, offering and related expenses and related party fees for the three months ended March 31, 2012 were primarily related to costs associated with the IRS audit stemming from the Bankrate Acquisition.

Table of Contents*Depreciation and Amortization*

Depreciation and amortization expense for the three months ended March 31, 2013 of \$14.5 million was \$2.7 million higher than the same period in 2012 due to \$2.4 million increase in amortization expense resulting from various intangibles acquired.

Interest and Other Expenses, net

Interest and other expenses, net for the three months ended March 31, 2013 primarily consists of expenses associated with the Senior Secured Notes, partially offset by other income and de minimis interest earned on cash and cash equivalents. Interest and other expenses, net for the three months ended March 31, 2013 was \$6.5 million, which primarily consisted of \$5.7 million for the Senior Secured Notes and \$671,000 for amortization of deferred financing costs and original issue discount.

Interest and other expenses, net for the three months ended March 31, 2012 was \$6.5 million, which primarily consisted of \$5.7 million for the Senior Secured Notes, and \$596,000 of amortization of deferred financing costs and original issue discount partially offset by de minimis interest earned on cash and cash equivalents.

Changes in Fair Value of Contingent Acquisition Consideration

Changes in fair value of contingent acquisition consideration for the three months ended March 31, 2013 was \$1.1 million and consisted of increases of \$2.5 million in fair value of contingent amounts and a decrease of \$1.4 million in fair value of other contingent amounts.

Changes in fair value of contingent acquisition consideration for the three months ended March 31, 2012 was \$43,000 and consisted of increased to the fair value of one contingent amount.

Income Tax Expense

Our income tax expense for the three months ended March 31, 2013 of \$1.8 million was \$4.7 million lower than our income tax expense of \$6.5 million for the three months ended March 31, 2012. Our effective tax rate changed from approximately 39% during the three months ended March 31, 2012 to approximately 46% in the same period in 2013 due to foreign losses and interest incurred during the three months ended March 31, 2013 on liabilities related to unrecognized tax benefits.

Liquidity and Capital Resources

<i>(In thousands)</i>	March 31, 2013	December 31, 2012	Change
Cash and cash equivalents	\$ 89,240	\$ 83,590	\$ 5,650
Working capital	\$ 105,143	\$ 102,534	\$ 2,609
Stockholders' equity	\$ 832,279	\$ 828,151	\$ 4,128

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.

Our primary uses of cash have been to fund our working capital and capital expenditure needs, fund acquisitions, and service our debt obligations. We believe that we can generate sufficient cash flows from operations to fund our operating and capital expenditure requirements, as well as to service our debt obligations, for the next 12 months. In the event we experience a significant adverse change in our business operations, we would likely need to secure additional sources of financing.

As of March 31, 2013, we had working capital of \$105.1 million and our primary commitments were normal working capital requirements and \$4.9 million in accrued interest for the Senior Secured Notes. In addition, we have commitments for potential earn out obligations related to past acquisitions totaling \$27.0 million as of March 31, 2013.

As of December 31, 2012, we had working capital of \$102.5 million and our primary commitments were normal working capital requirements and \$10.6 million in accrued interest for the Senior Secured Notes.

Edgar Filing: Bankrate, Inc. - Form 10-Q

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 any 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 or at all when required.

Table of Contents
Debt Financing***Revolving Credit Facilities***

We have certain Revolving Credit Facilities in an aggregate amount of \$100.0 million, consisting of two tranches, tranche A for \$30.0 million which matures on July 15, 2015 and tranche B for \$70.0 million which matures on April 15, 2015 (*Revolving Credit Facilities*). Our obligations under the Revolving Credit Facilities are guaranteed by each direct and indirect, existing and future, domestic restricted subsidiary that guarantees our obligations under the Senior Secured Notes.

As of March 31, 2013, we had no amount outstanding under the Revolving Credit facilities and we were in compliance with all required covenants.

Senior Secured Notes

As of March 31, 2013, we had approximately \$194.0 million in Senior Secured Notes outstanding for which interest is accrued daily on the outstanding principal amount at 11 ³/₄ % and is payable semi-annually, in arrears, on July 15th and January 15th in cash. The Senior Secured Notes are due July 15, 2015. Accrued interest on the Senior Secured Notes as of March 31, 2013 is approximately \$4.9 million. Refer to Note 10 in the Notes to Consolidated Financial Statements for a further description of the Senior Secured Notes.

Operating Activities

During the three months ended March 31, 2013, operating activities provided cash of \$12.4 million. Our net income of \$2.2 million was adjusted for depreciation and amortization of \$14.5 million, bad debt expense of \$96,000, amortization of deferred financing costs and original issue discount of \$671,000 million, stock-based compensation expense of \$2.2 million and a net negative change in the components of operating assets and liabilities of \$8.4 million. This negative change in operating assets and liabilities resulted from a \$6.7 million increase in accounts receivable, \$2.6 million decrease in prepaid expenses and other assets, a \$2.0 million increase in accrued expenses, \$5.6 million decrease in other liabilities, and a \$703,000 decrease in accounts payable.

During the three months ended March 31, 2012, we generated \$12.8 million of cash in operating activities. Our net income of \$10.2 million was adjusted for depreciation and amortization of \$11.8 million, bad debt expense of \$180,000, amortization of deferred financing costs and original issue discount of \$596,000, stock based compensation expense of \$2.7 million and a net negative change in the components of operating assets and liabilities of \$12.6 million. This negative change in operating assets and liabilities resulted in part from decreases of \$5.4 million in accrued expenses, \$2.2 million in deferred revenue and customer deposits, and \$5.6 million in other liabilities primarily due to interest accrued less interest paid on the Notes, partially offset by increases of \$578,000 in accounts receivable, and \$1.1 million in accounts payable.

Investing Activities

For the three months ended March 31, 2013, cash flows used in investing activities was \$6.7 million and includes \$3.0 million of cash used for business acquisitions and \$3.7 million for purchases of furniture, fixtures, equipment and capitalized website development costs.

For the three months ended March 31, 2012, cash flows used in investing activities was \$3.8 million and includes \$1.7 million of cash used for business acquisitions and \$2.1 million for purchases of furniture, fixtures, equipment and capitalized website development costs.

Financing Activities

For the three months ended March 31, 2013, no cash was used in or provided by financing activities.

For the three months ended March 31, 2012, cash used in financing activities was \$1.0 million and includes \$1.0 million of cash used for acquisition earn outs and contingent liabilities.

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.

Edgar Filing: Bankrate, Inc. - Form 10-Q

Besides the offering of the Senior Secured Notes, 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.

Table of Contents

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 March 31, 2013, all of our cash equivalents mature in less than three months.

None of our outstanding debt as of March 31, 2013 was subject to variable interest rates as we did not have an outstanding balance for borrowed money under our Revolving Credit Facilities as of March 31, 2013. Interest under the Revolving Credit Facilities accrues at variable rates based, at our option, on the Alternate Base Rate (as defined in the Revolving Credit Facilities) plus a margin of between 2% and 2.25%, or at the LIBOR rate plus a margin of between 3.00% and 3.25%, depending on certain criteria. Our fixed interest rate debt includes \$194 million of the Senior Secured Notes in the aggregate principal amount.

Exchange Rate Sensitivity

Our exposure to exchange rate risk is primarily that of a net receiver of currencies other than the US dollar. Accordingly, changes in exchange rates, and in particular a strengthening of the U.S. dollar, will negatively affect the Company's net sales and gross margins as expressed in U.S. dollars. Additionally, we have not engaged in any derivative or hedging transactions to date.

Item 4. Controls and Procedures **Disclosure Controls and Procedures**

We have established disclosure controls and procedures to ensure that material information relating to the Company is made known to the officers who certify the Company's financial reports and to other members of senior management and the board of directors.

Based on their evaluation as of March 31, 2013, the principal executive officer and principal financial officer of the Company have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms and to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure.

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 Controls over Financial Reporting

There has not been any change in our internal control over financial reporting that occurred during the quarter ended March 31, 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The information with respect to legal proceedings is incorporated by reference from Note 9 of our Consolidated Financial Statements included herein.

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report, you should carefully consider the factors discussed under the heading "Risk Factors" included within our Annual Report dated March 1, 2013 and filed with the SEC on Form 10-K. The risks described in our

Table of Contents

annual report 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 has been no material changes in our risk factors from those disclosed in our annual report referred to above.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
Company Purchase of Equity Securities

The following table sets forth the Company's purchases of equity securities for the periods indicated:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs ⁽¹⁾
January 1, 2013 through January 31, 2013				\$ 70,000,000
February 1, 2013 through February 28, 2013				\$ 70,000,000
March 1, 2013 through March 31, 2013				\$ 70,000,000

- (1) On February 12, 2013 the Company's Board of Directors authorized a \$70 million share repurchase program which allows the Company to repurchase shares of its common stock in open market or private transactions. The program will expire on December 31, 2014.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description
31.1*	Certification of Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as Adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as Adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document

Edgar Filing: Bankrate, Inc. - Form 10-Q

101.LAB** XBRL Taxonomy Extension Label Linkbase Document
101.PRE** XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith

** Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability

Table of Contents

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.

Date: May 10, 2013

Bankrate, Inc.

By: /s/ Edward J. DiMaria
Edward J. DiMaria
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)