

Bankrate, Inc.
Form 10-Q
May 09, 2016
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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, 2016

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)

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Delaware
(State or other jurisdiction of incorporation or organization)

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

477 Madison Avenue, Suite 430

New York, NY
(Address of principal executive offices)

10022
(Zip Code)

Registrant's telephone number, including area code: 917-368-8600

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 29, 2016 was as follows: 90,367,003 shares of Common Stock, \$.01 par value.

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Bankrate, Inc. and Subsidiaries

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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,” “estimates,” 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 or regarding resolution of regulatory matters described in this Quarterly Report on Form 10-Q 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 or unknown 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 (“SEC” or “Commission”) on March 9, 2016 as updated in Part II, Item 1A. “Risk Factors” in this Quarterly Report on Form 10-Q. All forward-looking information in this Quarterly Report on Form 10-Q 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 or interest of banks, lenders, brokers, credit card issuers, senior care providers and other advertisers in the business verticals in which we operate to advertise on our websites or mobile applications, or purchase our leads, clicks, calls and referrals;
- changes in application approval rates by our credit card issuer customers;
- increased competition and its effect on our website traffic, click-through rates, advertising rates, margins, and market share;
- our dependence on internet search engines to attract a significant portion of the visitors to our websites and our ability to diversify the sources from which we obtain visitor traffic to our websites and mobile applications, including without limitation through use of social media channels;
- changes in the way that search engines display paid and organic search results and the impact of those changes on the number of consumers that visit our online network and the cost of driving consumers to our online network;
- our dependence on traffic from our partners to produce a significant portion of the Company’s revenue and our ability to establish and maintain distribution arrangements;
- the risk that a condition to closing of the NextAdvisor transaction may not be satisfied, including without limitation antitrust regulatory approval;
- other risks to consummation of the NextAdvisor transaction, including the risk that the NextAdvisor transaction will not be consummated within the expected time period or at all;
- the effects of disruption from the announcement of the NextAdvisor transaction or the NextAdvisor transaction itself making it more difficult to maintain relationships with employees, customers, suppliers and other business partners;
- risks related to the successful integration of the NextAdvisor business acquired and the ability to realize the expected benefits from such acquisition;
- risks and uncertainties associated with the NextAdvisor business;
- the willingness of consumers to accept the Internet and our online network as a medium for obtaining information on financial products or senior care;

- shift of visitors from desktop to mobile and mobile app environments;
- the rate of conversion of consumers' visits to our websites or mobile applications into senior care referrals and the rate at which those referrals result in move-ins with our senior care customers;
- the number of consumers seeking information about the financial and senior care products we have on our websites or mobile applications;

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- our ability to successfully execute on our strategies, and the effectiveness of our strategies and investments in our business, including without limitation whether they result in increased revenue or profitability;
- our ability to maintain good working relationships with our customers and third-party providers and to continue to attract new customers;
- the material weakness in the operating effectiveness of our internal controls over financial reporting discussed in our 2015 Annual Report on Form 10-K and our ability to remediate the weakness completely and promptly;
- risks relating to the defense or litigation of lawsuits, including the putative securities class action lawsuit currently pending and described in our SEC filings;
- the timing and outcome of, including potential expense associated with, and the potential impact on our business and stock price of any announcements regarding, the United States Department of Justice (“DOJ”) investigation relating to our financial reporting during 2012;
- the timing and outcome of, including potential expense associated with, and the potential impact on our business and stock price of any announcements regarding, the Consumer Financial Protection Bureau (“CFPB”) investigation;
- any delay or failure to pay the deferred portion of the purchase price, or contractually required reduction in the purchase price as a result of closing working capital adjustments, in connection with the sale of the Company’s Insurance business in December 2015;
- our ability to anticipate and manage cybersecurity risk and data security risk and to mitigate or resolve issues that may arise;
- the effects of any security breach, data breach or cyberattack on our systems, websites or mobile applications, or on our reputation, and the impact of any notification costs or other liability arising from any security breach, data breach or cyberattack on our business;
- technological changes and our ability to adapt to new or evolving technologies that affect our business environment or operations;
- our ability to maintain effective disclosure controls and procedures and internal control over financial reporting;
- our ability to manage traffic on our websites or mobile applications, and service interruptions;
- our ability to maintain and develop our brands and content;
- our indebtedness and the effect such indebtedness may have on our business;
- our need and our ability to obtain additional debt or equity financing;
- our ability to integrate the operations and realize the expected benefits of businesses that we have acquired and may acquire in the future;
- the effect of unexpected liabilities we assume (whether intentional or not) from our acquisitions;
- the effect of programmatic advertising platforms on display revenue;
- our ability to attract and retain executive officers and personnel;
- any failure or refusal by our insurance providers to provide coverage under our insurance policies;
- our ability to protect our intellectual property;
- the effects of potential liability for content on our websites or mobile applications;
- the effect of our operations in the United Kingdom and possible expansion to other international markets, in which we may have limited experience, and our ability to successfully execute on our business strategies in international markets;
- 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 and interest rate volatility;
- changes in consumer spending and saving habits;
- review of our business and operations by regulatory or other governmental authorities;
- changes in laws and regulations or interpretations of laws and regulations, other changes in the legal and regulatory environment, and the impact of such changes on the operation of our business;
- any impairment to our goodwill and/or intangible assets, including without limitation the potential for impairment of the goodwill of our Senior Care segment as discussed in Note 2 to the Condensed Consolidated Financial Statements included in this report;

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- changes in accounting principles, policies, practices or guidelines; and
- 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 on Form 10-Q 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.

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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, 2016	December 31, 2015
Assets		
Cash and cash equivalents	\$ 204,387	\$ 236,866
Accounts receivable, net of allowance for doubtful accounts of \$215 and \$147, respectively	55,013	56,148
Prepaid expenses and other current assets	25,041	27,660
Assets held for sale	947	1,157
Total current assets	285,388	321,831
Furniture, fixtures and equipment, net of accumulated depreciation of \$15,399 and \$14,245, respectively	10,742	9,608
Intangible assets, net of accumulated amortization of \$176,938 and \$168,613, respectively	197,312	205,758
Goodwill	567,544	567,544
Other assets	22,293	23,127
Total assets	\$ 1,083,279	\$ 1,127,868
Liabilities and stockholders' equity		
Liabilities		
Accounts payable	\$ 1,360	\$ 10,082
Accrued expenses	28,542	25,574
Deferred revenue and customer deposits	1,381	1,367
Accrued interest payable	2,297	6,890
Other current liabilities	6,179	14,660
Liabilities subject to sale	1,428	1,393
Total current liabilities	41,187	59,966
Deferred income taxes	6,950	7,552
Long term debt, net of unamortized discount	293,881	293,284
Other liabilities	5,707	5,871
Total liabilities	347,725	366,673
Commitments and contingencies (Note 9)		
Stockholders' equity		
Common stock, par value \$.01 per share - 300,000,000 shares authorized 103,292,228 shares and 103,845,310 shares issued,		

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respectively; 93,077,600 shares and 96,794,018 shares outstanding, respectively	1,034	1,039
Additional paid-in capital	889,162	886,261
Accumulated deficit	(36,702)	(36,985)
Less: Treasury stock, at cost - 10,214,628 shares and 7,051,292 shares, respectively	(117,373)	(88,616)
Accumulated other comprehensive loss	(567)	(504)
Total stockholders' equity	735,554	761,195
Total liabilities and stockholders' equity	\$ 1,083,279	\$ 1,127,868

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

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Bankrate, Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

(In thousands, except share and per share data)

	Three months ended	
	March 31, 2016	March 31, 2015
Revenue	\$ 93,278	\$ 89,010
Costs and expenses:		
Cost of revenue	47,205	41,310
Sales and marketing	4,816	3,973
Product development and technology	6,544	4,904
General and administrative	16,735	15,708
Legal settlements	(851)	-
Acquisition, disposition and related expenses	-	263
Restructuring charges	(34)	-
Changes in fair value of contingent acquisition consideration	(162)	(240)
Depreciation and amortization	9,551	9,462
Total costs and expenses	83,804	75,380
Income from operations	9,474	13,630
Interest and other expenses, net	4,855	5,269
Income before taxes		