Bankrate, Inc.
Form 10-Q
November 14, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2012

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)

Delaware	**65-0423422**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
11760 U.S. Highway One, Suite 200 North Palm Beach, Florida	**33408**
(Address of principal executive offices)	**(Zip Code)**

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

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

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

The number of outstanding shares of the issuer s common stock as of October 31, 2012 was as follows: 100,047,525 shares of Common Stock, $.01 par value.

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Bankrate, Inc. and Subsidiaries

Quarterly Report on Form 10-Q for the Quarter Ended September 30, 2012

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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, 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 12, 2012. 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;
- our ability to integrate the business and operations of companies that we have acquired, and those we may acquire in the future;

the effect of unexpected liabilities we assume from our acquisitions;

our ability to successfully execute on our strategy, including our 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;

our ability to establish and maintain distribution arrangements;

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- 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 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.

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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)

	September 30, 2012	December 31, 2011
Assets		
Cash and cash equivalents	$ 71,109	$ 56,213
Accounts receivable, net of allowance for doubtful accounts of $1,501 and $1,534 at September 30, 2012 and December 31, 2011	60,445	60,543
Deferred income taxes	25,131	24,690
Prepaid expenses and other current assets	7,706	2,535
Total current assets	164,391	143,981
Furniture, fixtures and equipment, net of accumulated depreciation of $11,302 and $6,676 at September 30, 2012 and December 31, 2011	10,009	9,065
Intangible assets, net of accumulated amortization of $115,510 and $81,212 at September 30, 2012 and December 31, 2011	395,135	378,240
Goodwill	602,768	595,522
Other assets	12,092	10,604
Total assets	$ 1,184,395	$ 1,137,412
Liabilities and Stockholders Equity		
Liabilities		
Accounts payable	$ 7,668	$ 9,564
Accrued expenses	24,674	26,288
Deferred revenue and customer deposits	3,375	5,891
Accrued interest	4,898	10,588
Other current liabilities	13,632	3,969
Total current liabilities	54,247	56,300
Deferred income taxes	82,670	82,670
Senior secured notes, net of unamortized discount	193,857	193,613
Other liabilities	28,120	16,367
Total liabilities	358,894	348,950
Commitments and contingencies (Note 10)		
Stockholders equity		
Common stock, par value $.01 per share - 300,000,000 shares authorized at September 30, 2012 and December 31, 2011; 100,097,969 and 99,992,000 shares issued at September 30, 2012 and December 31, 2011; 100,047,525 and 99,992,000 shares outstanding at September 30, 2012 and December 31, 2011	1,000	1,000
Additional paid-in capital	841,101	832,797

Accumulated deficit	(15,608)	(44,595)
Less: Treasury stock, at cost 50,444 and 0 shares at September 30, 2012 and December 31, 2011	(591)	
Accumulated other comprehensive loss	(401)	(740)
Total stockholders equity	825,501	788,462
Total liabilities and stockholders equity	$ 1,184,395	$ 1,137,412

The accompanying notes are an integral part of these 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		Nine months ended	
	September 30, 2012	**September 30, 2011**	**September 30, 2012**	**September 30, 2011**
Revenue	$ 116,775	$ 112,904	$ 363,920	$ 310,431
Cost of revenue (excludes depreciation and amortization)	37,682	38,071	115,569	111,346
Gross margin	79,093	74,833	248,351	199,085
Operating expenses:				
Sales	4,123	3,620	12,077	9,578
Marketing	34,986	24,007	97,787	59,709
Product development	4,082	3,696	12,652	10,818
General and administrative	8,302	9,990	27,469	24,978
Legal settlements	833		898	
Acquisition, offering and related expenses and related party fees	(512)	1,163	367	40,858
Restructuring charges				238
Depreciation and amortization	14,103	10,899	38,459	32,565
	65,917	53,375	189,709	178,744
Income from operations	13,176	21,458	58,642	20,341
Interest and other expenses, net	(8,107)	(6,519)	(21,417)	(25,439)
Loss on early extinguishment of senior secured notes				(16,629)
Income (loss) before income taxes	5,069	14,939	37,225	(21,727)
Income tax expense	2,509	7,807	8,238	5,740
Net income (loss)	$ 2,560	$ 7,132	$ 28,987	$ (27,467)
Basic and diluted net income (loss) per share:				
Basic	$ 0.03	$ 0.07	$ 0.29	$ (0.30)
Diluted	0.03	0.07	0.29	(0.30)
Weighted average common shares outstanding:				
Basic	99,918,198	99,879,865	99,948,113	92,233,345
Diluted	100,541,993	100,427,391	101,157,285	92,233,345
Comprehensive income (loss)	$ 2,633	$ 7,000	$ 29,326	$ (27,410)

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

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Bankrate, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)

	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Cash flows from operating activities		
Net income (loss)	$ 28,987	$ (27,467)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Depreciation and amortization	38,459	32,565
Provision for doubtful accounts receivable	464	1,738
Deferred income taxes	(441)	
Amortization of deferred financing charges and original issue discount	1,854	1,812
Stock-based compensation	6,842	2,927
Loss on redemption of senior secured notes		16,629
Loss on disposal of assets	47	189
Change in operating assets and liabilities, net of effect of business acquisitions		
Accounts receivable	(364)	(28,672)
Prepaid expenses and other assets	(5,133)	(5,145)
Accounts payable	(1,767)	(3,629)
Accrued expenses	(4,223)	3,959
Other liabilities	(8,442)	1,119
Deferred revenue	(2,855)	(3,773)
Net cash provided by (used in) operating activities	53,428	(7,748)
Cash flows from investing activities		
Purchases of furniture, fixtures and equipment and capitalized website development costs	(10,375)	(4,992)
Cash used in business acquisitions, net	(26,893)	(26,440)
Restricted cash	(309)	2
Net cash used in investing activities	(37,577)	(31,430)
Cash flows from financing activities		
Cash paid for acquisition earnouts and contingent liabilities	(2,000)	(576)
Debt issuance costs		(2,950)
Repurchase of senior secured notes		(117,337)
Purchase of Company common stock	(591)	
Proceeds from issuance of common stock, net of costs	1,462	170,319
Payments to dissenting stockholders		(61,253)
Net cash used in financing activities	(1,129)	(11,797)
Effect of exchange rate on cash and cash equivalents	174	(166)
Net increase (decrease) in cash	14,896	(51,141)
Cash - beginning of period	56,213	115,630
Cash - end of period	$ 71,109	$ 64,489

Supplemental disclosure of other cash flow activities		
Cash paid for interest	$ 23,165	$ 35,060
Cash paid (refunded) for taxes, net of refunds/payments	19,319	(317)

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

BANKRATE, INC., AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2012

(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 persona 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.

2011 Merger and Recapitalization

On June 21, 2011, Bankrate s parent company, BEN Holdings, Inc. (Holdings), a majority owned subsidiary of Ben Holdings S.à.r.l, merged with and into the Company with the Company surviving the merger (2011 Merger). In connection with the 2011 Merger, Holdings underwent an internal recapitalization in which all preferred and common shares of Holdings were exchanged for shares of a single series of common stock of Holdings (the Recapitalization). As a result of the Recapitalization and 2011 Merger, all preferred and common stock (other than restricted stock) of the Company were cancelled and all shares of common stock of Holdings were converted into common stock of the Company. Immediately following the Recapitalization and 2011 Merger, the Company had 87,500,000 shares of common stock issued and outstanding, including 120,135 shares of restricted stock. The surviving corporation in the 2011 Merger retained the name Bankrate, Inc. The 2011 Merger was accounted for as a common control merger and in a manner similar to a pooling of interests. Accordingly, Holdings and Bankrate were consolidated retroactively to the earliest period presented, using the historical cost basis of each entity. The common stock, per common share, and increase in authorized share amounts in these unaudited condensed consolidated financial statements and notes to condensed consolidated financial statements have been presented to retroactively reflect these transactions to the earliest period presented.

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 and nine months ended September 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012, 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 2011 Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on March 12, 2012.

There have been no significant changes in the Company s accounting policies from those disclosed in the Company s 2011 Annual Report on Form 10-K filed with the SEC on March 12, 2012.

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BANKRATE, INC., AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2012

(Unaudited)

Reclassification

Certain reclassifications have been made to the Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2011 and to the Condensed Consolidated Statement of Cash Flows for the nine months ended September 30, 2011 to conform to the presentation for the three and nine months ended September 30, 2012.

New Accounting Pronouncements

Recently Adopted Pronouncements

In May 2011, the FASB issued 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 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.

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.

Recently Issued Pronouncements, Not Adopted as of September 30, 2012

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 is not expected to have a material impact on the Company s consolidated financial statements.

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BANKRATE, INC., AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2012

(Unaudited)

NOTE 2 GOODWILL AND INTANGIBLE ASSETS

Goodwill activity for the nine months ended September 30, 2012 is shown below:

Balance, December 31, 2011	$ 595,522
Acquisition of certain assets and liabilities of various entities	6,687
Adjustment during the measurement period relating to the acquisition of InsWeb Corporation	559
Balance, September 30, 2012	$ 602,768

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. During the nine months ended September 30, 2012, the Company entered into a three year exclusive arrangement with one of its partners. In connection with the new contract, the Company recognized a $5 million intangible asset, valued based on the relative fair value of estimated contract costs, related to certain exclusive rights and is amortizing such asset over a period of three years in proportion to the income derived from such asset. The Company recorded amortization expense related to this asset of $373,000 and $624,000 for the three and nine months ended September 30, 2012, respectively. During the nine months ended September 30, 2012, the Company recorded a measurement period adjustment related to the acquisition of InsWeb Corporation. This adjustment was immaterial to the December 31, 2011 balance and therefore was not retroactively adjusted. During the three months ended September 30, 2012, the Company shortened the useful lives of certain developed technology intangible assets and recorded an additional $274,000 of amortization expense as a catch up adjustment.

Intangible assets subject to amortization were as follows as of September 30, 2012:

(In thousands)	**Cost**	**Accumulated Amortization**	**Net**
Trademarks and URLs	$ 243,115	$ (29,232)	$ 213,883
Customer Relationships	228,999	(64,946)	164,053
Affiliate Network	20,840	(10,749)	10,091
Developed technology	17,691	(10,583)	7,108
	$ 510,645	$ (115,510)	$ 395,135

Intangible assets subject to amortization were as follows as of December 31, 2011:

(In thousands)	**Cost**	**Accumulated Amortization**	**Net**
Trademarks and URLs	$ 209,283	$ (18,301)	$ 190,982

Customer Relationships	219,911	(45,114)	174,797
Affiliate Network	12,790	(10,576)	2,214
Developed technology	17,468	(7,221)	10,247
	$ 459,452	$ (81,212)	$ 378,240

Amortization expense for the three months ended September 30, 2012 and 2011 was $12.7 million and $9.8 million, respectively. Amortization expense for the nine months ended September 30, 2012 and 2011 was $34.3 million and $29.6 million, respectively.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2012

(Unaudited)

Future amortization expense as of September 30, 2012 is expected to be:

(In thousands)	**Amortization Expense**
Remainder of 2012	$ 12,891
2013	49,929
2014	47,069
2015	45,659
2016	44,051
Thereafter	195,536
Total expected amortization expense for intangible assets	$ 395,135

NOTE 3 EARNINGS PER SHARE

We compute basic earnings per share by dividing net income(loss) 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 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:

	Three months ended		**Nine months ended**	
(In thousands, except share and per share data)	**September 30, 2012**	**September 30, 2011**	**September 30, 2012**	**September 30, 2011**
Net income (loss)	$ 2,560	$ 7,132	$ 28,987	$ (27,467)
Weighted average common shares outstanding for basic earnings per share	99,918,198	99,879,865	99,948,113	92,233,345
Additional dilutive shares related to share based awards	623,795	547,526	1,209,172	
Weighted average common shares outstanding for diluted earnings (loss) per share	100,541,993	100,427,391	101,157,285	92,233,345
Basic and diluted earnings (loss) per share:				
Basic	$ 0.03	$ 0.07	$ 0.29	$ (0.30)
Diluted	$ 0.03	$ 0.07	$ 0.29	$ (0.30)

For the three and nine months ended September 30, 2012, there were 395,000 and 195,000 stock options, respectively, which are not included in the calculation of diluted earnings per share because their impact would have been anti-dilutive. For the three and nine months ended

September 30, 2011 there were 0 and 4,840,000 stock options and 0 and 114,735 restricted shares, respectively, which are not included in the calculation of diluted earnings per share because their impact would have been anti-dilutive.

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BANKRATE, INC., AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2012

(Unaudited)

NOTE 4 STOCKHOLDERS EQUITY

The activity in stockholders equity for the nine months ended September 30, 2012 is shown below:

	Common Stock						
	Shares	Amount	Additional paid-in capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Loss - Foreign Currency Translation	Total Stockholders Equity
Balance at December 31, 2011	99,992	$ 1,000	$ 832,797	$ (44,595)	$	$ (740)	$ 788,462
Other comprehensive income, net of taxes						339	339
Treasury stock purchased	(32)				(591)		(591)
Restricted stock forfeited	(10)						
Common stock issued	98		1,462				1,462
Stock-based compensation			6,842				6,842
Net income				28,987			28,987
Balance at September 30, 2012	100,048	$ 1,000	$ 841,101	$ (15,608)	$ (591)	$ (401)	$ 825,501

NOTE 5 GEOGRAPHIC DATA AND CONCENTRATIONS

No single country outside of the U.S. accounted for more than 10% of revenue during the three and nine months ended September 30, 2012 and 2011. There were two customers that accounted for 11% and 10% of net sales during the three months ended September 30, 2012 and 1 customer that accounted for 11% of net sales during the nine months ended September 30, 2012. There was one customer that accounted for 12% of net sales during the three months ended September 30, 2011 and 1 customer that accounted for 12% of net sales during the nine months ended September 30, 2011. One customer s accounts receivable balances constituted 14% while a second customer s balance constituted 12% of the accounts receivable balance as of September 30, 2012. Two customers accounts receivable balances each constituted more than 10% of the accounts receivable balance at December 31, 2011.

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BANKRATE, INC., AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2012

(Unaudited)

Revenue related to the U.S. and international operations and revenue by type for the three and nine months ended September 30, 2012 and 2011, and long-lived assets related to the U.S. and international operations as of September 30, 2012 and December 31, 2011 are as follows:

(In thousands)	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Revenue:				
USA	$ 111,333	$ 110,774	$ 362,220	$ 304,132
International	5,442	2,130	1,700	6,299
	$ 116,775	$ 112,904	$ 363,920	$ 310,431
Revenue:				
Online	$ 114,714	$ 110,937	$ 357,801	$ 304,313
Print	2,061	1,967	6,119	6,118
	$ 116,775	$ 112,904	$ 363,920	$ 310,431

(In thousands)	September 30, 2012	December 31, 2011
Long lived assets:		
USA	$ 1,003,210	$ 978,010
International	4,702	4,817
Balance, end of period	$ 1,007,912	$ 982,827

NOTE 6 FAIR VALUE MEASUREMENT

The carrying amounts of cash, accounts receivable and 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 September 30, 2012 and December 31, 2011:

(In thousands)	September 30, 2012 Carrying Amount	September 30, 2012 Estimated Fair Value	December 31, 2011 Carrying Amount	December 31, 2011 Estimated Fair Value
Financial Assets:				

Cash and cash equivalents	$ 71,109	$ 71,109	$ 56,213	$ 56,213
Accounts receivable	60,445	60,445	60,543	60,543
Financial Liabilities:				
Senior Secured Notes	$ 193,857	$ 218,400	$ 193,613	$ 220,961
Accrued interest	4,898	4,898	10,588	10,588

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BANKRATE, INC., AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2012

(Unaudited)

NOTE 7 STOCK-BASED COMPENSATION

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 September 30, 2012, 6,988,382 shares were available for future issuance under the 2011 plan.

During the nine months ended September 30, 2012, the Company updated its calculation of stock-based compensation expense to use a higher forfeiture rate based on actual forfeitures during the previous twelve months rather than the forfeiture rate estimated in June 2011 based on historical experience. The result of this change in estimate to increase the forfeiture rate was recognized as a cumulative catch up adjustment in June 2012 to reduce stock-based compensation expense by $724,000.

The stock-based compensation expense for stock options and restricted stock awards recognized in our condensed consolidated statements of comprehensive income for the three and nine months ended September 30, 2012, is as follows:

	Three months ended		**Nine months ended**	
(In thousands)	**September 30, 2012**	**September 30, 2011**	**September 30, 2012**	**September 30, 2011**
Cost of revenue	$ 123	$ 203	$ 471	$ 237
Operating expenses:				
Sales	342	415	1,034	484
Marketing	267	222	742	259
Product development	338	448	1,151	523
General and administrative	1,175	1,221	3,444	1,424
Total stock-based compensation	$ 2,245	$ 2,509	$ 6,842	$ 2,927

Restricted Stock

The following table summarizes restricted stock award activity for the nine months ended September 30, 2012:

	Number of Shares	**Weighted Average Grant Date Fair Value**
Balance, December 31, 2011	112,135	$ 15.00
Granted		
Vested and released	(102,035)	$ 15.00
Forfeited	(10,100)	$ 15.00
Expired		

Balance, September 30, 2012	$	15.00

Stock-based compensation expense for the three and nine months ended September 30, 2012 included approximately $0 and $737,000 related to restricted stock awards, respectively. As of September 30, 2012, there was no unrecognized compensation cost related to non-vested restricted stock awards.

Stock Options

During the nine months ended September 30, 2012 we granted stock options for 360,000 shares. The stock options granted have a weighted average exercise price of $20.49 per option and a contractual term of seven years.

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Stock option activity was as follows for the nine months ended September 30, 2012:

	Number of Shares	Price Per Share	Weighted Average Exercise Price	Aggregate Intrinsic Value
Balance, December 31, 2011	5,000,000	$ 14.32 - $19.79	$ 15.09	$ 32,036,400
Granted	360,000	$ 16.72 - $24.25	$ 20.49	
Exercised	(97,469)	$ 15.00	$ 15.00	
Forfeited	(330,417)	$ 15.00	$ 15.00	
Expired				
Balance, September 30, 2012	4,932,114	$ 14.32 - $24.25	$ 15.48	$ 2,651,975

The following table provides the weighted average grant date fair value of the stock options granted during the nine months ended September 30, 2012 using the Black-Scholes option pricing model together with a description of the weighted average assumptions used to calculate the fair value.

	Nine months ended September 30, 2012
Weighted average assumptions:	
Weighted average grant date fair value	$ 10.19
Expected volatility	60.42%
Risk free rate	0.72%
Expected lives	4.75 Years
Expected dividend yield	0.00%

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 1.4 million stock options vested during the nine months ended September 30, 2012.

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 ($15.58) and the exercise price of the stock options multiplied by the number of shares underlying options with an exercise prices less than the closing price on the last trading day of the reporting period.

As of September 30, 2012, approximately $24.7 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 2.78 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., discreet) events. The difference between income tax expense computed at the statutory rate and the reported income tax expense is primarily due to the discreet benefit recognized as a result of the 2009 IRS exam settlement during the nine months ended

September 30, 2012.

We have approximately $9.6 million and $14.3 million of unrecognized tax benefits as of September 30, 2012 and December 31, 2011, respectively. The decrease from the beginning of the year was the result of the positions ultimately settled in the 2009 IRS examination.

We are subject to income taxes in the U.S. federal jurisdiction, various states, and foreign jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. With few exceptions, we are no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for the years before 2008.

We reversed $96,000 and accrued $168,000 for the payment of interest and penalties for the respective nine month periods ended September 30, 2012 and 2011, which was recorded as an income tax expense during the respective nine month periods ended September 30, 2012 and 2011.

On April 5, 2012, the Company reached an agreement with the IRS to settle its examination of the 2009 tax year. The Company recorded a total tax benefit of $0 and $6.8 million during the three and nine months ended September 30, 2012 related to the IRS settlement.

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NOTE 9 RESTRUCTURING CHARGES

In connection with the acquisition of NetQuote Holdings, Inc. (NetQuote), CreditCards.com, Inc. (CreditCards) and certain assets of InsWeb Corporation (InsWeb), the Company adopted a restructuring plan to achieve cost synergies. Accrued severance and related costs were approximately $0 and $1.0 million at September 30, 2012 and December 31, 2011, respectively, and is included within accrued expenses on the accompanying condensed consolidated balance sheets.

The restructuring charges and their utilization are summarized as follows:

(In thousands)	
Balance at December 31, 2011	$ 1,011
Restructuring charges	
Utilized	(1,006)
Balance at September 30, 2012	$ 5

(In thousands)	
Balance at December 31, 2010	$ 369
Restructuring charges	238
Utilized	(473)
Balance at September 30, 2011	$ 134

NOTE 10 COMMITMENTS AND CONTINGENCIES

Legal Proceedings

Lower Fees, Inc. Litigation

In November 2008, Lower Fees, Inc. (LF) filed a civil action in Florida circuit court (the First LF Lawsuit) against the Company and the Company s Chief Executive Officer and Chief Financial Officer, alleging fraud in the inducement by the defendants in respect of the Company having entered into an asset purchase agreement with LF in February 2008 (the Asset Purchase Agreement). In March 2009 the court dismissed the complaint. In April 2009, LF filed an amended complaint, omitting the claim against the Company s Chief Financial Officer, which was dismissed in October 2009. LF filed another amended complaint in November 2009, which sought relief in the form of rescission of the transaction and attorneys fees and which was dismissed with prejudice in March 2010. LF appealed the dismissal and in October 2011 the Florida appellate court reversed the trial court s dismissal of the complaint and directed the trial court to proceed with the case. After the Company s motion for rehearing was denied, the case was remanded to the trial court for further proceedings.

In March 2011, LF filed a second civil action in Florida circuit court against the Company styled: Lower Fees, Inc., Plaintiff, vs. Bankrate, Inc., Defendant (the Second LF Lawsuit and together with the First LF Lawsuit, the LF Lawsuits). In the Second LF Lawsuit, LF alleged that the Company breached a duty of good faith to operate a website transferred under the Asset Purchase Agreement to generate revenues that would have resulted in the Company having to pay LF certain earn-out payments under the Asset Purchase Agreement. LF sought relief in the form of unspecified damages suffered, pre-judgment interest, attorneys fees, and costs.

In October 2012, the Company and LF settled the LF Lawsuits and related claims for a payment by the Company of $660,000, net of insurance proceeds recorded as $795,000 in legal settlements and $135,000 as other income included in interest and other expenses, net.

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. In the complaint, BanxCorp sought

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injunctive relief, treble damages in an unspecified amount, and attorneys fees and costs. BanxCorp alleged that it has been injured as a result of monopolistic and otherwise anticompetitive conduct on the part of the Company. Specifically, BanxCorp alleged that the Company engaged in illegal predatory pricing, vendor lock-in, exclusionary product and distribution bundling and tie-in arrangements, anticompetitive acquisitions and market division agreements. In response to motions by the Company to dismiss for failure to state a claim, the court permitted BanxCorp to file amended complaints, in which BanxCorp added new causes of action under the Sherman Act, including an allegation that the Company conspired with some 90 online media outlets to fix prices in connection with the publication of certain rate information tables.

The plaintiff filed a Fifth Amended Complaint in January 2012 alleging violations of Section 1 and 2 of the Sherman Act, Section 7 of the Clayton Act, and the New Jersey antitrust statutes. The Company moved to dismiss certain of the claims in the Fifth Amended Complaint and on July 30, 2012 the court dismissed BanxCorp s conspiracy claims under Section 1 of the Sherman Act without prejudice and dismissed the Section 1 predatory pricing conspiracy claim with prejudice. On August 6, 2012, the plaintiff filed a Sixth Amended Complaint in which it once again set forth conspiracy claims under Section 1 of the Sherman Act. On September 11, 2012, the Court dismissed the Section 1 claims because BanxCorp did not have standing to make those claims. On October 2, 2012, the plaintiff filed a Seventh Amended Complaint that abandoned its claims under Section 1 of the Sherman Act. 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.

NOTE 11 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 $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. 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 and nine months ended September 30, 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 $17.2 million, respectively, and for the three and nine months ended September 30, 2011, was $6.1 million and $25.4 million, respectively.

During the three and nine months ended September 30, 2012 the Company amortized original issue discount which is included within interest and other expenses on the accompanying consolidated statement of comprehensive income of $84,000 and $244,000, respectively, and $74,000 and $289,000 during the three and nine months ended September 30, 2011, respectively. At September 30, 2012 and December 31, 2011, the Company had approximately $1.1 million and $1.4 million, respectively, in original issue discounts remaining to be amortized.

During the three and nine months ended September 30, 2012 the Company amortized deferred loan fees which are included within interest and other expenses on the accompanying consolidated statement of comprehensive income of $351,000 and $1.0 million, respectively, and $308,000 and $1.3 million during the three and nine months ended September 30, 2011, respectively. At September 30, 2012 and December 31, 2011, the Company had approximately $4.8 million and $5.8 million, respectively, in deferred loan fees remaining to be amortized.

The Company had a balance of approximately $193.9 million and $193.6 million in Senior Secured Notes, net of amortization, as of September 30, 2012 and December 31, 2011, respectively recorded on the accompanying consolidated balance sheet.

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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 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%.

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 September 30, 2012 and December 31, 2011, the Company had $100.0 million available for borrowing under the Revolving Credit Facilities and there were no amounts outstanding. During the three and nine months ended September 30, 2012, the Company amortized $207,000 and $591,000 of deferred loan fees, respectively, which is included in interest and other expenses on the accompanying consolidated statements of comprehensive income. At September 30, 2012 and December 31, 2011, the Company had approximately $2.0 million and $2.5 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 4.50:1.00 and in certain instances 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 September 30, 2012.

NOTE 12 ACQUISITIONS

Fiscal Year 2012

During the nine months ended September 30, 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. The Company paid $25.7 million during the nine months ended September 30, 2012 and recorded acquisition related payables of $26.7 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. Additionally, the Company paid $1.2 million as a final purchase price adjustment in connection with a fiscal year 2011 acquisition. 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.

Fiscal Year 2011

During the year ended December 31, 2011, the Company acquired certain assets of InsWeb for $64.3 million and certain other entities for an aggregate purchase price of $25.5 million in cash. These certain other 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. Additionally, the Company paid $576,000 in relation to contingent consideration for previously acquired entities.

The Company recorded $35.6 million in goodwill and $55.4 million in intangible assets related to these acquisitions consisting of agent relationships for $2.3 million, customer relationships for $19.0 million, developed technologies for $1.4 million and internet domain names for $32.7 million. We expect goodwill will be deductible for income tax purposes.

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NOTE 13 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 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).

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 Guarantors, on a combined basis, which are 100% owned by Bankrate, Inc., and which are 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.

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Condensed Consolidating Balance Sheet

As of September 30, 2012

(In thousands)

	Bankrate	Guarantor Subsidiary	Non-Guarantor Subsidiary	Eliminations	Consolidated
Assets					
Cash and cash equivalents	$ 56,259	$ 13,441	$ 1,409	$	$ 71,109
Accounts receivable, net of allowance for doubtful accounts	30,586	27,801	2,058		60,445
Deferred income taxes	18,692	6,422	17		25,131
Prepaid expenses and other current assets	6,801	817	88		7,706
Total current assets	112,338	48,481	3,572		164,391
Furniture, fixtures and equipment, net of accumulated depreciation	5,677				