BANKRATE INC
Form 10-Q
August 09, 2004
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2004

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

FOR THE TRANSITION PERIOD FROM ______ TO ______

Commission File No. 0-25681

(Exact name of registrant as specified in its charter)

Florida	**65-0423422**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**

11811 U.S. Highway One, Suite 101

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 checkmark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes x No ¨

The number of outstanding shares of the issuer s common stock as of July 31, 2004 was as follows: 15,439,849 shares of Common Stock, $.01 par value.

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Bankrate, Inc.

Quarterly Report on Form 10-Q for the Quarter Ended June 30, 2004

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Introductory Note

This Report and our other communications and statements may contain forward-looking statements, including statements about our beliefs, plans, objectives, goals, expectations, estimates, projections and intentions. These statements are subject to significant risks and uncertainties and are subject to change based on various factors, many of which are beyond our control. For information concerning these factors and related matters, see Item 2, Management s Discussion and Analysis of Financial Condition and Results of Operations, in this Report, and the following sections of our Annual Report on Form 10-K for the year ended December 31, 2003 (the 2003 Form 10-K): (a) Risk Factors in Item 1, Business, and (b) Introduction in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations.

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Part I. FINANCIAL INFORMATION

Item 1. INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

Bankrate, Inc.

Condensed Balance Sheets

(Unaudited)

	June 30, 2004	December 31, 2003
Assets		
Cash and cash equivalents	$ 24,142,054	$ 20,874,482
Accounts receivable, net of allowance for doubtful accounts of $300,000 and $230,000 at June 30, 2004 and December 31, 2003, respectively	4,433,463	3,031,882
Deferred tax asset, net	3,400,000	3,400,000
Other current assets	315,175	343,311
Total current assets	32,290,692	27,649,675
Furniture, fixtures and equipment, net	926,086	796,928
Intangible assets, net	244,028	73,201
Other assets	559,810	463,463
Total assets	$ 34,020,616	$ 28,983,267
Liabilities and Stockholders Equity		
Liabilities:		
Accounts payable	$ 1,182,646	$ 1,227,463
Accrued expenses	2,228,955	2,226,905
Deferred revenue	214,916	181,110
Other current liabilities	142,674	116,551
Total current liabilities	3,769,191	3,752,029
Other liabilities	409,361	306,274
Total liabilities	4,178,552	4,058,303
Stockholders equity:		
Preferred stock, 10,000,000 shares authorized and undesignated		

Common stock, par value $.01 per share 100,000,000 shares authorized; 15,319,701 and 15,114,371 shares issued and outstanding at June 30, 2004 and December 31, 2003, respectively	153,198	151,144
Additional paid in capital	66,525,567	66,091,014
Accumulated deficit	(36,836,701)	(41,317,194)
Total stockholders equity	29,842,064	24,924,964
Total liabilities and stockholders equity	$ 34,020,616	$ 28,983,267

See accompanying notes to condensed financial statements.

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Bankrate, Inc.

Condensed Statements of Operations

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	**2003**	**2004**	**2003**
Revenue:				
Online publishing	$ 8,694,550	$ 8,197,339	$ 17,676,955	$ 15,531,532
Print publishing and licensing	1,416,780	1,354,752	2,708,607	2,567,145
Total revenue	10,111,330	9,552,091	20,385,562	18,098,677
Cost of revenue:				
Online publishing	1,423,922	1,142,296	2,843,905	2,257,758
Print publishing and licensing	1,177,131	1,057,167	2,124,222	1,970,261
Total cost of revenue	2,601,053	2,199,463	4,968,127	4,228,019
Gross margin	7,510,277	7,352,628	15,417,435	13,870,658
Operating expenses:				
Sales	1,071,036	1,338,105	2,374,130	2,489,441
Marketing	1,805,215	1,372,091	3,555,076	2,569,725
Product development	617,561	562,623	1,319,124	1,090,267
General and administrative	1,529,831	1,458,646	3,216,407	2,928,696
Severance charge	260,000		260,000	
Depreciation and amortization	193,311	162,817	365,822	353,880
	5,476,954	4,894,282	11,090,559	9,432,009
Income from operations	2,033,323	2,458,346	4,326,876	4,438,649
Interest income	76,775	62,880	153,617	101,272
Income before income taxes	2,110,098	2,521,226	4,480,493	4,539,921
Income taxes				
Net income	$ 2,110,098	$ 2,521,226	$ 4,480,493	$ 4,539,921
Basic and diluted net income per share:				
Basic	$ 0.14	$ 0.17	$ 0.29	$ 0.32

Diluted	$ 0.13	$ 0.16	$ 0.28	$ 0.30
Weighted average common shares outstanding:				
Basic	15,310,318	14,472,485	15,254,496	14,318,221
Diluted	16,084,565	15,478,477	16,098,573	15,277,304

See accompanying notes to condensed financial statements.

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Bankrate, Inc.

Condensed Statements of Cash Flows

(Unaudited)

	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003
Cash flows from operating activities:		
Net income	$ 4,480,493	$ 4,539,921
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	365,822	353,880
Bad debt expense	120,000	
Changes in operating assets and liabilities:		
Increase in accounts receivable	(1,521,581)	(793,994)
(Increase) decrease in other assets	(346,483)	18,932
Increase (decrease) in accounts payable	(44,817)	280,724
Increase in accrued expenses	2,050	39,625
Increase in other liabilities	163,016	109,798
Net cash provided by operating activities	3,218,500	4,548,886
Cash flows from investing activities:		
Purchases of equipment	(387,535)	(334,962)
Net cash used in investing activities	(387,535)	(334,962)
Cash flows from financing activities:		
Principal payments on capital lease obligations		(1,254)
Proceeds from exercise of stock options	436,607	1,745,964
Net cash provided by financing activities	436,607	1,744,710
Net increase in cash and cash equivalents	3,267,572	5,958,634
Cash and equivalents, beginning of period	20,874,482	11,000,561
Cash and equivalents, end of period	$ 24,142,054	$ 16,959,195
Supplemental disclosures of cash flow information:		
Cash paid during the period for taxes	$ 70,600	$

See accompanying notes to condensed financial statements.

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BANKRATE, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS

June 30, 2004

(Unaudited)

NOTE 1 ORGANIZATION AND ACCOUNTING POLICIES

The Company

Bankrate, Inc. (the Company) owns and operates an Internet-based consumer banking marketplace. The Company s flagship Web site, Bankrate.com, is the Web s leading aggregator of information on more than 250 financial products, including mortgages, credit cards, new and used automobile loans, money market accounts, certificates of deposit, checking and ATM fees, home equity loans and online banking fees. Additionally, the Company provides financial applications and information to a network of distribution partners and through national and state publications. The Company is organized under the laws of the state of Florida.

Basis of Presentation

The unaudited interim condensed financial statements for the three and six months ended June 30, 2004 and 2003 included herein have been prepared in accordance with the instructions for Form 10-Q under the Securities Exchange Act of 1934, as amended, and Article 10 of Regulation S-X under the Securities Act of 1933, as amended. Certain information and footnote disclosures normally included in financial statements prepared in conformity with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations relating to interim financial statements.

In the opinion of management, the accompanying unaudited interim condensed financial statements reflect all adjustments, consisting only of normal, recurring adjustments, necessary to present fairly the financial position of the Company at June 30, 2004, and the results of its operations for the three and six months ended June 30, 2004 and 2003, and its cash flows for the six months ended June 30, 2004 and 2003. The results for the three and six months ended June 30, 2004 are unaudited and are not necessarily indicative of the expected results for the full year or any future period.

The unaudited condensed financial statements included herein should be read in conjunction with the financial statements and related footnotes included in the Company s 2003 Form 10-K.

Barter Revenue

Online publishing revenue includes barter revenue, which represents the exchange by the Company of advertising space on the Company s Web site for reciprocal advertising space on other Web sites. Barter revenues and expenses are recorded at the fair market value of the advertisements delivered or received, whichever is more determinable in the circumstances. Barter transactions have been valued based on similar cash transactions that have occurred within six months prior to the date of the barter transaction. Revenue from barter transactions is recognized as income when advertisements are delivered on the Company s Web site. Barter expense is recognized when the Company s advertisements are run on the other companies Web sites, which is typically in the same period in which barter revenue is recognized. If the advertising impressions are received from the customer prior to the Company delivering its advertising impressions, a liability is recorded. If the Company delivers its advertising impressions to the customer s Web site prior to receiving the advertising impressions, a prepaid expense is recorded. No prepaid expense or liability was recorded at June 30, 2004 and December 31, 2003. Barter revenue was approximately $820,000, and $726,000, and represented approximately 8% of total revenue for the three months ended June 30, 2004 and 2003, respectively, and was approximately $1,758,000 and $1,477,000, and represented 9% and 8% of total revenue, respectively, for the six months ended June 30, 2004 and 2003.

Basic and Diluted Net Income Per Share

The Company computes basic net income per share by dividing net income for the period by the weighted average number of shares outstanding for the period. Diluted net income per share includes the effect of common stock equivalents calculated under the treasury stock method, consisting of outstanding stock options, to the extent the effect is not anti-dilutive.

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The weighted average number of common shares outstanding used in computing diluted net income per share for the three and six months ended June 30, 2004 and 2003 includes the shares resulting from the dilutive effect of outstanding stock options. For the three and six months ended June 30, 2004, 416,775 and 125,000 shares, respectively, attributable to the assumed exercise of outstanding stock options were excluded from the calculation of diluted net income per share because the effect was anti-dilutive. For the three and six months ended June 30, 2003, 81,100 and 81,800 shares, respectively, attributable to the assumed exercise of outstanding stock options were excluded from the calculation of diluted net income per share because the effect was anti-dilutive.

Stock-Based Compensation

The Company applies the intrinsic value-based method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations including Financial Accounting Standards Board (FASB) Interpretation No. 44, *Accounting for Certain Transactions involving Stock Compensation, an interpretation of APB Opinion No. 25*, issued in March 2000, to account for its fixed plan options. Under this method, compensation is recognized over the grant s vesting period only if the current market price of the underlying stock on the date of grant exceeds the exercise price. Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS No. 148, (SFAS No. 123), established accounting and disclosure requirements using a fair value-based method of accounting for stock-based employee compensation plans. The Company has elected to continue to apply the intrinsic value-based method of accounting described above, and has adopted the disclosure requirements of SFAS No. 148.

Pro Forma Disclosures Under SFAS No. 148

The following table provides the fair value of the options granted during the six-month periods ended June 30, 2004 and 2003 using the Black-Scholes pricing model together with a description of the assumptions used to calculate the fair value:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Weighted average fair value	$ 6.73	$ 2.95	$ 8.01	$ 2.95
Expected volatility	100%	100%	100%	100%
Weighted average risk free rate	3.88%	3%	3.54%	3%
Expected lives	5 years	5 years	5 years	5 years
Expected dividend yield	0%	0%	0%	0%

The Company applies APB Opinion No. 25 in accounting for its stock-based compensation. Had the Company determined compensation cost based on the fair value at the grant date for its stock options under SFAS No. 123, the net income and net income per share would have been reported at the pro forma amounts indicated below.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003

Net income:				
As reported	$ 2,110,098	$ 2,521,226	$ 4,480,493	$ 4,539,921
Less total stock-based employee compensation determined under fair value-based method for all awards, net of related tax effect	(327,089)	(63,872)	(565,827)	(180,856)
Pro forma	1,783,009	2,457,354	3,914,666	4,359,065
Basic net income per common share as reported:				
Basic	$ 0.14	$ 0.17	$ 0.29	$ 0.32
Diluted	0.13	0.16	0.28	0.30
Basic net income per common share pro forma:				
Basic	0.12	0.17	0.26	0.30
Diluted	0.11	0.16	0.24	0.29
Weighted average common shares outstanding:				
Basic	15,310,318	14,472,485	15,254,496	14,318,221
Diluted	16,084,565	15,478,477	16,098,573	15,277,304

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Stockholders Equity

The activity in stockholder s equity for the six months ended June 30, 2004 is shown below.

	Common Stock		Additional Paid-in	Accumulated	
	Shares	Amount	Capital	Deficit	Total
Balances, December 31, 2003	15,114,371	$ 151,144	$ 66,091,014	$ (41,317,194)	$ 24,924,964
Stock options exercised	191,771	1,918	414,383		$ 416,301
Net income for the period				2,370,395	2,370,395
Balances, March 31, 2004	15,306,142	153,062	66,505,397	(38,946,799)	27,711,660
Stock options exercised	13,559	136	20,170		20,306
Net income for the period				2,110,098	2,110,098
Balances, June 30, 2004	15,319,701	$ 153,198	$ 66,525,567	$ (36,836,701)	$ 29,842,064

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. If it is more likely than not that some portion or all of a deferred tax asset will not be realized, a valuation allowance is recorded.

No provision for income taxes has been recognized during the periods ended June 30, 2004 and 2003 as the Company has sufficient net operating loss carryforwards to offset any income taxes payable on its pre-tax income.

Deferred tax assets are recognized on the balance sheet if it is more likely than not that they will be realized. A full valuation allowance had been provided against accumulated deferred tax assets, reflecting the uncertainty associated with the Company s future profitability. In the fourth quarter of 2003, the Company reassessed the valuation allowance previously established against deferred tax assets. Factors considered included: the Company s historical results of operations, the volatility of the economic and interest rate environment, and projected earnings based on current operations. Based on this evidence, the Company concluded that it is more likely than not that a portion of the deferred tax assets would be realized. Accordingly, the Company released $3,400,000 of the valuation allowance. The Company will continue to evaluate the need for a valuation allowance on deferred tax assets based on the actual results of operations and projected earnings for future periods. The realization of deferred tax assets will depend on the Company s ability to generate taxable income in the future.

Comprehensive Income

Comprehensive income is the same as net income for the three and six months ended June 30, 2004 and 2003.

Recent Accounting Pronouncements

In May 2003, the FASB issued SFAS No. 150 *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity* (Statement 150). Statement 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. Statement 150 requires that an issuer classify a financial instrument that is within the scope of Statement 150 as a liability. Statement 150 is effective for financial instruments entered into or modified after May 31, 2003, is otherwise effective for the Company beginning September 1, 2003, and did not have a material impact on the Company s financial statements.

In December 2003, the FASB issued a revised Interpretation No. 46, *Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51* , (FIN 46R). FIN 46R requires the consolidation of entities in which an enterprise absorbs a majority of the entity s expected losses, receives a majority of the entity s

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expected residual returns, or both, as a result of ownership, contractual or other financial interests in the entity. Currently, entities are generally consolidated by an enterprise when it has a controlling financial interest through ownership of a majority voting interest in the entity. The provisions of FIN 46R are generally effective for existing (prior to February 1, 2003) variable interest relationships of a public entity no later than the end of the first reporting period that ends after March 15, 2004. However, prior to the required application of this interpretation a public entity that is not a small business issuer shall apply FIN 46R to those entities that are considered to be special-purpose entities no later than the end of the first reporting period that ends after December 15, 2003. The Company applied the portion of FIN 46R that is applicable to special purpose entities effective December 31, 2003, with no material effect, and will apply the remainder of FIN 46R to its second quarter 2004 financial statements with no material effect anticipated.

Reclassification

Certain prior year amounts have been reclassified to conform with the current year presentation.

NOTE 2 SEGMENT INFORMATION

The Company currently operates in two reportable business segments: online publishing, and print publishing and licensing. The online publishing division is primarily engaged in the sale of advertising, sponsorships, and hyperlinks in connection with the Company s Internet site, Bankrate.com. The print publishing and licensing division is primarily engaged in the sale of advertising in the *Consumer Mortgage Guide* rate tables, newsletter subscriptions, and licensing of research information. The Company evaluates the performance of its operating segments based on segment profit (loss).

No single customer accounted for more than 10% of total revenue for the three and six months ended June 30, 2004. The Company had one online customer that accounted for approximately 12% of total revenue for the three and six months ended June 30, 2003. No revenues were generated outside of the United States.

Summarized segment information as of, and for, the three and six months ended June 30, 2004 and 2003 is presented below.

	Online Publishing	Print Publishing and Licensing	Other	Total
Three Months Ended June 30, 2004				
Revenue	$ 8,694,550	$ 1,416,780	$	$ 10,111,330
Cost of revenue	1,423,922	1,177,131		2,601,053
Gross margin	7,270,628	239,649		7,510,277
Sales	1,071,036			1,071,036
Marketing	1,805,215			1,805,215
Product development	432,293	185,268		617,561

General and administrative expenses	1,312,858	216,973		1,529,831
Severance charge			260,000	260,000
Depreciation and amortization	135,318	57,993		193,311
Interest income			76,775	76,775
Segment profit (loss)	$ 2,513,908	$ (220,585)	$ (183,225)	$ 2,110,098
Total assets	$ 7,998,057	$ 1,880,505	$ 24,142,054	$ 34,020,616

	Online Publishing	Print Publishing and Licensing	Other	Total
Three Months Ended June 30, 2003				
Revenue	$ 8,197,339	$ 1,354,752	$	$ 9,552,091
Cost of revenue	1,142,296	1,057,167		2,199,463
Gross margin	7,055,043	297,585		7,352,628
Sales	1,338,105			1,338,105
Marketing	1,372,091			1,372,091
Product development	393,836	168,787		562,623
General and administrative expenses	1,251,769	206,877		1,458,646
Depreciation and amortization	113,972	48,845		162,817
Interest income (expense), net			62,880	62,880
Segment profit (loss)	$ 2,585,270	$ (126,924)	$ 62,880	$ 2,521,226
Total assets	$ 4,202,276	$ 727,030	$ 16,959,195	$ 21,888,501

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	Online Publishing	Print Publishing and Licensing	Other	Total
Six Months Ended June 30, 2004				
Revenue	$ 17,676,955	$ 2,708,607	$	$ 20,385,562
Cost of revenue	2,843,905	2,124,222		4,968,127
Gross margin	14,833,050	584,385		15,417,435
Sales	2,374,130			2,374,130
Marketing	3,555,076			3,555,076
Product development	923,387	395,737		1,319,124
General and administrative expenses	2,760,187	456,220		3,216,407
Severance charge			260,000	260,000
Depreciation and amortization	256,075	109,747		365,822
Interest income			153,617	153,617
Segment profit (loss)	$ 4,964,195	$ (377,319)	$ (106,383)	$ 4,480,493
Total assets	$ 7,998,057	$ 1,880,505	$ 24,142,054	$ 34,020,616

	Online Publishing	Print Publishing and Licensing	Other	Total
Six Months Ended June 30, 2003				
Revenue	$ 15,531,532	$ 2,567,145	$	$ 18,098,677
Cost of revenue	2,257,758	1,970,261		4,228,019
Gross margin	13,273,774	596,884		13,870,658
Sales	2,489,441			2,489,441
Marketing	2,569,725			2,569,725
Product development	763,187	327,080		1,090,267
General and administrative expenses	2,513,285	415,411		2,928,696
Depreciation and amortization	247,716	106,164		353,880
Interest income (expense), net			101,272	101,272
Segment profit (loss)	$ 4,690,420	$ (251,771)	$ 101,272	$ 4,539,921
Total assets	$ 4,202,276	$ 727,030	$ 16,959,195	$ 21,888,501

NOTE 3 COMMITMENTS AND CONTINGENCIES

Legal Proceedings

In July 2000, the Company sold its former wholly owned subsidiary, Professional Direct Agency, Inc. (Pivot), for $4,350,000 in cash. In connection with the sale, the Company agreed to indemnify the buyer for liability of up to $1,000,000 in connection with a litigation matter between Pivot and its co-founders and former owner. In March 2001, the case was dismissed based on a technical deficiency. In August 2001, the plaintiff re-filed the complaint. At June 30, 2004, the outcome of this matter was uncertain. The Company cannot estimate at this time the amount of loss, if any, that could result from an adverse resolution of this litigation.

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

The following discussion may contain forward-looking statements, including statements about our beliefs, plans, objectives, goals, expectations, estimates, projections and intentions. These statements are subject to significant risks and uncertainties and are subject to change based on various factors, many of which are beyond our control. For information concerning these factors and related matters, see the following sections of our Annual Report on Form 10-K for the year ended December 31, 2003 (the 2003 Form 10-K): (a) Risk Factors in Item 1, Business, and (b) Introduction in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, in addition to the other information set forth herein.

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Overview

Bankrate, Inc. (the Company) owns and operates an Internet-based consumer banking marketplace. Our flagship site, Bankrate.com, is the Web s leading aggregator of information on more than 250 financial products including mortgages, credit cards, new and used automobile loans, money market accounts, certificates of deposit, checking and ATM fees, home equity loans and online banking fees. Additionally, we provide financial applications and information to a network of distribution partners and also through national and state publications. Bankrate.com provides the tools and information that can help consumers make better financial decisions. We regularly survey approximately 4,800 financial institutions in all 50 states in order to provide the most current objective, unbiased rates. Hundreds of print and online partner publications depend on Bankrate.com as the trusted source for financial rates and information.

Over two decades ago, we began as a print publisher of the newsletter *Bank Rate Monitor*. Our rate tables provide, at no cost to the consumer, a detailed list of lenders by market and include relevant details to help consumers compare loan products.

We continue to enhance our offerings in order to provide Bankrate.com users with the most complete experience. Features such as financial calculators and email newsletters allow users to interact with our site. Our *Rate Trend Index* is a weekly poll of industry insiders designed to help consumers forecast interest rate trends. We also broadened our offerings to include channels on investing, taxes, small business and financial advice. Each channel offers a unique look at its particular topic. Bankrate.com users can find advice and tips from the Tax channel, obtain business ideas from the Small Business channel and ask a financial expert a question in the Advice channel.

We believe that the recognition of our research as a leading source of independent, objective information on banking and credit products is essential to our success. As a result, we have sought to maximize distribution of our research to gain brand recognition as a research authority. We are seeking to build greater brand awareness of our Web site and to reach a greater number of online users.

We operate a traditional media business on the Internet. We are a central marketplace for financial institutions to acquire customers. We have a high quality, poised-to-transact audience that has been educated by us and is ready to do business with our advertisers. We are the number one site for financial information and advice according to comScore Media Metrix. We sell graphic advertisements and hyperlinks on our Web site, we publish rates and sell advertisements in metropolitan newspapers, and we license our rates and editorial content.

Our potential market is enormous and is still in the early growth stages of consumer awareness of the Internet as a personal finance tool. Financial institutions are still in the early stages of adopting the Internet for advertising products and customer acquisition. Their online advertising spending is still a very small percentage of their overall advertising budgets.

We compete for advertising dollars with the large portals like AOL and Yahoo! and with some of the print brand franchises like Forbes.com and SmartMoney.com. We also compete for traffic with brands like these. Our traffic has grown from approximately 700,000 unique visitors per month in early 2000 to approximately 4.4 million unique visitors a month according to comScore Media Metrix.

The key drivers to our business are the number of advertisers on our Web site and the number of consumers visiting our Web site or page views. We added over 100 new advertisers in 2003 and served over 137 million more pages in 2003 than in 2002. The number of advertisers grew from approximately 200 in 2000 to over 600 in 2004. Page views grew from 134 million in 2000 to over 400 million in 2003.

We served 210 million pages during the first six months of 2004 compared to 228 million in the first six months of 2003. During the quarter ended June 30, 2004, we served 93 million page views compared to 122 million in the same period in 2003. These declines are attributable to unusually high traffic in the second quarter of 2003 due to consumer demand for re-finance and other mortgage-related product information.

We have improved our gross margin from 40% in 2000 to 76% in 2004, and have reduced other operating expenses (excluding barter expense) as a percentage of total revenue (excluding barter revenue) from 140% in 2000 to 50% in 2004. Our net income (excluding one-time severance charges of $260,000) as a percentage of total revenue has grown to 23% in 2004 and we have increased cash and cash equivalents by approximately $15.3 million since December 31, 2000.

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Overview of Revenue and Expenses and Critical Accounting Policies, Estimates and Practices

The following is our analysis of the results of operations for the periods covered by our financial statements, including a discussion of the accounting policies and practices (revenue recognition, allowance for doubtful accounts and valuation of deferred tax assets) that we believe are critical to an understanding of our results of operations and to making the estimates and judgments underlying our financial statements. This analysis should be read in conjunction with our interim condensed financial statements, including the related notes. See Results of Operations and Critical Accounting Policies in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, in our 2003 Form 10-K for additional information concerning the revenue and expense components of our online and print publishing operations.

Results of Operations

Three and Six Months Ended June 30, 2004 Compared to Three and Six Months Ended June 30, 2003

Revenue

Online Publishing Revenue

We sell graphic advertisements on our Web site (including co-branded sites) consisting of banner, badge, billboard, poster and island advertisements. These advertisements are sold to advertisers according to the cost per thousand impressions, or CPM, the advertiser receives. The amount of advertising we sell is a function of (1) the number of advertisements per Web page, (2) the number of visitors viewing our Web pages, and (3) the capacity of our sales force. Advertising sales are invoiced monthly based on the number of advertisement impressions or the number of times the advertisement is viewed by users of our Web site. Revenue is recognized monthly based on the percentage of actual impressions to the total number of impressions contracted. Revenue for impressions invoiced but not delivered is deferred. Additionally, we generate revenue on a per action basis (i.e., a purchase or completion of an application) when a visitor to our Web site transacts with one of our advertisers after viewing an advertisement. Revenue is recognized monthly based on the number of actions reported by the advertiser. We are also involved in revenue sharing arrangements with our online partners where the consumer uses co-branded sites hosted by us. Revenue is effectively allocated to each partner based on the percentage of advertisement views at each site. The allocated revenues are shared according to distribution agreements. Revenue is recorded at gross amounts and revenue payments are recorded in cost of revenue. We also sell hyperlinks to various third-party Internet sites that generate a fixed monthly fee, which is recognized in the month earned.

Online publishing revenue also includes barter revenue, which represents the exchange of advertising space on our Web site for reciprocal advertising space or traffic on other Web sites. Barter revenues and expenses are recorded at the fair market value of the advertisements delivered or received, whichever is more determinable in the circumstances. We follow the accounting literature provided by the Emerging Issues Task Force (EITF) 99-17, *Accounting for Advertising Barter Transactions*. In accordance with EITF 99-17, barter transactions have been valued based on similar cash transactions which have occurred within six months prior to the date of the barter transaction. Revenue from barter transactions is recognized as income when advertisements are delivered on our Web site. Barter expense is recognized when our advertisements are run on the other companies Web sites, which is typically in the same period barter revenue is recognized. If the advertising impressions are received from the customer prior to our delivering the advertising impressions, a liability is recorded. If we deliver advertising impressions to the other companies Web sites prior to receiving the advertising impressions, a prepaid expense is recorded. No prepaid expense or liability was recorded at June 30, 2004 and December 31, 2003. Barter revenue was approximately $820,000, and $726,000, and represented approximately 8% of total revenue for the three months ended June 30, 2004 and 2003, respectively, and was approximately $1,758,000 and $1,477,000, and represented 9% and 8% of total revenue, respectively, for the six months ended June 30, 2004 and 2003.

Quarterly Online Publishing Revenue

	Q1 03	Q2 03	Q3 03	Q4 03	Q1 04	Q2 04
Graphic ads	$ 3,769,522	$ 3,983,042	$ 3,567,978	$ 3,115,744	$ 4,188,189	$ 3,923,813
Hyperlinks	2,814,272	3,488,025	3,710,862	3,755,200	3,856,381	3,950,737
Barter	750,399	726,272	835,119	851,956	937,835	820,000
	$ 7,334,193	$ 8,197,339	$ 8,113,959	$ 7,722,900	$ 8,982,405	$ 8,694,550

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Excluding barter revenue, online publishing revenue of $7,875,000 for the three months ended June 30, 2004 was $403,000, or 5%, higher than the $7,471,000 reported for the same period in 2003. This increase was due primarily to a $463,000, or 13%, increase in hyperlink sales as we expanded the number of markets our hyperlinks were sold in, introduced new products and benefited from increased product pricing. Graphic ad revenue of $3,924,000 for the quarter was down $59,000, or 1%, from the same quarter a year ago due to a 29.2 million, or 24%, decline in page views off set by higher CPM s.

Excluding barter revenue, online publishing revenue of $15,919,000 for the six months ended June 30, 2004 was $1,864,000, or 13%, higher than the same period in 2003. This increase was due to a $1,505,000, or 24%, increase in hyperlink sales as we expanded the number of markets our hyperlinks were sold in, introduced new products and benefited from increased product pricing. Graphic ad revenue of $8,112,000 for the six months ended June 30, 2004 was up $359,000, or 5%, over the same period in 2003 due to higher CPM s.

A majority of our advertising customers purchase advertising under short-term contracts. Customers have the ability to stop, and have on occasion stopped, advertising on relatively short notice. Online publishing revenue would be adversely impacted if we experienced contract terminations, or if we were not able to renew contracts with existing customers or obtain new customers. The market for Internet advertising is intensely competitive and has, in the past, experienced significant downturns in demand that could impact advertising rates. Future revenue could be adversely affected if we were forced to reduce our advertising rates or if we were to experience lower CPM s.

Historically, our first calendar quarter has been our highest in terms of page views, and we have typically experienced a slowdown in traffic during our third and fourth quarters. During 2002 and 2003, certain traffic initiatives and expanded commitments from our distribution partners as well as the activity in mortgage lending caused increases in traffic inconsistent with our historical trends. Based on those historical trends, we could experience a decline in traffic and online publishing revenue during the third and fourth quarters of 2004 in relation to the first and second quarters of 2004.

Page Views

(Millions)

	2004	2003	2002	2001	2000
Q1	117.2	106.7	58.4	70.5	37.0
Q2	92.6	121.8	48.0	52.2	34.1
Q3		100.3	82.1	47.3	30.5
Q4		75.8	79.3	66.5	32.8
Year		404.6	267.8	236.5	134.4

Print Publishing and Licensing Revenue

Print publishing and licensing revenue represents advertising revenue from the sale of advertising in *Consumer Mortgage Guide* rate tables, newsletter subscriptions, and licensing of research information. We charge a commission for placement of the *Consumer Mortgage Guide* in a print publication. Advertising revenue and commission income is recognized when the *Consumer Mortgage Guide* runs in the publication. Revenue from our newsletters is recognized ratably over the period of the subscription, which is generally up to one year. Revenue from the sale of research information is recognized ratably over the contract period.

We also earn fees from distributing editorial rate tables that are published in newspapers and magazines across the United States, from paid subscriptions to three newsletters, and from providing rate surveys to institutions and government agencies. In addition, we license research data under agreements that permit the use of rate information we develop to advertise the licensee s products in print, radio, television and Web site promotions. Revenue for these products is recognized ratably over the contract/subscription periods.

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Quarterly Print Publishing & Licensing Revenue

	Q1 03	Q2 03	Q3 03	Q4 03	Q1 04	Q2 04
Consumer Mortgage Guide	$ 984,747	$ 1,143,404	$ 1,143,442	$ 1,131,148	$ 1,085,490	$ 1,224,200
Editorial	227,646	211,348	203,541	207,823	206,337	192,580
	$ 1,212,393	$ 1,354,752	$ 1,346,983	$ 1,338,971	$ 1,291,827	$ 1,416,780

Print publishing and licensing revenue for the quarter ended June 30, 2004 increased $62,000, or 5%, over the comparable period in 2003 due primarily to a $81,000, or 7%, increase in *Consumer Mortgage Guide* revenue. This increase was a result of higher advertising rates and 11 more *Consumer Mortgage Guide* contracts during the quarter ended June 30, 2004 than in the comparable quarter in 2003. Editorial sales were down $19,000, or 9%, in the three months ended June 30, 2004 due to newspaper efforts to cut costs and reduce their editorial content advertising spending.

Print publishing and licensing revenue for the six months ended June 30, 2004 was up $141,000, or 6%, over the same period in 2003 due to a $182,000, or 9%, increase in *Consumer Mortgage Guide* revenue. This increase was a result of higher advertising rates and more *Consumer Mortgage Guide* contracts during the period ended June 30, 2004 than in the comparable period in 2003. Editorial sales were down $40,000, or 9%, in the first half of 2004 due to newspaper efforts to cut costs and reduce their editorial content advertising spending.

Cost of Revenue

Online Publishing Costs

Online publishing costs represent expenses directly associated with the creation of online publishing revenue. These costs include contractual revenue sharing obligations resulting from our distribution arrangements (distribution payments), editorial costs, research costs and allocated overhead. Distribution payments are made to Web site operators for visitors directed to our Web site; these costs increase proportionately with gains in traffic to our site. 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 our site under distribution arrangements. These sites must be maintained on a daily basis. Research costs include expenses related to gathering data on banking and credit products and consist primarily of compensation and benefits and allocated overhead.

Online publishing costs for the three months ended June 30, 2004 were $282,000, or 25%, higher than the comparable period in 2003 due primarily to higher revenue sharing payments ($243,000, or 75%) to our distribution partners due to higher associated revenue. For the first half of 2004, online publishing costs were $586,000, or 26%, higher than the first half of 2003 due to higher revenue sharing payments ($485,000, or 72%) to our distribution partners due to higher associated revenue.

Print Publishing and Licensing Costs

Print publishing and licensing costs represent expenses associated with print publishing and licensing revenue. These costs include contractual revenue sharing obligations with newspapers related to the *Consumer Mortgage Guide*, compensation and benefits, printing and allocated overhead. These costs vary proportionately with the related revenues and increased $120,000, or 11%, for the three months ended June 30, 2004 compared to the same period in 2003 due to higher *Consumer Mortgage Guide* revenue sharing payments due to higher associated revenue. Print publishing and licensing costs were $154,000, or 8%, higher in the first half of 2004 compared to 2003 due primarily to higher *Consumer Mortgage Guide* revenue sharing payments ($136,000, or 8%) resulting from 9% higher revenue in 2004.

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Other Expenses

Sales

Sales costs represent direct selling expenses, principally for online advertising, and include compensation and benefits, sales commissions, and allocated overhead. Sales costs for the three months ended June 30, 2004 were down $267,000, or 20%, from the comparable period in 2003 due primarily to a $350,000, or 50%, reduction in sales commissions. We implemented a new commission plan in the second quarter and actual results fell short of target goals. This reduction was offset by a $48,000 increase in market research and promotion costs. For the first six months of 2004, sales expenses were $115,000, or 5%, lower than the first half of 2003 due to a $364,000, or 31%, decline in commission expense, offset by higher human resource costs related to new hires, and recruiting costs related to hiring our new Chief Revenue Officer in the first quarter.

Marketing

Marketing costs represent expenses associated with expanding brand awareness of our products and services to consumers and include print and Internet advertising and marketing and promotion costs. Marketing costs also include barter expense, which represents the non-cash cost of our advertisements that are run on other companies   Web sites in our barter transactions. Barter expense was $820,000 and $732,000 for the quarters ended June 30, 2004 and 2003, respectively. Excluding barter expense, marketing expenses for the quarter ended June 30, 2004 of $985,000 were $345,000 higher than the comparable quarter in 2003. This increase primarily reflects our efforts to improve search engine results with key word (pay per performance) campaigns as traffic acquisition becomes more competitive. Additionally, approximately $100,000 more was spent in the 2004 second quarter for distribution partner promotions. For the first half of 2004, marketing expenses excluding barter of $1,797,000 were $704,000, or 64%, higher than the first half of 2003 due to the key word search campaigns and the additional $100,000 partner promotion. We anticipate having to spend at comparable levels for key word campaigns in the foreseeable future.

Product Development

Product development costs represent compensation and benefits related to site development, network systems and telecommunications infrastructure support, programming, new product design and development and other technology costs. Product development costs for the three and six months ended June 30, 2004 were $55,000, or 10%, and $229,000, or 21%, respectively, higher compared to the same periods in 2003 due to expenses associated with the design and development of new products, and higher human resource and training costs.

General and Administrative

General and administrative expenses represent compensation and benefits for executive, finance and administrative personnel, professional fees, non-allocated overhead and other general corporate expenses. General and administrative expenses for the three months ended June 30, 2004 were $71,000, or 5%, higher than the comparable amount reported in the same period in 2003 primarily due to the following: $40,000 higher human resource costs and recruiting fees related to merit increases and new hire searches; $33,000 higher Internet hosting service fees due to increased traffic levels and bandwidth utilization; and $32,000 higher consulting and outside professional service fees; and $80,000 in bad debt expense to increase the allowance for doubtful accounts supporting higher sales levels and receivable balances. These higher costs were offset by a decrease in incentive plan accruals based on mid-year forecasts and measurements to plan.

For the first half of 2004, general and administrative expenses were $288,000, or 10%, higher than the first half of 2003 due to the following: $116,000 higher human resource costs and recruiting fees related to merit increases and new hire searches; $78,000 higher Internet hosting service fees due to increased bandwidth utilization; and $60,000 higher consulting and outside professional service fees; and $120,000 in bad debt expense to increase the allowance for doubtful accounts supporting higher sales levels and receivable balances; and $38,000 higher bank service charges and merchant fees related to credit card payments on accounts receivable. These higher costs were offset by a decrease in incentive plan accruals based on mid-year forecasts and measurements to plan, and various other operating costs.

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability or unwillingness of our customers to make required payments. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Any additions to the allowance for doubtful accounts are recorded as bad debt expense and included in general and administrative expenses.

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Depreciation and Amortization

Depreciation and amortization was $30,000, or 19%, higher for the three months ended June 30, 2004 compared to 2003 due to assets placed in service in the second quarter. For the first half of 2004, depreciation and amortization was $12,000 higher than the first half of 2003 due to assets purchased in the first half of the year, offset by the first quarter impact of assets becoming fully depreciated during the third and fourth quarters of 2003.

Interest Income

Interest income is generated from invested cash and cash equivalents. Interest income for the three and six months ended June 30, 2004 was higher than the amounts reported in the same periods in 2003 due to higher cash balances during 2004.

Income Taxes

We have not recognized a provision for income taxes during the six-month periods ended June 30, 2004 and 2003 as we have sufficient net operating loss carryforwards to offset any income taxes payable on our pre-tax income.

As required by Statement of Financial Accounting Standards No. 109, we recognize deferred tax assets on the balance sheet if it is more likely than not that they will be realized. Through the third quarter of 2003, we provided a full valuation allowance against accumulated deferred tax assets, reflecting the uncertainty associated with our future profitability. In the fourth quarter of 2003 we reassessed the valuation allowance previously established against deferred tax assets. Factors considered by us included: our historical results of operations, volatility of the economic and interest rate environment and projected earnings based on current operations. Based on this evidence, we concluded that it is more likely than not that a portion of the deferred tax assets would be realized. Accordingly, we released $3,400,000 of the valuation allowance.

The valuation allowance at December 31, 2003 was approximately $9.4 million. We will continue to evaluate the need for a valuation allowance on deferred tax assets based on the actual results of operations and projected earnings for future periods. It is possible that all or part of the valuation allowance will be reversed during 2004 resulting in an income tax credit for the amount reversed. As of June 30, 2004, we had $3,400,000 in deferred tax assets. The realization of deferred tax assets will depend on our ability to continue to generate taxable income in the future.

Liquidity and Capital Resources

Our principal source of liquidity is the cash generated by our operations. As of June 30, 2004, we had working capital of $28,522,000, and our primary commitments were approximately $1,564,000 in operating lease payments over the next five years, as well as capital expenditures and recurring payables and accruals arising during the course of operating our business, estimated at approximately $4,125,000 through June 30, 2005. We generally establish payment terms with our vendors that extend beyond the amount of time required to collect from our customers. There are no other significant commitments or any off-balance sheet arrangements.

Contractual Obligations

The following table represents the amounts due under the specified types of contractual obligations.

	Payments Due (In thousands)			
Contractual obligations	**Less than one year**	**One to three years**	**Three to five years**	**More than five years**
Long-term debt oblibations	$	$	$	$
Capital lease obligations (1)				
Operating lease obligations (1)		1,293,654	270,050	
Purchase obligations (2)	427,055	166,075		
Other long-term obligations				

(1) Includes our obligations under existing operating leases.
(2) Represents base contract amounts for Internet hosting, co-location content distribution and other infrastructure costs.

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During the three months ended June 30, 2004, we generated $3,219,000 of net cash from operating activities. Our net income of $4,480,000 was adjusted for depreciation and amortization of $366,000, bad debt expense of $80,000, and a net negative change in the components of operating assets and liabilities of $1,708,000. Of this negative change, $1,482,000 resulted from an increase in accounts receivable, and $346,000 resulted from an increase in other assets. Accounts receivable balances were higher at June 30, 2004 supporting higher sales levels. The increase in other assets was due primarily to prepaid expenses related to software licenses and maintenance agreements. During the six months ended June 30, 2004, net cash of $388,000 was used to purchase equipment and other fixed assets, and $437,000 was provided by financing activities, primarily the result of stock option exercises.

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 which are not subject to market risk, as the interest paid on such investments fluctuates with the prevailing interest rates. As of June 30, 2004, all of our cash equivalents matured in less than three months.

Exchange Rate Sensitivity

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

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934, as amended, are recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that the information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired objectives, and management was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. Management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company s disclosure controls and procedures as of the end of the period covered by this report. Based upon the evaluation and subject to the foregoing, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective to accomplish their objectives.

Changes in Internal Controls

In addition, management, including our Chief Executive Officer and our Chief Financial Officer, reviewed our internal controls, and there have been no significant changes in our internal controls or in other factors that could significantly affect those controls during the period covered by this report.

Part II OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Not applicable.

Item 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None.

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Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

The Company held its annual meeting of shareholders on June 10, 2004. At the meeting, the shareholders elected Thomas R. Evans (12,977,672 affirmative votes and 840,480 votes withheld) and Elisabeth H. DeMarse (11,633.421 affirmative votes and 2,184,731 votes withheld) to the Company s Board of Directors. The shareholders also ratified the selection of KPMG LLP to serve as the Company s independent public accountants for the fiscal year ending December 31, 2004 (13,699,804 affirmative votes, 115,543 votes against, and 2,805 votes abstaining).

Item 5. OTHER INFORMATION

On June 21, 2004, the Company announced the appointment of Thomas R. Evans as President and Chief Executive Officer succeeding Elisabeth DeMarse who left the Company.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

- 10.1 Executive Employment Agreement effective June 21, 2004, between Thomas R. Evans and the Company.
- 31.1 Certification of Thomas R. Evans, Chief Executive Officer and President of Bankrate, Inc., Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
- 31.2 Certification of Robert J. DeFranco, Senior Vice President and Chief Financial Officer of Bankrate, Inc., Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
- 32.1 Certification of Thomas R. Evans, Chief Executive Officer and President of Bankrate, Inc., Pursuant to 18 U.S.C. Section 1350.
- 32.2 Certification of Robert J. DeFranco, Senior Vice President and Chief Financial Officer of Bankrate, Inc., Pursuant to 18 U.S.C. Section 1350.

(b) Reports on Form 8-K

(1) A Form 8-K was filed on May 5, 2004, reporting under Item 12 that on May 4, 2004, the Company issued a press release announcing its financial results for the first quarter ended March 31, 2004.

(2) A Form 8-K was filed on June 22, 2004, reporting under Item 5 that on June 21, 2004, the Company issued a press release announcing the appointment of Thomas R. Evans as President and Chief Executive Officer, succeeding Elisabeth DeMarse who left the Company.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Bankrate, Inc.

Dated: August 9, 2004 By: /s/ ROBERT J. DEFRANCO

Robert J. DeFranco
Senior Vice President
Chief Financial Officer