

Bankrate, Inc.
Form 10-Q
November 10, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2011 SEPTEMBER 30, 2011

OR

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

FOR THE TRANSITION PERIOD FROM TO

Commission File No. 1-35206

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of incorporation or organization)

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

11760 U.S. Highway One, Suite 200

North Palm Beach, Florida
(Address of principal executive offices)

33408
(Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

The number of outstanding shares of the issuer's common stock as of October 31, 2011 was as follows: 99,994,600 shares of Common Stock, \$.01 par value.

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Bankrate, Inc.

Quarterly Report on Form 10-Q for the Quarter Ended September 30, 2011

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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, 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 many detailed 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 the date of this report.

Important factors that could cause actual results to differ materially from our expectations are discussed in detail in Part I, Item 2., Management's Discussion and Analysis of Financial Condition and Results of Operations, Part II, Item 1A. Risk Factors and elsewhere in this Quarterly Report on Form 10-Q, and the following sections of our Prospectus filed with the SEC on June 17, 2011 as part of our Registration Statement on Form S-1 (File No. 333-173550) (the Prospectus): (a) Prospectus Summary in Part I; and (b) Risk Factors. All forward-looking information in this prospectus 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:

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;

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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 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 possibly 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;

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 prospectus may not in fact occur. Accordingly, investors should not place undue reliance on those statements. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law.

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****Bankrate, Inc. and Subsidiaries**

Condensed Consolidated Balance Sheets

*(Unaudited)**(\$ in thousands, except share and per share data)*

	September 30, 2011	December 31, 2010
Assets		
Cash and cash equivalents	\$ 64,489	\$ 115,630
Accounts receivable, net of allowance for doubtful accounts of \$860 and \$943 at September 30, 2011 and December 31, 2010	69,205	42,731
Deferred income taxes	16,326	16,326
Prepaid expenses and other current assets	10,921	5,489
Total current assets	160,941	180,176
Furniture, fixtures and equipment, net of accumulated depreciation of \$5,445 and \$2,797 at September 30, 2011 and December 31, 2010	9,321	6,321
Intangible assets, net of accumulated amortization of \$71,473 and \$42,058 at September 30, 2011 and December 31, 2010	352,299	365,745
Goodwill	573,745	559,168
Other assets	10,691	14,217
Total assets	\$ 1,106,997	\$ 1,125,627
Liabilities and Stockholders Equity		
Liabilities		
Accounts payable	\$ 7,936	\$ 11,565
Accrued expenses	20,139	17,143
Deferred revenue and customer deposits	2,662	6,435
Payable to dissenting stockholders		56,698
Accrued interest	4,859	16,393
Other current liabilities	3,477	6,801
Total current liabilities	39,073	115,035
Deferred income taxes	83,546	81,305
Senior secured notes, net of unamortized discount	193,537	297,417
Other liabilities	18,949	5,814
Total liabilities	335,105	499,571
Commitment and contingencies (Note 5)		
Stockholders equity		

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Common stock, par value \$.01 per share - 300,000,000 shares authorized at September 30, 2011 and December 31, 2010; 99,994,600 and 87,379,865 shares issued and outstanding at September 30, 2011 and December 31, 2010	1,000	874
Additional-paid in capital	830,215	657,095
Accumulated deficit	(58,640)	(31,173)
Accumulated other comprehensive loss	(683)	(740)
Total stockholders equity	771,892	626,056
Total liabilities and stockholders equity	\$ 1,106,997	\$ 1,125,627

See accompanying notes to condensed consolidated financial statements.

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Condensed Consolidated Statements of Operations

*(Unaudited)**(\$ in thousands, except share and per share data)*

	Three months ended		Nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Revenue	\$ 112,904	\$ 70,616	\$ 310,431	\$ 143,333
Cost of revenue (excludes depreciation and amortization)	38,044	27,813	111,229	56,507
Gross margin	74,860	42,803	199,202	86,826
Operating expenses:				
Sales	3,660	2,301	9,701	6,255
Marketing	23,966	7,897	59,617	13,783
Product development	3,608	2,761	10,565	6,280
General and administrative	10,106	6,544	25,317	15,671
Legal settlement		141		141
Acquisition, offering and related expenses and related party fees	1,163	13,099	40,857	16,139
Restructuring charges		2,698	238	3,358
Depreciation and amortization	10,899	11,190	32,566	25,574
	53,402	46,631	178,861	87,201
Income (loss) from operations	21,458	(3,828)	20,341	(375)
Interest expense, net	(6,519)	(10,392)	(25,439)	(28,242)
Loss on redemption of senior secured notes			(16,629)	
Income (loss) before income taxes	14,939	(14,220)	(21,727)	(28,617)
Income tax expense (benefit)	7,807	(6,478)	5,740	(11,974)
Net income (loss)	\$ 7,132	\$ (7,742)	\$ (27,467)	\$ (16,643)
Basic and diluted net income (loss) per share:				
Basic	\$ 0.07	\$ (0.09)	\$ (0.30)	\$ (0.25)
Diluted	\$ 0.07	\$ (0.09)	\$ (0.30)	\$ (0.25)
Weighted average common shares outstanding:				
Basic	99,879,865	82,839,063	92,233,345	66,239,400
Diluted	100,427,391	82,839,063	92,233,345	66,239,400

See accompanying notes to condensed consolidated financial statements.

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Condensed Consolidated Statements of Cash Flows

*(Unaudited)**(\$ in thousands)*

	Nine months ended	
	September 30, 2011	September 30, 2010
Cash flows from operating activities		
Net loss	(27,467)	\$ (16,643)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities		
Depreciation and amortization	32,566	25,574
Provision for doubtful accounts receivable	1,738	487
Amortization of deferred financing costs and original issue discount	1,812	884
Stock-based compensation	2,927	
Loss on disposal of assets	188	159
Loss on redemption of senior secured notes	16,629	
Change in operating assets and liabilities, net of effect of business acquisitions		
Accounts receivable	(28,672)	(9,906)
Prepaid expenses and other assets	(5,145)	447
Accounts payable	(3,629)	1,769
Accrued expenses	3,959	(1,974)
Other liabilities	1,119	2,368
Deferred revenue	(3,773)	(878)
Net cash (used in) provided by operating activities	(7,748)	2,287
Cash flows from investing activities		
Purchases of furniture, fixtures and equipment and capitalized website development costs	(4,992)	(3,477)
Cash used in business acquisitions, net	(26,440)	(352,141)
Cash paid for acquisition earnouts and contingent liabilities	(576)	(13,583)
Restricted cash	2	2
Net cash used in investing activities	(32,006)	(369,199)
Cash flows from financing activities		
Proceeds from issuance of preferred and common stock, net of costs	170,319	99,471
Repurchase of senior secured notes	(117,337)	
Payments to dissenting stockholders	(61,253)	
Proceeds from issuance of senior secured notes		297,231
Deferred financing costs	(2,950)	(11,578)
Proceeds from issuance of stockholder debt		40
Net cash (used in) provided by financing activities	(11,221)	385,164
Effect of exchange rate on cash and cash equivalents	(166)	(215)
Net (decrease) increase in cash	(51,141)	18,037
Cash - beginning of period	115,630	77,690
Cash - end of period	\$ 64,489	\$ 95,727

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Supplemental disclosures

Cash paid for interest	\$ 35,060	\$ 25,485
Cash refunded for taxes, net of payments	\$ (317)	\$ (14,792)

See accompanying notes to condensed consolidated financial statements.

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BANKRATE, INC., AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

(Unaudited)

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company

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

The Company was originally organized under the laws of the State of Florida, however, on April 15, 2011, the Company merged with a newly formed Delaware corporation in order to reincorporate from Florida to Delaware. Upon the consummation of the merger, each outstanding common and preferred share of the Company was converted into an equivalent share of the new Delaware corporation which assumed the name Bankrate, Inc.

On July 2, 2009, Ben Holdings, Inc. (Holdings), a majority owned subsidiary of Ben Holdings S.à r.l, together with Ben Merger Sub, Inc. a Florida corporation and a wholly owned subsidiary of Holdings (Merger Sub) entered into an agreement and plan of merger (the Acquisition) with Bankrate. As a result, the Company became a wholly owned subsidiary of Holdings. In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 805, *Business Combinations*, the Acquisition was accounted for on August 25, 2009, the date of which Holdings obtained control of the Company.

2011 Recapitalization and Merger

On June 21, 2011, Holdings 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. In addition, the Recapitalization has been reflected in these consolidated financial statements as a 21.16 for 1.00 stock split of the Company s issued and outstanding common stock. The common stock, per common share, and increase in authorized share amounts in these condensed consolidated financial statements and notes to condensed consolidated financial statements have been presented to retroactively reflect this transaction to the earliest period presented.

In connection with the 2011 Merger and the initial public offering, the Company entered into a Fourth Amended and Restated Stockholders Agreement that provides the Company s existing direct and indirect stockholders with certain rights, including rights of Ben Holdings S.à r.l., a stockholder of the Company, which is, in turn, controlled by Apax US VII, L.P., and Apax Europe VII-A, L.P., Apax Europe VII-B, L.P. and Apax Europe VII-1, L.P. (the Apax VII Funds).

Initial Public Offering

On June 22, 2011, the Company completed its initial public offering (IPO) whereby it and certain of its existing stockholders sold 22,994,455 shares of common stock at a public offering price of \$15.00 per share, including 2,994,455 shares sold by certain of its existing stockholders upon the exercise of the underwriters option to purchase additional shares. The Company s shares are traded on the New York Stock Exchange (NYSE) under the symbol RATE. The offer and sale of all of the shares in the IPO were registered under the Securities Act pursuant to a registration statement on Form S-1 (File No. 333-173550), which was declared effective by the SEC on June 16, 2011. Our portion of the net proceeds from the IPO was approximately \$170.3 million after deducting underwriting discounts of \$11.3 million and offering costs of \$5.9

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million. In addition, during the nine months ended September 30, 2011, we incurred costs associated with the IPO and S-4 registration statement in relation to our exchange offer, which included \$34.7 million paid to Apax Partners, L.P. for termination of monitoring fees, merger and acquisition advisory services, IPO services for secondary shares, exchange offer advisory services, and other services provided to Bankrate's management. The payment to APAX has been

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BANKRATE, INC., AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

(Unaudited)

recorded in the following manner based on our best estimate of the time incurred and the value attributable to each transaction: \$30.0 million as a part of acquisition, offering and related expenses and related party fees, \$3.8 million netted against IPO proceeds and \$917,000 to deferred financing costs. We used approximately \$123.0 million of the net proceeds from the offering to repay the principal and accrued interest on our Senior Secured Notes (see Note 7). We intend to use the balance of the net proceeds from the offering for working capital and other general corporate purposes, including financing our growth.

As part of the 22,994,455 shares of common stock sold in the IPO, 10,494,455 shares of common stock were sold by certain existing stockholders at a public offering price of \$15.00 per share, including 2,994,455 shares sold by the selling stockholders upon the exercise of the underwriters' option to purchase additional shares. The Company did not receive any of the proceeds from the sale of such shares by the selling stockholders.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in 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. Operating results for the three and nine months ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011, for any other interim period or for any other future year.

The condensed consolidated balance sheet at December 31, 2010 has been derived from the audited financial statements at that date, but does not include all of the disclosures required by GAAP. The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's Prospectus filed with the Securities and Exchange Commission (SEC) on June 17, 2011 pursuant to Rule 424(b) under the Securities Act of 1933.

There have been no significant changes in the Company's accounting policies from those disclosed in its prospectus filed with the SEC on June 17, 2011.

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent gains and losses at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. We believe that the judgments, estimates and assumptions involved in the accounting for income taxes, stock based compensation, the allowance for doubtful accounts receivable, useful lives of intangible assets and intangible asset impairment, goodwill impairment, acquisition accounting, and contingencies have the greatest potential impact on our financial statements, so we consider these to be our critical accounting policies. Actual results could differ from those estimates.

Cash and Cash Equivalents

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We consider all highly liquid debt investments purchased with a maturity at date of purchase of less than three months to be cash and cash equivalents. The carrying value of these investments approximates fair value. As of September 30, 2011, our cash and cash equivalents consisted of approximately \$5.1 million of U.S. Treasury securities with 30-day maturities, approximately \$1.2 million held in British pound sterling, approximately \$57.6 million of operating cash subject to the \$250,000 FDIC insured deposit limit, and approximately \$573,000 held in Renminbi in China.

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(Unaudited)

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability or unwillingness of our customers to make required payments. We look at historical write-offs and sales growth when determining the adequacy of the allowance. Should the financial condition of our customers deteriorate, resulting in an impairment of their ability to make payments, or if the level of accounts receivable increases, the need for possible additional allowances may be necessary. Any additions to the allowance for doubtful accounts receivable are recorded as bad debt expense and included in general and administrative expenses. During the three months ended September 30, 2011 and 2010, we charged approximately \$561,000 and \$419,000 to bad debt expense, and wrote off (net of recoveries) \$562,000 and \$388,000, respectively, of accounts deemed uncollectible. During the nine months ended September 30, 2011 and 2010, we charged approximately \$1.7 million, and \$487,000 to bad debt expense, and wrote off (net of recoveries) \$1.8 million and recovered (net of write offs) \$373,000, respectively, of accounts deemed uncollectible.

Intangible Assets

Intangible assets consist primarily of internet domain names and URLs, trademarks, customer relationships, affiliate network relationships and developed technologies acquired in connection with the Acquisition and our subsequent acquisitions in 2011 and 2010 (see Note 8). Intangible assets are being amortized over their estimated useful lives primarily on a straight-line basis.

Intangible asset categories and their estimated useful lives are as follows:

	Estimated Useful Life
Trademarks, domain names and URLs	2-25 years
Customer relationships	8-15 years
Affiliate network relationships	1-9 years
Developed technologies	3-6 years

Intangible assets subject to amortization and their weighted average amortization periods were as follows as of September 30, 2011:

<i>(\$ in thousands)</i>	Cost	Accumulated Amortization	Net	Weighted Average Amortization Period Years
Trademarks and URLs	\$ 192,573	\$ (15,495)	\$ 177,078	20.1
Customer relationships	200,939	(39,254)	\$ 161,685	8.8
Affiliate network relationships	12,790	(10,533)	\$ 2,257	3.9
Developed technologies	17,470	(6,191)	11,279	4.7
	\$ 423,772	\$ (71,473)	\$ 352,299	13.6

Intangible assets subject to amortization and their weighted average amortization periods were as follows as of December 31, 2010:

<i>(In thousands)</i>	Cost	Accumulated Amortization	Net	Weighted Average Amortization Period Years
Trademarks and URLs	\$ 178,823	\$ (8,289)	\$ 170,534	20.6
Customer relationships	202,390	(21,728)	180,662	8.8
Affiliate network relationships	10,490	(8,944)	1,546	1.5
Developed technologies	16,100	(3,097)	13,003	4.7
	\$ 407,803	\$ (42,058)	\$ 365,745	13.6

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(Unaudited)

Amortization expense for the three months ended September 30, 2011 and 2010 was \$9.8 million and \$10.4 million, respectively. Amortization expense for the nine months ended September 30, 2011 and 2010 was \$29.6 million and \$24.0 million, respectively.

Future amortization expense as of September 30, 2011 is expected to be:

<i>(\$ in thousands)</i>	Amortization Expense
Remainder of 2011	\$ 9,217
2012	38,099
2013	37,053
2014	35,762
2015	34,984
Thereafter	197,184
Total expected amortization expense of intangible assets	\$ 352,299

Impairment of Long-Lived Assets Including Assets with Finite Lives

ASC 360, *Property, Plant and Equipment*, requires that long-lived assets including intangible assets with finite lives be amortized over their estimated useful life and reviewed for impairment. We continually monitor events and changes in circumstances that could indicate carrying amounts of our long-lived assets including intangible assets with finite lives may not be recoverable. When such events or changes in circumstances occur, we assess the recoverability of such assets by determining whether the carrying value will be recovered through the undiscounted expected future cash flows. If the future undiscounted cash flows are less than the carrying amount of such assets, we recognize an impairment loss based on the excess of the carrying amount over the fair value of the assets. There was no impairment of long-lived assets including intangible assets with finite lives for the nine months ended September 30, 2011 and 2010.

Goodwill

In accordance with ASC 350, *Intangibles – Goodwill and Other*, we review our goodwill for impairment annually, or more frequently, if facts and circumstances warrant a review, at the reporting unit level. Our annual impairment test is performed as of October 1 of each year. We have determined that we have one segment with one reporting unit. The provisions of ASC 350 require that a two-step test be performed to assess goodwill for impairment. First, the fair value of the reporting unit is compared to its carrying value. If the fair value exceeds the carrying value, goodwill is not impaired and no further testing is performed. The second step is performed if the carrying value exceeds the fair value. The implied fair value of the reporting unit's goodwill must be determined and compared to the carrying value of the goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied value, an impairment loss equal to the difference will be recorded. In determining the fair value of our reporting units, we rely on the Income Approach and the Market Approach. Under the Income Approach, the fair value of a business unit is based on the cash flows it can be expected to generate over its remaining life. The estimated cash flows are converted to their present value equivalent using an appropriate rate of return. The Market Approach utilizes a market comparable method whereby similar publicly traded companies are valued using Market Values of Invested Capital (MVIC) multiples (i.e., MVIC to revenue, MVIC to earnings before interest and taxes, MVIC to cash flow, etc.) and then these MVIC multiples are applied to a company's operating results to arrive at an estimate of value.

Goodwill activity for the nine months ended September 30, 2011 is shown below:

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(\$ in thousands)

Balance, December 31, 2010	\$ 559,168
Adjustment during the measurement period relating to acquisition of NetQuote Holdings, Inc.	205
Adjustment during the measurement period relating to acquisition of CreditCards.com, Inc.	5,400
Other acquisitions	8,972
Balance, September 30, 2011	\$ 573,745

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BANKRATE, INC., AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

(Unaudited)

There have been no triggering events during the nine months ended September 30, 2011 and 2010 that would require an impairment test during the periods.

Website Development

We account for our website development costs under ASC 350-50, *Intangibles - Goodwill and Other - Website Development Costs*. ASC 350-50 provides guidance on the accounting for the costs of development of company websites into five stages: (1) the planning stage, during which the business and/or project plan is formulated and functionalities, necessary hardware and technology are determined, (2) the website application and infrastructure development stage, which involves acquiring or developing hardware and software to operate the website, (3) the graphics development stage, during which the initial graphics and layout of each page are designed and coded, (4) the content development stage, during which the information to be presented on the website, which may be either textual or graphical in nature, is developed, and (5) the operating stage, during which training, administration, maintenance and other costs to operate the existing website are incurred. The costs incurred in the website application and infrastructure stage, the graphics development stage and the content development stage are capitalized; all other costs are expensed as incurred. Website development costs are initially recorded in other assets and then transferred to fixed assets upon the completion of the project. We capitalized website development costs totaling \$2.1 million and \$1.4 million for the nine months ended September 30, 2011 and 2010, respectively. These amounts are included in furniture, fixtures and equipment or other assets in the accompanying condensed consolidated balance sheets, depending upon whether or not the project has been completed.

Basic and Diluted Income (Loss) Per Share

We compute basic income (loss) per share by dividing net income (loss) attributable to common stockholders for the period by the weighted average number of shares outstanding for the period. Diluted income (loss) 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 antidilutive, using the treasury stock method. Since we have a net loss attributable to common stockholders, basic and diluted loss per share are the same for the nine months ended September 30, 2011 and the three and nine months ended September 30, 2010.

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

Table of Contents**BANKRATE, INC., AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****SEPTEMBER 30, 2011**

(Unaudited)

(\$ in thousands, except per share data)	Three months ended		Nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Net income (loss)	\$ 7,132	\$ (7,742)	\$ (27,467)	\$ (16,643)
Weighted average common shares and equivalents outstanding for basic income (loss) per share calculation	99,879,865	82,839,063	92,233,345	66,239,400
Additional dilutive shares related to share-based awards	547,526			
Weighted average common shares and equivalents outstanding for diluted loss per share calculation	100,427,391	82,839,063	92,233,345	66,239,400
Basic and diluted income (loss) per share:				
Basic	\$ 0.07	\$ (0.09)	\$ (0.30)	\$ (0.25)
Diluted	\$ 0.07	\$ (0.09)	\$ (0.30)	\$ (0.25)
Options to purchase shares of common stock and other share-based awards outstanding which are not included in the calculation of diluted income (loss) per share because their impact is anti-dilutive			517,510	

Stockholders' Equity

The activity in stockholders' equity for the nine months ended September 30, 2011 is shown below:

(\$ and shares in thousands)	Common Stock		Additional paid-in capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders Equity
	Shares	Amount				
Balance at December 31, 2010	87,380	\$ 874	\$ 657,095	\$ (31,173)	\$ (740)	\$ 626,056
Foreign currency translation, net of taxes					57	57
Restricted stock issued, net of forfeitures	115	1	(1)			
Common stock issued	12,500	125	170,194			170,319
Stock compensation			2,927			2,927
Net loss				(27,467)		(27,467)