

BANKRATE INC
Form 10-Q
May 02, 2006

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2006**
- 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
(State or other jurisdiction of
incorporation or organization)
**11760 U.S. Highway One,
Suite 500**
North Palm Beach, Florida
(Address of principal executive
offices)

65-0423422
(I.R.S. Employer Identification
No.)
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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer Accelerated filer Non-accelerated filer

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

The number of outstanding shares of the issuer's common stock as of April 28, 2006 was as follows:
15,894,333 shares of Common Stock, \$.01 par value.

Bankrate, Inc.
Quarterly Report on Form 10-Q for the Quarter Ended March 31, 2006
Index

| PART I. FINANCIAL INFORMATION | PAGE NO |
|--|------------|
| Item 1. Financial Statements (Unaudited) | |
| Condensed Consolidated Balance Sheets at March 31, 2006 and December 31, 2005 | 3 |
| Condensed Consolidated Statements of Income for the Three Months Ended March 31, 2006 and 2005 | 4 |
| Condensed Consolidated Statements of Cash Flows for Three Months Ended March 31, 2006 and 2005 | 5 |
| Notes to Condensed Consolidated Financial Statements | 6 |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 12 |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk | 23 |
| Item 4. Controls and Procedures | 23 |
| PART II. OTHER INFORMATION | |
| Item 1. Legal Proceedings | 23 |
| Item 1A. Risk Factors | 23 |
| Item 2. Unregistered Sales of Securities and Use of Proceeds | 24 |
| Item 3. Defaults Upon Senior Securities | 24 |
| Item 4. Submission of Matters to a Vote of Security Holders | 24 |
| Item 5. Other Information | 24 |
| Item 6. Exhibits | 24 |
| Signatures | 25 |

Introductory Note

This Quarterly Report on Form 10-Q contains “forward-looking statements,” within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, among others, statements about our beliefs, plans, objectives, goals, expectations, estimates and intentions that are subject to significant risks and uncertainties and are subject to change based on various factors, many of which are beyond our control. The words “may”, “could”, “should”, “would”, “believe”, “anticipate”, “estimate”, “expect”, “intend”, “plan”, “target”, “goal”, and similar words are intended to identify forward-looking statements. All forward-looking statements, by their nature, are subject to risks and uncertainties. Our actual future results may differ materially from those set forth in our forward-looking statements. For information concerning these factors and related matters, see Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Part II Item 1A “Risk Factors” in this Quarterly Report on Form 10-Q, and the following sections of our Annual Report on Form 10-K, as amended, for the year ended December 31, 2005 (the “2005 Form 10-K”): (a) “Introductory Note” in Part I, Item 1. “Business”; (b) “Risk Factors” in Part I, Item 1A, “Business,” and (c) “Introduction” in Part II, Item 7., “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Part I. FINANCIAL INFORMATION**Item 1. Financial Statements**

Bankrate, Inc.
Condensed Consolidated Balance Sheets
(Unaudited)

| | March 31, 2006 | December 31, 2005 |
|---|-------------------|----------------------|
| Assets | | |
| Cash and cash equivalents | \$ 4,431,496 | \$ 3,479,609 |
| Accounts receivable, net of allowance for doubtful accounts of approximately \$1,466,000 at March 31, 2006 and \$1,630,000 at December 31, 2005 | 11,011,251 | 8,838,879 |
| Deferred income taxes, current portion | 4,641,874 | 6,445,636 |
| Insurance claim receivable | 89,780 | 85,575 |
| Prepaid expenses and other current assets | 871,516 | 481,677 |
| Total current assets | 21,045,917 | 19,331,376 |
| Furniture, fixtures and equipment, net of accumulated depreciation and amortization of approximately \$3,327,000 at March 31, 2006 and \$3,160,000 at December 31, 2005 | 1,015,593 | 1,063,307 |
| Deferred income taxes | 379,461 | 28,769 |
| Intangible assets, net of accumulated amortization of approximately \$1,077,000 at March 31, 2006 and \$697,000 at December 31, 2005 | 11,287,646 | 11,652,161 |
| Goodwill | 30,030,233 | 30,035,399 |
| Other assets | 813,055 | 442,211 |
| Total assets | \$ 64,571,905 | \$ 62,553,223 |
| Liabilities and Stockholders' Equity | | |

Edgar Filing: BANKRATE INC - Form 10-Q

Liabilities:

| | | | | |
|---------------------------|----|-----------|----|-----------|
| Accounts payable | \$ | 1,531,691 | \$ | 3,215,645 |
| Accrued expenses | | 3,884,604 | | 5,093,187 |
| Deferred revenue | | 1,181,455 | | 1,176,119 |
| Other current liabilities | | 56,355 | | 37,187 |
| Total current liabilities | | 6,654,105 | | 9,522,138 |

| | | | | |
|-------------------|--|---------|--|---------|
| Other liabilities | | 202,054 | | 178,133 |
|-------------------|--|---------|--|---------|

| | | | | |
|-------------------|--|-----------|--|-----------|
| Total liabilities | | 6,856,159 | | 9,700,271 |
|-------------------|--|-----------|--|-----------|

Stockholders' equity:

| | | | | |
|---|--|--------------|--|--------------|
| Preferred stock, 10,000,000 shares authorized and undesignated | | - | | - |
| Common stock, par value \$.01 per share-- 100,000,000 shares authorized; 15,890,468 and 15,857,877 shares issued and outstanding at March 31, 2006 and December 31, 2005, respectively | | 158,905 | | 158,579 |
| Additional paid in capital | | 73,502,185 | | 70,981,544 |
| Accumulated deficit | | (15,945,344) | | (18,287,171) |
| Total stockholders' equity | | 57,715,746 | | 52,852,952 |

| | | | | |
|--|----|------------|----|------------|
| Total liabilities and stockholders' equity | \$ | 64,571,905 | \$ | 62,553,223 |
|--|----|------------|----|------------|

See accompanying notes to condensed consolidated financial statements.

Bankrate, Inc.
Condensed Consolidated Statements of Income
(Unaudited)

| | Three Months Ended March 31, | |
|--|---|------------------|
| Revenue: | 2006 | 2005 |
| Online publishing | \$ 15,615,999 | \$ 9,266,553 |
| Print publishing and licensing | 4,172,433 | 1,155,296 |
| Total revenue | 19,788,432 | 10,421,849 |
| Cost of revenue: | | |
| Online publishing | 2,900,584 | 1,639,475 |
| Print publishing and licensing | 3,542,110 | 1,103,169 |
| Total cost of revenue | 6,442,694 | 2,742,644 |
| Gross margin | 13,345,738 | 7,679,205 |
| Operating expenses: | | |
| Sales | 1,088,275 | 841,847 |
| Marketing | 851,343 | 1,519,623 |
| Product development | 1,024,503 | 504,106 |
| General and administrative | 5,537,824 | 1,914,278 |
| Depreciation and amortization | 557,762 | 189,239 |
| Total operating expenses | 9,059,707 | 4,969,093 |
| Income from operations | 4,286,031 | 2,710,112 |
| Other income: | | |
| Interest income | 20,330 | 141,263 |
| Insurance recovery in excess of costs and expenses | - | 220,705 |
| Total other income | 20,330 | 361,968 |
| Income before income taxes | 4,306,361 | 3,072,080 |
| Provision for income taxes | 1,964,534 | 1,167,390 |
| Net income | \$ 2,341,827 | \$ 1,904,690 |
| Basic and diluted net income per share: | | |
| Basic | \$ 0.15 | \$ 0.12 |
| Diluted | \$ 0.14 | \$ 0.12 |
| Weighted average common shares outstanding: | | |
| Basic | 15,874,946 | 15,787,264 |
| Diluted | 16,771,044 | 16,561,802 |

See accompanying notes to condensed consolidated financial statements.

Bankrate, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

| | Three Months Ended March 31, | |
|---|---|---------------|
| | 2006 | 2005 |
| Cash flows from operating activities: | | |
| Net income | \$ 2,341,827 | \$ 1,904,690 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 557,762 | 189,239 |
| Provision for doubtful accounts receivables | 325,000 | 95,247 |
| Stock compensation expense | 1,777,623 | - |
| Deferred income taxes | 1,453,070 | 1,167,390 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (2,343,069) | (617,008) |
| Prepaid expenses and other assets | (415,881) | (26,471) |
| Accounts payable | (1,683,954) | (269,242) |
| Accrued expenses | (1,208,583) | 54,725 |
| Other liabilities | 48,425 | (106,998) |
| Net cash provided by operating activities | 852,220 | 2,391,572 |
| Cash flows from investing activities: | | |
| Purchases of furniture, fixtures and equipment | (210,530) | (98,791) |
| Cash used in business acquisitions | (149,140) | - |
| Proceeds from the sale of assets | 6,750 | - |
| Restricted cash | (290,757) | - |
| Net cash used in investing activities | (643,677) | (98,791) |
| Cash flows from financing activities: | | |
| Proceeds from exercise of stock options | 497,584 | 38,506 |
| Tax benefit-stock options | 245,760 | - |
| Net cash provided by financing activities | 743,344 | 38,506 |
| Net increase in cash and cash equivalents | 951,887 | 2,331,287 |
| Cash and equivalents, beginning of period | 3,479,609 | 27,735,267 |
| Cash and equivalents, end of period | \$ 4,431,496 | \$ 30,066,554 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the period for taxes | \$ 437,993 | \$ 10,000 |

See accompanying notes to condensed consolidated financial statements.

BANKRATE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2006
(Unaudited)

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company

Bankrate, Inc. and subsidiaries (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 300 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.

On November 30, 2005, the Company completed the acquisition of Wescoco LLC, a Delaware limited liability company d/b/a "FastFind" ("FastFind") for \$10 million in cash, subject to final Closing Date Net Working Capital adjustments under section 3.03 of the Agreement and Plan of Merger dated November 20, 2005. The Company paid \$7 million in cash to the FastFind members and \$3 million was placed in escrow to satisfy certain indemnification obligations of the FastFind members.

On December 1, 2005, the Company completed the acquisition of Mortgage Market Information Services, Inc., an Illinois corporation, and Interest.com, Inc., an Illinois corporation ("Interest.com" and collectively with Mortgage Market Information Services, Inc., "MMIS"), for \$30 million in cash, subject to final Closing Date Equity adjustments under section 3.03 of the Agreement and Plan of Merger dated November 20, 2005. The Company paid \$26 million on December 8, 2005, \$1 million on January 5, 2006, and \$3 million was placed in escrow to satisfy certain indemnification obligations of MMIS's shareholder.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include those of the Company and its wholly-owned subsidiaries, Wescoco LLC, Mortgage Market Information Services, Inc., and Interest.com, after elimination of all intercompany accounts and transactions. The Company has prepared the accompanying interim condensed consolidated financial statements conformity with accounting principles generally accepted in the United States of America, consistent in all material respects with those applied in the Company's 2005 Form 10-K, as amended. The interim financial information is unaudited and reflects all adjustments which are, in the opinion of management, necessary to provide fair condensed consolidated balance sheets, condensed consolidated statements of income and cash flows for the interim periods presented. Such adjustments are normal and recurring except as otherwise noted.

The unaudited condensed consolidated financial statements included herein should be read in conjunction with the financial statements and related footnotes included in the Company's 2005 Form 10-K, as amended.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent gains and losses at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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, excluding unvested stock options. Diluted net income per share includes the effect of common stock equivalents, consisting of unvested outstanding stock options and unrecognized compensation expense and tax benefits in accordance with SFAS No. 123R, to the extent the effect is not anti-dilutive, using the treasury stock method.

The weighted average number of common shares outstanding used in computing diluted net income per share for the three months ended March 31, 2006 and 2005 includes the shares resulting from the dilutive effect of outstanding stock options. For the three months ended March 31, 2006 and 2005, 22,000 and 268,500 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.

Goodwill

Statement of Financial Accounting Standards (“SFAS”) No. 142, *Goodwill and Other Intangible Assets*, requires us to test goodwill for impairment at least annually at the reporting unit level in lieu of being amortized. We have determined that we have two reporting units, online publishing and print publishing and licensing, under SFAS No. 142, as these are the components of the business for which discrete financial information is available and for which segment management regularly reviews the operating results.

The goodwill impairment test is a two-step test. Under the first step, the fair value of the reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit, accordingly, the enterprise must perform step two of the impairment test (measurement).

We perform an annual impairment review of goodwill for both reporting units during the fourth quarter of each year, or more frequently, if facts and circumstances warrant a review.

SFAS No. 142 also requires that intangible assets with definite lives be amortized over their estimated useful life and reviewed for impairment in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*.

In connection with the acquisition of Wescoco LLC, d/b/a “FastFind” on November 30, 2005, a final payment of approximately \$149,000 was made based on an adjustment to Closing Date Net Working Capital as defined under section 3.03 of the Agreement and Plan of Merger dated November 20, 2005. Goodwill was adjusted accordingly.

The Agreement and Plan of Merger for the acquisition of Mortgage Market Information Services, Inc. and Interest.com dated December 1, 2005 contains a provision in section 3.03 for the potential adjustment to Closing Date Equity, as defined. To date, no such adjustment has been agreed on and there have been no purchase price adjustments recorded as changes in goodwill.

Stock-Based Compensation

During the first quarter of fiscal 2006, the Company adopted the provisions of, and account for stock-based compensation in accordance with, SFAS No. 123 — revised 2004 (“SFAS No. 123R”), *Share-Based Payment*, which replaced SFAS No. 123, *Accounting for Stock-Based Compensation* and supersedes Accounting Principles Board (“APB”) Opinion No. 25, *Accounting for Stock Issued to Employees*. Under the fair value recognition provisions of SFAS No. 123R, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service period, which is the vesting period. The Company elected the modified prospective method, under which prior periods are not revised for comparative purposes. The valuation provisions of SFAS No. 123R apply to new grants and to grants that were outstanding as of the effective date and are subsequently modified. Estimated compensation for grants that were outstanding as of the effective date will be recognized over the remaining service period using the compensation cost estimated for the SFAS No. 123 pro forma disclosures. The adoption of SFAS No. 123R had a material impact on our consolidated financial position, results of operations and cash flows. See Note 3 for further information regarding our stock-based compensation assumptions and expenses, including pro forma disclosures for prior periods, as if we had recorded stock-based compensation expense.

Stockholders’ Equity

The activity in stockholder’s equity for the three months ended March 31, 2006 is shown below.

Additional

Edgar Filing: BANKRATE INC - Form 10-Q

| | Common Stock Shares | Common Stock Amount | Paid-in Capital | Accumulated Deficit | Total |
|--------------------------------|--------------------------------|--------------------------------|----------------------------|--------------------------------|---------------|
| Balances, December 31, 2005 | 15,857,877 | \$ 158,579 | \$ 70,981,544 | \$ (18,287,171) | \$ 52,852,952 |
| Stock options exercised | 32,591 | 326 | 497,258 | - | 497,584 |
| Tax benefit-stock options | - | - | 245,760 | - | 245,760 |
| Stock compensation expense | - | - | 1,777,623 | - | 1,777,623 |
| Net income for the period | - | - | - | 2,341,827 | 2,341,827 |
| Balances, March 31, 2006 | 15,890,468 | \$ 158,905 | \$ 73,502,185 | \$ (15,945,344) | \$ 57,715,746 |

7

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. The valuation allowance is based on management's judgment as to future taxable income in light of historical results, the current environment, forecasted performance and other factors.

Comprehensive Income

Comprehensive income is the same as net income for the three months ended March 31, 2006 and 2005.

Reclassification

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

Recent Accounting Pronouncements

In February 2006, the Financial Accounting Standards Board issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments*, which amends SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("SFAS No. 155"), and SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. SFAS No. 155 simplifies the accounting for certain derivatives embedded in other financial instruments by allowing them to be accounted for as a whole if the holder elects to account for the whole instrument on a fair value basis. SFAS No. 155 also clarifies and amends certain other provisions of SFAS No. 133 and SFAS No. 140. SFAS No. 155 is effective for all financial instruments acquired, issued or subject to a remeasurement event occurring in fiscal years beginning after September 15, 2006. Earlier adoption is permitted, provided the Company has not yet issued financial statements, including for interim periods, for that fiscal year. We do not expect the adoption of SFAS No. 155 to have a material impact on our consolidated financial position, results of operations or cash flows. As the Company currently has no financial instruments within the scope of SFAS No. 155.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections* ("SFAS No. 154"), which replaces APB Opinion No. 20, *Accounting Changes*, and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements*. SFAS No. 154 applies to all voluntary changes in accounting principle, and changes the requirements for accounting for and reporting of a change in accounting principle. SFAS No. 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle unless it is impracticable. APB Opinion No. 20 previously required that most voluntary changes in accounting principle be recognized with a cumulative effect adjustment in net income of the period of the change. SFAS No. 154 is effective for accounting changes made in annual periods beginning after December 15, 2005. There was no impact on the Company's financial statements after adopting SFAS No. 154 on January 1, 2006.

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 Mortgage Guide rate tables, newsletter subscriptions, and licensing of

research information. The acquired operations of FastFind and Interest.com are included in the online publishing segment. The acquired operations of Mortgage Market Information Services, Inc. are included in the print publishing and licensing segment. The Company evaluates the performance of its operating segments based on segment profit (loss).

The Company had one online customer that accounted for approximately 11% of total revenue for the three months ended March 31, 2006. No single customer accounted for more than 10% of total revenue for the three months ended March 31, 2005. No material revenues were generated outside of the United States.

Summarized segment information as of, and for, the three months ended March 31, 2006 is presented below.

| | Online Publishing | Print Publishing and Licensing | Other | Total |
|--|------------------------------|---|----------------|---------------|
| Three Months Ended March 31, 2006 | | | | |
| Revenue | \$ 15,615,999 | \$ 4,172,433 | \$ - | \$ 19,788,432 |
| Cost of revenue | 2,900,584 | 3,542,110 | - | 6,442,694 |
| Gross margin | 12,715,415 | 630,323 | - | 13,345,738 |
| Sales | 1,088,275 | - | - | 1,088,275 |
| Marketing | 851,343 | - | - | 851,343 |
| Product development | 927,385 | 97,118 | - | 1,024,503 |
| General and administrative expenses | 4,506,010 | 1,031,814 | - | 5,537,824 |
| Depreciation and amortization | 510,990 | 46,772 | - | 557,762 |
| Other income | - | - | 20,330 | 20,330 |
| Provision for income taxes | - | - | (1,964,534) | (1,964,534) |
| Segment profit (loss) | \$ 4,831,412 | \$ (545,381) | \$ (1,944,204) | \$ 2,341,827 |
| Goodwill | \$ 26,088,711 | \$ 3,941,522 | \$ - | \$ 30,030,233 |
| Total assets | \$ 45,524,429 | \$ 9,542,517 | \$ 9,504,959 | \$ 64,571,905 |

| | Online Publishing | Print Publishing and Licensing | Other | Total |
|--|------------------------------|---|---------------|---------------|
| Three Months Ended March 31, 2005 | | | | |
| Revenue | \$ 9,266,553 | \$ 1,155,296 | \$ - | \$ 10,421,849 |
| Cost of revenue | 1,639,475 | 1,103,169 | - | 2,742,644 |
| Gross margin | 7,627,078 | 52,127 | - | 7,679,205 |
| Sales | 841,847 | - | - | 841,847 |
| Marketing | 1,519,623 | - | - | 1,519,623 |
| Product development | 448,224 | 55,882 | - | 504,106 |
| General and administrative expenses | 1,702,074 | 212,204 | - | 1,914,278 |
| Depreciation and amortization | 168,261 | 20,978 | - | 189,239 |
| Other income | - | - | 361,968 | 361,968 |
| Provision for income taxes | - | - | (1,167,390) | (1,167,390) |
| Segment profit (loss) | \$ 2,947,049 | \$ (236,937) | \$ (805,422) | \$ 1,904,690 |
| Total assets | \$ 6,756,464 | \$ 508,157 | \$ 40,363,580 | \$ 47,628,201 |

NOTE 3 - STOCK-BASED COMPENSATION

Stock Options

The Company's stock option program is a long-term retention program that is intended to attract, retain and provide incentives for directors, officers and non-employee members of the Board of Directors in the form of incentive and non-qualified stock options and restricted stock. Currently, the Company grants stock options from the 1997 Equity Compensation Plan, as amended, and the 1999 Equity Compensation Plan, as amended. The Board of Directors has the sole authority to determine who receives such grants, the type, size and timing of such grants, and to specify the

terms of any non-competition agreements relating to the grants.

9

Beginning with the first quarter of fiscal 2006, the Company adopted SFAS No. 123R. See Note 1 for a description of our adoption of SFAS No. 123R. The Company currently uses the Black-Scholes option pricing model to determine the fair value of its stock options. The determination of the fair value of the awards on the date of grant using an option-pricing model is affected by the Company's stock price, as well as assumptions regarding a number of complex and subjective variables. These variables include its expected stock price volatility over the term of the awards, actual and projected employee stock option exercise behaviors, risk-free interest rates and expected dividends.

The Company estimated the expected term of options granted by taking the average of the vesting term and the contractual term of the option, as illustrated in the Staff Accounting Bulletin ("SAB") 107. The Company estimated the volatility of its common stock by using a weighted average of historical stock price volatility and implied volatility in market traded options in accordance with SAB 107. The decision to use a weighted average volatility factor was based upon the relatively short period of availability of data on actively traded options on its common stock, and its assessment that implied volatility is more representative of future stock price trends than historical volatility. The Company based the risk-free interest rate that it uses in the option pricing model on U.S. Treasury constant maturity issues with remaining terms similar to the expected term on the options. The Company does not anticipate paying any cash dividends in the foreseeable future and therefore used an expected dividend yield of zero in the option pricing model. The Company is required to estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. The Company uses historical data to estimate pre-vesting option forfeitures and records stock-based compensation expense only for those awards that are expected to vest. All stock-based payment awards are amortized on a straight-line basis over the requisite service periods of the awards, which are generally the vesting periods.

If factors change and the Company employs different assumptions for estimating stock-based compensation expense in future periods or if it decides to use a different valuation model, the future periods may differ significantly from what it has recorded in the current period and could materially affect its operating income, net income and net income per share.

Prior to the adoption of SFAS No. 123R, the Company applied the intrinsic value-based method of accounting prescribed by 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 was 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. SFAS No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS No. 148, established accounting and disclosure requirements using a fair value-based method of accounting for stock-based employee compensation plans. The Company had elected to apply the intrinsic value-based method of accounting described above, and adopted the disclosure requirements of SFAS No. 148.

The following table provides the fair value of the options granted during the three-month periods ended March 31, 2006 and 2005 using the Black-Scholes option pricing model together with a description of the assumptions used to calculate the fair value. Options for 293,000 and 329,500 shares were granted during the three-month periods ended March 31, 2006 and 2005, respectively.

| | Three Months Ended March 31, | |
|---------------------------------|-------------------------------------|-------------|
| | 2006 | 2005 |
| Weighted average exercise price | \$ 34.73 | \$ 13.35 |
| Expected volatility | 70% | 100% |
| Weighted average risk free rate | 4.5% | 3.9% |
| Expected lives | 4.75 years | 5 years |
| Expected dividend yield | 0% | 0% |

The stock-based compensation recognized in our consolidated statement of income for the three months ended March 31, 2006 is as follows:

| Income Statement Classifications | Three Months Ended March 31, 2006 |
|--|--|
| Cost of revenue - online publishing | \$ 208,496 |
| Cost of revenue - print publishing and licensing | 10,131 |
| Sales expenses | 156,885 |
| Product development | 113,532 |
| General and administrative | 1,288,579 |
| Total | \$ 1,777,623 |

The following table sets forth the pro forma amounts of net income and net income per share, for the three months ended March 31, 2005, that would have resulted if the Company had accounted for its stock options under the fair value recognition provisions of SFAS No. 123R.

| | Three Months Ended March 31, 2005 |
|---|--|
| Net income: | |
| As reported | \$ 1,904,690 |
| Less total stock-based employee compensation determined under fair value-based method for all awards, net of related tax effect | (715,152) |
| Pro forma | \$ 1,189,538 |
| Basic and diluted net income per common share-reported: | |
| Basic | \$ 0.12 |
| Diluted | 0.12 |
| Basic and diluted net income per common share-pro forma: | |
| Basic | 0.08 |
| Diluted | 0.07 |
| Weighted average common shares outstanding-reported: | |
| Basic | 15,787,264 |
| Diluted | 16,561,802 |
| Weighted average common shares outstanding-pro forma: | |
| Basic | 15,928,883 |
| Diluted | 15,928,883 |

Prior to the adoption of SFAS No. 123R, the Company presented all tax benefits for deductions resulting from the exercise of stock options and disqualifying dispositions as operating cash flows on its consolidated statement of cash flows. SFAS No. 123R requires the benefits of tax deductions in excess of recognized compensation expense to be reported as a financing cash flow, rather than as an operating cash flow. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. Total cash flow will remain unchanged from what would have been reported under prior accounting rules.

As of March 31, 2006, there was \$21.7 million of unrecognized compensation costs, adjusted for estimated forfeitures, related to non-vested stock options. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures.

General Stock Option Information

The following table sets forth the summary of option activity under the Company's stock option plans for the three months ended March 31, 2006:

| | Number of Shares | Price Per Share | Weighted Average Exercise Price |
|----------------------------|---------------------|------------------------|---------------------------------------|
| Balance, December 31, 2005 | 2,631,955 | \$ 0.85 to \$32.25 | \$ 12.69 |
| Granted | 293,000 | \$ 28.91 to \$37.84 | \$ 34.73 |
| Exercised | (32,591) | \$ 1.75 to \$18.44 | \$ 15.32 |
| Forfeited | (50,758) | \$ 12.63 to \$32.25 | \$ 22.33 |
| Expired | - | - | - |
| Balance, March 31, 2006 | 2,841,606 | \$ 0.85 to \$37.84 | \$ 14.76 |

Information regarding stock options outstanding at March 31, 2006 is summarized below:

| Prices | Options Outstanding | | Options Exercisable | |
|-----------------------|---------------------|--|---------------------|------------------------------|
| | Number of Shares | Weighted Average Remaining Contractual Life (Years) | Number of Shares | Average Exercise Price |
| \$0.85 | 67,160 | 3.84 | 67,160 | \$ 0.85 |
| \$1.19 to \$1.75 | 7,707 | 6.04 | 7,707 | 1.21 |
| \$2.39 to \$8.46 | 870,540 | 5.43 | 516,373 | 7.06 |
| \$10.01 to \$12.63 | 789,940 | 5.40 | 420,565 | 10.59 |
| \$13.00 to \$18.44 | 605,759 | 5.45 | 242,551 | 14.97 |
| \$26.98 to \$32.25 | 257,500 | 6.68 | - | - |
| \$35.75 to \$37.84 | 243,000 | 6.87 | - | - |
| | 2,841,606 | 5.63 | 1,254,356 | \$ 9.41 |

NOTE 4 - COMMITMENTS AND CONTINGENCIES

In March 2002, American Interbanc Mortgage, LLC (“AI”), a mortgage lender that advertised on Bankrate.com (the “Web site”), filed suit in the Superior Court of California against several of AI's competitors (not including the Company) who also advertised on the Web site for:

- (i) false advertising under the federal Lanham Act;
- (ii) common law unfair competition; and
- (iii) violations of certain sections of the California Business and Professions Code.

In August 2002, the Company declined to renew AI's advertising contract. In December 2002, AI filed a First Amended Complaint (the “Amended Complaint”), adding the Company as a defendant, and asserting an additional claim for an alleged violation of the Cartwright Act, California's antitrust law, alleging that the Company conspired with all of the co-defendants (various mortgage lenders and mortgage brokers) to allow them to engage in allegedly false advertising on the Web site while also precluding AI from advertising on the Website. The Amended Complaint sought an undisclosed sum of monetary damages, restitution of profits, compensation acquired as a result of the allegedly wrongful conduct, attorney's fees, costs, and injunctive relief. The Company filed a special motion to strike the Amended Complaint under California's anti-SLAPP (Strategic Lawsuits Against Public Participation) statute, contending that:

- (i) AI's claims against the Company were all based on publishing decisions protected by the First Amendment of the United States Constitution and its counterpart in the California Constitution; and
- (ii) AI could not establish a probability of success on the merits of its claims.

The Company also filed a demurrer to the Amended Complaint, contending that it failed to state facts constituting a valid cause of action against the Company. AI filed motions:

- (i) for a preliminary injunction against the Company, seeking an order requiring us to publish AI's advertisements and to cease publishing the alleged false advertisements of AI's competitors, and
- (ii) seeking sanctions against the Company for having filed an allegedly “frivolous” anti-SLAPP motion.

By Orders dated April 24, and May 22, 2003, the trial court:

- (i) denied the Company's anti-SLAPP motion,
- (ii) granted the Company's demurrer as to AI's common law unfair competition claim, but otherwise overruled the demurrer,
- (iii) denied AI's motion for a preliminary injunction, and
- (iv) denied AI's motion for sanctions.

On May 22, 2003, the Company appealed the order denying its anti-SLAPP claim, and AI, among other things, appealed the order denying its motion for preliminary injunction. The Court of Appeal of the State of California, Fourth Appellate District, affirmed the various appeals and denied all relief requested. On January 15, 2004, AI filed its Second Amended Complaint asserting five counts, including claims for:

- (i) false advertising under the Lanham Act, against all defendants,
- (ii) restraint of trade under the Cartwright Act, against all defendants,
- (iii) intentional interference with economic relations, against defendants other than the Company,
- (iv) intentional interference with prospective economic advantage, against some defendants but no longer against the Company, and
- (v) false advertising and unfair trade practices, against all defendants.

The Second Amended Complaint seeks unspecified damages, including treble damages, interest, attorney's fees, and costs, disgorgement of property and profits allegedly wrongfully acquired, restitution, an accounting, and injunctive relief.

On December 20, 2004, the Company received a Statement of Damages (the "Statement") by which AI, for the first time, indicated the amount of damages it allegedly seeks. In the Statement AI states, without factual explanation, that it "is informed and believes that its damages are not less than \$16.5 million," allegedly "incurred as a proximate result of [all] defendants' wrongful conduct." AI seeks to have those damages trebled and also seeks "reasonable attorney's fees pursuant to 15 U.S.C. Section 1117(b) and California Business and Professions Code Section 16750(a)," and costs. In connection with the causes of action for intentional interference with economic relations and prospective economic advantage, AI in its Statement "reserves the right to seek not less than \$33 million in punitive damages when it seeks a judgment" in the action. The Company believes that all of AI's claims against it are factually and legally without merit.

The Company will continue to vigorously defend itself against all of AI's claims. The Company has filed two motions for summary adjudication. The first seeks summary adjudication of AI's false advertising causes of action. The second seeks summary adjudication of AI's conspiracy in restraint of trade causes of action. The motions are scheduled for hearing by the Court on June 13, 2006, and June 27, 2006, respectively. Trial of the matter is currently scheduled to begin on November 6, 2006. Currently, the outcome of this matter is uncertain. The Company cannot estimate at this time the amount of loss, if any, which 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 should be read in conjunction with the condensed consolidated financial statements and notes thereto included in this Quarterly Report on Form 10-Q.

In addition to historical information, this Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, among others, statements about our beliefs, plans, objectives, goals, expectations, estimates and intentions that are subject to significant risks and uncertainties and are subject to change based on various factors, many of which are beyond our control. The words “may,” “could,” “should,” “would,” “believe,” “anticipate,” “estimate,” “expect,” “intend,” “goal,” and similar expressions are intended to identify forward-looking statements.

All forward-looking statements, by their nature, are subject to risks and uncertainties. Our actual future results may differ materially from those set forth in our forward-looking statements. Please see the Introductory Note and Item 1A Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2005, as amended, and Part II Item A "Risk Factors" in this Quarterly Report on Form 10-Q for a discussion of factors that could cause our actual results to differ materially from those in the forward-looking statements. You should not place undue reliance on these forward-looking statements, which speak only as of the date of this Quarterly report on Form 10-Q. We undertake no obligation to publicly release any revisions to the forward-looking statements or reflect events or circumstances after the date of this document.

Business Overview

Bankrate, Inc. (the "Company" or "Bankrate") 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 300 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 more than 575 markets in all 50 states in order to provide the most current objective, unbiased information. Hundreds of print and online partner publications depend on Bankrate.com as the trusted source for financial rates and information.

Thirty years 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 institutions by market and include relevant details to help consumers compare 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 have 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. Bankrate.com had over 46 million unique visitors in 2005, according to Omniture.

We operate a traditional media business on the Internet. 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.

We believe 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 Internet advertising revenues with the personal finance sections of general interest sites such as Yahoo! Finance, AOL Personal Finance and MSN Money; personal finance destination sites, such as The Motley Fool, CBS MarketWatch, SmartMoney.com, Kiplinger.com and CNNMoney.com; e-commerce oriented sites that include banking and credit products, such as LendingTree and Pricegrabber; lead aggregators, such as LowerMyBills, iHomeowners and NexTag; Print mortgage table sellers like National Financial News Service; rate listing sites, such as MonsterMoving, Realtor.com/Move.com, Informa Research Services and Checkinterestrates.com/CarsDirect; and key word cost-per-click advertising sites/networks such as Google, Yahoo! Search Marketing, Ask Jeeves and MIVA. Our traffic has grown from 700,000 unique visitors per month in early 2000 to over 5 million unique visitors per month in 2006 according to Omniture.

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 60 new graphic advertisers and over 180 new hyperlink advertisers in 2005. During the first quarter of 2006, graphic advertisements were published by an average of 45 monthly graphic advertisers compared to 51 in 2005. During the first quarter of 2006, there were an average of approximately 334 hyperlink advertisers each month compared to 377 during the first quarter of 2005. The new cost-per-click ("CPC") pricing structure, launched on October 1, 2005, does not rely on the quantity of the advertisers as did the flat-fee model but rather on the page view traffic. The number of advertisers has grown from approximately 320 in 2001 to over 370 in 2006. Page views have grown from 237 million in 2001 to 430 million in 2005, and were 124.2 million in the first quarter of 2006.

We have improved our gross margin from 71% in 2001 to 74% in 2005. Our gross margin in the first quarter of 2006 was 67% due to the inclusion of the results of Mortgage Market Information Services, Inc. ("MMIS"), which we acquired in the fourth quarter of 2005, and we expect our gross margin to remain at approximately this level for the remainder of 2006. The newspaper rate table business has typically generated margins in the 15% to 20% range which we expect to continue for the remainder of 2006. We have reduced other operating expenses (excluding stock compensation expense, barter expense, legal settlement charges and severance charges) as a percentage of total revenue (excluding barter revenue) from 70% in 2001 to 38% in 2006. Our income before income taxes (excluding legal settlement charges, severance charges and stock compensation expense) as a percentage of total revenue (excluding barter revenue) has grown to 31% in 2006.

Adjusted Other Operating Expenses and Total Revenue, Excluding Barter

(\$ 000's)

| | Q1 06 | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|-----------|-----------|-----------|-----------|-----------|-----------|
| Total revenue | \$ 19,788 | \$ 49,049 | \$ 39,204 | \$ 36,621 | \$ 26,571 | \$ 18,257 |
| Barter revenue | - | (2,254) | (3,088) | (3,164) | (2,912) | (2,558) |
| | 19,788 | 46,795 | 36,116 | 33,457 | 23,659 | 15,699 |
| Other operating expenses | 9,060 | 21,993 | 21,130 | 19,301 | 15,334 | 13,724 |
| Barter expense | - | (2,254) | (3,088) | (3,164) | (2,920) | (2,750) |
| Severance charge | - | - | (260) | - | - | - |
| Legal settlement charge | - | - | (510) | - | - | - |
| Stock compensation expense | (1,559) | - | - | - | - | - |
| | \$ 7,501 | \$ 19,739 | \$ 17,272 | \$ 16,137 | \$ 12,414 | \$ 10,974 |
| Adjusted other operating expenses as a percentage of total revenue excluding barter | 38% | 42% | 48% | 48% | 52% | 70% |

Critical Accounting Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent gains and losses at the date of the financial statements and the reported amounts of revenue and expenses during the period. We base our judgments, estimates and assumptions on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual results could differ materially from these estimates under different assumptions or conditions. We evaluate our judgments, estimates and

assumptions on a regular basis and make changes accordingly. We believe that the judgments, estimates and assumptions involved in the accounting for income taxes, the allowance for doubtful accounts receivable, stock-based compensation and legal contingencies have the greatest potential impact on our financial statements, so we consider these to be our critical accounting policies. Below we discuss the critical accounting estimates associated with these policies. Historically, our judgments, estimates and assumptions relative to our critical accounting policies have not differed materially from actual results. For further information on our critical accounting policies, see the discussion in the section titled “Results of Operations and Critical Accounting Policies” below, and Note 1 in Notes to Financial Statements in our 2005 Form 10-K, as amended.

Income Taxes

As required by Statement of Financial Accounting Standards (“SFAS”) No. 109, we use the asset and liability method of accounting for income taxes. Under this method, income tax expense is recognized for the amount of taxes payable or refundable for the current year. Deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and the tax bases of assets and liabilities, and for operating losses and tax credit carryforwards. Management must make assumptions, judgments and estimates to determine our current provision for income taxes and our deferred tax assets and liabilities, and any valuation allowance to be recorded against a deferred tax asset. Our assumptions, judgments and estimates relative to the current provision for income taxes take into account current tax laws and our interpretation of current tax laws. Although we believe our assumptions, judgments and estimates are reasonable, changes in tax laws or our interpretation of tax laws could significantly impact the amounts provided for income taxes in our consolidated financial statements. Our assumptions, judgments and estimates relative to the value of deferred tax assets take into account predictions of the amount and category of future taxable income. Actual operating results and the underlying amount and category of income in future years could render our current assumptions, judgments and estimates of recoverable net deferred tax assets inaccurate. Any of the assumptions, judgments and estimates could cause our actual income tax obligations to differ from our estimates and could materially impact our financial position and results of operations.

Allowance for Doubtful Accounts Receivable

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. As of March 31, 2006, our allowance decreased due to collections on fully-reserved accounts during the first quarter. 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 are recorded as bad debt expense and included in general and administrative expenses.

Stock-Based Compensation

We adopted the provisions of, and account for stock-based compensation in accordance with, SFAS 123R - revised 2004 (“SFAS No. 123R”) *Share-Based Payment*, which replaced SFAS No. 123, *Accounting for Stock-Based Compensation* and supersedes Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, during the quarter ended March 31, 2006. We elected the modified-prospective method, under which prior periods are not revised for comparative purposes. Under the fair value recognition provisions of this statement, stock-based compensation is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service period, which is the vesting period.

We currently use the Black-Scholes option pricing model to determine the fair value of our stock options. The determination of the fair value of the awards on the date of grant using an option-pricing model is affected by our stock price as well as assumptions regarding a number of complex and subjective variables. These variables include our expected stock price volatility over the term of the awards, actual and projected employee stock option exercise behaviors, risk-free interest rate and expected dividends.

We estimate the expected term of options granted by taking the average of the vesting term and the contractual term of the option, as illustrated in Staff Accounting Bulletin (“SAB 107”). We estimate the volatility of our common stock by using a weighted average of historical stock price volatility, and implied volatility in market traded options in accordance with SAB 107. Our decision to use a weighted average volatility factor was based upon the relatively short period of availability of data on actively traded options on our common stock, and our assessment that implied volatility is more representative of future stock price trends than historical volatility. We base the risk-free interest rate

that we use in the option pricing model on U.S. Treasury constant maturity issues with remaining terms similar to the expected term on the options. We do not anticipate paying any cash dividends in the foreseeable future and therefore use an expected dividend yield of zero in the option pricing model. We are required to estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. We use historical data to estimate pre-vesting option forfeitures and record stock-based compensation expense only for those awards that are expected to vest. All share based payment awards are amortized on a straight-line basis over the requisite service periods of the awards, which are generally the vesting periods.

If factors change and we employ different assumptions for estimating stock-based compensation expense in future periods or if we decide to use a different valuation model, the future periods may differ significantly from what we have recorded in the current period and could materially affect our operating income, net income and net income per share.

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable, characteristics not present in our option grants. Existing valuation models, including the Black-Scholes and lattice binomial models, may not provide reliable measures of the fair values of our stock-based compensation. Consequently, there is a risk that our estimates of the fair values of our stock-based compensation awards on the grant dates may bear little resemblance to the actual values realized upon the exercise, expiration, early termination or forfeiture of those stock-based payments in the future. Certain stock-based payments, such as employee stock options, may expire worthless or otherwise result in zero intrinsic value as compared to the fair values originally estimated on the grant date and reported in our financial statements. Alternatively, value may be realized from these instruments that are significantly higher than the fair values originally estimated on the grant date and reported in our financial statements. There currently is no market-based mechanism or other practical application to verify the reliability and accuracy of the estimates stemming from these valuation models, nor is there a means to compare and adjust the estimates to actual values.

The guidance in SFAS 123R and SAB 107 is relatively new. The application of these principles may be subject to further interpretation and refinement over time. There are significant differences among valuation models, and there is a possibility that we will adopt different valuation models in the future. This may result in a lack of consistency in future periods and materially affect the fair value estimate of stock-based payments. It may also result in a lack of comparability with other companies that use different models, methods and assumptions.

Stock-based compensation expense recognized in our condensed consolidated statement of income for the three months ended March 31, 2006 is as follows:

| Income Statement Classifications | Three Months Ended March 31, 2006 |
|--|--|
| Cost of revenue - online publishing | \$ 208,496 |
| Cost of revenue - print publishing and licensing | 10,131 |
| Sales expenses | 156,885 |
| Product development | 113,532 |
| General and administrative | 1,288,579 |
| Total | \$ 1,777,623 |

Legal Contingencies

In March 2002, American Interbank Mortgage, LLC (“AI”), a mortgage lender that advertised on Bankrate.com (the “Web site”), filed suit in the Superior Court of California against several of AI's competitors (not including us) who also advertised on the Web site for:

- (i) false advertising under the federal Lanham Act;
- (ii) common law unfair competition; and
- (iii) violations of certain sections of the California Business and Professions Code.

In August 2002, we declined to renew AI's advertising contract. In December 2002, AI filed a First Amended Complaint (the "Amended Complaint"), adding us as a defendant, and asserting an additional claim for an alleged violation of the Cartwright Act, California's antitrust law, alleging that we conspired with all of the co-defendants (various mortgage lenders and mortgage brokers) to allow them to engage in allegedly false advertising on the Web site while also precluding AI from advertising on the Website. The Amended Complaint sought an undisclosed sum of monetary damages, restitution of profits, compensation acquired as a result of the allegedly wrongful conduct, attorney's fees, costs, and injunctive relief. We filed a special motion to strike the Amended Complaint under California's anti-SLAPP (Strategic Lawsuits Against Public Participation) statute, contending that:

15

- (i) AI's claims against us were all based on publishing decisions protected by the First Amendment of the United States Constitution and its counterpart in the California Constitution; and
- (ii) AI could not establish a probability of success on the merits of its claims.

We also filed a demurrer to the Amended Complaint, contending that it failed to state facts constituting a valid cause of action against the Company. AI filed motions:

- (i) for a preliminary injunction against us, seeking an order requiring us to publish AI's advertisements and to cease publishing the alleged false advertisements of AI's competitors, and
- (ii) seeking sanctions against us for having filed an allegedly "frivolous" anti-SLAPP motion.

By Orders dated April 24, and May 22, 2003, the trial court:

- (i) denied our anti-SLAPP motion,
- (ii) granted our demurrer as to AI's common law unfair competition claim, but otherwise overruled the demurrer,
- (iii) denied AI's motion for a preliminary injunction, and
- (iv) denied AI's motion for sanctions.

On May 22, 2003, we appealed the order denying our anti-SLAPP claim, and AI, among other things, appealed the order denying its motion for preliminary injunction. The Court of Appeal of the State of California, Fourth Appellate District, affirmed the various appeals and denied all relief requested. On January 15, 2004, AI filed its Second Amended Complaint asserting five counts, including claims for:

- (i) false advertising under the Lanham Act, against all defendants,
- (ii) restraint of trade under the Cartwright Act, against all defendants,
- (iii) intentional interference with economic relations, against defendants other than us,
- (iv) intentional interference with prospective economic advantage, against some defendants but no longer against us, and
- (v) false advertising and unfair trade practices, against all defendants.

The Second Amended Complaint seeks unspecified damages, including treble damages, interest, attorney's fees, and costs, disgorgement of property and profits allegedly wrongfully acquired, restitution, an accounting, and injunctive relief.

On December 20, 2004, we received a Statement of Damages (the "Statement") by which AI, for the first time, indicated the amount of damages it allegedly seeks. In the Statement AI states, without factual explanation, that it "is informed and believes that its damages are not less than \$16.5 million," allegedly "incurred as a proximate result of [all] defendants' wrongful conduct." AI seeks to have those damages trebled and also seeks "reasonable attorney's fees pursuant to 15 U.S.C. Section 1117(b) and California Business and Professions Code Section 16750(a)," and costs. In connection with the causes of action for intentional interference with economic relations and prospective economic advantage, AI in its Statement "reserves the right to seek not less than \$33 million in punitive damages when it seeks a judgment" in the action. We believe that all of AI's claims against it are factually and legally without merit.

We will continue to vigorously defend against all of AI's claims. We have filed two motions for summary adjudication. The first seeks summary adjudication of AI's false advertising causes of action. The second seeks summary adjudication of AI's conspiracy in restraint of trade causes of action. The motions are scheduled for hearing by the Court on June 13, 2006, and June 27, 2006, respectively. Trial of the matter is currently scheduled to begin on November 6, 2006. Currently, the outcome of this matter is uncertain. We cannot estimate at this time, the amount of loss, if any, which could result from an adverse resolution of this litigation.

Significant Developments

On April 3, 2006, Edward J. DiMaria was appointed Senior Vice President-Chief Financial Officer and entered into an employment agreement with the Company. Under the terms of the employment agreement, Mr. DiMaria is entitled to receive an annual base salary as stipulated in the employment agreement, and an annual bonus contingent on achieving certain performance criteria. Under the terms of the employment agreement, Mr. DiMaria agrees to assign to the Company all of his copyrights, trade secrets and patent rights that relate to the business of the Company. Additionally, during the term of his employment and for a period of one year thereafter, Mr. DiMaria agrees not to compete with the Company and not to recruit any of the Company's employees. Upon Mr. DiMaria's termination of employment for certain reasons (i.e., without cause or resignation for good reason), the Company agrees to pay a separation payment equal to twelve months' base salary at the then-current rate payable in three equal installments; one-third payable 15 days after the termination date; one-third payable six months after the termination date; and one-third payable twelve months from the termination date. Mr. DiMaria was also granted options to purchase 150,000 shares of the Company's common stock at \$42.33, the fair market value on the date of grant. The options have a seven-year term and vest as follows: 37,500 shares on April 3, 2007; and 3,125 shares on the first day of each month beginning May 1, 2007 and ending April 3, 2010.

Results of Operations and Critical Accounting Policies

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, accounting for income taxes, the allowance for doubtful accounts receivable, stock-based compensation and legal contingencies) 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 consolidated 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 2005 Form 10-K, as amended, for additional information concerning the revenue and expense components of our online and print publishing operations.

Results of Operations

Three Months Ended March 31, 2006 Compared to the Three Months Ended March 31, 2005

Total Revenue

| Revenue: | Q1 05 | Q2 05 | Q3 05 | Q4 05 | Q1 06 |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|
| Online publishing | \$ 9,266,553 | \$ 11,204,023 | \$ 11,214,265 | \$ 11,611,543 | \$ 15,615,999 |
| Print publishing and licensing | 1,155,296 | 1,161,007 | 1,157,758 | 2,278,586 | 4,172,433 |
| Total revenue | \$ 10,421,849 | \$ 12,365,030 | \$ 12,372,023 | \$ 13,890,129 | \$ 19,788,432 |

Revenue

Online Publishing Revenue

We sell graphical advertisements on our Web site (including co-branded sites) consisting of banner, badge, billboard, poster and skyscraper 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 visitors to our Web site, (2) the number of ad pages we serve to those visitors, (3) the number of advertisements per page, and (4) the capacity of our sales force. Advertising sales are invoiced monthly at amounts based on specific contract terms. When the number of impressions over the contract term is guaranteed, the monthly invoiced amount is based on the monthly contractual number of impressions to be delivered at the contractual price, or CPM. Revenue is recognized monthly based on the actual number of impressions delivered, and the revenue corresponding to any under-delivery is deferred as unearned income on the balance sheet and is recognized later when the under-delivery is served. When the number of impressions over the contract term is not guaranteed, the monthly invoiced amount is determined and revenue is recognized based on the actual number of impressions delivered at the contractual price or CPM. 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, subject to our verification. 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 revenue is shared according to distribution agreements. Revenue is recorded at gross amounts and partnership payments are recorded in cost of revenue, pursuant to the provisions of Emerging Issues Task Force (“EITF”) 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent*. We also sell hyperlinks (interest rate table listings) to various third-party Internet sites that generate a fixed monthly fee, which is recognized in the month earned. We also sell text links on our rate pages to advertisers on a cost-per-click, or CPC basis. Advertisers enter an auction bidding process on a third-party Web site for placement of their text link based on the amount they are willing to pay for each click through to their Web site. We recognize revenue monthly for each text link based on the number

of clicks at the CPC contracted for during the auction bidding process. On October 1, 2005, we launched a new pay-for-performance pricing structure for our interest rate table (hyperlink) advertising business. The new pricing structure is a CPC model whereby advertisers will now pay us each time a visitor to our Web site clicks on a rate table listing. Prior to this launch, advertisers paid a flat monthly fee for their hyperlink.

Online publishing revenue prior to the first quarter of 2006 included 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 were recorded at the fair market value of the advertisements delivered or received, whichever is more determinable in the circumstances. We followed the accounting literature provided by Emerging Issues Task Force No. 99-17, *Accounting for Advertising Barter Transactions* (EITF 99-17"). In accordance with EITF 99-17, barter transactions were valued based on similar cash transactions which occurred within six months prior to the date of the barter transaction. Revenue from barter transactions was recognized as income when advertisements were delivered on our Web site. Barter expense was recognized when our advertisements ran on the other companies' Web sites, which was typically in the same period barter revenue was recognized. Barter revenue was approximately \$621,000 for the quarter ended March 31, 2005, and was approximately \$2,254,000 for the year ended December 31, 2005. Barter revenue was intentionally eliminated as of January 1, 2006 as we focus more on monetizing our available views through paid advertising.

Quarterly Online Publishing Revenue

| | Q1 05 | Q2 05 | Q3 05 | Q4 05 | Q1 06 |
|-------------|--------------|---------------|---------------|---------------|---------------|
| Graphic ads | \$ 5,351,065 | \$ 6,665,380 | \$ 6,595,789 | \$ 6,565,494 | \$ 9,159,104 |
| Hyperlinks | 3,294,682 | 3,817,716 | 4,180,521 | 4,572,049 | 6,456,895 |
| Barter | 620,806 | 720,927 | 437,955 | 474,000 | - |
| | \$ 9,266,553 | \$ 11,204,023 | \$ 11,214,265 | \$ 11,611,543 | \$ 15,615,999 |

Excluding barter revenue, online publishing revenue of \$15,616,000 for the three months ended March 31, 2006 was \$6,970,000, or 81%, higher than the \$8,646,000 reported for the same period in 2005. This increase was due to a \$3,808,000, or 71%, increase in graphic ad sales, and a \$3,162,000, or 96%, increase in hyperlink sales. Approximately \$2,000,000 of the increase was due to the revenue from Wescoco LLC, d/b/a "FastFind" and Interest.com, both of which were acquired in the fourth quarter of 2005.

Page views for the quarter were 124.2 million and were 13.2 million, or 12%, higher than the 111.0 million reported in the same period in 2005. While CPM's on graphic ad sales were slightly less than \$3.00 lower than the first quarter of 2005, we sold approximately 172 million, or 66%, more graphic ads in the first quarter of 2006 compared to the first quarter of 2005. Compared to the fourth quarter of 2005, graphic ad revenue was up \$2,600,000, or 40%, on 4% higher CPM's and 27 million, or 7%, more graphic ads sold.

The increase in hyperlink sales for the quarter ended March 31, 2006 was due to favorable product pricing, despite an 11% decline in the number of hyperlink advertisers compared to the quarter ended March 31, 2005. Our new CPC pricing structure, launched on our rate tables on October 1, 2005, does not rely on the quantity of advertisers as did our flat fee-based model, but rather on page view traffic. Sequentially, hyperlink revenue was up \$1,885,000, or 41%, over the \$4,572,000 reported in the fourth quarter of 2005.

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, in terms of page views, we have typically experienced a slowdown in traffic during our fourth quarter. During 2002, 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 that continued through the third quarter of 2004. As brand awareness continues to strengthen for Bankrate.com, we believe our quarterly page

views will become more consistent with a possible decline in the fourth quarter due to the holiday season.

| | Page Views (Millions) | | | | | |
|-------------|----------------------------------|-------------|-------------|-------------|-------------|-------------|
| | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 |
| Q1 | 124.2 | 111.0 | 117.2 | 106.7 | 58.4 | 70.5 |
| Q2 | - | 113.8 | 92.6 | 121.8 | 48.0 | 52.2 |
| Q3 | - | 107.8 | 92.0 | 100.3 | 82.1 | 47.3 |
| Q4 | - | 97.6 | 91.3 | 75.8 | 79.3 | 66.5 |
| Year | - | 430.2 | 393.1 | 404.6 | 267.8 | 236.5 |

Print Publishing and Licensing Revenue

Print publishing and licensing revenue represents advertising revenue from the sale of advertising in the *Mortgage Guide* (formerly called *Consumer Mortgage Guide*) rate tables, newsletter subscriptions, and licensing of research information. We charge a commission for placement of the *Mortgage Guide* in a print publication. Advertising revenue and commission income is recognized when the *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.

Quarterly Print Publishing & Licensing Revenue

| | Q1 05 | Q2 05 | Q3 05 | Q4 05 | Q1 06 |
|----------------|--------------|--------------|--------------|--------------|--------------|
| Mortgage Guide | \$ 945,083 | \$ 928,504 | \$ 944,943 | \$ 2,064,044 | \$ 3,927,380 |
| Editorial | 210,213 | 232,503 | 212,815 | 214,542 | 245,048 |
| | \$ 1,155,296 | \$ 1,161,007 | \$ 1,157,758 | \$ 2,278,586 | \$ 4,172,428 |

Print publishing and licensing revenue for the quarter ended March 31, 2006 was up \$3,000,000, or 261%, compared to the comparable period in 2005 primarily due to an increase in *Mortgage Guide* revenue. Approximately \$2,800,000 of this increase was due to the revenue from Mortgage Market Information Services, Inc., ("MMIS") which we acquired in the fourth quarter of 2005. We ended the first quarter of 2006 with 163 *Mortgage Guide* contracts, having acquired 107 of the contracts in the MMIS acquisition. Editorial sales were up 17% as newspapers continue to cut costs and reduce their internal editorial content costs.

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 Gross Margin

| Non-GAAP | Q1 05 | Q2 05 | Q3 05 | Q4 05 | Q1 06 |
|--|--------------|---------------|---------------|---------------|---------------|
| Online publishing revenue, excluding barter | \$ 8,645,747 | \$ 10,483,096 | \$ 10,776,310 | \$ 11,137,543 | \$ 15,615,999 |
| Cost of online publishing revenue, excluding stock | 1,639,475 | 1,823,127 | 1,902,520 | 2,023,967 | 2,692,088 |

Edgar Filing: BANKRATE INC - Form 10-Q

| | | | | | |
|---|--------------|---------------|---------------|---------------|---------------|
| compensation expense | | | | | |
| Gross margin | \$ 7,006,272 | \$ 8,659,969 | \$ 8,873,790 | \$ 9,113,576 | \$ 12,923,911 |
| Gross margin as a percentage of revenue | 81% | 83% | 82% | 82% | 83% |
| GAAP | | | | | |
| Online publishing revenue | \$ 9,266,553 | \$ 11,204,023 | \$ 11,214,265 | \$ 11,611,543 | \$ 15,615,999 |
| Cost of online publishing revenue | 1,639,475 | 1,823,127 | 1,902,520 | 2,023,967 | 2,900,584 |
| Gross margin | \$ 7,627,078 | \$ 9,380,896 | \$ 9,311,745 | \$ 9,587,576 | \$ 12,715,415 |
| Gross margin as a percentage of revenue | 82% | 84% | 83% | 83% | 81% |

Online publishing costs for the three months ended March 31, 2006, excluding stock compensation expense of \$208,000 were \$1,053,000, or 64%, higher than the comparable amount reported in the first quarter of 2005. This increase was due primarily to increases in human resource costs of \$196,000; higher revenue sharing payments of \$431,000 due to higher associated revenue; and approximately \$430,000 of costs associated with FastFind and Interest.com which were acquired in the fourth quarter of 2005.

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 *Mortgage Guide*, compensation and benefits, printing and allocated overhead. These costs typically vary proportionately with the related revenues.

Print Publishing & Licensing Gross Margin

| Non-GAAP | Q1 05 | Q2 05 | Q3 05 | Q4 05 | Q1 06 |
|---|--------------|--------------|--------------|--------------|--------------|
| Print publishing & licensing revenue | \$ 1,155,296 | \$ 1,161,007 | \$ 1,157,758 | \$ 2,278,586 | \$ 4,172,433 |
| Cost of print publishing & licensing revenue excluding stock compensation expense | 1,103,169 | 1,075,375 | 1,116,943 | 2,050,530 | 3,531,979 |
| Gross margin | \$ 52,127 | \$ 85,632 | \$ 40,815 | \$ 228,056 | \$ 640,454 |
| Gross margin as a percentage of revenue | 5% | 7% | 4% | 10% | 15% |
| GAAP | | | | | |
| Print publishing & licensing revenue | \$ 1,155,296 | \$ 1,161,007 | \$ 1,157,758 | \$ 2,278,586 | \$ 4,172,433 |
| Cost of print publishing & licensing revenue | 1,103,169 | 1,075,375 | 1,116,943 | 2,050,530 | 3,542,110 |
| Gross margin | \$ 52,127 | \$ 85,632 | \$ 40,815 | \$ 228,056 | \$ 630,323 |
| Gross margin as a percentage of revenue | 5% | 7% | 4% | 10% | 15% |

While print publishing and licensing costs, excluding stock compensation expense of \$10,000, for the quarter ended March 31, 2006 of \$3,532,000 increased by approximately \$2,429,000 from the comparable amount reported in the first quarter of 2005, our gross margin has improved due to the synergies realized from the acquisition of the newspaper rate table business of MMIS.

Operating 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 March 31, 2006, excluding stock compensation expense of \$157,000 were \$931,000, and were approximately \$90,000, or 11%, higher than the comparable amount reported in the first quarter of 2005. The increase is due primarily to higher sales commissions on the 90% increase in total revenue.

Marketing

Marketing costs represent expenses associated with expanding brand awareness of our products and services to consumers and include key word (pay per performance) campaigns on Internet search engines, print and Internet advertising, marketing and promotion costs. Marketing costs also included barter expense prior to January 1, 2006 which represented the non-cash cost of our advertisements that were run on other companies' Web sites in our barter transactions. Barter expense was \$621,000 for the quarter ended March 31, 2005. Excluding barter expense, marketing

expenses for the quarter ended March 31, 2006 of \$851,000 were approximately 5% lower than the \$899,000 reported in the first quarter of 2005, and page views in Q1 06 were 13.2 million, or 12%, higher than the 111.0 million page views in Q1 05. We have been able to reduce our marketing spending as more traffic comes directly to our Web site than from our paid search programs. During the first quarter of 2006, approximately 96% of our traffic came directly to our Web site, up from 83% in the first quarter of 2005.

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 months ended March 31, 2006, excluding stock compensation expense of \$114,000, were \$911,000, and were \$407,000, or 81%, higher than the comparable amount reported in the first quarter of 2005. The increase is due primarily to the addition of our Chief Technology Officer in May 2005, additional infrastructure costs associated with the FastFind acquisition, and expenses associated with the design and development of new products and higher human resources costs supporting our expanded infrastructure.

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. Excluding stock compensation expense of \$1,289,000 in the first quarter of 2006, these costs were \$4,249,000 and were \$2,335,000, or 122% higher than the comparable amount reported in the first quarter of 2005. Approximately \$1,157,000 were general and administrative costs for FastFind, MMIS and Interest.com, acquired in the fourth quarter of 2005. Other cost increases included legal and accounting - \$776,000; bad debt expense - \$150,000; and bank service and merchant charges - \$50,000.

Depreciation and Amortization

Excluding the amortization of acquired intangible assets of \$352,000 in the quarter ended March 31, 2006, depreciation and amortization was \$17,000, or 9%, higher than the amount reported in the same period in 2005 due to assets placed in service during the fourth quarter of 2005 and the first quarter of 2006, and the assets acquired with our fourth quarter 2005 acquisitions.

Other Income

Other income consists of interest income generated from invested cash and cash equivalents. Interest income for the three months ended March 31, 2006 was lower than the amount reported in the same period in 2005 due to lower cash balances. Additionally, the quarter ended March 31, 2005 included a \$221,000 gain from insurance proceeds.

Income Taxes

| | Three Months Ended | | | Change |
|------------------------------|---------------------------|--------------|--|---------------|
| | March 31, | | | |
| | 2006 | 2005 | | |
| Provision for income taxes | \$ 1,964,534 | \$ 1,167,390 | | 68% |
| Percentage of total revenues | 10% | 11% | | - |
| Effective tax rate | 46% | 38% | | - |

Overall, our effective tax rate increased by 8% in the first quarter of 2006. This was primarily the result of adopting SFAS 123R as of January 1, 2006 as well as expansion of our operations into certain higher state tax jurisdictions.

Goodwill and Intangible Assets

In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, we test goodwill for impairment at least annually at the reporting unit level in lieu of being amortized. We have determined that we have two reporting units, online publishing and print publishing and licensing, under SFAS No. 142 as these are the components of the business for which discrete financial information is available and for which segment management regularly reviews the operating results.

The goodwill impairment test is a two-step test. Under the first step, the fair value of the reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit, accordingly, the enterprise must perform step two of the impairment test (measurement).

We will perform an annual impairment review of goodwill for both reporting units on during the fourth quarter of each year.

SFAS No. 142 also requires that intangible assets with definite lives be amortized over their estimated useful life and reviewed for impairment in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*.

In connection with the acquisition of Wescoco LLC, d/b/a "FastFind" on November 30, 2005, a final payment of approximately \$149,000 was made based on an adjustment to Closing Date Net Working Capital as defined under section 3.03 of the Agreement and Plan of Merger dated November 20, 2005. Goodwill was adjusted accordingly.

The Agreement and Plan of Merger for the acquisition of Mortgage Market Information Services, Inc. and Interest.com dated December 1, 2005 contains a provision in section 3.03 for the potential adjustment to Closing Date Equity, as defined. To date, no such adjustment has been agreed on and there have been no purchase price adjustments recorded as changes in goodwill.

Liquidity and Capital Resources

| | December 31, | | |
|---------------------------|----------------|--------------|--------|
| | March 31, 2006 | 2005 | Change |
| Cash and cash equivalents | \$ 4,431,496 | \$ 3,479,609 | 27% |
| Working capital | 14,391,812 | 9,809,238 | 47% |
| Stockholders' equity | 57,715,746 | 52,852,952 | 9% |

Our principal source of liquidity is the cash generated by our product revenue. Another source of cash is proceeds from the exercise of employee stock options. As of March 31, 2006, our primary commitments were approximately \$10,668,000 in operating lease payments over the next 10 years, as well as capital expenditures and recurring payables and accruals arising during the course of operating our business, estimated at approximately \$6,048,000 through March 31, 2007. 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 as of March 31, 2006.

| | Total | Payments Due | | | |
|---------------------------------|---------------|-----------------------|-----------------------|------------------------|-------------------------|
| | | Less than one year | One to three years | Three to five years | More than five years |
| Long-term debt obligations | \$ - | \$ - | \$ - | \$ - | \$ - |
| Capital lease obligations | - | - | - | - | - |
| Operating lease obligations (1) | 10,668,278 | 1,130,798 | 2,160,079 | 1,892,617 | 5,484,784 |
| Purchase obligations (2) | 514,467 | 430,667 | 83,800 | - | - |
| Other long-term obligations | - | - | - | - | - |
| | \$ 11,182,745 | \$ 1,561,465 | \$ 2,243,879 | \$ 1,892,617 | \$ 5,484,784 |

(1) Includes our obligations under existing operating leases.

(2) Represents base contract amounts for Internet hosting, co-location content distribution and other infrastructure costs.

During the three months ended March 31, 2006, we generated \$852,000 of net cash from operating activities. Our net income of \$2,342,000 was adjusted for the impact of stock compensation expense of \$1,778,000; the deferred income tax provision of \$1,453,000; depreciation and amortization of \$558,000, bad debt expense of \$325,000, and a net

negative change in the components of operating assets and liabilities of \$5,603,000. Of this negative change, \$2,343,000 resulted from an increase in accounts receivable, \$1,684,000 resulted from a decrease of \$1,684,000 in accounts payable, and \$1,209,000 resulted from a decrease in accrued expenses. Accounts receivable balances were higher at March 31, 2006 supporting higher sales levels, larger customers buying advertising through agencies that typically extend payments beyond 60 days, and slower collections from the recently acquired MMIS newspaper rate table business. The decrease in accounts payable and accrued expenses was due to scheduled payments to trade vendors, and payments made in the first quarter of 2006 for 2005 sales commission and the management incentive plan. During the three months ended March 31, 2006, net cash of \$211,000 was used to purchase furniture & equipment; we paid \$291,000 in lease security deposits for the new Chicago and New York offices; we paid an additional \$149,000 to the sellers of FastFind under the terms of Agreement and Plan of Merger dated November 30, 2005; and \$743,000 was provided by financing activities, primarily the result of stock option exercises.

Our existing cash and cash equivalents may decline in the event of weakening of the economy or changes in our planned cash outlay. However, based on our current business plan and revenue prospects, we believe that our existing balances together with our anticipated cash flows from operations will be sufficient to meet our working capital and operating resource expenditure requirements for the next twelve months. Also, while we currently have no committed lines of credit, we believe that our banking relationships and good credit should afford us the opportunity to raise sufficient debt in the banking or public markets, if required.

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 March 31, 2006, 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

Disclosure Controls and Procedures

Based on their evaluations as of March 31, 2006, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) were sufficiently effective to ensure that the information required to be disclosed by the Company in this Quarterly Report on Form 10-Q was recorded, processed, summarized and reported within the time periods specified in the SEC's rules and instructions for Form 10-Q.

There were no changes in the Company's internal control over financial reporting during the quarter ended March 31, 2006 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

Management, including the Company's Chief Executive Officer and Chief Financial Officer, does not expect that the Company's disclosure controls and procedures will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

Part II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

In March 2002, American Interbank Mortgage, LLC (“AI”), a mortgage lender that advertised on Bankrate.com (the “Web site”), filed suit in the Superior Court of California against several of AI's competitors (not including us) who also advertised on the Web site for:

- (i) false advertising under the federal Lanham Act;
- (ii) common law unfair competition; and
- (iii) violations of certain sections of the California Business and Professions Code.

In August 2002, we declined to renew AI's advertising contract. In December 2002, AI filed a First Amended Complaint (the “Amended Complaint”), adding us as a defendant, and asserting an additional claim for an alleged violation of the Cartwright Act, California's antitrust law, alleging that we conspired with all of the co-defendants (various mortgage lenders and mortgage brokers) to allow them to engage in allegedly false advertising on the Web site while also precluding AI from advertising on the Website. The Amended Complaint sought an undisclosed sum of monetary damages, restitution of profits, compensation acquired as a result of the allegedly wrongful conduct, attorney's fees, costs, and injunctive relief. We filed a special motion to strike the Amended Complaint under California's anti-SLAPP (Strategic Lawsuits Against Public Participation) statute, contending that:

- (i) AI's claims against us were all based on publishing decisions protected by the First Amendment of the United States Constitution and its counterpart in the California Constitution; and
- (ii) AI could not establish a probability of success on the merits of its claims.

We also filed a demurrer to the Amended Complaint, contending that it failed to state facts constituting a valid cause of action against the Company. AI filed motions:

- (i) for a preliminary injunction against us, seeking an order requiring us to publish AI's advertisements and to cease publishing the alleged false advertisements of AI's competitors, and
- (ii) seeking sanctions against us for having filed an allegedly “frivolous” anti-SLAPP motion.

By Orders dated April 24, and May 22, 2003, the trial court:

- (i) denied our anti-SLAPP motion,
- (ii) granted our demurrer as to AI's common law unfair competition claim, but otherwise overruled the demurrer,
- (iii) denied AI's motion for a preliminary injunction, and
- (iv) denied AI's motion for sanctions.

On May 22, 2003, we appealed the order denying our anti-SLAPP claim, and AI, among other things, appealed the order denying its motion for preliminary injunction. The Court of Appeal of the State of California, Fourth Appellate District, affirmed the various appeals and denied all relief requested. On January 15, 2004, AI filed its Second Amended Complaint asserting five counts, including claims for:

- (i) false advertising under the Lanham Act, against all defendants,
- (ii) restraint of trade under the Cartwright Act, against all defendants,
- (iii) intentional interference with economic relations, against defendants other than us,
- (iv) intentional interference with prospective economic advantage, against some defendants but no longer against us, and
- (v) false advertising and unfair trade practices, against all defendants.

The Second Amended Complaint seeks unspecified damages, including treble damages, interest, attorney's fees, and costs, disgorgement of property and profits allegedly wrongfully acquired, restitution, an accounting, and injunctive relief.

On December 20, 2004, we received a Statement of Damages (the "Statement") by which AI, for the first time, indicated the amount of damages it allegedly seeks. In the Statement AI states, without factual explanation, that it "is informed and believes that its damages are not less than \$16.5 million," allegedly "incurred as a proximate result of [all] defendants' wrongful conduct." AI seeks to have those damages trebled and also seeks "reasonable attorney's fees pursuant to 15 U.S.C. Section 1117(b) and California Business and Professions Code Section 16750(a)," and costs. In connection with the causes of action for intentional interference with economic relations and prospective economic advantage, AI in its Statement "reserves the right to seek not less than \$33 million in punitive damages when it seeks a judgment" in the action. We believe that all of AI's claims against it are factually and legally without merit.

We will continue to vigorously defend itself against all of AI's claims. We have filed two motions for summary adjudication. The first seeks summary adjudication of AI's false advertising causes of action. The second seeks summary adjudication of AI's conspiracy in restraint of trade causes of action. The motions are scheduled for hearing by the Court on June 13, 2006, and June 27, 2006, respectively. Trial of the matter is currently scheduled to begin on November 6, 2006. Currently, the outcome of this matter is uncertain. We cannot estimate at this time, the amount of loss, if any, which could result from an adverse resolution of this litigation.

Item 1 A. Risk Factors

There have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2005, as amended.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

Item 5. OTHER INFORMATION

None.

Item 6. EXHIBITS

- | (a) | Exhibits |
|--------|--|
| 10.1 | Executive Agreement effective April 3, 2006 between Edward J. DiMaria and Bankrate, Inc. |
| 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. |
| 31.2.1 | Certification of Edward J. DiMaria, 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 Edward J. DiMaria, Senior Vice President and Chief Financial Officer of Bankrate, Inc., Pursuant to 18 U.S.C. Section 1350. |

24

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: May 2, 2006

By: /s/ EDWARD J. DIMARIA

Edward J. DiMaria

Senior Vice President and Chief Financial Officer

(Principal Financial and Accounting Officer)