

BANKRATE INC  
Form 10-Q  
November 06, 2007

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**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 SEPTEMBER 30, 2007**

**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)

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

**11760 U.S. Highway One, Suite 200  
North Palm Beach, Florida**  
(Address of principal executive offices)

**33408**  
(Zip Code)

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

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

Indicate by check mark whether the registrant 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 October 31, 2007 was as follows: 18,447,995 shares of Common Stock, \$.01 par value.

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**Bankrate, Inc.**  
**Quarterly Report on Form 10-Q for the Quarter Ended September 30, 2007**  
**Index**

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Introductory Note

**CAUTION CONCERNING FORWARD-LOOKING STATEMENTS**

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. Our ability to achieve our financial objectives could be adversely affected by the factors discussed in detail in the following sections of our Annual Report on Form 10-K for the year ended December 31, 2006 (the “2006 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,” as well as:

- the willingness of our advertisers to advertise on our web sites;
- interest rate volatility;
- our ability to establish and maintain distribution arrangements;
- our ability to integrate the business and operations of companies that we have acquired, and those we may acquire in the future;
- our ability to realize expected benefits, including synergies, of companies that we have acquired, and those that we may acquire in the future;
- our ability to maintain the confidence of our advertisers by detecting click-through fraud and unscrupulous advertisers;
- the effect of unexpected liabilities we assume from our acquisitions;
- the impact of lawsuits to which we are a party;
- the willingness of consumers to accept the Internet as a medium for obtaining financial product information;
- the ability of consumers to access our online network through non-PC devices;
- increased competition and its effect on our web site traffic, advertising rates, margins, and market share;
- our ability to manage traffic on our web sites and service interruptions;
- our ability to protect our intellectual property;
- the effects of facing liability for content on our web sites;
- the concentration of ownership of our common stock;

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- the fluctuations of our results of operations from period to period;
- the accuracy of our financial statement estimates and assumptions;
- our ability to adapt to technological changes;
- the impact of legislative or regulatory changes affecting our business;
- changes in consumer spending and saving habits;
- changes in accounting principles, policies, practices or guidelines;
- the effect of provisions in our Articles of Incorporation, Bylaws and certain laws on change-in-control transactions;
- effect of changes in the stock market and other capital markets;
- the strength of the United States economy in general;
- changes in monetary and fiscal policies of the United States Government;
- other risks described from time to time in our filings with the Securities and Exchange Commission; and
- our ability to manage the risks involved in the foregoing.

Other factors besides those referenced could adversely affect our results, and you should not consider any such list of factors to be a complete set of all potential risks or uncertainties. Any forward-looking statements made by us herein speak as of the date of this Quarterly Report. We do not undertake to update any forward-looking statement, except as required by law.

**Part I. FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS**

**Bankrate, Inc.**  
Condensed Consolidated Balance Sheets  
(Unaudited)

Assets	September 30, 2007	December 31, 2006
Cash and cash equivalents	\$ 140,573,813	\$ 13,125,360
Short-term investments	-	96,800,000
Accounts receivable, net of allowance for doubtful accounts of approximately \$1,997,000 at September 30, 2007 and \$2,155,000 at December 31, 2006	16,645,183	15,801,403
Deferred income taxes, current portion	1,703,747	1,703,747
Prepaid expenses and other current assets	1,444,856	1,032,423
<b>Total current assets</b>	<b>160,367,599</b>	<b>128,462,933</b>
Furniture, fixtures and equipment, net of accumulated depreciation and amortization of approximately \$3,912,000 at September 30, 2007 and \$3,826,000 at December 31, 2006	1,498,953	1,703,680
Deferred income taxes	1,262,279	1,262,279
Intangible assets, net of accumulated amortization of approximately \$3,637,000 at September 30, 2007 and \$2,355,000 at December 31, 2006	13,174,527	14,441,162
Goodwill	30,039,425	30,039,425
Other assets	646,289	774,117
<b>Total assets</b>	<b>\$ 206,989,072</b>	<b>\$ 176,683,596</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities:</b>		
Accounts payable	\$ 591,546	\$ 312,489
Accrued expenses	6,570,562	5,237,222
Deferred revenue	337,640	729,019
Other current liabilities	28,648	27,427
<b>Total current liabilities</b>	<b>7,528,396</b>	<b>6,306,157</b>
Other liabilities	256,386	222,920
<b>Total liabilities</b>	<b>7,784,782</b>	<b>6,529,077</b>
<b>Stockholders' equity:</b>		
Preferred stock, 10,000,000 shares authorized and undesignated	-	-
Common stock, par value \$.01 per share-- 100,000,000 shares authorized; 18,444,362 and 18,224,620 shares issued and	184,444	182,246

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outstanding at September 30, 2007 and December 31, 2006,  
respectively

Additional paid in capital	191,343,655	178,255,314
Retained earnings (deficit)	7,676,191	(8,283,041)
Total stockholders' equity	199,204,290	170,154,519
Total liabilities and stockholders' equity	\$ 206,989,072	\$ 176,683,596

*See accompanying notes to condensed consolidated financial statements.*

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Revenue:				
Online publishing	\$ 21,623,890	\$ 15,777,141	\$ 60,915,790	\$ 46,858,127
Print publishing and licensing	3,229,544	3,709,277	9,444,746	12,083,093
Total revenue	24,853,434	19,486,418	70,360,536	58,941,220
Cost of revenue:				
Online publishing	3,141,953	2,648,944	9,332,938	8,356,396
Print publishing and licensing	2,872,985	3,358,281	8,414,082	10,673,649
Total cost of revenue	6,014,938	6,007,225	17,747,020	19,030,045
Gross margin	18,838,496	13,479,193	52,613,516	39,911,175
Operating expenses:				
Sales	1,772,946	1,392,424	4,699,743	3,728,615
Marketing	2,286,086	1,397,575	5,862,697	3,437,836
Product development	1,218,172	936,539	3,328,827	2,766,235
General and administrative	5,668,459	5,300,233	14,773,262	16,734,800
Legal settlement	-	3,000,000	-	3,000,000
Depreciation and amortization	632,178	631,573	1,925,964	1,753,988
	11,577,841	12,658,344	30,590,493	31,421,474
Income from operations	7,260,655	820,849	22,023,023	8,489,701
Interest income	1,823,940	1,075,351	4,961,598	1,720,656
Income before income taxes	9,084,595	1,896,200	26,984,621	10,210,357
Income tax expense	3,723,124	656,116	11,025,389	4,102,465
Net income	\$ 5,361,471	\$ 1,240,084	\$ 15,959,232	\$ 6,107,892
Basic and diluted net income per share:				
Basic	\$ 0.29	\$ 0.07	\$ 0.87	\$ 0.36
Diluted	\$ 0.28	\$ 0.07	\$ 0.83	\$ 0.35
Shares used in computing basic net income per share				
	18,424,428	18,112,909	18,334,190	17,050,167
Shares used in computing diluted net income per share				
	19,249,130	18,238,675	19,146,545	17,552,836

*See accompanying notes to condensed consolidated financial statements.*





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

	<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>
Cash flows from operating activities:		
Net income	\$ 15,959,232	\$ 6,107,892
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,925,964	1,753,988
Provision for doubtful accounts receivable	649,450	1,157,939
Share-based compensation	7,825,574	6,705,452
Excess tax benefits from share-based compensation	(1,496,697)	(2,021,186)
Deferred income taxes	-	1,048,566
Loss on disposal of assets	12,349	-
Changes in operating assets and liabilities, net of effects from business acquisitions:		
Increase in accounts receivable	(1,493,230)	(6,123,279)
Increase in prepaid expenses and other assets	(282,963)	(561,539)
Increase (decrease) in accounts payable	279,057	(1,225,812)
Increase in accrued expenses	2,830,037	4,316,591
Increase (decrease) in other liabilities	34,687	(746,350)
Decrease in deferred revenue	(391,379)	(198,319)
Net cash provided by operating activities	25,852,081	10,213,943
Cash flows from investing activities:		
Purchases of short-term investments	(223,771,916)	-
Sales of short-term investments	320,571,916	-
Purchases of furniture, fixtures and equipment	(466,951)	(1,083,499)
Cash used in business acquisitions, net of cash acquired	-	(4,571,629)
Proceeds from sale of assets	-	68,000
Restricted cash	(1,642)	(295,843)
Net cash provided by (used in) investing activities	96,331,407	(5,882,971)
Cash flows from financing activities:		
Offering costs and proceeds from the sale of common stock in May 2006	(80,586)	90,688,008
Proceeds from the exercise of stock options	3,848,854	2,698,955
Excess tax benefit-stock options	1,496,697	2,021,186
Net cash provided by financing activities	5,264,965	95,408,149
Net increase in cash	127,448,453	99,739,121
Cash, beginning of period	13,125,360	3,479,609
Cash, end of period	\$ 140,573,813	\$ 103,218,730
Supplemental disclosures of cash flow information:		
Cash paid during the period for taxes	\$ 9,474,205	\$ 1,137,415

*See accompanying notes to condensed consolidated financial statements.*

**BANKRATE, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2007**  
(Unaudited)

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**The Company**

Bankrate, Inc. and its subsidiaries (the "Company") own and operate an Internet-based consumer banking and personal finance network. The Company's flagship site, Bankrate.com, is one of the web's leading aggregators of information on more than 300 financial products and fees, 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.

**Acquisitions**

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, plus a net working capital adjustment of \$149,000 in the quarter ended June 30, 2006, in accordance with the Agreement and Plan of Merger dated November 20, 2005.

On December 1, 2005, the Company completed the acquisition of Mortgage Market Information Services, Inc., an Illinois corporation ("MMIS"), and Interest.com, Inc., an Illinois corporation ("Interest.com"), for \$30 million in cash.

On August 4, 2006, the Company completed the acquisition of a group of assets that consists of three web sites (Mortgage-calc.com, Mortgagecalc.com and Mortgagemath.com, collectively "Mortgage-calc.com") owned and operated by East West Mortgage, Inc. for \$4.4 million in cash. The operations of these web sites were integrated into the online publishing segment.

**Stock Offering**

In May 2006, the Company closed a public offering of 2,697,776 shares of its common stock, of which 2,005,991 shares were sold by the Company and 691,785 shares were sold by certain of the Company's existing stockholders, at a price of \$48.25 per share, resulting in net proceeds to the Company of approximately \$92.4 million, which included \$1.7 million in proceeds from the exercise of stock options by existing stockholders and employees.

**Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements include those of the Company and its wholly-owned subsidiaries, FastFind, MMIS and Interest.com, after elimination of all intercompany accounts and transactions. The Company has prepared the accompanying financial statements in conformity with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States for complete financial statements. The interim financial information is unaudited but reflects all adjustments that are, in the opinion of management, necessary to provide a fair statement of the results of the Company for the interim periods presented. Such adjustments are normal and recurring except as otherwise noted. Operating results for the three and nine months ended September 30, 2007 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2007 ("fiscal 2007").

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 2006 Form 10-K.

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## **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent gains and losses at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The Company believes that the judgments, estimates and assumptions involved in the accounting for income taxes, the allowance for doubtful accounts receivable, share-based compensation and legal contingencies have the greatest potential impact on its financial statements, so it considers these to be its critical accounting policies. Actual results could differ from those estimates.

## **Basic and Diluted Earnings Per Share**

The Company computes basic earnings per share by dividing net income for the period by the weighted average number of shares outstanding for the period, excluding outstanding stock options and restricted stock awards. Diluted earnings per share includes the effect of common stock equivalents, consisting of outstanding stock options, unrecognized compensation expense on outstanding stock options and restricted stock awards, and excess tax benefits in accordance with Statement of Financial Accounting Standards ("SFAS") No. 123R, *Share-Based Payment*, 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 earnings per share for the three and nine months ended September 30, 2007 and 2006 includes 824,701 and 125,766 shares, and 812,355 and 502,669, shares, respectively, resulting from the dilutive effect of outstanding stock options and restricted stock awards. For the three and nine months ended September 30, 2007, 4,000 and 154,000 shares, respectively, attributable to the assumed exercise of outstanding stock options were excluded from the calculation of diluted earnings per share because the effect was anti-dilutive. For the three and nine months ended September 30, 2006, 580,500 and 176,000 shares, respectively, attributable to the assumed exercise of outstanding stock options were excluded from the calculation of diluted earnings per share because the effect was anti-dilutive.

## **Reclassification of Short-Term Investments**

The Company's short-term investments at December 31, 2006 consist primarily of Triple A rated investment grade auction rate municipal, corporate, governmental and educational notes and bonds. The securities underlying the Company's investments have maturities that range from 16 to 40 years. The Company's investments are classified as short-term investments since the securities are held for auction at pre-determined short term intervals, generally ranging from 7 to 35 days, whereby the interest rates are reset to current interest rates through a market based auction process. At the end of such period, the Company typically rolls over its holdings into new or reset auction rate securities or redeems the investments for cash. All of these short-term investments were classified as available-for-sale and reported at fair value. Due to the frequency and short-term market based auction process associated with the reset feature, the investments' trade at par which approximates fair value; therefore, there are no realized or unrealized gains or losses associated with these investments.

As of December 31, 2006, the Company's cash and cash equivalents included \$96,800,000 of investment grade auction rate securities. These securities were reclassified as short-term investments in the accompanying condensed consolidated balance sheet as of December 31, 2006, and the statement of cash flows for the nine months ended September 30, 2006, to conform with the current period presentation.

## **Allowance for Doubtful Accounts**

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability or unwillingness of its customers to make required payments. The Company looks at historical write-offs and sales

growth when determining the adequacy of the allowance. Should the financial condition of the Company's 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. During the three months ended September 30, 2007 and 2006, the Company charged approximately \$150,000 and \$492,000, respectively, to bad debt expense, and wrote off (net of recoveries) approximately \$740,000 and \$485,000, respectively, of accounts deemed uncollectible.

During the nine months ended September 30, 2007 and 2006, the Company charged approximately \$649,000 and \$1,158,000, respectively, to bad debt expense, and wrote off (net of recoveries) approximately \$807,000 and \$658,000, respectively, of accounts deemed uncollectible.

## **Goodwill**

In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, the Company reviews its goodwill for impairment annually, or more frequently, if facts and circumstances warrant a review, at the reporting unit level. The Company has determined that it has 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 management regularly reviews the operating results. The provisions of SFAS No. 142 require that a two-step test be performed to assess goodwill for impairment. First, the fair value of the reporting unit is compared to its carrying value. If the fair value exceeds the carrying value, goodwill is not impaired and no further testing is performed. The second step is performed if the carrying value exceeds the fair value. The implied fair value of the reporting unit's goodwill must be determined and compared to the carrying value of the goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied value, an impairment loss equal to the difference will be recorded. In determining the fair value of our reporting units, we relied on the Income Approach and the Market Approach. Under the Income Approach, the fair value of a business unit is based on the cash flows it can be expected to generate over its remaining life. The estimated cash flows are converted to their present value equivalent using an appropriate rate of return. The Market Approach utilizes a market comparable method whereby similar publicly traded companies are valued using Market Values of Invested Capital ("MVIC") multiples (i.e., MVIC to revenue, MVIC to earnings before interest and taxes, MVIC to cash flow, etc.) and then these MVIC multiples are applied to a company's operating results to arrive at an estimate of value.

The Company completed its annual goodwill impairment test during the fourth quarter of 2006 and determined that the carrying amount of goodwill was not impaired.

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*.

Goodwill was adjusted in the three months ended September 30, 2006, for approximately \$190,000 related to accounts receivable and \$78,000 related to deferred revenue.

## **Share-Based Compensation**

During the first quarter of 2006, the Company adopted the provisions of, and accounts for share-based compensation in accordance with, 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, share-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as an expense on a straight-line basis over the requisite service period, which is generally the vesting period. The Company elected the modified prospective method, pursuant to 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 of SFAS No. 123R 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 the Company's consolidated financial position, results of operations and cash flows. See Note 3 for further information regarding the Company's share-based compensation assumptions and expense.

**Stockholders' Equity**

The activity in stockholders' equity for the nine months ended September 30, 2007 is shown below.

	Common Stock		Additional Paid-in Capital	Retained Earnings (Deficit)	Total
	Shares	Amount			
Balances, December 31, 2006	18,224,620	\$ 182,246	\$ 178,255,314	\$ (8,283,041)	\$ 170,154,519
Stock options exercised	45,657	457	789,777	-	790,234
Share-based compensation	-	-	1,680,723	-	1,680,723
Net income for the period	-	-	-	5,372,672	5,372,672
Balances, March 31, 2007	18,270,277	182,703	180,725,814	(2,910,369)	177,998,148
Stock options exercised	115,478	1,155	1,895,265	-	1,896,420
Offering costs associated with sale of common stock in May 2006	-	-	(80,586)	-	(80,586)
Share-based compensation	-	-	2,532,523	-	2,532,523
Excess tax benefit-stock options	-	-	961,182	-	961,182
Net income for the period	-	-	-	5,225,089	5,225,089
Balances, June 30, 2007	18,385,755	183,858	186,034,198	2,314,720	188,532,776
Stock options exercised	58,607	586	1,161,614	-	1,162,200
Share-based compensation	-	-	3,612,328	-	3,612,328
Excess tax benefit-stock options	-	-	535,515	-	535,515
Net income for the period	-	-	-	5,361,471	5,361,471
Balances, September 30, 2007	18,444,362	\$ 184,444	\$ 191,343,655	\$ 7,676,191	\$ 199,204,290

## **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 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 and nine months ended September 30, 2007 and 2006.

## **Recent Accounting Pronouncements**

In June 2007, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position 07-01, "*Clarification of the Scope of the Audit and Accounting Guide-Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies*" ("SOP 07-01"). SOP 07-01 defines investment companies for purposes of applying the related AICPA Audit and Accounting Guide. SOP 07-01 provides guidance on whether an investment company's parent or equity-method investor should retain investment-company accounting in its financial statements. SOP 07-01 is effective for the Company beginning January 1, 2008, although earlier adoption is encouraged. The Company is currently evaluating the impact, if any, that SOP 07-01 will have on its consolidated financial statements.

In February 2007, the Financial Accounting Standards Board ("FASB") issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits companies to choose to measure certain financial instruments and certain other items at fair value, and requires that unrealized gains and losses on items for which the fair value option has been elected be reported in earnings. SFAS No. 159 is effective for the Company beginning in the first fiscal quarter of 2008 although earlier adoption is permitted. The Company is currently evaluating what impact, if any, SFAS No. 159 will have on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS No. 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of SFAS No. 157 but does not expect the adoption of SFAS No. 157 to have a material impact on its consolidated financial position, results of operations or cash flows.

## **NOTE 2 - SEGMENT INFORMATION**

The Company currently operates in two reportable business segments: online publishing and print publishing and licensing. The online publishing segment is primarily engaged in the sale of advertising, sponsorships, and hyperlinks in connection with the Company's web sites, Bankrate.com, Interest.com, Bankrate *Select* and Mortgage-calc.com, and its network of online distribution partners. The print publishing and licensing segment is primarily engaged in the sale of advertising in the *Mortgage Guide* and *Deposit Guide* rate tables, newsletter subscriptions, and licensing of research information. The acquired operations of FastFind, Interest.com, and Mortgage-calc.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 revenue, margins and other financial metrics.

No single customer accounted for more than 10% of total revenue for the three and nine months ended September 30, 2007 and 2006. No material revenues were generated outside of the United States.

Summarized segment information as of, and for, the three and nine months ended September 30, 2007 and 2006 is presented below.

Three Months Ended September 30, 2007	Print		Other	Total
	Online Publishing	Publishing and Licensing		
Revenue	\$ 21,623,890	\$ 3,229,544	\$ -	\$ 24,853,434
Cost of revenue	3,141,953	2,872,985	-	6,014,938
Gross margin	18,481,937	356,559	-	18,838,496
Sales	1,583,541	189,405	-	1,772,946
Marketing	2,285,224	862	-	2,286,086
Product development	1,077,841	140,331	-	1,218,172
General and administrative expenses	4,846,305	822,154	-	5,668,459
Depreciation and amortization	520,965	111,213	-	632,178
Interest income	-	-	1,823,940	1,823,940
Provision for income taxes	-	-	(3,723,124)	(3,723,124)
Segment profit (loss)	\$ 8,168,061	\$ (907,406)	\$ (1,899,184)	\$ 5,361,471
Goodwill	\$ 26,129,688	\$ 3,909,737	\$ -	\$ 30,039,425
Total assets	\$ 53,838,458	\$ 7,536,176	\$ 145,614,438	\$ 206,989,072

Three Months Ended September 30, 2006	Print		Other	Total
	Online Publishing	Publishing and Licensing		
Revenue	\$ 15,777,141	\$ 3,709,277	\$ -	\$ 19,486,418
Cost of revenue	2,648,944	3,358,281	-	6,007,225
Gross margin	13,128,197	350,996	-	13,479,193
Sales	1,392,424	-	-	1,392,424
Marketing	1,397,575	-	-	1,397,575
Product development	758,267	178,272	-	936,539
General and administrative expenses	4,346,570	953,663	-	5,300,233
Legal settlement	3,000,000	-	-	3,000,000
Depreciation and amortization	530,416	101,157	-	631,573
Other income	-	-	1,075,351	1,075,351
Provision for income taxes	-	-	(656,116)	(656,116)
Segment profit (loss)	\$ 1,702,945	\$ (882,096)	\$ 419,235	\$ 1,240,084
Goodwill	\$ 26,129,688	\$ 3,954,746	\$ -	\$ 30,084,434
Total assets	\$ 51,949,903	\$ 8,518,920	\$ 110,509,303	\$ 170,978,126

Nine Months Ended September 30, 2007	Print		Other	Total
	Online Publishing	Publishing and Licensing		
Revenue	\$ 60,915,790	\$ 9,444,746	\$ -	\$ 70,360,536
Cost of revenue	9,332,938	8,414,082	-	17,747,020
Gross margin	51,582,852	1,030,664	-	52,613,516
Sales	4,325,221	374,522	-	4,699,743
Marketing	5,861,835	862	-	5,862,697

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Product development	2,932,097	396,730	-	3,328,827
General and administrative expenses	12,577,990	2,195,272	-	14,773,262
Depreciation and amortization	1,706,537	219,427	-	1,925,964
Interest income	-	-	4,961,598	4,961,598
Provision for income taxes	-	-	(11,025,389)	(11,025,389)
Segment profit (loss)	\$ 24,179,172	\$ (2,156,149)	\$ (6,063,791)	\$ 15,959,232
Goodwill	\$ 26,129,688	\$ 3,909,737	\$ -	\$ 30,039,425
Total assets	\$ 53,838,458	\$ 7,536,176	\$ 145,614,438	\$ 206,989,072

	<b>Online Publishing</b>	<b>Print Publishing and Licensing</b>	<b>Other</b>	<b>Total</b>
<b>Nine Months Ended September 30, 2006</b>				
Revenue	\$ 46,858,127	\$ 12,083,093	\$ -	\$ 58,941,220
Cost of revenue	8,356,396	10,673,649	-	19,030,045
Gross margin	38,501,731	1,409,444	-	39,911,175
Sales	3,728,615	-	-	3,728,615
Marketing	3,437,836	-	-	3,437,836
Product development	2,199,150	567,085	-	2,766,235
General and administrative	13,310,600	3,424,200	-	16,734,800
Legal settlement	3,000,000	-	-	3,000,000
Depreciation and amortization	1,504,422	249,566	-	1,753,988
Other income	-	-	1,720,656	1,720,656
Provision for income taxes	-	-	(4,102,465)	(4,102,465)
Segment profit (loss)	\$ 11,321,108	\$ (2,831,407)	\$ (2,381,809)	\$ 6,107,892
Goodwill	\$ 26,129,688	\$ 3,954,746	\$ -	\$ 30,084,434
Total assets	\$ 51,949,903	\$ 8,518,920	\$ 110,509,303	\$ 170,978,126

### **NOTE 3 - SHARE-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 employees in the form of incentive and non-qualified stock options and restricted stock. During the first quarter of 2007, the Company granted stock options from the 1999 Equity Compensation Plan, as amended, contingent on stockholder approval of the Board of Director's recommendation to increase the number of shares authorized to be issued pursuant to such plan. On June 20, 2007, the stockholders of the Company approved several amendments to the 1999 Equity Compensation Plan, as previously amended and restated through March 15, 2007, to be adopted in the form of a new amended and restated plan document, the Bankrate, Inc. Second Amended and Restated 1999 Equity Compensation Plan (the "Plan"), making the Plan effective as of June 20, 2007. The amendments increased the number of shares reserved for issuance under the Plan from 3,500,000 to 4,500,000. Subject to the terms of the Plan, the Compensation Committee of the Board of Directors or its delegate has the sole authority to determine who receives such grants, the type, size and timing of such grants, and to specify the terms of any non-competition agreements relating to the grants. The purpose of the Plan is to advance the interests of the Company by providing eligible participants in the Plan with the opportunity to receive equity-based or cash incentive awards, thereby aligning their economic interests with those of the Company's stockholders. The Plan is intended to accomplish these goals by enabling the Company to grant awards in the form of stock options, stock appreciation rights, restricted or unrestricted stock, restricted or unrestricted stock units, performance awards, any other awards that are convertible into or otherwise based on the Company's common stock, or cash awards.

#### **Restricted Stock**

In April 2007, the Company awarded 200,000 shares of restricted common stock to certain executive officers. The awards have an eight-year term and only vest if, at any point during the term of the award, the closing price of the Company's stock is at or above the following specific thresholds for ninety consecutive days; \$44.00 - 25% of award shares vest; \$50.00 - 33% of award shares vest; \$56.00 - remaining 42% of award shares vest. Once the specific threshold has been satisfied, the applicable percentage of award shares vest as follows; one-third upon satisfying the incremental threshold; one-third on the first anniversary of satisfying the incremental threshold; and the remaining one-third on the second anniversary of satisfying the incremental threshold. The awards also vest on a change in control provided certain conditions are met. The Company valued the awards using a Monte Carlo simulation model that used the following assumptions: volatility factor - 61.8% based on a weighted average of historical stock price volatility and implied volatility in market traded options; risk-free interest rate - 4.73% on U.S. Treasury constant maturity issues having remaining terms similar to the expected term of the awards; and the dividend yield is 0%. The weighted average grant date fair value was \$35.59 and the weighted average expected time to vest as of September 30, 2007 was 1.89 years. Share-based compensation expense for the three and nine months ended September 30, 2007 included approximately \$890,000 and \$1,506,000, respectively, related to the awards. No award shares were vested as of September 30, 2007.

#### **Share-Based Compensation**

Beginning with the first quarter of fiscal 2006, the Company adopted SFAS No. 123R. See Note 1 for a description of the Company's 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 price of the Company's common stock, as well as assumptions regarding a number of complex and subjective variables. These variables include 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 outstanding stock options 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 having remaining terms similar to the expected terms of 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 share-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, which is generally the vesting period.

If factors change and the Company employs different assumptions for estimating share-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.

The following table provides the fair value of the stock options granted during the three and nine-month periods ended September 30, 2007 and 2006 using the Black-Scholes option pricing model together with a description of the assumptions used to calculate the fair value. Options exercisable into 5,000 and 422,500 shares, respectively, were granted during the three and nine months ended September 30, 2007, and options exercisable into 265,000 shares and 732,000 shares were granted during the three and nine months ended September 30, 2006.

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2007	2006	2007	2006
Weighted average fair value	\$21.55	\$17.53	\$27.90	\$20.90
Expected volatility	60.4%	66.1%	58.1%	69.7%
Weighted average risk free rate	4.0%	4.8%	4.9%	4.7%
Expected lives	4.75 years	4.75 years	4.75 years	4.75 years
Expected dividend yield	0%	0%	0%	0%

The share-based compensation expense for stock options and restricted stock awards recognized in the Company's condensed consolidated statements of income for the three and nine months ended September 30, 2007 and 2006 is as follows:

Income Statement Classifications	Three Months Ended September		Nine Months Ended September 30,	
	2007	2006	2007	2006
<b>Cost of revenue:</b>				
Online publishing	\$ 570,772	\$ 289,546	\$ 1,420,922	\$ 786,542
Print publishing and licensing	39,526	39,984	120,141	107,806
<b>Other expenses:</b>				
Sales	487,420	215,980	861,430	543,017
Marketing	198,189	-	439,569	-
Product development	243,576	111,644	563,674	358,276
General and administrative	2,072,845	1,085,803	4,419,838	4,909,811
Total	\$ 3,612,328	\$ 1,742,957	\$ 7,825,574	\$ 6,705,452

Pursuant to the income tax provisions of SFAS No. 123R, the Company follows the "long-haul method" of computing its hypothetical additional paid-in capital, or APIC, pool. As of September 30, 2007, there was approximately \$20.8 million of unrecognized compensation costs, adjusted for estimated forfeitures, related to non-vested stock options, which will be recognized over a weighted average period of approximately 2.71 years. Additionally, as of September 30, 2007, there was approximately \$5.6 million of unrecognized compensation expense related to restricted stock awards which will be amortized over a weighted average 1.89 years. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures, and for restricted stock awards, changes in the weighted average expected time to vest.

### General Stock Option Information

The following table sets forth the summary of option activity under the Company's stock option plans for the nine months ended September 30, 2007:

	<b>Number of Shares</b>	<b>Price Per Share</b>	<b>Weighted Average Exercise Price</b>	<b>Aggregate Intrinsic Value</b>
Balance, December 31, 2006	2,749,590	\$0.85 to \$47.47	\$ 17.08	
Granted	422,500	\$27.26 to 40.11	\$ 34.25	
Exercised	(219,742)	\$0.85 to \$37.70	\$ 17.50	
Forfeited	(139,577)	\$12.63 to \$38.43	\$ 28.12	
Expired	-	-	-	
Balance, September 30, 2007	2,812,771	\$0.85 to \$47.47	\$ 19.08	\$ 76,061,000

The total intrinsic value of stock options exercised during the nine months ended September 30, 2007, was approximately \$5,856,000. The intrinsic value is calculated as the difference between the market value on the date of exercise and the exercise price of the stock options. The aggregate intrinsic value of stock options outstanding as of September 30, 2007 is calculated as the difference between the market value at September 30, 2007 (\$46.12) and the exercise price of the stock options.

Additional information with respect to outstanding stock options as of September 30, 2007, was as follows:

Prices	Options Outstanding		Options Exercisable		
	Number of Shares	Weighted Average Remaining Contractual Life (Years)	Number of Shares	Average Exercise Price	Aggregate Intrinsic Value
\$0.85	32,500	2.10	32,500	\$ 0.85	
\$1.75 to \$8.46	831,642	3.91	800,391	\$ 7.65	
\$10.01 to \$12.63	589,897	3.99	552,231	\$ 10.24	
\$13.00 to \$18.44	310,446	3.87	196,238	\$ 15.30	
\$26.98 to \$32.75	458,813	5.66	112,605	\$ 29.65	
\$35.75 to \$47.47	589,473	5.87	108,538	\$ 39.19	
	2,812,771	4.60	1,802,503	\$ 12.43	\$ 60,729,000

#### NOTE 4 - INCOME TAXES

The change in the Company's effective tax rate in the three and nine months ended September 30, 2007 compared to the three and nine months ended September 30, 2006 was due primarily to the tax effects of incentive stock option grants and disqualifying dispositions of incentive stock options.

The Company adopted the provisions of FIN No. 48, *Accounting for Uncertainty in Income Taxes- an interpretation of FASB Statement No. 109*, on January 1, 2007. Previously, the Company had accounted for tax contingencies in accordance with Statement of Financial Accounting Standards 5, *Accounting for Contingencies*. As required by FIN No. 48, which clarifies Statement 109, Accounting for Income Taxes, the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. At the adoption date, the Company applied Interpretation 48 to all tax positions for which the statute of limitations remained open. As a result of the implementation of Interpretation 48, the Company did not recognize a change in the liability for unrecognized tax benefits.

There were no unrecognized tax benefits as of January 1, 2007, and there have been no material changes in unrecognized tax benefits through September 30, 2007.

The Company is subject to income taxes in the U.S. federal jurisdiction, various states and foreign jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for the years before 2003.

There are no accruals for the payment of interest and penalties at September 30, 2007. The Company would recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses.



**NOTE 5 - COMMITMENTS AND CONTINGENCIES**

On July 20, 2007, BanxCorp, a privately held company located in White Plains, New York, filed a complaint against the Company in the United States District Court for the District of New Jersey. The complaint alleges that the Company has engaged in a plan of misconduct that has unreasonably restrained trade and substantially lessened competition in the marketplace, thereby monopolizing trade and commerce. BanxCorp alleges that the Company has engaged in predatory pricing, vendor lock-in, exclusionary product and distribution bundling and tie-in arrangements, anticompetitive acquisitions and market division agreements.

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The action brought by the complaint is for unspecified equitable and monetary relief under the Sherman and Clayton Acts, including treble damages, and under state statutes, including the New Jersey Antitrust Act.

The Company believes that the allegations in the complaint are without merit and intends to vigorously defend against them. On October 19, 2007, the Company filed a motion for dismissal. Because the outcome of the suit is uncertain at this time, the Company cannot estimate the amount of loss, if any, that could result from an adverse resolution of this matter.

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

Management's discussion and analysis ("MD&A") provides supplemental information, which sets forth the major factors that have affected our financial condition and results of operation and should be read in conjunction with our condensed consolidated financial statements and notes thereto included in this Quarterly Report. The MD&A is divided into subsections entitled "Business Overview," "Critical Accounting Estimates," "Results of Operations and Critical Accounting Policies," "Liquidity and Capital Resources," and "Off-Balance Sheet Arrangements."

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.

**CAUTION CONCERNING FORWARD-LOOKING STATEMENTS**

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, 2006, and as updated in the Company's subsequent quarterly reports filed on Form 10-Q, and in our other filings made from time to time with the SEC after the date of this Quarterly Report.

However, other factors besides those referenced could adversely affect our results, and you should not consider any such list of factors to be a complete set of all potential risks or uncertainties. Any forward-looking statements made by us herein speak as of the date of this Quarterly Report. We do not undertake to update any forward-looking statement, except as required by law.

**Business Overview**

Bankrate, Inc. and its subsidiaries (the "Company," "Bankrate," "we," "us," or "our") own and operate an Internet-based consumer banking and personal finance network. Our flagship site, Bankrate.com, is one of the web's leading aggregators of information on more than 300 financial products and fees, 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 online distribution partners and national, regional and local publications. Through our online network ("Online Network") which includes Bankrate.com, Interest.com, Mortgage-calc.com and Bankrateselect.com, as well as co-branded web sites hosted by our network of online distribution partners, we provide the tools and information that can help

consumers make better financial decisions.

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We also produce traditional print publications, including the *Mortgage Guide* and the *Deposit Guide*, as well as three newsletters. We also syndicate our original editorial content to major print publications such as *The Wall Street Journal*, *The New York Times*, *USA Today* and others.

We believe we have a high quality, in-market audience that is valuable to our advertisers. Bankrate.com is one of the top sites for financial information and advice according to comScore Media Metrix. We sell graphic advertisements and hyperlinks on our Online Network, publish rates and sell advertisements in metropolitan newspapers, and we license our rates and editorial content.

We regularly survey approximately 4,800 financial institutions in more than 575 local markets in all 50 states in order to provide the most current objective, unbiased information. Hundreds of print and online partner publications depend on us as the trusted source for financial rates and information.

We believe that the recognition of our research as a leading source of independent, objective information on financial products is a key component of 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 Online Network and to reach a greater number of online users. Bankrate.com had approximately 53 million unique visitors for the year ended December 31, 2006, and had approximately 53 million unique visitors for the nine months ended September 30, 2007, according to Omniture, a web analytics tool.

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 market to advertisers targeting a specific audience in a city or state and also to national advertisers targeting the entire country. The key drivers to our business are advertiser demand and consumer traffic to our Online Network of personal finance web sites. Our consumer traffic has continued to grow with 487.4 million page views in 2006 compared to 430.2 million in 2005, and 423.5 million in the nine months of 2007, compared to 366.8 million in the first nine months of 2006. In addition, our advertiser demand increased in 2006 and continued to increase during the nine months ended September 30, 2007 both from increases in the demand from existing advertisers as well as new advertisers launching advertising campaigns on our Online Network.

Our gross margin averaged 75% from 2002 to 2005. Our gross margin decreased for the year ended December 31, 2006 to 69%, due to the inclusion of the results of FastFind, MMIS and Interest.com, which we acquired in the fourth quarter of 2005. The newspaper rate table business has typically generated margins in the 11% to 16% range and we expect margins for this business to remain near the lower end of that range for fiscal 2007. As online publishing revenue grows as a percentage of total revenue, we expect our overall gross margin to expand. This expectation was realized through the third quarter of 2007 as online revenue represented 87% of total revenue and 98% of gross margin dollars, compared to 80% of total revenue and 97% of gross margin dollars for the year ended December 31, 2006. As a result our gross margin increased to 76% for the three months ended September 30, 2007.

We have steadily reduced operating expenses as a percentage of total revenue from 58% in 2002 to 47% in the quarter ended September 30, 2007. Operating expenses in 2006 include a legal settlement charge and related fees of \$3,675,000. Operating expenses as a percentage of total revenue have trended upward since the second quarter of 2007 due to higher share-based compensation expense. Our cash and cash equivalents have increased approximately \$137.1 million since December 31, 2005 after closing a public offering of our common stock with net proceeds of approximately \$92.4 million in May 2006.

(\$ in 000's)

**Operating Expenses as a Percentage of Total Revenue**

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<b>GAAP</b>	Q3 07	Q2 07	Q1 07	2006	2005	2004	2003	2002
Total revenue	\$ 24,853	\$ 23,279	\$ 22,228	\$ 79,650	\$ 49,049	\$ 39,204	\$ 36,621	\$ 26,571
Operating expenses	11,578	10,446	8,567	40,749	21,993	21,130	19,301	15,334
Operating expenses as a percentage of total revenue	47%	45%	39%	51%	45%	54%	53%	58%
<b>Non-GAAP</b>								
Total revenue	\$ 24,853	\$ 23,279	\$ 22,228	\$ 79,650	\$ 49,049	\$ 39,204	\$ 36,621	\$ 26,571
Operating expenses	11,578	10,446	8,567	40,749	21,993	21,130	19,301	15,334
Share-based compensation expense	(3,002)	(2,012)	(1,270)	(7,499)	-	-	-	-
Operating expenses excluding share-based compensation expense	8,576	8,434	7,297	33,250	21,993	21,130	19,301	15,334
Operating expenses excluding share-based compensation expense as a percentage of total revenue	35%	36%	33%	42%	45%	54%	53%	58%

## **Critical Accounting Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles in the United States 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, share-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. 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 2 in Notes to Consolidated Financial Statements in our 2006 Form 10-K.

### ***Income Taxes***

As required by SFAS No. 109, *Accounting for Income Taxes*, 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. Tax laws are complex and subject to different interpretations by the taxpayer and the respective governmental taxing authorities. Significant judgment is required in determining our tax expense. 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 relative to the value of recoverable 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.

Effective January 1, 2007, we adopted the provisions of FIN No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109*. FIN No. 48 contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS No. 109. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement. We consider many factors when evaluating and estimating our tax positions and tax benefits, which may require periodic adjustments and which may not accurately anticipate actual outcomes.

### ***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. This estimate is inherently subjective because our estimates may be revised as more

information becomes available. 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. During the three months ended September 30, 2007 and 2006, we charged approximately \$150,000 and \$492,000, respectively, to bad debt expense, wrote off (net of recoveries) approximately \$740,000 and \$485,000, respectively, of accounts deemed uncollectible.

During the nine months ended September 30, 2007 and 2006, we charged approximately \$649,000 and \$1,158,000, respectively, to bad debt expense, and wrote off (net of recoveries) approximately \$807,000 and \$658,000, respectively, of accounts deemed uncollectible.

### *Share-Based Compensation*

We adopted the provisions of, and account for share-based compensation in accordance with, SFAS 123R effective January 1, 2006. We elected the modified-prospective method, pursuant to which prior periods are not revised for comparative purposes. Under the fair value recognition provisions of this statement, share-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. As discussed in the notes to our consolidated financial statements, the determination of the fair value of the awards on the date of grant using an option-pricing model is affected by the price of our common stock 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.

If factors change and we employ different assumptions for estimating share-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 share-based compensation. Consequently, there is a risk that our estimates of the fair values of our share-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 share-based payments in the future. Certain share-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.

In April 2007, we awarded 200,000 shares of restricted common stock to certain executive officers. The awards have an eight-year term and only vest if, at any point during the term of the award, the closing price of the Company's stock is at or above the following specific thresholds for ninety consecutive days; \$44.00 - 25% of award shares vest; \$50.00 - 33% of award shares vest; \$56.00 - remaining 42% of award shares vest. Once the specific threshold has been satisfied, the applicable percentage of award shares vest as follows; one-third upon satisfying the incremental threshold; one-third on the first anniversary of satisfying the incremental threshold; and the remaining one-third on the second anniversary of satisfying the incremental threshold. The awards also vest on a change in control provided certain conditions are met. We valued the awards using a Monte Carlo simulation model that uses the following assumptions: volatility factor - 61.8% based on a weighted average of historical stock price volatility and implied volatility in market traded options; risk-free interest rate - 4.73% on U.S. Treasury constant maturity issues having remaining terms similar to the expected term of the awards; and the dividend yield is 0%. The weighted average grant date fair value was \$35.59 and the weighted average expected time to vest as of September 30, 2007 was 1.89 years. Share-based compensation expense for the three and nine months ended September 30, 2007 included



approximately \$890,000 and \$1,506,000, respectively, related to the awards. No award shares were vested as of September 30, 2007.

Share-based compensation expense recognized in our condensed consolidated statements of income for the three and nine months ended September 30, 2007 and 2006 is as follows:

<b>Income Statement Classifications</b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>Cost of revenue:</b>				
Online publishing	\$ 570,772	\$ 289,546	\$ 1,420,922	\$ 786,542
Print publishing and licensing	39,526	39,984	120,141	107,806
<b>Other expenses:</b>				
Sales	487,420	215,980	861,430	543,017
Marketing	198,189	-	439,569	-
Product development	243,576	111,644	563,674	358,276
General and administrative	2,072,845	1,085,803	4,419,838	4,909,811
Total	\$ 3,612,328	\$ 1,742,957	\$ 7,825,574	\$ 6,705,452

**Goodwill Impairment**

We perform goodwill impairment tests on an annual basis during the fourth quarter of our fiscal year, or more frequently, if facts and circumstances warrant a review. We make judgments about goodwill whenever events or changes in circumstances indicate that an impairment in the value of goodwill recorded on our balance sheet may exist. The timing of an impairment test may result in charges to our statement of income in our current reporting period that could not have reasonably been foreseen in prior periods. In order to estimate the fair value of goodwill, we typically make various assumptions about the future prospects the asset relates to, consider market factors and estimate our future cash flows. Based on these assumptions and estimates, we determine whether we need to record an impairment charge to reduce the value of the asset carried on our balance sheet to its estimated fair value. Assumptions and estimates about future values are complex and often subjective. They can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in our business strategy and our internal forecasts. Although we believe the assumptions and estimates we have made in the past have been reasonable and appropriate, different assumptions and estimates could materially affect our reported financial results. More conservative assumptions of the anticipated future benefits could result in impairment charges, which would decrease net income and result in lower asset values on our balance sheet. Conversely, less conservative assumptions could result in smaller or no impairment charges, higher net income and higher asset values.

**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 that we believe are critical to an understanding of our business performance and to making the estimates and judgments underlying our financial statements, including a discussion of the accounting policies and practices (revenue recognition, allowance for doubtful accounts, share-based compensation, and income taxes) that we believe are critical to an understanding of our results of operations and to making 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 2006 Form 10-K for additional information concerning the revenue and expense components of our online and print publishing operations.

**Results of Operations****Three and Nine Months Ended September 30, 2007 Compared to the Three and Nine Months Ended September 30, 2006**

(\$ in 000's)	Total Revenue						
	Q3 07	Q2 07	Q1 07	Q4 06	Q3 06	Q2 06	Q1 06
Online publishing	\$ 21,624	\$ 20,240	\$ 19,052	\$ 17,113	\$ 15,777	\$ 15,465	\$ 15,616
Print publishing and licensing	3,229	3,039	3,176	3,596	3,709	4,201	4,172
	\$ 24,853	\$ 23,279	\$ 22,228	\$ 20,709	\$ 19,486	\$ 19,666	\$ 19,788

**Revenue****Online Publishing Revenue**

We sell graphic advertisements on our Online Network consisting primarily of banner, badge, billboard, poster and skyscraper advertisements. These advertisements are sold to advertisers according to the cost-per-thousand impressions (“CPM”) the advertiser receives, and in fixed-billed campaigns. The amount of advertising we sell is a

function of (1) the number of visitors to our Online Network, (2) the number of ad pages we serve to those visitors, (3) the number of advertisements per page, and (4) advertiser demand. 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 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 Online Network 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) on various third-party Internet sites on a cost-per-click (“CPC”) basis. Advertisers pay us each time a visitor to our Online Network clicks on a rate table listing, net of invalid clicks. We also sell text links on our rate pages to advertisers on a 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 though 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.

## Quarterly Online Publishing Revenue

(\$ in 000's)

	Q3 07	Q2 07	Q1 07	Q4 06	Q3 06	Q2 06	Q1 06
Graphic ads	\$ 11,747	\$ 12,040	\$ 10,472	\$ 9,696	\$ 9,184	\$ 9,217	\$ 9,159
Hyperlinks	9,877	8,200	8,580	7,417	6,593	6,248	6,457
	\$ 21,624	\$ 20,240	\$ 19,052	\$ 17,113	\$ 15,777	\$ 15,465	\$ 15,616

Online publishing revenue of \$21,624,000 for the three months ended September 30, 2007 was approximately \$5,847,000, or 37%, higher than the \$15,777,000 reported for the same period in 2006. This increase was due to a \$2,563,000, or 28%, increase in graphic ad revenue, and a \$3,284,000, or 50%, increase in hyperlink revenue.

Page views for the quarter ended September 30, 2007 were 144.2 million and were 17.6 million, or 14%, higher than the 126.6 million reported in the same period in 2006.

The 28% increase in graphic ad revenue during the quarter ended September 30, 2007 was driven by an increase in advertiser demand partially offset by a decrease in revenue generated by our FastFind/Bankrate *Select* lead generation business.

The increase in hyperlink revenue of 50% for the quarter ended September 30, 2007 compared to the same period in 2006 was driven by an increase in revenue per click as well as an increase in the total amount of clicks processed.

For the nine months ended September 30, 2007, online publishing revenue of \$60,916,000 was \$14,058,000, or 30%, higher than the \$46,858,000 reported in the same period in 2006. This increase was due to a \$6,699,000, or 24%, increase in graphic ad revenue, and a \$7,359,000, or 38%, increase in hyperlink revenue.

Page views for the nine months ended September 30, 2007 were 423.5 million and were 56.7 million, or 15%, higher than the 366.8 million reported in the same period in 2006.

The 24% increase in graphic ad revenue during the nine months ended September 30, 2007 was driven by an increase in advertiser demand partially offset by a decrease in revenue generated by our FastFind/Bankrate *Select* lead generation business.

The increase in hyperlink revenue of 38% for the nine months ended September 30, 2007 compared to the same period in 2006 was driven by an increase in revenue per click as well as an increase in the total amount of clicks processed.

A majority of our advertising customers purchase advertising under short-term contracts. 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 downturns in demand that could adversely impact advertising rates. Future revenue could be adversely affected if advertising demand declined and we were forced to reduce our advertising rates or if we were to experience lower CPM's. To date, however, the demand our products and services has steadily increased as have our advertising rates and CPM's.

In terms of page views, we believe our online publishing segment's quarterly page view volumes are fairly consistent with the exception of the fourth quarter, which typically declines due to the holiday season.

(Millions)	Page Views					
	2007	2006	2005	2004	2003	2002
Q1	143.2	124.2	111.0	117.2	106.7	58.4
Q2	136.1	116.0	113.8	92.6	121.8	48.0
Q3	144.2	126.6	107.8	92.0	100.3	82.1
Q4	-	120.6	97.6	91.3	75.8	79.3
Year	-	487.4	430.2	393.1	404.6	267.8

### Print Publishing and Licensing Revenue

Print publishing and licensing revenue represents advertising revenue from the sale of advertising in the *Mortgage and Deposit Guide* (formerly called *Consumer Mortgage Guide*) rate tables, newsletter subscriptions, and licensing of research information. We charge a commission for placement of the *Mortgage and Deposit Guide* in a print publication. Advertising revenue and commission income is recognized when the *Mortgage and Deposit 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. In the third quarter of 2006, we launched our first editorial free-standing insert in *USA Today*. A free-standing insert, or FSI, is a preprinted advertising booklet that is loosely inserted between the pages of a newspaper or magazine. We develop the FSI's with our editorial content, and then sell the sponsorship of the FSI to one or more advertisers.

(\$ in 000's)	Quarterly Print Publishing and Licensing Revenue						
	Q3 07	Q2 07	Q1 07	Q4 06	Q3 06	Q2 06	Q1 06
Mortgage Guide	\$ 2,824	\$ 2,906	\$ 2,864	\$ 3,438	\$ 3,336	\$ 4,011	\$ 3,927
Editorial	406	133	312	158	373	190	245
	\$ 3,230	\$ 3,039	\$ 3,176	\$ 3,596	\$ 3,709	\$ 4,201	\$ 4,172

Print publishing and licensing revenue for the quarter ended September 30, 2007 was down \$479,000, or 13%, compared to the same period in 2006, primarily due to a \$512,000, or 15%, decline in *Mortgage and Deposit Guide* revenue due to lower advertising units in 2007 compared to 2006, offset by \$33,000 in higher revenue from Editorial sales. For the first nine months of 2007, print publishing and licensing revenue was down \$2,637,000, or 22%, compared to the same period in 2006 due to a \$2,680,000 decline in *Mortgage and Deposit Guide* revenue due to lower advertising units.

### 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), salaries, editorial costs, market analysis and research costs, share-based compensation expense and

allocated overhead, and exclude depreciation and amortization. Distribution payments are made to web site operators for visitors directed to our online network; these costs increase proportionately with gains in related revenue to our Online Network. 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 Bankrate.com 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.

(\$ in 000's)	Online Publishing Gross Margin						
	Q3 07	Q2 07	Q1 07	Q4 06	Q3 06	Q2 06	Q1 06
Online publishing revenue	\$ 21,624	\$ 20,240	\$ 19,052	\$ 17,113	\$ 15,777	\$ 15,465	\$ 15,616
Cost of online publishing revenue	3,142	3,049	3,142	2,745	2,649	2,807	2,901
Gross margin	\$ 18,482	\$ 17,191	\$ 15,910	\$ 14,368	\$ 13,128	\$ 12,658	\$ 12,715
Gross margin as a percentage of revenue	85%	85%	84%	84%	83%	82%	81%

Online publishing costs for the three months ended September 30, 2007 were \$493,000, or 19%, higher than in the same period in 2006. This increase was due primarily to higher share-based compensation expense of \$281,000; \$112,000 higher human resource costs related to higher salaries; and \$105,000 higher revenue sharing payments to distribution partners consistent with higher graphic ad revenue. Our online gross margin for the three months ended September 30, 2007 was 85% compared to 83% for the same period in 2006. Online publishing revenue was 87% of total revenue and represented 98% of gross margin during the quarter ended September 30, 2007. As online publishing revenue grows as a percentage of total revenue, we expect the overall gross margin for the business to expand.

For the nine months ended September 30, 2007, online publishing costs were \$976,000, or 12%, higher than the same period in 2006 due primarily to \$634,000 higher share-based compensation expense; higher human resource costs of \$248,000 due to higher headcount and salaries; and \$117,000 higher revenue sharing payments to distribution partners consistent with higher graphic ad revenue. Our online gross margin for the nine months ended September 30, 2007 was 85% compared to 82% for the same period in 2006. Online publishing revenue was 87% of total revenue and represented 98% of gross margin during the nine months ended September 30, 2007.

### Print Publishing and Licensing Costs

Print publishing and licensing costs represent expenses associated with print publishing revenue. These costs include contractual revenue sharing obligations with newspapers related to the *Mortgage and Deposit Guide*, compensation and benefits, printing and allocated overhead, and exclude depreciation and amortization. These costs typically vary proportionately with the related revenues.

(\$ in 000's)	Print Publishing and Licensing Gross Margin						
	Q3 07	Q2 07	Q1 07	Q4 06	Q3 06	Q2 06	Q1 06
Print publishing & licensing revenue	\$ 3,230	\$ 3,039	\$ 3,176	\$ 3,596	\$ 3,709	\$ 4,201	\$ 4,172
Cost of print publishing & licensing revenue	2,873	2,713	2,828	3,172	3,358	3,773	3,542
Gross margin	\$ 357	\$ 326	\$ 348	\$ 424	\$ 351	\$ 428	\$ 630
Gross margin as a percentage of revenue	11%	11%	11%	12%	9%	10%	15%

Print publishing and licensing costs for the quarter ended September 30, 2007 of \$2,873,000 decreased by approximately \$485,000, or 14%, from the comparable amount reported in the third quarter of 2006 due to a \$364,000 decline in revenue sharing payments in line with the decrease in revenue; \$157,000 lower human resource costs due to reduced headcount; \$37,000 lower commissions (2007 commissions recorded in sales expenses); offset by \$59,000 in higher advertising and printing costs associated with the third quarter 2007 FSI.

For the nine months ended September 30, 2007, print publishing and licensing costs were \$2,259,000, or 21%, lower than the comparable period in 2006 due to a \$1,988,000 decline in revenue sharing payments in line with the decrease in revenue; and a \$365,000 decline in human resource costs due to lower headcount. These decreases were offset by

approximately \$102,000 higher costs associated with the first and third quarter 2007 FSI's.



## **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 September 30, 2007 were \$1,773,000, and were approximately \$381,000, or 27%, higher than the comparable amount reported in the third quarter of 2006. The increase is due primarily to \$271,000 higher share-based compensation expense; \$150,000 higher human resource costs from additional hires and higher commissions due to higher sales volume; and \$53,000 higher cost allocations and other expenses. These increases were offset by \$76,000 in lower travel and entertainment expenses.

For the first nine months of 2007, sales costs of \$4,700,000 were \$971,000, or 26%, higher than the same amount reported in the comparable period in 2006 due primarily to \$609,000 higher human resource costs from additional hires and higher commissions due to higher sales volume; \$318,000 higher share-based compensation expense; and \$94,000 higher cost allocations. These increases were offset by \$51,000 in lower travel and entertainment expenses.

### ***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 for the three months ended September 30, 2007 were \$2,286,000 and were \$889,000, or 64%, higher than the comparable amount reported in the same period in 2006. We invested approximately \$415,000 more to drive traffic to our Online Network in the third quarter of 2007 compared to the same period in 2006. We also hired an executive in the fourth quarter of 2006 to focus on our consumer marketing needs and purchased software to more efficiently manage the key word campaigns, which increased costs by approximately \$217,000. Share-based compensation expense was also \$198,000 higher in the third quarter of 2007 compared to the same period in 2006, and cost allocations and other expenses were \$58,000 higher.

Marketing costs for the nine months ended September 30, 2007 of \$5,863,000 were \$2,425,000, or 71%, higher than in the same period in 2006 due \$1,228,000 higher keyword campaign costs; \$625,000 higher payroll and software costs supporting the new consumer marketing management team; and \$440,000 higher share-based compensation expense. Cost allocations and other expenses were \$132,000 higher in the nine months ended September 30, 2007 compared to the same period in 2006.

### ***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 September 30, 2007 were \$282,000, or 30%, higher than the comparable amount reported in the third quarter of 2006 due primarily to \$199,000 higher human resource costs related to additional headcount; \$132,000 higher share-based compensation expense; \$53,000 higher costs associated with web analytics tools; offset by \$41,000 lower outside contract labor; and \$61,000 lower cost allocations and other expenses.

For the nine months ended September 30, 2007, product development costs of \$3,329,000 were \$563,000, or 20%, higher than the amount reported in the same period in 2006 due primarily to \$295,000 higher human resource costs;

\$205,000 higher share-based compensation expense; \$92,000 higher costs associated with web analytics tools; \$117,000 higher outside contract labor; offset by \$147,000 lower cost allocations and other expenses.

***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. In the third quarter of 2007, these costs were \$368,000, or 7% higher than the comparable amount reported in the third quarter of 2006 due primarily to higher share-based compensation expense of \$987,000; higher incentive compensation plan expense of \$524,000 and higher rent expense of \$152,000. These higher expenses were offset by lower legal and accounting fees of \$774,000; lower bad debt expense of \$358,000; lower human resource costs of \$142,000; and lower infrastructure and other costs of \$21,000.

For the nine months ended September 30, 2007, general and administrative expenses of \$14,773,000 were \$1,962,000, or 12%, lower than the same amount reported in the comparable period in 2006 due primarily to lower legal and accounting fees of \$1,469,000; lower human resource costs of \$585,000; \$487,000 lower bad debt expense; lower share-based compensation expense of \$490,000; lower travel expenses of \$144,000; \$125,000 lower telephone expenses; and net lower cost allocation and other infrastructure expenses of \$387,000. These lower expenses were offset by higher incentive compensation plan expense of \$818,000; higher rent expense of \$613,000; \$149,000 higher outside contract labor expenses; and higher bank service charges and merchant fees of \$145,000.

### ***Depreciation and Amortization***

Depreciation and amortization expense for the nine months ended September 30, 2007 was \$172,000, or 10%, higher than the amount reported in the same period in 2006 due to additions to furniture, fixtures and equipment, and the intangibles amortization associated with the Mortgage-calc.com acquisition in August 2006.

### ***Interest Income***

Interest income consists of income generated from invested cash and short-term investments. Interest income for the three and nine months ended September 30, 2007 was higher than the amounts reported in the same period in 2006 due to the \$92.4 million net proceeds received in May 2006 from our secondary offering, and our cash generated from operations.

### ***Income Taxes***

The change in our effective tax rate in the three months ended September 30, 2007 compared to the same period in 2006 was primarily due primarily to the tax effects of incentive stock option grants and disqualifying dispositions of incentive stock options.

### **Liquidity and Capital Resources**

	<b>September 30, 2007</b>	<b>December 31, 2006</b>	<b>Change</b>
Cash and short-term investments	\$ 140,573,813	\$ 109,925,360	\$ 30,648,453
Working capital	152,839,203	122,156,776	30,682,427
Stockholders' equity	199,204,290	170,154,519	29,049,771

Our principal ongoing source of operating liquidity is the cash generated by our product revenue. In addition, we remain highly liquid due to our secondary offering in May 2006 whereby we completed the sale of 2,697,776 shares of our common stock, of which 2,005,991 shares were sold by us and 691,785 shares were sold by certain of our existing stockholders, at a price of \$48.25 per share resulting in net proceeds to us of approximately \$92.4 million.

We assess acquisition opportunities as they arise. Financing in excess of the \$92.4 million proceeds from our May 2006 offering may be required if we decide to make additional acquisitions. There can be no assurance, however, that any such opportunities will arise, that any such acquisitions will be consummated, or that any needed additional financing will be available on satisfactory terms when required.

As of September 30, 2007, we had working capital of approximately \$152,839,000, and our primary commitments were approximately \$9,259,000 in operating lease payments over the next ten years, and capital expenditures and recurring payables and accruals arising during the course of operating our business, estimated at approximately \$8,419,000 through September 30, 2008. We generally establish payment terms with our vendors that extend beyond the amount of time required to collect from our customers.



**Contractual Obligations**

The following table represents the amounts due under the specified types of contractual obligations as of September 30, 2007.

	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)	9,258,649	1,228,595	2,064,854	1,948,302	4,016,898
Purchase obligations (2)	241,799	211,790	30,009	-	-
Other long-term obligations	-	-	-	-	-
	\$ 9,500,448	\$ 1,440,385	\$ 2,094,863	\$ 1,948,302	\$ 4,016,898

(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 nine months ended September 30, 2007, we generated \$25,852,000 of net cash from operating activities. Our net income of \$15,959,000 was adjusted for the impact of share-based compensation expense of \$7,826,000; depreciation and amortization of \$1,926,000; bad debt expense of \$649,000; loss on disposal of assets \$12,000; and a net positive change in the components of operating assets and liabilities of \$844,000. Of this positive change in operating assets and liabilities, \$2,830,000 resulted from an increase in accrued expenses; \$1,493,000 resulted from a decrease in accounts receivable due to improved collections; \$283,000 resulted from a decrease in prepaid expenses and other assets; \$279,000 resulted from an increase in accounts payable; \$35,000 resulted from an increase in other liabilities; and \$391,000 resulted from a decrease in deferred revenue. The increase in accrued expenses was due primarily to an increase in income taxes payable of \$1,497,000; accrued keyword marketing costs of \$354,000; accrued payroll of \$246,000; deferred rent of \$196,000; and a net change in other accrued expenses of \$527,000.

Cash flows from investing activities include \$96,331,000 in net sales of short-term investments (see Note 1 of Notes to Condensed Consolidated Financial Statements), and \$467,000 in purchases of furniture, fixtures and equipment.

Cash flows from financing activities includes \$3,849,000 in proceeds from the exercise of director and employee stock options, \$1,497,000 in excess tax benefits related to stock options, and \$81,000 in costs associated with our secondary offering of common stock in May 2006 for which invoices were received and paid during the second quarter of 2007.

Our existing cash and short-term investments 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.

**Off-Balance Sheet Arrangements**

Off-balance sheet arrangements include the following four categories: obligations under certain guarantees or contracts; retained or contingent interests in assets transferred to an unconsolidated entity or similar arrangements; obligations under certain derivative arrangements; and obligations under material variable interests.

We have not entered into any material arrangements which would fall under any of these four categories and which would be reasonably likely to have a current or future material effect on our results of operations, liquidity or financial condition.

### **Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

#### **Interest Rate Risk**

Our exposure to market risk results primarily from interest rate risk related to our investments, which are entered into for other than trading purposes. 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 interest rate risk, we have maintained our portfolio of cash and short-term investments in short-term and overnight investments, and Triple A rated investment grade auction rate securities. These securities are subject to minimal market risk, since the interest earned on such investments fluctuates with the prevailing market interest rates.

## **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**

As of September 30, 2007, the Company's management, including its Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based on that evaluation, the Company's management, including its Chief Executive Officer and Chief Financial Officer, have concluded that the Company's disclosure controls and procedures were effective.

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.

### **Changes in Internal Control over Financial Reporting**

The Company's management, including its Chief Executive Officer and Chief Financial Officer, has reviewed our internal control. There have been no significant changes in the Company's internal control over financial reporting during the quarter ended September 30, 2007, nor subsequent to the date of their evaluation, that have materially affected, or are reasonably likely to materially affect its internal control over financial reporting.

## **Part II - OTHER INFORMATION**

### **Item 1. LEGAL PROCEEDINGS**

On July 20, 2007, BanxCorp, a privately held company located in White Plains, New York, filed a complaint against the Company in the United States District Court for the District of New Jersey. The complaint alleges that the Company has engaged in a plan of misconduct that has unreasonably restrained trade and substantially lessened competition in the marketplace, thereby monopolizing trade and commerce. BanxCorp alleges that the Company has engaged in predatory pricing, vendor lock-in, exclusionary product and distribution bundling and tie-in arrangements, anticompetitive acquisitions and market division agreements.

The action brought by the complaint is for unspecified equitable and monetary relief under the Sherman and Clayton Acts, including treble damages, and under state statutes, including the New Jersey Antitrust Act.

The Company believes that the allegations in the complaint are without merit and intends to vigorously defend against them. On October 19, 2007, the Company filed a motion for dismissal. Because the outcome of the suit is uncertain at this time, the Company cannot estimate the amount of loss, if any, that could result from an adverse resolution of this matter.

**Item 1A. Risk Factors**

In addition to the other information set forth in this Quarterly Report, you should carefully consider the factors discussed in Part I, Item 1A. "Risk Factors" in our 2006 Form 10-K, as updated in our subsequent quarterly reports. There have been no material changes in our risk factors from those disclosed in our 2006 Form 10-K.

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**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

31.1 Certification of Thomas R. Evans, Chief Executive Officer and President of Bankrate, Inc., Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.

31.2 Certification of 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.

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**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: November 6, 2007

By: /s/ EDWARD J. DIMARIA

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Edward J. DiMaria  
Senior Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)

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