BANKRATE INC
Form 10-Q
November 09, 2006

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

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2006**

o **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 x No o

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 o Accelerated filer x Non-accelerated filer o

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

The number of outstanding shares of the issuer's common stock as of October 31, 2006 was as follows: 18,116,060 shares of Common Stock, $.01 par value.

Bankrate, Inc.

Quarterly Report on Form 10-Q for the Quarter Ended September 30, 2006

Index

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 simil 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 Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Part II, Item 1A. "Risk Factors" in this Quarterly Report on Form 10-Q, the following sections of our Annual Report on Form 10-K, as amended, for the year ended December 31, 2005 (the "2005 Form 10-K"): (a) "Introductory Note" in Part I, Item 1. "Business"; (b) "Risk Factors" in Part I, Item 1A., "Business," and (c) "Introduction" in Part II, Item 7., "Managemen 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 need and our ability to incur additional debt or equity financing;
§ the effect of unexpected liabilities we assume from our acquisitions;
§ the impact of resolution of lawsuits to which we are a party;
§ the willingness of consumers to accept the Internet as a medium for obtaining financial product information;
§ 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;
§ legislative or regulatory changes;
§ the concentration of ownership of our common stock;
§ the fluctuations of our results of operations from period to period;
§ the strength of the United States economy in general;
§ the accuracy of our financial statement estimates and assumptions;
§ effect of changes in the stock market and other capital markets;
§ technological changes;
§ changes in monetary and fiscal policies of the U.S. Government;
§ changes in consumer spending and saving habits;
§ changes in accounting principles, policies, practices or guidelines;
§ 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.

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.

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Part I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

Bankrate, Inc.
Condensed Consolidated Balance Sheets
(Unaudited)

Assets		September 30, 2006		December 31, 2005
Cash and cash equivalents	$	103,218,730	$	3,479,609
Accounts receivable, net of allowance for doubtful accounts of approximately $2,130,000 at September 30, 2006 and $1,630,000 at December 31, 2005		13,994,299		8,838,879
Deferred income taxes, current portion		4,053,988		6,445,636
Insurance claim receivable		-		85,575
Prepaid expenses and other current assets		1,081,391		481,677
Total current assets		122,348,408		19,331,376
Furniture, fixtures and equipment, net of accumulated depreciation and amortization of $3,696,000 at September 30, 2006 and $3,160,000 at December 31, 2005		1,505,097		1,063,307
Deferred income taxes		1,371,851		28,769
Intangible assets, net of accumulated amortization of $1,904,000 at September 30, 2006 and $697,000 at December 31, 2005		14,884,993		11,652,161
Goodwill		30,084,434		30,035,399
Other assets		783,343		442,211
Total assets	$	170,978,126	$	62,553,223
Liabilities and Stockholders' Equity				
Liabilities:				
Accounts payable	$	1,989,833	$	3,215,645
Accrued expenses		6,776,387		5,093,187
Deferred revenue		294,303		1,176,119
Other current liabilities		21,697		37,187
Total current liabilities		9,082,220		9,522,138
Other liabilities		209,256		178,133
Total liabilities		9,291,476		9,700,271
Stockholders' equity:				

Preferred stock, 10,000,000 shares authorized and undesignated		-		-
Common stock, par value $.01 per share-- 100,000,000 shares authorized; 18,114,848 and 15,857,877 shares issued and outstanding at September 30, 2006 and December 31, 2005, respectively		181,148		158,579
Additional paid in capital		173,684,781		70,981,544
Accumulated deficit		(12,179,279)		(18,287,171)
Total stockholders' equity		161,686,650		52,852,952
Total liabilities and stockholders' equity	$	170,978,126	$	62,553,223

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,	
Revenue:	**2006**	**2005**	**2006**	**2005**
Online publishing	$ 15,777,141	$ 11,214,265	$ 46,858,127	$ 31,684,841
Print publishing and licensing	3,709,277	1,157,758	12,083,093	3,474,061
Total revenue	19,486,418	12,372,023	58,941,220	35,158,902
Cost of revenue:				
Online publishing	2,648,944	1,902,520	8,356,396	5,365,122
Print publishing and licensing	3,358,281	1,116,943	10,673,649	3,295,487
Total cost of revenue	6,007,225	3,019,463	19,030,045	8,660,609
Gross margin	13,479,193	9,352,560	39,911,175	26,498,293
Operating expenses:				
Sales	1,392,424	943,594	3,728,615	2,756,038
Marketing	1,397,575	1,376,988	3,437,836	4,609,621
Product development	936,539	696,755	2,766,235	1,711,638
General and administrative	5,300,233	2,160,743	16,734,800	6,296,676
Legal settlement	3,000,000	-	3,000,000	-
Depreciation and amortization	631,573	180,811	1,753,988	578,385
	12,658,344	5,358,891	31,421,474	15,952,358
Income from operations	820,849	3,993,669	8,489,701	10,545,935
Other income:				
Interest income	1,075,351	301,888	1,720,656	655,295
Insurance recovery in excess of costs and expenses	-	-	-	220,705
Total other income	1,075,351	301,888	1,720,656	876,000
Income before income taxes	1,896,200	4,295,557	10,210,357	11,421,935
Provision for income taxes	656,116	1,632,312	4,102,465	4,340,336
Net income	$ 1,240,084	$ 2,663,245	$ 6,107,892	$ 7,081,599
Basic and diluted net income per share:				
Basic	$ 0.07	$ 0.17	$ 0.36	$ 0.45
Diluted	$ 0.07	$ 0.16	$ 0.35	$ 0.42
Weighted average common shares outstanding:				
Basic	18,112,909	15,815,057	17,050,167	15,802,409
Diluted	18,238,675	17,109,385	17,552,836	16,762,149

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30, 2006	2005
Cash flows from operating activities:		
Net income	$ 6,107,892	$ 7,081,599
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,753,988	578,385
Provision for doubtful accounts receivable	1,157,939	157,218
Share-based compensation	6,705,452	-
Excess tax benefit-stock options	612,205	-
Deferred income taxes	1,048,566	4,340,336
Changes in operating assets and liabilities:		
Accounts receivable	(6,123,279)	(1,640,086)
Other assets	(561,539)	413,032
Accounts payable	(1,225,812)	128,670
Accrued expenses	1,683,200	1,073,202
Other liabilities	(944,669)	133,707
Net cash provided by operating activities	10,213,943	12,266,063
Cash flows from investing activities:		
Purchases of furniture, fixtures and equipment	(1,083,499)	(166,445)
Cash used related to acquisitions	(4,571,629)	-
Proceeds from sale of assets	68,000	12,350
Restricted cash	(295,843)	-
Net cash used in investing activities	(5,882,971)	(154,095)
Cash flows from financing activities:		
Proceeds from the sale of common stock	90,688,008	-
Proceeds from the exercise of stock options	2,698,955	194,553
Excess tax benefit-stock options	2,021,186	-
Net cash provided by financing activities	95,408,149	194,553
Net increase in cash and cash equivalents	99,739,121	12,306,521
Cash and equivalents, beginning of period	3,479,609	27,735,267
Cash and equivalents, end of period	$ 103,218,730	$ 40,041,788
Supplemental disclosures of cash flow information:		
Cash paid during the period for taxes	$ 1,137,415	$ 23,000

See accompanying notes to condensed consolidated financial statements.

BANKRATE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2006
(Unaudited)

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company

Bankrate, Inc. and subsidiaries (the "Company") own and operate an Internet-based consumer banking marketplace. The Company's flagship site, Bankrate.com (the "Web site"), 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**,** subject to final Closing Date Equity adjustments under section 3.03 of the Agreement and Plan of Merger dated November 20, 2005.

The unaudited financial information in the table below summarizes the combined results of operations of the Company, FastFind, MMIS and Interest.com, on a pro forma basis, as though the companies had been combined as of the beginning of the period presented. The pro forma financial information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisitions had taken place on January 1, 2005 or of the results that may occur in the future.

		Three Months Ended September 30, 2005		Nine Months Ended September 30, 2005
Total revenue	$	17,702,959	$	52,360,680
Income from operations		3,514,850		9,272,486
Net income		2,183,873		5,887,623
Basic and diluted earnings per share:				
Basic	$	0.14	$	0.37
Diluted	$	0.13	$	0.35
Weighted average common shares outstanding:				
Basic		15,815,057		15,802,409
Diluted		17,109,385		16,762,149

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 and employees, at a price of $48.25 per share, resulting in net proceeds to the Company of approximately $92.7 million, which includes $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 ("United States") 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, 2006 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2006 ("fiscal 2006").

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

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. Actual results could differ from those estimates.

Basic and Diluted Net Income Per Share

The Company computes basic net income per share by dividing net income for the period by the weighted average number of shares outstanding for the period, excluding unvested stock options. Diluted net income per share includes the effect of common stock equivalents, consisting of unvested outstanding stock options and unrecognized compensation expense and tax benefits in accordance with 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 net income per share for the three and nine months ended September 30, 2006 and 2005 includes the shares resulting from the dilutive effect of outstanding stock options. 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 net income per share because the effect was anti-dilutive. For the three and nine months ended September 30, 2005, 7,500 shares attributable to the assumed exercise of outstanding stock options were excluded from the calculation of diluted net income per share because the effect was anti-dilutive.

Goodwill

SFAS No. 142, *Goodwill and Other Intangible Assets*, requires the Company to test goodwill for impairment at least annually at the reporting unit level in lieu of amortization. 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 segment management regularly reviews the operating results.

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

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

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

In connection with the acquisition of FastFind on November 30, 2005, the Company made a final payment of approximately $149,000 based on an adjustment to Closing Date Net Working Capital as defined under Section 3.03 of the Agreement and Plan of Merger dated November 20, 2005. Accordingly, goodwill was increased by this amount during the quarter ended June 30, 2006.

The Agreement and Plan of Merger for the acquisition of MMIS and Interest.com dated December 1, 2005 contains a provision in Section 3.03 for the potential adjustment to Closing Date Equity, as defined. To date, no such adjustment has been agreed upon. Goodwill was adjusted however, for approximately $190,000 related to accounts receivable and $78,000 related to deferred revenue.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability or unwillingness of our customers to make required payments. We look at historical write-offs and sales growth when determining the adequacy of the allowance. Should the financial condition of our customers deteriorate, resulting in an impairment of their ability to make payments, or if the level of accounts receivable increases, the need for possible additional allowances may be necessary. Any additions to the allowance for doubtful accounts are recorded as bad debt expense and included in general and administrative expenses. During the nine months ended September 30, 2006 and 2005, the Company charged approximately $1,158,000 and $157,000, respectively, to bad debt expense, and wrote off approximately $658,000 and $104,000, respectively, of accounts deemed uncollectible.

Share-Based Compensation

During the first quarter of fiscal 2006, the Company adopted the provisions of, and accounts for stock-based compensation in accordance with, SFAS No. 123R, which replaced SFAS No. 123, *Accounting for Stock-Based Compensation* and supersedes Accounting Principles Board (“APB”) Opinion No. 25, *Accounting for Stock Issued to Employees*. Under the fair value recognition provisions of SFAS No. 123R, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as 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 our consolidated financial position, results of operations and cash flows. See Note 3 for further information regarding the Company’s stock-based compensation assumptions and expense, including pro forma disclosures for prior periods, as if the Company had recorded stock-based compensation expense.

Stockholders’ Equity

The activity in stockholders’ equity for the nine months ended September 30, 2006 is shown below.

	Common Stock		Additional Paid-in	Accumulated	
	Shares	Amount	Capital	Deficit	Total
Balances, December 31, 2005	15,857,877	$ 158,579	$ 70,981,544	$ (18,287,171)	$ 52,852,952
Proceeds from sale of common stock, net of offering costs of $6,101,000	2,005,991	20,060	90,667,948	-	90,688,008

Stock options exercised	250,980	2,509	2,696,446	-	2,698,955
Tax benefit-stock options	-	-	2,633,391	-	2,633,391
Share-based compensation	-	-	6,705,452	-	6,705,452
Net income for the period	-	-	-	6,107,892	6,107,892
Balances, September 30, 2006	18,114,848	$ 181,148	$ 173,684,781	$ (12,179,279)	$ 161,686,650

Income Taxes

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

Comprehensive Income

Comprehensive income is the same as net income for the three and nine months ended September 30, 2006 and 2005.

Reclassification

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

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("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. Management 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 the Company's consolidated financial position, results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (an amendment of FASB Statements No. 87, 88, 106, and 132R). SFAS No. 158 requires an employer to recognize the funded status of its defined benefit pension and postretirement plans on its balance sheet and to recognize as a component of other comprehensive income, net of taxes, the gains or losses and prior service credits that arise during the period but are not recognized as components of net periodic benefit costs. Upon initial adoption, SFAS No. 158 requires the recognition of previously unrecognized actuarial gains and losses, prior service costs or credits and net transition amounts within accumulated other comprehensive income, net of tax. The provisions of SFAS No. 158 are effective as of the end of fiscal year 2006. Management does not expect the adoption of SFAS No. 158 to have a material impact on the Company's consolidated financial position, results of operations or cash flows, as the Company currently has no plans within the scope of SFAS No. 158.

In September 2006, the Securities and Exchange Commission ("SEC") staff issued Staff Accounting Bulletin ("SAB") No. 108, "*Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*" ("SAB 108"). The SEC staff is providing guidance on how prior year misstatements should be taken into consideration when quantifying misstatements in current year financial statements for purposes of determining whether the current year's financial statements are materially misstated. SAB 108 provides that once a current year misstatement has been quantified, the guidance in SAB No. 99, "*Materiality*" ("SAB 99") should be applied to determine whether the misstatement is material and should result in an adjustment to the financial statements. If correcting a misstatement in the current year would materially misstate the current year's income statement, the SEC staff indicates that the prior year financial statements should be adjusted. In making these adjustments, previously filed reports do not need to be amended. Instead, the adjustments should be reflected the next time the registrant would otherwise be filing those prior year financial statements. If in the current year, however, the registrant identifies a misstatement that is material to those prior year financial statements, the registrant would be required to restate for the material misstatement in accordance with FASB Statement No. 154, "*Accounting Changes and Error Corrections*". This guidance is effective for an interim period of the first fiscal year ending after November 15, 2006. The Company is currently evaluating the impact of adopting SAB 108, but does not expect it to have a material impact on its consolidated financial position, results of operations, or cash flow.

In June 2006, the FASB issued FASB Interpretation No. ("FIN") 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 Accounting for Income Taxes*. FIN 48 prescribes a recognition and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and recognition. The evaluation of a tax position in accordance with FIN 48 is a two-step process. The first step is recognition: management must determine whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The second step is measurement: A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that has a greater than 50 percent likelihood of being realized upon settlement. FIN 48 is effective for fiscal years beginning after December 15, 2006. The provisions of FIN 48 must be applied to all tax positions upon initial adoption. The cumulative effect of applying the provisions of FIN 48 must be reported as an adjustment to the opening balance of retained earnings for that fiscal year. Management has not yet determined what impact, if any, the adoption of FIN 48 will have on the Company’s financial statements.

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

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, FastFind.com and Mortgage-calc.com. The print publishing and licensing segment is primarily engaged in the sale of advertising in the Mortgage Guide rate tables, newsletter subscriptions, and licensing of research information. The acquired operations of FastFind, 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 profit and loss.

No single customer accounted for more than 10% of total revenue for the three and nine months ended September 30, 2006. The Company had two online customers that accounted for approximately 11% and 9%, respectively, of total revenue for the three months ended September 30, 2005. Those same customers each accounted for 10% of total revenue for the nine months ended September 30, 2005. 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, 2006 and 2005 is presented below.

	Online Publishing	Print Publishing and Licensing	Other	Total
Three Months Ended September 30, 2006				
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
Operating expenses:				
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	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

Three Months Ended September 30, 2005	Online Publishing	Print Publishing and Licensing	Other	Total
Revenue	$ 11,214,265	$ 1,157,758	$ -	$ 12,372,023
Cost of revenue	1,902,520	1,116,943	-	3,019,463
Gross margin	9,311,745	40,815	-	9,352,560
Operating expenses:				
Sales	943,594	-	-	943,594
Marketing	1,376,988	-	-	1,376,988
Product development	631,554	65,201	-	696,755
General and administrative	1,958,543	202,200	-	2,160,743
Depreciation and amortization	163,891	16,920	-	180,811
Other income	-	-	301,888	301,888
Provision for income taxes	-	-	(1,632,312)	(1,632,312)
Segment profit (loss)	$ 4,237,175	$ (243,506)	$ (1,330,424)	$ 2,663,245
Total assets	$ 4,154,330	$ 25,890	$ 50,438,031	$ 54,618,251

Nine Months Ended September 30, 2006	Online Publishing	Print Publishing and Licensing	Other	Total
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
Operating expenses:				
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			