

BANKRATE INC  
Form 10-K  
March 17, 2008  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D. C. 20549**  
**FORM 10-K**

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

For The Fiscal Year Ended December 31, 2007

or

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

For The Transition Period From to

Commission File No. 0-25681

(exact name of registrant 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 33408**

(Address of principal executive offices) (zip code)

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

**Securities registered pursuant to Section 12(b) of the Act:**

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**Title of Each Class**

Common Stock, \$0.01 par Value

**Name of Each Exchange on Which Registered**

The NASDAQ Stock Market LLC

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company", in Rule 12b-2 of the Exchange Act.  Large accelerated filer  Accelerated filer  Non-accelerated filer  (Do not check if a smaller reporting company)  Smaller reporting company

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

The aggregate market value of the voting common equity held by non-affiliates of the registrant, based on the price at which the Common Stock was last sold on June 30, 2007 as reported by the NASDAQ Global Select Market was approximately \$618,226,000. As of February 29, 2008, the registrant had outstanding 18,882,203 shares of Common Stock.

### Documents Incorporated By Reference

Portions of the registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on June 17, 2008, are incorporated by reference in Part III.

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**Introductory Note**

**CAUTION CONCERNING FORWARD-LOOKING STATEMENTS**

This Annual Report on Form 10-K 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 Part I, Item 1A. Risk Factors and Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations in this Annual Report on Form 10-K, as well as:

the willingness of our advertisers to advertise on our web sites;

interest rate volatility and our ability to manage the fluctuations in the demand for our advertisements;

our ability to develop and maintain a strong brand;

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 effects of expanding our operations internationally;

the impact of lawsuits to which we are a party;

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;

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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;

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;

our ability to secure debt or equity financing at acceptable terms;

the impact of legislative or regulatory changes affecting our business;

changes in consumer spending and saving habits;

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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 Annual Report. We do not undertake to update any forward-looking statement, except as required by law.

## **PART I**

### **Item 1. Business Overview**

Bankrate, Inc. and its subsidiaries (the Company, Bankrate, we, us, our) own and operate an Internet-based consumer banking and personal finance network. Our flagship web 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, 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, Insureme.com, Nationwidecardservices.com, Savingforcollege.com, Mortgage-calc.com, Bankrateselect.com, Feedisclosure.com, creditcardsearchengine.com, and Bankrate.com.cn (China) as well as co-branded web sites hosted by our Online Network of online distribution partners, we provide the tools and information that can help consumers make better informed financial decisions.

We regularly survey more than 4,800 financial institutions in more than 575 markets in all 50 states to compile the most current, objective, and unbiased information. We believe that this proprietary content drives traffic to our Online Network and gives us a distinct competitive advantage over our competitors. Because we have developed a reputation of providing current, objective and unbiased information, hundreds of print and online partner publications have come to depend on us as their trusted source for financial rates and information.

Bankrate was founded approximately 30 years ago as a print publisher of the newsletter *Bank Rate Monitor*. From 1976 through 1996, our principal business was the publication of print newsletters, the syndication of unbiased editorial bank and credit product research to newspapers and magazines and advertising sales of the *Mortgage Guide* and the *Deposit Guide*, a newspaper-advertising table consisting of product and rate information from local mortgage companies and financial institutions. The company that we operate today was incorporated in the State of Florida in 1993.

In 1996, we began our online operations by placing our editorially unbiased research on our web site, Bankrate.com. By offering our information online, we created new revenue opportunities through the sale of graphical and hyperlink advertising associated with our rate and yield tables. In fiscal 1997, we implemented a strategy to concentrate on building these online operations, and have added to and complimented these operations through acquisitions.



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Today, we operate in two reportable business segments: online publishing and print publishing and licensing. The online publishing segment generally includes the operations of our Online Network. Our Online Network provides timely articles on a variety of financial topics that have been independently researched by our editorial department, which is staffed by journalists. Our editorial offerings, which are free to consumers, include channels on investing, taxes, college finances, financial advice and insurance. For example, Bankrate.com users can read advice and tips from the Tax channel, obtain ideas on how to finance a college education from the College Finance channel and ask a financial expert a question in the Advice channel. Features such as financial calculators and e-mail newsletters allow users to interact with our site. Our Rate Trend Index is a weekly poll of industry insiders designed to help consumers forecast interest rate trends. To complement our editorial offerings, we provide rate tables, which present, at no cost to the consumer, a detailed list of lenders by market and include relevant details to help consumers compare loan, deposit, credit card, insurance, and other personal finance products.

Our online publishing segment also includes the operations of Bankrate *Select*, a lead generation partnership, Nationwidecardservices.com, our newly acquired credit card business, and Savingforcollege.com, our newly acquired college finance business.

We operate a traditional media business on the Internet. We believe we have a high quality, informed audience who stand ready to transact with our advertisers. Bankrate.com is one of the leading web sites for financial information and advice according to comScore Media Metrix.

Our print publishing and licensing segment includes our traditional print publications and syndicated editorial content in more than 150 newspapers and three national magazines. The *Mortgage and Deposit Guides* are weekly newspaper-advertising tables consisting of product and rate information from local mortgage companies and financial institutions. The *Mortgage and Deposit Guides* appear weekly in approximately 500 U.S. metropolitan newspapers with combined single day circulation in excess of 40 million copies, and a television version, in Chicago Land TV. In addition to serving as a revenue source, we believe our print publications play a critical role in increasing our exposure, serving as branding opportunities, driving traffic to our web site, and absorbing part of the costs of producing our research and original editorial content.

For further discussion of our two reportable business segments, see Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations and Critical Accounting Policies, and Note 7 to the Financial Statements elsewhere in this Form 10-K.

## **Recent Developments**

We believe that an important component of our success has resulted from being recognized as a leader in providing fully researched, comprehensive, independent, objective financial content and data. As a result, we continue to maximize distribution of our research to gain brand recognition as a research authority. We continue to build greater brand awareness of our Online Network and to reach a greater number of online users. Bankrate.com had nearly 53 million unique visitors for the year ended December 31, 2006, and had nearly 60 million unique visitors for the year ended December 31, 2007, according to Omniture, a web analytics tool.

Our efforts during the past several years have been focused on developing Bankrate.com into a leading destination web site for consumer banking and personal finance information. Key drivers of our business include the content we produce, the number of in-market consumers visiting our Online Network, the page views they generate, and the demand of our Online Network advertisers. Since 2001, the number of advertisers on our web sites has grown steadily. Annual unique visitors and page views have grown from approximately 40 million and 237 million in 2001, to almost 60 million and 554 million in 2007, respectively.

Additionally, we have broadened the focus of our financial products research from 100 financial products in 155 markets in 2001 to more than 300 financial products in approximately 575 markets today. Our marketing



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efforts to generate traffic have evolved from primarily non-cash intensive programs such as sweepstakes and promotions into today's key word search engine advertising campaigns, distribution of print editorial content including the Bankrate.com URL on all editorial and print listings, and extensive major news network television coverage of our on-staff CFA with Bankrate, Inc., referenced as the authority on consumer personal finance research. In 2001, we syndicated our editorial content and research to 97 newspapers compared to today's 152 newspapers.

As a result of these efforts, we were able to take advantage of several acquisition opportunities over the past four years. On November 30, 2005, we acquired Wescoco, LLC ( FastFind ) and on December 1, 2005, we acquired Mortgage Market Information Services, Inc. and Interest.com (collectively, MMIS/Interest.com ). We purchased FastFind, an Internet lead aggregator based in San Francisco, California for \$10.1 million in cash. We acquired MMIS/Interest.com, which publishes *Mortgage* and *Deposit Guides* in over 300 newspapers and operates Interest.com, a web site that publishes financial rates and information connecting consumers with lenders, for \$30 million in cash.

In August 2006, we acquired three web sites (Mortgage-calc.com, Mortgagecalc.com, and Mortgagemath.com) owned and operated by East West Mortgage, Inc. for \$4.4 million in cash. We integrated the operations of the three web sites into our online publishing segment.

On December 5, 2007, we acquired certain assets and liabilities of Savingforcollege.com, LLC ( SFC ) for \$2.25 million in cash, subject to Final Net Worth adjustments provided for in the Asset Purchase Agreement. That agreement also provides for up to \$2.0 million in potential cash Earn-Out payments based on achieving certain performance metrics over the next two years. SFC, based in Rochester, New York, is a premier Internet destination for comprehensive, objective information about IRS Section 529 college savings plans. This acquisition strengthened our editorial data, our content and offerings to consumers and financial professionals by providing the opportunity to learn more about options for college financing.

On December 7, 2007, we acquired certain assets and liabilities of Nationwide Card Services, Inc. ( NCS ) for \$26.4 million in cash, plus an additional Net Asset Purchase Payment of up to \$1.2 million in cash as provided for in the Asset Purchase Agreement. That agreement also provides for up to with \$7.0 million in potential cash Earn-Out Payments based on achieving specific financial performance metrics over the next two years. NCS, based in Memphis, Tennessee, markets a comprehensive line of consumer and business credit cards via the Internet.

In January 2008, we launched the beta version of the Bankrate China web site (Bankrate.com.cn) with a formal launch anticipated on or near April 1, 2008. Bankrate China will provide Chinese consumers with the same type of financial education programs that Bankrate.com provides to the domestic consumer with our financial basics, guides, calculators, product comparisons and rate information. To date, no revenue has been generated by Bankrate China nor do we anticipate a revenue contribution in 2008. There are currently no material long-lived assets recorded related to Bankrate China.

On February 5, 2008, we acquired certain assets and liabilities of InsureMe, Inc. ( InsureMe ) for \$65 million in cash with an additional \$20 million in potential cash earn-out payments based on achieving certain performance metrics over the next two years. InsureMe, based in Englewood, Colorado, operates a web site and has a relationship with a network of hundreds of affiliates that offer consumers competitive insurance rates for auto, home, life, health and long-term care. InsureMe sells consumer leads to insurance providers who in turn provide consumers quotes for a variety of consumer insurance products.

Also on February 5, 2008, we acquired certain assets and liabilities of Lower Fees, Inc. ( Fee Disclosure ) for \$2.85 million in cash and an additional amount in cash in potential earn-out payments based on the achievement of certain financial performance metrics over the next five years. Fee Disclosure, based in Westlake Village, California, has developed a patent pending online portal to create an open marketplace to break down

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complicated vendor fees associated with the mortgage closing process. Fee Disclosure empowers consumers with comprehensive information to make informed real estate decisions and reduce their real estate and mortgage transaction costs. We expect this acquisition will begin to make a revenue contribution in fiscal 2009.

In 2008, we are focusing on:

Integrating our recent acquisitions to maximize synergies and efficiencies.

Optimizing the revenue from our cost per thousand impressions ( CPMs ) and cost per clicks ( CPCs ) on our Online Network including the integration of the new acquisitions.

Enhancing search engine marketing and keyword buying to drive targeted impressions into our Online Network.

Expanding our co-brand and affiliate footprint.

Increasing advertising for our *Deposit Guide* rate tables.

Continuing to broaden the breadth and depth of the personal finance content and products that we offer on our Online Network.

**Our Opportunity**

We believe many financial services customers remain relatively uninformed with respect to financial products and services and often rely upon personal relationships when choosing such products and services. It is our belief that many of these products and services are not well explained, and viable, equivalent alternatives typically are not presented when marketed to consumers through traditional media. As the marketing of many of these products and services moves to the Internet, consumers seek new sources of independent objective information such as Bankrate.com to facilitate and support their buying decisions. The interactive nature of the Internet allows us to display extensive research on financial products and services previously unavailable to consumers.

According to a 2004 Federal Reserve survey:

|                                   | Transaction<br>Accounts | CDs  | Stocks | Loan<br>secured by<br>primary<br>residence | Installment<br>loans | Credit<br>card<br>balances | Any<br>debt |
|-----------------------------------|-------------------------|------|--------|--|----------------------|----------------------------|-------------|
| % of American Families that have: | 91.3                    | 12.7 | 20.7   | 47.9                                       | 46.0                 | 46.2                       | 76.4        |

We believe the majority of financial information available on the Internet is oriented toward investment advice and providing business news and stock market information, rather than personal and consumer finance information, advice and interest rate data. Our efforts are targeted to fulfill the slightly less competitive, but equally important demand for consumer banking and personal finance information. As a result, we believe we can maintain a loyal base of users comprised of targeted audiences that are attractive to our advertisers.

We have seen increased interest in our primary niches mortgages, automobile loans, home equity loans, CD/savings accounts, college savings plans and insurance products. Our ability to provide a platform for frictionless communication between consumers and businesses has not changed. We believe that we are well-positioned to benefit from growth in the Internet personal finance advertising market.

**Strategy**

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We believe that the consumer banking and personal finance sectors hold significant opportunities for growth and expansion. As we grow, we seek to consolidate our position as the industry leader in the gathering of rate data and to expand our brand recognition with consumers and partners. Elements of our strategy include:

*Continuing to provide advertisers with high-quality, ready-to-transact consumers:* By advertising on our Online Network, banks, brokers, insurance companies, credit card issuers and other advertisers are

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tapping into our strongest resource, consumers on the verge of engaging in a high-value transaction. By allowing advertisers to efficiently access these in-market consumers, we are helping advertisers lower their own costs of acquiring new customers, and ultimately creating a transaction that is beneficial for the advertiser, the consumer, and us.

*Remaining an important brand in consumer personal finance data and content:* We are continuing our strong push to remain a growing player in our market. We believe that we are the leader in our market based on a number of metrics, including revenue, the number of financial institutions surveyed, the number of pages viewed and the number of unique visitors each month. We plan to extend our U.S. leadership position in online comparative research for consumer mortgage and deposit products into additional vertical markets we cover such as college savings, insurance and credit cards. The recent acquisitions are initial components towards achieving this goal.

*Continuing growth through partnering with top web sites:* Our partner network provides our Online Network with a steady stream of visitors, with little to no up-front payment risk to us. As substantially all of these agreements are revenue-sharing, we only pay our partners a percentage of the revenue earned. We will continue to expand the breadth and depth of our product distribution offerings and services to consumers by distribution our newer products and content across our partner network.

### **Distribution Arrangements**

Our distribution (or syndication) arrangements with other web site operators fall into two categories: (1) co-branding, in which we establish a co-branded site with another web site operator, and (2) licensing, in which we provide content to the other operator's web site together with a hyperlink to Bankrate.com. Historically, co-branding is more effective in driving traffic to our Online Network than licensing.

We create co-branded sites pursuant to agreements with other web site operators. Generally, under a co-branded agreement, we host the co-branded web pages, sell and serve the graphical and CPC advertising, and collect advertising revenues, which are shared with the third party web site.

Under licensing arrangements, we provide limited content to other web sites in exchange for a fee. The content identifies Bankrate.com as its source and typically includes a hyperlink to the Bankrate.com web site.

### **Financial Product Research**

Our research staff tracks comparative information on more than 300 financial products and services, including checking accounts, consumer loans, lines of credit, mortgages, certificates of deposit, savings accounts, credit cards, money market accounts, insurance products, credit cards, college savings products and other online accounts. We estimate that over 3 million items of data are gathered each day for approximately 575 markets across the United States from over 4,800 financial institutions. The information obtained includes not only interest rates and yields, but also related data such as lock periods, fees, points, and loan sizes for mortgages, and grace periods, late penalties, cash advance fees, cash advance annual percentage rates, annual percentage yields, minimum payments, and terms and conditions of credit cards. Once we compile our research, we include the information in searchable rate tables where consumers can compare financial products, free of charge.

We adhere to a strict methodology in developing our market survey and our institutional survey group. The market survey includes the 100 largest U.S. geographic markets, as defined by the U.S. Census Bureau's Metropolitan Statistical Area categories and FDIC Market Report. The surveys also include certain secondary markets and other selected communities that represent areas of high growth.

In most instances, institutions in the survey group include the largest banks and thrifts within each geographic market based on total deposits. The number of institutions tracked within a given market is based on the types of financial products available and number of institutions in the market. In each of the largest 25

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markets, we track at least 10 institutions. In each of the smaller markets, we track three or more institutions. We verify and adjust, if necessary, the institutions included in the survey group on an annual basis using deposit data reported to the FDIC. We do not include credit unions in the market survey group because product availability is based upon membership. However, we track the 50 largest U.S. credit unions as a separate survey group for comparison purposes.

All products included in our database have narrowly defined criteria so that information provided by institutions is comparable. The quality control process then includes several visual checks and proofing by different staff members to ensure that the data inputs are accurate. Our quality control staff reviews each listing in relation to regional and national trends and for overall accuracy and consistency of fees and related information prior to disclosure of the information to consumers. The staff also reviews the comparability of products, institutional accuracy and survey accuracy. In addition, the quality control team performs anonymous shopping on a daily basis, whereby we place calls to institutions in order to validate the data in a consumer setting. Institutions providing invalid data are contacted by our quality control staff to ensure that future information will be accurate.

The criteria for product listings consist of specific attributes such as loan size and term that are used to define each type of financial instrument in order to ensure uniformity in the products that are compared. Institutions may purchase hyperlink listings in our rate tables, but the advertising must comply with the same criteria we use for the listings created by our research department or we will remove the advertisements.

We are aware of the potential conflict of interest that could result from the sale of advertising to financial institutions while providing independent and objective research. However, we believe that our ability to provide independent and objective research has not been compromised by a potential conflict of interest, and we are committed to continue to prevent our research from being compromised in the future.

## **Editorial Content**

In addition to our research department, as of December 31, 2007, we maintained a content team of 22 editors, writers, researchers, technical producers and designers who create original content, research studies and decision tools for our Online Network. We also have relationships with more than 30 freelance journalists. The reporters and editors of our Online Network have extensive combined media experience in newspaper, magazine, new media and or broadcast with a combined average of 21 years experience in journalism. We believe the quality of our original content plays a critical role in attracting visitors to our Online Network and to our co-branded partners' web sites.

Most of the content within our Online Network is original and produced internally. There is a very limited amount of third-party content, acquired under advertising revenue-sharing agreements or licenses, which allows us to incorporate relevant information on our web site that would otherwise require additional resources to produce. An example of this type of arrangement is the incorporation in Bankrate.com of currency conversion functionality from OANDA.com, a comprehensive provider of foreign exchange and currency trading information services.

## **Print Publications**

We continue to produce traditional print products to drive revenue and absorb part of the cost of producing research and original editorial content. Additionally, we believe that print publishing activities contribute to greater exposure, branding opportunities for and drives traffic to our Online Network. Our print publications activities include the following:

*Mortgage Guide:* We generate revenue through the sale of mortgage rate and product listings in approximately 500 newspapers across the United States with combined daily circulation in excess of

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40 million copies. We enter into agreements with the newspapers for blocks of print space, which is in turn sold to mortgage lenders and we share the revenue with the newspapers on a percentage basis.

*Deposit Guide:* We generate revenue through the sale of deposit rate and product listings in 13 newspapers across the United States with combined daily circulation of more than 8 million copies. We enter into agreements with the newspapers for blocks of print space. This print space is then sold to financial institutions and we share a percentage of the revenue with the newspapers, on a percentage basis.

*Syndication of Editorial Content and Research:* We syndicate editorial research to more than 150 newspapers, which have a combined Sunday circulation of more than 40 million copies, and three national magazines with combined monthly circulation in excess of 3 million copies.

*Newsletters:* We publish three newsletters: *100 Highest Yields* and *Jumbo Flash Report*, which target individual consumers, and *Bank Rate Monitor*, which targets an institutional audience. These newsletters provide bank deposit, loan and mortgage interest rate information with minimal editorial content.

*Free Standing Inserts:* We create a free standing publication with our original editorial content that is inserted into a newspaper. We then sell sponsorship of the free standing publication to an advertiser.

For the fiscal years ended December 31, 2007, 2006 and 2005, the percentage of total revenue generated by *Mortgage* and *Deposit Guide* advertising was 11%, 18% and 10%, respectively.

## **Consumer Marketing**

Our primary marketing expenditures are for key word cost-per-click advertising campaigns on Internet search engines. We actively conduct earned media public relations campaigns to promote our editorial content and personnel to the consumer and trade media. Bankrate spokespersons are routinely featured in newspapers, magazines and in broadcast media, and are promoted to and are featured as expert commentators on, major broadcast and cable news programs and talk radio. In 2007, Bankrate experts were quoted or we were referenced in over 1,000 media exposures. Our spokespersons were featured in 127 television interviews, including *The Today Show*, *CBS The Early Show*, *The Fox Cable Network*, *MSNBC*, *CNBC*, and *CNN*; 703 print articles, including *The New York Times*, *The Wall Street Journal* and *USA Today*; and about 250 interviews on numerous talk radio broadcasts. Finally, we produce *The Bankrate.com Personal Finance Minute* which is distributed to XM radio and selected terrestrial radio stations throughout the U.S.

Bankrate.com's home page and other key pages of our Online Network routinely rank at or near the top of major search engines' natural (unpaid) listings for highly coveted key words and phrases related to banking products, and we generate significant traffic and revenue organically from such placements. The high rankings are largely a result of our success at creating highly relevant, widely read content, distribution links, and because our personnel stay abreast of and use various search optimization techniques.

## **Bankrate Select**

In early 2007 we re-launched our lead generation business as *Bankrate Select* on our *FastFind* platform. In doing so we focused on access to a well established lender network, which we believe better and more fully monetizes the leads we generate. We believe visitors to our Online Network value and trust the Bankrate brand and we expect that the click and conversion rates will continue to improve with the implementation of *Bankrate Select*.

## **Advertising Sales**

The sales team sells online and offline advertising to national, regional and local advertisers. The sales staff focuses on several segments of the financial industry: lending (mortgage, home equity and auto loans), banking



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(CDs, MMAs and credit cards) and general personal finance (college loans, taxes, insurance and retirement) as well as other consumer oriented products, such as automotive. We have three sales regions with offices in each region: East (New York City), Midwest (Chicago), and West (San Francisco and Orange County). Each salesperson is responsible for a designated geographic region of the United States. They are paid based on their individual performance within their territory.

The sales team is responsible for selling all of our products including graphic advertising on our Online Network, hyperlink listings on the Bankrate rate tables, and rate table listings in the *Mortgage* and *Deposit Guides*. We believe this approach enhances the value for advertisers and direct marketers by (1) alleviating the need to purchase advertising from numerous vendors, (2) providing advertisers and direct marketers the opportunity to optimize their marketing dollars among four different products, and (3) offering integrated marketing packages that meet the strategic needs of our advertisers. Advertisers and direct marketers can enhance the effectiveness of their campaigns by customizing advertising delivery on our Online Network within a particular content channel, geographically or across an entire network.

For the fiscal years ended December 31, 2007, 2006 and 2005, the percentage of total revenue generated by graphic advertising was 49%, 47% and 56%, respectively. For the fiscal years ended December 31, 2007, 2006 and 2005, the percentage of total revenue generated by hyperlink advertising was 39%, 34% and 32%, respectively.

Our advertisers can target prospective customers using several different approaches:

Focusing on consumers in specific situations, such as those who are first-time home buyers, or those actively shopping for home equity loans;

Targeting specific geographic and product areas; for example, CD shoppers in Georgia; or either criteria all consumers interested in CDs, or all consumers from Georgia; and

General rotation throughout our Online Network.

### ***Graphic Advertising***

Our most common graphic advertisement sizes are leader boards (728 x 90 pixels) and banners (486 x 60 pixels), which are prominently displayed at the top or bottom of a page, skyscrapers (160 x 600 or 120 x 600 pixels), islands (250 x 250 pixels), and posters (330 x 275 pixels). Posters are oversized advertisements that contain more information than traditional banner advertisements. With the launch of the new web site in 2008, we plan to accommodate additional advertisement configurations including video dynamically. The new web site will also provide dynamic page reformatting to help optimize the monetization of the site. These advertisements can be targeted to specific areas of our Online Network or on a general rotation basis. In addition, we offer product specific issues that are available for single sponsorships. Rates for product specific issues are based on expected impression levels and additional content requirements. Advertising rates may vary depending upon the product areas targeted (home equity has a higher CPM than auto), geo-targeting (a premium for targeting advertisements to a specific state), the quantity of advertisements purchased by an advertiser, and the length of time an advertiser runs an advertisement on our Online Network.

We also offer product specific issues that are available for single sponsorships. Rates for product special issues are based on expected impression levels and additional content requirements.

Our graphic advertisements are sold to advertisers according to cost-per-thousand impressions ( CPM ) the advertiser receives, and in fixed-billed campaigns. The amount of advertising we sell is a function of (i) the number of visitors to our Online Network, (ii) the number of ad pages we serve to these visitors, (iii) the number of advertisements per page, and (iv) advertiser demand.

Providing effective tools for managing advertising campaigns is essential to maintaining advertising relationships. We use a state-of-the-art program under license from a third-party that allows our advertisers to monitor the impressions received and click-through ratios generated. We also allow third-parties to serve our customers' advertisements.



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### ***Hyperlinks***

Financial institutions that are listed in our rate tables have the opportunity to hyperlink their listings. By clicking on the hyperlink, users are taken to the institution's web site. Prior to October 1, 2005, hyperlinks were sold under flat dollar fee per month contracts that ranged primarily between three and twelve months.

Our hyperlinks were converted to a cost-per-click or CPC pricing model on October 1, 2005. Under this arrangement, advertisers pay Bankrate a specific, pre-determined cost each time a consumer clicks on that advertiser's hyperlink or phone icon (usually found under the advertiser's name in the rate table listings). All clicks are screened for fraudulent characteristics by an independent third party vendor and then charged to the advertiser's account.

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 through to their web site. We recognize revenue monthly for each text link based on the number of clicks at the CPC contracted rate during the auction bidding process.

### **Lead Generation**

We sell leads to advertisers, lenders, insurance companies, brokers, credit card issuers financial institutions and other customers. The method we use to monetize this revenue opportunity varies depending on the products and customers, between cost per lead and cost per approved application. In general, we have found that the most effective means for monetizing this business is cost per approved application as a result of the quality consumers on Bankrate.com and the associated high conversion rates. We anticipate growing our lead generation business in insurance, credit cards, lending, college savings, retirement and other products with more comprehensive content and site functionality, additional consumer traffic as well as the new acquisitions which provide Bankrate with the monetization platforms to process Bankrate.com traffic.

### **Advertisers**

We market to local advertisers targeting a specific audience in a city or state and also to national advertisers targeting the entire country. We do not have any advertiser concentration above 5% of revenue within either the graphic or hyperlink channel. Bankrate.com is attractive to both the larger advertisers such as Citi Bank, Bank of America, Countrywide, HSBC and others attracted to the high quality in market audience as well as hundreds of smaller local advertisers who can compete with the larger advertiser on our detailed rate research tables through competitive rates or service.

### **Competition**

We compete for advertising revenues across the broad category of personal finance information, both in traditional media such as newspapers, magazines, radio, and television, and in the developing market for online financial information. There are many competitors that have substantially greater resources than we do. Our online and print competition includes the following:

Personal finance sections of general interest web sites such as Yahoo! Finance, AOL Money & Finance and MSN Money;

Personal finance destination sites such as The Motley Fool, MarketWatch, SmartMoney.com, Kiplinger.com and CNNMoney.com;

E-commerce oriented sites that include banking and credit products such as LendingTree;

Lead aggregators such as LowerMyBills, iHomeowners and NexTag;

Print mortgage table sellers like National Financial News Service;



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Rate listing web sites, such as Realtor.com/Move.com, Informa Research Services and Loans.com/CarsDirect; and

Keyword CPC advertising sites/networks such as Google, Yahoo! Search Marketing, and Ask.com.

Competition in the online publishing segment is generally directed at growing users and revenue using marketing and promotion to increase traffic to web sites. We believe that our original content, focus and objective product information differentiate us from our competitors. We believe that the market for our print publishing and licensing segment is highly concentrated.

### **Seasonality**

We believe our online publishing segment in terms of page views can be affected by seasonality primarily in the fourth quarter in which case unique visitors and page views are generally lower due to the holiday period in November and December. In 2007, page views in the fourth quarter were 131.0 million, 13.2 million, or 9%, lower than the third quarter in 2007, and 10.4 million, or 9%, higher than the fourth quarter of 2006. See Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations for a further discussion of our traffic and page views.

### **Operations**

We currently operate our Online Network and supporting systems on servers at a secure third-party co-location facility in Atlanta, Georgia. This third-party facility is manned, and our infrastructure and network connectivity are monitored continuously, on a 24 hours a day, 365 days a year basis. In March 2006, we also added a presence at a similar data center in Denver, Colorado. The additional data center primarily operates systems related to our web sites other than Bankrate.com. Selected critical services are operated actively and simultaneously from both data centers. The two data centers are key to our business continuity strategy, providing additional recovery options if either data center should suffer a major outage. These facilities are powered continuously from multiple sources, including uninterruptible power supplies and emergency power generators. The facilities are connected to the Internet with redundant high-speed data lines. The systems at each data center are protected by a multi-layered security system including multiple firewalls at each data center. To provide maximum scalability, many of our high-traffic web pages are served from an independent content distribution network. Multi-node clusters or multiple load shared systems are used for key functions, including web serving, ad serving, and SQL databases. The vast majority of the information presented on our web sites, including back-end databases that provide the raw information, is stored and delivered via such multi-node or multi-system configurations from one or both of the co-location facilities.

All of our systems are controlled and updated remotely via encrypted virtual private network ( VPN ) links to our operating locations. The technical services team, based in North Palm Beach, Florida, has established extensive monitoring of all key systems, originating from multiple locations and methodologies, to provide continuous real-time response capability should key systems or network connections fail. Much of the content on our various web sites is prepared on systems located in the secure server room in our North Palm Beach location, then transferred at scheduled intervals via the VPN to the systems at the co-location facilities. The North Palm Beach facility systems are also powered by uninterruptible power supply units, have multiple Internet connections, and backup generators. In the event that North Palm Beach or any other location is temporarily unavailable, temporary access is established from alternative locations to provide continuity for key operations and content updates.

### **Proprietary Rights**

Our proprietary intellectual property consists of our unique research and editorial content, our web sites and our URLs. In connection with the acquisition of Fee Disclosure, we acquired a patent pending online portal to

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create an open marketplace to break down complicated vendor fees associated with the mortgage process. We rely primarily on a combination of copyrights, trademarks, trade secret laws, our user policy and restrictions on disclosure to protect this content. In addition, we license some of our data and content from other parties. Our copyrights, trademarks and licenses expire at various dates, and none is individually significant.

### **Employees**

As of February 29, 2008, we employed 277 people. We have never had a work stoppage and none of our employees is represented under collective bargaining agreements. We consider our employee relations to be favorable.

### **Available Information**

For further discussion concerning our business, see the information included in Items 7 (Management's Discussion and Analysis of Financial Condition and results of Operations) and 8 (Financial Statements and Supplementary Data) of this report.

We make available free of charge through our web site at [www.bankrate.com](http://www.bankrate.com) our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports, if applicable, filed or furnished pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after the material is electronically filed with or furnished to the Securities and Exchange Commission (SEC). The information posted on our web site is not incorporated into this Annual Report on Form 10-K.

### **Item 1A. Risk Factors**

*You should consider carefully the following risk factors before deciding whether to invest in our common stock. Our business, including our operating results and financial condition, could be harmed by any of these risks. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business. The trading price of our common stock could decline due to any of these risks, and you may lose all or part of your investment. In assessing these risks you should also refer to the other information contained in our filings with the SEC, including our financial statements and related notes.*

#### **Risks Related to Our Business**

##### ***Our Success Depends on Internet Advertising Revenue***

We have historically, and we expect to continue, to derive approximately 90% of our revenue through the sale of advertising space and hyperlinks on our Online Network. Any factors that limit the amount advertisers are willing to spend on advertising on our web sites could have an adverse effect on our business. These factors may include our ability to:

maintain a significant number of unique web site visitors and corresponding significant reach of Internet users;

compete with alternative advertising sources;

maintain a significant number of sellable impressions generated from web site visitors available to advertisers;

accurately measure the number and demographic characteristics of our visitors;

successfully sell and market our Online Network to our advertisers;



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handle temporary high volume traffic spikes to our Online Network;

convince traditional media advertisers to advertise on our Online Network; and

increase our web site traffic.

Most of our advertising contracts are short-term and are subject to termination by the advertiser at any time. Advertisers who have longer-term contracts may fail to honor their existing contracts or fail to renew their contracts. If a significant number of advertisers or a few large advertisers decide not to continue advertising on our web sites, we could experience an immediate and substantial decline in our revenues over a relatively short period of time.

### ***Our Success Depends on Interest Rate Volatility***

We provide interest rate information for mortgages and other loans, credit cards and savings accounts. Visitor traffic to our web sites tends to increase with interest rate movements. Factors that have caused significant visitor fluctuations in the past have been Federal Reserve Board actions and general market conditions affecting home mortgage interest rates. Additionally, the level of traffic to our web sites can be dependent on interest rate levels as well as mortgage financing activity. Accordingly, a slowdown in mortgage production volumes could have an adverse effect on our business. Conversely, a sudden, steep drop in interest rates could dramatically increase our page views such that we would be unable to sell sufficient advertisements to take full advantage of the spike in traffic.

We believe that as we continue to develop our web sites with broader personal finance topics, the percentage of overall traffic seeking mortgage information will remain stabilized at current levels. To accelerate the growth of traffic to our web sites, we are working with our syndication partners to provide timely content, and we are aggressively promoting products not related to mortgage activity. If we are otherwise unable to increase or maintain traffic to areas of our web sites other than mortgage information, we will be more dependent on interest rate levels and mortgage refinancing activity.

### ***Our Business Depends on a Strong Brand, Thus We Will Not be Able to Attract Visitors and Advertisers if We Do Not Maintain and Develop Our Brands***

It is critical for us to maintain and develop our brands so as to effectively expand our visitor base and our revenues. Our success in promoting and enhancing our brands, as well as our ability to remain competitive, depends on our success in offering high quality content, features and functionality. If we fail to promote our brands successfully or if visitors to our web sites or advertisers do not perceive our content and services to be of high quality, we may not be able to continue growing our business and attracting visitors and advertisers.

### ***Risks Associated with Our Strategic Acquisitions Could Adversely Affect Our Business***

We have acquired a number of companies in the past, and we expect to make additional acquisitions and strategic investments in the future. For example, in late 2005, we acquired FastFind and MMIS/Interest.com; in 2006 we acquired Mortgagecalc.com; in 2007 we acquired NCS and SFC; and in 2008 we acquired InsureMe and Fee Disclosure. We will continue to consider acquisitions and joint ventures as a means of enhancing shareholder value. Our success in integrating our acquired businesses will depend upon our ability to retain key personnel, avoid diversion of management's attention from operational matters, integrate the technical operations and personnel of the acquired companies, and achieve the expected financial results, synergies and other benefits from our acquisitions.

In addition, future acquisitions could result in the incurrence of additional debt, costs and contingent liabilities or the dilution of our stockholders ownership through issuance of additional stock. Integration of acquired operations may take longer, or be more costly or disruptive to our business, than originally anticipated.

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It is also possible that expected synergies from future acquisitions may not materialize. We may also incur costs and divert management attention through potential acquisitions that are never consummated. Future impairment losses on goodwill and intangible assets with an indefinite life, or restructuring charges, could also occur as a result of acquisitions.

Despite our due diligence investigation of each business that we acquire, there may be liabilities of the acquired companies that we fail to or are unable to discover during the due diligence investigation and for which we, as a successor owner, may be responsible. In connection with acquisitions, we generally seek to minimize the impact of these types of potential liabilities through indemnities and warranties from the seller, which may in some instances be supported by deferring payment of a portion of the purchase price. However, these indemnities and warranties, if obtained, may not fully cover the liabilities due to limitations in scope, amount or duration, financial limitations of the indemnitor or warrantor or other reasons.

Our ability to consummate any future acquisitions on terms that are favorable to us may be limited by the number of attractive acquisition targets, internal demands on our resources and our ability to obtain financing.

### ***We Plan to Expand Operations in China and Possibly Other International Markets in Which We May Have Limited Experience***

We plan to expand Bankrate branded online properties in China and possibly other international markets. We have developed a Bankrate web site written in Mandarin for the Chinese market. As we expand into international markets, we will have only limited experience in marketing and operating our products and services in those markets. Certain international markets may be slower than domestic markets in adopting the Internet as an advertising and commerce medium and so our operations in international markets may not develop at a rate that supports our level of investment. In addition, international consumers may not adopt the Internet for personal finance information at all or as quickly, as U.S. consumers.

### ***Our Planned Chinese Operations, as Well as Any Other International Operations We Commence, Are Subject to Increased Risks Which Could Harm Our Business, Operating Results and Financial Condition***

We face certain risks inherent in doing business internationally, including:

trade barriers and changes in trade regulations;

difficulties in developing, staffing and simultaneously managing foreign operations as a result of distance, language, and cultural differences;