

Bankrate, Inc.
Form 10-Q
June 18, 2015
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2015

OR

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

FOR THE TRANSITION PERIOD FROM TO

Commission File No. 1-35206

(Exact name of registrant as specified in its charter)

Edgar Filing: Bankrate, Inc. - Form 10-Q

Delaware
(State or other jurisdiction of incorporation or organization)

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

477 Madison Avenue, Suite 430

New York, NY
(Address of principal executive offices)

10022
(Zip Code)

Registrant's telephone number, including area code: 917-368-8600

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

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

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

Large accelerated filer

Accelerated filer

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

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

The number of outstanding shares of the issuer's common stock as of May 29, 2015 was as follows: 103,884,733 shares of Common Stock, \$.01 par value.

Table of Contents

Table of Contents

Bankrate, Inc. and Subsidiaries

Quarterly Report on Form 10-Q for the Quarter Ended March 31, 2015

<u>PART I. FINANCIAL INFORMATION</u>	5
<u>Item 1. Condensed Consolidated Financial Statements (Unaudited)</u>	5
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	23
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	34
<u>Item 4. Controls and Procedures</u>	34
<u>PART II. OTHER INFORMATION</u>	35
<u>Item 1. Legal Proceedings</u>	35
<u>Item 1A. Risk Factors</u>	35
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	35
<u>Item 5. Other Information</u>	35
<u>Item 6. Exhibits</u>	37
<u>Signatures</u>	38

Table of Contents

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q contains “forward-looking statements” which involve risks and uncertainties. You can identify forward-looking statements because they contain words such as “believes,” “expects,” “may,” “should,” “seeks,” “approximately,” “intends,” “plans,” “estimates,” or “anticipates” or similar expressions that relate to our strategy, plans or intentions. All statements we make relating to our estimated and projected earnings, margins, revenues, costs, expenditures, cash flows, growth rates and financial results or to our expectations regarding future industry trends or regarding resolution of regulatory matters described in this quarterly report are forward-looking statements. In addition, we, through our senior management, from time to time make forward-looking public statements concerning our expected future operations and performance and other developments. These forward-looking statements are subject to risks and uncertainties that may change at any time, and, therefore, our actual results may differ materially from those that we expected. We derive many of our forward-looking statements from our operating budgets and forecasts, which are based upon certain assumptions. While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known or unknown factors, and it is impossible for us to anticipate all factors that could affect our actual results. All forward-looking statements are based upon information available to us on, and speak only as of, the date of this report.

Important factors that could cause actual results to differ materially from our expectations, which we refer to as cautionary statements, are discussed in detail in Part I, Item 1A. “Risk Factors” in our annual report on Form 10-K filed with the Securities and Exchange Commission (“SEC” or “Commission”) on June 17, 2015. All forward-looking information in this quarterly report and subsequent written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the cautionary statements. Some of the factors that we believe could affect our results include without limitation:

- the timing and outcome of, including potential expense associated with, the SEC and the United States Department of Justice (“DOJ”) investigations including our ability to enter into a settlement with the SEC on terms consistent with those described herein;
- the potential impact on our business and stock price of any announcements regarding the announcement of the restatement, the SEC's investigation or the DOJ's investigation;
- the material weakness in our internal controls over financial reporting and our ability to rectify this issue completely and promptly;
- risks relating to the defense or litigation of lawsuits, including the putative class action lawsuit currently pending and described herein, and regulatory proceedings;
- the timing and outcome of (including potential expense associated with), and the potential impact on our business and stock price of any announcements regarding the Consumer Financial Protection Bureau (“CFPB”) investigation;
- the willingness or interest of banks, lenders, brokers, credit card issuers, insurance carriers and agents, senior care providers and other advertisers in the business verticals in which we operate to advertise on our websites or mobile applications, or purchase our leads, clicks, calls and referrals;
- the rate of conversion of consumers’ visits to our websites or mobile applications into senior care referrals and the rate at which those referrals result in move-ins with our senior care customers;
- changes in application approval rates by our credit card issuer customers;
- increased competition and its effect on our website traffic, advertising rates, margins, and market share;
- our dependence on internet search engines to attract a significant portion of the visitors to our websites;
- our dependence on partners to attract a significant portion of the company’s revenue;
- shift of visitors from desktop to mobile and mobile app environments;
- the number of consumers seeking information about the financial and senior care products we have on our websites or mobile applications;
- interest rate volatility;
-

technological changes and our ability to adapt to new or evolving technologies that affect our business environment or operations;

- our ability to anticipate and manage cybersecurity risk and data security risk and to mitigate or resolve issues that may arise;
- the effects of any security breach, data breach or any cyberattack on our systems, websites or mobile applications;
- our ability to manage traffic on our websites or mobile applications, and service interruptions;

3

Table of Contents

- our ability to maintain and develop our brands and content;
- the fluctuations of our results of operations from period to period;
- our indebtedness and the effect such indebtedness may have on our business;
- our need and our ability to obtain additional debt or equity financing;
- our ability to integrate the operations and realize the expected benefits of businesses that we have acquired and may acquire in the future;
- the effect of unexpected liabilities we assume from our acquisitions;
- the effect of programmatic advertising platforms on display revenue;
- our ability to successfully execute on our strategies, including without limitation our insurance quality initiative, our mobile strategy and other initiatives, and the effectiveness of our strategies, including without limitation whether they result in increased revenue or profitability;
- our ability to attract and retain executive officers and personnel;
- any failure or refusal by our insurance providers to provide coverage under our insurance policies;
- our ability to protect our intellectual property;
- the effects of potential liability for content on our websites or mobile applications;
- our ability to establish and maintain distribution arrangements;
- our ability to maintain good working relationships with our customers and third-party providers and to continue to attract new customers;
- the effect of our expansion of operations in the United Kingdom and possible expansion to other international markets, in which we may have limited experience, and our ability to successfully execute on our business strategies in international markets;
- our ability to sell our operations in China in excess of its book value;
- the willingness of consumers to accept the Internet and our Online Network as a medium for obtaining financial product information;
- the strength of the U.S. economy in general and the financial services industry in particular;
- changes in monetary and fiscal policies of the U.S. government;
- changes in consumer spending and saving habits;
- review of our business and operations by regulatory authorities;
- changes in the legal and regulatory environment;
- changes in accounting principles, policies, practices or guidelines;
- risks relating to the ongoing reviews of our business and operations by regulatory authorities; and
- our ability to manage the risks involved in the foregoing.

We caution you that the foregoing list of important factors may not contain all of the material factors that are important to you. In addition, in light of these risks and uncertainties, the matters referred to in the forward-looking statements contained in this Quarterly Report may not in fact occur. Accordingly, investors should not place undue reliance on those statements. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law.

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited)

Bankrate, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(In thousands, except share and per share data)

	(Unaudited)	
	March 31, 2015	December 31, 2014
Assets		
Cash and cash equivalents	\$ 154,637	\$ 141,725
Accounts receivable, net of allowance for doubtful accounts of \$403 and \$419 at March 31, 2015 and December 31, 2014, respectively	79,807	70,865
Deferred income taxes	6,407	6,407
Prepaid expenses and other current assets	17,624	35,652
Assets held for sale	1,564	1,627
Total current assets	260,039	256,276
Furniture, fixtures and equipment, net of accumulated depreciation of \$26,659 and \$24,756 at March 31, 2015 and December 31, 2014, respectively	14,176	13,299
Intangible assets, net of accumulated amortization of \$242,383 and \$228,667 at March 31, 2015 and December 31, 2014, respectively	329,805	338,988
Goodwill	642,567	641,367
Other assets	13,892	13,499
Total assets	\$ 1,260,479	\$ 1,263,429
Liabilities and Stockholders' Equity		
Liabilities		
Accounts payable	\$ 16,788	\$ 8,047
Accrued expenses	36,190	46,030
Deferred revenue and customer deposits	4,575	4,303
Accrued interest payable	2,297	6,980
Other current liabilities	11,388	13,629
Liabilities subject to sale	408	1,074
Total current liabilities	71,646	80,063
Deferred income taxes	51,633	51,633
Long term debt, net of unamortized discount	297,748	297,598
Other liabilities	6,693	10,849
Total liabilities	427,720	440,143
Commitments and contingencies (Note 9)		
Stockholders' equity		
Common stock, par value \$.01 per share - 300,000,000 shares authorized at March 31, 2015 and December 31, 2014;		

Edgar Filing: Bankrate, Inc. - Form 10-Q

104,688,179 shares and 104,701,530 shares issued at March 31, 2015 and December 31, 2014, respectively; 103,901,016 shares and 101,485,200 shares outstanding at March 31, 2015 and December 31, 2014, respectively	1,047	1,047
Additional paid-in capital	861,608	892,738
Accumulated deficit	(18,686)	(23,639)
Less: Treasury stock, at cost - 787,163 shares and 3,216,330 shares at March 31, 2015 and December 31, 2014, respectively	(10,733)	(46,494)
Accumulated other comprehensive loss	(477)	(366)
Total stockholders' equity	832,759	823,286
Total liabilities and stockholders' equity	\$ 1,260,479	\$ 1,263,429

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

Bankrate, Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

(In thousands, except share and per share data)

	Three months ended	
	March 31, 2015	March 31, 2014
Revenue	\$ 141,541	\$ 136,275
Costs and expenses:		
Cost of revenue (excludes depreciation and amortization)	78,749	78,508
Sales and marketing	6,137	6,087
Product development and technology	8,193	6,875
General and administrative	18,064	12,543
Acquisition, offering and related expenses	263	2,403
Changes in fair value of contingent acquisition consideration	(240)	1,407
Depreciation and amortization	15,703	13,856
Total costs and expenses	126,869	121,679
Income from operations	14,672	14,596
Interest and other expenses, net	5,276	