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FEBRUARY 03, 2016 / 10:00PM GMT, MCHP - Q3 2016 Microchip Technology Inc Earnings Call

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Steve Sanghi *Microchip Technology Inc - Chairman & CEO*

Eric Bjornholt *Microchip Technology Inc - VP & CFO*

Ganesh Moorthy *Microchip Technology Inc - President & COO*

C O N F E R E N C E C A L L P A R T I C I P A N T S

Vivek Ayra *BofA Merrill Lynch - Analyst*

Harlan Sur *JPMorgan - Analyst*

John Pitzer *Credit Suisse - Analyst*

Craig Hettenbach *Morgan Stanley - Analyst*

Chris Danely *JPMorgan - Analyst*

William Stein *SunTrust Robinson Humphrey - Analyst*

Chris Caso *Susquehanna Financial Group - Analyst*

Harsh Kumar *Stephens Inc. - Analyst*

Rajvindra Gill *Needham & Company - Analyst*

Kevin Cassidy *Stifel Nicolaus - Analyst*

P R E S E N T A T I O N

Operator

Good day, everyone, and welcome to the Microchip Technology third quarter FY16 financial results conference call. As a reminder, today s call is being recorded. At this time, I would like to turn the call over to Microchip s Chairman and CEO, Mr. Steve Sanghi. Please go ahead, sir.

Steve Sanghi - *Microchip Technology Inc - Chairman & CEO*

Thank you. Good afternoon, everyone, and welcome to our third quarter FY16 earnings conference call. I would like to begin by saying, how proud and pleased I am to be promoting Ganesh Moorthy to President and Chief Operating Officer. I m not going anywhere, and I will remain as Chairman and Chief Executive Officer. I will say more about it later in my comments. But let me now first pass this call to Eric Bjornholt, who will walk you through our financial results. Eric?

Eric Bjornholt - *Microchip Technology Inc - VP & CFO*

Good afternoon, everyone. During the course of this conference call, we will be making projections and other forward-looking statements regarding future events or the future financial performance of the Company. We wish to caution you that such statements are predictions, and that actual events or results may differ materially. We refer you to our press releases of today, as well as our recent filings with the SEC, that identify important risk factors that may impact Microchip s business and results of operations.

In attendance with me today are Steve Sanghi, Microchip s Chairman and CEO, and Ganesh Moorthy, Microchip s President and COO. I will comment on our third quarter FY16 financial performance, and Steve and Ganesh will then give comments on the results, discuss the current business environment, as well as guidance, provide update on integration activity associated with the Micrel acquisition, and provide some additional commentary on our announced acquisition of Atmel.

We will then be available to respond to specific investor and analyst questions. I want to remind you, that we are including information in our press release and this conference call on various GAAP and non-GAAP measures. We have posted a full GAAP to non-GAAP reconciliation on the Investor Relations page of our website at www.Microchip.com which we believe you will find useful when comparing GAAP and non-GAAP results. I will now go through the operating results including net sales, gross margin, and operating expenses. I will be referring to these results on a non-GAAP basis, prior to the effects of our acquisition activities and share-based compensation.

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Non-GAAP net sales in the December quarter were above the midpoint of our guidance at $552 million, and were down 1.3% sequentially from net sales of $559.4 million in the immediately preceding quarter. Non-GAAP net sales were $11.7 million higher than GAAP net sales, as we are recording non-GAAP net sales on a full sell-through revenue recognition basis, while GAAP does not recognize revenue on the sell-through of products sitting in the distribution channel on the date an acquisition occurs, and when distributor contracts are changed to the standard Microchip format compared to the sell-in revenue recognition contracts that Micrel previously had for certain of their distribution partners. We ve posted a summary of our revenue by product line and geography on our website for your reference.

On a non-GAAP basis, gross margins were 57.9% in the December quarter, and at the high end of our guidance. Non-GAAP operating expenses were 28.5% of sales, below the bottom end of our guidance range, and non-GAAP operating income was 29.5% of sales, which was above the high end of our guidance. Non-GAAP net income was $138.4 million, resulting in earnings per diluted share of $0.64, which was higher than our pre-announced results from January 19.

On a GAAP basis, net sales were $540.3 million and gross margins including share-based compensation and acquisition-related expenses were 54.2% in the December quarter. GAAP gross margins include the impact of $2.3 million of share-based compensation, $6.9 million of gross margin impacts from the distributor revenue adjustments I mentioned earlier, and $17.8 million in acquired inventory valuation costs, and acquisition-related restructuring costs. Total operating expenses were $216.6 million or 40.1% of sales and include acquisition intangible amortization of $48.3 million, share-based compensation of $14.7 million, $1.5 million of acquisition-related expenses, and special income of $5 million. GAAP net income was $61.2 million or $0.28 per diluted share.

In the December quarter, the non-GAAP tax rate was 10%, and the GAAP tax benefit rate was 22%. The non-GAAP tax rate reflects the benefit in the December quarter for the R&D tax credit reinstatement, but we are including the benefit from R&D tax credit for previous quarters that were reinstated only in the GAAP results to make future periods more comparable. We expect our longer-term forward-looking non-GAAP effective tax rate to be between 10% and 11%.

Moving on to the balance sheet, consolidated inventory at December 31, 2015, was $319.5 million, and includes $11 million of fair value mark-up on Micrel s inventory required by GAAP purchase accounting. Excluding purchase accounting adjustments, Microchip had 120 days of inventory at December 31, 2015 which is down by 5 days from the levels at the end of the September quarter. Excluding purchase accounting adjustments, inventory at our distributors was at 34 days, which is down 1 day from the September quarter levels. I want to remind you that historically, Microchip s distribution revenue throughout the world has been recognized on a sell-through basis.

Micrel has some distributors that historically recognize revenue on a sell-in basis. Microchip changed substantially all of the contractual relationships with these distributors during the December quarter, which has resulted in sell-through revenue recognition in the future. Our non-GAAP revenue guidance provided in our release today is based on sell-through revenue recognition for the Micrel distributors for the entire March quarter, in order to continue to provide investors with a view of the true end market demand for our products. There will be a difference in GAAP revenue recognition as the inventory in the distribution channel at the end of the conversion to sell-through accounting will not be recognized as revenue for GAAP accounting purposes.

The cash generation in the December quarter excluding our acquisition activities, our dividend payment, and changes in borrowing levels under our revolving line of credit was $172 million. As of December 31, the consolidated cash

and total investment position was $2.398 billion. Our borrowings under our revolving line of credit at December 31 were $1.008 billion, $288 million lower than it was on September 30, as we paid down a portion of the revolving line of credit. Excluding dividend payments, changes in borrowing levels and our acquisition activities, we expect our total cash and investment position to grow by approximately $140 million to $160 million in the March quarter.

Capital spending was approximately $17.9 million in the December quarter. We expect about $28 million in capital spending in the March quarter, and overall capital expenditures for FY16 to be about $110 million, well below our previous guidance to the Street of $125 million. We are selectively adding capital to support the growth of our production capabilities for our fast-growing new products and technologies, and to bring in-house more of the assembly and test operations that are currently outsourced. Depreciation expense in the December quarter was $26.7 million.

Over the past several years, Microchip s dividend paid to its shareholders has been treated as a return of capital, as Microchip did not have earnings and profits in the United States. As indicated in last quarter s earnings call, due to the integration of Micrel, and to Microchip s global tax structure, Microchip will have earnings and profits in the United States in FY16. Through this transaction, Microchip brought back about $250 million of offshore cash to the US, and we don t anticipate paying any US cash taxes on the amount, as we will use net operating losses to offset the income.

As a result, a portion of Microchip s calendar year 2015 dividends are taxable to shareholders, versus the return of capital treatment from the last few years. We have posted a copy of IRS Form 8937 on the Investor Relations page of our website, which indicates the split between taxable dividends, and return of capital for each dividend payment made during calendar year 2015. I will now ask Ganesh to give his comments on the performance of the business in the December quarter. Ganesh?

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Ganesh Moorthy - ***Microchip Technology Inc - President & COO***

Thank you, Eric, and good afternoon, everyone. Before I start my prepared remarks, I d like to take a moment to thank Steve, our Board of Directors, the Microchip executive team, and the over 10,000 employees of Microchip worldwide for the high honor and the distinct privilege they have bestowed on me to be the next President of Microchip. It has been the journey of a lifetime to have witnessed and contributed to the growth and success of Microchip, and I look forward to continuing that journey with the Microchip team, as we scale new heights and achieve new business milestones in the years to come.

Now let s take a closer look at the performance of each of our product lines, starting with microcontrollers. Our microcontroller revenue was down 3.5% in the December quarter, as compared to the September quarter, as we experienced the same broad-based weakness that the industry experienced. In calendar year 2015, our microcontroller business was down 1.4%, as compared to calendar year 2014. And while we are not happy about the decline, we are confident that we re gaining market share in every microcontroller segment that we compete, in what was a difficult year for the overall industry. The official Gartner microcontroller rankings, we expect will be available in time for our next earnings conference call.

We are continuing to deliver innovative new 8-bit, 16-bit and 32-bit microcontrollers, as well as software and development tool solutions to complement them, which we believe will enable us to grow faster than the market, and gain further market share. As we mentioned at our January 19 conference call, the addition of Atmel s 8-bit AVR microcontroller family, and 32-bit ARM microcontroller family, we expect will enhance Microchip s industry-leading 8-bit, 16-bit, and 32-bit microcontroller offerings. Microcontrollers represented 58.5% of Microchip s overall revenue in the December quarter.

Moving to analog, our analog business which includes Micrel results was up 4.1% in the December quarter, as compared to the September quarter, and was up 3.6% compared to the year ago quarter. In calendar year 2015, our analog business was up 22.4%, as compared to calendar year 2014. The strong growth and increase in market share in 2015, was the result of our organic growth efforts, as well as the Micrel acquisition.

Our analog business represented 31.2% of Microchip s overall revenue in the December quarter, the highest percentage of our total revenue it has ever been. To put the size of our analog business in perspective, in the December quarter, Microchip s analog business alone, was almost the same size as all of Microchip was in the March quarter of 2009. And at an almost $700 million annual revenue run rate, it is emerging as one of the larger analog franchises serving the embedded control market. We continue to develop and introduce a wide range of innovative and proprietary new products to fuel the future growth of our analog business, complemented by the products added to our portfolio through acquisitions.

Now moving to the memory business. Our memory business which is comprised of our Serial-E Squared memory products, as well as our SuperFlash memory products was down 8.3% in the December quarter, as compared to the September quarter. We continue to run our memory business in a disciplined fashion, that maintains consistently high profitability, enables our licensing business, and serves the microcontroller customers to complete their solutions. Our memory business represented 5% of Microchip s overall revenue in the December quarter. Now let me pass it to Steve for some general comments about our business, as well as our guidance going forward. Steve?

Steve Sanghi - ***Microchip Technology Inc - Chairman & CEO***

Thank you, Ganesh. Today I would like to first comment on the results of the third quarter of FY16, and then provide guidance for the fourth quarter of FY16 including comments on the progress of integration for Micrel. Then I will provide some further commentary on some of the feedback we have received, since the conference call about acquisition of Atmel.

Our December quarter results were strong, amidst a very turbulent macro and semiconductor industry backdrop. The quarterly results and non-GAAP revenue, gross margin percentage, operating expense percentage, and operating profit percentage were all better than the midpoint of our guidance. Additionally, our non-GAAP diluted earnings per share came in at $0.64, which is above the $0.62 to $0.63 upwardly revised guidance we provided in the announcement of our preliminary results on January 19, 2016.

I will now provide guidance for the March 2016 quarter. We believe that our business has stabilized, and that the majority of the inventory correction is behind us. The March quarter is impacted negatively by the Chinese New Year holidays in Asia, but it also was the strongest quarter of the year for Microchip in Europe. Based on our analysis of economic and semiconductor industry conditions, as well as our own business indicators, we are guiding the March quarter non-GAAP net sales to be between flat to up 3% sequentially.

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We expect non-GAAP gross margin to be between 57.9% and 58.1% of sales. We expect non-GAAP operating expenses to be between 27.3% and 27.9% of sales, and we expect the non-GAAP operating profit to be between 30% and 30.8% of sales. We expect non-GAAP earnings per share to be $0.65 to $0.69 per share.

Now let me provide you with an update on the integration of Micrel. The integration continues to progress as planned. There were seven main elements of integration we had defined.

Five of them are complete, which are number one, financial and business systems consolidation, number two, consolidation of Micrel s wafer fab starts planning, number three, integration of sales force, rep, and distribution network, number four, integration of product lines and R&D activities, and number five, integration of human resources systems, equity plans, 401(k), medical benefit, bonus plans, et cetera. The remaining two areas which are progressing well, but are not complete yet are number one, the closure of Micrel s San Jose fab which is on schedule for August 2016. And number two, the integration of backend operational systems which also remain on schedule for August of 2016.

With this, let me now provide guidance for accretion from the acquisition of Micrel. Micrel acquisition was about $[0.007] accretive in the September quarter, and was $[0.038] accretive in the December quarter to non-GAAP EPS. This accretion will continue to increase, and we now believe that we will achieve $0.30 of EPS accretion run rate from Micrel by the end of FY17. This is up from $0.25 accretion target that we provided in the prior conference calls. These numbers depend upon the speed of integration efforts, and the health of the underlying economy in general.

Now some update about Atmel. I have visited Atmel headquarter location in San Jose, and fab location in Colorado Springs, and held all employee communication meetings, and one-on-one meetings with the executives. Ganesh and I are headed to Europe in mid February to visit Atmel s European locations in France, Germany, Norway, and the UK. We completed the US anti-trust filing last week, and the filings in Germany and Korea are scheduled for next week. We are also targeting the S-4 filing with the Securities and Exchange Commission in about a week. We continue to expect to close this transaction in the second calendar quarter of 2016.

Since the announcement of the Atmel transaction and our conference call on January 19, most of the feedback from investors and analysts has been very positive, that the deal makes sense. However, there are also areas where either we were not sufficiently clear, or investors have further questions. We would like to provide more clarification regarding these concerns today.

The general view that we have heard is, that the current slow growth environment that in the current slow growth environment, investors like the self-help stories that can continue to generate growth, despite the challenging macro environment. We have recently shared with investors Microchip s organic and total growth in the last six years.

To repeat just one metric, from calendar year 2009 to calendar year 2015, Microchip s organic compounded annual growth rate has been 8.3% per year, and the total compounded annual growth including acquisitions has been 17.3% per year. Investors have commented that our management team has the best chance of turning around Atmel and making them successful.

Now let us go into some of the concerns that investors and analysts have raised. First is leverage. Investors have raised the concern that the Atmel acquisition increases Microchip s debt to EBITDA leverage quite a bit, and understandably have questions about the cash cushion, and potential risk to the dividend. We have said in the conference call, that after the stock buyback, our senior debt to EBITDA leverage will be 2.7, and our total leverage will be 4.5.

We would like to point out that these numbers are before synergies. Once you factor in synergies, consistent with what companies like NXP and Avago have done in their [quoted] leverage numbers, we expect our debt to EBITDA leverage to drop rapidly as follows. After the first year, the senior leverage will drop from 2.7 to 2.3, and the total leverage will drop from 4.5 to 4.

After two years, the senior leverage drops to 1.9, and total leverage drops to 3.4. And after three years, the senior leverage will drop to 1.7, and the total leverage will drop to 3.1. As you can see, as you can clearly see, our debt to EBITDA leverage drops rapidly over the first three years, after the close of the Atmel acquisition. Additionally, Microchip s management and the Board is fully committed to the dividend, and does not see any risk to the dividend.

The second question that has been raised is multiple architectures. We receive this question at the last conference call also, but we have continued to receive follow-on question about this. The comment from investors has been that Microchip in the past has been dismissive of the ARM architecture, so what has changed now?

When Microchip was dismissive of the ARM architecture, it was in response to investors question about replacing our PIC32 architecture which is MIPS-based. In that regard, nothing has changed. We continue to hear from distributors and our customers that ARM has commoditized this market, and Microchip s PIC32 based solutions are differentiated, and superior products in the marketplace. Therefore, Microchip has no plans to shelve one or the other architecture. We will be the only company that will have ARM architecture when the customer demands an ARM solution, and we will have PIC32 when we can sell a differentiated solution, like we have been doing for several years.

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By the way, Atmel does not consider its ARM based products to be a commodity, nor do any of the other suppliers who are also trying to differentiate their products using different peripherals. This is consistent with what we have been saying for years, that it is not about the core, it s about the total solution. Atmel s ARM 32 based products and Microchip s PIC32 products are both successful in their own right, and we believe have strong ecosystems and market momentum to continue to be successful.

As far as AVR and PIC are concerned, at the 8-bit architecture level, these are both very mature solutions, with fully-developed product portfolios, development tools and ecosystems, and they can continue to co-exist. There are PIC head engineers who like PICs, and there are AVR freaks, a group on the web who like AVR. We cannot disappoint either, and we ll continue to support both of these groups.

But as we mentioned during our conference call we do expect to find synergies, by not having to duplicate the investment in IP building blocks that make up our microcontrollers. We believe that the investors are making the same mistake that they made when they believed that SMSC s vertical product lines in automotive and personal computer business was an issue for us, because we were based on horizontal market end sales. Investors have routinely underestimated Microchip s management s ability to transform the Company s organization and resources, to take on the challenge at hand.

The third question raised has been revenue dissynergies. Investors believe that not all of Atmel s product lines will meet Microchip s margin criteria, and some segments will be exited or divested. Investors have pointed to our attempt to purchase Atmel in 2008, when we were going to divest a couple segments to ON Semiconductor.

While in 2008, Microchip was planning to sell the memory business and automotive business to ON Semiconductor. I must point out, that while the memory business was a lower margin business for Atmel at that time, the primary reason for Microchip to divest those two businesses was affordability, not the margin. ON Semiconductor was going to bring $1 billion of cash into the deal. Without that, Microchip could not afford to buy Atmel at the size Microchip was then. Since then, Microchip has grown tremendously, and with a large market capitalization. Today, we can afford the entire Atmel business ourselves.

Secondly, Atmel has divested many of the low margin businesses, namely smart card, serial flash memory business and some others. Today, we see only 5% of Atmel business that is in mobile consumer electronics touch segment, and that is a very low gross margin. We believe that there are significant positive synergies in this acquisition to easily override any potential negative synergy out of this 5% business, which has declined very significantly already under Atmel s clock.

Fourth question raised has been dissynergies through multi-sourcing. There seems to be a misconception that both Microchip and Atmel microcontrollers are designed into the same socket and therefore, there will be some dissynergy. We do not understand this concern. Due to different architectures, Microchip s and Atmel s microcontrollers are never designed into the same socket.

There is also a concern that distributors will not sell a broad portfolio. We don t understand that either. If that line of thinking was to be true, then distributors should give all of Texas Instruments business to me, as they have a much broader portfolio than we do.

Microchip and Atmel combined will do approximately $2 billion through the distribution channel. The combined product lines of Microchip and Atmel will be one of the most sought-after broad-based product line, with multiple

opportunities for distribution, for attaching analog, Wi-Fi, Bluetooth, memory, USB, ethernet, timing products and others.

The fifth concern raised has been our target is $0.33 accretion in FY17, and then $0.90 in FY19. This bridge is somewhat misunderstood, so let me clarify that. Let me first remind you about the accretion numbers again. There are $0.33 in FY17, $0.67 in FY18, and $0.90 in FY19.

The accretion is coming from three factors. First, the operating expense reduction, second, the gross margin improvement, and third, the revenue growth. The operating expense reduction is not a one years job. Because of the size of the transaction, we believe it will be a continuous effort over a three year period to rationalize the R&D, as well as SG&A expenses, and bring them into Microchip s cost structure.

The gross margin improvement is also gradual, through improvement of manufacturing efficiency, as well as higher and lower emphasis on product lines based on their gross margin. And then, there will be revenue synergy also contributing to the EPS synergy. Atmel s revenue has been declining for the last five years, as they have restructured out of the very large touch business, and they also sold the serial flash business to a company called Adesto.

We are confident that Atmel s revenue will bottom in the first half of 2016, and then grow afterwards. We also see a significant opportunity to attach analog and other connectivity products to Atmel s microcontrollers like we have been successful with Microchip s microcontrollers. In fact, I see the analog attach opportunities, with Atmel s microcontrollers to be a bonanza for our analog business. The combination of all these factors builds the accretion from $0.33 in FY17, to $0.67 in FY18, to $0.90 in FY19.

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The final concern we have heard about is the size of the deal. Microchip has been successful in smaller deals, can we duplicate that success with this larger deal? Now I must say, that we heard this concern when we bought SMSC also. SMSC was 4 times larger than any deal we had done prior to that.

Microchip today is a $2.2 billion company, and is capable of taking on a larger acquisition, compared to what we could do a few years ago. Atmel s business is also quite familiar to us, which was unlike the case with SST, SMSC, et cetera. As I said before, Microchip management is capable of transforming its organization, resources, and strategy to meet the challenges of a given time.

Just today, we announced the promotion of Ganesh Moorthy to President and COO. In addition to Ganesh deserving of the promotion, it is also a recognition of the fact that we are taking on an acquisition that s about 47% of our own size. And it will require Ganesh and I both, to manage this enterprise with all of the travel involved worldwide. We are also adjusting the organization below us to adapt to this new reality.

Microchip is an incredible executive development machine. You may not know this, but Microchip has not hired a VP level person from outside the Company for over 15 years, although we have gained some VPs through our acquisitions. Through training, mentoring, and developing, we have groomed our own executives that have replaced some of the retirements that have taken place, as well as provided the leadership bandwidth required to effectively manage the growth that we have experienced.

You can not imagine, the familiarity, understanding, cohesiveness, speed of execution, and constancy of purpose, that it builds in the organization. This culture has been one of the hallmarks of our success. We have been able to extend this culture to our many acquisitions, and we believe that we will be able to achieve the same with Atmel. I hope that it alleviates some of your concerns.

In closing, I would like to say the December quarter marks the bottom for us for this correction, and we are expecting a low single-digit sequential growth in the March quarter. Beyond the March quarter, we get into two back-to-back seasonally stronger quarters for Microchip. These quarters beyond organic growth, will also have incremental accretion from the restructuring of Micrel. And these quarters will begin to have accretion from the closing of the Atmel transaction. This triple effect coming from organic growth, accretion from Micrel, and accretion from Atmel will set up the earnings growth momentum that we expect will lead us to a 23% non-GAAP EPS growth from FY16 to FY17. With this, operator, will you please poll for questions?

QUESTION AND ANSWER

Operator

(Operator Instructions)

We will go first to Vivek Ayra at Bank of America.

Vivek Ayra - *BofA Merrill Lynch - Analyst*

Thank you for taking my question, and congratulations on the good execution. Steve, you mentioned March as seasonal, and I think you said China down, and I believe Europe, and perhaps US up. Given that you have exposure to such a large range of customers, what are you hearing from your customers, just in terms of your specific demand environment? Do you think it appears normal, or do you think that in way it s [worser,] what you would have thought entering this year? Thank you.

Steve Sanghi - *Microchip Technology Inc - Chairman & CEO*

The demand environment in US and Europe is about normal. The demand environment in China has been weaker than normal, but we were the first ones to call the weakness in China, which the industry has been experiencing for some time now. And we have modeled that weakness of China, and especially also because of the Chinese New Year into our guidance, that we have provided today.

Vivek Ayra - *BofA Merrill Lynch - Analyst*

Got it. And if I can probably squeeze in just a quick follow-up on just your microcontroller segment growth in calendar 2015. I think you mentioned you gained share, and I assume that they were likely tailwinds from IoT and auto and other area. But then how do we explain the sales actually being down somewhat year-on-year? Was it an inventory issue, was it a geographic issue? Like one should have expected your sales to grow, if you were gaining share, and you had tail winds from a number of these new secular growth segments? Thank you.

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Steve Sanghi - *Microchip Technology Inc - Chairman & CEO*

Well, that depends on what total number was for microcontrollers. As we have monitored the numbers and earnings report coming out from various other companies, the microcontrollers have been down significantly. So I think, once the DataCore numbers come out, Gartner data come out, you can see what has happened to the market share.

We have tracked our performance against the [SIA] which come out more routinely, and we have shown it to you at certain conferences, and the graph has looked up and to the right, where we have been gaining share. Now gaining share, doesn t necessarily mean that the total numbers are up a year-over-year. You could gain share with flat or 1% down business, if the industry shrunk more than that.

Vivek Ayra - *BofA Merrill Lynch - Analyst*

I see. Thank you.

Operator

The next question comes from Harlan Sur at JPMorgan.

Harlan Sur - *JPMorgan - Analyst*

Good afternoon. Thanks for taking my question, and Ganesh, congratulations on the promotion. On the $0.05 more of accretion you re targeting on an annualized basis exiting FY17, just wondering is that better synergies on the COGS side, or OpEx side or combination of both?

Steve Sanghi - *Microchip Technology Inc - Chairman & CEO*

It s combination of three factors, better synergies on the OpEx, better synergies on the gross margin that we can now anticipate as we are gaining closer to closing the fab. And we are also seeing significant revenue synergies, as we have really taken their product line to our distribution and broad-based to direct customers, we re seeing we re modeling some revenue synergies also. So $0.05 is a small difference, but it s not that small either $0.05 would be $11 million, $12 million on an annualized basis. And that s how much better we re seeing Micrel today than just a quarter ago.

Harlan Sur - ***JPMorgan - Analyst***

Great. Thanks for the insights there, Steve. And then, automotive was relative bright spot in the December quarter. I think we saw the SARs number had a pretty strong snapback. I think, you called it a relatively bright spot in your business last quarter. How do you see your broad automotive end markets trending here in the March quarter?

Steve Sanghi - ***Microchip Technology Inc - Chairman & CEO***

Ganesh?

Ganesh Moorthy - ***Microchip Technology Inc - President & COO***

Automotive was strong, as you noted in the December quarter, and it continues to be a stronger segment than some of the other ones. It s consistent with what you ve seen in the other reports about automotive. It remains one of the more resilient market segments, even in the broad-based weakness.

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Harlan Sur - ***JPMorgan - Analyst***

Thank you.

Operator

The next question comes from John Pitzer at Credit Suisse.

John Pitzer - ***Credit Suisse - Analyst***

Yes, good afternoon, guys. Thanks for letting me ask a question. Ganesh, let me pass along my congratulations as well. Guys, you did a good job in December quarter, taking inventory down. In the press release, you talk about growing inventory in the March quarter. And Steve, I wonder if you could just help me understand, is that kind of normal seasonal? Or is that sort of a harbinger of your expectations for demand, as you look beyond March? Give me the explanation behind the inventory going back up in the March quarter?

Eric Bjornholt - ***Microchip Technology Inc - VP & CFO***

Okay. So John, this is Eric. So we had some extended shutdowns in the December quarter in our wafer fab, that aren t going to repeat in the March quarter. And that s the biggest change that s happened quarter-on-quarter.

John Pitzer - ***Credit Suisse - Analyst***

That s helpful. And then, maybe I could sneak another one in. I guess, Steve, depending upon what you assume Micrel did in the December quarter, and is going to do in the March quarter, it does look if you back that out, as if the year-over-year growth for the core business is down anywhere from 6% to 8% in December, and down, again 6% to 8% year-over-year in March, which does seem to be lagging the peers.

Now I know on your prepared comments, you said you feel confident that you re gaining share. I m just hoping maybe you could help elaborate on that? And I think you also put the qualifier in there, in the markets that you address. And so, help me understand, do you think that your served addressable market is growing slower than the overall addressable market for microcontrollers? And that s one of the reasons for the disconnect?

Steve Sanghi - ***Microchip Technology Inc - Chairman & CEO***

I think in trying to calculate those percentages, you re probably highly off on the Micrel revenue. I don t have the numbers in front of me. We could follow it off line. I don t believe your calculations are correct.

John Pitzer - ***Credit Suisse - Analyst***

Okay. Could you just talk to, in general, why you re so confident then, that you are not losing share, that you re actually gaining share, Steve?

Steve Sanghi - ***Microchip Technology Inc - Chairman & CEO***

Well, when we look at, compare our 8-bit, 16-bit, 32-bit against [SIA] numbers, we re confident that we gained share in 8-bit. We gained share in 16-bit, we gained share in 32-bit. And we clearly gained share in analog, because there has been a significant growth in analog. We have declined some in the memory business. We declined in some of the other miscellaneous. When we have acquired these companies, these companies all did some of the foundry business.

Supertex had some foundry business with any companies with this 6-inch fabs, they are underloaded, and they tend to take odds and ends of foundry business, doing some work for other people, which goes on for years because nobody wants to move it. It s kind of a small amount of work. When you close the fab, that part of the business atrophies, because nobody wants to transfer it to another fab.

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Atmel has some foundry business also, Supertex had it, Micrel had it. We put that all in the other, so I think when you look at all that, our core businesses have all done well. You can compare our core business to Atmel. You can compare it to Renesas You can compare it to anybody else. And when the numbers come out from Gartner, we can share that with you.

John Pitzer - *Credit Suisse - Analyst*

Helpful. Thanks, guys.

Steve Sanghi - *Microchip Technology Inc - Chairman & CEO*

I think, other thing John I would say, is that we had largely broken out the organic versus inorganic numbers, based on your request you may recall. I don t think it has helped us. The thing that investors and analysts have to recognize is that these acquisitions are an enormous amount of work.

We take an enormous amount of Microchip executives and our people and our energy to bring these acquisitions, which were underperforming, really doing nothing. Micrel had done 6.7% operating profit in the quarter we bought them, And now their operating profits are approaching 20%, and will be 30% or higher by the time we are done. All that effort would have gone into our business. In many cases, take the case of Micrel, for example. We terminated one of our product, a gigabit ethernet, and we decided to take a gigabit ethernet from Micrel, and market it further, because they were farther along in the development of that product.

So when you really look at it, a year, two year, three years down the line, when you guys the way you interpret organic verse you inorganic, you basically take all the earnings that we have produced, all of the revenue that we have produced, all of the work that we have done, to take these acquisitions which were essentially making no new money, and make hundreds of millions of dollars from these acquisitions, to bring them into 30%-plus operating profit. And you take them out from the top, and say our core business isn t doing well. Well, thank you very much. Operator, the next question?

Operator

We ll go next to Craig Hettenbach at Morgan Stanley.

Craig Hettenbach - *Morgan Stanley - Analyst*

Yes, thank you. Steve, just a question on Atmel. You mentioned that you ll be doing some visits, and you ve met with some of the executives, and toured Colorado. Just as you start to do these meetings, any additional color you d provide, in terms of what you re learning incrementally about the business, and how that fits into the deal?

Steve Sanghi - *Microchip Technology Inc - Chairman & CEO*

Well, we aren t learning much about the business, at this point in time. Atmel is essentially not sharing anything about the business. They still see that anti-trust hasn t cleared, and they still see the business as competitive. We largely, are getting to know the people, we toured the facility. We re learning where people are located. We re starting to formulate some initial thoughts about how we will go about the integration. We have done enough of these, that we know what buttons we have to push, and what we have to do, so we can get there quite quickly. But in the two weeks that have passed, they are not letting us into the business yet.

Craig Hettenbach - *Morgan Stanley - Analyst*

Understood. Just as a follow-up, in terms of kind of being at a bottom here, and you guys had seen some of this first, and then been out in front of it. That said, is there still any kind of variations by different geographies or end markets? Or is from a bookings perspective at this point, is it kind of stable and seasonal?

Steve Sanghi - *Microchip Technology Inc - Chairman & CEO*

Well, yes, I don t have any end market commentary. But from a geography standpoint, there is clearly a distinction. And the world knows at this point in time, that China is weaker than normal, and we are finding that US and Europe to be normal.

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Craig Hettenbach - ***Morgan Stanley - Analyst***

Okay. Thank you.

Operator

The next question comes from Chris Danely at Citi.

Chris Danely - ***JPMorgan - Analyst***

Hey, thanks, guys. Steve, just a question on the China weakness. You said you re baking it into the guidance this quarter. When you talk about the 23% EPS growth in FY17, do you think the China weakness lasts beyond this quarter? And then, if you could just share us your insights as to why or why not, that would be great? Thanks.

Steve Sanghi - ***Microchip Technology Inc - Chairman & CEO***

Well, Chris, I m not going to comment on what the industry will do beyond this quarter. But whatever our assessment of that is baked into when I m talking about 23% EPS growth.

Chris Danely - ***JPMorgan - Analyst***

Got it. Okay. And then, Ganesh, you commented on the automotive end market. To the extent you can, can you just give us your comments on the other sort of main end markets, how they ve been, how they re looking this quarter, perhaps in industrial consumer, et cetera?

Steve Sanghi - *Microchip Technology Inc - Chairman & CEO*

So it s hard to predict exactly what segments are going to do, and how they are going to do in the quarter. Clearly, we can see where the strength is. There s other softness we ve seen in some of the China related mainland China has consumer content that goes with it.

Our PC segment is doing reasonably well, even though I know the macro PC has other issues, because we play in some of the more value-added segments in the office computing, in the server side, some of the PC peripherals and all of that. And so, there s nothing that stands out. I think automotive stands out, because it s relatively strong, compared to the others.

Chris Danely - *JPMorgan - Analyst*

Got it. Thanks a lot, guys.

Operator

We ll go next to William Stein at SunTrust.

William Stein - *SunTrust Robinson Humphrey - Analyst*

Great. Thanks for taking my question. First, I m hoping Steve, you can talk a little bit about, when you highlight the very strong accretion you expect from Atmel, can you talk a bit about how much you expect to come from revenue synergies? And perhaps, highlight how front-end or back-end loaded you anticipate that be?

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Steve Sanghi - ***Microchip Technology Inc - Chairman & CEO***

Well, we did not break the synergies into OpEx, gross margin, and revenue growth, and we are not going to. Some of the work has been done by our knowledge and assessment and experience, and applying cycles of learning of the previous acquisitions. As I said earlier, Atmel management hasn t let us into the business to really do a bottoms-up on product line by product line, cost by cost, wafer by wafer, ASP by ASP.

So it s the analysis is not done at that level. It s done at a more higher level, but our experience shows just look at Micrel, and this is a second or third time third time we have increased the accretion guidance on Micrel. We did the same thing with SMSC. So we think the numbers we have given you are good, but we aren t going to break it down further by the three pieces.

William Stein - ***SunTrust Robinson Humphrey - Analyst***

Understood. Maybe one for Eric. I think you mentioned there was a special income of $5 million in the quarter. Did I hear that right, and can you elaborate as to what that is, and whether it repeats?

Eric Bjornholt - ***Microchip Technology Inc - VP & CFO***

Yes. So it does not repeat. So we had a couple things happen in quarter on the legal front. We had a settlement that brought some income in the Microchip, and there was a couple of settlements that went out, and the net of those was essentially the $5 million.

William Stein - ***SunTrust Robinson Humphrey - Analyst***

Great. Thank you.

Steve Sanghi - ***Microchip Technology Inc - Chairman & CEO***

There they re not in the non-GAAP? Are they in the non-GAAP?

Eric Bjornholt - *Microchip Technology Inc - VP & CFO*

Yes, they are not in the non-GAAP.

Steve Sanghi - *Microchip Technology Inc - Chairman & CEO*

They are not in the non-GAAP. They are only in the GAAP.

William Stein - *SunTrust Robinson Humphrey - Analyst*

Understood. Thank you.

Operator

We ll go next to Chris Caso at Susquehanna Financial Group.

Chris Caso - *Susquehanna Financial Group - Analyst*

Yes, thank you. With respect to Atmel, and just some of the comments that you had made regarding the amount of business, that I guess you d essentially look to keep from that. You talked about 95% of the business, I guess, essentially meeting your margin criteria. Should we gather from that, that as we go forward that those 95% of the business lines you d continue them, and eventually the goal would be to get those up to Microchip margin targets? Is that the right interpretation of what you said there?

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Steve Sanghi - *Microchip Technology Inc - Chairman & CEO*

Well, look at the history of what we have done. The same kind of concerns were raised with SMSC. Did we sell a product line from SMSC? Did we discontinue the PC business? Did we discontinue the other parts of the business? This question is raised every time.

When we go in, we assess the situation. We look at all the product lines. We see how it maps to our product line, what the margins are? We put higher focus on the product lines which we can grow faster at higher margin. We put less focus on the product lines that have lower margin. And we change the model mix, we change the factory strategy, we shut down factories, we move things around. In every acquisition, we have gotten those results.

Two weeks after announcing the acquisition, and the one, in which basically we ve got very little insight into the company because of competitive factors, compared to any of our acquisitions what why do you guys always assume that the gross margin improvement has to happen, only from discontinuing these product lines? Those pieces have been there before, and they were always wrong. We didn t do that in the prior acquisition, and yet we got them into last quarter, the December quarter, a single quarter, Supertex gross margin was 70%, actual data.

Ganesh Moorthy - *Microchip Technology Inc - President & COO*

Chris, if you look at the January 19 presentation that we put up, when we announced the transaction. I think you ll see what our thought process was, relative to gross margin over time, and expenses over time, as we combine the two companies. And you ll see that there is improvement in all areas that we re planning on.

Chris Caso - *Susquehanna Financial Group - Analyst*

Great. Okay. Just with addressing one of the other things, you had brought up with regard to Atmel as well, and the leverage. Maybe you could speak to how you ve looked at this, perhaps under different macro conditions? And obviously, neither you nor I can predict what the macro does over the next two or three years, but how have you looked at this through a bunch of different market conditions?

I know in the past when we ve hit downturns you ve been able to ramp back OpEx for Microchip, in order to protect EPS. Do you feel the same confidence and the ability to do that on a Microchip with some leverage, as you re in the process of paying down that leverage from the deal?

Steve Sanghi - *Microchip Technology Inc - Chairman & CEO*

Yes, I think the answer to that is yes, and I think I spoke about it in the last conference call. Do you really think a conservative management like Microchip will take on this acquisition and leverage, without doing a real heavy-weight downside analysis? And seeing in there, where the leverage gets to is there any threat to the dividend, what happens to the cash flow, what happens to the capital? Do you think we really would do that?

So trust us, that we did a real bottoms-up analysis. And what happens in every downside is, our capital needs dry up. And we have shared with you before in graphs, that our capital needs are some sustaining, a very small amount of capital is sustaining. But then the rest of the capital is going to growth, new technologies and all that. And what we find is in a down environment, the capital needs dry up. When the capital needs dry up, there s a huge cash flow that comes up, because you don t really have to spend all that money on capital. So yes, we did a downside analysis, and the total leverage metric is 5, and senior leverage hurdle is 3.0. And we don t really get close to those, by taking all those factors into account.

Chris Caso - *Susquehanna Financial Group - Analyst*

All right. Thank you.

Operator

The next question comes from Harsh Kumar at Stephens Investment Banking.

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Harsh Kumar - *Stephens Inc. - Analyst*

Hey, Steve. I wanted to ask you about analog. You talked about it being a bonanza. Could you just tell us about I know the Microchip analog attach rate is very high for its own microcontroller. What is your expectation with Atmel? Do you think you can get a similar level of attach rate with some of their products? Is there anything Atmel makes, that you can leverage through your sales force? Any color would be great?

Steve Sanghi - *Microchip Technology Inc - Chairman & CEO*

Well, Harsh, the answer to that is yes. Where it works is, a customer sits down to lay out their board, and when they choose a microcontroller, they start to write the code, and the analog is fit in later. I need a supervisor. I need an LDO. I think I need an AD converter, I think I need a this and that.

But those are things that you can attach around the microcontroller. And many time, those selections are made many months later. But when a microcontroller manufacturer like us has its own analog so one of the advantage we have is, we can sample all the things the customer needs in their application right away. So when the customer is ready, it s handy already. It s available in front of his eyes. And the attach rate to the Atmel s microcontroller would be very similar. That s the first thing we would do, to take all of their block diagrams worldwide that exist at the customers, and really see whose analog is around?

Harsh Kumar - *Stephens Inc. - Analyst*

Got it. No, very helpful, Steve. And as a follow-up if I can ask you I ve seen you acquire a bunch of companies here in the last seven or eight years. And most of them have been successful, some on the way to that track. When you buy a company, Steve, when you look at a new acquisition, what kind of Op margin goals do you have for them? We ve seen some of the older ones that are done, well into the 30%s. But is there a number or a hurdle rate that you can share with us? Or perhaps even a range or qualitatively even?

Steve Sanghi - *Microchip Technology Inc - Chairman & CEO*

I think, Harsh, I d rather not because, that becomes a model for the next acquisition regarding what I could pay.

Harsh Kumar - *Stephens Inc. - Analyst*

That s fair. Appreciate it.

Operator

We ll take the next question from Rajvindra Gill at Needham & Company.

Rajvindra Gill - *Needham & Company - Analyst*

Yes, thanks for taking my questions. Steve, I was wondering if you could talk a little bit about the IoT strategy going forward, now that you ve acquired Atmel s assets? And can you talk a little bit about what they bring to the table, and what you have with your existing portfolio, and how you think you ll be able to get a generate a competitive advantage with respect to that market?

Steve Sanghi - *Microchip Technology Inc - Chairman & CEO*

As I said the last call, that IoT is really hard to define, what you put in IoT. And a lot of people put their entire microcontrollers in IOT. And if you do that, we ve got well over $1 billion dollars of business. But a very strict definition of IoT would be, really, not counting the microcontroller, but when really the application is really connected on the internet wirelessly, either through Wi-Fi or Bluetooth or whatever. So I mean, our IoT business is approximately twice the size of Atmel s IoT business. Again, somebody could count it differently, how you define it, but counting apples-to-apple. So it grows our business by 50%.

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We had all the functionality. We had the Wi-Fi, the Bluetooth, the BLE. So we had all of the functionality. From that standpoint, we don t really get something new, but when you get a scale 50% larger scale.

And secondly, when you get into individual specs and products, people could argue my product is better and mine is lower power, and mine is larger range, and this and that and that. And the combination of those we re going to get, in some cases, we re better, and in some cases they re better. Together, we will cover more of the market with 50% larger scale.

Ganesh Moorthy - ***Microchip Technology Inc - President & COO***

If I can add to that. I think, the other part of IoT, which is growing is the security of the nodes themselves. And Atmel does have some of the product lines that address that. So you put the two together, it s a more powerful combination than what we had individually.

Rajvindra Gill - ***Needham & Company - Analyst***

And as for my follow-up, in terms of the consolidation that s occurring in the semiconductor industry, how do you look at your competitive positioning now, with the acquisition of Atmel say, vis-a-vis NXPI/Freescale who are also going to have a large portfolio of 8-bit, 32-bit microcontroller assets? Thank you.

Steve Sanghi - ***Microchip Technology Inc - Chairman & CEO***

Well, the way we look at it is, we don t look at any of the acquisition that is a must for us. We have not proceeded any of the past acquisitions we have done, with an eye towards that it s an acquisition that we must do. We have done them, because we found them we were able to get them either at a reasonable price, or we were able to build a model where it would make sense. But you ve seen us walk away from acquisition, like we walked away from CSR. We walked away from many, many others that did not become in the public domain.

We competed with Freescale, when they were multi-billion dollar revenue company, $4 billion or $5 billion revenue company, and Microchip was just a $100 million, $200 million and $500 million and $1 billion. And we have constantly competed, being a much smaller company, whether renesas, with TI, with Freescale, and with STMicro and others.

Scale is important. But just scale for the sake of scale with not good product lines or not good execution and all that. A lot of larger companies have terrible business models. So we didn t do Atmel to compete with NXP or Freescale. We could compete with both of them, individually and together, ourselves fine. We did Atmel for the reasons we have described earlier.

Rajvindra Gill - ***Needham & Company - Analyst***

Thanks for that.

Operator

The next question comes from Kevin Cassidy at Stifel.

Kevin Cassidy - ***Stifel Nicolaus - Analyst***

Thanks for taking my questions, and congratulations, Ganesh. One of the strengths that Microchip has had with your microcontrollers is you had a consistent development tool for 8, 16 and 32-bit. Do you plan on bringing the Atmel products under that same development tool umbrella? Is that possible, or will you be running two separate tools?

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Ganesh Moorthy - ***Microchip Technology Inc - President & COO***

It s early days. Atmel also has a very good development tool environment, that they run for their products. And as we move forward, we will look at other ways for Atmel products to work under the Microchip development tools, other ways for Microchip products to work under the Atmel development tools. There s a lot more to be discovered. And then, when we get to the stage, where we can engage in more detail with them development tools to the engineers are a very touchy subject.

And it s one that it s important for them to feel comfortable, designing our entire portfolio, with what they ve gotten used to. And I think there are ways to slowly over time, build in the ability for each other s products to be fit, underneath the development tools that are available. So more to come on that, but I think both companies have strong development tools. Microchip obviously, has had them over the entire 8, 16, 32-bit portfolio. And Atmel has one for the AVR products, and one for the ARM products. And we ll look for ways to make it, so that design engineers find it sticky, using our development tools.

Kevin Cassidy - ***Stifel Nicolaus - Analyst***

All right. Okay. Great. And I just have a ?

Steve Sanghi - ***Microchip Technology Inc - Chairman & CEO***

Let me add a little bit to it. I just kind of get the feeling here that, investors and analysts have made too much of it. For years, yes, we have had a common development tool, because we could. All these things were developed internally at 8-bit, and 16-bit was an internal architecture. And one of the things, reason part of the reason we also chose MIPS was, because we were able to work with them, in a way that we could bring them into a common development environment. And Microchip tool set, we were able to extend to a MIPS architecture, but no other Company has it.

Freescale has number of development environments, for power PC, for ARM architecture, for their 8-bit product line, 16-bit product line. Atmel has them. They have AVR, they have ARM, a number of other companies have similar, Silicon Labs 8051 for 8-bit, and then it s ARM for 32-bit. So no other Company has it. Those companies aren t dead.

Now true, if we had bought a company with the same architecture, it will be incrementally better. But I think the Street is looking at it, like it s dead. Like it breaks that tool, and then they will see the end of the world. These are highly successful product lines in their own right. At other companies, they have existed with multiple architectures, they can exist under multiple architectures at Microchip.

We already have, we have a ARM development tool that sells products from SMSC. [Roving Networks] had it, so we use other architecture. We use 8051, we use [ARC], we use ARM, but it s predominantly our own architecture.

We will agree with it. But we have already, in the last few years with other smaller acquisitions, already introduced ARM-based products. And if you were taking an ARM-based product that had no momentum, that was nowhere then that would be a formidable challenge to develop it. But it s a successful product line, and so is the AVR 8-bit. So I just think, look at it in that light. And on the ARM itself, for eight years, you guys have hounded us for not having ARM, that it was a negative. Now we have ARM, and somehow it s negative again. You can t have it both ways.

Kevin Cassidy - ***Stifel Nicolaus - Analyst***

Okay. I wasn t taking it as a negative. But what about as we look at their at your automotive business, where are you getting more traction, is it with microcontrollers or analog?

Ganesh Moorthy - ***Microchip Technology Inc - President & COO***

1,177 68

Amortization of deferred financing costs and original issue discount

1,241 52

Stock-based compensation

418

Loss on redemption of senior secured notes

16,629

Change in operating assets and liabilities, net of effect of business acquisitions

Accounts receivable

(19,956) (4,534)

Prepaid expenses and other assets

(15,809) 8,635

Accounts payable

(3,186) 1,564

Accrued expenses

10,486 1,632

Other liabilities

5,938 13,510

Deferred revenue

(2,909) (842)

Net cash (used in) provided by operating activities

(18,904) 25,568

Cash flows from investing activities

Purchases of furniture, fixtures and equipment and capitalized website development costs

(3,123) (1,728)

Cash used in business acquisitions, net

(20,440) (8,000)

Cash paid for acquisition earnouts and contingent liabilities

(576) (13,583)

Restricted cash

2 3

Net cash used in investing activities

(24,137) (23,308)

Cash flows from financing activities

Debt issuance costs

(2,950)

Repurchase of senior secured notes

(117,337)

Proceeds from issuance of stockholder debt

40

Proceeds from issuance of common stock, net of costs

170,319 60

Payments to dissenting stockholders

(61,253)

Net cash (used in) provided by financing activities

(11,221) 100

Effect of exchange rate on cash and cash equivalents

(83)

Net (decrease) increase in cash	(54,345)	2,360
Cash - beginning of period	115,630	77,690
Cash - end of period	$61,285	$80,050

Supplemental disclosures

Cash paid for interest	$23,473	$4,627
Cash refunded for taxes, net of payments	$(314)	$(14,877)

See accompanying notes to condensed consolidated financial statements.

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BANKRATE, INC., AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2011

(Unaudited)

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company

Bankrate, Inc. and subsidiaries (Bankrate or the Company, we, us, our) own and operate an Internet-based consumer banking and personal finance network (Online Network). Our flagship website, Bankrate.com, is one of the Internet s leading aggregators of information on more than 300 financial products and fees, including mortgages, deposits, insurance, credit cards, and other personal finance categories. Additionally, we provide financial applications and information to a network of distribution partners and through national and state publications.

The Company was originally organized under the laws of the State of Florida, however, on April 15, 2011, the Company merged with a newly formed Delaware corporation in order to reincorporate from Florida to Delaware. Upon the consummation of the merger, each outstanding common and preferred share of the Company was converted into an equivalent share of the new Delaware corporation which assumed the name Bankrate, Inc.

On July 2, 2009, Ben Holdings, Inc. (Holdings), a majority owned subsidiary of Ben Holdings S.à r.l, together with Ben Merger Sub, Inc. a Florida Corporation and a wholly owned subsidiary of Holdings (Merger Sub) entered into an agreement and plan of merger (the Acquisition) with Bankrate. As a result, the Company became a wholly owned subsidiary of Holdings. In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 805, *Business Combinations*, the Acquisition was accounted for on August 25, 2009, the date of which Holdings obtained control of the Company.

2011 Recapitalization and Merger

On June 21, 2011, Holdings merged with and into the Company with the Company surviving the merger (2011 Merger). In connection with the 2011 Merger, Holdings underwent an internal recapitalization in which all preferred and common shares of Holdings were exchanged for shares a of single series of common stock of Holdings (the Recapitalization). As a result of the Recpatilization and 2011 Merger, all preferred and common stock (other than restricted stock) of the Company were cancelled and all shares of common stock of Holdings were converted into common stock of the Company. Immediately following the Recapitalization and 2011 Merger, the Company had 87,500,000 shares of common stock issued and outstanding, including 120,135 shares of restricted stock (Recapitalization). The surviving corporation in the 2011 Merger retained the name Bankrate, Inc. The 2011 Merger was accounted for as a common control merger and in a manner similar to a pooling of interests. Accordingly, Holdings and Bankrate were consolidated retroactively to the earliest period presented, using the historical cost basis of each entity. In addition, the Recapitalization has been reflected in these consolidated financial statements as a 21.16 for one stock split of the Company s issued and outstanding common stock. The common stock, per common share, and increase in authorized share amounts in these condensed consolidated financial statements and notes to condensed consolidated financial statements have been presented to retroactively reflect this transaction to the earliest period presented.

In connection with the 2011 Merger and the initial public offering, the Company entered into a Fourth Amended and Restated Stockholders Agreement that provides the Company s existing direct and indirect stockholders with certain rights, including rights of Ben Holdings S.à r.l., a stockholder of the Company, which is, in turn, controlled by Apax US VII, L.P., and Apax Europe VII-A, L.P., Apax Europe VII-B, L.P. and Apax Europe VII-1, L.P. (the Apax VII Funds).

Initial Public Offering

On June 22, 2011, the Company completed its initial public offering (IPO) whereby it and certain of its existing stockholders sold 22,994,455 shares of common stock at a public offering price of $15.00 per share, including 2,994,455 shares sold by certain of its existing stockholders upon the exercise of the underwriters option to purchase additional shares. The Company s shares are traded on the New York Stock Exchange (NYSE) under the symbol RATE. The offer and sale of all of the shares in the IPO were registered under the Securities Act pursuant to a registration statement on Form S-1 (File No. 333-173550), which was declared effective by the SEC on June 16, 2011. Our portion of the net proceeds from the IPO was approximately $170.3 million after deducting underwriting discounts of $11.3 million and offering costs of $5.9

million. In addition, during the three months ended June 30, 2011, we incurred

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BANKRATE, INC., AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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(Unaudited)

costs associated with the IPO and S-4 registration statement in relation to our exchange offer, which included $34.7 million paid to Apax Partners, L.P. for termination of monitoring fees, merger and acquisition advisory services, IPO services for secondary shares, exchange offer advisory services, and other services provided to Bankrate s management. The payment to APAX has been recorded in the following manner; $30.0 million as a part of acquisition, offering and related expenses and related party fees, $3.8 million netted against IPO proceeds and $917,000 to deferred financing costs. We used approximately $123.0 million of the net proceeds from the offering to repay the principal and accrued interest on our Senior Secured Notes (see Note 7). We intend to use the balance of the net proceeds from the offering for working capital and other general corporate purposes, including financing our growth.

As part of the 22,994,455 shares of common stock sold in the IPO, 10,494,455 shares of common stock were sold by certain existing stockholders at a public offering price of $15.00 per share, including 2,994,455 shares sold by the selling stockholders upon the exercise of the underwriters option to purchase additional shares. The Company did not receive any of the proceeds from the sale of such shares by the selling stockholders.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (GAAP) 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 footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for the fair statement of our results have been included. Operating results for the three and six months ended June 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011, for any other interim period or for any other future year.

The condensed consolidated balance sheet at December 31, 2010 has been derived from the audited financial statements at that date, but does not include all of the disclosures required by GAAP. The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company s Prospectus filed with the Securities and Exchange Commission (SEC) on June 17, 2011 pursuant to Rule 424(b) under the Securities Act of 1933.

There have been no significant changes in the Company s accounting policies from those disclosed in its prospectus filed with the SEC on June 17, 2011.

The accompanying condensed consolidated financial statements include the accounts of Bankrate, Inc., NetQuote Holdings, Inc., NetQuote, Inc., *CreditCards.com*, Inc., CCRD Operating Company Inc., *CreditCards.com* Limited (United Kingdom), Freedom Marketing (United Kingdom), and Rate Holding Company (100% owner of Bankrate Information Consulting (Beijing) Co., Ltd.) after elimination of all intercompany accounts and transactions.

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. We believe that the judgments, estimates and assumptions involved in the accounting for income taxes, share based compensation, the allowance for doubtful accounts receivable, useful lives of intangible assets and intangible asset impairment, goodwill impairment, acquisition accounting, and contingencies have the greatest potential impact on our financial statements, so we consider these to be our critical accounting policies. Actual results could differ from those estimates.

Cash and Cash Equivalents

We consider all highly liquid debt investments purchased with an original maturity of less than three months to be cash and cash equivalents. The carrying value of these investments approximates fair value. As of June 30, 2011, our cash and cash equivalents consisted of approximately $5.1 million of U.S. Treasury securities with 30-day maturities, approximately $1.1 million held in British pound sterling, approximately $54.8 million of operating cash subject to the $250,000 FDIC insured deposit limit, and approximately $291,000 held in Renminbi in China.

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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 three months ended June 30, 2011 and 2010, we charged approximately $525,000, and $47,000 to bad debt expense, and wrote off (net of recoveries) $810,000 and $0, respectively, of accounts deemed uncollectible. During the six months ended June 30, 2011 and 2010, we charged approximately $1.2 million, and $68,000 to bad debt expense, and wrote off (net of recoveries) $1.3 million and recovered (net of write offs) $18,000, respectively, of accounts deemed uncollectible.

Intangible Assets

Intangible assets consist primarily of internet domain names and URLs, trademarks, customer relationships, affiliate network relationships and developed technologies acquired in connection with the Acquisition and our subsequent acquisitions in 2011 and 2010 (see Note 8). Intangible assets are being amortized over their estimated useful lives mostly on a straight-line basis.

Intangible asset categories and their estimated useful lives are as follows:

	Estimated Useful Life
Trademarks and URLs	2-25 years
Customer relationships	8-15 years
Affiliate network relationships	1-9 years
Developed technologies	3-6 years

Intangible assets subject to amortization and their weighted average amortization periods were as follows as of June 30, 2011:

($ in thousands)	Cost	Accumulated Amortization	Net	Weighted Average Amortization Period Years
Trademarks and URLs	$ 184,044	$ (12,954)	$ 171,090	20.8
Customer relationships	201,258	(33,440)	167,818	8.8
Affiliate network relationships	12,790	(10,159)	2,631	3.9
Developed technologies	17,483	(5,183)	12,300	4.7
	$ 415,575	$ (61,736)	$ 353,839	13.8

Amortization expense for the three months ended June 30, 2011 and 2010 was $9.9 million and $7.0 million, respectively. Amortization expense for the six months ended June 30, 2011 and 2010 was $19.8 million and $13.7 million, respectively.

Future amortization expense as of June 30, 2011 is expected to be:

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($ in thousands)	**Amortization Expense**
Remainder of 2011	$ 18,703
2012	36,742
2013	35,678
2014	34,406
2015	33,861
Thereafter	194,449
Total expected amortization expense of intangible assets	$ 353,839

Impairment of Long-Lived Assets Including Assets with Finite Lives

ASC 360, *Property, Plant and Equipment*, requires that long-lived assets including intangible assets with finite lives be amortized over their estimated useful life and reviewed for impairment. We continually monitor events and changes in circumstances that could indicate carrying amounts of our long-lived assets including intangible assets with finite lives may not be recoverable. When such events or changes in circumstances occur, we assess the recoverability of such assets by determining whether the carrying value will be recovered through the undiscounted expected future cash flows. If the future undiscounted cash flows are less than the carrying amount of such assets, we recognize an impairment loss based on the excess of the carrying amount over the fair value of the assets. There was no impairment of long-lived assets including intangible assets with finite lives for the six months ended June 30, 2011 and 2010.

Goodwill

In accordance with ASC 350, *Intangibles Goodwill and Other*, we review our goodwill for impairment annually, or more frequently, if facts and circumstances warrant a review, at the reporting unit level. Our annual impairment test is performed as of October 1 of each year. We have determined that we have one segment with one reporting unit. The provisions of ASC 350 require that a two-step test be performed to assess goodwill for impairment. First, the fair value of the reporting unit is compared to its carrying value. If the fair value exceeds the carrying value, goodwill is not impaired and no further testing is performed. The second step is performed if the carrying value exceeds the fair value. The implied fair value of the reporting unit s goodwill must be determined and compared to the carrying value of the goodwill. If the carrying value of a reporting unit s goodwill exceeds its implied value, an impairment loss equal to the difference will be recorded. In determining the fair value of our reporting units, we relied on the Income Approach and the Market Approach. Under the Income Approach, the fair value of a business unit is based on the cash flows it can be expected to generate over its remaining life. The estimated cash flows are converted to their present value equivalent using an appropriate rate of return. The Market Approach utilizes a market comparable method whereby similar publicly traded companies are valued using Market Values of Invested Capital (MVIC) multiples (i.e., MVIC to revenue, MVIC to earnings before interest and taxes, MVIC to cash flow, etc.) and then these MVIC multiples are applied to a company s operating results to arrive at an estimate of value.

Goodwill activity for the six months ended June 30, 2011 and 2010 is shown below:

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($ in thousands)	
Balance, December 31, 2010	$ 559,168
Adjustment during the measurement period relating to acquisition of Net Quote Holdings, Inc.	205
Adjustment during the measurement period relating to acquisition of CreditCards.com, Inc.	5,400
Acquisition of Trouve Media, Inc.	8,562
Acquisition of CarInsuranceQuotes.com	360
Balance, June 30, 2011	$ 573,695

($ in thousands)	
Balance, December 31, 2009	$ 349,749
Acquisition of Bargaineering.com	160
Acquisition of InsuranceQuotes.com	65
Balance, June 30, 2010	$ 349,974

There have been no triggering events during the six months ended June 30, 2011 and 2010 that would require an impairment test during the periods.

Website Development

We account for our website development costs under ASC 350-50, *Intangibles Goodwill and Other Website Development Costs*. ASC 350-50 provides guidance on the accounting for the costs of development of company websites, dividing the website development costs into five stages: (1) the planning stage, during which the business and/or project plan is formulated and functionalities, necessary hardware and technology are determined, (2) the website application and infrastructure development stage, which involves acquiring or developing hardware and software to operate the website, (3) the graphics development stage, during which the initial graphics and layout of each page are designed and coded, (4) the content development stage, during which the information to be presented on the website, which may be either textual or graphical in nature, is developed, and (5) the operating stage, during which training, administration, maintenance and other costs to operate the existing website are incurred. The costs incurred in the website application and infrastructure stage, the graphics development stage and the content development stage are capitalized; all other costs are expensed as incurred. Website development costs are initially recorded in other assets and then transferred to fixed assets upon the completion of the project. We capitalized website development costs totaling $1.3 million and $736,000 for the six months ended June 30, 2011 and 2010, respectively. These amounts are included in other assets in the accompanying condensed consolidated balance sheet as of June 30, 2011 and December 31, 2010.

Basic and Diluted Loss Per Share

We compute basic loss per share by dividing net loss attributable to common stockholders for the period by the weighted average number of shares outstanding for the period. Diluted loss per share includes the effects of dilutive common stock equivalents, consisting of outstanding stock-based awards, unrecognized compensation expense and tax benefits in accordance with *ASC 718, Compensation Stock Compensation*, to the extent the effect is not antidilutive, using the treasury stock method. Since we have a net loss attributable to common stockholders, basic and diluted loss per share are the same for the three months and six months ended June 30, 2011 and 2010.

The following table presents the computation of basic and diluted loss per share:

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($ in thousands, except per share data)	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
Net loss	$ (39,661)	$ (3,742)	$ (34,599)	$ (8,901)
Weighted average common shares and equivalents outstanding for basic and diluted loss per share calculation	89,302,942	58,692,803	88,346,716	57,802,003
Basic and diluted loss per share:				
Basic and diluted	$ (0.44)	$ (0.06)	$ (0.39)	$ (0.15)

Stockholders Equity

The activity in stockholders equity for the six months ended June 30, 2011 is shown below:

($ and shares in thousands)	Common Stock Shares	Common Stock Amount	Additional paid-in capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders Equity
Balance at December 31, 2010	87,380	$ 874	$ 657,095	$ (31,173)	$ (740)	$ 626,056
Foreign currency translation, net of taxes					189	189
Restricted stock issued	120	1	(1)			
Common stock issued	12,500	125	170,194			170,319
Stock compensation			418			418
Net loss				(34,599)		(34,599)
Balance at June 30, 2011	100,000	1,000	827,706	(65,772)	(551)	762,383

Deferred Financing Costs

In connection with the issuance of the Intercompany Note in 2009 (Note 6), the Company incurred deferred financing costs of $526,000 related to the issuance of the $222.0 million note payable to Holdings which are amortized to interest expense using a method which approximates the effective interest method over the term of the related debt.

In connection with the issuance of the Senior Secured Notes in 2010 (Note 7), the Company incurred $11.6 million in underwriting fees that have been classified as deferred financing costs related to the issuance of the Senior Secured Notes, which are amortized to interest expense using a method which approximates the effective interest method over the term of the related debt.

In connection with the issuance of the revolving credit facilities in an aggregate amount of $100.0 million in June 2011 (Note 7), the Company incurred $3.0 million in bank and legal fees. These fees have been classified as deferred financing costs and are being amortized to interest expense using a straightline method over the term of the credit facilities.

During the three months ended June 30, 2011 and 2010, we amortized $505,000 and $26,000 respectively in deferred financing costs. During the six months ended June 30, 2011 and 2010, we amortized $1.0 million and $52,000 respectively in deferred financing costs. In addition, the

Company expensed approximately $3.5 million of deferred financing cost in June 2011 as a result of the redemption of $105.0 million aggregate principal amount of outstanding Senior Secured Notes, which is included in loss on redemption of senior secured notes on the accompanying condensed consolidated statements of operations. At June 30, 2011, deferred financing costs had a balance of $9.3 million and are included in other assets on the accompanying condensed consolidated balance sheet.

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Stock Based Compensation

We account for stock-based compensation in accordance with ASC 718, *Compensation Stock Compensation*. Under the fair value recognition provisions of ASC 718, 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. See Note 2 for further information regarding our stock-based compensation assumptions and expense.

Income Tax Benefit

We account for income taxes in accordance with ASC 740, *Income Taxes*. Under this method, deferred income taxes are determined based on the estimated future tax effects of differences between the financial statement and tax basis of assets and liabilities given the provisions of enacted tax laws. Deferred income tax provisions and benefits are based on changes to the assets or liabilities from year to year. In providing for deferred taxes, we consider tax regulations of the jurisdictions in which we operate, estimates of future taxable income, and available tax planning strategies. If tax regulations, operating results, or the ability to implement tax-planning strategies varies, adjustments to the carrying value of the deferred tax assets and liabilities may be required. Valuation allowances are based on the more likely than not criteria of ASC 740.

The accounting for uncertain tax positions guidance under ASC 740 requires that we recognize the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. We recognize interest and penalties on uncertain tax positions as a component of income tax expense.

Foreign Currency Translation

Our foreign operations generally use the local currency as their functional currency. Assets and liabilities of these operations are translated at the exchange rates in effect on the balance sheet date. Income statement items are translated at the average exchange rates for the year. The impact of currency fluctuations is recorded in accumulated other comprehensive loss as a currency translation adjustment.

Comprehensive Loss

Comprehensive loss for the three months ended June 30, 2011 is approximately $39.7 million, which includes net loss of approximately $39.7 million and $18,000 loss in foreign currency translation adjustment. Comprehensive loss for the six months ended June 30, 2011 is approximately $34.4 million, which includes net loss of approximately $34.6 million and $189,000 gain in foreign currency translation adjustment. Comprehensive loss is the same as net loss for the three and six months ended June 30, 2010.

Segment Reporting

Through the six months ended June 30, 2011, we operated in one reportable business segment. We evaluate the operating performance of our business as a whole. Our chief operating decision maker (i.e., chief executive officer) reviews financial information presented on a consolidated basis, accompanied by disaggregated information about revenues by type for purposes of allocating resources and evaluating financial performance. There are no business unit managers who are held accountable by our chief operating decision-maker, or anyone else, for operations, operating results, budgeting and strategic planning for levels or components below the consolidated unit level.

Geographic Data

No single country outside of the U.S. accounted for more than 10% of revenue during the three months ended and six months ended June 30, 2011 and 2010. There was one customer that accounted for 13% of net sales during the three months ended June 30, 2011 and no customers accounted for more than 6% of net sales during the three months ended June 30, 2010. There was one customer that accounted for 13% of net sales during the six months ended June 30, 2011 and no customers accounted for more than 7% of net sales during the six months ended June 30, 2010. One customer s accounts receivable balances constituted 20%, while a second customer s balance constituted 12%, and a third customer s balance constituted 10% of the accounts receivable balance as of June 30, 2011. One

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customer s accounts receivable balance constituted 15% while a second customer s balance constituted 10% of the accounts receivable balance as of December 31, 2010.

Revenue and long-lived assets related to the U.S. and international operations and revenue by type for the three months and six months ended June 30, 2011 and 2010 are as follows:

	Three months ended		Six months ended	
($ in thousands)	**June 30, 2011**	**June 30, 2010**	**June 30, 2011**	**June 30, 2010**
Revenue:				
USA	$ 96,488	$ 38,224	$ 193,358	$ 72,669
International	1,961	33	4,169	48
	$ 98,449	$ 38,257	$ 197,527	$ 72,717
Revenue:				
Online	$ 96,432	$ 36,643	$ 193,377	$ 69,443
Print	2,017	1,614	4,150	3,274
	$ 98,449	$ 38,257	$ 197,527	$ 72,717

	June 30, 2011	**December 31, 2010**
Long lived assets:		
USA	$ 930,378	$ 928,411
International	4,536	4,580
Balance, end of period	$ 934,914	$ 932,991

Fair Value Measurement

The carrying amounts of cash, accounts receivable, accrued interest, and accounts payable approximate estimated fair value. The U.S. Treasury securities are measured using quoted market prices available on active markets. In measuring the fair value of the Senior Secured Notes, the Company used market information. These estimates require considerable judgment in interpreting market data, and changes in assumptions or estimation methods could significantly affect the fair value estimates.

The following table presents estimated fair value, and related carrying amounts, as of June 30, 2011 and December 31, 2010:

($ in thousands)	June 30, 2011 Carrying Amount	June 30, 2011 Estimated Fair Value	December 31, 2010 Carrying Amount	December 31, 2010 Estimated Fair Value
Financial Assets:				
Cash and cash equivalents	$ 61,285	$ 61,285	$ 115,630	$ 115,630
Accounts Receivable	$ 61,510	$ 61,510	$ 42,731	$ 42,731
Financial Liabilities:				
Revolving Credit Facility	$	$	$	$
Senior Secured Notes	$ 193,463	$ 223,275	$ 297,417	$ 331,500
Accrued Interest	$ 10,565	$ 10,565	$ 16,393	$ 16,393

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Recent Accounting Pronouncements

Recently Adopted Pronouncements

In January 2010, the FASB issued Accounting Standards Update (ASU) 2010-06, *Improving Disclosures about Fair Value Measurements (Topic 820) Fair Value Measurements and Disclosures*, to add additional disclosures about the different classes of assets and liabilities measured at fair value, the valuation techniques and inputs used, the activity in Level 3 fair value measurements, and the transfers between Levels 1, 2, and 3. The new disclosures and clarifications of existing disclosures are effective for annual or interim reporting periods beginning after December 15, 2009, except for the requirement to provide the Level 3 activity. Those disclosures are effective for fiscal years beginning after December 15, 2010. The implementation of ASU 2010-06 relative to Level 3 investments did not have a material impact on the Company s condensed consolidated financial statements.

In October 2009, the FASB issued ASU 2009-13 (an update to ASC 605-25), *Revenue Recognition: Multiple-Element Arrangements,* which is effective for annual periods beginning on or after June 15, 2010; however, early adoption is permitted. In arrangements with multiple deliverables, ASU 2009-13 permits entities to use management s best estimate of selling price to value individual deliverables when those deliverables have never been sold separately or when third-party evidence is not available. In addition, any discounts provided in multiple-element arrangements will be allocated on the basis of the relative selling price of each deliverable. The adoption of ASU 2009-13 did not have a material impact on the Company s condensed consolidated financial statements.

In December 2010, the FASB issued ASU 2010-28, *Intangibles - Goodwill and Other (Topic 350) - When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts*. ASU 2010-28 modifies Step 1 of the goodwill impairment test so that for those reporting units with zero or negative carrying amounts, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not based on an assessment of qualitative indicators that a goodwill impairment exists. In determining whether it is more likely than not that goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. ASU 2010-28 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The adoption of ASU 2010-28 did not have a material impact on the Company s condensed consolidated financial statements.

In December 2010, the FASB issued ASU 2010-29, *Disclosure of Supplementary Pro Forma Information for Business Combinations*, *(ASC Topic 805, Business Combinations).* The amendments in this update specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments in this update are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The adoption of ASU 2010-29 did not have a material impact on the Company s condensed consolidated financial statements.

Accounting Pronouncements to be adopted in the future

In May 2011, the FASB issued ASU 2011-04, *Fair value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and IFRS s.* ASU 2011-04 amends Topic 820, Fair Value Measurement to change the wording used to describe the requirements in GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments include wording changes that clarify the FASB s intent about the application of existing fair value measurement and disclosure requirements and those that change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The amendments are effective during interim and annual periods beginning after December 15, 2011. The adoption of ASU 211-04 is not expected to have a material impact on the Company s condensed consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. ASU 2011-05 amends Topic 220, Comprehensive Income, to give an entity the option for presenting the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The amendment in this update is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and should be applied retrospectively. The adoption of ASU 2011-05 is not expected to have a material impact on the Company s condensed consolidated financial statements.

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NOTE 2 STOCK BASED COMPENSATION

In June 2011, the Company established a stock based compensation program to grant stock based awards for up to 12,120,000 shares of our common stock. Our stock based program is a long-term retention program that is intended to attract, retain and provide incentives for directors, officers and employees in the form of non-qualified stock options and restricted stock (the 2011 Plan). Under the 2011 Plan, the Board of Directors or its delegate has the sole authority to determine who receives such grants, the type, size and timing of such grants, and to specify the terms of any non-competition agreements relating to the grants. The purpose of the 2011 Plan is to advance our interests by providing eligible participants in the Plan with the opportunity to receive equity-based or cash incentive awards, thereby aligning their economic interests with those of our stockholders.

The stock based compensation expense for stock options and restricted stock awards recognized in our condensed consolidated statements of operations for the three and six months ended June 30, 2011 is as follows:

($ in thousands)	**Three Months Ended June 30, 2011**	**Six Months Ended June 30, 2011**
Income Statement Classifications		
Cost of revenue	34	34
Other expenses:		
Sales	69	69
Marketing	37	37
Product development	75	75
General and administrative	203	203
Total	$ 418	$ 418

Restricted Stock

Bankrate grants restricted stock, which is valued based on the market price of the common stock on the date of grant. Compensation expense arising from restricted stock grants with cliff vesting is recognized using the straight line method over the vesting period. In June 2011, we awarded 120,135 shares of restricted common stock to employees located throughout the United States. The restricted stock awards cliff vest after the first anniversary of the grant date subject to continued employment through the applicable vesting date.

Stock based compensation expense for the three and six months ended June 30, 2011 included approximately $73,000, related to the restricted stock awards. Additionally, as of June 30, 2011, there was approximately $1.7 million of unrecognized compensation costs adjusted for estimated forfeitures, which will be recognized over a weighted average period of approximately 1 year, related to non-vested restricted stock awards.

Stock Options

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

term of the awards, actual and projected employee stock option exercise behaviors, risk-free interest rates, expected dividends and the estimated forfeiture rate.

We estimated the expected term using the simplified method for all stock options as the Company does not have sufficient historical exercise data. The volatility assumption is based on the historical stock price volatility of peer group of publicly traded companies. The decision to use a weighted average volatility factor was based upon the relatively short period of availability of data on actively traded stock options on our common stock, and our assessment that implied volatility is more representative of future stock price

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trends than historical volatility. We based the risk-free interest rate used in the option pricing model on U.S. Treasury constant maturity issues having remaining terms similar to the expected terms of the stock options. We do not anticipate paying any cash dividends in the foreseeable future and therefore use an expected dividend yield of zero in the option pricing model. We are required to estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. All share-based payment awards are amortized on a straight-line basis over the requisite service periods, which is generally the vesting period.

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

The following table provides the weighted average fair value of the stock options granted during the three and six-month periods ended June 30, 2011 using the Black-Scholes option pricing model together with a description of the weighted average assumptions used to calculate the fair value. Stock options exercisable into 5,000,000 shares were granted during the three and six months ended June 30, 2011. There were no stock options granted during the three and six months ended June 30, 2010.

	Three Months Ended June 30, 2011	Six Months Ended June 30, 2011
Weighted average fair value	$ 6.78	$ 6.78
Expected volatility	53%	53%
Weighted average risk free rate	1.42%	1.42%
Expected lives	4.75 years	4.75 years
Expected dividend yield	0%	0%

Stock based compensation expense for the three and six months ended June 30, 2011 included approximately $345,000, related to the stock option awards. Additionally, as of June 30, 2011, there was approximately $32.8 million of unrecognized compensation costs adjusted for estimated forfeitures, which will be recognized over a weighted average period of approximately 4 years, related to non-vested stock option awards.

The following table sets forth the summary of option activity under our stock option plan for the six months ended June 30, 2011:

	Number of Shares	Price Per Share	Weighted Average Exercise Price	Aggregate Intrinsic Value
Balance, December 31, 2010		$	$	$
Granted	5,000,000	15.00	15.00	
Exercised				
Forfeited				
Expired				
Balance, June 30, 2011	5,000,000	$ 15.00	$ 15.00	$ 7,900,000

The aggregate intrinsic value of stock options outstanding as of June 30, 2011 is calculated as the difference between the market value at June 30, 2011 ($16.58) and the exercise price of the stock options.

Additional information with respect to outstanding stock options as of June 30, 2011, is as follows:

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	Options Outstanding		Options Exercisable			
Prices	**Number of Shares**	**Weighted Average Remaining Contractual Term (Years)**	**Number of Shares**	**Average Exercise Price**	**Weighted Average Remaining Contractual Term (Years)**	**Aggregate Intrinsic Value**
$ 15.00	5,000,000	6.96				$

NOTE 3 INCOME TAXES

The difference between income tax expense computed at the statutory rate and the reported income tax expense is primarily due to non-deductible transaction costs incurred and an increase in the liability for unrecognized tax benefits during the six months ended June 30, 2011.

We have approximately $16.7 million and $5.6 million of unrecognized tax benefits as of June 30, 2011 and December 31, 2010, respectively.

We are subject to income taxes in the U.S. federal jurisdiction, various states, and foreign jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. With few exceptions, we are no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for the years before 2007.

We accrued $56,000 and $112,000 for the payment of interest and penalties for the respective three and six months ended June 30, 2011, which was charged to income tax expense during the respective three and six month periods ended June 30, 2011. We accrued $48,000 and $96,000 for the payment of interest and penalties for the respective three and six months ended June 30, 2010, which was charged to income tax expense during the respective three and six month periods ended June 30, 2010.

Our 2009 Federal income tax return is under examination the Internal Revenue Service (IRS). We have not received any indication from the IRS as to a conclusion for the audit.

NOTE 4 RESTRUCTURING CHARGES

In connection with the acquisition of NetQuote and CreditCards, the Company adopted a restructuring plan to achieve cost synergies. During the six months ended June 30, 2011 and June 30, 2010, the Company terminated one and twenty-one employees, respectively, pursuant to such restructuring plan. Accordingly, during the six months ended June 30, 2011 and 2010, we recorded $238,000 and $660,000 expense for severance-related costs for terminated employees. These costs have been included within restructuring charges in the accompanying condensed consolidated statement of operations. Accrued severance related costs were approximately $362,000 at June 30, 2011 and are included within accrued expenses on the accompanying condensed consolidated balance sheet. The restructuring charges and their utilization are summarized as follows:

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($ in thousands)	**Liability Balance at Beginning of Period**	**Restructuring Charges**	**Utilized**	**Liability Balance at End of Period**
Balance at December 31, 2010	$ 369	$	$	$ 369
One-time termination benefits		238	(245)	(7)
Other associated costs				
Balance at June 30, 2011	$ 369	$ 238	$ (245)	$ 362

($ in thousands)	**Liability Balance at Beginning of Period**	**Restructuring Charges**	**Utilized**	**Liability Balance at End of Period**
Balance at December 31, 2009	$	$	$	$
One-time termination benefits		580	(412)	168
Other associated costs		80	(70)	10
Balance at June 30, 2010	$	$ 660	$ (482)	$ 178

The Company expects to pay the remaining $362,000 within the next six months.

NOTE 5 COMMITMENTS AND CONTINGENCIES

Legal Proceedings

Lower Fees, Inc. Litigation

On or about November 20, 2008, Lower Fees, Inc. (LF) filed in the Circuit Court in and for Palm Beach County, Florida a civil action against the Company, Bankrate s Chief Executive Officer and Chief Financial Officer, alleging fraud in the inducement by the defendants in respect of the Company having entered into an asset purchase agreement with LF dated February 5, 2008 (the Asset Purchase Agreement). Pursuant to the Asset Purchase Agreement, the Company purchased certain assets and assumed certain liabilities of LF and made a cash payment of the consideration specified in the agreement. Following a motion by Bankrate to dismiss the complaint as baseless and failing to state a claim, on March 23, 2009, the court dismissed the complaint, and allowed LF 30 days within which to file an amended complaint. LF filed an amended complaint on April 22, 2009 which was dismissed on October 9, 2009. LF filed another amended complaint on November 6, 2009, which sought relief in the form of rescission of the transaction and attorneys fees and which was dismissed with prejudice on March 23, 2010. On or about April 21, 2010, LF filed a notice of appeal of the court s March 23 order (the Appeal).

On April 30, 2010, LF sent a letter to us (the LF Letter) asking for indemnification under Paragraph 6.3 of the Asset Purchase Agreement for the same alleged misrepresentations it had alleged in its prior complaints in the civil action. The amount the LF Letter claims LF will incur as losses is $8.2 million. The LF Letter also asks for payment of $900,000 and $180,000 to Michael Kratzer, one of the owners of LF, in respect of his former employment with us. On May 14, 2010, we responded to the LF Letter denying the allegations in full.

The parties have filed their briefs in the Appeal and the case is awaiting decision by the appellate court. Oral arguments were heard in July 2011. We will continue to vigorously defend the Appeal and the requests of the LF Letter. We cannot presently estimate the amount of loss, if any, that would result from an adverse resolution of this matter.

On March 9, 2011, LF filed a civil action against the Company styled: Lower Fees, Inc., Plaintiff, vs. Bankrate, Inc., Defendant, in the Circuit Court of the Fifteen Judicial Circuit in and for Palm Beach County (the New LF Lawsuit). In the New LF Lawsuit, LF alleges that the Company breached a duty of good faith to operate a website transferred under the Asset Purchase Agreement to generate revenues that would have resulted in the Company having to pay LF certain earn-out payments under the Asset Purchase Agreement. The New LF Lawsuit is in its very early stages. LF seeks relief in the form of unspecified damages suffered, pre-judgment interest, attorneys fees, and costs. The Company will vigorously defend the New Lawsuit and currently intends to file a motion to

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dismiss the New LF Lawsuit. We cannot presently estimate the amount of loss, if any, that would result from an adverse resolution of this matter.

BanxCorp Litigation

On or about July 20, 2007, BanxCorp, an online publisher of rate information provided by financial institutions with respect to various financial products, filed suit against the Company in the United States District Court for the District of New Jersey alleging violations of Federal and New Jersey State antitrust laws, including the Sherman Act and the Clayton Act on the basis of illegal predatory pricing, vendor lock-in, exclusionary product and distribution bundling and tie-in arrangements, anticompetitive acquisitions and market division agreements. In the complaint, BanxCorp seeks injunctive relief, treble damages in an unspecified amount, and attorneys fees and costs. In response to motions by the Company to dismiss for failure to state a claim, the court has three times permitted Banxcorp to file amended complaints, in which Banxcorp has added new causes of action under the Sherman Act, including an allegation that the Company conspired with some 90 online media outlets to fix prices in connection with the publication of certain rate information tables. Following the latest amendment in March 2011, the Company intends to again move to dismiss the amended complaint. We cannot presently estimate the amount of loss, if any, that would result from an adverse resolution of this matter.

Mortgage Grader Lawsuit

In October 2010, an action was commenced in the United States District Court for the Central District of California entitled *Mortgage Grader, Inc. v. Lenderfi, Inc., et al.*, in which Bankrate is one of nine defendants. The complaint alleges that the plaintiff is the owner of a patent relating to a computer-implemented system for enabling borrowers to anonymously shop for loan packages offered by a plurality of lenders and that the patent is being infringed by each of the defendants. The complaint seeks relief in the form of an adjudication of patent infringement, unspecified treble damages together with pre-judgment and post-judgment interest, an injunction prohibiting further infringement, and reasonable attorneys fees and costs. Bankrate has answered the complaint and asserted counterclaims alleging that the patent in question should be invalidated. An initial investigation on the merits of the action has been undertaken and Bankrate denies any liability. Settlement discussions have been initiated between the parties and are ongoing. We cannot presently estimate the amount of loss, if any, that would result from an adverse resolution of this matter.

Bankrate, Inc. Shareholder Litigations

In connection with the announcement of the Bankrate Acquisition, certain persons who were then stockholders of the Company filed a number of lawsuits alleging breach of fiduciary duties and/or seeking appraisal of the fair value of their shares of the Company stock. The lawsuits alleging breach of fiduciary duties were consolidated and, on November 8, 2010, certified as a mandatory, non-opt-out class action (with the exception of one of the parties seeking appraisal, who was ruled not to be part of the class) and settled based on an award of plaintiffs counsel attorneys fees and expenses in the amount of $2.0 million, which was paid on December 8, 2010. One of the appraisal claims was resolved in September 2010 and the remaining claims were resolved in February 2011, on the basis of a per-share valuation equal to that offered in the Bankrate Acquisition. All of these claims are now resolved.

Other Commitments

We have executed employment agreements with 17 senior executives, including Bankrate s President and Chief Executive Officer. Three of the executives employment contracts were modified as a result of the Acquisition. Each employment agreement provides for a minimum annual base salary, an annual bonus contingent on our achieving certain performance criteria, and severance provisions ranging from six months to one year s annual base salary. Under the terms of the employment agreements, the individuals are entitled to receive minimum severance amounts of $3.2 million in the aggregate.

NOTE 6 NOTE PAYABLE TO RELATED PARTIES, EQUITY TRANSACTIONS and 2011 MERGER

At December 31, 2009, long-term debt consisted of $222.0 million of an inter-company note payable to Holdings (Intercompany Note). The Intercompany Note had a maturity date of August 24, 2014. Interest on the Intercompany Note accrued daily on the outstanding principal amount at 14.15% and was payable semi-annually on June 30 and December 31 in cash interest, payment-in-kind (PIK) interest (which is added to the loan principal balance) or in any combination of cash interest and PIK interest, at the

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option of the Company. Interest expense was $0 during the three and six months ended June 30, 2011. Interest expense was approximately $8.0 million and $16.2 million during the three and six months ended June 30, 2010.

In addition, Holdings had a long-term debt of $222.0 million to the equity owners of Ben Holding S.à r.l., the majority owner of Holdings, and certain members of the Company s management, which was borrowed to provide funding for the Acquisition (Shareholder Notes). The notes payable to the Apax VII Funds were issued on August 24, 2009, and the notes payable to certain senior executives and former board members of Bankrate were issued on September 25, 2009. The Shareholder Notes had maturity dates of August 24, 2014. Interest on the Shareholder Notes accrued daily on the outstanding principal amount at 11.75% and are payable semi-annually on June 30 and December 31 in cash. Additional interest on these notes accrued daily on the outstanding principal amount at 2.25% and was payable semi-annually on June 30 and December 31 as cash interest, payments-in-kind (PIK) interest or in any combination of cash interest or PIK interest. Interest expense was $0 for the three and six months ended June 30, 2011, respectively. Interest expense was approximately $7.8 million and $16.0 million for the three and six months ended June 30, 2010, respectively.

In connection with the acquisitions of NetQuote and CreditCards (see Note 8) and the issuance of the Senior Secured Notes, on July 13, 2010 (see Note 7), the parties converted the Shareholder Note and the Intercompany Note into preferred shares of Holdings and of the Company, respectively, by the following steps (the Recapitalization): (i) the Company made a payment to Holdings of unpaid accrued interest on the Intercompany Note of approximately $20.5 million, (ii) Holdings paid such amount to the holders of the Shareholder Notes in satisfaction of all unpaid accrued interest on the Shareholder Notes (the Note Holder Interest), (iii) the equity owner of Ben Holding S.à r.l. contributed their Shareholder Notes plus the Note Holder Interest they received from Holdings to Ben Holding S.à r.l. in exchange for additional equity in Ben Holding S.à r.l., (iv) Ben Holding S.à r.l., together with the members of Company management that hold Shareholder Notes, contributed all of the Shareholders Notes plus all (or 30% in the case of Company management), of the Note Holder Interest to Holdings in exchange for a principal amount of approximately $244.3 million of newly-issued preferred stock of Holdings (the Holdings Preferred Stock), and (v) Holdings contributed the Intercompany Note, together with the cash received in respect of Note Holder Interest by Holdings in step (iv), to the Company in exchange for newly-issued preferred stock of the Company (the Company Preferred Stock). The Company Preferred Stock has a principal amount of approximately $244.7 million (representing the sum of the principal amount of and accrued but unpaid interest on the Intercompany Note plus the amount of recontributed Note Holder Interest), had no fixed maturity date, was non-voting, yielded 15.15% per annum, compounded semi-annually, and was entitled, on a preferred basis in relation to the Company s common stock, to receive distributions from the Company or the principal amount thereof plus accrued and unpaid yield thereon (and certain additional amounts in the event of a repayment of the principal amount thereof before August 25, 2013). The Holdings Preferred Stock had terms consistent with the Company Preferred Stock, with the exception that the yield is 15% per annum. For the preferred stock issued, the Company received a return of cash of $19.7 million of the $20.5 million of cash it paid in (i) above.

In connection with the issuance of the Senior Secured Notes (see Note 7), Apax Partners, L.P. and Company management contributed $73.0 million and $6.7 million, respectively, to the capital of BEN Holdings, Inc. in exchange for additional Holdings Preferred Stock with the terms described above and Holdings in turn contributed such amounts to the capital of the Company in exchange for Company common stock.

On June 21, 2011, Holdings merged with and into the Company with the Company surviving the merger and emerging with a new capital structure (2011 Merger). In connection with the 2011 Merger, the Company had an internal recapitalization whereby the Company s 244,706 shares of preferred stock, 4,129,611 shares of common stock and 7,202 shares of restricted stock outstanding were cancelled (other than the restricted stock) and 87,500,000 shares of common stock issued and outstanding including 120,135 shares of restricted stock resulting from the conversion of restricted stock outstanding immediately prior the 2011 Merger. The surviving corporation in the Merger retained the name Bankrate, Inc. The 2011 Merger was accounted for as a common control merger and in a manner similar to a pooling of interests. Accordingly, Holdings and Bankrate were consolidated retroactively to the earliest period presented, using the historical cost basis of each entity. In addition, the Recapitalization has been reflected in these consolidated financial statements as a 21.16 for one stock split of the Company s issued and outstanding common stock. The common stock, per common share, and increase in authorized share amounts in these condensed consolidated financial statements and notes to condensed consolidated financial statements have been presented to retroactively reflect this transaction to the earliest period presented.

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NOTE 7 DEBT

Senior Secured Notes

On July 13, 2010, the Company issued $300.0 million aggregate principal amount of 11 3/4 % Senior Secured Notes (Senior Secured Notes) due July 15, 2015 at an offering price of 99.077% with an original issue discount of $2.8 million. Interest on the Senior Secured Notes accrued daily on the outstanding principal amount at 11 3/4 % and is payable semi-annually, in arrears, on July 15 and January 15, beginning on January 15, 2011, in cash. The net proceeds of approximately $286.9 million were used to fund the acquisitions of NetQuote and CreditCards, pay related fees and expenses and for general corporate purposes. On or after July 15, 2013, the Company may redeem some or all of the Senior Secured Notes at a premium that will decrease over time as set forth in our Indenture, dated as of July 13, 2010, governing its 11 3/4 % Senior Secured Notes due 2015 (the Indenture). Additionally, if the Company experiences a change of control, the holders of the Senior Secured Notes have the right to require the Company to purchase the Senior Secured Notes at a price in cash equal to 101% of the principal amount thereof, together with accrued and unpaid interest, if any, to the date of purchase. The Indenture governing the Senior Secured Notes contains other restrictions and limitations. The Senior Secured Notes are collateralized by all of the Company s assets subject to certain excluded properties.

On June 30, 2011, in accordance with the terms of the Indenture governing the Senior Secured Notes, the Company used approximately $123.0 million of the proceeds from the Initial Public Offering to redeem $105.0 million aggregate principal amount of the outstanding Senior Secured Notes (the Notes Redemption) and to pay interest accrued in the amount of $5.7 million on the portion of the outstanding Senior Secured Notes up to but not including the date of redemption. As a result of the Notes Redemption, the Company incurred charges of approximately $16.6 million in the second quarter of 2011, including charges of approximately $828,000 and $3.5 million for the write-off of unamortized original issue discount and deferred financing cost, respectively, and $12.3 million for the redemption fee. These charges are recorded within loss on redemption of senior secured notes on the accompanying unaudited condensed consolidated statements of operations. The Company had a balance of approximately $193.5 million in Senior Secured Notes, net of amortization as of June 30, 2011 recorded on the accompanying unaudited condensed consolidated balance sheet.

From time to time, depending upon market, pricing and other conditions, as well as on our cash balances and liquidity, we or our affiliates may seek to acquire Senior Secured Notes or other indebtedness of the Company through open market purchases, privately negotiated transactions, tender offers, redemption or otherwise, upon such terms and at such prices as we or our affiliates may determine (or as may be provided for in the Indentures governing the notes), for cash or other consideration. In addition, we have considered and will continue to evaluate potential transactions to reduce net debt, such as debt for debt exchanges and other transactions. There can be no assurance as to which, if any, of these alternatives or combinations thereof we or our affiliates may choose to pursue in the future as the pursuit of any alternative will depend upon numerous factors such as market conditions, our financial performance and the limitations applicable to such transactions under our financing documents.

During the three and six months ended June 30, 2011, the Company amortized $109,000 and $215,000 of original issue discount. At June 30, 2011, the Company had approximately $1.5 million in original issue discounts remaining to be amortized.

For the three and six months ended June 30, 2011, interest expense related to the Senior Secured Notes was $9.5 million and $18.9 million, respectively.

Revolving Credit Facilities

On June 10, 2011, we entered into revolving credit facilities in an aggregate amount of $100.0 million, consisting of two tranches, tranche A for $30.0 million which matures on July 15, 2015 and tranche B for $70.0 million which matures on April 15, 2015. Our obligations under the revolving credit facilities are guaranteed by each direct and indirect, existing and future, domestic restricted subsidiary that guarantees our obligations under the Senior Secured Notes. The obligations under such credit facilities are equally and ratably secured by liens on the same

collateral that secures our Senior Secured Notes (it being understood that upon any enforcement of remedies resulting in the realization of proceeds from such collateral, up to $30.0 million of revolving tranche A loans under the tranche A facility would be paid in full first before applying any such amount to pay the Notes and the tranche B revolving loans under the tranche B credit facility on a pari passu basis). The agreements governing such credit facilities contain terms generally commensurate with issuers of the same debt rating, and our ability to draw down any such credit facilities is subject to certain limitations, including that at the time of and immediately after giving effect to such drawing and the application proceeds thereof the Consolidated Secured Debt Ratio (as defined in the revolving credit facilities) on a pro forma basis shall not exceed 3.50:1.00.

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At our election, the interest rate per annum applicable to the loans under the revolving credit facilities is based on a fluctuating rate of interest determined by reference to either (i) a base rate determined by reference to the higher of (a) the prime rate quoted in the print edition of *The Wall Street Journal*, Money Rates Section as the prime rate and (b) the federal funds effective rate plus 0.50%, plus an applicable margin equal to 2.00%, or (ii) a Eurodollar rate determined by reference to LIBOR, adjusted for statutory reserve requirements, plus an applicable margin equal to 3.00%; provided, however, that at any time less than $20,000,000 in aggregate principal amount of loans are drawn under the tranche A credit facility, the applicable margin with respect to loans under the tranche B credit facility at the base rate will be 2.25% and the applicable margin with respect to loans under the tranche B credit facility at the Eurodollar rate will be 3.25%.

Interest accrues daily and is payable in arrears for both base rate and Eurodollar loans. For base rate loans, interest is payable on the last business day of March, June, September and December. For Eurodollar loans interest is payable on electable periods of one, two, three or six months (or, if each affected lender so agrees, nine or twelve months). There were no amounts outstanding under the revolving credit facilities as of June 30, 2011, nor did the Company incur any interest during the three months ended June 30, 2011.

The Revolving Credit Facilities agreement contains customary financial and other covenants, including maximum consolidated leverage ratio of 4.50:1.00 and in certain instances 4.25:1.00. The company will begin their test of compliance with the maximum consolidated leverage ratio for the period ending September 30, 2011. In addition, the Company is subject to covenants limiting incurrence of debt, liens on properties, investments, loans and advances, mergers and consolidations, asset sales, dividends and transactions with affiliates.

NOTE 8 ACQUISITIONS

Fiscal Year 2011

Acquisition of Trouvé

On January 1, 2011, the Company completed the acquisition of certain assets and liabilities from Trouvé Media Inc., a California corporation, and Scott Schnuck for $12.5 million. This acquisition was made to complement the online publishing business. The Company paid $11.0 million on January 3, 2011 and $1.0 million was placed in escrow to satisfy certain indemnification obligations of Trouvé s shareholders. The Company will pay an additional $500,000 on January 3, 2012. The acquisition is accounted for under the acquisition method of accounting and the results of operations of Trouvé are included in the Company s consolidated results from the acquisition date.

The acquisition was accounted for as a purchase and the results of operations of Trouvé are included in the Company s condensed consolidated results from the acquisition date. We recorded approximately $8.6 million in goodwill, which reflects the adjustments necessary to allocate the purchase price to the fair value of the assets acquired and the liabilities assumed. The goodwill of approximately $8.6 million represents the value that is expected from combining Trouvé with Bankrate to provide buyer-specific synergies to leverage the Bankrate platform to increase revenue, reduce expenses, ultimately leading to increased profits. This type of synergy is not readily available to marketplace participants. We expect goodwill to be amortizable and deductible for income tax purposes. Approximately $3.9 million was recorded as intangible assets consisting of agent relationships for $2.3 million, developed technologies for $1.4 million, and internet domain name for $230,000.

The estimated fair value of assets acquired and liabilities assumed are provisional and are based on the information that was available as of the acquisition date. Measurement period adjustments could reflect new information obtained about facts and circumstances that existed as of the acquisition date. Such changes could be significant. We expect to finalize the valuation and complete the purchase price allocation no later than one-year from the acquisition date.

We determined the fair value of the intangible assets and the resulting goodwill in the purchase price allocations for the acquisitions. These valuations principally use the discounted cash flow methodology and were made concurrent with the effective date of the acquisition. The

weighted average amortization periods for intangible assets recorded in the acquisition are as follows:

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	Years
Trademarks and URLs	5.0
Non-compete agreement	3.0
Affiliate network relationships	9.0
Developed technologies	5.0

Acquisition of CarInsuranceQuotes.com

On May 13, 2011, the Company completed the acquisition of certain assets and liabilities of *CarInsuranceQuotes.com*, LLC, a Delaware limited liability company, for $7.0 million with an additional $1.0 million in potential cash earn-out payments based on achieving certain performance metrics over the period commencing May 13, 2011 and ending May 12, 2012. The fair value of the earn-out arrangement associated with the *CarInsuranceQuotes.com* acquisition was estimated at $860,000. This acquisition was made to complement the online publishing business. The Company paid $7.0 million on May 13, 2011. The acquisition is accounted for under the acquisition method of accounting and the results of operations of *CarInsuranceQuotes.com* are included in the Company s consolidated results from the acquisition date.

The acquisition was accounted for as a purchase and the results of operations of *CarInsuranceQuotes.com* are included in the Company s condensed consolidated results from the acquisition date. We recorded approximately $360,000 in goodwill, which reflects the adjustments necessary to allocate the purchase price to the fair value of the assets acquired and the liabilities assumed. The fair value of the earn-out arrangement associated with the *CarInsuranceQuotes.com*, acquisition was estimated at $860,000 using the income approach incorporating significant inputs not observable in the market (Level 3 inputs under ASC 820). Key assumptions include probability of visitor projections and the use of the risk-free rate as a discount factor, as the risk is reflected in the visitor probability assessment. The range of potential undiscounted payments that the Company could be required to make under the earn-out arrangement was estimated to be between $0 and maximum amount of $1 million. We measured the contingent consideration liability as of June 30, 2011 using currently available facts and circumstances. We expect goodwill to be amortizable and deductible for income tax purposes. Approximately $7.5 million was recorded as intangible asset, all of which, was for the domain name.

The estimated fair value of assets acquired and liabilities assumed are provisional and are based on the information that was available as of the acquisition date. Measurement period adjustments could reflect new information obtained about facts and circumstances that existed as of the acquisition date. Such changes could be significant. We expect to finalize the valuation and complete the purchase price allocation no later than one-year from the acquisition date.

We determined the fair value of the intangible asset and the resulting goodwill in the purchase price allocation for the acquisition. These valuations principally use the discounted cash flow methodology and were made concurrent with the effective date of the acquisition. The amortization period for the domain name is 25 years.

Fiscal Year 2010

Acquisition of Bargaineering.com

On January 29, 2010, the Company completed the acquisition of the website *www.Bargaineering.com* from Jim Wang Enterprises, LLC, a Maryland limited liability company, (Bargaineering), for $3.0 million in cash with an additional $500,000 in potential cash earn-out payments based on achieving certain performance metrics over the period commencing January 29, 2012 and ending January 29, 2013. Bargaineering, based in Columbia, Maryland, operates a blog site that educates consumers about personal finance in the areas of mortgages, banking products and credit cards. This acquisition was made to expand the product lines offered in the online publishing business. The Company paid $2.0 million on February 29, 2010, $500,000 on January 29, 2011 and will pay an additional $500,000 on January 29, 2012. Additional earn out payments of up to $500,000 may be payable as described above.

Results of operations of Bargaineering are included in the Company s consolidated results from the acquisition date. Except for intangible assets, no other assets or liabilities were assumed. Thus, we recorded approximately $290,000 in goodwill, which reflects the adjustments necessary to allocate the purchase price net of intangible assets acquired. We expect goodwill to be amortizable and deductible for income tax purposes. Approximately $2.8 million was recorded as finite-lived intangible assets consisting of Internet

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domain name for $2.7 million and non-compete agreement for $140,000.

The fair value of the earn-out arrangement associated with the Bargaineering acquisition was estimated at $130,000 using the income approach incorporating significant inputs not observable in the market (Level 3 inputs under ASC 820). Key assumptions include probability of visitor projections and the use of the risk-free rate as a discount factor, as the risk is reflected in the visitor probability assessment. The range of potential undiscounted payments that the Company could be required to make under the earn-out arrangement was estimated to be between $0 and maximum amount of $500,000. We remeasured the contingent consideration liability as of June 30, 2011 using currently available facts and circumstances including Bargaineering s 2011 first and second quarter performances, resulting in no increase in the contingent consideration liability.

We determined the fair value of the intangible assets and the resulting goodwill in the purchase price allocations for the acquisitions. These valuations principally use the discounted cash flow methodology and were made concurrent with the effective date of the acquisition. The weighted average amortization periods for intangible assets recorded in the acquisition are as follows:

	Years
Trademarks and URLs	7.0
Non-compete agreement	5.0

Acquisition of InsuranceQuotes.com

On March 31, 2010, the Company acquired certain intangible assets of *InsuranceQuotes.com* Development, LLC, a Delaware limited liability company (InsuranceQuotes), for $6.0 million in cash. InsuranceQuotes, based in Newton, Massachusetts, operates a website that offer consumers competitive insurance rates for auto, home, life, and health. This acquisition was made to complement the online publishing business. The Company paid $5.3 million on March 31, 2010, and $750,000 was placed in escrow to satisfy certain indemnification obligations of InsuranceQuote s shareholders. As of June 30, 2011, no escrow payments have been made.

The results of operations of InsuranceQuotes are included in the Company s consolidated results from the acquisition date. Except for intangible assets, no other assets or liabilities were assumed. We recorded approximately $65,000 in goodwill, which reflects the adjustments necessary to allocate the purchase price to the fair value of the intangible assets acquired. We expect goodwill to be amortizable and deductible for income tax purposes. Approximately $5.9 million was recorded as intangible assets consisting of Internet domain name for $5.9 million, non-compete agreement for $20,000 and Internet content for $15,000.

We determined the fair value of the intangible assets and the resulting goodwill in the purchase price allocations for the acquisitions. These valuations principally use the discounted cash flow methodology and were made concurrent with the effective date of the acquisition. The weighted average amortization periods for intangible assets recorded in the acquisition are as follows:

	Years
Trademarks and URLs	20.0
Non-compete agreement	3.0
Content	2.0

Acquisition of NetQuote.com

On July 13, 2010, the Company completed the stock acquisition of NetQuote Holdings, Inc. (NetQuote), a Delaware corporation, for $202.8 million in cash, net of cash acquired and net of NetQuote s debt and transaction costs. NetQuote, based in Denver, Colorado, operates websites that offer consumers competitive insurance rates for auto, home, life, and health. The Company paid $191.8 million, net of cash acquired, and $11 million was placed in escrow to satisfy certain indemnification obligations of NetQuote s shareholders. As of June 30, 2011, no escrow payments have been made.

This acquisition was made to complement the online publishing business. The results of operations of NetQuote is included in the Company s consolidated results from the acquisition date. We recorded approximately $133.4 million in goodwill, which reflects the adjustments necessary to allocate the purchase price to the fair value of the assets acquired and the liabilities assumed. We expect

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goodwill will not be deductible for income tax purposes. Approximately $92.0 million was recorded as intangible assets consisting of Internet domain name for $40.9 million, customer relationships for $46.0 million, and developed technology for $5.1 million.

The following table presents the January 1, 2011 estimated fair value of assets acquired and liabilities assumed at acquisition date, measurement period adjustments during the six months ended June 30, 2011 and the final adjusted acquisition date fair values as of June 30, 2011.

($ in thousands)	Acquisition Date Estimated Fair Value	Measurement Period Adjustments	Adjusted Acquisition Date Estimated Fair Value
Current assets, net of cash acquired	$ 9,323	$	$ 9,323
Property and equipment, net	3,070		3,070
Intangible assets	92,000		92,000
Goodwill	133,184	205	133,389
Other noncurrent assets	82		82
Current liabilities	(10,386)	445	(9,941)
Deferred tax liability	(18,294)	(650)	(18,944)
Other noncurrent liabilities	(6,184)		(6,184)
Preliminary purchase price	$ 202,795	$	$ 202,795

The measurement period adjustments relate to current assets, goodwill and other noncurrent liabilities and are due to a change in the valuation of receivables and deferred tax liabilities.

The Company has adjusted the provisional amounts at December 31, 2010 that were recognized at the acquisition dates to reflect new information obtained about facts and circumstances that existed as of the acquisition dates that, if known, would have affected the measurement of the amounts recognized as of those dates. Such adjustments resulted in a net increase of $205,000 in goodwill, a decrease of $445,000 to accrued expenses and an increase to deferred income tax liability of $650,000. These amounts were not retrospectively adjusted as of December 31, 2010 as the amounts were not deemed material. The fair values of assets acquired and liabilities assumed have been finalized as of June 30, 2011.

The valuations used to determine the estimated fair value of the intangible assets and the resulting goodwill in the purchase price allocation principally use the discounted cash flow methodology and were made concurrent with the effective date of the acquisition. The weighted average amortization periods for intangible assets recorded in the acquisition are as follows:

	Years
Trademarks and URLs	15.0
Customer relationships	8.3
Developed technologies	3.0

Acquisition of CreditCards.com

On August 6, 2010, the Company completed the stock acquisition of *CreditCards.com*, Inc. (CreditCards), a Delaware corporation, for $143.1 million in cash, net of cash acquired and net of CreditCards debt and transaction costs. CreditCards, based in Austin, Texas, operates websites that offer consumers information on credit cards. The Company paid $135.8 million, net of cash acquired, and $7.3 million was placed in escrow to satisfy certain indemnification obligations of CreditCards shareholders. As of June 30, 2011, no escrow payments have been made.

This acquisition was made to complement the online publishing business. The results of operations of CreditCards is included in the Company s consolidated results from the acquisition date. We recorded approximately $81.2 million in goodwill, which reflects the adjustments necessary to allocate the purchase price to the fair value of the assets acquired and the liabilities assumed. We expect goodwill will not be deductible for income tax purposes. The goodwill of approximately $81.2 million represents the value that is expected from combining CreditCards with Bankrate to provide buyer-specific synergies to leverage the Bankrate platform to increase revenue, reduce expenses, ultimately leading to increased profits. This type of synergy is not readily available to marketplace participants. Approximately $67.8 million was recorded as finite-lived intangible assets consisting of Internet domain name for $26.5 million, customer relationships for $39.4 million, and developed technology for $1.9 million.

BANKRATE, INC., AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2011

(Unaudited)

The following table presents the January 1, 2011 estimated fair value of assets acquired and liabilities assumed at acquisition date, measurement period adjustments during the six months ended June 30, 2011 and the final adjusted acquisition date fair values as of June 30, 2011.

($ in thousands)	**Acquisition Date Estimated Fair Value**	**Measurement Period Adjustments**	**Adjusted Acquisition Date Estimated Fair Value**
Current assets, net of cash acquired	$ 10,445	$	$ 10,445
Property and equipment, net	571		571
Intangible assets	71,900	(4,100)	67,800
Goodwill	75,795	5,400	81,195
Other noncurrent assets	59		59
Current liabilities	(7,676)	292	(7,384)
Deferred tax liability	(6,584)	(1,592)	(8,176)
Other noncurrent liabilities	(1,446)		(1,446)
Preliminary purchase price	$ 143,064	$	$ 143,064

The measurement period adjustments relate to goodwill and intangible assets, other noncurrent assets and current liabilities and are due to changes in working capital and changes in the valuation of deferred tax liabilities.

The Company has adjusted the provisional amounts at December 31, 2010 that were recognized at the acquisition dates to reflect new information obtained about facts and circumstances that existed as of the acquisition dates that, if known, would have affected the measurement of the amounts recognized as of those dates. Such adjustments resulted in a decrease of $4.1 million to intangible assets, an increase of $5.4 million in goodwill, a decrease of $292,000 to accrued expenses and an increase to deferred income tax liability of $1.6 million. These amounts were not retrospectively adjusted as of December 31, 2010 as the amounts were not deemed material. The fair values of assets acquired and liabilities assumed have been finalized as of June 30, 2011.

The valuations used to determine the estimated fair value of the intangible assets and the resulting goodwill in the purchase price allocation principally use the discounted cash flow methodology and were made concurrent with the effective date of the acquisition. The weighted average amortization periods for intangible assets recorded in the acquisition are as follows:

	Years
Trademarks and URLs	20.0
Customer relationships	8.0
Developed technologies	3.0

Acquisition of InfoTrak

On September 30, 2010, the Company acquired certain assets and liabilities of Infotrak National Data Services, a Massachusetts corporation (Infotrak), for $1.6 million in cash. Infotrak, based in Boston, Massachusetts, operates a print publication business with major newspapers in the United States. This acquisition was made to expand the product lines offered in the print publishing business. The Company paid $1.45 million

on September 30, 2010, and $150,000 was placed in escrow to satisfy certain indemnification obligations of Infotrak National Data Services, Inc. s shareholders. As of June 30, 2011, no escrow payments have been made.

The results of operations of Infotrak are included in the Company s consolidated results from the acquisition date. Except for intangible assets, no other assets or liabilities were assumed. Thus, we recorded approximately $285,000 in goodwill, which reflects the adjustments necessary to allocate the purchase price net of intangible assets acquired. We expect goodwill will be deductible for income tax purposes. Approximately $1.3 million was recorded as finite-lived intangible assets consisting of Customer relationships for $680,000, non-compete agreement for $625,000 and trademark for $10,000. The fair value of assets acquired and liabilities assumed have been finalized.

We determined the fair value of the intangible assets and the resulting goodwill in the purchase price allocations for the acquisitions. These valuations principally use the discounted cash flow methodology and were made concurrent with the effective date of the acquisition. The weighted average amortization periods for intangible assets recorded in the acquisition are as follows:

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BANKRATE, INC., AND SUBSIDIARIES

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(Unaudited)

	Years
Customer relationships	13.7
Developed technologies	5.0

Acquisition of CD.com

On October 15, 2010, the Company completed the acquisition of the internet domain name *CD.com* from Rick Latona Auctions, LLC, a Georgia Limited Liability Company for $500,000. This acquisition was made to complement the online publishing business. The results of operations of *CD.com* are included in the Company s consolidated results from the acquisition date. The purchase price allocation resulting in the recording of $500,000 to internet domain name has been finalized.

Acquisition of CreditCards.ca

On November 23, 2010, the Company completed the acquisition of internet domain name *CreditCards.ca* from an Enterprise Analyticals Modeling and Process, LLC, for $650,000. This acquisition was made to complement the online publishing business. The results of operations of *CreditCards.ca* are included in the Company s consolidated results from the acquisition date. The purchase price allocation resulting in the recording of $650,000 to internet domain name has been finalized.

Pro Forma Data

The following unaudited pro forma data summarizes the results of operations for the periods presented as if the acquisitions of NetQuote and CreditCards had been completed on January 1, 2010. The pro forma data give effect to the actual operating results prior to the acquisitions and adjustments to revenue of $1.7 million, cost of revenue of $1.7 million, depreciation and intangible assets amortization of $1.8 million, interest expense of $913,000, and income taxes of $316,000 for the three months ended June 30, 2010. The pro forma data give effect to the actual operating results prior to the acquisitions and adjustments to revenue of $3.6 million, cost of revenue of $3.6 million, depreciation and intangible assets amortization of $3.4 million, interest expense of $1.7 million, and income taxes of $635,000 for the six months ended June 30, 2010. The pro forma data does not give effect to transaction costs related to the acquisitions. These pro forma amounts are not intended to be indicative of the results that would have been actually reported if the acquisitions of NetQuote and CreditCards had occurred on January 1, 2010 or that may be reported in the future.

($ in thousands)	Three months ended June 30, 2010	Six months ended June 30, 2010
Total revenue	$ 75,366	$ 144,869
Income from operations	$ 6,116	$ 10,170
Net loss	$ (1,507)	$ (4,914)
Basic and diluted net loss per share:		
Basic and diluted	$ (0.03)	$ (0.09)

NOTE 9 RELATED PARTY TRANSACTIONS

We previously were party to a material event investment advisory agreement with Apax Partners, L.P. At the closing of the Acquisition on September 25, 2009, we paid a one-time $15.3 million fee to Apax Partners, L.P. In addition, there is a 30 basis point material event investment advisory services fee in an annual amount equal to the equity investment amount payable to Apax Partners, L.P. which were $438,000 and $397,000 for the three months ended June 30, 2011 and 2010, respectively, $883,000 and $844,000 for the six months ended June 30, 2011 and 2010, respectively and have been recorded in acquisition, offering and related costs and related party fees. In addition, as a part of the material event investment advisory agreement, during the three months ended June 30, 2011, we incurred costs associated with the IPO and S-4 registration statement in relation to our exchange offer, which included $34.7 million to Apax Partners, L.P. for termination of monitoring fees, merger and acquisition advisory services, IPO services for secondary shares, exchange offer advisory services, and other services provided to Bankrate s management. The payment to APAX has been recorded in the following manner; $30 million as a part of acquisition, offering and related expenses and related party fees, $3.8 million netted against IPO proceeds and $917,000 to deferred loan fees.

BANKRATE, INC., AND SUBSIDIARIES

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We also paid $27,000 and $32,000 to certain senior executives and certain current and former board members of Bankrate during the three months ended June 30, 2011 and 2010, respectively, and $63,000 and $1.4 million during the six months ended June 30, 2011 and 2010 respectively, which were recorded in acquisition, offering and related expenses and related party fees. In addition, during the three months ended June 30, 2011, the Company paid approximately $3.1 million to certain senior executives and certain current and former board members of Bankrate as a result of the consummation of the IPO. This amount is also recorded in acquisition, offering and related expenses and related party fees on the accompanying condensed consolidated statement of operations.

In connection with its corporate insurance the Company used HUB International, a subsidiary of Apax Partners, L.P. We paid HUB International approximately $120,000 and $126,000 in insurance brokerage fees during the three and six months ended June 30, 2011, respectively, and $0 and $12,000 during the three and six months ended June 30, 2010, respectively.

During the year ended December 31, 2010, the Company leased office space in Memphis, Tennessee from Robert Langdon, a former employee and Scott Langdon, a current employee. The lease terminated on December 31, 2010. During the three and six months ended June 30, 2010, the Company incurred $32,000 and $63,000, respectively in rent expense.

NOTE 10 SUBSEQUENT EVENTS

On August 1, 2011, the Company completed an exchange offer pursuant to which all of the Senior Secured Notes, which were issued without registration under the Securities Act of 1933, as amended (the Securities Act), were exchanged for a new issue of substantially identical notes registered under the Securities Act.

NOTE 11 CONDENSED CONSOLIDATING FINANCIAL STATEMENT INFORMATION

On July 13, 2010, the Company completed an offering of $300 million of 11 $^{3}/4$ % Senior Secured Notes due on July 15, 2015 at an Offering Price of 99.077%. The Senior Secured Notes were sold to qualified institutional buyers in accordance with Rule 144A under the Securities Act or to non-U.S. buyers in accordance with Regulation S under the Securities Act. In connection with the sale of the Senior Secured Notes, the Company entered into a Registration Rights Agreement with the initial purchasers of the Original Notes party thereto, pursuant to which the Company and its Subsidiary Guarantors (as defined below) agreed to file a registration statement with respect to an offer to exchange the Senior Secured Notes for a new issue of substantially identical notes registered under the Securities Act (the Exchange Notes). On June 30, 2011, the Company s Form S-4 Registration Statement for the Exchange Notes filed with the Securities and Exchange Commission became effective, and all of the Original Notes were exchanged for Exchange Notes on August 1, 2011. The Exchange Notes are fully and unconditionally guaranteed on a joint and several senior secured basis by the Company and certain of its wholly-owned domestic subsidiaries (the Subsidiary Guarantors).

The following condensed consolidating financial information, which has been prepared in accordance with the requirements for presentation of Rule 3-10(d) of Regulation S-X promulgated under the Securities Act, presents the condensed consolidating financial information separately for:

(i) Bankrate, Inc., as the issuer of the Senior Secured Notes;

(ii) The Subsidiary Guarantors, on a combined basis, which are 100% owned by Bankrate, Inc., and which are guarantors of the Senior Secured Notes;

(iii) The Company s other subsidiaries on a combined basis, which are not guarantors of the Senior Secured Notes (the Subsidiary Non-Guarantors);

(iv) Consolidating entries and eliminations representing adjustments to:

a. Eliminate intercompany transactions between or among the Company, the Subsidiary Guarantors and the Subsidiary Non-Guarantors and

b. Eliminate the investments in the Company s subsidiaries;

(v) The Company and its subsidiaries on a consolidated basis.

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(Unaudited)

As the Senior Secured Notes were issued during July 2010, prior periods are not presented. As the Subsidiary Guarantors have guaranteed the Senior Secured Notes and have pledged their assets as collateral, the Company has pushed down the recording of the Senior Secured Notes and related interest expense to the Subsidiary Guarantors balance sheet and statement of operations as a non-cash transaction.

Bankrate, Inc. and Subsidiaries

Condensed Consolidating Balance Sheets

As of June 30, 2011

($ in thousands)	**Bankrate, Inc.**	**Guarantor Subsidiary**	**Non-Guarantor Subsidiary**	**Eliminations**	**Consolidated**
Assets					
Cash and cash equivalents	$ 55,615	$ 4,272	$ 1,398	$	$ 61,285
Accounts receivable, net of allowance for doubtful accounts	35,083	30,226	1,890	(5,689)	61,510
Deferred income taxes	14,768	1,554	4		16,326
Prepaid expenses and other current assets	20,643	884	27		21,554
Total current assets	126,109	36,936	3,319	(5,689)	160,675
Furniture, fixtures and equipment, net of accumulated depreciation	3,745	3,225	410		7,380
Intangible assets, net of accumulated amortization	209,417	139,679	4,743		353,839
Goodwill	359,110	214,585			573,695
Other assets	2,625	9,963			12,588
Investment in subsidiary	159,804	285,599		(445,403)	
Total assets	$ 810,810	$ 689,987	$ 8,472	$ (451,092)	$ 1,108,177
Liabilities and Stockholders Equity					
Liabilities					
Accounts payable	$ 4,483	$ 7,874	$ 612	$ (4,590)	$ 8,379
Accrued expenses	23,404	4,689	132	(1,099)	27,126
Acquisition related payables	2,098				2,098
Deferred revenue and customer deposits	1,544	1,932	50		3,526
Accrued interest		10,565			10,565
Other current liabilities	37		7		44
Total current liabilities	31,566	25,060	801	(5,689)	51,738
Deferred income taxes	49,860	32,420	1,266		83,546
Senior Secured Notes, net of unamortized discount		193,463			193,463
Other liabilities	17,001	46			17,047

Total liabilities	98,427	250,989	2,067	(5,689)	345,794
Total stockholders equity	762,383	438,998	6,405	(445,403)	762,383
Total liabilities and stockholders equity	$ 810,810	$ 689,987	$ 8,472	$ (451,092)	$ 1,108,177

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BANKRATE, INC., AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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(Unaudited)

Bankrate, Inc. and Subsidiaries

Condensed Consolidating Statements of Operations

For the six months ended June 30, 2011

($ in thousands)	**Bankrate, Inc.**	**Guarantor Subsidiary**	**Non-Guarantor Subsidiary**	**Eliminations**	**Consolidated**
Revenue	$ 121,150	$ 93,894	$ 4,169	$ (21,686)	$ 197,527
Cost of revenue (excludes depreciation and amortization)	57,484	37,347	40	(21,686)	73,185
Gross margin	63,666	56,547	4,129		124,342
Operating expenses:					
Sales	3,203	2,824	14		6,041
Marketing	15,879	16,204	3,568		35,651
Product development	3,005	3,941	11		6,957
General and administrative	8,467	6,043	701		15,211
Acquisition, offering and related costs and related party fees	39,695				39,695
Restructuring charges		238			238
Depreciation and amortization	12,080	9,587	(1)		21,666
	82,329	38,837	4,293		125,459
(Loss) income from operations	(18,663)	17,710	(164)		(1,117)
Interest expense, net	(3)	(18,580)	(337)		(18,920)
Loss on redemption of senior secured notes		(16,629)			(16,629)
(Loss) earnings in equity investments, net of tax	(11,154)	(55)		11,209	
Other (expenses) income	(11,157)	(35,264)	(337)	11,209	(35,549)
(Loss) income before income taxes	(29,820)	(17,554)	(501)	11,209	(36,666)
Income tax expense (benefit)	4,779	(6,846)			(2,067)
Net (loss) income	$ (34,599)	$ (10,708)	$ (501)	$ 11,209	$ (34,599)

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BANKRATE, INC., AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2011

(Unaudited)

Bankrate, Inc. and Subsidiaries

Condensed Consolidating Statements of Operations

For the three months ended June 30, 2011

($ in thousands)	Bankrate, Inc.	Guarantor Subsidiary	Non-Guarantor Subsidiary	Eliminations	Consolidated
Revenue	$ 62,075	$ 46,308	$ 1,961	$ (11,895)	$ 98,449
Cost of revenue (excludes depreciation and amortization)	29,325	17,793	13	(11,895)	35,236
Gross margin	32,750	28,515	1,948		63,213
Operating expenses:					
Sales	1,590	1,486	14		3,090
Marketing	9,147	8,767	1,664		19,578
Product development	1,561	2,006	3		3,570
General and administrative	4,363	2,677	329		7,369
Acquisition, offering and related costs and related party fees	38,222				38,222
Restructuring charges		238			238
Depreciation and amortization	6,036	4,587	197		10,820
	60,919	19,761	2,207		82,887
(Loss) income from operations	(28,169)	8,754	(259)		(19,674)
Interest expense, net	(36)	(9,316)	(172)		(9,524)
Loss on redemption of senior secured notes		(16,629)			(16,629)
(Loss) earnings in equity investments, net of tax	(10,907)	(245)		11,152	
Other (expenses) income	(10,943)	(26,190)	(172)	11,152	(26,153)
(Loss) income before income taxes	(39,112)	(17,436)	(431)	11,152	(45,827)
Income tax expense (benefit)	549	(6,715)			(6,166)
Net (loss) income	$ (39,661)	$ (10,721)	$ (431)	$ 11,152	$ (39,661)

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BANKRATE, INC., AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2011

(Unaudited)

Bankrate Inc., and Subsidiaries

Condensed Consolidating Statement of Cash Flows

For the six months ended June 30, 2011

($ in thousands)	**Bankrate, Inc.**	**Guarantor Subsidiary**	**Non-Guarantor Subsidiary**	**Consolidated**
Cash flows from operating activities				
Net cash (used in) provided by operating activities	$ (19,809)	$ 580	$ 325	$ (18,904)
Cash flows from investing activities				
Purchases of furniture, fixtures and equipment and capitalized website development costs	(1,664)	(1,322)	(137)	(3,123)
Cash used in business acquisitions, net	(20,440)			(20,440)
Restricted cash	2			2
Cash paid for acquisition earnouts	(576)			(576)
Net cash used in investing activities	(22,678)	(1,322)	(137)	(24,137)
Cash flows from financing activities				
Debt issuance cost	(2,950)			(2,950)
Repurchase of senior secured notes	(117,337)			(117,337)
Proceeds from issuance of preferred and common stock, net of costs	170,319			170,319
Payments to dissenting stockholders	(61,253)			(61,253)
Net cash used in financing activities	(11,221)			(11,221)
Effect of exchange rate on cash and cash equivalents			(83)	(83)
Net (decrease) increase in cash	(53,708)	(742)	105	(54,345)
Cash - beginning of period	109,323	5,014	1,293	115,630
Cash - end of period	$ 55,615	$ 4,272	$ 1,398	$ 61,285

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion of our results of operations and financial condition with the financial statements and related notes included elsewhere in this quarterly report. The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs, and that involve numerous risks and uncertainties, including, but not limited to, those described in the Cautionary Statement Concerning Forward-Looking Statements section of this quarterly report and in the materials referenced therein. Actual results may differ materially from those contained in any forward-looking statements. See Cautionary Statement Concerning Forward-Looking Statements.

Introduction

Our Company

We are a leading publisher, aggregator and distributor of personal finance content on the Internet. We provide consumers with proprietary, fully researched, comprehensive, independent and objective personal finance editorial content across multiple vertical categories including mortgages, deposits, insurance, credit cards, and other personal finance categories.

Our sources of revenue include display advertising, performance-based advertising, lead generation, distribution arrangements and traditional media avenues, such as syndication of editorial content and subscriptions.

We generate revenue through the sale of leads in the mortgage, credit card and insurance vertical categories. Through Bankrate Select we sell leads to mortgage lenders. Through Nationwide Card Services, *CreditCardGuide.com*, and *CreditCards.com*, we sell leads to credit card issuers. Through *InsureMe.com* and NetQuote, we sell leads to insurance agents and insurance carriers. We generate revenue on a per-lead basis based on the actual number of qualified insurance leads generated, and on a per-action basis for credit card applications (i.e., upon approval or completion of an application). Leads are generated not only organically within the Bankrate network of websites, but also through our various affiliate networks, via co-brands, and through display advertisements. We sell to advertisers targeting a specific audience in a city or state and also to national advertisers targeting the entire country.

Advertisers that are listed in our mortgage and deposit rate tables have the opportunity to hyperlink their listings. Additionally, advertisers can buy hyperlinked placement within our qualified insurance listings. By clicking on the hyperlink, users are taken to the advertiser s website. We typically sell our hyperlinks on a per-click pricing model. 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 or insurance table listings). All clicks are screened for fraudulent characteristics by an independent third party vendor and then charged to the advertiser s account.

We provide a variety of digital display formats. Our most common digital display advertisement sizes are leader boards and banners, which are prominently displayed at the top or bottom of a page, as well as skyscrapers, islands, and posters. We charge for these advertisements based on the number of times the advertisement is displayed or based on a fixed amount for a campaign. Advertising rates may vary depending upon the product areas targeted, geo-targeting, the quantity of advertisements purchased by an advertiser, and the length of time an advertiser runs an advertisement on our online network. We sell to advertisers targeting a specific audience in a city or state and also to national advertisers targeting the entire country.

Lead generation, display advertisements and hyperlink listings, which we refer to as online revenue, represented approximately 98% and 97% of our revenue for the six months ended June 30, 2011 and the year ended December 31, 2010, respectively. We also derive revenue through the sale of print advertisements and the distribution (or syndication) of our editorial content, which we refer to as print publishing and licensing revenue.

Significant Developments

2011 Acquisitions

On January 1, 2011, the Company completed the acquisition of certain assets and liabilities from Trouvé Media, Inc., a California Corporation, and Scott Schnuck for $12.5 million. This acquisition was made to complement the online publishing business. The acquisition is accounted for under the acquisition method of accounting and the results of operations of Trouvé are included in the Company s consolidated results from the acquisition date.

On May 13, 2011, the Company completed the acquisition of certain assets and liabilities of *CarInsuranceQuotes.com*, LLC, a Delaware limited liability company, for $7.0 million with an additional $1.0 million in potential cash earn-out payments based on achieving certain performance metrics over the period commencing May 13, 2011 and ending May 12, 2012. The fair value of the earn-out arrangement associated with the

CarInsuranceQuotes.com acquisition was estimated at $860,000. This acquisition was made to complement the online publishing business. The acquisition is accounted for under the acquisition method of accounting and the results of operations of *CarInsuranceQuotes.com* are included in the Company s consolidated results from the acquisition date.

Revolving Credit Facilities

On June 10, 2011, we entered into revolving credit facilities in an aggregate amount of $100.0 million, consisting of two tranches, tranche A for $30.0 million which matures on July 15, 2015 and Tranche B for $70.0 million which matures on April 15, 2015. Our obligations under the revolving credit facilities are guaranteed by each direct and indirect, existing and future, domestic restricted subsidiary that guarantees our obligations under the Senior Secured Notes. The obligations under such credit facilities are equally and ratably secured by liens on the same collateral that secures our Senior Secured Notes (it being understood that upon any enforcement of remedies resulting in the realization of proceeds from such collateral, up to $30.0 million of revolving tranche A loans under the tranche A credit facility would be paid in full first before applying any such amount to pay the Notes and the tranche B revolving loans under the tranche B credit facility on a pari passu basis). The agreements governing such credit facilities contain terms generally commensurate with issuers of the same debt rating, and our ability to draw down any such credit facilities is subject to certain limitations, including that at the time of and immediately after giving effect to such drawing and the application proceeds thereof the Consolidated Secured Debt Ratio (as defined in the revolving credit facilities) on a pro forma basis shall not exceed 3.50:1.00.

At our election, the interest rate per annum applicable to the loans under the revolving credit facilities is based on a fluctuating rate of interest determined by reference to either (i) a base rate determined by reference to the higher of (a) the prime rate quoted in the print edition of *The Wall Street Journal*, Money Rates Section as the prime rate and (b) the federal funds effective rate plus 0.50%, plus an applicable margin equal to 2.00%, or (ii) a Eurodollar rate determined by reference to LIBOR, adjusted for statutory reserve requirements, plus an applicable margin equal to 3.00%; provided, however, that at any time less than $20,000,000 in aggregate principal amount of loans are drawn under the tranche A credit facility, the applicable margin with respect to loans under the tranche B credit facility at the base rate will be 2.25% and the applicable margin with respect to loans under the tranche B credit facility at the Eurodollar rate will be 3.25%.

Interest accrues daily and is payable in arrears for both base rate and Eurodollar loans. For base rate loans, interest is payable on the last business day of March, June, September and December. For Eurodollar loans interest is payable on electable periods of one, two, three or six months (or, if each affected lender so agrees, nine or twelve months). There were no amounts outstanding under the revolving credit facilities as of June 30, 2011, nor did the Company incur any interest during the three months ended June 30, 2011.

The Revolving Credit Facilities agreement contains customary financial and other covenants, including maximum consolidated leverage ratio of 4.50:1.00 and in certain instances 4.25:1.00. The company will begin their test of compliance with the maximum consolidated leverage ratio for the period ending September 30, 2011. In addition, the Company is subject to covenants limiting incurrence of debt, liens on properties, investments, loans and advances, mergers and consolidations, asset sales, dividends and transactions with affiliates.

Initial Public Offering

On June 22, 2011, the Company completed its initial public offering (IPO) whereby it and certain of its existing stockholders sold 22,994,455 shares of common stock at a public offering price of $15.00 per share, including 2,994,455 shares sold by certain of its existing stockholders upon the exercise of the underwriters option to purchase additional shares. The Company s shares are traded on the New York Stock Exchange (NYSE) under the symbol RATE. The offer and sale of all of the shares in the IPO were registered under the Securities Act pursuant to a registration statement on Form S-1 (File No. 333-173550), which was declared effective by the SEC on June 16, 2011. Our portion of the net proceeds from the IPO was approximately $170.3 million after deducting underwriting discounts of $11.3 million and offering costs of $5.9 million. In addition, during the three months ended June 30, 2011, we incurred costs associated with the IPO and S-4 registration statement in relation to our exchange offer, which included $34.7 million to Apax Partners, L.P. for termination of monitoring fees, merger and acquisition advisory services, IPO services for secondary shares, exchange offer advisory services, and other services provided to Bankrate s management. The payment to APAX has been recorded in the following manner; $30 million as a part of acquisition, offering and related expenses and related party fees, $3.8 million netted against IPO proceeds and $917,000 to deferred loan fees.

We used approximately $123.0 million of the net proceeds from the offering to repay the principal and accrued interest on our Senior Secured Notes (see Note 7). We intend to use the balance of the net proceeds from the offering for working capital and other general corporate purposes, including financing our growth.

As part of the 22,994,455 shares of common stock sold in the IPO, 10,494,455 shares of common stock were sold by certain existing stockholders at a public offering price of $15.00 per share, including 2,994,455 shares sold by the selling stockholders upon the

exercise of the underwriters option to purchase additional shares. The Company did not receive any of the proceeds from the sale of such shares by the selling stockholders.

2011 Recapitalization and Merger

On June 21, 2011, Holdings merged with and into the Company with the Company surviving the merger (2011 Merger). In connection with the 2011 Merger, Holdings underwent an internal recapitalization in which all preferred and common shares of Holdings were exchanged for shares a of single series of common stock of Holdings (the Recapitalization). As a result of the Recpatilization and 2011 Merger, all preferred and common shares (other than restricted shares) of the Company were cancelled and all shares of common stock of Holdings were converted into common shares of the Company. Immediately following the Recapitalization and 2011 Merger, the Company had 87,500,000 shares of common stock issued and outstanding, including 120,135 shares of restricted stock (Recapitalization). The surviving corporation in the 2011 Merger retained the name Bankrate, Inc. The 2011 Merger was accounted for as a common control merger and in a manner similar to a pooling of interests. Accordingly, Holdings and Bankrate were consolidated retroactively to the earliest period presented, using the historical cost basis of each entity. In addition, the Recapitalization has been reflected in these consolidated financial statements as a 21.16 for one stock split of the Company s issued and outstanding common stock. The common stock, per common share, and increase in authorized share amounts in these condensed consolidated financial statements and notes to condensed consolidated financial statements have been presented to retroactively reflect this transaction to the earliest period presented.

In connection with the 2011 Merger and the IPO, the Company entered into a Fourth Amended and Restated Stockholders Agreement that provides the Company s existing direct and indirect stockholders with certain rights, including rights of Ben Holdings S.à r.l., a stockholder of the Company, which is, in turn, controlled by Apax US VII, L.P., and Apax Europe VII-A, L.P., Apax Europe VII-B, L.P. and Apax Europe VII-1, L.P. (the Apax VII Funds). The Apax VII Funds, to nominate board members and to cause the subsequent registration of additional shares of common stock.

Paydown of Senior Secured Notes

On June 30, 2011, in accordance with the terms of the Indenture, the Company used approximately $123.0 million of the proceeds from the Initial Public Offering to redeem $105.0 million aggregate principal amount of the outstanding Senior Secured Notes (the Notes Redemption) and to pay interest accrued in the amount of $5.7 million on the portion of the outstanding Senior Secured Notes up to but not including the date of redemption. As a result of the Notes Redemption, the Company incurred charges of approximately $16.6 million in the second quarter of 2011, including charges of approximately $828,000 and $3.5 million for the write-off of unamortized original issue discount and deferred financing cost, respectively, and $12.3 million for the redemption fee. These charges are recorded within loss on redemption of senior secured notes on the accompanying unaudited condensed consolidated statements of operations. The Company had a balance of approximately $193.5 million in Senior Secured Notes, net of amortization as of June 30, 2011 recorded on the accompanying unaudited condensed consolidated balance sheet.

During the three and six months ended June 30, 2011, the Company amortized $109,000 and $215,000 of original issue discount. At June 30, 2011, the Company had approximately $1.5 million in original issue discounts remaining to be amortized.

Stock Based Compensation

In June 2011, the Company established a stock based compensation program to grant share based awards for up to 12,120,000 shares of our common stock. Our stock option program is a long-term retention program that is intended to attract, retain and provide incentives for directors, officers and employees in the form of non-qualified stock options and restricted stock (the 2011 Plan). Under the 2011 Plan, the Compensation Committee of the Board of Directors or its delegate has the sole authority to determine who receives such grants, the type, size and timing of such grants, and to specify the terms of any non-competition agreements relating to the grants. The purpose of the 2011 Plan is to advance our interests by providing eligible participants in the Plan with the opportunity to receive equity-based or cash incentive awards, thereby aligning their economic interests with those of our stockholders.

We account for stock based compensation in accordance with ASC 718 *Compensation Stock Compensation (ASC 718)*. Under the fair value recognition provisions of ASC 718, 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. See Note 2 in the Notes to Condensed Consolidated Financial Statements for further information regarding our stock based compensation assumptions and expense.

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Restricted Stock

Bankrate grants restricted stock, which is valued based on the market price of the common stock on the date of grant. Compensation expense arising from restricted stock grants with graded vesting is recognized using the ratable method (an accelerated method of expense recognition) over the vesting period. Those shares issued with cliff vesting are amortized on a straight line basis over the vesting period. In June 2011, we awarded 120,135 shares of restricted common stock to employees located throughout the United States. The awards have a seven year term and vest over a one year period.

Stock Options

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

We estimated the expected term using the simplified method for all options as the Company does not have sufficient historical exercise data. The volatility assumption is based on implied and historical stock price volatility of a peer group of publicly traded companies. The decision to use a weighted average volatility factor was based upon the relatively short period of availability of data on actively traded options on our common stock, and our assessment that implied volatility is more representative of future stock price trends than historical volatility. We based the risk-free interest rate used in the option pricing model on U.S. Treasury constant maturity issues having remaining terms similar to the expected terms of the options. We do not anticipate paying any cash dividends in the foreseeable future and therefore use an expected dividend yield of zero in the option pricing model. We are required to estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. All share-based payment awards are amortized on a straight-line basis over the requisite service periods, which is generally the vesting period.

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

Certain Trends Influencing Our Business

The key drivers of our business include the number of ready-to-transact consumers visiting our online network, including the number of page views they generate, and the demand of our online network advertisers, both of which are correlated to general macroeconomic conditions in the United States.

From 2008 through mid-2010, our business was negatively affected by market turmoil and tightening of credit which led to an increased level of consumer and commercial credit delinquencies, low interest rates, lack of consumer confidence, increased market volatility and widespread reduction of business activity generally. As housing activity, interest rates or general consumer financial activity increases, we anticipate that our business levels will continue to increase.

Since demand for financial services is generally correlated to the growth of the economy, financial institutions online and traditional marketing spend is expected to increase as a result. In the recent recession, uncertainty for our financial services advertisers caused their advertising budgets to decline. Beginning in mid-2010, we began to experience initial signs of increased activity by consumers in the form of increased visits to our websites and page views, as well as more demand for our advertising products by our advertising customers. For example, in 2010, major credit card companies increased advertising and lead generation spending after significantly cutting their budgets in 2008 and 2009. We believe our end markets are well positioned to experience healthy growth in the coming years given the anticipated economic rebound and improving macroeconomic trends.

Key Initiatives

We are focused on several key initiatives to drive our business:

increasing the visitor traffic to our online network of websites;

optimizing the revenue of our cost-per-thousand-impressions and cost-per-click models on our online network including the integration of the new acquisitions;

revenue optimization associated with the new look, design and functionality of our mortgage and deposit cost-per-click

rate tables;

enhancing search engine marketing and keyword buying to drive targeted impressions into our online network;

expanding our co-brand and affiliate footprint;

broadening the breadth and depth of the personal finance content and products that we offer on our online network;

containing our costs and expenses; and

continuing to integrate our recent acquisitions to maximize synergies and efficiencies.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (GAAP) 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 footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for the fair statement of our results have been included. Operating results for the six months ended June 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011, for any other interim period or for any other future year.

The condensed consolidated balance sheet at December 31, 2010 has been derived from the audited financial statements at that date, but does not include all of the disclosures required by GAAP. The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company s Prospectus filed with the Securities and Exchange Commission (SEC) on June 17, 2011 pursuant to Rule 424(b) under the Securities Act of 1933.

There have been no significant changes in the Company s accounting policies from those disclosed in its prospectus filed with the SEC on June 17, 2011.

The accompanying condensed consolidated financial statements include the accounts of Bankrate, Inc., NetQuote Holdings, Inc., NetQuote, Inc., *CreditCards.com*, Inc., CCRD Operating Company Inc., *CreditCards.com* Limited (United Kingdom), Freedom Marketing (United Kingdom), and Rate Holding Company (100% owner of Bankrate Information Consulting (Beijing) Co., Ltd.) after elimination of all intercompany accounts and transactions.

Revenue

Display Advertising Revenue

We sell display advertisements on our online network consisting primarily of leaderboards, banners, badges, islands, posters, and skyscraper advertisements. We typically charge for these advertisements based on the number of times the advertisement is displayed.

Hyperlink Revenue

We also sell hyperlinks (e.g., in our interest rate or insurance table listings) on our online network on a cost-per-click basis. Advertisers pay us each time a visitor to our online network clicks on a hyperlink in a rate or insurance table listing, net of invalid clicks. We also sell text links on our rate pages to advertisers on a cost-per-click basis. Advertisers enter an auction bidding process on a third-party website for placement of their text link based on the amount they are willing to pay for each click through to their website.

Lead Generation Revenue

We also generate revenue by delivering measurable online marketing results to our clients in the credit card, personal insurance and mortgage vertical categories. These results are typically in the form of qualified leads or clicks, the outcomes of customers submitting an application for a credit card or mortgage, or customers being contacted regarding a quote for a personal insurance product. These qualified leads are generated from our marketing activities on our websites or on third party websites with whom we have relationships.

Print Publishing and Licensing Revenue

Print publishing and licensing revenue represent advertising revenue from the sale of advertising in our *Mortgage Guide* (formerly

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called the *Consumer Mortgage Guide* and *CD & Deposit Guide*), rate tables, newsletter subscriptions, and licensing of research information.

We also earn fees from distributing editorial rate tables that are published in newspapers and magazines across the United States, from paid subscriptions to three newsletters, and from providing rate surveys to institutions and government agencies. In addition, we license research data under agreements that permit the use of rate information we develop to advertise the licensee s products in print, radio, television, and website promotions.

Cost of Revenue (excludes depreciation and amortization)

Cost of revenue represents expenses directly associated with the creation of revenue. These costs include contractual revenue sharing obligations resulting from our distribution arrangements (distribution payments), salaries, editorial costs, market analysis and research costs, stock-based compensation expense, and allocated overhead. Distribution payments are made to website operators for visitors directed to our online network as well as to affiliates for leads directed to our online network and lead generation websites. These costs increase proportionately with gains related to revenue from our online network and lead generation websites. Editorial costs relate to writers and editors who create original content for our online publications and associates who build web pages. These costs have increased as we have added online publications and co-branded versions of *Bankrate.com* under distribution arrangements. These websites must be maintained on a daily basis. Research costs include expenses related to gathering data on banking and credit products and consist primarily of compensation and benefits along with allocated overhead.

We are also involved in revenue sharing arrangements with our online partners where the consumer uses co-branded websites to which we provide web services. Revenue is effectively allocated to each partner based on the revenue earned from each website. The allocated revenue is shared according to distribution agreements.

Operating Expenses

Sales

Sales costs represent direct selling expenses, principally for online advertising, and include compensation and benefits, sales commissions, allocated overhead, and stock-based compensation expense.

Marketing

Marketing expenses represent expenses associated with expanding brand awareness of our products and services to consumers and include SEM expense, print and Internet advertising, marketing and promotion costs, and stock-based compensation expense.

Product Development

Product development costs represent compensation and benefits related to site development, network systems and telecommunications infrastructure support, programming, new product design and development, other technology costs, and stock-based compensation expense.

General and Administrative

General and administrative expenses represent compensation and benefits for executive, finance and administrative personnel, professional fees, stock-based compensation expense, non-allocated overhead and other general corporate expenses.

Acquisition, Offering and Related Expenses and Related Party Fees

Acquisition, offering and related expenses and related party fees represent direct expenses incurred as a result of the IPO, S-4 registration statement exchange offer, Bankrate Acquisition and the acquisitions of *Bargaineering.com, InsuranceQuotes.com*, NetQuote, CreditCards and *CarInsuranceQuotes.com*. Related party fees are described in note 9 of the Notes to Condensed Consolidated Financial Statements.

Restructuring Costs

Restructuring costs represent costs incurred as a result of terminating or relocating employees and closing office locations.

Depreciation and Amortization

Depreciation and amortization expense includes the cost of capital asset acquisitions spread over their expected useful lives. These expenses are spread over 1 to 25 years and are calculated mostly on a straight-line basis. Depreciation and amortization also includes the amortization of intangible assets, consisting primarily of trademarks and URLs, software licenses, customer relationships, agent/vendor relationships, developed technologies and non-compete agreements, all of which were either acquired separately or as

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part of business combinations recorded under the acquisition method of accounting. The amortization periods for intangible assets are as follows:

	Estimated Useful Life
Trademarks and URLs	2-25 years
Customer relationships	8-15 years
Affiliate network relationships	1-9 years
Developed technologies	3-6 years

Interest Income (Expense), Net

Interest income (expense), net, primarily consists of expenses associated with our long-term debt, amortization of the debt issuance costs and interest income earned on cash and cash equivalents.

Loss on Redemption of Senior Secured Notes

Loss on redemption of senior secured notes represent additional cost incurred as a result of the redemption of a portion of the Senior Secured Notes.

Income Taxes

Income taxes consists of federal and state income taxes in the United States and taxes in certain foreign jurisdictions.

Critical Accounting Policies

Critical Accounting Estimates

The preparation of financial statements in conformity with GAAP requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent gains and losses at the date of the financial statements and the reported amounts of revenue and expenses during the period. We base our judgments, estimates and assumptions on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual results could differ materially from these estimates under different assumptions or conditions. We evaluate our judgments, estimates and assumptions on a regular basis and make changes accordingly. We believe that the judgments, estimates and assumptions involved in the accounting for revenue recognition, income taxes, the allowance for doubtful accounts receivable, useful lives of intangible assets and intangible asset impairment, goodwill impairment, acquisition accounting, and contingencies have the greatest potential impact on our financial statements, so we consider these to be our critical accounting policies. There have been no significant changes in our critical accounting policies or estimates during the six months ended June 30, 2011 as compared to the critical accounting policies and estimates disclosed in management s discussion and analysis of financial condition and results of operations included in our final prospectus dated June 17, 2011 and filed with the SEC.

Recent Accounting Pronouncements

See Note 1 in Notes to Condensed Consolidated Financial Statements.

Results of Operations

The following is our analysis of the results of operations for the periods covered by our interim condensed consolidated financial statements, including a discussion of the accounting policies and practices that we believe are critical to an understanding of our condensed consolidated results of operations and to making the estimates and judgments underlying our financial statements. This analysis should be read in conjunction with our annual financial statements, including the related notes to the annual financial statements included within our final prospectus dated June 17, 2011 and filed with the SEC.

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	Three months ended		Six months ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Statement of Operation Data				
Revenue	100%	100%	100%	100%
Cost of revenue	36%	38%	37%	39%
Gross margin	64%	62%	63%	61%
Operating expenses:				
Sales	3%	5%	3%	5%
Marketing	20%	8%	18%	8%
Product development	4%	4%	4%	5%
General and administrative	7%	12%	8%	13%
Stock based compensation	0%	0%	0%	0%
Acquisition, offering and related expenses and related party fees	39%	5%	20%	4%
Restructuring charges	0%	0%	0%	1%
Depreciation and amortization	11%	19%	11%	20%
	84%	55%	64%	56%
(Loss) income from operations	-20%	7%	-1%	5%
Interest expense, net	-10%	-23%	-10%	-25%
Loss on redemption of senior secured notes	-17%	0%	-8%	0%
Income before income taxes	-47%	-16%	-19%	-20%
Income tax benefit	-6%	-6%	-1%	-8%
Net loss	-40%	-10%	-18%	-12%

Revenue

	Three months ended		Six months ended	
($ in thousands)	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Online(1)	$ 96,432	$ 36,643	$ 193,377	$ 69,443
Print publishing	2,017	1,614	4,150	3,274
Total revenue	$ 98,449	$ 38,257	$ 197,527	$ 72,717

(1) Consists of display advertising, hyperlink, and lead generation.

Cost of Revenue (excludes depreciation and amortization) and Gross Margin

	Three months ended		Six months ended	
($ in thousands)	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Revenue	$ 98,449	$ 38,257	$ 197,527	$ 72,717
Cost of revenue	$ 35,236	$ 14,509	$ 73,185	$ 28,694
Gross margin	$ 63,213	$ 23,748	$ 124,342	$ 44,023

Gross margin as a percentage of revenue	64%	62%	63%	61%

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Three Months Ended June 30, 2011 Compared to Three Months Ended June 30, 2010

Revenue

Total revenue was $98.5 million and $38.3 million for the three months ended June 30, 2011 and June 30, 2010, respectively, representing an increase of 157%, primarily due to the reasons set forth below:

Hyperlink advertising revenue increased by $3.1 million for the three months ended June 30, 2011 compared to the same period in 2010 as a result of the Company launching new products in mortgage, deposits, and insurance.

Per approved lead and per application lead generation revenue increased by $57.3 million for the three months ended June 30, 2011 compared to the same period in 2010 as a result of incremental organic lead volume combined with the acquisitions of NetQuote and CreditCards.com.

Cost of Revenue (excludes depreciation and amortization) and Gross Margin

Cost of revenue for the three months ended June 30, 2011 of $35.2 million was $20.7 million higher than the same period in 2010. Acquisitions completed after June 30, 2010 resulted in higher distribution payments to our online partners and affiliates of $12.6 million. The Company also incurred an additional $8.1 million in distribution payments to our online partners and affiliates as a result of higher online revenue. Our gross margin for the three months ended June 30, 2011 was 64.2%, compared to 62.1% for the same period in 2010, increasing primarily due to the increase in per approved lead generation revenue, which has a higher gross profit margin

Operating Expenses

Sales

Sales expenses for the three months ended June 30, 2011 of $3.1 million were $1.1 million higher than the same period in 2010. Acquisitions completed after June 30, 2010 resulted in additional compensation expense of $1.2 million as compared to the same period in 2010, partially offset by $86,000 reduction in sales commission expense.

Marketing

Marketing expenses for the three months ended June 30, 2011 of $19.6 million were $16.3 million higher than the same period in 2010. Acquisitions completed after June 30, 2010 resulted in higher SEM and marketing expenses of $13.9 million. The Company also incurred an additional $2.2 million in SEM and marketing expenses to drive higher online revenue during the three months ended June 30, 2011 as compared to the same period in 2010.

Product Development

Product development costs for the three months ended June 30, 2011 of $3.6 million were $1.9 million higher than the same period in 2010. The increase was primarily driven by product development costs associated with the acquisitions completed after June 30, 2010 resulting in higher compensation expense of $1.2 million and IT expenses of $600,000.

General and Administrative

General and administrative expenses for the three months ended June 30, 2011 of $7.4 million were $2.8 million higher than the same period in 2010. Acquisitions completed after June 30, 2010 resulted in increased compensation expense of $857,000, bonus expense of $627,000, bad debt expense of $500,000, bank fees of $325,000 and rent expense of $305,000.

Acquisition, Offering and Related Expenses and Related Party Fees

Acquisition, offering and related expenses and related party fees for the three months ended June 30, 2011 was $38.2 million as compared to $2.1 million for the same period in 2010. Acquisition, offering and related expenses and related party fees for the three months ended June 30, 2011 were primarily related to costs associated with the IPO and S-4 registration statement in relation to our exchange offer, which included $34.7 million to Apax Partners, L.P. for termination of monitoring fees, merger and acquisition advisory services, IPO services for secondary shares, exchange offer advisory services, and other services provided to Bankrate s management. The payment to APAX has been recorded in the

following manner; $30.0 million as a part of acquisition, offering and

related expenses and related party fees, $3.8 million netted against IPO proceeds and $917,000 to deferred loan fees. The acquisition, offering and related expenses and related party fees for the same period in 2010 was $2.1 million primarily due to $1.0 million relating to the acquisitions of NetQuote and Creditcards and the Senior Secured Notes offering transactions which closed during July and August 2010.

Restructuring Costs

We incurred $238,000 and $0 in restructuring costs during the three months ended June 30, 2011 and 2010, respectively, pursuant to our restructuring plan adopted in connection with the acquisition of NetQuote and CreditCards. Restructuring costs represent costs incurred as a result of terminating one employee from Bankrate during the three month period ended June 30, 2011 to achieve cost synergies.

Depreciation and Amortization

Depreciation and amortization expense for the three months ended June 30, 2011 of $10.8 million was $3.5 million higher than the same period in 2010 due to the full period impact of the acquisitions completed after June 30, 2010, which resulted in significantly higher intangible asset balances and related amortization expense.

Interest Expense, net

Interest expense, net for the three months ended June 30, 2011 primarily consists of expenses associated with the Notes, partially offset by de minimis interest earned on cash and cash equivalents. Interest expense, net for the three months ended June 30, 2011 was $9.5 million.

Interest expense, net for the three months ended June 30, 2010 primarily consists of expenses associated with the $222.0 million loan from Holdings to Apax Funds through July 13, 2010 and $56.7 million payable to dissenting stockholders, partially offset by de minimis interest earned on cash and cash equivalents. Interest expense, net for the three months ended June 30, 2010 was $9.0 million, which primarily consisted of $8.0 million for the loan from Holdings to Apax Funds and $930,000 for dissenting stockholders.

Loss on Redemption of Senior Secured Notes

The Company incurred a loss on redemption of senior secured notes of approximately $16.6 million and $0 for the three months ended June 30, 2011 and June 30, 2010, respectively. The loss was as a result of the Company s redemption of $105.0 million aggregate principal amount of the outstanding Senior Secured Notes and consisted of approximately $828,000 and $3.5 million for the write-off of unamortized original issue discount and deferred financing cost, respectively, and $12.3 million for the redemption fee.

Income Tax Benefit

Our income tax benefit for the three months ended June 30, 2011 of $6.2 million was $3.8 million higher than our income tax benefit of $2.4 million for the three months ended June 30, 2010. Our effective tax rate changed from approximately 39% during the three months ended June 30, 2010 to approximately 13% in the same period in 2011 due to non-deductible costs incurred.

Six Months Ended June 30, 2011 Compared to Six Months Ended June 30, 2010

Revenue

Total revenue was $197.5 million and $72.7 million for the six months ended June 30, 2011 and June 30, 2010, respectively, representing an increase of 172% primarily due to the reasons set forth below:

Hyperlink advertising revenue increased by $1.1 million for the six months ended June 30, 2011 compared to the same period in 2010 as a result of the Company launching new products in mortgage, deposits, and insurance.

Per approved lead and per application lead generation revenue increased by $123.1 million for the six months ended June 30, 2011 compared to the same period in 2010 as a result of incremental organic lead volume combined with the acquisitions of NetQuote and CreditCards.com.

Cost of Revenue (excludes depreciation and amortization) and Gross Margin

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Cost of revenue for the six months ended June 30, 2011 of $73.2 million was $44.5 million higher than the same period in 2010. Acquisitions completed after June 30, 2010 resulted in higher distribution payments to our online partners and affiliates of $28.1 million and additional compensation of $1.1 million. The Company also incurred an additional $14.7 million in distribution payments to our online partners and affiliates as a result of higher online revenue. Our gross margin for the six months ended June 30, 2011 was 63%, compared to 60.5% for the same period in 2010, increasing primarily due to the increase in per approved lead generation revenue, which has a higher gross profit margin

Operating Expenses

Sales

Sales expenses for the six months ended June 30, 2011 of $6.0 million were $2.1 million higher than the same period in 2010. Acquisitions completed after June 30, 2010 resulted in additional compensation expense of $1.7 million and additional sales commission expenses of $417,000 as compared to the same period in 2010.

Marketing

Marketing expenses for the six months ended June 30, 2011 of $35.7 million were $29.8 million higher than the same period in 2010. Acquisitions completed after June 30, 2010 resulted in higher SEM and marketing expenses of $25.3 million and additional compensation expense of $1 million. The Company also incurred an additional $3.8 million in SEM and marketing expense to drive higher online revenue during the six months ended June 30, 2011 as compared to the same period in 2010.

Product Development

Product development costs for the six months ended June 30, 2011 of $7.0 million were $3.4 million higher than the same period in 2010. The increase was primarily driven by product development costs associated with the acquisitions completed after June 30, 2010 resulting in higher compensation expense of $1.8 million and IT expenses of $1.5 million.

General and Administrative

General and administrative expenses for the six months ended June 30, 2011 of $15.2 million were $6.1 million higher than the same period in 2010. Acquisitions completed after June 30, 2010 resulted in increased compensation expense of $2.2 million, bonus expense of $1.8 million, bad debt expense of $1.1 million, bank fees of $630,000 and rent expense of $603,000.

Acquisition, Offering and Related Expenses and Related Party Fees

Acquisition, offering and related expenses and related party fees for the six months ended June 30, 2011 was $39.7 million as compared to $3.0 million for the same period in 2010. Acquisition, offering and related expenses and related party fees for the six months ended June 30, 2011 were primarily related to the costs associated with the IPO, S-4 registration statement in relation to our exchange offer, legal fees associated with settlement of the shareholder appraisal rights lawsuits, and fees associated with the IRS audit of fiscal 2009, which are directly attributable to our take private transaction. The $39.7 million acquisition, offering and related expenses and related party fees include approximately $34.7 million to Apax Partners, L.P. for termination of monitoring fees, merger and acquisition advisory services, IPO services for secondary shares, exchange offer advisory services, and other services provided to Bankrate s management. The payment to APAX has been recorded in the following manner; $30 million as a part of acquisition, offering and related expenses and related party fees, $3.8 million netted against IPO proceeds and $917,000 to deferred loan fees. The company also incurred $3.1 million in change of control fees paid to the certain senior management and current Board members. The Company also incurred $1.5 million of fees for advisory fees to shareholders, legal fees associated with the settlement of the shareholder appraisal rights lawsuits, and accounting and legal fees associated with the IRS audit of fiscal 2009. The acquisition, offering and related expenses and related party fees for the same period in 2010 were related to the acquisitions of NetQuote and Creditcards, investment fees to Apax Partners L.P. and legal fees.

Restructuring Costs

During the six months ended June 30, 2011 and 2010 the Company incurred $238,000 and $660,000 respectively, pursuant to our restructuring plan adopted in connection with the acquisition of NetQuote and CreditCards. Restructuring costs represent severance-related costs incurred as a result of terminating one and twenty one employees from Bankrate during the six month period ended June 30, 2011 and June 30, 2010, respectively, to achieve cost synergies.

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Depreciation and Amortization

Depreciation and amortization expense for the six months ended June 30, 2011 of $21.7 million was $7.3 million higher than the same period in 2010 due to the full period impact of the acquisitions completed after June 30, 2010, which resulted in significantly higher intangible asset balances and related amortization expense.

Interest Expense, net

Interest expense, net for the six months ended June 30, 2011 primarily consists of expenses associated with the Senior Secured Notes, partially offset by de minimis interest earned on cash and cash equivalents. Interest expense, net for the six months ended June 30, 2011 was $18.9 million.

Interest expense, net for the six months ended June 30, 2010 primarily consists of expenses associated with the $222.0 million loan from Holdings to the Apax VII Funds through July 13, 2010 and $56.7 million payable to dissenting stockholders partially offset by de minimis interest earned on cash and cash equivalents. Interest expense, net for the six months ended June 30, 2010 was $17.9 million, which primarily consisted of $16.0 million for the loan from Holdings to the Apax VII Funds and $1.9 million for dissenting stockholders.

Loss on Redemption of Senior Secured Notes

The Company incurred a loss on redemption of senior secured notes of approximately $16.6 million and $0 for the six months ended June 30, 2011 and June 30, 2010, respectively. The loss was as a result of the Company s redemption of $105.0 million aggregate principal amount of the outstanding Senior Secured Notes and consisted of approximately $828,000 and $3.5 million for the write-off of unamortized original issue discount and deferred financing cost, respectively, and $12.3 million for the redemption fee.

Income Tax Benefit

Our income tax benefit for the six months ended June 30, 2011 of $2.1 million was $3.4 million lower than our income tax benefit of $5.5 million for the six months ended June 30, 2010. Our effective tax rate changed from approximately 39.0% during the six months ended June 30, 2010 to approximately 5.6% in the same period in 2011 due to non-deductible costs incurred related to acquisition, offering and related expenses and related party fees.

Liquidity and Capital Resources

($ in thousands)	**June 30, 2011**	**December 31, 2010**	**Change**
Cash and cash equivalents	$ 61,285	$ 115,630	$ (54,345)
Working capital	$ 108,937	$ 65,141	$ 43,796
Stockholders equity	$ 762,383	$ 626,056	$ 136,327

Our principal ongoing source of operating liquidity is the cash generated by our business operations. We consider all highly liquid debt investments purchased with an original maturity of less than three months to be cash equivalents.

On June 17, 2011, we completed our initial public offering of common stock. We received net proceeds of approximately $170.3 million after deducting the underwriting discounts and our offering expenses. We used approximately $123.0 million of the proceeds from the IPO to to redeem $105.0 million aggregate principal amount of the outstanding Senior Secured Notes and to pay interest accrued in the amount of $5.7 million on the portion of the outstanding Senior Secured Notes up to but not including the date of redemption. We intend to use the remaining proceeds for general corporate purposes.

Our primary uses of cash have been to fund our working capital and capital expenditure needs, fund acquisitions, and service our debt obligations. We believe that we can generate sufficient cash flows from operations to fund our operating and capital expenditure requirements, as well as to service our debt obligations, for fiscal year 2011. In the event we experience a significant adverse change in our business operations, we would likely need to secure additional sources of financing.

As of June 30, 2011, we had working capital of $108.9 million and our primary commitments were normal working capital requirements and $10.6 million in accrued interest for the Notes.

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As of December 31, 2010, we had working capital of $65.1 million and our primary commitments were normal working capital requirements, $61.3 million in payables to dissenting stockholders and its related accrued interest payable included in other current liabilities and $16.4 million in accrued interest for the Notes.

We assess acquisition opportunities as they arise. Financing may be required if we decide to make additional acquisitions or if we are required to make any earn-out payments to which the former owners of our acquired businesses may be entitled. There can be no assurance, however, that any such opportunities may arise, or that any such acquisitions may be consummated. Additional financing may not be available on satisfactory terms or at all when required.

Debt Financing

Revolving Credit Facilities

On June 10, 2011, we entered into revolving credit facilities in an aggregate amount of $100.0 million, consisting of two tranches, tranche A for $30.0 million which matures on July 15, 2015 and Tranche B for $70.0 million which matures on April 15, 2015. Our obligations under the revolving credit facilities are guaranteed by each direct and indirect, existing and future, domestic restricted subsidiary that guarantees our obligations under the Senior Secured Notes. The obligations under such credit facilities are equally and ratably secured by liens on the same collateral that secures our Senior Secured Notes (it being understood that upon any enforcement of remedies resulting in the realization of proceeds from such collateral, up to $30.0 million of revolving tranche A loans under the tranche A credit facility would be paid in full first before applying any such amount to pay the Notes and the tranche B revolving loans under the tranche B credit facility on a pari passu basis). The agreements governing such credit facilities contain terms generally commensurate with issuers of the same debt rating, and our ability to draw down any such credit facilities is subject to certain limitations, including that at the time of and immediately after giving effect to such drawing and the application proceeds thereof the Consolidated Secured Debt Ratio (as defined in the revolving credit facilities) on a pro forma basis shall not exceed 3.50:1.00.

At our election, the interest rate per annum applicable to the loans under the revolving credit facilities is based on a fluctuating rate of interest determined by reference to either (i) a base rate determined by reference to the higher of (a) the prime rate quoted in the print edition of *The Wall Street Journal*, Money Rates Section as the prime rate and (b) the federal funds effective rate plus 0.50%, plus an applicable margin equal to 2.00%, or (ii) a Eurodollar rate determined by reference to LIBOR, adjusted for statutory reserve requirements, plus an applicable margin equal to 3.00%; provided, however, that at any time less than $20,000,000 in aggregate principal amount of loans are drawn under the tranche A credit facility, the applicable margin with respect to loans under the tranche B credit facility at the base rate will be 2.25% and the applicable margin with respect to loans under the tranche B credit facility at the Eurodollar rate will be 3.25%.

Interest accrues daily and is payable in arrears for both base rate and Eurodollar loans. For base rate loans, interest is payable on the last business day of March, June, September and December. For Eurodollar loans interest is payable on electable periods of one, two, three or six months (or, if each affected lender so agrees, nine or twelve months). There were no amounts outstanding under the revolving credit facilities as of June 30, 2011, nor did the Company incur any interest during the three months ended June 30, 2011.

The Revolving Credit Facilities agreement contains customary financial and other covenants, including maximum consolidated leverage ratio of 4.50:1.00 and in certain instances 4.25:1.00. The company will begin their test of compliance with the maximum consolidated leverage ratio for the period ending September 30, 2011. In addition, the Company is subject to covenants limiting incurrence of debt, liens on properties, investments, loans and advances, mergers and consolidations, asset sales, dividends and transactions with affiliates.

Senior Secured Notes

As of June 30, 2011, we had approximately $193.5 million in Senior Secured Notes outstanding for which interest is accrued daily on the outstanding principal amount at 11 $^{3}/4$ % and is payable semi-annually, in arrears, on July 15 and January 15, beginning on January 15, 2011, in cash. The Senior Secured Notes are due July 15, 2015. Accrued interest on the Senior Secured Notes as of June 30, 2011 is approximately $10.6 million. Refer to note 7 in the Notes to Condensed Consolidated Financial Statements for a further description of the Senior Secured Notes.

Operating Activities

During the six months ended June 30, 2011, we used $18.9 million of cash in operating activities, including $23.5 million in interest payments on the Notes, $36.2 million in acquisition, offering and related expenses and related party fees related to the 2010 Acquisitions, IPO, merger and recapitalization of the Company. Our net loss of $34.6 million was adjusted for depreciation and

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amortization of $21.7 million, bad debt expense of $1.2 million, amortization of deferred financing costs and original issue discount of $1.2 million, stock based compensation expense of $418,000, loss on redemption of senior secured notes of $16.6 million and a net negative change in the components of operating assets and liabilities of $25.4 million. This negative change in operating assets and liabilities resulted in part from a $15.8 million increase in prepaid expenses and other assets, a $10.5 million increase in accrued expenses, a $20.0 million increase in accounts receivable, a $2.9 million decrease in deferred revenue, and a $2.8 million increase in accounts payable and other liabilities primarily due to interest accrued less interest paid on the Notes.

During the six months ended June 30, 2010, we generated $25.6 million of net cash from operating activities. Our net loss of $9.0 million was adjusted for depreciation and amortization of $14.4 million; bad debt expense of $68,000, amortization of deferred financing costs and original issue discount of $52,000 and a net positive change in the components of operating assets and liabilities of $20.0 million. Of this positive change in operating assets and liabilities, $8.6 million resulted from a decrease in prepaid expenses and other assets; $1.6 million from an increase in accrued expenses; $4.5 million from an increase in accounts receivable; $842,000 from a decrease in deferred revenue; and $15.1 million from an increase in accounts payable and other liabilities.

Investing Activities

For the six months ended June 30, 2011, cash flows used in investing activities was $24.1 million and includes $20.4 million of cash used for business acquisitions, $3.1 million for purchases of furniture, fixtures, equipment and capitalized website development costs and $576,000 for acquisition earnouts and contingent liabilities.

For the six months ended June 30, 2010, cash flows used in investing activities was $23.3 million and include $8.0 million of cash used for the acquisitions of Bargaineering and InsuranceQuotes; $13.6 million in earn out payments made and $1.7 million for purchases of furniture, fixtures, equipment and capitalized website development costs.

Financing Activities

For the six months ended June 30, 2011, cash flows used in financing activities was $11.2 million, which consisted primarily of $61.3 million in payments to dissenting stockholders of the Bankrate Acquisition, $117.3 million for the repurchase of a portion of the Senior Securd Notes, partially offset by $170.3 million in proceds from the issuance of common stock.

For the six months ended June 30, 2010, cash flows from financing activities was $100,000, which consisted of proceeds from issuance of common stock and debt.

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OFF-BALANCE SHEET ARRANGEMENTS

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

Besides the offering of the Senior Secured Notes (as defined herein), we have not entered into any material arrangements which would fall under any of these four categories and which would be reasonably likely to have a current or future material effect on our results of operations, liquidity or financial condition.

Item 3. Quantitative and Qualitative Disclosures About Market Risk
Interest Rate Risk

The primary objective of our investment strategy is to preserve principal while maximizing the income we receive from investments without significantly increasing risk. To minimize this risk, to date we have maintained our portfolio of cash equivalents in short-term and overnight investments that are not subject to market risk, as the interest paid on such investments fluctuates with the prevailing interest rates. As of June 30, 2011, all of our cash equivalents mature in less than three months.

None of our outstanding debt as of June 30, 2011 was subject to variable interest rates as we did not have an outstanding balance for borrowed money under our Credit Facilities as of June 30, 2011. Interest under the Credit Facilities accrue interest at variable rates based, at our option, on the agent bank s base rate (as defined in the Credit Facility) plus a margin of between 2% and 2.25%, or at the LIBOR rate plus a margin of between 3.25% and 3.25%, depending on certain criteria. As of June 30, 2011, the margin over LIBOR was 2.25% and the margin over the base rate was 1.25%.

Our fixed interest rate debt includes $193 million in 11.75% senior notes.

Exchange Rate Sensitivity

Our exposure to exchange rate risk is primarily that of a net receiver of currencies other than the US dollar. Accordingly, changes in exchange rates, and in particular a strengthening of the U.S. dollar, will negatively affect the Company s net sales and gross margins as expressed in U.S. dollars. Additionally, we have not engaged in any derivative or hedging transactions to date.

Item 4. Controls and Procedures
Disclosure Controls and Procedures

We have established disclosure controls and procedures to ensure that material information relating to the Company is made known to the officers who certify the Company s financial reports and to other members of senior management and the board of directors.

Based on their evaluation as of June 30, 2011, the principal executive officer and principal financial officer of the Company have concluded that the Company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms and to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure.

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

Changes in Internal Controls over Financial Reporting

There has not been any change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting during the quarter ended June 30, 2011.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The information with respect to legal proceedings is incorporated by reference from Note 4 of our Consolidated Financial Statements included herein.

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report, you should carefully consider the factors discussed Risk Factors included within our final prospectus dated June 16, 2011 and filed with the SEC on June 17, 2011 under Rule 424(b)(1) and as part of our Registration Statement on Form S-1. The risks described in the prospectus are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results. There have been no material changes in our risk factors from those disclosed in the prospectus referred to above.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Use of Proceeds

On June 22, 2011, the Company completed its initial public offering (IPO) commenced on June 6, 2011, whereby it and certain of its existing stockholders sold 22,994,455 shares of common stock at a public offering price of $15.00 per share and an aggregate offering price of $344.9 million, including 2,994,455 shares sold by certain of its existing stockholders upon the exercise of the underwriters option to purchase additional shares. The Company s shares are traded on the New York Stock Exchange (NYSE) under the symbol RATE. Goldman, Sachs & Co. and BOFA Merrill Lynch were the joint bookrunning managers and representatives of the offering. The offer and sale of all of the shares in the IPO, including 12,500,000 shares to be sold by the Company, 7,500,000 shares to be sold by the selling stockholders, and 3,000,000 shares to be sold by the selling stockholders upon the exercise of the underwriters option to purchase additional shares, for an aggregate offering price of $345.0 million, were registered under the Securities Act pursuant to a registration statement on Form S-1 (File No. 333-173550), which was declared effective by the SEC on June 16, 2011. Our portion of the net proceeds from the IPO was approximately $170.3 million after deducting underwriting discounts of $11.3 million and offering costs of $5.9 million.

We used approximately $123.0 million of the net proceeds from the offering to repay the principal and accrued interest on our Senior Secured Notes (see Note 7). We intend to use the balance of the net proceeds from the offering for working capital and other general corporate purposes, including financing our growth.

As part of the 22,994,455 shares of common stock sold in the IPO, 10,494,455 shares of common stock were sold by certain existing stockholders at a public offering price of $15.00 per share, including 2,994,455 shares sold by the selling stockholders upon the exercise of the underwriters option to purchase additional shares. The Company did not receive any of the proceeds from the sale of such shares by the selling stockholders.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

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Item 6. Exhibits

Exhibit No.	Description
10.1*	Form of Stock Option Grant Agreement for Awards under the 2011 Equity Compensation Plan
10.2*	Form of Restricted Stock Agreement for Awards under the 2011 Equity Compensation Plan
31.1*	Certification of Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as Adopted pursuant to Section 906 of the Sabanes-Oxley Act of 2002
32.2*	Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as Adopted pursuant to Section 906 of the Sabanes-Oxley Act of 2002
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith

** Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability

Signatures