BANKRATE INC
Form 10-K
March 15, 2004
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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-K

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

For The Fiscal Year Ended December 31, 2003

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

Commission File No. 0-25681

(exact name of registrant specified in its charter)

Florida	**65-0423422**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

11811 U.S. Highway One, Suite 101

North Palm Beach, Florida 33408

(Address of principal executive offices) (zip code)

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

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

None

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

Common Stock, par value $0.01 per share

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes x No ¨

The aggregate market value of the voting common equity held by non-affiliates of the Registrant, based on the average of the closing bid and ask quotations for the Common Stock on June 30, 2003 as reported by the Nasdaq SmallCap Market was approximately $80,873,000. As of February 27, 2004, the Registrant had outstanding 15,232,065 shares of Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s Proxy Statement for the 2004 Annual Meeting of Stockholders are incorporated by reference into Parts I and III of this report.

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ITEM 1. BUSINESS

This Report and our other communications and statements may contain forward-looking statements, including statements about our beliefs, plans, objectives, goals, expectations, estimates, projections and intentions. These statements are subject to significant risks and uncertainties and are subject to change based on various factors, many of which are beyond our control. For information concerning these factors and related matters, see Risk Factors below and Forward-Looking Statements in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations.

Overview

Bankrate, Inc. owns and operates an Internet-based consumer banking marketplace. Our flagship site, Bankrate.com, is the Internet s leading aggregator of information on more than 250 financial products, including mortgages, credit cards, new and used automobile loans, money market accounts, certificates of deposit, checking and ATM fees and home equity loans. Additionally, we provide financial applications and information to a network of distribution partners and also through national and state publications.

Bankrate.com provides the tools and information that can help consumers make better financial decisions. We regularly survey more than 4,800 financial institutions in all 50 states in order to provide the most current objective, unbiased rates. Hundreds of print and online partner publications depend on Bankrate.com as the trusted source for financial rates and information.

Over two decades ago, we began as a print publisher of the newsletter *Bank Rate Monitor*. Our rate tables provide, at no cost to the consumer, a detailed list of lenders by market and include relevant details to help consumers compare loan products.

We continue to enhance our offerings in order to provide Bankrate.com users with the most complete experience. Features such as financial calculators and e-mail newsletters allow users to interact with our site. Our *Rate Trend Index* is a weekly poll of industry insiders designed to help consumers forecast interest rate trends.

We also broadened our offerings to include channels on investing, taxes, small business, financial advice and insurance. Each channel offers a unique look at its particular topic. Bankrate.com users can find advice and tips from the Tax channel, obtain business ideas from the Small Business channel and ask a financial expert a question in the Advice channel.

Prior to 1996, and dating back to 1976, our principal business was the publication of print newsletters, the syndication of unbiased editorial bank and credit product research to newspapers and magazines, and advertising sales of the *Consumer Mortgage Guide*. We currently syndicate editorial research to 101 newspapers that have combined single day circulation in excess of 28 million copies, and to two national magazines with combined monthly circulation in excess of 4.6 million copies. The *Consumer Mortgage Guide* is a weekly newspaper-advertising table consisting of product and rate information from local mortgage companies and financial institutions. The *Consumer Mortgage Guide* appears weekly in approximately 28 U.S. metropolitan newspapers with combined single day circulation in excess of 9 million copies, including our first TV *Consumer Mortgage Guide* with a reach of 2.8 million. Together, these Bankrate.com branded print activities have the potential of reaching 41.5 million readers according to *Editor & Publisher International* 2003 Year Book.

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

We believe that the recognition of our research as a leading source of independent, objective information on banking and credit products is essential to our success. As a result, we have sought to maximize distribution of our research to gain brand recognition as a research authority. We are seeking to build greater brand awareness of our Web site and to reach a greater number of online users.

See Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations and Critical Accounting Policies, and Note 9 to the Financial Statements below for a discussion of our two reportable business segments: online publishing, and print publishing and licensing.

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Our Opportunity

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

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

Despite weakness in advertising spending on the Internet, we have seen steady interest in our primary niches mortgages, automobile loans, home equity loans and CD/savings products. In addition, we believe our faith in the long-term benefits of the Internet is well founded. The ability of the Internet to provide a platform for frictionless communication between consumers and businesses has not changed. We believe Bankrate, Inc. is positioned to benefit from any growth in Internet usage and the return of the Internet advertising market.

Restructuring

We spent much of 2000 and 2001 refocusing the Company s business efforts into our primary Web site, Bankrate.com, while actively controlling expenses and pursuing additional sources of revenue. In addition, we sold or curtailed development of under-performing Web sites and business units. The following steps were taken as a direct result of our strategic reorganization initiatives.

- We substantially reduced marketing expenditures beginning in January 2000.
- In May 2000, we sold CPNet.com, our online advertising network that provided content and advertising management to college newspaper Web sites.
- In June 2000, we reduced employment levels of continuing operations by 10% and began consolidating our physical locations.
- In June 2000, we shut down our Broadcast Operations that produced *Cost of Life* personal finance video segments distributed to television stations.
- In June 2000, we shut down ilife.com, our vertical personal finance portal, and incorporated IntelligentTaxes.com, our personal income tax information Web site, as a channel of Bankrate.com.
- In July 2000, we sold Pivot.com, our virtual insurance agency and fulfillment/call center.

In August 2000, we shut down and sold certain assets of Consejero.com, our Spanish-language personal finance Web site, and Garzarelli.com, a subscription Web site for investment advisor Elaine Garzarelli.

In December 2000, we shut down GreenMagazine.com, our alternative personal finance Web site, and the print publication Green Magazine.

In 2001, we terminated unprofitable distribution and advertising agreements, formed a telemarketing group in our advertising sales staff to focus primarily on hyperlink sales, and focused our marketing efforts on non-cash intensive marketing programs such as sweepstakes, promotions and barter transactions.

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Strategy

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

Continuing to provide advertisers with high-quality, ready-to-transact consumers: By advertising on our site, either through purchasing graphic ads, hyperlinks, or sponsorships, banks, brokers and other advertisers are tapping into our strongest resource, consumers on the verge of engaging in a transaction. By allowing advertisers to efficiently access these in-market consumers, we are helping advertisers lower their own costs of acquiring new customers, and ultimately creating a transaction that is beneficial for the advertiser, the consumer and us.

Remaining the dominant brand in consumer bank rate data and content: We are continuing our strong push to remain the dominant player in our market. We believe we are the number one competitor in our market on a number of levels, including revenue, the number of banks surveyed, the number of pages viewed by consumers and the number of unique visitors.

Continued, low-risk growth through partnering with top Web sites: Our partner network provides Bankrate.com with a steady stream of visitors, with little to no advertising risk to the Company. As the bulk of these agreements are revenue- sharing, we only pay out a percentage of what we actually bring in.

Zealously guarding our limited resources: Our greatest assets are our people, our partners and our brand. We carefully weigh every decision for the potential impact on these three resources.

Distribution Arrangements

Our distribution (or syndication) arrangements with other Web site operators fall into two categories: (1) co-branding, in which we establish a co-branded site with another Web site operator, (2) licensing, in which we provide content to the other operator s Web site together with a hyperlink to our own site. We have found co-branding to be more effective in driving traffic to our site.

Co-branded sites are created pursuant to agreements with other Web site operators. Generally, agreements relating to co-branded sites provide for us to host the co-branded Web pages, sell and serve the graphical advertising, and collect advertising revenues, which are shared with the third party Web site.

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

Our largest partners in terms of driving traffic to our site as of December 31, 2003 included America Online, USA Today, Dollar Stretcher, Netscape, and Yahoo! During 2003, approximately 21% of the traffic to Bankrate.com was attributable to the distribution partners compared to 32% in 2002. The decline results from the heightened consumer demand for mortgage products data during 2003 driving more traffic directly to Bankrate.com. We expect traffic from distribution partners to be between 25% and 30% of total site traffic in 2004.

Financial Product Research

Our research staff is made up of 39 employees who track comparative information on more than 250 financial products and services, including checking accounts, consumer loans, lines of credit, mortgages, certificates of deposit, savings accounts, credit cards, money market accounts and online accounts. We cover both personal and small business accounts offered through branch offices and on the Internet by banks, thrifts, credit unions, credit card issuers, mortgage bankers and mortgage brokers. We estimate that over 3,000,000 items of data are gathered each week for more than 300 markets across the United States from over 4,800 financial institutions. The information obtained includes not only interest rates and yields, but also related data such as lock periods, fees, points, and loan sizes for mortgages and grace periods, late penalties, cash advance fees, cash advance annual percentage rates, annual percentage yields, minimum payments, and terms and conditions of credit cards.

We adhere to a strict methodology in developing our markets and our institutional survey group. The market survey includes the 100 largest U.S. markets, as defined by the U.S. Census Bureau s Metropolitan Statistical Area categories, along with the largest market in each state that does not include one of the largest 100 markets and other selected communities that represent areas of growth. We provide a comparative analysis of data by market and state as well as on a national basis.

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Institutions in the survey group include the largest banks and thrifts within each market area based on total deposits. The number of institutions tracked within a given market is based on the types of financial products available and number of institutions in the market area. In each of the largest 25 markets, we track at least 10 institutions. In each of the smaller markets, we track three or more institutions. We verify and adjust, if necessary, the institutions included in the survey group on an annual basis using FDIC deposit data from year-end call reports. We do not include credit unions in the market survey group because product availability is based upon membership. However, we track the 50 largest U.S. credit unions as a separate survey group for comparison purposes.

All products included in our database have narrowly defined criteria so that information provided by institutions is comparable. Collected data undergoes four levels of quality control prior to being accepted for inclusion in the database. The first level is automatically performed by our editing software, which identifies unusual changes. The second level is visual proofing, which is performed by a researcher who gathers rates from institutions, reviews the surveys to determine whether there have been any changes in the data on a weekly basis, and verifies unusual changes or other questionable data by contacting the institution. The third level is a second visual check by a senior researcher. The fourth level is performed by a dedicated quality control staff consisting of senior researchers who verify that the information has been correctly updated and entered into our databank. Our quality control staff reviews each listing in relation to regional and national trends and for overall accuracy and consistency fees and related information prior to disclosure of the information to consumers. The staff also reviews the comparability of products, institutional accuracy and survey accuracy. In addition, the quality control team performs anonymous shopping on a weekly basis, whereby we place calls to institutions in order to validate the data in a consumer setting. Institutions providing invalid data are contacted by our quality control staff to ensure that future information will be accurate.

The criteria for product listings consist of specific attributes, such as loan size and term that are used to define each type of financial instrument in order to ensure uniformity in the products that are compared. With the exception of the Internet Banking Deals table, no special offers are listed on our site. Institutions listed in our Bankrate.com online tables that purchase hyperlinks to their own sites or purchase other advertising must comply with the same criteria for product listings that apply to other institutions or they will be removed.

All of our new research employees are provided with a four-week program of on-the-job training to ensure consistency of data-gathering and validation techniques. Follow-up refresher training is provided to our research employees on an ongoing basis to ensure that skill levels are maintained.

At the end of each weekly survey, data are archived as part of our 20-year old cumulative historical data file. This file provides a unique resource for our financial analysts and editorial team in developing trend graphs, charts and narrative analysis that is used by national and local media.

We are aware of the potential conflict of interest resulting from the sale of advertising to financial institutions while providing independent and objective research. However, we believe that no potential conflicts of interest have ever compromised our ability to provide independent and objective research, and we are committed to continue to provide such research in the future.

Editorial Content

In addition to our research department, as of December 31, 2003, we maintained an editorial staff of 18 editors, writers and researchers, and graphic designers who create original stories and content for our Web site. We also have relationships with more than 20 free-lance writers. Most of our editorial staff members are experienced journalists with newspaper or broadcast experience. For example, the reporters and editors of Bankrate.com have professional journalistic work experience ranging from three to 33 years, with an average of 12 years of experience. We believe the quality of our original content plays a critical role in attracting visitors to our Web site and to our co-branded partners Web sites.

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

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Print Publications

We continue to produce traditional print publications to absorb part of the cost of producing research and original editorial content. Additionally, we believe that print publishing activities contribute to greater exposure and branding opportunities for our Internet Web site. Our print publications activities include the following:

Consumer Mortgage Guide: We generate revenue through the sale of mortgage rate and product listings in 28 metropolitan newspapers across the United States with combined Sunday circulation of 9 million copies. We enter into agreements with the newspapers for blocks of print space, which is in turn sold to local mortgage lenders and we share the revenue with the newspapers on a percentage basis.

Syndication of Editorial Content and Research: We syndicate editorial research to 101 newspapers, which have a combined Sunday circulation of more than 28 million copies, and two national magazines with combined monthly circulation in excess of 4.6 million copies.

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

Consumer Marketing

We have determined that our resources are best leveraged by emphasizing non-cash intensive marketing programs. This gives us the opportunity to reach consumers using multiple advertising vehicles with a minimal depletion of our marketing budget. We continued this successful strategy in 2003 by expanding our barter effort, purchasing a series of strategic, highly targeted online and print campaigns, and pay per performance campaigns on search engines. In addition, we have used sweepstakes and promotions efforts to drive site traffic and grow our e-mail newsletter subscriber base. All consumer marketing efforts are designed, implemented, and tracked by our employees.

Advertising Sales

Our advertising sales staff consisted of 22 salespeople and support staff as of December 31, 2003. It is divided into two groups: the Graphic Ad Team (GAT) and the Telemarketing Group (Telemarketing). The GAT focuses on selling graphic ads to national advertisers, while Telemarketing primarily sells hyperlinks to regional and local advertisers. Most of our salespersons are located in our North Palm Beach corporate headquarters. We also maintain two satellite offices in New York, New York and in Irvine, California. Each salesperson is responsible for a designated geographic region of the United States.

Our GAT salespeople present advertising solutions to potential advertisers using inventory created by our Web site as well as co-branded Web sites. We believe this combined network of sites enhances value for advertisers and direct marketers by (1) alleviating the need to purchase a series of advertising campaigns from numerous Web sites, (2) providing advertisers and direct marketers with advertising opportunities on a wide variety of Web pages containing business and personal finance content, and (3) providing targeted access to Internet users with desirable demographics. Advertisers and direct marketers can enhance the effectiveness of their campaigns by customizing advertising delivery on our networks within a particular content channel or across an entire network.

Advertising Alternatives

Our advertisers can target prospective customers using several different approaches:

- Targeting specific geographic and product areas; for example, mortgage shoppers in Atlanta, Georgia; or just one of these all consumers interested in mortgages, or all consumers from Atlanta.
- Focusing on consumers in specific situations, such as those who are first-time home buyers, or those actively shopping for CDs.
- General rotation throughout our site.

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Our most common graphic advertisement sizes are banners, which are prominently displayed at the top or bottom of a page (486 x 60 pixels) and badges, which are smaller than banners (125 x 125 pixels). We offer banners and badges which can be targeted to specific areas of our site, or on a general rotation basis. Advertising rates may vary depending upon the quantity of advertisements purchased by an advertiser and the length of time an advertiser runs an advertisement on our site. Discounts are available based upon the volume of advertisements purchased.

We also sell posters, which are oversized advertisements that contain more information than traditional advertisements. We position posters on certain pages so that they dominate the page. Advertisers may also purchase sponsorship positions on the Bankrate.com home page and the main page for each product channel. In addition, we offer product special issues that are available for single sponsorships. Rates for product special issues are based on expected impression levels and additional content requirements.

Providing effective tools for managing advertising campaigns is essential to maintaining advertising relationships. We use a state-of-the-art program under license from a third party that allows our advertisers to monitor their spending on our Web sites in real-time for impressions received and click-through ratios generated. We also accept impression counts from other third party servers.

Hyperlinks

Financial institutions that are listed in our rate tables have the opportunity to hyperlink their listings. By clicking on the hyperlink, users are taken to the institution s Web site. A substantial benefit to advertisers with the hyperlink rate listing is that the hyperlinks are in fixed placement on the rate pages and are shown every time a user accesses a page. In contrast, banner advertisements are rotated based on the number of impressions purchased. Hyperlinks are sold under contracts that range primarily between three and twelve months. The number of hyperlinked rate listings that can be added to a rate page is limited only by the number of institutions listed, while banner positions are limited by available space.

We also sell text links on our rate pages to advertisers on a cost-per-click (CPC) basis. Advertisers enter an auction bidding process on a third party Web site for placement of their text link based on the amount they are willing to pay for each click through to their Web site. We recognize revenue monthly for each text link based on the number of clicks at the CPC contracted for during the auction bidding process.

E-Mail Sponsorships

We publish more than a dozen e-mail newsletters ranging from specific topics such as CDs, credit cards, and mortgages, to broader topics such as frugal living, monthly checkups and weekly news to alert newsletters (e-mails alerting subscribers every time a rate changes in mortgages or CDs, or when stories are published on a particular topic). These newsletters offer another marketing and sales outlet for us. With over 1.2 million e-mail subscriptions, we believe our e-mail newsletters represent attractive advertising space for our customers. Advertisers can sponsor e-mails with both text and graphic ads.

Advertisers

We market to local advertisers targeting a specific audience in a city or state and also to national advertisers targeting the entire country. As of December 31, 2003, we had 69 graphic advertisers and 533 hyperlink advertisers, some of which are both graphic and hyperlink advertisers. Among our larger advertisers are GetSmart (recently acquired by Lending Tree, Inc.)/Providian Financial Corporation, Mortgage Expo/Cyber Financial Network, iHomeowners, Inc., E-Loan, Inc., PeopleFirst Finance, LLC, Lending Tree, Inc., E*Trade Bank, A-1 at Homebound Mortgage, WeRLoans.com, ING Direct, Washington Mutual and Bank of America. We had one online customer, GetSmart/Providian Financial Corporation, who accounted for approximately 9%, 11% and 4%, respectively, of total revenue for the years ended December 31, 2003, 2002 and 2001. Sales to no other customer exceeded 10% of total revenue for the periods presented. No revenues were generated outside of the United States.

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Competition

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

- Personal finance sections of general interest sites such as MSN Money and Excite;
- Personal finance destination sites such as Forbes.com, The Motley Fool, SmartMoney.com, Kiplinger.com and CNNMoney.com;
- E-commerce sites that provide banking and credit products and information such as E-LOAN and LendingTree;
- Rate listing sites, such as MonsterMoving; and
- Key word search engine sites such as Ask Jeeves and FindWhat.

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

Operations

We currently host our Web site on proprietary servers at a secure third party co-location facility in Atlanta, Georgia. This facility is manned, and our equipment is monitored continuously, 24 hours daily. The facility is powered continuously with multiple sources, including uninterruptible power supplies and internal power generators. The facility is connected to the Internet with redundant high-speed digital data lines that are diversely routed. Our Web site pages are served from an independent content distribution network for performance and redundancy. Much of the information presented on our Web site is stored on a dual-node database server cluster also housed in the co-location facility. Our systems are protected by a multi-layered security system including dual high-speed inspection state firewalls.

All of our systems are controlled remotely via an encrypted virtual private network (VPN) from our network operations center (NOC) in our principal office in North Palm Beach, Florida. Content on our Web site is created and initially stored on systems located at the NOC, then transferred at scheduled intervals during the day via the VPN to the systems at the Georgia co-location facility. The North Palm Beach facility systems are also powered redundantly by uninterruptible power supply units and an LP gas-powered electric generator.

Proprietary Rights

Our proprietary intellectual property consists of our unique research and editorial content. We rely primarily on a combination of copyrights, trademarks, trade secret laws, our user policy and restrictions on disclosure to protect this content. In addition, we license some of our data and content from other parties. Our copyrights, trademarks and licenses expire at various dates, and none is individually significant.

Employees

As of December 31, 2003, we had 122 full-time employees, of which 18 were in Web site and content operations, 30 in sales, business development and marketing, 39 in content and data research, 6 in advertising revenue operations, 16 in product development and information technology, 7 in finance and accounting, and 6 in administration. We have never had a work stoppage and none of our employees are represented under collective bargaining agreements. We consider our employee relations to be favorable.

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Risk Factors

Risks Related to Our Business

Our Success Depends on Internet Advertising Revenue

We expect to derive approximately 85% of our revenue in the foreseeable future through the sale of advertising space and hyperlinks on our Internet Web pages. Any factors that limit the amount advertisers are willing to spend on advertising on our Web site could have a material adverse effect on our business. These factors may include:

- a lack of standards for measuring Web site traffic or effectiveness of Web site advertising;
- a lack of established pricing models for Internet advertising;
- the failure of traditional media advertisers to adopt Internet advertising;
- the introduction of alternative advertising sources; and
- a lack of significant growth in Web site traffic.

Continuing to demonstrate the effectiveness of advertising on our Web site is critical to our ability to generate advertising revenue. Currently, there are no widely accepted standards to measure the effectiveness of Internet advertising, and we cannot be certain that such standards will develop sufficiently to support our growth through Internet advertising.

A number of different pricing models are used to sell advertising on the Internet. Pricing models are typically either CPM-based or performance-based. We predominantly utilize the CPM-based model, which is based upon the number of advertisement impressions. The performance-based, or per click, model generates payments on each individual click even though it may take multiple advertisement impressions to generate one click-through. We cannot predict which pricing model, if any, will emerge as the industry standard. Therefore, it is difficult for us to project our future advertising rates and revenues. For instance, banner advertising, which is one of our primary sources of online revenue, may not be an effective advertising method in the future. If we are unable to adapt to new forms of Internet advertising and pricing models, our business could be adversely affected.

Financial services companies account for a majority of our advertising revenues. We will need to sell advertising to customers outside of the financial services industry in order to significantly increase our revenues. To date, relatively few advertisers from industries other than the technology and financial services industries have devoted a significant portion of their advertising budgets to Internet advertising. If we do not attract advertisers from other industries, revenue growth could be adversely affected.

We Have a History of Losses

We have incurred net losses in six of our last eight fiscal years, resulting in an accumulated deficit of approximately $41 million as of December 31, 2003.

We have succeeded in managing our cash by actively controlling expenses and pursuing additional sources of revenue. For instance, since early 2000, we have substantially reduced marketing expenditures and sold or shut down under-performing, non-core business units. We sold CPNet.com and Professional Direct Insurance Agency, Inc. in May 2000 and July 2000, respectively, shut down and sold certain assets of Consejero.com in August 2000, and shut down Greenmagazine.com in December 2000. These transactions yielded approximately $4,392,000 in cash and reduced operating expenses. We have also reduced employment levels of continuing operations and consolidated our physical locations. In February 2002, we completed the early repayment of our $4,350,000 convertible subordinated note payable, including accrued interest, for $3,400,000. We have generated cash from operations for 11 consecutive quarters and have been profitable for 9 consecutive quarters through December 31, 2003. Based on these actions and our current plan, we believe our existing capital resources will be sufficient to satisfy our cash requirements through at least the next 12 months.

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We Use Barter Transactions, Which Do Not Generate Cash

We enter into barter transactions to promote our brand and generate traffic to our Web site without spending any of our cash resources. Barter transactions represent the exchange by the Company of advertising space on the Company s Web site for reciprocal advertising space on other Web sites. Revenue from barter transactions is recognized as income when advertisements are delivered on the Company s Web site. Barter expenses are recognized when the Company s advertisements are run on the other companies Web sites, which typically are in the same period in which barter revenues are recognized. Barter transactions, however, do not generate cash. Limited cash flow may adversely affect our ability to expand our operations and satisfy liabilities. Revenue from barter transactions represented approximately 9%, 11%, and 14% of total revenue for the years ended December 31, 2003, 2002 and 2001, respectively. We expect barter revenue to represent approximately 10% of our total revenue in 2004.

Our Success Depends on Interest Rate Volatility

We provide interest rate information for mortgages and other loans, credit cards and savings accounts. Visitor traffic to Bankrate.com tends to increase with interest rate movements and decrease with interest rate stability. Factors that have caused significant visitor fluctuations in the past have been Federal Reserve Board actions and general market conditions affecting home mortgage interest rates. Additionally, the level of traffic to Bankrate.com can be dependent on interest rate levels as well as mortgage re-financing activity. Accordingly, a slowdown in mortgage production volumes could have a material adverse effect on our business.

We believe that as we continue to develop our Web site with broader personal finance topics, the percentage of overall traffic seeking mortgage information will remain stabilized at current levels. To accelerate the growth of traffic to Bankrate.com, we are working with our syndication partners to program more intensively, and we are aggressively promoting Bankrate.com products not related to mortgage activity. We cannot be certain that we will be successful in these efforts.

Our Success Depends on Establishing and Maintaining Distribution Arrangements

Our business strategy includes the distribution of our content through the establishment of co-branded Web pages with high-traffic business and personal finance sections of online services and Web sites. A co-branded site is typically a custom version of our Web site with the graphical look, feel, and navigation, of the co-branded partner s Web site. Providing access to these co-branded Web pages is a significant part of the value we offer to our advertisers. We compete with other Internet content providers to maintain our current relationships with other Web site operators and establish new relationships. In addition, as we expand our personal finance content, some of these Web site operators may perceive us as a competitor. As a result, they may be unwilling to promote distribution of our banking and credit content. We cannot guarantee that our distribution arrangements will attract a sufficient number of users to support our current advertising model. In addition, our business could be adversely affected if we do not establish and maintain distribution arrangements on favorable economic terms.

Risks Related to Our Industry, the Internet and Our Technology Infrastructure

Our Future Success is Dependent Upon Increased Acceptance of the Internet by Consumers as a Medium for Obtaining Financial Product Information

Our success will depend in large part on continued and expanded widespread consumer acceptance of obtaining rate information regarding financial products such as mortgages, credit cards, money market accounts, certificates of deposit, checking and ATM fees, home equity loans, online banking fees and new and used auto loans online. Increased consumer use of the Internet to provide for their lending needs is subject to uncertainty. The development of an online market for obtaining rate information regarding the above listed financial products has only recently begun, is rapidly evolving and likely will be characterized by an increasing number of market entrants. If consumer acceptance of the Internet as a source for such information does not increase, our business, results of operations and financial condition will be adversely affected. As a result, we cannot be sure that we will be able to compete effectively with traditional methods of obtaining such rate information.

Our Markets Are Highly Competitive

We compete for Internet advertising revenues with the personal finance sections of general interest sites such as Yahoo! and America Online; personal finance destination sites such as Forbes.com, The Motley Fool, SmartMoney.com, Kiplinger.com and CNNMoney.com; e-commerce sites that provide banking and credit products and information such as

E-LOAN and LendingTree; and rate listing sites such as MonsterMoving. In addition, new competitors may easily enter this market as there are few barriers to entry. Many of our existing competitors, as well as a number of potential new competitors, have longer operating histories, greater name recognition, larger customer bases and significantly greater financial, technical and marketing resources than us. Many competitors have complementary products or services that drive traffic to their Web sites. Increased competition could result in lower Web site traffic, advertising rate reductions, reduced margins or loss of market share, any of which would adversely affect our business. We cannot be certain that we will be able to compete successfully against current or future competitors.

Our Web Site May Encounter Technical Problems and Service Interruptions

In the past, our Web site has experienced significant increases in traffic in response to interest rate movements and other business or financial news events. The number of our users has continued to increase over time, and we are seeking to further increase our user base. As a result, our Internet servers must accommodate spikes in demand for our Web pages in addition to potential significant growth in traffic.

Our Web site has in the past, and may in the future, experience slower response times or interruptions as a result of increased traffic or other reasons. These delays and interruptions resulting from failure to maintain Internet service connections to our site could frustrate users and reduce our future Web site traffic, which could have a material adverse effect on our business.

All of our communications and network equipment is co-located at our corporate headquarters in North Palm Beach, Florida and at a secure third party co-location facility in Atlanta, Georgia. Multiple system failures at these locations could lead to interruptions or delays in service for our Web site, which could have a material adverse effect on our business. Our operations are dependent upon our ability to protect our systems against damage from fires, hurricanes, earthquakes, power losses, telecommunications failures, break-ins, computer viruses, hacker attacks and other events beyond our control. Although we maintain business interruption insurance, it may not adequately compensate us for losses that may occur due to failures of our systems.

We Rely on the Protection of Our Intellectual Property

Our intellectual property consists of the content of our Web site and print publications. We rely on a combination of copyrights, trademarks, trade secret laws and our user policy and restrictions on disclosure to protect our intellectual property. We also enter into confidentiality agreements with our employees and consultants and seek to control access to and distribution of our proprietary information. Despite these precautions, it may be possible for other parties to copy or otherwise obtain and use the content of our Web sites or print publications without authorization. A failure to protect our intellectual property in a meaningful manner could have a material adverse effect on our business.

Because we license some of our data and content from other parties, we may be exposed to infringement actions if such parties do not possess the necessary proprietary rights. Generally, we obtain representations as to the origin and ownership of licensed content and obtain indemnification to cover any breach of any these representations. However, these representations may not be accurate and the indemnification may not be sufficient to provide adequate compensation for any breach of these representations.

Any future infringement or other claims or prosecutions related to our intellectual property could have a material adverse effect on our business. Defending against any of these claims, with or without merit, could be time-consuming, result in costly litigation and diversion of technical and management personnel or require us to introduce new content or trademarks, develop new technology or enter into royalty or licensing agreements. These royalty or licensing agreements, if required, may not be available on acceptable terms, if at all.

We May Face Liability for Information on Our Web Site

Much of the information published on our Web site relates to the competitiveness of financial institutions rates, products and services. We may be subjected to claims for defamation, negligence, copyright or trademark infringement or other theories relating to the information we publish on our Web sites. These types of claims have been brought, sometimes successfully, against online services as well as print publications. Our insurance may not adequately protect us against these types of claims.

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Future Government Regulation of the Internet is Uncertain and Subject to Change

As Internet commerce continues to evolve, increasing regulation by federal or state agencies or foreign governments may occur. Such regulation is likely in the areas of user privacy, pricing, content and quality of products and services. Additionally, taxation of Internet use or electronic commerce transactions may be imposed. Any regulation imposing fees for Internet use or electronic commerce transactions could result in a decline in the use of the Internet and the viability of Internet commerce, which could have a material adverse effect on our business.

We May Be Limited Or Restricted In The Way We Establish And Maintain Our Online Relationships By Laws Generally Applicable To Our Business

State and Federal lending laws and regulations generally require the accurate disclosure of the critical components of credit costs so that consumers can readily compare credit terms from various lenders. In addition, these laws and regulations impose certain restrictions on the advertisement of these credit terms. Because we are an aggregator of rate and other information regarding many financial products online, we may be subject to some of these laws and regulations. We believe that we have structured our Web site to comply with these laws and regulations. However, if these laws and regulations are changed, or if new laws or regulations are enacted, these events could prohibit or substantially alter the content we provide on our Web site. Moreover, such events could materially and adversely affect our business, results of operations and financial condition.

Risks Related to Corporate Control and our Stock Price

Our Ownership is Heavily Concentrated

At December 31, 2003, approximately 42% of our outstanding common stock was beneficially owned by our officers and directors, including Peter C. Morse, a director and our largest shareholder, who beneficially owns approximately 33% of our outstanding common stock. As a result, our officers and directors will be able to exercise control over all matters requiring shareholder approval. In particular, these controlling shareholders will have the ability to elect all of our directors and approve or disapprove significant corporate transactions. This control could be used to prevent or significantly delay another company or person from acquiring or merging with us and could inhibit our liquidity and affect trading in our common stock.

Our Success May Depend on Management and Key Employees

Our success may depend largely upon retaining the continued services of our executive officers and other key management, developing personnel as well as hiring and training additional employees. We have a number of key employees on whom we depend and who may be difficult to replace. A failure to retain our current key employees or to hire enough qualified employees to sustain our growth could have a material adverse effect on our business.

We May Encounter Difficulties With Future Acquisitions

We may acquire complementary Web sites and other content providers as a part of our business strategy. Any acquisitions may present a number of potential risks that could have a material adverse effect on our business. These risks include the following: failure to integrate the technical operations and personnel in a timely and cost-effective manner; failure to retain key personnel of the acquired company; and assumption of unexpected material liabilities. In addition, we cannot assure you that we will be able to identify suitable acquisition candidates that are available for sale at reasonable prices.

We may finance future acquisitions with debt financing, which would increase our debt service requirements, or through the issuance of additional common or preferred stock, which could result in dilution to our shareholders. We cannot be certain that we will be able to arrange adequate financing on acceptable terms.

Our Results of Operations May Fluctuate Significantly

Our results of operations are difficult to predict and may fluctuate significantly in the future as a result of several factors, many of which are beyond our control. These factors include:

- changes in fees paid by advertisers;
- traffic levels on our Web site, which can fluctuate significantly;

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- changes in the demand for Internet products and services;
- changes in fee or revenue-sharing arrangements with our distribution partners;
- our ability to enter into or renew key distribution agreements;
- the introduction of new Internet advertising services by us or our competitors;
- changes in our capital or operating expenses;
- general economic conditions; and
- changes in banking or other laws that could limit or eliminate content on our Web site.

Our future revenue and results of operations are difficult to forecast due to these factors. As a result, we believe that period-to-period comparisons of our results of operations may not be meaningful, and you should not rely on past periods as indicators of future performance.

In future periods, our results of operations may fall below the expectations of securities analysts and investors, which could adversely affect the trading price of our common stock.

Our Stock Price May Be Particularly Volatile Because of the Industry We Are In

The stock prices and trading volume of Internet-related companies have been extremely volatile. Accordingly, our stock price can be volatile as well. In January 2001, we announced that our common stock had been removed from the Nasdaq National Market and had become eligible for trading on the OTC Bulletin Board. On January 9, 2003, we announced that our common stock had begun trading on the Nasdaq SmallCap Market and on August 18, 2003, we announced that our common stock had again begun trading on the Nasdaq National Market under our existing stock symbol RATE.

If Our Common Stock Price Drops Significantly, We May Be Delisted From the Nasdaq National Market, Which Could Eliminate The Trading Market For Our Common Stock

Our common stock is listed on the Nasdaq National Market. In order to continue to be included on the Nasdaq National Market, a company must meet certain maintenance criteria. As of December 31, 2003, we were in compliance with all such criteria. However, we cannot assure you that we will continue to meet these listing criteria. If our common stock were to be delisted, we would be required to meet the criteria for initial listing if we wanted to be listed on the Nasdaq National Market again. The initial listing standards are more stringent than the maintenance standards. Accordingly, we cannot provide assurances that if we were delisted we would be able to have our common stock relisted on the Nasdaq National Market. Further, if our common stock were to be delisted, it may become more difficult for us to raise funds through the sale of our common stock or securities convertible into our common stock.

Available Information

For further discussion concerning our business, see the information included in Items 7 and 8 of this report.

We make available free of charge through our Web site at www.bankrate.com our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports, if applicable, as soon as reasonably practicable after the material is electronically filed with or furnished to the Securities and Exchange Commission.

In addition, we expect to post our Corporate Governance Guidelines and the charters for our Audit Committee, Compensation Committee and Nominating Committee on our Web site at www.bankrate.com prior to our 2004 Annual Meeting of Shareholders.

ITEM 2. PROPERTIES

Our principal administrative, sales, Web operations, marketing and research functions are located in one leased facility in North Palm Beach, Florida. The facility is leased from Bombay Holdings, Inc., which is wholly-owned by Peter C. Morse, a director and 33% stockholder. The lease is for approximately 14,300 square feet and expires on December 31, 2006. We also lease approximately 4,500 square feet in New York, New York, that is principally used for administration, sales and business development. The New York office lease expires in September 2006. We also lease approximately 500 square feet on a month-to-month basis in Irvine, California that is used principally as a sales office.

We believe that all of our facilities are adequate and suitable for operations in the foreseeable future. However, we may undertake the expansion of certain facilities from time to time in the ordinary course of business.

See Notes 6 and 7 to the financial statements in Item 8 below for more information about our leased facilities.

ITEM 3. LEGAL PROCEEDINGS

On March 28, 2000, a purported class-action lawsuit was filed against us and others in the United States District Court for the Southern District of New York. The suit alleged that we violated federal securities laws by, among other things, selling securities pursuant to a defective registration statement, and misrepresenting and/or omitting material information concerning our financial results for the quarter ended March 31, 1999, and other financial information, in our registration statement filed with the Securities and Exchange Commission in connection with our initial public offering. The action, seeking an

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unspecified amount of money damages, was filed purportedly on behalf of all stockholders who purchased shares of our common stock during the period from May 13, 1999, through March 27, 2000. We filed a motion to dismiss this complaint and, on March 28, 2001, the suit was dismissed with prejudice. On April 25, 2001, plaintiffs appealed the decision to dismiss the suit to the United States Court of Appeals for the Second Circuit. On January 28, 2003, the United States Court of Appeals for the Second Circuit affirmed the dismissal of this action in its entirety.

In July 2000, we sold our former wholly-owned subsidiary, Professional Direct Agency, Inc. (Pivot), for $4,350,000 in cash. In connection with the sale, we agreed to indemnify the buyer for liability of up to $1,000,000 in connection with a litigation matter between Pivot and its co-founders and former owner. In March 2001, the case was dismissed based on a technical deficiency. In August 2001, the plaintiff re-filed the complaint. At December 31, 2003, the outcome of this matter was uncertain. We cannot estimate at this time the amount of loss, if any, that could result from an adverse resolution of this litigation.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT

The names, ages, and current positions of our executive officers as of March 15, 2004 are listed in the table below. There are no family relationships among the executive officers nor is there any agreement or understanding between any officer and any other person pursuant to which the officer was elected.

Executive Officers

Name	Age	Position
Elisabeth DeMarse	49	President, Chief Executive Officer and Director
G. Cotter Cunningham	41	Senior Vice President and Chief Operating Officer
Robert J. DeFranco	47	Senior Vice President and Chief Financial Officer
Richard G. Stalzer	40	Senior Vice President and Chief Revenue Officer

Elisabeth DeMarse. Ms. DeMarse has served as President and Chief Executive Officer of the Company since April 2000. Prior to that time, Ms. DeMarse served as Executive Vice President of International Operations at Hoover s, Inc., which operates Hoover s Online, from February 1999. Previously, she was an Executive Vice President at Bloomberg L.P. Ms. DeMarse spent ten years at Bloomberg L.P. in various leadership positions, where she led the start-up of eight businesses including Bloomberg.com, Bloomberg s e-commerce and i-commerce divisions and Bloomberg s print divisions. Prior to Bloomberg, she served four years at Citibank s Information Business, and over four years at Western Union marketing telecommunications services. Ms. DeMarse holds an A.B. *cum laude* from Wellesley College where she majored in history, and an M.B.A. from Harvard with an emphasis on marketing.

G. Cotter Cunningham. Mr. Cunningham has served as Senior Vice President and Chief Operating Officer of the Company since September 2000. Prior to that, he served as interim President and Chief Executive Officer of the Company from February 2000 and as Senior Vice President-Marketing and Sales of the Company from February 1999. From 1997 to 1999, Mr. Cunningham was Vice President and General Manager of Valentine McCormick Ligibel, Inc., an advertising agency specializing in new media. From 1992 to 1997, Mr. Cunningham was Vice President of Block Financial Corporation, where he created, launched and directed the CompuServe Visa and WebCard Visa credit card programs. Mr. Cunningham holds a B.S. in Economics from the University of Memphis and an M.B.A. from Vanderbilt University s Owen Graduate School of Management.

Robert J. DeFranco. Mr. DeFranco has served as Senior Vice President and Chief Financial Officer of the Company since September 2000. Prior to that he served as Vice President and Finance and Chief Accounting Officer from March 1999. From 1986 to 1999, he held various positions in corporate accounting and finance for companies including Ocwen Financial Corporation (as Director of Finance from January 1998 through March 1999), SunTrust Banks, Inc. (as Vice President-Financial Reporting from February 1995 through December 1997), Ryder System, Inc. and Southeast Banking Corporation.

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From 1978 to 1986 he was a member of the commercial audit division of Arthur Andersen & Co., Miami, Florida, where he last served as senior audit manager for a variety of publicly-held and privately-held companies in industries including banking and other financial institutions, manufacturing, distribution and real estate development. Mr. DeFranco is a Certified Public Accountant and a member of the American Institute of Certified Public Accountants. Mr. DeFranco received a Bachelor of Science degree with a major in accounting from Florida State University in 1978.

Richard G. Stalzer. Mr. Stalzer has served as Senior Vice President and Chief Revenue Officer since February 23, 2004. Prior to that, he was with MSN-Microsoft Corporation as East Coast Financial Service Director since March 2003, and as Director of Agency Relations since September 2002. From March 2002 to June 2002 he was Advertising Director at Advertising Age Crain Communication. From March 1999 to February 2002 he was Vice President of Sales of E*Trade Financial Group where he was responsible for developing E*Trade s media business and the creation of the E*Trade Financial Network. From October 1990 to March 1999 he held various positions with MONEY Magazine Time Warner, most recently as Western Regional Advertising Director from December 1995 to March 1999. Mr. Stalzer received a Bachelor of Science degree with a major in Business Administration from the University of Denver in 1986.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

Our common stock traded on the Nasdaq National Market from May 1999 until January 26, 2001. Prior to May 1999, there was no established market for the shares.

Effective January 29, 2001, our common stock was removed from the Nasdaq National Market and immediately became eligible for trading on the OTC Bulletin Board. Nasdaq s decision to delist our common stock from the Nasdaq National Market was based on our net tangible assets, as defined by Nasdaq, falling below the required $4,000,000 minimum amount.

Effective January 9, 2003, our common stock began trading on the Nasdaq SmallCap Market, and on August 18, 2003 we again began trading on the Nasdaq National Market under its existing stock symbol RATE.

The prices per share reflected in the table below represent, for the periods indicated, the range of high and low bid information for our common stock as reported by the OTC Bulletin Board from Tuesday, January 1, 2002 through Wednesday, January 8, 2003; the range of high and low closing sale prices for our common stock as reported by the Nasdaq SmallCap Market from Thursday, January 9, 2003 through Friday, August 15, 2003; and the range of high and low closing sale prices for our common stock as reported by the Nasdaq National Market from Monday, August 18, 2003 through Wednesday, December 31, 2003. The OTC Bulletin Board quotations reflect inter-dealer prices, without retail mark-up, markdown or commissions, and may not reflect actual transactions.

	HIGH	LOW
Year ended December 31, 2002		
First quarter	$ 1.29	$ 0.65

Second quarter	1.50	1.10
Third quarter	2.09	1.02
Fourth quarter	3.91	2.05
Year ended December 31, 2003		
First quarter	$ 5.84	$ 3.40
Second quarter	12.10	4.77
Third quarter	15.45	10.94
Fourth quarter	19.82	11.01

The closing sale price of our common stock as reported by the Nasdaq National Market on February 27, 2004 was $15.95 per share.

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The number of shareholders of record of our common stock as of February 27, 2004, was 4,280.

We have never paid cash dividends on our capital stock. We currently intend to retain any earnings for use in our business and do not anticipate paying any cash dividends in the foreseeable future.

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data set forth below should be read in conjunction with the financial statements and notes thereto, and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Form 10-K. The statement of operations data for the years ended December 31, 2003, 2002 and 2001, and the balance sheet data as of December 31, 2003 and 2002, are derived from, and are qualified by reference to, the financial statements of Bankrate, Inc. included elsewhere in this Form 10-K, which financial statements have been audited by KPMG LLP, independent auditors. The audit report is included elsewhere in this Form 10-K. The statement of operations data for years ended December 31, 2000 and 1999, and the balance sheet data as of December 31, 2000 and 1999, have been derived from audited financial statements not included in this Form 10-K. Historical results are not necessarily indicative of results to be expected in the future.

Statement of Operations Data

(In thousands, except share and per share data)

	Year Ended December 31,				
	2003	**2002**	**2001**	**2000 (A)**	**1999 (B)**
Revenue:					
Online publishing	$ 31,368	$ 22,651	$ 14,986	$ 12,283	$ 8,497
Print publishing and licensing	5,253	3,920	3,271	2,922	3,473
Total revenue	36,621	26,571	18,257	15,205	11,970
Cost of revenue:					
Online publishing	4,514	3,813	3,161	7,114	5,627
Print publishing and licensing	4,044	2,862	2,174	1,983	2,387
Total cost of revenue	8,558	6,675	5,335	9,097	8,014
Gross margin	28,063	19,896	12,922	6,108	3,956
Operating expenses:					
Sales	5,040	4,276	3,203	3,234	3,018
Marketing	5,496	3,477	2,923	3,874	16,459
Product development	2,271	1,422	1,386	1,950	2,025

General and administrative	5,813	5,537	5,512	8,467	9,415
Restructuring and impairment charges				2,285	
Depreciation and amortization	681	622	700	874	422
Goodwill amortization				231	186
	19,301	15,334	13,724	20,915	31,525
Income (loss) from operations	8,762	4,562	(802)	(14,807)	(27,569)
Other income (expense), net	243	83	(134)	230	873
Gain on early extinguishment of debt		2,022			
Noncash financing charge					(2,656)
Income (loss) before income taxes and discontinued operations	9,005	6,667	(936)	(14,577)	(29,352)
Income tax benefit	3,100				
Income (loss) before discontinued operations	12,105	6,667	(936)	(14,577)	(29,352)
Discontinued operations:					
Loss from discontinued operations				(3,215)	(2,136)
Gain on disposal of discontinued operations				871	
				(2,344)	(2,136)
Net income (loss)	12,105	6,667	(936)	(16,921)	(31,488)
Accretion of Convertible Series A and Series B preferred stock to redemption value					(2,281)
Net income (loss) applicable to common stock	$ 12,105	$ 6,667	$ (936)	$ (16,921)	$ (33,769)
Basic and diluted net income (loss) per share:					
Income (loss) before discontinued operations-					
Basic	$ 0.84	$ 0.48	$ (0.07)	$ (1.05)	$ (2.90)
Diluted	$ 0.79	$ 0.46	$ (0.07)	$ (1.05)	$ (2.90)
Discontinued operations-					
Basic	$	$	$	$ (0.17)	$ (0.21)
Diluted	$	$	$	$ (0.17)	$ (0.21)
Net income (loss)-					
Basic	$ 0.84	$ 0.48	$ (0.07)	$ (1.22)	$ (3.11)
Diluted	$ 0.79	$ 0.46	$ (0.07)	$ (1.22)	$ (3.11)
Accretion of Convertible Series A and Series B preferred stock to redemption value-					
Basic	$	$	$	$	$ (0.23)
Diluted	$	$	$	$	$ (0.23)
Net income (loss) applicable to common stock-					
Basic	$ 0.84	$ 0.48	$ (0.07)	$ (1.22)	$ (3.34)
Diluted	$ 0.79	$ 0.46	$ (0.07)	$ (1.22)	$ (3.34)
Weighted average common shares outstanding:					
Basic	14,473,151	13,997,168	13,996,950	13,872,788	10,113,928
Diluted	15,299,734	14,609,359	13,996,950	13,872,788	10,113,928

Balance Sheet Data

(In thousands)

	As of December 31,				
	2003	2002	2001	2000	1999
Cash and cash equivalents	$ 20,874	$ 11,001	$ 9,755	$ 8,891	$ 22,492
Working capital	23,898	9,369	7,865	7,057	18,973
Total assets	28,983	15,173	12,526	12,634	32,600
Subordinated note payable			4,350	4,350	4,350
Total stockholders equity	24,925	10,650	3,982	1,573	17,445

Note: The statements of operations data for the years ended December 31, 2002 and 2001 have been reclassified to present certain sales expenses that were previously included in cost of online publishing revenue.

(A) Excludes the operations of CPNet.com after May 2000, Pivot after July 2000, Consejero.com after September 2000, and includes GreenMagazine.com through December 2000.

(B) Includes the operations of CPNet.com from January 1999, and Pivot and GreenMagazine.com from August 1999, their respective acquisition dates.

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

The following discussion should be read in conjunction with the financial statements and related notes contained in this Form 10-K. In addition, this discussion contains forward-looking statements that involve risks and uncertainties. In some cases, you can identify forward-looking statements by terms such as may, will, should, expect, plan, anticipate, believe, estimate, predict, potential, or continue, or terms or other similar terminology. The forward-looking statements contained in this Form 10-K involve known and unknown risks, uncertainties and other factors that may cause our results or our industry s actual results, levels of activity, performance or achievements of our industry, our Company, or both to be materially different from any future results, level of activity, performance or achievements expressed or implied by these statements. These factors include those listed under Risk Factors in Item 1. above and elsewhere in this Form 10-K. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. You should not place undue reliance on these forward-looking statements. We make no commitment to update these statements in the future.

Overview

Bankrate, Inc. (the Company) owns and operates an Internet-based consumer banking marketplace. Our flagship site, Bankrate.com, is the Web s leading aggregator of information on more than 250 financial products including mortgages, credit cards, new and used automobile loans, money market accounts, certificates of deposit, checking and ATM fees, home equity loans and online banking fees. Additionally, we provide financial applications and information to a network of distribution partners and also through national and state publications. Bankrate.com provides the tools and information that can help consumers make better financial decisions. We regularly survey approximately 4,800 financial institutions in all 50 states in order to provide the most current objective, unbiased rates. Hundreds of print and online partner publications depend on Bankrate.com as the trusted source for financial rates and information.

Over two decades ago, we began as a print publisher of the newsletter *Bank Rate Monitor*. Our rate tables provide, at no cost to the consumer, a detailed list of institutions by market and include relevant details to help consumers compare products.

We continue to enhance our offerings in order to provide Bankrate.com users with the most complete experience. Features such as financial calculators and email newsletters allow users to interact with our site. Our *Rate Trend Index* is a weekly poll of industry insiders designed to help consumers forecast interest rate trends. We also broadened our offerings to include channels on investing, taxes, small business and financial advice. Each channel offers a unique look at its particular topic. Bankrate.com users can find advice and tips from the Tax channel, obtain business ideas from the Small Business channel and ask a financial expert a question in the Advice channel.

We believe that the recognition of our research as a leading source of independent, objective information on banking and credit products is essential to our success. As a result, we have sought to maximize distribution of our research to gain brand recognition as a research authority. We are seeking to build greater brand awareness of our Web site and to reach a greater number of online users.

We operate a traditional media business on the Internet. We are the central marketplace for financial institutions to acquire customers. We have a high quality, poised-to-transact audience that has been educated by us and is ready to do business with our advertisers. We are the number one site for financial information and advice according to comScore Media Metrix. We sell graphic advertisements and hyperlinks on our Web site, we publish rates and sell advertisements in metropolitan newspapers, and we license our rates and editorial content.

Our potential market is enormous and is still in the early growth stages of consumer awareness of the Internet as a personal finance tool. Financial institutions are still in the early stages of adopting the Internet for advertising products and customer acquisition. Their online advertising spending is still a very small percentage of their overall advertising budgets.

We compete for advertising dollars with the large portals like AOL and Yahoo! and with some of the print brand franchises like Forbes.com and SmartMoney.com. We also compete for traffic with brands like these. Our traffic has grown from 700,000 unique visitors per month in early 2000 to 5 million unique visitors a month according to comScore Media Metrix.

The key drivers to our business are the number of advertisers on our Web site and the number of consumers visiting our Web site or page views. We added over 100 new advertisers in 2003 and served over 137 million more pages in 2003 than in 2002. The number of advertisers has grown from approximately 200 in 2000 to over 600 in 2003. Page views have grown from 134 million in 2000 to over 400 million in 2003.

We have improved our gross margin from 37% in 2000 to 77% in 2003, and have reduced other operating expenses (excluding barter expense) as a percentage of total revenue (excluding barter revenue) from 140% in 2000 to 48% in 2003. Our net income as a percentage of total revenue has grown to 33% in 2003 and we have increased cash and cash equivalents by approximately $12 million since December 31, 2000.

Significant Developments

The following significant developments and transactions have affected our results of operations and our financial condition during the periods covered by the financial statements in Item 8 of this Report.

On April 27, 2000, Elisabeth DeMarse was elected to our Board of Directors and was elected President and Chief Executive Officer. On that date, Ms. DeMarse entered into an employment agreement with us that expired on April 27, 2002. Ms. DeMarse entered into a new agreement on April 27, 2002. Pursuant to the terms of her employment agreement, Ms. DeMarse is entitled to receive an annual base salary of $300,000 and a bonus of $100,000 payable in quarterly installments. We have agreed to provide other benefits, including $500,000 in term life insurance and participation in our benefit plans available to other executive officers. Under the terms of the employment agreement, Ms. DeMarse agrees to assign to us all of her copyrights, trade secrets and patent rights that relate to our business. Additionally, during the term of her employment and for a period of one year thereafter, Ms. DeMarse agrees not to compete with us and not to recruit any of our employees,

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unless we terminate her without cause or she resigns for good reason (as defined in the agreement). Upon Ms. DeMarse s termination of employment for certain reasons (i.e., without cause, disability, resignation for good reason, or a change of control), we agree to pay her a severance amount of $250,000, as well as reimburse her for health, dental and life insurance coverage premiums for one year after such termination. The agreement terminates on April 27, 2005. Ms. DeMarse was previously granted options to purchase 541,936 shares of our common stock under our 1999 Equity Compensation Plan at $2.69 per share, the fair market value on the date of grant. The options vested over a 24-month period. Ms. DeMarse surrendered all of these options and was granted options to purchase 541,936 shares at $0.85, the fair market value of our common stock on February 4, 2002, the date of grant, in connection with our stock option exchange program.

In January 2001, our common stock was removed from the Nasdaq National Market and immediately became eligible for trading on the OTC Bulletin Board under the symbol RATE. Nasdaq s decision to delist our common stock from the Nasdaq National Market was based on our net tangible assets, as defined by Nasdaq, falling below the required $4,000,000 minimum amount. On January 9, 2003, our common stock began trading on the Nasdaq SmallCap Market, and on August 18, 2003, our common stock began trading on the Nasdaq national Market, under its existing stock symbol RATE.

On July 3, 2001, we implemented a stock option exchange program in which employees were offered the opportunity to surrender stock options previously granted to them in exchange for new options to purchase an equal number of shares. Options to purchase 1,180,002 shares were surrendered under this program. The new options were granted on February 4, 2002, six months and one day after the date of cancellation. The exercise price of the new options was the closing market price of our common stock on the date of grant. The exchange program was designed to comply with FIN No. 44 and did not result in any additional compensation charges or variable plan accounting. As a result of this program, we recorded a non-cash compensation charge of approximately $481,000 for the unrecognized compensation expense of certain options surrendered under the option exchange program, and reclassified approximately $2,452,000 from accrued stock compensation expense to additional paid in capital in the quarter ended September 30, 2001.

On August 20, 1999, the Company acquired Professional Direct Agency, Inc. (Pivot) pursuant to a Stock Purchase Agreement, dated August 20, 1999, by and between the Company, the shareholders of Pivot and The Midland Life Insurance Company (Midland), a note and warrant holder of Pivot (the Agreement), for approximately $4,744,000 including acquisition costs. Pursuant to the Agreement, the Company acquired a 100% interest in Pivot and, as a result of the acquisition, Pivot became a wholly-owned subsidiary. The transaction was accounted for using the purchase method of accounting. On July 14, 2000, the Company sold Pivot for $4,350,000 in cash. The Company recorded a gain on the sale of $871,212 in the quarter ended September 30, 2000. The Company remained liable on the convertible subordinated note issued in connection with the Pivot acquisition.

On February 6, 2002 we entered into an agreement with Reassure America Life Insurance Company (REALIC), successor by merger to Pivot s former owner. Pursuant to the terms of this agreement, REALIC agreed to full repayment of the $4,350,000 convertible subordinated note payable, including accrued interest, on February 22, 2002 for $3,400,000 in cash. Accordingly, we recorded a gain on early extinguishment of debt of approximately $2,022,000 in the quarter ending March 31, 2002.

On January 1, 2004, G. Cotter Cunningham, the Company s Senior Vice President and Chief Operating Officer, entered into an employment agreement with the Company. Under the terms of the employment agreement, Mr. Cunningham is entitled to receive an annual base salary as stipulated in the employment agreement and an annual bonus contingent on achieving certain performance criteria. Under the terms of the employment agreement, Mr. Cunningham agrees to assign to the Company all of his copyrights, trade secrets and patent rights that relate to the business of the Company. Additionally, during the term of his employment and for a period of one year thereafter, Mr. Cunningham agrees not to compete with the Company and not to recruit any of the Company s employees. Upon Mr. Cunningham s termination of employment for certain reasons (i.e., without cause or resignation for good reason), the Company agrees to pay a separation payment equal to one year s base salary at the then-current rate payable in three equal installments; one-third payable 15 days after the termination date; one-third payable six months after the termination date; and one-third payable 12 months from the termination date.

On January 1, 2004, Robert J. DeFranco, the Company s Senior Vice President and Chief Financial Officer, entered into an employment agreement with the Company. Under the terms of the employment agreement, Mr. DeFranco is entitled to receive an annual base salary as stipulated in the employment agreement and an annual bonus contingent on achieving certain performance criteria. Under the terms of the employment agreement, Mr. DeFranco agrees to assign to the Company all of his copyrights, trade secrets and patent rights that relate to the business of the Company. Additionally, during the term of his employment and for a period of one year thereafter, Mr. DeFranco agrees not to compete with the Company and not to recruit any of the Company s employees. Upon Mr. DeFranco s termination of employment for certain reasons (i.e., without cause or resignation for good reason), the Company agrees to pay a separation payment equal to one year s base salary at the then-current rate payable in three equal installments; one-third payable 15 days after the termination date; one-third payable six months after the termination date; and one-third payable 12 months from the termination date.

Legal Proceedings

On March 28, 2000, a purported class-action lawsuit was filed against us and others in the United States District Court for the Southern District of New York. The suit alleged that we violated federal securities laws by, among other things, selling securities pursuant to a defective registration statement, and misrepresenting and/or omitting material information concerning our financial results for the quarter ended March 31, 1999, and other financial information, in our registration statement filed with the Securities and Exchange Commission in connection with our initial public offering. The action, seeking an unspecified amount of money damages, was filed purportedly on behalf of all stockholders who purchased shares of our common stock during the period from May 13, 1999, through March 27, 2000. We filed a motion to dismiss this complaint and, on March 28, 2001, the suit was dismissed with prejudice. On April 25, 2001, plaintiffs appealed the decision to dismiss the suit to the United States Court of Appeals for the Second Circuit. On January 28, 2003, the United States Court of Appeals for the Second Circuit affirmed the dismissal of the action in its entirety.

In July 2000, we sold our former wholly-owned subsidiary, Pivot, for $4,350,000 in cash. In connection with the sale, we agreed to indemnify the buyer for liability of up to $1,000,000 in connection with a litigation matter between Pivot and its co-founders and former owner. In March 2001, the case was dismissed based on a technical deficiency. In August 2001, the plaintiff re-filed the complaint. At December 31, 2003, the outcome of this matter was uncertain. We cannot estimate at this time, the amount of loss, if any, that could result from an adverse resolution of this litigation.

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Results of Operations and Critical Accounting Policies

The following table displays our results for the respective periods expressed as a percentage of total revenues.

Statement of Operations Data

	Year Ended December 31,		
	2003	**2002**	**2001**
Revenue:			
Online publishing	86%	85%	82%
Print publishing and licensing	14	15	18
Total revenue	100	100	100
Cost of revenue:			
Online publishing	12	14	17
Print publishing and licensing	11	11	12
Total cost of revenue	23	25	29
Gross margin	77	75	71
Operating expenses:			
Sales	14	16	18
Marketing	15	13	16
Product development	6	5	8
General and administrative	16	21	30
Depreciation and amortization	2	2	4
	53	58	75
Income (loss) from operations	24	17	(4)
Other income (expense), net	1		(1)
Gain on early extinguishment of debt		8	
Income (loss) before income taxes	25	25	(5)
Income taxes	8		
Net income (loss)	33%	25%	(5)%

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The following is our analysis of the results of operations for the periods covered by our financial statements, including a discussion of the accounting policies and practices (revenue recognition, allowance for doubtful accounts and valuation of deferred tax assets) that we believe are critical to an understanding of our results of operations and to making the estimates and judgments underlying our financial statements. Other accounting policies are contained in Note 2 to the financial statements in Item 8. A detailed discussion of our significant accounting policies and procedures is set forth in the applicable sections of this analysis. This analysis should be read in conjunction with our financial statements, including the related notes to the financial statements.

Revenue

Total Revenue

	Year Ended December 31,		
	2003	**2002**	**2001**
Revenue:			
Online publishing	$ 31,368,392	$ 22,651,216	$ 14,985,903
Print publishing and licensing	5,253,099	3,919,815	3,271,223
Total revenue	$ 36,621,491	$ 26,571,031	$ 18,257,126

Online Publishing Revenue

We sell graphic advertisements on our Web site (including co-branded sites) consisting of banner, badge, billboard, poster and island advertisements. These advertisements are sold to advertisers according to the cost per thousand impressions, or CPM, the advertiser receives. The amount of advertising we sell is a function of (1) the number of advertisements per Web page, (2) the number of visitors viewing our Web pages, and (3) the capacity of our sales force. Advertising sales are invoiced monthly based on the number of advertisement impressions or the number of times the advertisement is viewed by users of our Web site. Revenue is recognized monthly based on the percentage of actual impressions to the total number of impressions contracted. Revenue for impressions invoiced but not delivered is deferred. Additionally, we generate revenue on a per action basis (i.e., a purchase or completion of an application) when a visitor to our Web site transacts with one of our advertisers after viewing an advertisement. Revenue is recognized monthly based on the number of actions reported by the advertiser. We are also involved in revenue sharing arrangements with our online partners where the consumer uses co-branded sites hosted by us. Revenue is effectively allocated to each partner based on the percentage of advertisement views at each site. The allocated revenues are shared according to distribution agreements. Revenue is recorded at gross amounts and revenue payments are recorded in cost of revenue. We also sell hyperlinks to various third-party Internet sites that generate a fixed monthly fee, which is recognized in the month earned.

Online publishing revenue also includes barter revenue, which represents the exchange of advertising space on our Web site for reciprocal advertising space or traffic on other Web sites. Barter revenues and expenses are recorded at the fair market value of the advertisements delivered or received, whichever is more determinable in the circumstances. We follow the accounting literature provided by the Emerging Issues Task Force (EITF) 99-17, *Accounting for Advertising Barter Transactions*. In accordance with EITF 99-17, barter transactions have been valued based on similar cash transactions which have occurred within six months prior to the date of the barter transaction. Revenue from barter transactions is recognized as income when advertisements are delivered on our Web site. Barter expense is recognized when our advertisements are run on the other companies Web sites, which is typically in the same period barter revenue is recognized. If the advertising impressions are received from the customer prior to our delivering the advertising impressions, a liability is recorded. If we deliver advertising

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impressions to the other companies Web sites prior to receiving the advertising impressions, a prepaid expense is recorded. No prepaid expense or liability was recorded at December 31, 2003 and 2002. At December 31, 2001, we recorded a prepaid expense of approximately $8,000 for barter advertising to be received. Barter revenue was approximately $3,164,000, $2,912,000, and $2,558,000, and represented approximately, 9%, 11%, and 14% of total revenue, respectively, for the years ended December 31, 2003, 2002 and 2001.

Online Publishing Revenue

	Year Ended December 31,				
	2003		2002		2001
		YTY Inc		YTY Inc	
Graphic ads	$ 14,436,287	32%	$ 10,936,034	42%	$ 7,693,370
Hyperlinks	13,768,359	56%	8,803,208	86%	4,734,224
Barter	3,163,746	9%	2,911,974	14%	2,558,309
	$ 31,368,392	38%	$ 22,651,216	51%	$ 14,985,903

Online publishing revenue was $31,368,000, $22,651,000, and $14,986,000 in 2003, 2002 and 2001, respectively, representing annual growth rates of 38% and 51% for 2003 and 2002, respectively. Excluding barter revenue, online publishing revenue was $28,205,000, $19,739,000, and $12,428,000 in 2003, 2002 and 2001, respectively, representing annual growth rates of 43% and 59% for 2003 and 2002, respectively. The increase in 2003 over 2002 was due to higher graphic advertisement and hyperlink sales.

Graphic advertisement sales were $3,500,000, or 32%, higher in 2003 as approximately 601 million, or 87%, more advertisements were sold in 2003 compared to 2002. This increase is a direct result of serving approximately 137 million, or 51%, more page views in 2003 compared to 2002. However, graphic advertisements were sold at approximately 29% lower CPM as we monetized the increase in page views albeit at lower rates. Graphic advertisement pricing is sensitive to market supply and demand, the interest rate environment and consumer spending patterns. During 2003, graphic advertisements were purchased by an average of 63 graphic advertisers monthly compared to 59 in 2002, an increase of 7%. Graphic advertisement sales were $3,243,000, or 42%, higher in 2002 as approximately 284 million, or 30%, more advertisements were sold in 2002 compared to 2001. Additionally, graphic advertisements were sold at approximately 27% higher rates per thousand page views than in 2001, and were purchased by approximately 59 graphic advertisers in 2002 compared to 55 in 2001, an increase of 7%.

Hyperlink sales were $4,965,000, or 56%, higher in 2003 due to a 22% increase in the number of average monthly hyperlink advertisers over 2002. During 2003, there were approximately 107 more hyperlink advertisers on average each month than in 2002. We also implemented price increases ranging from 10% to 20% that impacted 2003 contract renewals. Hyperlink sales were $4,069,000, or 86%, higher in 2002 due to a 60% increase in the number of average monthly hyperlink advertisers over 2001. During 2002, there were approximately 179 more hyperlink advertisers on average each month than in 2001.

Consumer demand for our mortgage-related services heightened during 2002 and continued into late 2003 due to the declining interest rate environment. Our advertisers increased their spending in efforts to capitalize on this demand and we expect this demand to continue in 2004.

A majority of our advertising customers purchase advertising under short-term contracts. Customers have the ability to stop, and have on occasion stopped, advertising on relatively short notice. Online publishing revenue would be adversely impacted if we experienced contract terminations, or if we were not able to renew contracts with existing customers or obtain new customers. The market for Internet advertising is intensely competitive and has, in the past, experienced significant downturns in demand that could impact advertising rates. Future revenue could be adversely affected if we were forced to reduce our advertising rates or if we were to experience lower CPM s.

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Historically, our first calendar quarter has been our highest in terms of page views, and we have typically experienced a slowdown in traffic during our third and fourth quarters. During 2002, certain traffic initiatives and expanded commitments from our distribution partners as well as the activity in mortgage lending caused increases in traffic inconsistent with our historical trends that continued through the second quarter of 2003. Based on historical trends and current economic conditions, we believe we will experience an increase in traffic and online publishing revenue during the first quarter of 2004 and a relative slowdown during our third and fourth quarters.

Page Views

	(Millions)			
	2003	**2002**	**2001**	**2000**
Q1	106.7	58.4	70.5	37.0
Q2	121.8	48.0	52.2	34.1
Q3	100.3	82.1	47.3	30.5
Q4	75.8	79.3	66.5	32.8
Year	404.6	267.8	236.5	134.4

Print Publishing and Licensing Revenue

Print publishing and licensing revenue represents advertising revenue from the sale of advertising in *Consumer Mortgage Guide* rate tables, newsletter subscriptions, and licensing of research information. We charge a commission for placement of the *Consumer Mortgage Guide* in a print publication. Advertising revenue and commission income is recognized when the *Consumer Mortgage Guide* runs in the publication. Revenue from our newsletters is recognized ratably over the period of the subscription, which is generally up to one year. Revenue from the sale of research information is recognized ratably over the contract period.

We also earn fees from distributing editorial rate tables that are published in newspapers and magazines across the United States, from paid subscriptions to three newsletters, and from providing rate surveys to institutions and government agencies. In addition, we license research data under agreements that permit the use of rate information we develop to advertise the licensee s products in print, radio, television and web site promotions. Revenue for these products is recognized ratably over the contract/subscription periods.

Print Publishing & Licensing Revenue

	Year Ended December 31,				
	2003		**2002**		**2001**
		YTY Inc		**YTY Inc**	

		-Dec		-Dec	
Consumer Mortgage Guide	$ 4,402,741	46%	$ 3,008,621	32%	$ 2,270,986
Editorial	850,358	-7%	911,194	-9%	1,000,237
	$ 5,253,099	34%	$ 3,919,815	20%	$ 3,271,223

Print publishing and licensing revenue increased $1,333,000, or 34%, in 2003 over 2002, and $649,000, or 20%, in 2002 over 2001, due primarily to increases in *Consumer Mortgage Guide* revenue. These increases resulted from declining interest rates beginning in 2001 and continuing through 2003 that bolstered the mortgage and refinance markets resulting in more advertisers publishing their rates. During 2003, we generated revenue from the sale of mortgage rate and product listings in 28 metropolitan newspapers compared to 24 in 2002 and 13 in 2001.

Our syndicated editorial content and research revenue declined 9% from 2001 to 2002 and 7% from 2002 to 2003. We believe that newspapers are continuously forced to reduce expenses as the Internet and other non-print media make it easier for consumers to obtain information. During 2003 and 2002, we saw our newspaper customers reduce their spends with us as they become more unwilling to pay for content. While we are constantly looking for new business, we believe that the branding, marketing and public relations exposure benefits received in serving our existing customer base of major metropolitan newspapers outweigh the loss in revenue.

Cost of Revenue

Online Publishing Costs

Online publishing costs represent expenses directly associated with the creation of online publishing revenue. These costs include contractual revenue sharing obligations resulting from our distribution arrangements (distribution payments), editorial costs, research costs and allocated overhead. Distribution payments are made to Web site operators for visitors directed to our Web site; these costs increase proportionately with gains in traffic to our site. 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 our site under distribution arrangements. These sites must be maintained on a daily basis. Research costs include expenses related to gathering data on banking and credit products and consist primarily of compensation and benefits and allocated overhead.

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Online publishing costs increased 18% in 2003 over 2002, and 21% in 2002 over 2001. The increase in direct costs was due primarily to higher human resources costs ($248,000, or 13%) reflecting four additional full-time equivalent employees in 2003 and merit increases; higher revenue sharing payments ($165,000, or 13%) to our distribution partners due to higher associated revenue and traffic; approximately $69,000 higher consulting expenses related to branding studies and market research; approximately $73,000 in radio production costs to launch the *Bankrate Personal Finance Minute* syndicated on over 400 radio stations through the *Associated Press*; and approximately $144,000 higher software licensing costs supporting our financial calculators.

Online publishing costs increased $651,000, or 21%, in 2002 compared to 2001. This increase was due primarily to higher revenue sharing payments ($400,000, or 45%) to our distribution partners due to higher associated revenue; higher e-mail distribution costs ($100,000 or 45%) supporting the 149% increase in e-mail related revenue; and approximately $100,000 higher consulting and software licensing expense supporting the higher revenue levels in 2002.

Online Publishing Gross Margin

	Year Ended December 31,		
	2003	**2002**	**2001**
Online publishing revenue, excluding barter	$ 28,204,646	$ 19,739,242	$ 12,427,594
Cost of online publishing revenue	4,514,023	3,812,765	3,161,273
Gross margin	$ 23,690,623	$ 15,926,477	$ 9,266,321
	84%	81%	75%

For the year ended December 31, 2003 compared to 2002, total online publishing revenue excluding barter increased $8,465,000, or 43%, while direct costs increased $701,000, or 18%, resulting in an increase in gross margin excluding barter of $7,764,000, or 49%. This improvement is a result of selling more graphic advertisements and a higher volume of hyperlink sales. Hyperlink revenue as a percentage of online revenue excluding barter increased from 45% to 49% in 2003 over 2002, contributing to the gross margin improvement. For the year ended December 31, 2002 compared to 2001, total online publishing revenue excluding barter increased $7,312,000, or 59%, while direct costs increased $651,000, or 21%, resulting in an increase in gross margin excluding barter of $6,660,000, or 72%. This improvement was a result of selling more graphic advertisements at higher prices and a higher volume of hyperlink sales on a stabilized, fixed expense base.

Print Publishing and Licensing Costs

Print publishing and licensing costs represent expenses directly associated with print publishing revenue. These costs include contractual revenue sharing obligations with newspapers related to the *Consumer Mortgage Guide*, compensation and benefits, printing and allocated overhead. These costs vary proportionately with the related revenue and increased $1,182,000, or 41%, in 2003 compared to 2002, and $689,000, or 32%, in 2002 compared to 2001. Revenue sharing payments were $1,103,000, or 48%, and $596,000, or 36%, higher in 2003 and 2002, respectively. The decline in our syndicated editorial content and research revenue has contributed to a 4% and 7% decline in the print publishing & licensing gross margin in 2003 and 2002, respectively.

Print Publishing & Licensing Gross Margin

	Year Ended December 31,		
	2003	2002	2001
Print publishing & licensing revenue	$ 5,253,099	$ 3,919,815	$ 3,271,223
Cost of print publishing & licensing revenue	4,043,970	2,862,338	2,173,529
Gross margin	$ 1,209,129	$ 1,057,477	$ 1,097,694
	23%	27%	34%

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Other Expenses

Sales

Sales expenses represent direct selling expenses of the Graphic Ad Team and the Telesales Group, principally for online advertising, and include compensation and benefits for sales personnel, sales commissions, and allocated overhead. Sales expenses for the year ended December 31, 2003 increased $764,000, or 18%, compared to 2002 due to higher sales commissions ($612,000 or 34%) resulting from an $8.5 million increase in online sales; and $357,000 higher human resources costs from adding 5 full-time equivalent sales employees during 2003. Those increases were offset by approximately $165,000 lower consulting and market research costs. For the year ended December 31, 2002, sales expenses increased $1,072,000, or 33%, compared to 2001 due to higher sales commissions ($723,000) resulting from higher online sales; higher spending on market research and sales consulting ($219,000); and approximately $132,000 more Telesales operating expenses in 2002 as the department began operating in May of 2001.

Marketing

Marketing expenses represent expenses associated with expanding brand awareness of our products and services to consumers and include print and Internet advertising, marketing and promotion costs. Marketing expenses also include barter expense, which represents the cost of our advertisements that are run on other companies Web sites in our barter transactions. Barter expense was $3,164,000, $2,920,000, and $2,750,000 for the years ended December 31, 2003, 2002 and 2001, respectively. Excluding barter expense, marketing expenses would have been $2,332,000, $557,000, and $173,000 for the years ended December 31, 2003, 2002 and 2001, respectively. During 2003 and 2002, marketing expenses increased due primarily to key word (pay per performance) campaigns on search engines as traffic acquisition becomes more competitive. We anticipate having to spend at comparable levels in the foreseeable future.

Product Development

Product development expenses represent compensation and benefits related to site development, network systems and telecommunications infrastructure support, programming and other technology costs. Product development expenses for 2003 were $849,000, or 60%, higher than 2002 due to approximately $576,000 of expenses associated with the design and development of new products; and approximately $153,000 of higher human resources and training costs. For the year ended December 31, 2002, product development expenses were $37,000, or 3%, higher than the comparable amount in 2001 resulting from the stabilization of our fixed expense base after the restructuring efforts in 2000.

General and Administrative

General and administrative expenses represent compensation and benefits for executive, finance and administrative personnel, professional fees, non-allocated overhead and other general corporate expenses. As a percentage of total revenue excluding barter, general and administrative expenses were 17%, 23%, and 35% in 2003, 2002 and 2001, respectively. For the year ended December 31, 2003, general and administrative expenses were $277,000, or 5%, higher than the comparable period in 2002 due to $111,000 of Nasdaq National and SmallCap Market initial listing and annual fees as we attained listing on both exchanges during 2003; $165,000 higher investor and public relations expenses commensurate with our launch of specific campaigns in 2003; and approximately $240,000 higher legal expenses related to currently outstanding legal matters. Those higher costs were offset by reductions in numerous other general and administrative expenses totaling approximately $239,000. General and administrative expenses for the year ended December 31, 2002 were essentially flat ($25,000 higher than 2001) due to the stabilization of our fixed expense base in 2002.

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability or unwillingness of our customers to make required payments. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Any additions to the allowance for doubtful accounts are recorded as bad debt expense and included in general and administrative expenses.

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Depreciation and Amortization

Depreciation and amortization represents the cost of capital asset acquisitions spread over their expected useful lives. These expenses are spread over three to seven years and are calculated on a straight-line basis. During 2003, we purchased approximately $400,000 of depreciable assets and depreciation and amortization increased $59,000, or 10%, over 2002. For the year ended December 31, 2002, depreciation and amortization was $79,000, or 11%, lower than in 2001 due to the expiration of lease terms on certain capital lease assets.

Interest Income (Expense), Net

Interest income (expense), net consists primarily of interest income on invested cash and cash equivalents, and interest expense on capital lease obligations and the 10% convertible subordinated note payable associated with the Pivot acquisition. Net interest income for the year ended December 31, 2003 was $160,000, or 193% higher than in 2002 due to a $9.9 million increase in cash balances during the year. Net interest income was $217,000, or 162%, higher for the year ended December 31, 2002 as interest expense was eliminated due to the expiration of lease terms on certain capital lease assets and the repayment of the 10% convertible subordinated note payable in the quarter ended March 31, 2002.

Income Taxes

Our effective rate differs from the statutory federal income tax rate, primarily as a result of the uncertainties regarding our ability to utilize our net operating loss carryforward and the changes in the valuation allowance on deferred tax assets.

As required by Statement of Financial Accounting Standards (SFAS) No. 109, we recognize tax assets on the balance sheet if it is more likely than not that they will be realized on future tax returns. Up to the third quarter of 2003, we had provided a full valuation allowance against accumulated deferred tax assets, reflecting the uncertainty associated with our future profitability. In the fourth quarter of 2003 we reassessed the valuation allowance previously established against deferred tax assets. Factors considered by us included: our historical results of operations, volatility of the economic and interest rate environment and projected earnings based on current operations. Based on this evidence, we concluded that it is more likely than not that a portion of the deferred tax assets would be realized. Accordingly, we released $3,400,000 of the valuation allowance, which resulted in an income tax benefit of approximately $3,100,000. However, should we determine that we will not be able to realize all or part of our deferred tax assets in the future, an adjustment to the deferred tax assets would be charged against income in the period such determination is made. As of December 31, 2003, we had $3,400,000 in deferred tax assets. The realization of deferred tax assets will depend on our ability to continue to generate taxable income in the future.

At December 31, 2003, we had approximately $31,000,000 of net operating loss carryforwards for tax reporting purposes available to offset future taxable income. Our net operating loss carryforwards expire from 2012 through 2021. The Tax Reform Act of 1986 imposes substantial restrictions on the utilization of net operating losses and tax credits in the event of an ownership change of a corporation. Due to the change in our ownership interests in the third quarter of 1997 and the acquisition and subsequent disposition of Pivot in August 1999 and July 2000, respectively, future utilization of our net operating loss carryforwards will be subject to certain limitations or annual restrictions.

Related Party Transactions

The Company leases office space in North Palm Beach, Florida from Bombay Holdings, Inc., which is wholly-owned by Peter C. Morse, a director and 33% stockholder. Total rent paid to Bombay for the years ended December 31, 2003, 2002 and 2001 was approximately $305,000, $296,000, and $298,000, respectively. During 2003, 2002 and 2001, the Company paid an outside director consulting fees of approximately $50,000, $53,000, and $40,000, respectively.

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Quarterly Results of Operations

The following table presents certain unaudited quarterly statement of operations data for each of the last 8 quarters through the year ended December 31, 2003. The information has been derived from our unaudited condensed consolidated financial statements. In the opinion of our management, the unaudited condensed financial statements have been prepared on a basis consistent with the financial statements which appear elsewhere in this Form 10-K and include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the financial position and results of operations for such unaudited periods. Historical results are not necessarily indicative of results to be expected in the future.

	Year Ended December 31, 2003				Year Ended December 31, 2002			
(In thousands, except share and per share data)	March 31	June 30	September 30	December 31	March 31	June 30	September 30	December 31
Revenue:								
Online publishing	$ 7,334	$ 8,197	$ 8,114	$ 7,723	$ 4,713	$ 5,268	$ 6,265	$ 6,406
Print publishing and licensing	1,212	1,355	1,347	1,339	924	934	978	1,083
Total revenue	8,546	9,552	9,461	9,062	5,637	6,202	7,243	7,489
Cost of revenue:								
Online publishing	1,240	1,342	1,303	1,433	882	935	1,148	1,262
Print publishing and licensing	1,008	1,057	1,032	1,041	672	667	746	777
Total cost of revenue								