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Top Stories: Rate-Card Reset Has Some Eyeing MarketWatch's Financials

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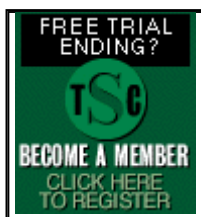
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**How should
MarketWatch.com
treat CBS'
contribution: at rate
card or fair value?**

MarketWatch.com hasn't held its IPO yet, but already the operator of the financial news Web site has taken a big hit in its earnings.

The company, publisher of the **CBS MarketWatch.com** Web site, disclosed in a filing Dec. 16 that it lost \$8.2 million on revenue of \$4.5 million for the first nine months of 1998. Among Internet companies planning to go public, losing money doesn't rank as a shockeroo, but only three weeks ago, MarketWatch.com said it had lost just \$4.9 million in the period.



The \$3.3 million additional loss, attributed mostly to a restatement of one noncash expense, illustrates a trend toward more conservative accounting among Internet companies, says Rob Martin, an Internet analyst at **Friedman Billings Ramsey Group**. But rather than rewarding MarketWatch.com for erring on the side of caution in its books, the market may cast a wary eye on the new numbers, he says.

The crucial issue for MarketWatch.com -- a competitor of *TheStreet.com* -- is how the company treats one of its most significant assets: the \$30 million of advertising and promotion that principal stockholder **CBS (CBS:NYSE)** has agreed to contribute to the company through October 2002. In its latest filing, MarketWatch.com explains that the \$30 million of airtime on the CBS radio and TV networks is counted at "rate-card" value -- or the full amount that CBS might quote a third-party advertiser before any discounts or haggling. In other words, rate card is the equivalent of paying the list price for a TV set instead of going to your local discount electronics superstore and getting it significantly cheaper.

In two earlier filings, though, MarketWatch.com didn't use rate-card pricing to expense the advertising time it pulled from its \$30 million kitty. For example, in an amended IPO filing on Nov. 27, MarketWatch.com said it used up \$4.9 million worth of advertising, based on rate-card prices, in the first nine months of 1998. But MarketWatch.com actually expensed the advertising at \$1.7 million -- a 65% discount to the rate card. This is what MarketWatch.com called the "fair value" of the advertising time -- a number that takes into account what CBS actually charges third-party advertisers, along with certain discounts.

But MarketWatch.com changed the numbers in its most recent amended IPO filing of Dec. 16. Instead of expensing the ad time at its \$1.7 million fair value, it expensed it at the \$4.9 million rate-card price. The difference between the two numbers doesn't change

MarketWatch.com's cash flows, nor does it change the actual amount of advertising MarketWatch.com has used and gets to use. As of Sept. 30, MarketWatch.com still had a \$25 million credit at CBS for ad time at rate-card prices. But the change from \$1.7 million fair value to \$4.9 million rate card sure hits the bottom line, turning a per-share loss of 54 cents into one of 91 cents. (MarketWatch.com, which was launched in October 1997, lost \$81,000 in the last two months of last year, or 1 cent per share, on revenue of \$630,000.)

Even though the market is hungry for Internet stocks, investors will likely take a close look at MarketWatch.com's expenses, whether cash or noncash, Friedman Billings' Martin says.

Investors are scrutinizing post-IPO Internet companies' financials to determine how much they spend on sales and marketing to generate revenue, Martin says. To get a handle on this, Martin compares two figures in a quarterly report: sales-and-marketing expense and gross profit, or revenue minus the cost of goods sold.

Doing well in the market are companies that have a low ratio of sales-and-marketing expense to gross profit, Martin says. These include **eBay** (**EBAY**:Nasdaq), where sales expenses amount to half of gross profit, and **Ticketmaster Online-CitySearch** (**TMCS**:Nasdaq), where sales-and-marketing expenses amount to 1.3 times gross profit.

"Those are the ones that the market is grasping onto," Martin says. Investors "don't want to see someone spending themselves into a hole that they can't dig themselves out of."

For MarketWatch.com, though, restating the most recent quarter pushes the sales-and-marketing-to-gross-profit ratio to 3.4 from 2.3. "It's a significant difference," says Martin, who has calculated a ratio of 1.8 across the Internet-stock universe.

How should MarketWatch.com treat CBS' contribution: at rate card or fair value? "This is a very gray area," says Professor Reuven Leheavy, a professor on the accounting faculty of the **University of California's Haas School of Business**. Leheavy says there's nothing untoward about MarketWatch.com's restatement; MarketWatch.com CFO J. Peter Bardwick declined to comment, citing **SEC** rules governing IPOs.

One other company that, like MarketWatch.com, has significant noncash marketing expenses is **SportsLine USA** (**SPLN**:Nasdaq), another Internet-content company to which CBS has contributed advertising time in return for an equity stake. SportsLine USA, however, doesn't in its financial statements specify how that time is valued, Martin said. SportsLine USA's CFO declined to comment; CBS didn't respond to a request for comment on the subject. (SportsLine USA classifies CBS advertising expenses under depreciation and amortization, not sales and marketing. Adding these advertising-related noncash expenses to sales and marketing, Martin concludes that sales-and-marketing costs are 2.9 times gross profit; he gives SportsLine USA, with which he has no underwriting relationship, an accumulate rating with a price target of 19. The stock was up 1/16 at 16 9/16 late Friday.)

Jack Ciesielski, an accounting watchdog who publishes the *Analyst's Accounting Observer*, says he is surprised by MarketWatch.com's switch to more conservative accounting. "Nobody typically pays the rate-card rate," he says. "It sounds like it's unnecessarily harsh."