QUOTESMITH COM INC
Form 10-Q
November 12, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

for the quarterly period ended September 30, 2004.

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

for the transition period from to .

QUOTESMITH.COM, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**36-3299423**

(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

8205 South Cass Avenue, Suite 102

Darien, Illinois 60561

(630) 515-0170

(Address and telephone number, including

Area Code, of Registrant s principal executive offices)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(b) 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. ý Yes o No

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

The number of outstanding shares of the regisrant s common stock was 7,327,468 net of treasury shares, on November 4, 2004.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

QUOTESMITH.COM, INC.

BALANCE SHEETS

	September 30, 2004 (Unaudited)	December 31, 2003
ASSETS		
Cash and cash equivalents	$ 1,071,555	$ 676,728
Fixed maturity investments available for sale at fair value	1,976,500	4,204,150
Commissions receivable, less allowances (2004 $404,000; 2003 $176,000)	2,903,122	1,062,534
Other assets	533,999	423,715
Total current assets	6,485,176	6,367,127
Fixed maturity investments- available for sale at fair value	5,552,465	10,345,555
Land	830,000	
Building, less accumulated depreciation (2004 $49,000)	4,621,354	
Furniture, equipment, and computer software at cost, less accumulated depreciation (2004 $3,131,000; 2003 $2,859,000)	383,931	375,177
Intangible assets at cost, less accumulated amortization (2004 $1,620,000; 2003 $995,000)	3,938,968	437,761
Goodwill	7,178,722	
Total assets	$ 28,990,616	$ 17,525,620
LIABILITIES AND STOCKHOLDERS EQUITY		
Accounts payable and accrued liabilities	$ 1,193,666	$ 760,005
Total current liabilities	1,193,666	760,005
Total liabilities	1,193,666	760,005
Commitments and contingencies		
Stockholders equity:		
Common stock, $.003 par value; shares authorized: 60,000,000; shares issued: 2004 9,683,809; 2003 7,317,573	29,051	21,953
Additional paid-in capital	76,839,310	64,075,686
Retained-earnings deficit	(45,174,524)	(43,468,855)
Treasury stock at cost: 2,359,341 shares	(3,793,985)	(3,793,985)
Accumulated other comprehensive loss	(102,902)	(69,184)
Total stockholders equity	27,796,950	16,765,615
Total liabilities and stockholders equity	$ 28,990,616	$ 17,525,620

See accompanying notes.

QUOTESMITH.COM, INC.

STATEMENTS OF OPERATIONS

	Quarter Ended September 30, 2004	Quarter Ended September 30, 2003	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
	(unaudited)		(unaudited)	
Revenues:				
Commissions and fees	$ 4,713,555	$ 2,427,146	$ 11,455,515	$ 7,495,510
Other		2,494	5,837	16,051
Total revenues	4,713,555	2,429,640	11,461,352	7,511,561
Expenses:				
Selling and marketing	1,847,905	1,076,034	5,208,056	3,734,994
Operations	1,988,613	753,302	4,766,391	2,364,606
General and administrative	736,522	757,926	2,285,802	2,025,699
Depreciation and amortization	379,416	252,379	946,315	800,018
Total expenses	4,952,456	2,839,641	13,206,564	8,925,317
Operating loss	(238,901)	(410,001)	(1,745,212)	(1,413,756)
Interest income (net)	(8,987)	91,137	84,971	280,632
Realized gains (losses) on sale of securities			(45,428)	93,074
Net loss	$ (247,888)	$ (318,864)	$ (1,705,669)	$ (1,040,050)
Net loss per common share, basic and diluted	$ (0.04)	$ (0.06)	$ (0.32)	(0.21)
Weighted average common shares and equivalents outstanding, basic and diluted	6,141,389	4,913,165	5,355,542	4,910,757

See accompanying notes.

QUOTESMITH.COM, INC.

STATEMENTS OF STOCKHOLDERS EQUITY

	Common Stock Number of Shares Issued	Par Value	Additional Paid-In Capital	Retained-Earnings Deficit	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity
2003:							
Balance at January 1	7,268,072	$ 21,804	$ 63,972,732	$ (42,187,861)	$ (3,793,985)	$ 82,494	$ 18,095,184
Net loss				(1,280,994)			(1,280,994)
Other comprehensive loss-unrealized loss on investments						(151,678)	(151,678)
Total comprehensive loss	(1,432,672)						
Proceeds from sale of common stock:							
exercise of stock options	49,501	149	102,954				103,103
Balance at December 31	7,317,573	21,953	64,075,686	(43,468,855)	(3,793,985)	(69,184)	16,765,615
Nine months ended September 30, 2004 *(unaudited)*							
Net loss				(1,705,669)			(1,705,669)
Other comprehensive loss-unrealized loss on investments						(33,718)	(33,718)
Total comprehensive loss							(1,739,387)
Proceeds from sale of common stock:							
sale to Zions Bancorporation	2,363,636	7,090	12,759,112				12,766,202
exercise of stock options	2,600	8	4,512				4,520
Balance at September 30, 2004 *(unaudited)*	9,683,809	$ 29,051	$ 76,839,310	$ (45,174,524)	$ (3,793,985)	$ (102,902)	$ 27,796,950

See accompanying notes.

QUOTESMITH.COM, INC.

STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
	(unaudited)	
Cash flows from operating activities:		
Net loss	$ (1,705,669)	$ (1,040,050)
Adjustments to reconcile to net cash used by operating activities:		
Depreciation expense	320,938	441,851
Amortization	724,902	441,572
Accounts payable and accrued liabilities	452,967	(462,945)
Commissions receivable	(146,117)	(87,208)
Other assets	(110,284)	(125,463)
Net cash used by operating activities	(463,263)	(832,243)
Cash flows from investing activities:		
Purchases of investments	(5,048,378)	(12,220,675)
Purchase of selected net assets of Life Quotes	(18,696,770)	
Proceeds from investment maturities		7,800,000
Proceeds of sales of investments	11,935,876	4,212,900
Purchase of furniture, equipment and computer software	(68,342)	(44,958)
Net cash used by investing activities	(11,877,614)	(252,733)
Cash flows from financing activities:		
Issuance of common stock	12,770,722	24,491
Proceeds of note payable	6,500,000	
Repayment of note payable	(6,500,000)	
Payment of capital lease obligation	(35,018)	(36,417)
Net cash provided (used) by financing activities	12,735,704	(11,926)
Net increase (decrease) in cash and cash equivalents	394,827	(1,096,902)
Cash and cash equivalents at beginning of period	676,728	1,639,909
Cash and cash equivalents at end of period	$ 1,071,555	$ 543,007

See accompanying notes.

QUOTESMITH.COM, INC.

NOTES TO FINANCIAL STATEMETS

(Unaudited)

1. Description of Business

Quotesmith.com, Inc. (the Company) is an insurance agency and brokerage. The Company owns and operates a comprehensive, online consumer insurance information service, accessible at www.insure.com, which caters to the needs of self-directed insurance shoppers. Since its inception in 1984, the Company has been continuously developing a proprietary and comprehensive insurance price comparison and order-entry system that provides instant quotes from over 200 insurance companies for numerous life and health insurance products. The Company uses this database to provide customers with a large array of comparative life and health insurance quotes online, over the phone or by mail, and allows the customer to purchase insurance from the insurance company of their choice either online or over the phone with the Company s licensed insurance customer service staff. The Company s website also provides insurance information and decision-making tools, along with access to other forms of personal insurance, such as auto, homeowners, renters, long-term care and travel insurance through various partners. The Company generates revenues from the receipt of commissions and fees paid by various sources, that are tied directly to the volume of insurance sales or traffic that it produces. The Company conducts its insurance agency and brokerage operations using both salaried and commissioned personnel, and it generates prospective customer interest using traditional direct response advertising methods conducted primarily offline.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited financial statements have been prepared in accordance with United States generally accepted accounting principles (GAAP) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments, (consisting of normal recurring accruals), considered necessary for a fair presentation have been included. Operating results for the nine-month period ended September 30, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004.

The balance sheet at December 31, 2003 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by GAAP for complete financial statements.

Stock Options

The Company accounts for stock option grants in accordance with Accounting Principles Board Opinion 25, Accounting for Stock Issued to Employees and related interpretations, and, accordingly, recognizes no compensation expense for stock options granted to employees where the exercise price is equal to or greater than the market price at the date of the grant. SFAS 123, Accounting for Stock Based Compensation , requires disclosure of pro forma information regarding net income (loss) per share, using pricing models to estimate the fair value of stock option grants. Had compensation expense for the Company s stock option plans been determined based on the estimated fair value at the date of grant consistent with the methodology prescribed under SFAS 123, approximate net loss and net loss per share would have been as follows:

	Quarter Ended September 30, 2004	Quarter Ended September 30, 2003	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
Net loss	$ (247,888)	$ (318,864)	$ (1,705,669)	$ (1,040,050)
Less pro forma stock compensation using fair value method	(32,997)	(54,562)	(106,835)	(153,799)
Pro forma net loss	$ (280,885)	$ (373,426)	$ (1,812,504)	$ (1,193,849)
Pro forma net loss per common share, basic and diluted	$ (0.05)	$ (0.08)	$ (0.34)	$ (0.24)

3. Commitments and Contingencies

The Company is subject to legal proceedings and claims in the ordinary course of business. The Company is not aware of any legal proceedings or claims that are believed to have a material effect on the Company s financial position.

4. Acquisition and Related Funding

On March 1, 2004, the Company signed an agreement to acquire selected assets of Life Quotes, Inc. for $18,400,000, subject to closing conditions. Life Quotes is an Evergreen, Colorado-based life insurance brokerage that markets term life insurance utilizing direct response marketing methods combined with a call center staffed with licensed agents. The Company believes that this acquisition provides an important capability that had been missing from its business model, that is, the ability to service customers by telephone in addition to its internet-based service. As a part of the acquisition, the Company has agreed to grant up to 300,000 options to acquire common shares to employees of Life Quotes, Inc. The Company acquired approximately $1.7 million of receivables, $5.5 million of building and land, intangible assets and other assets and liabilities. Allocation of the purchase price to the assets acquired has not yet been completed, pending the finalization of the valuation of certain assets. For the year ended December 31, 2003, Life Quotes had revenues of approximately $10 million and net income of approximately $1 million.

On the same date, the Company signed an agreement to sell 2.36 million shares of its common stock to Zions Bancorporation for $5.50 net per share, thus raising $13 million in new capital to be used by the Company to fund part of the Life Quotes acquisition cost. The investor rights agreement the Company entered with Zions prohibits the payment of cash dividends unless certain conditions are met.

On May 7, 2004, the Company borrowed $6.5 million from Zions Bancorporation and used these funds, along with funds on hand, to close the acquisition of Life Quotes, Inc. Under the terms of the borrowing agreement, the proceeds of the sale of common shares to Zions Bancorporation must be used first to repay the loan and any accrued interest thereon.

On August 16, 2004, the Shareholders of the Company approved the stock sale to Zions Bancorporation. On the sale day, the stock sale was closed and the proceeds were used to pay off the note payable to Zions Bancorporation.

The accompanying financial statements as of September 30, 2004 include the operations of Life Quotes, Inc. from May 7, 2004, the date of acquisition. The following table presents unaudited pro forma results as if the acquisition had occurred at the beginning of 2004 and 2003, respectively.

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2004	**2003**	**2004**	**2003**

Total Revenues	$ 4,713,000	$ 5,028,000	$ 15,185,000	$ 15,345,000
Net (Loss)	$ (248,000)	$ (133,000)	$ (1,245,000)	$ (241,000)
Net (Loss) per common share, Basic and diluted	$ (0.04)	$ (0.03)	$ (0.23)	$ (0.05)

5. Intangible Assets Acquired

As a result of the acquisition of selected assets of Life Quotes, Inc. described above, the Company has completed a preliminary allocation of the cost of the acquisition to the assets acquired. The allocation is preliminary and may be adjusted as additional facts and costs of the acquisition are determined.

Intangible assets acquired in 2004 in the acquisition of certain assets of Life Quotes, Inc., consist of the following:

		Intangible Asset Balance	Estimated Useful Life	Amortization Method
Insurance contract renewals	$	3,538,000	10 years	Accelerated
Non-compete agreement		589,000	6 years	Straight line
Total	$	4,127,000		

The fair value of insurance contract renewals was estimated based on the actual policies in force as of the acquisition date, and the renewal commission rates paid by each insurance carrier. These commissions were estimated to have a maximum useful life of ten years, based on the terms of the contracts with the insurance carriers, and an annual lapse rate was applied to the expected renewals for each carrier based on historical trends. Amortization is on an accelerated basis, as renewal commissions will decline each year due to lapses. The ultimate realization of the value of the contract renewals is dependant on a number of factors, including actual lapse ratios, which can be affected by factors not under our control, such as death rates and the pricing level of insurance policies that could be purchased to replace the policies in the renewal stream. As a result, the actual amount realized from the contract renewals acquired may differ significantly from the amount recorded in the pro forma financial statements, causing impairment.

The excess of the purchase price over the costs allocated to the assets acquired is being recorded as goodwill. As of September 30, 2004, the amount allocated to goodwill is $7,178,722. This amount is preliminary and may be adjusted as additional facts and costs of the acquisition are determined.

6. Legal and Regulatory Proceedings

On November 11, 2004, the Company received a subpoena from the Illinois Department of Financial and Professional Regulation, Division of Insurance, seeking information and documents related to compensation arrangements with insurance companies. This action is related to investigations by regulatory bodies, including state insurance departments, of certain contingent commission arrangements between insurance brokers and insurance companies. A discussion of these industry developments and the possible impact on the Company is included in Item 2 of this Report, Management s Discussion and Analysis of Financial Condition and Results of Operations.

ITEM 2: MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Because we want to provide you with more meaningful and useful information, this Quarterly Report on Form 10-Q includes forward-looking statements that reflect our current expectations and projections about our future results, performance, prospects, and opportunities. We have attempted to identify these forward-looking statements by using words such as may, will, expects, anticipates, believes, intends, estimat or similar expressions. These forward-looking statements are based on information currently available to us and are subject to a number of risks in 2004 and beyond to differ materially from those expressed in, or implied by, these forward-looking statements. These risks, uncertainties, and other factors include, without limitation: our ability to achieve and sustain profitability; successful integration and profitable operation of the Life Quotes business; realization of sufficient revenue from contract renewals acquired in the Life Quotes acquisition to prevent impairment of the acquired asset; demand for life insurance; results of investigations of insurance company practices; effects of the war in Iraq on the purchasing decisions of consumers; consumer acceptance of purchasing insurance on the Internet; significant fluctuations in our quarterly results; our ability to develop our brand recognition; our number of agency contracts; our ability to generate revenue from our strategic relationships; our ability to manage our growth; providing accurate insurance quotes; our ability to manage our expenses, quickly respond to changes in our marketplace, and meet consumer expectations; the complexity of our technology and our use of new technology; our ability to hire and retain senior management and other qualified personnel; intense competition in the insurance industry; the rate of acceptance and use of the Internet as a means for commerce; our ability to keep pace with technological changes and future regulations affecting our business; the implementation of the Internet generally; constraints of the systems we employ; and our ability to raise additional capital. See the section entitled Factors That May Affect Our Future Operating Results for a description of these and other risks, uncertainties, and factors.

You should not place undue reliance on any forward-looking statements. Except as required by the federal securities laws, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances, or any other reason after the date of this quarterly report. All references to we, us, our, Quotesmith, and the Company refer t Quotesmith.com, Inc. and its subsidiary.

Overview and Critical Accounting Policies

We generate revenues primarily from the receipt of commissions paid to us by insurance companies based upon the policies sold to consumers through our service. These revenues come in the form of first year, bonus and renewal commissions that vary by company and product. We recognize the full first year commission revenues on term life insurance after the insurance company approves the policy and accepts the initial premium payment. At the time revenue is recognized, an allowance is recorded based on historical information for estimated commissions that will not be received due to the non-payment of installment first year premiums and any premium refunds made by the insurance carriers. We recognize commissions on all other lines of business after we receive notice that the insurance company has received payment of the related premium. First year commission revenues per policy can fluctuate due to changing premiums, commission rates, and types or amount of insurance sold. We receive bonuses based upon individual criteria set by insurance companies. We recognize bonus revenues when we receive notification from the insurance company of the bonus due to us. Bonus revenues are typically higher in the fourth quarter of our fiscal year due to the bonus system used by many life insurance companies. Revenues for renewal commissions are recognized after we receive notice that the insurance company has received payment for a renewal premium. Renewal commission rates are significantly less than first year commission rates and may not be offered by every insurance company. We also generate revenues from the receipt of fees paid by various sources, that are tied directly to the volume of insurance sales or traffic that we produce for such third-party entities. Our revenue recognition accounting policy has been applied to all periods presented in this report.

The timing between when we submit a consumer s application for insurance to the insurance company and when we generate revenues has varied over time. The type of insurance product and the insurance company s backlog are the primary factors that impact the length of time between submitted applications and revenue recognition. Over the past three years, the time between application submission and revenue recognition has averaged approximately four months. Any changes in the amount of

time between submitted application and revenue recognition, of which a significant portion of time is not under our control, will create fluctuations in our operating results and could harm our business, operating results and financial condition.

Operations expenses are comprised of both variable and semi-variable expenses, including wages, benefits, and expenses associated with processing insurance applications and maintaining our database and Web site. The historical lag between the time an application is submitted to the insurance companies and when we recognize revenues significantly impacts our operating results as most of our variable expenses are incurred prior to application submission.

Selling and marketing expenses consist primarily of direct advertising costs. The costs of communicating the advertising are expensed in the period the advertising is communicated.

We have established the 1997 Stock Option Plan and the 2004 Non-Qualified Stock Option Plan, or the plans, to provide additional incentives to our employees, officers and directors. Under the plans, an aggregate of 850,000 shares of Quotesmith.com common stock may be granted to participants in the plan. We account for stock option grants in accordance with Accounting Principles Board Opinion 25, Accounting for Stock Issued to Employees and related interpretations and, accordingly, recognize no compensation expense for stock options granted to employees where the exercise price is equal to or greater than the market price at the date of the grant.

Intangible assets acquired in 2001 in the acquisition of Insurance News Network, LLC, are being amortized on a straight-line basis over three years.

Intangible assets acquired in 2004 in the acquisition of certain assets of Life Quotes, Inc., consist of the following:

		Intangible Asset Balance	**Estimated Useful Life**	**Amortization Method**
Insurance contract renewals	$	3,538,000	10 years	Accelerated
Non-compete agreement		589,000	6 years	Straight line
Total	$	4,127,000		

The fair value of insurance contract renewals was estimated based on the actual policies in force as of the acquisition date, and the renewal commission rates paid by each insurance carrier. These commissions were estimated to have a maximum useful life of ten years, based on the terms of the contracts with the insurance carriers, and an annual lapse rate was applied to the expected renewals for each carrier based on historical trends. Amortization is on an accelerated basis, as renewal commissions will decline each year due to lapses. The ultimate realization of the value of the contract renewals is dependant on a number of factors, including actual lapse ratios, which can be affected by factors not under our control, such as death rates and the pricing level of insurance policies that could be purchased to replace the policies in the renewal stream. As a result, the actual amount realized from the contract renewals acquired may differ significantly from the amount recorded in the pro forma financial statements, causing impairment.

Goodwill is not subject to amortization. Allocation of intangible assets between goodwill and other intangible assets and the determination of estimated useful lives are based on valuations that we receive from independent appraisers. The calculations of these amounts are based on estimates and assumptions using historical and pro forma data and recognized valuation methods. The use of different estimates or assumptions could produce different results.

While goodwill is not amortized, it is subject to periodic reviews for impairment (at least annually, or more frequently if impairment indicators arise). We review goodwill for impairment periodically and whenever events or changes in business circumstances indicate that the carrying value of the assets may not be recoverable. Such impairment reviews are performed at the entity level with respect to goodwill, as we have one reporting unit. Under those circumstances, if the fair value were less than the carrying amount of the entity, an indicator of impairment would exist and further analysis would be required to determine whether or not a loss would need to be charged against current period earnings. No such indicators were noted to date in 2004.

The determinations of impairment indicators and fair value are based on estimates and assumptions related to the amount and timing of future cash flows and future interest rates. The use of different estimates or assumptions could produce different results.

No income tax credits have been recognized relating to our tax loss carryforwards due to uncertainties relating to future taxable income.

Industry Developments

Our bonus commission revenues relate to the amount of premiums paid for new insurance policies to a single insurance company. Bonus commission revenues were $1.9 million for the nine months ended September 30, 2004, and $0.6 million for the nine months ended September 30, 2003.

Recently the New York Attorney General has issued subpoenas to numerous insurance brokers related to an inquiry into market service agreements and other similar agreements which compensate brokers for distribution and other services provided to insurance carriers. In addition, the New York Attorney General has filed suit against Marsh & McLennan Companies, Inc., one of the largest insurance brokerage firms in the industry, alleging bid-rigging to ensure that certain accounts were placed with insurers that paid high contingent commissions. Additionally, some state regulators are beginning to investigate these types of agreements, and we have received a subpoena from the Illinois Department of Financial and Professional Regulation, Division of Insurance, seeking information regarding these types of arrangements. At this point, it appears that these investigations could have far-reaching consequences in the insurance industry. For example, Marsh & McLennan Companies, Inc., Willis Group Holdings Ltd. and Aon Corp., three of the largest insurance brokerage firms in the industry, have each announced that they will no longer accept contingent commissions. We cannot predict how the outcome of this investigation will affect how insurance brokers will be compensated or contingent commissions in the insurance brokerage industry or what effect, if any, it will have on our operations. We will continue to monitor the situation.

Results of Operations

Comparison of the Quarters and Nine Months Ended September 30, 2004 and September 30, 2003

Revenues

Revenues increased $2.3 million, or 94%, in the quarter ended September 30, 2004 when compared to revenue in the third quarter of 2003, and increased $3.9 million, or 53%, for the nine month period ended September 30, 2004 compared to the same period last year. The components of commissions and fees revenue are as follows:

	Quarter ended September 30,		Nine Months Ended September 30,	
	2004	**2003**	**2004**	**2003**
Revenues:				
Commissions -Life	$ 3,992,120	$ 1,710,592	$ 9,391,034	$ 5,389,145
Commissions-Health	252,261	273,294	827,145	777,718
Partnership fees and other	469,174	443,260	1,237,336	1,328,647
Total commissions and fees revenue	4,713,555	2,427,146	11,455,515	7,495,510

Life insurance commission revenue increased $2.3 million for the quarter and $4 million year to date primarily as a result of the Life Quotes acquisition on May 7, 2004, which provided life insurance commission revenue of $1.8 million in the third quarter and $3.4 million year to date. Health insurance commission revenue decreased $21,000, or 8% for the quarter but increased $49,000, or 6%, year to date. Total policies sold for both life and health insurance increased by 1,447 in the third quarter of 2004 to 5,675 from 4,228 in the third quarter of 2003. Year to date policy sales totaled 15,477, an increase of 3,104 policies sold when compared to the first nine months of 2004. The Life Quotes operation provided 1,977 policies sold during the third quarter of 2004 and 4,065 year to date, accounting for most of the increase in both periods. Fees from strategic partners increased $26,000, or 6%, during the third quarter and decreased $91,000, or 7%, year to date when compared with the revenue generated in the comparable periods in 2003.

Expenses

Selling and Marketing. Selling and marketing expenses increased $772,000, or 72%, to a total of $1.8 million for the third quarter of 2004, and increased $1.5 million, or 39% year to date. We have increased our advertising costs since the Life Quotes acquisition in order to maintain lead flow to the telephone sales staff. However, selling and marketing expenses have dropped as a percentage of revenue from 44% to 39% in the third quarter and from 50% to 45% year to date, when compared with the comparable periods in 2003.

Operations. Operations expenses increased $1.2 million in the third quarter of 2004, and $2.4 million year to date. Operations expenses for the Life Quotes call center were $1.1 million for the third quarter and $2.1 million year to date, accounting for most of the increase.

General and Administrative. General and administrative costs decreased $21,000 in the quarter but increased $260,000 year to date. The Life Quotes operation accounted for $143,000 of the year to date increase. Higher costs for employee compensation and corporate insurance accounted for the remainder of the increase.

Depreciation and Amortization. Depreciation and amortization charges increased $127,000 in the third quarter and $146,000 year to date, when compared to the results in the comparable periods in 2003. Depreciation of the building and other assets acquired in the Life Quotes transaction, as well as amortization of intangibles acquired in the same transaction, account for $207,000 and $345,000 of these expenses in the quarter and year to date figures, respectively

Interest Income - Net

Net interest income fell $100,000 in the third quarter as compared to the third quarter of 2003, as most of our bond portfolio was liquidated in early May to pay for the Life Quotes acquisition, and there was interest expense during the period of $41,000, primarily on the note payable that was obtained to provide the remainder of the funds needed for the acquisition. These factors also account for the decline in net interest income of $196,000 for the year to date as of September 30, 2004. After the sale of stock to Zions Bancorporation was completed on August 16, 2004, we were able to add approximately $5 million to our investment portfolio. The sale of bonds mentioned above resulted in the realized losses of $46,000 in the second quarter.

Income Taxes (Credit)

We had no income tax credit for 2004 and 2003 due to valuation allowances provided against net deferred tax assets.

Liquidity and Capital Resources

The acquisition of substantially all of the assets of Life Quotes and the related real estate on May 7, 2004 was paid for with $6.5 million obtained through a short-term loan from Zions Bancorporation and approximately $12 million from the Company s cash and investments. The proceeds from the sale of 2.36 million shares of the Company s common shares to Zions Bancorporation for $13 million on August 16, 2004 was used to pay off the loan and accrued interest thereon, with the remainder of the proceeds being added to the Company s cash and fixed maturity investment portfolio. These transactions are more fully described in the proxy statement filed with the Securities and Exchange Commission in connection with our 2004 annual meeting of stockholders. We currently expect that the cash and fixed maturity investments we now hold will be sufficient to meet our anticipated cash requirements for at least the next 12 months, including the operations of the Life Quotes business.

The timing and amounts of our working capital expenditures are difficult to predict, and should we decide to purchase more shares of our common stock, engage in acquisitions of companies or their assets, or begin new projects requiring additional resources, we may require additional financing. If we require additional equity financing for operations, it may be dilutive to our stockholders and the equity securities issued in a subsequent offering may have rights or privileges senior to the holders of our common stock. If debt financing is available, it may require restrictive covenants with respect to dividends, raising capital, and other financial and operational matters, which could impact or restrict our operations. If we cannot obtain adequate financing on acceptable terms, we may be required to reduce the scope of our marketing or operations, which could harm our business, results of operations, and our financial condition.

Our sources of funds will consist primarily of commissions and fee revenue generated from the sale of insurance products, investment income, and sales and maturity proceeds from our fixed income portfolio. The principal uses of funds are selling and marketing expenses, operations, general and administrative expenses and purchases of furniture, equipment and software.

Cash used by operating activities was approximately $463,000 for the first nine months of 2004, compared with cash used by operating activities of $832,000 for the same period in 2003. Cash was used by operating activities in 2004 primarily to fund the net loss for the period, less the non-cash portion of the loss represented by depreciation and amortization. The 2004 loss was partially offset by an increase in accounts payable and accrued liabilities. In the first nine months of 2003, cash was used to fund the net loss as well as to pay for a reduction in accounts payable and accrued liabilities.

Cash used by investing activities was $11.9 million in the first nine months of 2004, consisting primarily of the purchase of assets from Life Quotes, including intangible assets, receivables, land, building and equipment. These expenditures were partially funded by the sale of investments of $11.9 million. Proceeds from the sale of common stock was used to purchase investments totaling $5 million. During 2003, the purchase of investments exceeded maturities and sales of investments, resulting in a use of cash by investing activities.

Cash provided by financing activities was $12.7 million in the first nine months of 2004, consisting primarily of the sale of common stock in August 2004 to Zions Bancorporation. There were also proceeds of a loan that was used to partially fund the acquisition of assets from Life Quotes.   This loan was repaid during the period using some of the proceeds of the stock sale. Cash was used in both periods to make payments under a capital lease obligation.

Cash Flow Obligations

In the normal course of business, we enter into financing transactions, lease agreements or other commitments. These commitments may obligate us to certain cash flows during future periods. The following table summarizes such obligations as of September 30, 2004.

		Payments due by Period			
Contractual Obligations	**Total**	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
Operating lease obligations	630,840	276,884	353,956		

Factors That May Affect Our Future Operating Results

Zions Bancorporation, together with two of our officers and directors, own a significant portion of our stock and control Quotemsith.com and their interests may not be the same as our public stockholders

As of November 4, 2004, Robert Bland, our chairman, President and Chief Executive Officer directly or indirectly controlled 31.3% of our outstanding common stock, William Thoms, our Executive Vice President and Chief Operating Officer, directly controlled 8.6% of our outstanding common stock, and Zions Bancorporation directly controlled 32.3% of our outstanding common stock. As a result, if Zions and Messrs. Bland and Thoms act together, or if Zions and Mr. Bland act together, they will be able to take any of the following actions without the approval of additional public stockholders:

elect our directors;

amend provisions of our certificate of incorporation,

approve a merger, sale of assets or other major corporate transaction;

defeat any takeover attempt, even if it would be beneficial to our public stockholders; and

otherwise control the outcome of all matters submitted for a stockholder vote.

If these persons act together and take any of the actions described above, the interests of our other stockholders may be harmed. For example, these persons could discourage or prevent potential mergers, takeovers or other change of control transactions that could be beneficial to our public stockholders, which could adversely affect the market price of our common stock. They may also be able to prevent or frustrate attempts to replace or remove incumbent management through their ability to elect directors. Furthermore, they may choose to advance their own interests at the expense of other stockholders, such as by acting to entrench themselves in a management position or electing themselves as directors.

The investor rights agreement we signed with Zions contains supermajority board voting provisions that could make it more difficult for stockholders to change the policies of our Board of Directors and elect new members to our Board of Directors

So long as Zions holds 40% of the shares issued to them, the investor rights agreement we signed with Zions gives Zions the right to nominate or appoint one member of our Board of Directors. We must also receive a vote of 75% of our directors for us to:

authorize, issue or sell any equity security (including options), other than certain specified options or pursuant to our employee stock purchase plan (of which there are presently 204,593 options available for grant under our stock option plans and 63,929 shares available for purchase under our employee stock purchase plan):

increase the authorized number of shares of our stock;

enter into any registration rights agreement;

repurchase or redeem any of our securities other than on a pro rate basis;

(i) merge, combine or consolidate with, or agree to merge, combine or consolidate with any entity, (ii) purchase, or agree to purchase all or substantially all of the securities of, any entity, or (iii) purchase, or agree to purchase, all or substantially all of the assets and properties of, or otherwise acquire, or agree to acquire, all or any portion of, any entity, in each case, for consideration in an amount, which when combined with all other such transactions in a fiscal year, exceeds $5,000,000;

(i) merge, combine or consolidate with, or agree to merge, combine or consolidate with any entity in which it is not the surviving entity or (ii) sell, assign, convey, transfer, lease or otherwise dispose of all or substantially all of its assets;

sell or dispose of business or assets in excess of $1,000,000;

alter or change materially and adversely the rights of holders of our common stock;

incur indebtedness or guarantees in excess of $2,500,000 individually or $5,000,000 in the aggregate;

amend or proposed to amend our charter or bylaws

liquidate, dissolve, recapitalize, or effect a stock split or reverse stock split, or obligate ourselves to do so;

engage in any other business other than the business we are currently engaged in; or

declare any dividends or distributions.

The supermajority provision, combined with Zions right to nominate or appoint one member of our Board of Directors, could discourage others from initiating a potential merger, takeover or another change of control transaction that could be beneficial to our public stockholders. In addition this supermajority provision could make it more difficult for stockholders to change the members and policies of the Board of Directors because any of the actions described above would require the approval of six of our seven directors. As a result, the market price of our stock could be harmed.

If Zions chooses to exercise its registration rights and sell its stock, the market price of our common stock could decrease and our ability to raise capital in the public markets may be adversely affected

The 2,363,636 shares we issued to Zions are not registered and are restricted securities. However, the holders of these shares have registration rights under the investor rights agreement. The investor rights agreement provides both demand registration rights and piggyback registration rights to the holders of these shares. Sales of significant amounts of these shares following registration in accordance with the investor rights agreement or the perception that such sales will occur could adversely affect the market price of our common stock or our future ability to raise capital through an offering of equity securities or debt securities convertible into equity securities.

The acquisition of substantially all of the assets of Life Quotes and the related real estate may not provide a successful and profitable complement to our sales efforts

We have acquired substantially all of the assets of Life Quotes and the related real estate. Life Quotes, which is now a division of the Company based in Evergreen Colorado, sells insurance over the phone to customers who call for a quote in response to direct response advertising. While the Life Quotes business has operated profitably in the past, there can be no assurance that it will continue to do so after the acquisition or that our company as a whole will be profitable. There can also be no assurance that the Life Quotes telephone sales model will form a successful complement to our present online sales and fulfillment model and that we will be able to generate the anticipated additional sales revenue from our present advertising.

We may not be successful at integrating and managing the Life Quotes operation

Life Quotes uses a different business model than our own, using commission based telephone sales personnel to provide quotes and take applications, whereas we use primarily salaried insurance professionals to answer questions and process applications primarily filled out online by the customer. While our intent is to operate Life Quotes as a stand-alone sales organization in Evergreen, Colorado, there can be no assurance that we will be able to operate these two, different business models efficiently and effectively. We have introduced our online technology to the telephone sales personnel as an order-entry and case management system. We may be unable to adequately train the commission based sales personnel to use our order-entry and case management technology, or that technology may not adequately support telephone sales personnel. This would create a lack of efficiency that could lead to lower sales volume. We do not have experience managing a commission-based sales staff, as the Quotesmith.com staff is primarily salaried. Although we have tried to minimize this risk by retaining all of the senior management at Life Quotes except for the former owner, if we are unable to efficiently manage, motivate and compensate a commission-based sales staff, our revenues could decline and we may not be able to operate our company profitably.

The former owner of Life Quotes has a limited non-competition agreement with us.

Kenneth Manley, the previous owner of Life Quotes, has a non-competition agreement with us that will prevent him from competing with us for up to six years. However, the agreement allows Manley to form a life insurance agency with members of his family provided that he acts only as a general agent, placing business through Quotesmith.com as managing general agent. He is limited to being able to produce a maximum of $2 million per year in commissionable premium (which limit increases each year during the term of the agreement). As a result, he has the limited ability to directly compete with us, which may harm us.

We may not be successful at integrating the operating systems at Life Quotes with our own systems.

Life Quotes had its own proprietary software that is used for quoting, preparation of applications and customer data base management. We have replaced this software with our online order and case management software. If we are unable to properly train the life Quotes staff to use it effectively, our business will be harmed.

Our insurance brokerage business has not been profitable and may not become profitable in the future, even with the new telephone sales and fulfillment facility

Our first complete year of focusing on our Internet based insurance service was 1997. We incurred operating losses each year subsequent to 1997, through the year ended December 31, 2003 and the nine months ended September 30, 2004. Because of our overhead structure, including the ongoing costs of employing highly-skilled technical personnel, we will need to generate higher revenues than we did in 2003 in order to achieve profitability. Even if we achieve profitability, we may not be able to maintain profitability in the future.

If the term life insurance industry declines, our business will suffer because 71% of our 2003 revenues were derived from the sale of term life insurance

For the year ended December 31, 2003, approximately 71% of our revenue was derived from the sale of individual term life insurance (or approximately 86% if we had acquired Life Quotes as of such date). Because of this high concentration of revenue from one line of insurance, our current financial condition is largely dependent on the economic health of the term life insurance industry. If sales of term life insurance decline, for any reason, our business would be substantially harmed. In addition, in recent years, term life insurance premiums have been declining. If term life insurance premiums continue to decline, it will become even more difficult for us to become profitable.

We may generate limited commission revenues because consumers can obtain free quotes and other information without purchasing insurance through our Web site

We generate commission revenues only if a consumer purchases insurance through our service. Consumers can access our Web site and obtain quotes and other information free of charge without any obligation to purchase insurance through us. Because all of the insurance policies quoted at our Web site can be purchased through sources other than us, consumers may take the quotes and other information that we provide to them and purchase one of our quoted policies from the agent or broker of their choice. If consumers only use our Web site for insurance quote information purposes, we will not generate revenues and our business would be significantly harmed.

We do not have agency contracts with all of the insurance companies we quote on our Web site and some insurance companies may refuse to participate in our database or refuse to do business with us

While we obtain the information contained in our database directly from over 200 insurance companies being quoted and listed on our Web site, we currently only hold agency contracts with 180 of these insurance companies. In the past, a number of insurance companies quoted on our

Web site have refused to appoint us as an agent or refused to permit us to publish their quotes for various reasons, including:

- we do not meet with our customers on a face-to-face basis;
- some insurance companies may have exclusive relationships with other agents;
- we publicly market our service on a price-oriented basis which is not compatible with the insurance company s branding efforts; and
- a formal business relationship with us might be perceived negatively by the insurance company s existing distribution channels.

We do not intentionally include in our database insurance companies who object to their inclusion. If a significant number of insurance companies object to the inclusion of their information in our database, the breadth of our database would be limited. If consumers purchase a material number of policies from insurance companies with whom we are not appointed as an agent, and these insurance companies refuse to enter into agency contracts with us, it could harm our business and results of operations.

Our strategic relationships and agreements may not generate a material amount of revenues for us

As part of our marketing strategy, we have entered into certain strategic relationships and agreements with third-party Web sites and companies in order to increase the realized revenue from visitors to our Web sites. During 2003, we generated fee revenues totaling $1.7 million from these sources. Most of these strategic agreements permit either party to terminate the agreement with short notice. As a result, we cannot assure you that any of these relationships or agreements will be profitable or generate any material amount of revenues in the future. If our strategic relationships and agreements do not meet our expectations regarding revenues and earnings, our business could be harmed.

If we lose any of our key executive officers our business may suffer because we rely on their knowledge of our business

We believe that our success is significantly dependent upon the continued employment and collective skills of our executive officers, including Founder and Chief Executive Officer, Robert S. Bland, and Executive Vice President and Chief Operating Officer, William V. Thoms. We maintain key man life insurance policies on Messrs. Bland and Thoms and both of these officers have entered into employment contracts with us. The loss of either of these two executives or any of our other key executive officers could harm us.

If our insurance quotes are inaccurate and we must pay out cash reward guarantees, our business could be harmed

We offer consumers a $500 cash reward guarantee that we provide an accurate insurance quote. For the year ended December 31, 2001, we paid $7,500, for the year ended December 31, 2002, we paid $10,000 and for the year ended December 31, 2003, we paid $8,500 in such cash rewards. If our quotes or those of services with respect to which we have click-through arrangements are inaccurate and we are required to pay a material number of cash reward guarantees, it could have a negative effect on our operation results.

Our bonus commission revenues are highly unpredictable and may cause fluctuations in our operating results

Our bonus commission revenues relate to the amount of premiums paid for new insurance policies to a single insurance company. In other words, if consumers purchase policies from a fewer number of insurance companies our bonus commissions may be higher than if the same policies were purchased from a larger number of insurance companies. The decision to purchase a policy from a particular insurance company typically relates to, among other factors, price of the policy and rating of the insurance company, both of which are factors over which we have no control. Insurance companies often change their prices in the middle of the year for competitive reasons. This may reduce the number of policies placed with that insurance company which may then reduce our potential bonus commissions. In addition, we have no control over the bonus commission rates that are set by each individual insurance company. As a result of these factors, we are unable to control the amount and timing of bonus commission revenues we receive in any particular quarter or year and these amounts may fluctuate significantly. Bonus commission revenues were $1.9 million for the nine months ended September 30, 2004, and $0.6 million for the nine months ended September 30, 2003.

Recently the New York Attorney General has issued subpoenas to numerous insurance brokers related to an inquiry into market service agreements and other similar agreements which compensate brokers for distribution and other services provided to insurance carriers. In addition, the New York Attorney General has filed suit against Marsh & McLennan Companies, Inc., one of the largest insurance brokerage firms in the industry, alleging bid-rigging to ensure that certain accounts were placed with insurers that paid high contingent commissions. Additionally, some state regulators are beginning to investigate these types of agreements, and we have received a subpoena from the Illinois Department of Financial and Professional Regulation, Division of Insurance, seeking information regarding these types of arrangements. At this point, it appears that these investigations could have far-reaching consequences in the insurance industry. For example, Marsh & McLennan Companies, Inc., Willis Group Holdings Ltd. and Aon Corp., three of the largest insurance brokerage firms in the industry, have each announced that they will no longer accept contingent commissions. We cannot predict how the outcome of this investigation will affect how insurance brokers will be compensated or contingent commissions in the insurance brokerage industry or what effect, if any, it will have on our operations. We will continue to monitor the situation.

The insurance sales industry is intensely competitive, and if we fail to successfully compete in this industry our market share and business will be harmed

The markets for the products and services offered on our site are intensely competitive and characterized by rapidly changing technology, evolving regulatory requirements and changing consumer demands. We compete with traditional insurance distribution channels, including insurance agents and brokers, new non-traditional channels such as commercial banks and savings and loan associations, and a growing number of direct distributors including other online services, such as InsWeb Corporation and SelectQuote.

We also potentially face competition from a number of large online services that have expertise in developing online commerce and in facilitating a high volume of Internet traffic for or on behalf of our competitors. For instance, some of our competitors have relationships with major electronic commerce companies. Other large companies with strong brand recognition, technical expertise and experience in online commerce and direct marketing could also seek to compete in the online insurance market.

There can be no assurance that we will be able to successfully compete with any of these current or potential insurance providers.

Insurance companies that have appointed us as agents may cancel those appointments

Most of our agency contracts allow the insurance company to cancel our agency appointment at any time. Should any of the companies with which we place significant amounts of business decide to cancel our appointments, our business could be harmed.

Our compliance with the strict regulatory environment applicable to the insurance industry is costly, and if we fail to comply with the numerous laws and regulations that govern the industry we could be subject to penalties

We must comply with the complex rules and regulations of each jurisdiction s insurance department which impose strict and burdensome guidelines on us regarding our operations. Compliance with these rules and regulations imposes significant costs on our business. Each jurisdiction s insurance department typically has the power, among other things, to:

authorize how, by which personnel and under what circumstances an insurance premium can be quoted and published;

approve which entities can be paid commissions from insurance companies;

license insurance agents and brokers;

monitor the activity of our non-licensed customer service representatives; and

approve policy forms and regulate some premium rates.

Due to the complexity, periodic modification and differing statutory interpretations of these laws, we may not have always been and we may not always be in compliance with all these laws. In addition, Life Quotes has at times been subject to regulatory action for failing to comply with these laws. While we are not aware of any past instances of noncompliance with these laws by either Life Quotes or us that had or could have a material impact on our company or an investment in our stock, failure to comply with these numerous laws in the future could result in fines, additional licensing requirements or the revocation of our license in the particular jurisdiction. These penalties could significantly increase our general operating expenses and harm our business. In addition, even if the allegations in any regulatory action against us turn out to be false, negative publicity relating to any allegations could result in a loss of consumer confidence and significant damage to our brand. We believe that because many consumers and insurance companies are not yet comfortable with the concept of purchasing insurance online, the publicity relating to any such regulatory or legal issues could harm our business.

Regulation of the sale of insurance over the Internet and other electronic commerce is unsettled, and future regulations could force us to change the way we do business or make operating our business more costly

As a company involved in the sale of insurance over the Internet, we are subject to additional regulatory risk as insurance regulations have not been fully modified to cover Internet transactions. Currently, many state insurance regulators are exploring the need for specific regulation of insurance sales over the Internet. Any new regulation could dampen the growth of the Internet as a means of providing insurance services. Moreover, the laws governing general commerce on the Internet remain largely unsettled, even in areas where there has been some legislative action. It may take years to determine whether and how existing laws such as those governing intellectual property, privacy and taxation apply to the Internet. In addition, the growth and development of the market for electronic commerce may prompt calls for more stringent consumer protection laws that may impose additional burdens on companies conducting business over the Internet. Any new laws or regulations or new interpretations of existing laws or regulations relating to the Internet could harm our business.

If we become subject to legal liability for the information we distribute on our Web site or communicate to our customers, our business could be harmed

Our customers rely upon information we provide regarding insurance quotes, coverage, exclusions, limitations and ratings. To the extent that the information we provide is not accurate, we could be liable for damages from both consumers and insurance companies. These types of claims have been brought, sometimes successfully, against agents, online services and print publications in the past. These types of claims could be time-consuming and expensive to defend, divert management s attention, and could cause consumers to lose confidence in our service. As a result, these types of claims, whether or not successful, could harm our business, financial condition and results of operations.

In addition, because we are appointed as an agent for only 180 of the over 200 insurance companies quoted on our Web site, we do not have contractual authorization to publish information regarding the policies from insurance companies for whom we are not appointed. Several of these insurance companies have in the past demanded that we cease publishing their policy information and others may do so in the future. In some cases we have published information despite these demands. If we are required to stop publishing information regarding some of the insurance policies that we track in our database, it could harm us.

Any failures of, or capacity constraints in, our systems or the systems of third parties on which we rely could reduce or limit visitors to our Web site and harm our ability to generate revenue

We use both internally developed and third-party systems to operate our service. If the number of users of our service increases substantially, we will need to significantly expand and upgrade our technology, transaction processing systems and network infrastructure. We do not know whether we will be able to accurately project the rate or timing of any of these increases, or expand and upgrade our systems and infrastructure to accommodate these increases in a timely manner. Our ability to facilitate transactions successfully and provide high quality customer service also depends on the efficient and uninterrupted operation of our computer and communications hardware systems. Our service has experienced periodic system interruptions, and it is likely that these interruptions will continue to occur from time to time. Additionally, our systems and operations are vulnerable to damage or interruption from human error, natural disasters, power loss, telecommunication failures, break-ins, sabotage, computer viruses, acts of vandalism and similar events. We may not carry sufficient business interruption insurance to compensate for losses that could occur. Any system failure that causes an interruption in service or decreases the responsiveness of our service would impair our revenue-generating capabilities, and could damage our reputation and our brand name.

Our success depends, in part, on our ability to protect our proprietary technology

We believe that our success depends, in part, on protecting our intellectual property. Other than our trademarks, most of our intellectual property consists of proprietary or confidential information that is not subject to patent or similar protection. Competitors may independently develop similar or superior products, software or business models.

We cannot guarantee that we will be able to protect our intellectual property. Unauthorized third parties may try to copy our products or business model or use our confidential information to develop competing products. Legal standards relating to the validity, enforceability and scope of protection of proprietary rights in Internet-related businesses are uncertain and still evolving. As a result, we cannot predict the future viability or value of our proprietary rights and those of other companies within the industry.

We may be subject to claims of infringement that may be costly to resolve and, if successful, could harm our business

Our business activities and products may infringe upon the proprietary rights of others. Parties may assert valid or invalid infringement claims against us. Any infringement claims and resulting litigation, should it occur, could subject us to significant liability for damages and could result in invalidation of our proprietary rights. Even if we eventually won, any resulting litigation could be time-consuming and expensive to defend and could divert our management s attention.

If we are unable to adapt to the rapid technological change in our industry, we will not remain competitive and our business will suffer

Our market is characterized by rapidly changing technologies, frequent new product and service introductions, and evolving industry standards. The recent growth of the Internet and intense competition in our industry exacerbate these market characteristics. Our future success will depend on our ability to adapt to rapidly changing technologies by continually improving the features and reliability of our database and service. We may experience difficulties that could delay or prevent the successful introduction or marketing of new products and services. In addition, new enhancements must meet the requirements of our current and prospective customers and must achieve significant market acceptance. We could also incur substantial costs if we need to modify our service or infrastructures or adapt our technology to respond to these changes.

Demand for our services may be reduced if we are unable to safeguard the security and privacy of our customer s information

A significant barrier to electronic commerce and online communications has been the need for secure transmission of confidential information over the Internet. Our ability to secure the transmission of confidential information over the Internet is essential in maintaining consumer and insurance company confidence in our service. In addition, because we handle confidential and sensitive information about our customers, any security breaches would damage our reputation and could expose us to litigation and liability. We cannot guarantee that our systems will prevent security breaches.

Our business assumes the continued dependability of the Internet infrastructure

Our success will depend upon the development and maintenance of the Internet s infrastructure to cope with its significant growth and increased traffic. This will require a reliable network backbone with the necessary speed, data capacity and security, and the timely development of complementary products, such as high-speed modems, for providing reliable Internet access and services. The Internet has experienced a variety of outages and other delays as a result of damage to portions of its infrastructure and could face outages and delays in the future. Outages and delays are likely to cause a loss of business by affecting the level of Internet usage and the processing of insurance quotes and applications requests made through our Web site. We are unlikely to make up for this loss of business.

Our common stock is currently trading at low prices which could further reduce the liquidity of the market for, and the price of, our common stock

We believe that the current per share price level of our common stock has reduced the effective marketability of our shares of common stock because of the reluctance of many leading brokerages firms to recommend low-priced stock to their clients. Certain investors view low-priced stock as speculative and unattractive, although certain other investors may be attracted to low-priced stock because of the greater trading volatility sometimes associated with such securities. An addition, a variety of brokerage house policies and practices tend to discourage individual brokers within those firms from dealing in low-priced stock. Such policies and practices pertain to the payment of brokers commissions and to time consuming procedures that function to make the handling of low-priced stocks unattractive to brokers from an economic standpoint.

In addition, because brokerage commissions on low-priced stock generally represent a higher percentage of the stock price than commissions on higher-priced stock, the current share price of our common stock can result in individual stockholders paying transaction costs (commissions, mark-ups or markdowns) that represent a higher percentage of their total share value than would be the case if the share price were substantially higher. This factor may also limit the willingness of institutions to purchase our common stock at its current low share price.

We believe that the current price of our common stock may have a negative impact on the liquidity and price of our common stock and investors may find it more difficult to purchase or dispose of, or to obtain accurate quotations as to the market value of, our common stock.

Our stock price may have wide fluctuations and Internet-related stocks have been particularly volatile

The market price of our common stock has been highly volatile and subject to wide fluctuations. The Nasdaq stock market has experienced significant price and volume fluctuations and the market prices of securities of technology companies, particularly Internet-related companies, have been highly volatile. Market fluctuations, as well as general political and economic conditions, such as a recession or interest rate fluctuations, could adversely affect the market price of our common stock. In addition, the market prices for stocks of Internet-related and technology companies, particularly following an initial public offering, frequently reach levels that bear no relationship to the operating performance of such companies. These market prices generally are not sustainable and are subject to wide variations. If our common stock trades to unsustainably high levels, it likely will thereafter experience a material decline.

In the past, securities class action litigation has often been brought against a company following periods of volatility in the market price of their securities. We may in the future be the target of similar litigation. Securities litigation could result in substantial costs, divert management s attention and resources, and harm our financial condition and results of operations.

Certain provisions in our charter documents and Delaware law, together with our concentration of stock ownership in a few persons, could discourage takeover attempts and lead to management entrenchment

Our certificate of incorporation and bylaws and Delaware law contain anti-takeover provisions that could have the effect of delaying or preventing changes in control that a stockholder may consider favorable. The provisions in our charter documents include the following:

we have a classified Board of Directors with three-year staggered terms that will delay the ability of stockholders to change the membership on the Board of Directors;

our Board of Directors has the ability to issue shares of preferred stock and to determine the price and other terms, including preferences and voting rights, of those shares without stockholder approval;

stockholder action may be taken only at a special or regular meeting; and

we have advance notice procedures that must be complied with by stockholders for them to nominate candidates to our Board of Directors.

Our preferred stock purchase rights could cause substantial dilution to any person or group who attempts to acquire a significant interest in Quotesmith.com without advance approval of our Board of Directors. The stock purchase agreement we have entered into with Zions requires us to amend our rights plan to exempt acquisitions of shares of our common stock by Zions from the operation of the rights plan. In addition, our executive officers have employment agreements that may entitle them to substantial payments in the event of a change of control. We have entered into amendments to our employment agreements with Messrs. Bland and Thoms that exempt the issuance of stock to Zions from constituting a change of control under these employment agreements.

Furthermore as November 4, 2004, Messrs. Bland and Thoms, together with Zions, directly or indirectly controlled approximately 72% of our outstanding common stock. This high concentration of stock ownership, together with the anti-takeover measures described above, could prevent or frustrate attempts to remove or replace incumbent management, including Messrs. Bland and Thoms. These persons may act to further their interests as management rather than the interests of the public stockholders.

The foregoing could have the effect of delaying, deferring or preventing a change in control of Quotesmith.com, discourage bids for our common stock at a premium over the market price, or harm the market price of, and the voting and other rights of the holders of, our common stock. We also are subject to Delaware laws that could have similar effects. One of these laws prohibits us from engaging in a business combination with any significant stockholder for a period of three years from the date the person became a significant stockholder unless specific conditions are met.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

The primary objective of our investment activities is to preserve principal while at the same time maximizing yields without significantly increasing risk. To achieve this objective, we maintain a portfolio of cash and equivalents and investments in a variety of securities including both government and corporate obligations and money market funds.

Substantially all of our investments are subject to interest rate risk. We consider all investments as available-for-sale, and unrealized losses on those investments totaled $102,902 at September 30, 2004, and $69,184 at December 31, 2003.

We did not hold any derivative financial instruments as of September 30, 2004, and have never held such instruments in the past. Additionally, all our transactions have been denoted in U.S. currency, and do not have any risk associated with foreign currency transactions.

Due to the short-term nature of our investments, a 1% increase in interest rates would decrease the fair value of our investments by an immaterial amount.

ITEM 4. Controls and Procedures

We completed an evaluation as of the end of the period covered by this report under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 of the Securities Exchange Act of 1934. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in alerting them on a timely basis of material information relating to us (including our consolidated subsidiaries) required to be included in our periodic Securities and Exchange Commission filings. There have been no changes in internal control over financial reporting during the quarter ended September 30, 2004 that have materially affected, or are reasonably likely to affect our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Not applicable.

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

Use of Initial Public Offering Proceeds. On August 3, 1999, our registration statement on Form S-1 (File No. 333-79355), relating to the initial public offering of our common stock, was declared effective by the Securities and Exchange Commission. After payment of underwriting discounts and expenses of approximately $5.3 million, we received net proceeds of approximately $57.5 million from the offering. As of September 30, 2004, our balance sheet reflected approximately $2.5 in investments with respect to proceeds received from the initial public offering. Proceeds from the initial public offering have been used for the repayment of a loan from Intuit, Inc. totaling $2.0 million, for cash payments of approximately $1.4 million in connection with the December 2001 purchase of selected assets of Insurance News Network, LLC, for the repurchase of 1,514,659 shares of our common stock at a cost of approximately $3.5 million, payments of approximately $12 million for the Life Quotes acquisition and for general operating activities.

Sale of Common Stock to Zions Bancorporation. On August 16, 2004, we sold 2,363,636 shares of our common stock to Zions Bancorporation for $5.50 net per share, or $13,000,000 in the aggregate. These shares were exempt from the registration requirements of the Securities Act of 1933, as amended, pursuant to the exemption provided by Rule 506 of Regulation D (17 CFR §§230.501-230.508). As required by Rule 506(b)(2) of Regulation D, we believe that there will be no more than 35 purchasers who received shares of our common stock in the offering. Specifically, only one purchaser, Zions Bancorporation, received shares of our common stock in the offering. Specifically, the stock purchase agreement with Zions Bancorporation contained representations by Zions Bancorporation that are typical of private placement transactions.

Item 3. Defaults Upon Senior Securities

Not applicable.

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

(a) Our annual meeting of stockholders was held on August 16, 2004.

(b) Not applicable.

(c) At the annual meeting, stockholders voted to approve the issuance of 2,363,636 shares of our common Stock to Zions Bancorporation for $13,000,000 in gross proceeds pursuant to the stock purchase agreement entered into on March 1, 2004 (as subsequently amended on May 7, 2004), by and between Quotesmith.com and Zions and the related investor rights agreement dated March 1, 2004, by and among Quotesmith.com, Zions, Messrs. Bland and Thoms, their spouses and the partnership through which Mr. and Mrs. Bland hold their common stock. The proceeds of the stock issuance were used to repay the $6,500,000 loan we received from Zions on May 7, 2004 to fund a portion of our acquisition of substantially all of the assets of Life Quotes and certain real estate owned by an affiliate of the sole stockholder of Life Quotes, and for general corporate purposes. There were 3,607,236 votes cast for this proposal, 4,406 votes cast against, 504 votes withheld, no abstentions and 1,279,697 broker non-votes.

Stockholders also voted to approve the establishment of the Quotesmith.com, Inc. 2004 Non-Qualified Stock Option Plan, pursuant to which options to purchase up to 300,000 shares of our common stock may be granted to certain former employees of Life Quotes who continue to work for us. There were 3,591,913 votes cast for this proposal, 19,367 votes cast against, 866 votes withheld, no abstentions and 1,279,697 broker non-votes.

Stockholders also voted to re-elect Admiral Jeremiah A. Denton, Jr., and to elect John B. Hopkins, to our board of directors. Admiral Denton received 4,860,382 votes for his election, no votes against, 31,461 votes were withheld, there were no abstentions and no broker-non votes. Mr. Hopkins received 4,860,415 votes for his election, no votes against, 31,428 votes were withheld, there were no abstentions and no broker-non votes.

Stockholders also voted to ratify the appointment of Ernst & Young LLP as our independent auditors for the year ending December 31, 2004. There were 4,890,830 votes cast for this proposal, 864 votes cast against, 149 votes withheld, no abstentions and no broker non-votes.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

(a).Exhibits

Exhibit Number	**Description**
31.1	Statement of Chief Executive Officer Pursuant to Section 302
31.2	Statement of Chief Financial Officer Pursuant to Section 302
32.1	Statement of Chief Executive Officer Pursuant to Section 1350
32.2	Statement of Chief Financial Officer Pursuant to Section 1350

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

QUOTESMITH.COM, INC.

Date: November 12, 2004

By: /s/ PHILLIP A. PERILLO
Phillip A. Perillo
Senior Vice President and Chief Financial Officer