QUOTESMITH COM INC
Form 10-Q
August 13, 2001

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended June 30, 2001.

[ ] 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(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. [X]Yes [ ] No

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities and Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. N/A

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of outstanding shares of the regisrant's common stock was 5,347,779, net of treasury shares, on July 31, 2001.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

QUOTESMITH.COM, INC.
BALANCE SHEETS

	JUNE 30, 2001 (UNAUDITED)
ASSETS	
Cash and cash equivalents	$ 7,867,884
Fixed maturity investments - available for sale at fair value	13,830,636
Commissions receivable, less allowances (2001-- $176,000; 2000-- $239,000)	1,056,929
Other assets	326,800
Total current assets	23,082,249
Furniture, equipment, and computer software at cost, less accumulated depreciation (2001-- $1,147,141; 2000-- $873,000)	2,293,213

Total assets	$ 25,375,462

LIABILITIES AND STOCKHOLDERS' EQUITY

Accounts payable and accrued liabilities	$ 1,833,980
Total current liabilities	1,833,980
Long-term capital lease obligations	106,816
Total liabilities	1,940,796
Commitments and contingencies	--
Stockholders' equity:	
Common stock - par value, $.003 per share; shares authorized: 60,000,000 shares issued: 2001and 2000-- 7,253,570	21,761
Additional paid-in capital	63,847,811
Retained-earnings deficit	(37,879,092)
Treasury stock at cost 2001-- 1,905,791; 2000-- 1,331,667 shares	(2,580,093)
Accumulated other comprehensive gain (loss)	24,279
Total stockholders' equity	23,434,666
Total liabilities and stockholders' equity	$ 25,375,462

See accompanying notes.

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QUOTESMITH.COM, INC.
STATEMENTS OF OPERATIONS

	QUARTER ENDED JUNE 30,		
	2001	2000	200
Revenues:			
Commissions and fees	$ 2,131,247	$ 4,902,878	$ 4,52
Other	13,328	9,821	2
Total revenues	2,144,575	4,912,699	4,55
Expenses:			
Selling and marketing	2,564,692	5,923,912	5,41
Operations	1,396,149	1,832,192	2,88

General and administrative	1,088,775	1,307,459	2,00
Total expenses	5,049,616	9,063,563	10,30
Operating loss	(2,905,041)	(4,150,864)	(5,75
Interest income	300,214	564,821	70
Net loss	$ (2,604,827)	$ (3,586,043)	$ (5,05
Net loss per common share, basic and diluted	$ (0.48)	$ (0.56)	$
Weighted average common shares and equivalents outstanding, basic and diluted	5,458,521	6,409,390	5,68

See accompanying notes.

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QUOTESMITH.COM, INC.
STATEMENTS OF STOCKHOLDERS' EQUITY

	COMMON STOCK NUMBER OF SHARES ISSUED	PAR VALUE	ADDITIONAL PAID-IN CAPITAL	RETAINED-EARNINGS DEFICIT	TREASUR STOCK
2000:					
Balance at January 1	7,252,727	$ 21,758	$ 63,683,525	$(14,206,590)	$ (263,
Net loss	--	--	--	(18,621,628)	
Other comprehensive gain-unrealized gain on investments	--	--	--	--	
Total comprehensive loss......					
Purchase of treasury stock ...	--	--	--	--	(1,097,
Proceeds from sale of common stock -exercise of stock options .	843	3	7,590	--	
Employee stock compensation ..	--	--	145,758	--	
Balance at December 31	7,253,570	21,761	63,836,873	(32,828,218)	(1,360,
Six months ended June 30, 2001 (unaudited)					
Net loss	--	--	--	(5,050,874)	
Other comprehensive gain-unrealized gain on investments	--	--	--	--	
Total comprehensive loss......					
Purchase of treasury stock ...	--	--	--	--	(1,219,
Employee stock compensation ..	--	--	10,938	--	

Balance at June 30, (unaudited)	7,253,570	$ 21,761	$ 63,847,811	$(37,879,092)	$(2,580,
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See accompanying notes.

QUOTESMITH.COM, INC.
STATEMENTS OF CASH FLOWS

	SIX MONTHS ENDED JUNE 30 2001	SIX MONTHS ENDED JUNE 30 2000
	(UNAUDITED)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (5,050,874)	$(12,710,861)
Adjustments to reconcile to net cash used by operating activities:		
Depreciation expense	274,084	231,046
Amortization	63,795	(536,431)
Accounts payable and accrued liabilities	(1,015,976)	(2,424,764)
Commissions receivable	483,586	(321,711)
Stock compensation	10,938	109,299
Other assets	126,271	2,286,577
Net cash used by operating activities	(5,108,176)	(13,366,845)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(7,839,464)	(36,268,641)
Proceeds from sales of investments	2,500,000	--
Proceeds from investment maturities	15,500,000	45,800,000
Purchases of furniture, equipment, and computer software	(215,151)	(1,069,549)
Net cash provided by investing activities	9,945,385	8,461,810
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	--	11,979
Proceeds used to purchase treasury stock	(1,219,780)	--
Payment of capital lease obligation	(18,686)	(3,312)
Net cash (used) provided by financing activities	(1,238,466)	8,667
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,598,743	(4,896,368)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	4,269,141	8,990,022
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 7,867,884	$ 4,093,654

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See accompanying notes.

QUOTESMITH.COM, INC.
NOTES TO FINANCIAL STATEMENTS
(UNAUDITED)

1. DESCRIPTION OF BUSINESS

Quotesmith.com, Inc. (the Company) has developed an Internet-based insurance service that enables consumers and business owners to obtain instant quotes from over 300 insurance companies. The Company's web site allows consumers to: (1) search for, analyze and compare insurance products; (2) request and obtain insurance quotes; and (3) select and purchase insurance coverage from the insurance company of their choice.

The Company incorporated and began its operations in March 1984 and during the period from 1984 to 1994 provided an electronic quotation and policy information service to insurance agents and brokers. Throughout this period the Company was not engaged in the marketing of insurance to consumers. In 1994, the Company began focusing its business strategy on marketing term life insurance to self-directed consumers using its proprietary insurance price comparison technology. In May 1996, the Company began providing real-time quotes for term life insurance on the Internet and began receiving online insurance application requests from consumers. Over the last five years, the Company's primary revenue source has been commissions derived from the sale of individual term life insurance.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States (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 six month period ended June 30, 2001 are not necessarily indicative of the results that may be expected for the year ended December 31, 2001.

The balance sheet at December 31, 2000 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.

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. COMPREHENSIVE LOSS

For the Company, comprehensive loss includes net loss and net unrealized investment gains (losses), as follows:

	QUARTER ENDED JUNE 30,		SIX MONT JUNE
	2001	2000	2001
Net loss..............................	$ (2,604,827)	$ (3,586,043)	$ (5,050,874)
Unrealized gain (loss) on investments...	13,173	(179)	27,077
Comprehensive loss...................	$ (2,591,654)	$ (3,586,222)	$ (5,023,797)

QUOTESMITH.COM, INC.
NOTES TO FINANCIAL STATEMENTS
(UNAUDITED)

5. STOCK SPLIT

On March 5, 2001, the Board of Directors of the Company approved a one-for-three reverse stock split and a change of par value per share from $.001 to $.003, effective on March 7, 2001. In the accompanying financial statements and related notes, all share and per share amounts have been retroactively adjusted to reflect the stock split. The components of stockholders' equity were not affected by these changes.

6. SUBSEQUENT EVENT

On August 2, 2001, the Company announced a reduction in staff of 25 employees as a result of its recent decision to shift certain back-office functions related to the handling of insurance applications to third party administrative firms. The Company is offering affected employees a cash separation package but does not expect those amounts to be material.

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

CAUTIONS ABOUT FORWARD-LOOKING STATEMENTS

This announcement may contain forward-looking statements that involve risks, assumptions and uncertainties pursuant to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. This announcement also contains forward-looking statements about events and circumstances that have not yet occurred and may not occur. Expressions of future goals and similar expressions including, without limitation, "may," "will," "believes," "should," "could," "hope," "expects," "expected," "does not currently expect," "anticipates," "predicts," "potential" and "forecast," reflecting something other than historical fact, are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements. Investors should be aware that actual results may differ materially from the results predicted and reported results should not be considered an indication of future performance. Reported Web site activity and/or quotes are not necessarily indicative of any present or future revenue. The Company will not necessarily update the information in this press release if any forward-looking statement later turns out to be inaccurate. Potential risks and uncertainties include, among others, Quotesmith.com's limited e-commerce operating history, anticipated losses, unpredictability of future revenues, potential fluctuations in quarterly operating results, seasonality, consumer trends, competition, risks of system interruption, the evolving nature of its business model, the increasingly competitive online commerce environment, dependence on continuing growth of online commerce and risks associated with capacity constraints and the management of growth. More information about potential factors that could affect the company's financial results is included in the company's Annual Report on Form 10-K for the year ended December 31, 2000, which is on file with the United States Securities and Exchange Commission. Some insurance companies appear at Quotesmith.com for purely informational purposes only and pay no compensation to Quotesmith.com and some insurers pay commissions or fees to Quotesmith.com based upon premium volume or traffic activity produced by Quotesmith.com. Quote availability by state or any other factor is subject to change without notice.

OVERVIEW

We generate revenues from 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 payment. At the time revenue is recognized, an allowance is recorded based on historical information for estimated commissions that may not be received due to the non-payment of installment first year premiums. The Company recognizes commissions on all other lines of business after we receive notice that the insurance company had 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 occasionally 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 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 a portion of our revenues from fees through our arrangements with Progressive and others who pay commissions or fees to us based upon traffic activity produced by us.

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.

RESULTS OF OPERATIONS

COMPARISON OF THE QUARTER AND SIX MONTHS ENDED JUNE 30, 2001 AND JUNE 30, 2000

Revenues

Revenues decreased 57% to $2.1 million for the second quarter ended June 30, 2001 compared to $4.9 million in the second quarter of 2000. For the six months ended June 30, 2001 revenues decreased 48% to $4.6 million from $8.8 million for the six month period in 2000. The decline in revenues in the second quarter of 2001 and the six months ended June 30, 2001 was due to a 56% and 46% decline in the number of paid policies, respectively, compared to 2000. The impact of the decrease in paid policies was increased by a decline in the average first year revenue per term life policy to $376 in the second quarter of 2001, compared to $402 in the second quarter of 2000 and a decline in average first year revenue per term life policy to $362 in the six month period ended June 30, 2001, compared to $396 for the same six month period in 2000. The reduction in average first year revenue per term life policy was due to a shift in business mix to insurance carriers with lower levels of first year commissions. We would expect continued fluctuations due to carrier mix in future quarters.

Expenses

Selling and Marketing. Selling and marketing expenses decreased to $2.6 million in the second quarter of 2001 compared to $5.9 million in the second quarter of 2000, and decreased to $5.4 million for the six months ended June 30, 2001 compared to $16.1 million for the six months ended June 30, 2000. Selling and marketing expense as a percentage of revenue was relatively consistent at 120% and 119%, respectively, for the quarter and six months ended June 30, 2001. Selling and marketing expenses were 121% and 183% of revenues for the quarter and six-month period ended June 30, 2000. The decrease in total selling and marketing expenses was due to the elimination of television advertisements and reductions in print and radio advertisements. We anticipate spending approximately $1.7 million in advertising the last six months of 2001.

Operations. Operations expenses decreased 22% to $1.4 million in the second quarter of 2001 from $1.8 million in the second quarter of 2000, but increased as a percentage of revenues to 65% from 37%, respectively. Operations expense decreased 29% to $2.9 million for the six months ended June 30, 2001, compared to $4.1 million for the six months ended June 30, 2000, but increased as a percentage of revenues to 63% in 2001 from 47% in 2000. The overall decrease in operating expense for all periods noted is primarily due to a decrease in employees to 112 at June 30, 2001, from 164 at June 30, 2000. The operating cost per paid policy was $263 in the second quarter of 2001 compared to $151 in the second quarter of 2000, verses $248 for the six months ended June 30, 2001 compared to $190 for the six months ended June 30, 2000. The number of paid policies rises or falls in line with increases or decreases in the level of selling and marketing expenses. Operating costs having a proportionately larger component of semi-variable costs than selling and marketing costs, increase or decrease at a slower rate. The increasing costs per paid policy reflect operating costs declining at a slower rate than paid policies. The Company has started to shift specified customer service functions to certain insurance companies and to third party administrators thereby increasing the variable nature of certain operating costs. See Note 6 to the financial statements above.

General and Administrative. General and administrative expenses decreased 15% to $1.1 million in the second quarter of 2001 from $1.3 million in the second quarter of 2000, and decreased 20% to $2.0 million for the six months ended June 30, 2001 compared to $2.5 million for the six months ended June 30, 2000. General and administrative expenses increased as a percentage of revenues to 51% from 27% for the quarters ended June 30, 2001 and 2000 respectively, and increased as a percentage of revenues to 44% from 29% for the six months ended June 30, 2001 and 2000 respectively. The level of general and administrative expenses in the second quarter was consistent with first quarter levels.

Interest Income

Interest income was $300,000 in the second quarter of 2001 compared to $565,000 in the second quarter of 2000 and $700,000 for the six months ended June 30, 2001 compared to $1.2 million for six months ended June 30, 2000. The decrease in interest income reflects the use of investment principal to fund operating losses. Interest income will continue to decrease as the company uses its cash to fund operating losses.

Income Taxes (Credit)

We had no income tax credit for 2001 and 2000 due to valuation allowances provided against net deferred tax assets.

LIQUIDITY AND CAPITAL RESOURCES

We currently expect that the cash and fixed maturity investments of $21.7 million at June 30, 2001 will be sufficient to meet our anticipated cash requirements for at least the next 12 months. We may need to raise additional capital in order to meet competitive pressures, support more rapid expansion, develop new products, acquire related or complementary businesses or technologies and or take advantage of unforeseen opportunities. The timing and amounts of working capital expenditures are difficult to predict, and if they vary materially, we may require additional financing sooner than anticipated. If we require additional equity financing, 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 consist primarily of commissions and fee revenue generated from the sale of insurance products and investment income from our cash and fixed maturity portfolio. The principal uses of funds are marketing and advertising expenses, operations, and general and administrative expenses.

Cash used in operating activities was approximately $5.1 million and $13.4 million, respectively, for the six months ended June 30, 2001 and 2000. The decrease in cash used in 2001 was primarily a result of reduced marketing expenditures.

Cash flows provided by investing activities were $9.9 million and $8.5 million, respectively, for the six months ended June 30, 2001 and 2000. Cash flows provided by investing activities in the first six months of 2001 were used to fund the operating loss and to fund the purchase of $1.2 million in treasury stock.

Cash used by financing activities was approximately $1.2 million in the six month period ended June 30, 2001, compared to $8,667 provided by financing activities for the same period in 2000. Approximately all of the cash used in 2001 reflects monies expended to purchase treasury stock under a previously announced share repurchase program. The Company repurchased 574,124 shares during the first six months of 2001 at an average price of $2.13 per share.

FACTORS THAT MAY AFFECT OUR FUTURE OPERATING RESULTS

RISKS RELATED TO OUR BUSINESS

IF WE DO NOT SUCCESSFULLY IMPLEMENT OUR NEW AUTO RATING ENGINE, OUR REVENUES AND BUSINESS COULD BE HARMED

The Company has entered the auto insurance brokerage business via the launch of a comparative multi-company auto rating engine. Launch of the auto rating engine for customers in Illinois occurred in July 2001. Launches in additional states are currently expected to occur during the remainder of 2001. We may experience additional difficulties that could further delay or prevent the successful transition into the auto brokerage business in additional states, which could result in additional expenditures and the loss of revenue.

OUR INTERNET-BASED INSURANCE SERVICE HAS NOT BEEN PROFITABLE AND MAY NOT BECOME PROFITABLE IN THE FUTURE

Our first complete year of focusing on our Internet-based insurance service was 1997. We incurred operating losses of approximately $15.0 million in 1999, $20.8 million in 2000 and $5.8 million in the first six months of 2001. Because we plan to continue to incur high levels of marketing expenses, compared to revenue, in an attempt to increase our consumer base, we will need to generate significantly higher revenues to achieve profitability. Even if we achieve profitability, we may not be able to maintain profitability in the future. In addition, as our business model evolves, we expect to introduce a number of new products and services, which take time and money to develop, that may or may not be profitable for us.

IF THE TERM LIFE INSURANCE INDUSTRY DECLINES, OUR BUSINESS WILL SUFFER BECAUSE A SUBSTANTIAL PORTION OF OUR REVENUES ARE CURRENTLY DERIVED FROM CONSUMERS PURCHASING TERM LIFE INSURANCE THROUGH US

For the six month period ended June 30, 2001, approximately 83% of our revenue was derived from consumers purchasing life insurance through us. Because nearly all of our revenues are currently derived from consumers purchasing term life insurance through us, our current financial condition is largely dependent on the term life insurance industry and in particular consumers' demand for term life insurance policies. If sales of term life insurance decline, whether due to the introduction of new products, shifting consumer preferences or otherwise, our business would be substantially harmed. In addition, in recent years, term life insurance premiums have been declining. This decline has caused our average commission per equivalent face amount of a policy to decrease and has contributed to our operating losses since 1997. If term life insurance premiums continue to decline, it may become more difficult for us to become profitable.

IF THE PURCHASE OF INSURANCE OVER THE INTERNET OR OUR SERVICE OFFERINGS DO NOT ACHIEVE WIDESPREAD CONSUMER ACCEPTANCE, OUR BUSINESS WILL BE HARMED

Our success will depend in large part on widespread consumer acceptance of purchasing insurance online. The development of an online market for insurance has only recently begun, is rapidly evolving and likely will be characterized by an increasing number of market entrants. Therefore, there is significant uncertainty with respect to the viability and growth potential of this market. Our future growth, if any, will depend on the following critical factors:

- the growth of the Internet as a commercial medium generally, and as a market for consumer financial products and services specifically;

- consumers' willingness to conduct self-directed insurance research;

- our ability to successfully and cost-effectively market our services to a sufficiently large number of consumers;

- our ability to consistently fulfill application requests on an efficient and timely basis; and

- our ability to overcome a perception among many consumers that obtaining insurance online is risky.

We cannot assure you that the market for our services will develop, that our services will be adopted or that consumers will significantly increase their use of the Internet for obtaining insurance. If the online market for insurance fails to develop or develops more slowly than we expect, or if our services do not achieve widespread market acceptance, our business would be significantly harmed.

WE MAY GENERATE LIMITED REVENUES BECAUSE CONSUMERS CAN OBTAIN FREE QUOTES AND OTHER INFORMATION WITHOUT PURCHASING INSURANCE THROUGH OUR WEB SITE

We only generate revenues 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

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only use our Web site for quote information purposes, we will not generate revenues and our business would be significantly harmed.

WE MAY EXPERIENCE SIGNIFICANT FLUCTUATIONS IN OUR QUARTERLY RESULTS, WHICH MAKES

IT DIFFICULT FOR INVESTORS TO MAKE RELIABLE PERIOD-TO-PERIOD COMPARISONS AND MAY CONTRIBUTE TO VOLATILITY IN OUR STOCK PRICE

Our quarterly revenues and operating results have fluctuated significantly in the past and we expect them to continue to fluctuate significantly in the future. Causes of these fluctuations have included, among other factors:

- the length of time it takes for an insurance company to verify that an applicant meets the specified underwriting criteria--this process can be lengthy, unpredictable and subject to delays over which we have little or no control, including underwriting backlogs of the insurance company and the accuracy of information provided by the applicant; we tend to place a significant number of policies with the most price-competitive insurance companies, who, due to volume, have longer and more unpredictable underwriting time frames;

- changes in selling and marketing expenses, as well as other operating expenses;

- volatility in bonus commissions paid to us by insurance companies which typically are highest in the fourth quarter;

- volatility in renewal commission income;

- the conversion and fulfillment rates of consumers' applications, which vary according to insurance product;

- new sites, services and products by our competitors;

- price competition by insurance companies in the sale of insurance policies; and

- the level of Internet usage for insurance products and services.

In addition, we have a very long revenue cycle. As a result, substantial portions of our expenses, including selling and marketing expenses, are incurred well in advance of potential revenue generation. If revenues do not meet our expectations as a result of these selling and marketing expenses, our results of operations will be harmed.

Any one or more of the above-mentioned factors could harm our business and results of operations, which makes quarterly predictions difficult and often unreliable. As a result, we believe that quarter-to-quarter comparisons of our operating results are not necessarily meaningful and not good indicators of our future performance. Due to the above-mentioned and other factors, it is possible that in one or more future quarters our operating results will fall below the expectations of securities analysts and investors. If this happens, the trading price of our common stock would likely decrease.

WE MUST FURTHER DEVELOP OUR BRAND RECOGNITION IN ORDER TO REMAIN COMPETITIVE

There are a number of Web sites that offer services that are competitive with the services we offer. Therefore, we believe that broader recognition and a favorable consumer perception of the Quotesmith.com brand are essential to our future success. Accordingly, we intend to continue to pursue a brand-enhancement strategy consisting of our traditional print advertising, as well as online marketing and promotional efforts. If these expenditures do not result in a sufficient increase in revenues to cover these additional selling and marketing expenses, our business, results of operations and financial condition would be harmed.

WE MUST SUCCESSFULLY EXPAND INTO ADDITIONAL INSURANCE PRODUCTS IN ORDER TO REMAIN COMPETITIVE

We have recently expanded our product offering to include other types of insurance in addition to our traditional term life product and will continue to do so in the future. Expanding our product offering has required significant expenditures and further expansion, if any, will require additional expenditures. In addition, a portion of our selling and marketing expenditures will be used to promote these new product offerings. However, to date we have generated small amounts of revenues from our new product

types. If our new product offerings do not generate sufficient revenues to cover the related expenditures, our business, results of operations and financial condition would be 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 300 insurance companies being quoted and listed at our Web site, we currently hold agency contracts with 165 of these insurance companies. We typically seek formal agency appointment from an insurance company after we receive a purchase request for that insurance company's product from a consumer. 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 desire to 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 DO NOT CURRENTLY, AND MAY NEVER, GENERATE A MATERIAL AMOUNT OF REVENUES FOR US

As part of our marketing strategy, we began to enter into strategic relationships and agreements to increase our access to online consumers. However, to date we have derived only a minimal amount of revenues from these arrangements. Under certain of these strategic agreements, we are obligated to pay referral fees based upon requests for applications or quotes, each of which do not generate revenue for us unless it results in a purchased insurance policy. In addition, 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 DO NOT MANAGE OUR GROWTH EFFECTIVELY, OUR BUSINESS COULD BE HARMED

We have expanded our operations significantly since May 1996. Our operations growth has placed significant demands on our management and other resources, which is likely to continue. To manage our future growth, we will need to attract, hire and retain highly skilled and motivated officers, managers and employees and improve existing systems and/or implement new systems for:

- transaction processing;

- operational and financial management; and

- training, integrating and managing our employee base.

We may not be successful in managing or expanding our operations or maintaining adequate management, financial and operating systems and controls.

IF OUR 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 quote. In 1999 we paid $12,000, for the year ended December 31, 2000 we paid $11,500, and for the six months ended June 30, 2001, we paid $7,500 in guarantees. 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 substantial number of cash reward guarantees, we could be harmed.

IF WE LOSE ANY OF OUR 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, William V. Thoms. Both of these officers have entered into employment contracts with us. The loss of either of these two executives or any of our other executive officers could harm our company. Walter Kulikowski, our Chief Financial Officer, joined us effective May 14, 2001 replacing David Vickers who left to pursue other interests.

RISKS RELATED TO THE INSURANCE INDUSTRY

OUR BONUS COMMISSION REVENUES ARE HIGHLY UNPREDICTABLE WHICH 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 will 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 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 of bonus commission we receive in any particular quarter or year and these amounts may fluctuate significantly.

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 both 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, including InsWeb, which has relationships with Yahoo!, Snap, Quicken and Infoseek. 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.

RISKS RELATED TO REGULATION

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. Failure to comply with these numerous laws 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 165 of the over 300 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.

RISKS RELATED TO THE INTERNET AND ELECTRONIC COMMERCE

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 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, denial-of-service attacks, 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. We have not searched to determine if any actions or products infringe upon the 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.

RISKS RELATED TO OWNERSHIP OF OUR COMMON STOCK

OUR STOCK COULD BECOME DELISTED IF WE FAIL TO MEET THE MINIMUM FINANCIAL REQUIREMENTS FOR CONTINUED LISTING ON THE NASDAQ SMALLCAP MARKET

In March 2001, Nasdaq notified the Company that we were not in compliance with one of its maintenance standards, requiring at least $5.0 million value of "public float" over the previous 30 consecutive trading days, defined as total shares outstanding less any shares held by officers, directors, or beneficial owners of 10 percent or more. In March, Nasdaq gave the company 90 calendar days to comply with this standard. Although in compliance with all other National Market maintenance requirements, the company's public float was unable to sustain a value in excess of $5.0 million for 30 consecutive trading days, making our shares ineligible for continued Nasdaq National Market listing.

Effective at the opening of business on July 20, 2001, the Company's stock listing transferred from the Nasdaq National Market to the Nasdaq SmallCap Market. The shares continue to be listed under the existing symbol QUOT.

Our common stock must maintain a minimum bid price of $1.00 per share in order to remain eligible for continued listing on the Nasdaq SmallCap Market. We effected a one-for-three reverse stock split on March 7, 2001. On July 31, 2001, the closing bid price of the common stock on the Nasdaq SmallCap Market was $2.45 per share. There can be no assurance that we will be able to maintain a bid price in excess of $1.00 per share.

In addition to the $1.00 minimum bid price per share requirement described above, the continued listing of our common stock on the Nasdaq SmallCap Market is subject to the maintenance of the other quantitative and qualitative requirements set forth in the Nasdaq SmallCap Market Listing Requirements. In particular, the Nasdaq SmallCap Market Listing Requirements require that a company currently included in the Nasdaq SmallCap Market meet each of the following standards to maintain its continued listing:

(1) either (a) net tangible assets of $2,500,000, (b) net income in two of the last three years of $500,000, or (c) a market capitalization of $35,000,000;

(2) a public float of 500,000 shares;

(3) a market value of public float of $1,000,000;

(4) a minimum bid price of $1 per share;

(5) 300 round lot shareholders;

(6) two market makers; and

(7) compliance with Nasdaq corporate governance rules.

Inclusion in the Nasdaq SmallCap Market increases liquidity and may potentially minimize the spread between the "bid" and "asked" prices quoted by market makers. Further, a Nasdaq SmallCap Market listing may enhance our access to capital and increase our flexibility in responding to anticipated capital requirements.

We believe that the current per share price level of the common stock has reduced the effective marketability of our shares of common stock because of the reluctance of many leading brokerage firms to recommend low-priced stock to their clients. Certain investors view low-priced stock as speculative and unattractive. In 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 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 the common stock can result in individual stockholders paying transaction costs (commissions, markups 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 also may limit the willingness of institutions to purchase the common stock at its current low share price.

In addition, if the common stock is not listed on the Nasdaq SmallCap Market and the trading price of the common stock were to fall below $1.00 per share, trading in the common stock would also be subject to the requirements of certain rules promulgated under the Securities Exchange Act of 1934 which require additional disclosures by broker-dealers in connection with any trades involving a stock defined as a "penny stock" (generally, a non-Nasdaq equity security that has a market price of less than $5.00 per share, subject to certain exceptions). In such event, the additional burdens imposed upon broker-dealers to effect transactions in the common stock could further limit the market liquidity of the common stock and the ability of investors to trade the common stock.

If our common stock is delisted from the Nasdaq SmallCap Market, sales of our common stock would likely be conducted only in the over-the-counter market or potentially in regional exchanges. This may have a negative impact on the liquidity and price of the 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 is highly volatile and is subject to wide fluctuations. Recently, the 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.

TWO OF OUR OFFICERS AND DIRECTORS OWN A SIGNIFICANT PORTION OF OUR STOCK AND CONTINUE TO CONTROL OUR COMPANY AND THEIR INTERESTS MAY NOT BE THE SAME AS OUR PUBLIC STOCKHOLDERS

As of July 31, 2001, Robert Bland, our chairman, President and Chief Executive Officer directly or indirectly controls 44.53% of our outstanding common stock, and William Thoms, our Executive Vice President, directly controls 13.47% of our outstanding common stock. As a result, if Messrs. Bland and Thoms act together, they will be able to take any of the following actions without the approval of additional public stockholders:

- elect our directors;
- amend several provisions of our charter;
- 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.

This control could discourage others from initiating a potential merger, takeover or another change of control transaction that could be beneficial to our public stockholders. As a result, the market price of our common stock could be harmed.

OUR CHARTER DOCUMENTS AND DELAWARE LAW CONTAIN PROVISIONS THAT MAY DISCOURAGE TAKEOVER ATTEMPTS WHICH COULD PRECLUDE OUR STOCKHOLDERS FROM RECEIVING A CHANGE OF CONTROL PREMIUM

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:

- a classified board of directors with three-year staggered terms;

- the ability of our board of directors 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 to be taken only at a special or regular meeting; and

- advance notice procedures for nominating candidates to our board of directors.

Our preferred stock purchase rights would cause substantial dilution to any person or group who attempts to acquire a significant interest in our company without advance approval of our board of directors. In addition, our executive officers have employment agreements that may entitle them to substantial payments in the event of a change of control.

The foregoing could have the effect of delaying, deferring or preventing a change in control of our company, 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 short-term 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 gains on those investments totaled $27,077 in the first six months of 2001, and totaled $36,420 for the year ended December 31, 2000.

We did not hold any derivative financial instruments as of June 30, 2001, and we 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.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Not applicable.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

Initial Public Offering. The effective date of our first registration statement, filed on Form S-1 under the Securities Act of 1933 (No. 333-79355) relating to Quotesmith.com's initial public offering of its Common Stock, was August 3, 1999. A total of 1,903,030 shares of common stock were sold at a price of $33.00 per share to an underwriting syndicate led by Hambrecht & Quist, Paine Webber Incorporated, ABN AMRO Rothschild and Charles Schwab & Co., Inc. The initial offering commenced on August 3, 1999, and closed on August 6, 1999. Net proceeds from the offering were approximately $57.5 million. We did not pay any of the net proceeds of the offering, directly or indirectly, to any director, officer of Quotesmith.com, or to any persons owning ten percent or more of our common stock, or any of our affiliates.

Use of Proceeds. As of June 30, 2001, our balance sheet reflected approximately $13.8 million in investments and $7.9 million in cash equivalents 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 general corporate purposes and the expansion of our marketing efforts.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

(a) The Company held a Special Meeting of Stockholders on March 5, 2001.

(b) At the Special Meeting of Shareholders, the stockholders voted to effect a reverse stock split of the Company's outstanding common stock based upon the following ratios: 3:1 or 6:1. The aggregate number of votes cast for, or withheld, for a reverse stock split of the Company's outstanding common stock of 6:1 was as follows: 12,983,328 for and none withheld. The aggregate number of votes cast for or withheld, for a reverse stock split of the Company's outstanding common stock of 3:1 was as follows: 13,011,647 for and none withheld.

(c) The Company's Annual Meeting of Stockholders was held on May 24, 2001.

(d) At the Annual Meeting, the stockholders reelected to the Company's Board of Directors Mr. Jeremiah A. Denton and Mr. John McCartney, both Class II Directors. Messrs. Denton and McCartney will serve three-year terms ending upon the election of Class II Directors at the 2004 annual meeting of stockholders. The aggregate number of votes cast for, or withheld, for the election of Mr. Denton was as follows: 5,164,139 for and 14,077 abstained. The aggregate number of votes cast for or withheld, for the election of Mr. McCartney was as follows: 5,170,404 for and 7,812 abstained.

The Board of Directors of the Company is composed of two Class I Directors, Messrs. Gretsch and Rueben, whose terms expire in 2003, two Class II Directors, named above, and three Class III Directors, Messrs. Bland, Shannon and Thoms, whose terms expire at the 2002 Annual Meeting of Stockholders.

(e) At the Annual Meeting the stockholders also ratified the appointment of Ernst & Young, LLP as auditors of the Company for the 2001 fiscal year. The aggregate number of votes cast for, against or abstained, for the ratification of Ernst & Young LLP was 5,167,892 for, 8,661 against and 1,663 abstained.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a). Exhibits

Exhibit Number	Description
None	----

(b). Reports on Form 8-K

No reports were filed on Form 8-K for the quarter ended June 30, 2001.

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

QUOTESMITH.COM, INC.

Date: August 10, 2001.

By: /s/ Walter B. Kulikowski
Walter B. Kulikowski

Chief Financial Officer,
Vice President and Secretary