QUOTESMITH COM INC
Form 10-Q
August 13, 2002

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, 2002.

[ ] 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. [x] Yes [ ] No

The number of outstanding shares of the registrant's common stock was 4,934,229 net of treasury shares, on July 31, 2002.

INDEX

PART I. FINANCIAL INFORMATION

PART II. OTHER INFORMATION

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

QUOTESMITH.COM, INC.
BALANCE SHEETS

	JUNE 30, 2002 (UNAUDITED)	DECEMBER 31, 2001
ASSETS		
Cash and cash equivalents	$ 2,873,665	$ 4,033,192
Fixed maturity investments - available for sale at fair value...................	13,504,066	13,909,110
Commissions receivable, less allowances (2002 -- $274,000; 2001 -- $162,000)........................	1,567,578	1,351,502
Other assets..	230,323	220,326
Total current assets.................................	18,175,632	19,514,130
Furniture, equipment, and computer software at cost, less accumulated depreciation (2002 -- $2,139,000; 2001 -- $1,633,000)...........	1,635,731	2,090,568
Intangible assets at cost, less accumulated amortization (2002 -- $279,000; 2001 -- $37,500)................	1,154,096	1,395,159
Total assets..	$ 20,965,459	$ 22,999,857

LIABILITIES AND STOCKHOLDERS' EQUITY

Accounts payable and accrued liabilities	$ 1,037,390	$ 1,000,235
Total current liabilities	1,037,390	1,000,235
Long-term capital lease obligations	60,438	84,340
Total liabilities	1,097,828	1,084,575
Commitments and contingencies	--	--
Stockholders' equity:		
Common stock - par value, $.003 per share; shares authorized: 60,000,000 shares issued: 2002 and 2001 -- 7,253,570	21,761	21,761
Additional paid-in capital	63,930,061	63,930,061
Retained-earnings deficit	(40,383,356)	(39,461,293)
Treasury stock at cost 2002 -- 2,319,341; 2001 -- 1,913,291	(3,693,085)	(2,595,343)
Accumulated other comprehensive income (loss)	(7,750)	20,096
Total stockholders' equity	19,867,631	21,915,282
Total liabilities and stockholders' equity	$ 20,965,459	$ 22,999,857

See accompanying notes.

3

QUOTESMITH.COM, INC.
STATEMENTS OF OPERATIONS

	QUARTER ENDED JUNE 30,		SIX MONTH JUNE
	2002	2001	2002
	(UNAUDITED)		(UNAUDI
Revenues:			
Commissions and fees	$ 3,150,312	$ 2,131,247	$ 5,647,853
Other	43,568	13,328	118,081
Total revenues	3,193,880	2,144,575	5,765,934
Expenses:			
Selling and marketing	666,742	2,564,692	1,254,453
Operations	2,014,118	1,396,149	3,947,679
General and administrative	810,627	1,088,775	1,663,693
Total expenses	3,491,487	5,049,616	6,865,825

Operating loss	(297,607)	(2,905,041)	(1,099,891)
Interest income	75,766	300,214	177,828
Net loss	$ (221,841)	$ (2,604,827)	$ (922,063)
Net loss per common share, basic and diluted	$ (0.04)	$ (0.48)	$ (0.18)
Weighted average common shares and equivalents outstanding, basic and diluted	4,934,229	5,458,521	5,020,922

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	TREAS STO
2001:					
Balance at January 1	7,253,570	$21,761	$63,836,873	$(32,828,218)	$(1,36
Net loss	--	--	--	(6,633,075)	
Other comprehensive income-unrealized gain on investments	--	--	--	--	
Total comprehensive loss					
Stock options issued in connection with acquisition	--	--	82,250	--	
Purchase of treasury stock	--	--	--	--	(1,23
Employee stock compensation ...	--	--	10,938	--	
Balance at December 31	7,253,570	21,761	63,930,061	(39,461,293)	(2,59
Six months ended June 30, 2002 (unaudited)					
Net loss	--	--	--	(922,063)	
Other comprehensive loss-unrealized loss on investments	--	--	--	--	
Total comprehensive loss					
Purchase of treasury stock	--	--	--	--	(1,09
Balance at June 30, 2002 (unaudited)	7,253,570	$21,761	$63,930,061	$(40,383,356)	$(3,69

========== ======= =========== ============ ======

See accompanying notes.

QUOTESMITH.COM, INC.
STATEMENTS OF CASH FLOWS

	SIX MONTHS ENDED JUNE 30, 2002	2001
	(UNAUDITED)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (922,063)	$ (5,050,874)
Adjustments to reconcile to net cash used by operating activities:		
Depreciation expense	505,857	274,084
Amortization	100,712	63,795
Accounts payable and accrued liabilities	34,387	(1,015,976)
Commissions receivable	(216,076)	483,586
Stock compensation	--	10,938
Other assets	(9,999)	126,271
Net cash used by operating activities	(507,182)	(5,108,176)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(11,882,449)	(7,839,464)
Proceeds from investment maturities	12,400,000	15,500,000
Proceeds from sales of investments	-	2,500,000
Purchases of furniture, equipment, and computer software	(51,019)	(215,151)
Net cash provided by investing activities	466,532	9,945,385
CASH FLOWS FROM FINANCING ACTIVITIES:		
Purchases of treasury stock	(1,097,742)	(1,219,780)
Payment of capital lease obligation	(21,135)	(18,686)
Net cash used by financing activities	(1,118,877)	(1,238,466)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,159,527)	3,598,743
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	4,033,192	4,269,141
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 2,873,665	$ 7,867,884

See accompanying notes.

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

1. DESCRIPTION OF BUSINESS

Quotesmith.com, Inc. (the Company) is an Internet-based insurance agency and brokerage. The Company owns and operates two comprehensive, online consumer insurance information services, www.quotesmith.com and www.insure.com, both of which cater to the needs of self-directed insurance shoppers. The Company provides a large array of comparative auto, life, and health insurance quotes, combined with news, information, and decision-making tools. 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 300 insurance companies for twelve different product lines and allows any user to purchase insurance from the company of their choice. The Company generates revenues from the receipt of commissions, fees, content licensing, and advertising revenues 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 salaried, non-commissioned personnel, and it generates prospective customer interest using traditional direct response advertising methods conducted primarily offline.

In December 2001, the Company acquired selected assets of Insurance News Network, LLC, including its Web site, www.insure.com. The insure.com Web site comprises an insurance news organization consisting of consumer insurance news, information, and decision-making tools, and is intended to provide a new customer gateway.

The accompanying 2001 financial statements reflect the operations of Insurance News Network, LLC, from the date of acquisition. The following table presents unaudited pro forma results as if the acquisition had occurred at the beginning of 2001.

	Quarter Ended June 30, 2001	Six Months Ended June 30, 2001
Total revenues	$ 2,556,000	$ 5,358,000
Net loss	(2,769,000)	(5,412,000)
Net loss per common share, basic and diluted	$ (0.51)	$ (0.95)

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, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002.

The balance sheet at December 31, 2001 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 gain (loss), as follows:

	QUARTER ENDED JUNE 30,		SIX MONTHS EN
	2002	2001	2002
Net loss................................	$ (221,841)	$ (2,604,827)	$ (922,063)
Unrealized gain (loss) on investments....	3,262	13,173	(27,846)
Comprehensive loss..................	$ (218,579)	$ (2,591,654)	$ (949,909)

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.

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," "estimates," "could," or similar expressions. These forward-looking statements are based on information currently available to us and are subject to a number of risks in 2002 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 enter the auto insurance and homeowners brokerage business; our ability to achieve or sustain profitability; demand for life insurance; consumer acceptance of purchasing insurance on the Internet; significant fluctuations in our quarterly results; our ability to develop our brand recognition; our ability to expand our product offerings; 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 to Quotesmith.com, Inc. and its subsidiary.

OVERVIEW

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. 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 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 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. To a lesser extent, we also generate revenues from the receipt of fees, content licensing, and advertising revenues paid by various sources, that are tied directly to the volume of insurance sales or traffic that we produce for such third-party entities.

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.

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

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

RESULTS OF OPERATIONS

COMPARISON OF THE QUARTERS AND SIX MONTHS ENDED JUNE 30, 2002 AND JUNE 30, 2001

Revenues

Revenues increased 49% to $3.2 million in the second quarter of 2002, compared to $2.1 in the second quarter of 2001. For the six months ended June 30, revenues increased 27% in 2002 to $5.8 million from $4.5 million in 2001. The increases in revenues were due to the addition of insure.com advertising revenue to the results of 2002, an increase in commission and fee revenues per policy sold and, for the quarter ended June 30, 2002, an increase in the number of policies sold. In the second quarter of 2002, commission and fees revenues per policy increased 25 % to $504 from $404 in 2001, and new policies sold increased 19% to 6,343 from 5,314 policies sold in the same quarter a year ago. For the six months ended June 30, 2002, commission and fee revenues per policy increased 27% to $495 from $389 in 2001, while new policies sold decreased 2%

from 11,633 in 2001 to 11,399 in 2002.

Expenses

Selling and Marketing. Selling and marketing expenses decreased 74% to $667,000 in the second quarter 2002, compared to $2.6 million in the second quarter of 2001, and decreased as a percentage of revenue from 120% in the second quarter of 2001 to 21% in the second quarter of 2002. For the six months ended June 20, 2002, selling and marketing expenses decreased 77% to $1.3 million from $5.4 million a year earlier, and decreased from 119% of revenue to 22% of revenue. The reduction of selling and marketing expenses reflects management's ongoing strategy to achieve profitability and conserve capital, in part, through further marketing efficiencies and expense reductions. Per-policy acquisition costs (total marketing costs divided by total new policies sold) were substantially reduced as a result of reduced media rates, more efficient deployment of marketing dollars, the overall branding effect of past ad expenditures, and ownership of the insure.com platform. The per-policy acquisition cost in the second quarter of 2002 dropped by 78% to $105 compared to $483 for the second quarter of 2001. Per policy acquisition costs dropped by 76% for the six months ended June 30, 2002 to $110, compared to $466 in the same period in 2001.

Operations. Operations expenses increased 44% to $2.0 million for the quarter ended June 30, 2002, compared to $1.4 million for the same period in 2001. For the six months ended June 30, 2002, operations expenses increased 37% to $3.9 million from $2.9 million in 2001. The increase in operations expenses is the result of third-party administration fees related to some customer support functions outsourced during 2002, insure.com salaries and benefits not present in 2001, and higher depreciation charges. The operating costs per paid policy increased 21% to $318 for the quarter ended June 30, 2002 from $263 per paid policy for the quarter ended June 30, 2001. For the six months ended June 30, 2002, operating costs per paid policy were $346, a 40% increase over the same period in 2001 when the operating costs per paid policy were $248.

General and Administrative. General and administrative expenses declined 26%, from $1.09 million for the quarter ended June 30, 2001, to $811,000 for the quarter ended June 30, 2002. For the six months ended June 30, 2002, general and administrative expenses were $1.7 million, a decrease of 17% from the expense of $2 million in the same period in 2001. Cost benefits realized in 2002 resulting from the planned reduction of our senior management team during 2001, were offset in part by higher 2002 amortization expense related to the December 2001 insure.com acquisition.

Interest Income

Interest income was $76,000 in the second quarter of 2002 compared to $300,000 in the second quarter of 2001. For the six months ended June 30, 2002, interest income totaled $178,000, down from $700,000 in the prior year period. The decrease in interest income reflects the use of investment principal to fund our operating losses, repurchase shares of our common stock, and fund, in part, the insure.com acquisition.

Income Taxes (Credit)

We had no income tax credit for 2002 and 2001 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 $16.4 million at June 30, 2002 will be sufficient to meet our anticipated cash requirements for at least the next 12 months. 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 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 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 equity portfolio. The principal uses of funds are selling and marketing expenses, operations, general and administrative expenses, purchases of furniture, equipment and software, and the acquisition of treasury stock.

Cash used by operating activities was approximately $507,000 for the first six months of 2002, compared with cash used by operating activities of $5.1 million for the same period in 2001. The improvement in the first six months of 2002 primarily resulted of a decreased net loss for the period reflecting the planned decrease in marketing expenditures, offset by an increase in commissions receivable versus a decrease in these accounts for the same period of the prior year.

Cash flows provided by investing activities were $467,000 in the first six months of 2002, compared with cash flows provided by investing activities of approximately $9.9 million in the first six months of 2001. The decrease in cash provided by investing activities in 2002 is primarily due to the reinvestment of substantially all of the proceeds of investments maturing during the first six months of 2002 versus the use of some of the proceeds from investments maturing during the first six months of 2001 to fund operating losses for that period.

Cash used by financing activities was approximately $1.1 million in the first six months of 2002, compared with $1.2 million used by financing activities for the same period in 2001. The cash used by financing activities in both 2002 and 2001 represents funds used to purchase our common stock under the Company's share repurchase programs.

FACTORS THAT MAY AFFECT OUR FUTURE OPERATING RESULTS

RISKS RELATED TO OUR BUSINESS

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

We have previously stated our intentions to enter the auto insurance brokerage business via the launch of a comparative multi-company auto rating engine and order fulfillment technology that has been under development by us since early 2000. This project experienced technical complexities resulting in a delayed launch. While we did successfully launch this new technology for residents of California in January 2002, and believe that additional rollouts into certain high population states will occur in 2002, we may again experience additional difficulties that could further delay or prevent our entry into the auto insurance brokerage business in other states, and that could result in additional expenditures and loss of revenue.

We have also previously stated our intentions to enter the homeowners insurance brokerage business via the launch of a comparative multi-company homeowners rating engine and order fulfillment technology that has been under development by us since mid-2001. This project experienced technical complexities resulting in a delayed launch. While we did launch this new technology for residents of California in May 2002, and believe that additional rollouts into other high population states will occur during 2002, we may again experience additional difficulties that could further delay or prevent our successful entry into the homeowners insurance brokerage business in other states, and that could result in additional expenditures and the loss of revenue.

Even though we have now technically launched our new auto and homeowners insurance services in 2002, there can be no assurance that such new services will ever become commercially successful for us or that such new services will produce any significant new revenues.

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 each year subsequent to 1997, and through the quarter ended June 30, 2002. In 2002, we are further reducing marketing expenses in order to reduce our net losses and conserve our capital. Because of our overhead structure, including the ongoing costs of employing highly-skilled, technical personnel, we need to generate significantly higher revenues in order 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 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 quarter ended June 30, 2002, approximately 81% of our revenue was derived from the sale of individual term life insurance. 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 and continue to decline in 2002. This decline has caused our average commissions 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 will become even more difficult for us to become profitable.

WE MAY GENERATE LIMITED REVENUES FROM THE INSURE.COM WEB SITE, UNLESS WE CAN SUCCESSFULLY MIGRATE ITS BUSINESS MODEL FROM AN ADVERTISER-SUPPORTED MODEL TO AN INSURANCE-TRANSACTION MODEL

Our success will depend in part upon our ability to realize commission and fee revenue derived from visitors to insure.com, who then migrate to our insurance price comparison engines to engage in an insurance transaction. Business risks associated with owning this site include:

- failure to maintain or grow the core insure.com visitor base;

- poor conversion of the insure.com visitor status to insurance buyer status;

- failure to manage the technical systems and computer platforms that are necessary for the smooth and uninterrupted operation of the insure.com Web site;

- loss of key personnel at insure.com; and

- loss of key traffic sources that send traffic to or promote the insure.com services.

We cannot assure you that we will be successful in migrating the insure.com business model from an advertiser-supported revenue business model into an insurance transaction business model, or that such migration can occur rapidly enough to generate revenues or profits at an acceptable level.

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 via the Internet. 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;

- the continued participation and interest of major, brand-name insurers, and, in particular, their willingness to have their insurance products distributed on an e-commerce platform without the involvement of a face-to-face agent or broker;

- 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 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 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 widely in the past and we expect them to continue to fluctuate widely in the future. Causes of these fluctuations could or have included, among other factors:

- dramatic swings in monthly unique visitors to insure.com from one month to the next without any forewarning;

- 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, which, 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 negatively affected.

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 our services. 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 an aggressive, brand-enhancement strategy consisting of advertising, 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 offerings to include additional types of insurance and will continue to do so in the future. Expanding our product offering has required significant expenditures, and further expansion, if any, will also 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 only 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 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 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. However, to date we have derived only a minimal amount of revenues from these arrangements. 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 and anticipate that further expansion may be required to realize our growth strategy. 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 growing employee base.

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

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 our Company.

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 year ended December 31, 2001, we paid $7,500 in cash rebates. 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 operating results.

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 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. 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 SITES 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 SITES 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 CUSTOMERS' 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 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, the staff of the Nasdaq Stock Market (Nasdaq), notified our Company that it was not in compliance with one of its maintenance standards, requiring at least $5.0 million in 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 2001, Nasdaq gave the Company 90 calendar days to comply with this standard. Although in compliance with all other Nasdaq National Market maintenance requirements, our public float was unable to sustain a value in excess of $5.0 million for 30 consecutive trading days, making its shares ineligible for continued Nasdaq National Market listing. Effective the opening of business on July 20, 2001, our stock listing was transferred from the Nasdaq National Market to the Nasdaq SmallCap Market, retaining its existing symbol, QUOT.

The requirements for listing on the Nasdaq SmallCap Market are listed below:

Nasdaq SmallCap Market Listing Considerations:

(1) either (a) net tangible assets of $2,000,000, (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 5,000,000 shares;

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

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

(5) two market makers;

(6) 300 round lot shareholders; and

(7) compliance with Nasdaq corporate governance rules.

We believe that the current per price share 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, although certain other investors may be attracted to low-priced stock because of the greater trading volatility sometimes associated with such securities. 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 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 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, as the common stock is not listed on the Nasdaq National Market, were the trading price of the common stock 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 Exchange Act 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 ability of investors to trade the common stock.

There can be no assurance that we will continue to satisfy all of the listing requirements of the Nasdaq SmallCap Market. In the event that we do not qualify for listing on 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, the 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. 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, 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, 2002, Robert Bland, our Chairman, President and Chief Executive Officer directly or indirectly controls 48.3% of our outstanding common stock, and William Thoms, our Executive Vice President and Chief Operating Officer, directly controls 14.6% 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 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.

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 THAT 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 (losses) on those investments totaled $(7,750) at June 30, 2002, and $20,096 at December 31, 2001.

We did not hold any derivative financial instruments as of June 30, 2002, 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.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Not applicable.

ITEM 2. CHANGES IN 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 June 30, 2002, our balance sheet reflected approximately $13.5 million in

investments and $2.9 million in cash and 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 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 1,474,674 shares of our common stock at a cost of approximately $3.4 million, and for general operating activities.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

(a) The Company's Annual Meeting of Stockholders was held on May 16, 2002.

(b) At the Annual Meeting, the stockholders reelected to the Company's Board of Directors Mr. Robert S. Bland, Mr. William V. Thoms and Mr. Timothy F. Shannon, all Class III Directors. Messrs. Bland, Thoms and Shannon will serve three year terms ending upon the election of Class III Directors at the 2005 annual meeting of stockholders. The aggregate number of votes cast for or withheld for the election of Mr. Bland was as follows: 4,653,795 for and 10,083 abstained. The aggregate number of votes cast for or withheld for the election of Mr. Thoms was as follows: 4,653,762 for and 10,116 abstained. The aggregate number of votes cast for or withheld for the election of Mr. Shannon was as follows: 4,654,733 for and 9,145 abstained.

(c) The Board of Directors of the Company is composed of two Class I Directors, Messrs. Gretsch and Rueben, whose terms expire in 2003, one Class II Director, Mr. Denton, whose term expires in 2004, and three Class III Directors, named above. Each Director will continue in office until his successor has been elected, or until his death, resignation or retirement.

(d) At the Annual Meeting, the stockholders also ratified the appointment of Ernst & Young, LLP, as auditors of the Company for the 2002 fiscal year. The aggregate number of votes cast for, against and withheld for the ratification of Ernst & Young, LLP, was 4,660,021 for, 892 against and 2,965 abstained.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a).Exhibits

Exhibit Number	Description
99.1	Statement of Chief Executive Officer
99.2	Statement of Chief Financial Officer

(b). Reports on Form 8-K

No reports were filed on Form 8-K for the quarter ended June 30, 2002.

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: August 1, 2002

By: /s/ PHILLIP A. PERILLO

Phillip A. Perillo
Senior Vice President and
Chief Financial Officer