

QUOTESMITH COM INC
Form 10-K
March 29, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
for the fiscal year ended December 31, 2004.**
 **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934**

for the transition period from to .

Commission File No. 000-26781

QUOTESMITH.COM, INC.

(Exact name of Registrant as specified in its charter)

Delaware
State or other jurisdiction
of incorporation or organization)

36-3299423
(IRS Employer
Identification Number)

**8205 South Cass Avenue, Suite 102
Darien, Illinois 60561**

(630) 515-0170

(Address, including zip code, and telephone number, including
area code, of Registrant's principal executive offices)

Securities registered pursuant to Section 12 (b) of the Act: **None**

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

Title of Each Class

Common Stock, \$.003 par value
Preferred Stock Purchase Rights

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

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

Indicate by a check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 121-2) Yes No X

Aggregate market value of the Registrant's voting stock held by non-affiliates on March 21, 2005, based on the closing price of said stock on the Nasdaq SmallCap Market on such date, was \$11,417,618.

As of March 21, 2005, 7,329,368 shares of the Registrant's Common Stock, \$.003 par value of the Registrant were outstanding.

Documents Incorporated by Reference

Portions of the Registrant's definitive proxy statement for the annual meeting of stockholders to be held on May 19, 2005, to be filed pursuant to Regulation 14(A) are incorporated by reference into Part III of this Form 10-K.

PART I

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Because we want to provide you with more meaningful and useful information, this Annual Report on Form 10-K includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These forward-looking statements 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 2005 and beyond. Actual events may differ materially from those expressed in, or implied by, these forward-looking statements. These risks, uncertainties, and other factors include, without limitation, the following:

- our ability to achieve or sustain profitability;
- demand for life insurance;
- significant fluctuations in our quarterly results;
- our ability to develop our brand recognition;
- our number of agency contracts;
- our ability to generate revenue from our strategic relationships;
- our ability to manage our growth;
- providing accurate insurance quotes;
- our ability to manage our expense, 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;
- ongoing investigations by regulatory authorities into the insurance brokerage industry,
- our ability to keep pace with technological changes and future regulations affecting our business;
- constraints of the systems we employ; and
- our ability to raise additional capital if necessary.

See the section of this Annual Report on Form 10-K entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations - 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 annual report. Unless otherwise expressly stated, all references to we, us, our, Quotesmith, and the Company refer to Quotesmith.com, Inc. and its subsidiaries. The information contained on our Web sites, or Web sites that

are linked to our Web sites, is not incorporated herein by reference.

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ITEM 1. BUSINESS

Overview

We are an insurance agency and brokerage headquartered in Darien, Illinois. We own and operate a comprehensive online consumer insurance information service, accessible at www.Insure.com, which caters to the needs of self-directed insurance shoppers. Since our inception in 1984, we have been continuously developing a proprietary and comprehensive insurance price comparison and order-entry system that provides instant quotes from over 200 insurance companies for numerous life and health insurance products. We use this database to provide customers with a large array of comparative life and health insurance quotes online, over the phone or by mail, and we allow the customer to purchase insurance from the company of their choice either online or over the phone with our licensed insurance customer service staff. Our website also provides insurance information and decision-making tools, along with access to other forms of personal insurance, such as auto, homeowners, renters, long-term care and travel insurance through various partners. We generate revenues from the receipt of commissions and fees paid by various sources, that are tied directly to the volume of insurance sales or traffic that we produce. We conduct our insurance agency and brokerage operations using commissioned and non-commissioned personnel and we generate prospective customer interest using traditional direct response advertising methods conducted primarily offline.

For the eight-year period ended December 31, 2004, we have spent a total of \$64.2 million in direct-to-consumer advertising and have sold approximately 154,000 new policies.

In May 2004, we acquired certain assets of Life Quotes, Inc., a Colorado-based life insurance brokerage that marketed term life insurance using direct response marketing methods combined with a call center staffed with licensed agents. We believe that this acquisition has provided an important capability that had been missing from our business model, that is, the ability to service customers by telephone in addition to our internet-based service.

Industry Background

The Traditional Insurance Market in the United States

The insurance market in the United States represents over \$1 trillion in annual paid premiums. Insurance products are widely held by households and businesses. The United States insurance market is broadly divided into two categories: life and health insurance and property and casualty insurance. Over 4,000 insurance companies distribute their products through a network of agents and brokers or sell directly to consumers. There are approximately one million individuals licensed as agents and brokers to sell insurance in the United States. A variety of distribution systems have evolved, including captive one-company agents and independent agents and brokers that typically represent only two to five insurance companies.

Challenges to Purchasing and Delivering Insurance

There are numerous challenges to the informed purchase and delivery of insurance products. Some of these challenges are due to the specialized nature of insurance products and other challenges result from the way in which insurance has been traditionally distributed.

These challenges include:

- *Fragmented delivery.* Insurance products are available from captive agents, independent agents and direct distribution channels as well as new entrants, including banks and other financial institutions. Because of this fragmentation, there has been no single source of policy coverage and pricing information from which a consumer can obtain unbiased and complete information.

- *Quantity and variation of products.* Insurance policies vary by type of insurance product, underwriting guidelines, insurance company, jurisdiction and the particular characteristics and preferences of the consumer. This creates a complex pricing structure that is not readily understandable or comparable without the use of technology.
- *Information-intensive underwriting process.* The underwriting process requires consumers to submit, and insurance companies to collect, large amounts of individualized and personal information. This process is difficult, time consuming and, if not accurately completed, will delay the approval of a policy.
- *Negative consumer perception.* Consumers often believe that they paid too much for their insurance and were not properly informed by insurance agents. Face-to-face contact with an insurance agent may convey the sense of a high-pressure sales environment with a lack of unbiased information.
- *Misalignment of interests between insurance agents and consumers.* Commission-based insurance agents represent only a limited number of insurance companies. Accordingly, they are compensated to promote and sell a limited range of products, which is in direct conflict with the consumer's need to obtain insurance at the lowest price.
- *Inconvenient and time-consuming purchase.* Researching policy coverage, contacting competing insurance companies, collecting information and obtaining insurance quotes require large blocks of time usually during regular working hours. Consumers are often unable to shop for insurance on their own time and from the convenience of their own home.

Distribution of insurance through traditional agent and broker sales forces is expensive and inefficient for insurance companies. Traditional agency distribution methods have high fixed costs associated with establishing and maintaining numerous branch and local offices, high commission structures, recurring training costs and high agent turnover. In addition, insurance companies often do not target all segments of the population because of the inability to profitably serve these segments through traditional distribution channels.

Online Insurance

The growing acceptance of the Internet and electronic commerce presents a significant opportunity for the insurance industry by allowing consumers to more efficiently and effectively research and transact with insurance companies. The fragmentation of the insurance industry and the significant price and product variation has led consumers to seek alternative means of purchase and insurance companies to seek alternative means of distribution. We believe that the vast information sharing and communications power of the Internet will significantly improve the insurance industry for both consumers and insurance companies.

Characteristics of the insurance product that make it particularly well suited for delivery over the Internet include:

- insurance is an information-based product that needs no physical shipment or warehousing of merchandise;
- through a single medium, consumers can access information and compare a wide variety of insurance companies products;
- effective two-way communication flow via the Internet allows insurance companies to interact with consumers and rapidly collect underwriting information;
- enhanced convenience, privacy and control over the process of researching and purchasing insurance without the pressure of a commissioned agent; and

- ability of insurance companies to target and serve segments of the market which previously were unprofitable through traditional distribution channels by reducing the need for large sales staff and costly local offices.

Many companies are trying to address the online insurance opportunity. Some companies have created lead referral Web sites for the purpose of capturing consumer name and address information to be forwarded, as a prospective sales lead, to a specified insurance company or its traditional sales force. Many of these Web sites are paid up-front referral fees, are aligned with a limited number of insurance companies and often do not quote many of the lowest priced insurance policies. Consumers are often still required to complete their purchase through a commissioned salesperson. Additionally, these companies typically do not offer any personalized customer service or insurance fulfillment capabilities and, therefore, do not offer a complete quote-to-policy-delivery insurance solution.

Existing insurance companies and their agents and brokers have created Web sites to sell their insurance products online as an alternative to their traditional sales activities. Some companies have created Web sites with the primary purpose of creating an insurance sale online for a single insurance company or group of insurance companies with little or no comparative overview of prices. These companies perpetuate the fragmentation in the industry by not offering a comprehensive database of pricing and coverage information.

As a result of the shortcomings inherent in the online lead referral and single company approaches, we have developed a large-scale, comprehensive and unbiased Internet-based insurance service. Self-directed consumers will be attracted to the broadest selection of insurance companies and a compelling value proposition based upon price, time and transaction fulfillment.

The Quotesmith.com Solution

We believe that Quotesmith.com provides the most comprehensive Internet-based insurance service available. Our Insure.com website enables consumers to obtain instant quotes from over 200 insurance companies for several different life, health, auto and home insurance products, and we guarantee the accuracy of every quote. Customers who prefer an offline experience can receive comparative life insurance quotes from our licensed insurance professionals and can complete an insurance application over the phone. Our web site provides consumers with insurance-related information and decision-making tools. Combining the reach and efficiency of the Internet with our proprietary database and industry expertise developed over the past 20 years, we provide a complete quote-to-policy-delivery insurance solution.

We have created a model that addresses the challenges faced by traditional insurance distribution methods in a manner that offers significant benefits to both consumers and insurance companies. The Insure.com model allows consumers to:

- research and become informed about insurance coverage issues;
- efficiently search for, analyze and compare insurance products;
- quickly request and obtain insurance quotes, either online or by phone; and
- easily select and purchase insurance from the insurance company of their choice.

The Insure.com solution provides the following principal advantages to both consumers and insurance companies:

Comprehensive Source of Insurance Information and Products. Using our easy-to-navigate web site, consumers can access insurance-related information, and decision-making tools, as well as a library of thousands of insurance articles. Our Web site also provides insurance quotes from over 200 insurance

companies across several types of insurance including individual term life, private passenger automobile, dental, individual and family medical, long-term care, disability, small group medical, and no exam whole life. We believe we offer consumers access to the largest, most complete repository of comparative information on insurance products, insurance pricing and insurance providers. We empower consumers with relevant current pricing knowledge, coverage information and independent rating information so consumers can make informed buying decisions.

Guaranteed-Accurate Instant Quotes. Over the past 20 years, we have developed what we believe to be the most complete, regularly updated database used to determine insurance quotes. This database serves both the Internet shopper as well as the customer receiving quotes over the phone from a licensed customer service representative. The ability to obtain instant quotes on the Internet is the first priority for consumers purchasing insurance online, according to a recent survey by an independent research group. We obtain and regularly update all of our pricing, underwriting and policy coverage information contained in our databases with information obtained directly from the insurance company to ensure accuracy. We offer consumers a unique \$500 cash reward guarantee that we provide an accurate quote. In addition, we also offer a \$500 cash reward guarantee that we provide the lowest price quote available with respect to term life and automobile insurance policies. These Quotesmith.com guarantees are unmatched by any competitor.

Consumer in Control. We put consumers in control of their insurance purchase decisions by providing them with the ability to efficiently search, analyze and compare prices of insurance products from multiple insurance companies in complete privacy, on their own time and free from the pressure to buy associated with traditional face-to-face sales. Consumers choose from what we believe is the largest selection of insurance companies using their own preferences regarding price and insurance company rating. Consumers are able to purchase insurance directly through us without ever speaking to a commissioned salesperson if they so choose.

Convenience. Consumers who use our services no longer need to contact different insurance companies or salespeople, one by one, in order to gather information to make educated decisions. Unlike traditional agents who only recommend and promote a limited number of insurance companies' policies, we provide real time access to a large database of over 200 insurance companies' products. Our comparison service presents users with a comprehensive listing of insurance quotes, ranked by price. We believe that this large array of available insurance providers in a single destination saves consumers time and effort in searching for and obtaining the most suitable coverage.

Quote to Policy Delivery Support. Consumers purchase insurance directly through us. Unlike insurance lead referral services, at Quotesmith.com we do not abandon the consumer once the insurance company has been selected, but continue to provide value-added support and service throughout the insurance purchase process. We facilitate this process by:

- providing a licensed agent's explanation of various pricing, coverage and independent rating information when asked;
- providing access to our licensed agents to assist consumers in completing insurance applications;
- offering applications that can be filled out online or over the phone while speaking with a licensed insurance professional; and
- arranging and monitoring the collection of outside underwriting information including paramedical examinations, laboratory reports and medical records.

Focus on Customer Service. Customer service is both our foundation and a strategic priority. We provide a high level of customer service throughout the application process and aim to eliminate consumer

dissatisfaction and frustration. Our customer service staff has an average of approximately 10 years of experience in the insurance industry.

We implement our customer service objectives by:

- requiring all new employees to attend Quotesmith University, a training course that teaches all of the service tasks we perform for our customers;
- monitoring call center employees to ensure prompt and consistent responses to phone, mail and e-mail inquiries;
- providing regular application status reports and Web access to our customers on a consistent basis through policy delivery; and
- offering a 30-day cancellation option on term life policies.

Licensed National Insurance Agency. Unlike traditional insurance agents who are often only licensed in one or a limited number of states, our Company and/or certain of its employees are licensed to distribute insurance throughout the United States. This allows us to process and offer insurance policies to consumers nationwide. Over a 20-year period, we have established vital information-contributor relationships with over 200 insurance companies, of which we are currently appointed as an authorized agent by approximately 180 insurance companies.

User Friendly System. At our web site, www.Insure.com, consumers can access our Internet-based services, research policy options and initiate purchase requests 24 hours a day, 7 days a week. Our easy to use web site is designed for fast viewing and general compatibility with all commonly used web browsers. Callers can receive quotes, discuss policy options with our licensed insurance agents and initiate purchase requests over the telephone.

Our Strategy

Our strategy is to be the leading service for all insurance needs of individuals. The key elements of our strategy include:

Continue to Build the Insure.com and Life Quotes Brands. We will continue to pursue a cost-effective marketing strategy designed to promote our Insure.com and Life Quotes brands and consumer awareness of the benefits of researching and buying insurance through us.

Continue to provide the customer with the ability to receive quotes and buy either online or through a telephone based sales staff. During the last quarter of 2002 and the first quarter of 2003, we launched our proprietary online application technology for most of our term life offerings. While providing a very efficient and cost effective method of fulfillment, it is our belief that not providing a personal, telephone based option for customers restricted the number of sales we could make to potential buyers. In May 2004, we acquired selected assets of Life Quotes, which now provide a telephone based complement to our online sales model for term life insurance.

Expand Number of Participating Insurance Companies. We intend to increase the number of participating insurance companies in our service. A significant factor in our strategy has been our ability to demonstrate to an increasing number of leading insurance companies that we can generate incremental revenues for them within their existing pricing structures. We plan to extend this ability to broaden our relationships with major insurance companies based on reputation, quality and national presence in order to expand our insurance product offerings.

Leverage Customer Base. We have expanded our insurance product offerings and believe there is significant opportunity to leverage our existing customer base and provide new products to them without significant customer acquisition costs. We plan to tailor our marketing efforts based on consumer profiles

contained in our database of existing customers. We also believe that the content acquired in the purchase of the Insure.com Web site will continue to provide us with a permanent new customer gateway, thereby allowing us to reduce our future customer acquisition costs and our reliance on direct-to-consumer advertising as our primary source of new customers.

Strengthen and Pursue Strategic Relationships and Agreements. We believe that strategic joint ventures and licensing arrangements are attractive methods of expansion, as they will enable us to combine our expertise in Internet-based insurance offerings with other brand names, complementary services or technology. We plan to pursue additional relationships and agreements in the future. In addition, we may seek to acquire additional complementary technologies or businesses.

Continue to Focus on Customer Service. We provide insurance products and services for consumers from initial evaluation through policy delivery. In order to provide the highest level of service throughout the insurance buying process, we will monitor feedback from consumers and add new features designed to increase customer usage and loyalty.

Our Business Model

We have created a model that enables consumers to research, shop for and purchase insurance in a manner that we believe is simpler, faster and more convenient than traditional methods. Even if the customer prefers to transact this business by phone, our database provides instant quotes from our database of over 200 insurance companies, and our online application technology provides an efficient order entry platform. We provide a complete quote-to-policy-delivery insurance solution. Our model:

- allows consumers to *specify the desired coverage* and *indicate their personal medical conditions* to generate appropriate individualized quotes;
- allows consumers to *indicate a range of substitutability* among insurance companies and policy features for example, consumers may want to purchase insurance from a company rated A or better by A.M. Best;
- allows consumers to *choose the premium* range they are prepared to pay for the policy they want;
- allows consumers to *purchase insurance* with or without the involvement of a commissioned salesperson;
- allows us to *monitor and care* for applicants through the underwriting process and policy delivery stage; and
- allows insurance companies to *offer additional policies* within their existing pricing structures.

We employ a team approach to customer service. If a customer wishes to initiate an insurance application request or obtain information concerning an application already in process, each and every customer service representative is able to provide assistance.

Our process is comprised of four primary stages.

Initial Information Evaluation. Consumers visit our user-friendly web site or speak with a licensed insurance professional to access our comprehensive database of insurance policy price rates, underwriting guidelines, policy coverage and exclusion information, and financial stability ratings of over 200 insurance companies. To help consumers understand the underwriting process, our web site provides information and helpful tips on how the underwriting process works.

Search, Retrieval and Comparison. Online consumers can quickly obtain a customized cost comparison report in a single search by completing a brief and anonymous questionnaire at the start of the online session. Customers who call or request a quote by mail will receive the same information. Each

anonymous consumer inquiry triggers a proprietary cost search and comparison algorithm that sorts through a database of thousands of insurance options that is updated daily. The search result, delivered in seconds, is a comprehensive comparison of insurance policies ranked by the lowest price that matches the consumer's criteria. Consumers can then click to view (or callers can discuss with a licensed insurance professional):

- specific coverage details about the policy;
- exclusions and guarantees (including policy acceptance guidelines); and
- latest financial stability ratings from five independent rating services.

Application Processing. If a consumer desires to purchase a policy, the consumer selects an insurance company and policy, and then fills out an application while online or on the phone with a licensed insurance professional. We offer online applications to accelerate the underwriting process for the most popular of the insurance companies within our term life offerings. After the consumer completes, receives via download or mail and signs the completed online application, the consumer returns the application to us. We then submit the application to the insurance company for underwriting on behalf of the consumer. We provide toll-free support during business hours to assist the consumer in completing the application.

Underwriting. During the underwriting process, we regularly track the progress of the consumer's outstanding items. We also assist the insurance company by arranging for a paramedical examination and facilitating the collection of any other outside information needed. We obtain status reports from the insurance company at least every ten days regarding the application and regularly communicate this information to the consumer. We review all policies for accuracy prior to delivery to the consumer.

If an insurance company declines to issue the policy or issues a counter offer at a higher premium, we send a letter to the consumer stating the reasons that the policy is not being issued as applied for. In this instance, we also assist the consumer in finding suitable alternative coverage whenever asked and wherever possible.

Once a policy has been issued and been paid for by the consumer, we receive a commission from the insurance company. We do not charge consumers for using our Quotesmith.com technology and do not currently sell banner advertising at our Insure.com web site.

Insurance Products

Quotesmith.com historically offered quote and policy-related information regarding term life insurance. We now also offer instant quotes and related information on additional insurance products for both individuals and small businesses. Our current product offerings include:

- *Individual term life.* This is life insurance coverage that has no cash value and continues for a fixed period of time such as 15, 20 or 25 years. We have been offering instant quotes and delivering term life policies since 1993.
- *Private passenger automobile.* This provides collision and liability insurance to individuals for private cars and vehicles. We provide a multi-company auto insurance price comparison service using third-party technology.
- *Homeowner's.* This provides insurance against fire and other perils for personal residences. We provide this service using third-party technology.
- *Dental.* This includes traditional indemnity insurance along with fixed discount plans. We provide this service using third-party technology.

- *Individual and family medical.* This is also known as comprehensive major medical insurance. We provide this service using third-party technology.
- *International travel medical.* This provides medical insurance for U.S. citizens traveling abroad and for foreign citizens traveling in the United States, as well as other risks associated with international travel. We provide a multi-company international medical and travel insurance price comparison service using third-party technology.
- *Small group medical.* Small group medical insurance are those comprehensive medical plans offered to firms that employ from 2 to 100 people. We provide this service using third-party technology.
- *No-exam life.* This provides insurance for persons who want life insurance coverage without a paramedical examination. We offer instant quotes using third party technology.
- *Renters Insurance.* This provides insurance against the perils of fire, theft and windstorm for renters. We provide instant quotes using third party technology.

We constantly evaluate our offerings based on a number of factors, including market acceptance and profitability. We may decide to add or delete lines of coverage at any time.

Technology

Proprietary Insurance Information Databases. We maintain a proprietary database of premium rates and policy coverage information from over 200 insurance companies. We do not rely upon state insurance departments or any other regulatory agencies to obtain any insurance pricing information. Instead, we obtain and regularly update all of the pricing, underwriting and policy coverage information contained in our databases directly from each quoted insurance company. We obtain financial stability ratings from A.M. Best, Fitch, Inc., Moody's, Standard & Poor's and Weiss Ratings, Inc. and hold licenses to distribute the copyrighted rating from each of these ratings services. Our dedicated staff of full-time market reporters regularly contacts the insurance companies quoted on our service and monitors and updates our databases as market conditions warrant. Each business day we make hundreds of changes to our insurance database.

Technology Systems. Our systems for processing quotes, purchase requests, application progress tracking, customer notification and revenue recognition are highly automated and integrated. Agents and customer service representatives equipped with online computer terminals can access a customer's account information from our database on demand. Our core technology systems use a combination of our own proprietary technologies and commercially available, licensed technologies. We have internally developed and enhanced our proprietary programs over a period of 20 years using scalable tools and platforms to allow us to rapidly expand our network and computing capacity.

An internal programming and system administration staff supports our technology. In addition to supporting the systems, our staff continually enhances our software and hardware and develops new systems and services to better service our customers and business objectives.

Server Hosting and Backup. Our Web sites are hosted by InterNap Network Services in Chicago, Illinois. This grade A telecommunications data center provides redundant communications lines to the Internet backbone, emergency power backup, and security, as well as 24-hour monitoring and engineering support. In addition, we have implemented load balancing systems and our own redundant servers to provide for fault tolerance. These redundancies permit us to perform scheduled maintenance without taking our web sites offline. Finally, tape backups are performed nightly to prevent a loss of data.

Marketing

We attract new consumers and communicate the availability of new products and services primarily through direct response marketing methods. We have established ourselves as a leading Internet-based insurance brand through an offline marketing campaign consisting primarily of magazine advertisements, radio and direct mail. We employ in-house volume media buying and other strategies to minimize the expenses of broad-based advertising. Using our proprietary information processing systems and consumer database as well as other resources, we employ statistical analyses to measure the effectiveness and efficiency of our marketing efforts.

We intend to aggressively pursue a marketing strategy designed to promote our Insure.com and Life Quotes brands and consumer awareness of the benefits of buying insurance through us.

Our marketing strategy is to promote our brands and attract self-directed consumers to our web sites. Our marketing initiatives include:

- using direct response print advertisements placed primarily in financially oriented magazines and newspapers;
- advertising via radio and direct mail; and
- entering into strategic relationships with other financial services and general purpose web sites to increase our access to online consumers.

Material Strategic Relationships and Agreements

We selectively pursue strategic relationships and agreements to expand our access to online consumers, to build our brand name recognition and to expand our products and services with a variety of companies. Revenue associated with our agreements with strategic partners comprised approximately 10% of total revenue for the year ended December 31, 2004.

Competition

We compete with online and traditional providers of insurance products. The market for selling insurance products over the Internet is new, rapidly evolving and intensely competitive. Current and new competitors may be able to launch new sites at a relatively low cost. There are a number of companies that either sell insurance online or provide lead referral services online.

We believe that we are the most comprehensive Internet-based insurance service because we provide consumers complete quote-to-policy-delivery insurance services, instant quotes from over 200 insurance companies for several different insurance products and the ability to buy online or over the phone. Our Internet-based, lead-referral competitors generally capture consumer name and address information to be forwarded, as a prospective sales lead, to a specified insurance company, without personalized customer service or fulfillment capabilities. Other Internet-based competitors have created Web sites as alternatives to their traditional sales activities and offer products from a single insurance company or a relatively small group of insurance companies with little or no comparative overview of prices. While we believe that our complete quote-to-policy-delivery service offers a more comprehensive Internet-based insurance service solution than these competitors, we nonetheless expect to face intense competition from these other types of insurance services.

We also face competition from the traditional distributors of insurance such as captive agents, independent brokers and agents and direct distributors of insurance. Insurance companies and distributors of insurance products are increasingly competing with banks, securities firms and mutual fund companies that sell insurance or alternative products to similar consumers.

We potentially face competition from unanticipated alternatives to our insurance service from a number of large Internet companies and services that have expertise in developing online commerce and in facilitating Internet traffic. These potential competitors could choose to compete with us directly or indirectly through affiliations with other electronic commerce companies, including direct competitors. Other large companies with strong brand recognition, technical expertise and experience in Internet commerce could also seek to compete with us. Competition from these and other sources could harm our business, results of operations and financial condition.

We believe that the principal competitive factors in our markets are price, brand recognition, web site useability, ability to fulfill customer purchase requests, customer service, reliability of delivery, ease of use, and technical expertise and capabilities. Many of our current and potential competitors, including Internet directories and search engines and traditional insurance agents and brokers, have longer operating histories, larger consumer bases, greater brand recognition and significantly greater financial, marketing, technical and other resources than us. Several of these competitors may be able to secure products and services on more favorable terms than we can obtain. In addition, many of these competitors may be able to devote significantly greater resources than we can for developing Web sites and systems, marketing and promotional campaigns, attracting traffic to their Web sites and attracting and retaining key employees.

Increased competition may result in reduced operating margins, loss of market share and damage to our brand. We cannot assure you that we will be able to compete successfully against current and future competitors or that competition will not harm our business, results of operations and financial condition.

Regulation

The insurance industry and the marketers of insurance products are subject to extensive regulation by state governments and by the District of Columbia. This regulation extends to the operations of insurance companies, insurance agents and to our service.

Our products are sold throughout the United States through licenses held by us and/or one of our employees, as is required by each state's insurance department. In general, state insurance laws establish supervisory agencies with broad administrative and supervisory powers to:

- grant and revoke licenses to transact business;
- impose continuing education requirements;
- regulate trade practices;
- require statutory financial statements of the insurance companies;
- approve individuals and entities to which commissions can be paid;
- monitor the activity of our non-licensed customer service representatives;
- regulate methods of transacting business and advertising; and
- approve policy forms, and regulate premium rates for some forms of insurance.

Moreover, existing state insurance regulations require that a firm, or individual within that firm, must be licensed in order to quote an insurance premium. State insurance regulatory authorities regularly make inquiries, hold investigations and administer market conduct examinations with respect to compliance with applicable insurance laws and regulations by insurance companies and their agents. In recent years, a number of insurance agents and the life insurance companies they represent have been the subject of regulatory proceedings and litigation relating to alleged improper life insurance pricing and sales practices. Some of these agents and insurance companies have incurred or paid substantial amounts in connection

with the resolution of these matters. We do not currently sell the types of life insurance primarily cash value life insurance policies such as universal life that are the subject of these actions.

In addition, licensing laws applicable to insurance marketing activities and the receipt of commissions vary by jurisdiction and are subject to interpretation as to the application of these requirements to specific activities or transactions. We and/or many of our employees are currently licensed to sell insurance in every state and the District of Columbia. All interaction with customers is done through our licensed customer service staff. We do not permit any of our unlicensed personnel who occasionally have contact with customers to act as insurance agents. We monitor the regulatory compliance of our sales, marketing and advertising practices and the related activities of our employees. We also provide continuing education and training to our staff in an effort to ensure compliance with applicable insurance laws and regulations. However, we cannot assure you that a state insurance department will not make a determination that one or more of these activities constitute the solicitation of insurance and that personnel must be licensed. Such a determination could harm our business.

On November 11, 2004, we announced that we had received a subpoena requesting documents and seeking information from the State of Illinois Department of Financial and Professional Regulation, Division of Insurance. We intend to cooperate fully with the Illinois Division of Insurance. Given the apparent widening of this regulatory probe within the insurance brokerage sector, combined with the fact that we are regulated by the insurance departments of every state, we expect to receive additional subpoenas and information requests of this nature going forward. We intend to respond fully and completely to such information requests by any regulator or government entity. We cannot assure you what the result of this investigation will be or what effect, if any, it will have on our financial performance or results of operations.

We can give you no assurance that we would be deemed to be in compliance with all applicable insurance licensing requirements and marketing regulations of each jurisdiction in which we operate. Nor can we assure you that we do not need to obtain any additional licenses.

The federal government does not directly regulate the marketing of most insurance products. However, some products, such as variable life insurance, must be registered under federal securities laws and therefore the entities selling these products must be registered with the National Association of Securities Dealers, Inc. We do not currently sell any federally regulated insurance products. If we elect to sell these federally regulated products in the future, we would be required to qualify for and obtain the required licenses and registrations. We cannot assure you that we would be able to obtain these licenses.

Further, we are subject to various federal laws and regulations affecting matters such as pensions, age and sex discrimination, financial services, securities and taxation. Congress recently passed legislation that provides for national licensing of insurance agents and brokers. The legislation provides an impetus for states to enact either uniform laws and regulations governing licensing of individuals and entities authorized to sell and solicit the purchase of insurance, as well as reciprocity laws and regulations governing the licensing of non-resident individuals. This legislation and other future federal or state legislation could result in increased regulation of our business.

The future regulation of insurance sales via the Internet as a part of the new and rapidly growing electronic commerce business sector is unclear. We believe that we are currently in compliance with all current regulations. However, if additional state or federal regulations are adopted, they may have an adverse impact on us.

Employees

As of December 31, 2004, we had 110 employees. We have never had a work stoppage. Our employees are not represented by a collective bargaining unit. We consider our relations with our employees to be

good. Our future success will depend, in part, on our ability to continue to attract, integrate, retain and motivate highly qualified technical and managerial personnel, for whom competition is intense.

ITEM 2. Properties

Our executive, administrative and operating offices are located in approximately 19,000 square feet of leased office space in Darien, Illinois under a lease that expires on December 31, 2006. We believe that suitable office space will be available on commercially reasonable terms when our lease expires. Our Life Quotes operation is housed in a 43,000 square foot office building in Evergreen, Colorado, which we own. There are no other tenants in the building, which has sufficient space to cover any anticipated expansion plans for the foreseeable future.

ITEM 3. Legal Proceedings

From time to time we have been, and expect to continue to be, subject to legal and regulatory proceedings and claims in the ordinary course of business. Legal and regulatory proceedings and claims may include claims of alleged infringement of third party intellectual property rights, notices from state regulators that we may have violated state regulations, and litigation instituted by dissatisfied policy holders. These claims, even if without merit, could result in the significant expenditure of our financial and managerial resources. We are not aware of any such claims that we believe will, individually or in the aggregate, materially affect our business, financial condition or results of operations.

ITEM 4. Submission of Matters to a Vote of Security Holders.

There were no matters submitted to a vote of our stockholders during the quarter ended December 31, 2004.

ITEM 4(a). Executive Officers of the Registrant

The following table sets forth information regarding our executive officers and certain other key employees.

Name	Age	Position
Robert S. Bland	51	Chairman of the Board, President and Chief Executive Officer
William V. Thoms	52	Executive Vice President, Chief Operating Officer
Phillip A. Perillo	55	Senior Vice President, Chief Financial Officer
Richard C. Claahsen	40	Vice President, Corporate Secretary

Robert S. Bland has served as our Chairman of the Board, President and Chief Executive Officer since he founded Quotesmith.com in 1984. From 1979 to 1984, Mr. Bland was president and sole stockholder of Security Funding Corporation, an insurance agency. In March 1984, Mr. Bland sold Security Funding Corporation in order to raise capital to found Quotesmith.com. Mr. Bland holds a B.S. in marketing from the University of Colorado.

William V. Thoms has served as our Executive Vice President since 1994. From 1988 to 1993, Mr. Thoms was responsible for our operations and customer service departments. Mr. Thoms is a founding stockholder. Prior to joining us, Mr. Thoms was a sales manager for Western Dressing, Inc., a privately held salad dressing manufacturing company, from 1972 to 1987.

Phillip A. Perillo has served as our Senior Vice President and Chief Financial Officer since May of 2002. Mr. Perillo has over twenty years of insurance industry experience, with companies such as the Zurich American Insurance Group and Marsh & McLennan. Mr. Perillo holds an MBA in Finance from DePaul University and a B.S. in Accounting from the University of Illinois at Chicago.

Richard C. Claahsen has served as our Vice President of Regulatory Affairs since May 1999. From June 1997 to May 1999, Mr. Claahsen served as our director of regulatory affairs. From October 1996 to June 1997, he was a special agent with Northwestern Mutual Life Insurance Company. From 1993 to 1996, Mr. Claahsen was a litigation paralegal at Templeton & Associates of Chicago, Illinois. In 1999, Mr. Claahsen received his Chartered Life Underwriter designation from The American College of Bryn Mawr, Pennsylvania. Mr. Claahsen holds a B.A. and an M.A. in philosophy from the Catholic University of America and a J.D. from ITT Chicago Kent College of Law.

PART II

ITEM 5. Market for Registrant's Common Equity and Related Stockholder Matters.

All common stock and per share information in this annual report have been retroactively adjusted to reflect a one-for-three reverse stock split that became effective on March 7, 2001.

Market Information. Our common stock began trading on the Nasdaq National Market under the symbol QUOT on August 3, 1999, the date of our initial public offering. Prior to this date, no established public trading market for our common equity existed. 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. As of March 21, 2005 the approximate number of record holders of our common stock was 1,800. The last sale price of our common stock on March 21, 2005 was \$5.45. The following table sets forth, for the period indicated, the high and low last sale price of our common stock as reported on the Nasdaq SmallCap Market, as applicable.

	High	Low
2004:		
First Quarter	\$ 6.00	\$ 4.92
Second Quarter	6.70	5.47
Third Quarter	6.00	5.00
Fourth Quarter	6.10	4.95
2003:		
First Quarter	\$ 4.60	\$ 3.46
Second Quarter	5.12	3.55
Third Quarter	6.00	4.01
Fourth Quarter	4.92	3.84

Dividends. We have never declared or paid any cash dividends on our common stock and do not anticipate paying cash dividends on our common stock in the foreseeable future. The investor rights agreement we have entered into with Zions Bancorporation, or Zions, prohibits us from paying cash dividends on our common stock unless certain conditions are met. We currently intend to retain all future earnings to finance the growth and development of our business. Any future determination as to the payment of dividends will be made by our board of directors and will depend on our results of operations, financial condition, capital requirements, and any other factors our board of directors considers relevant, including the restrictions contained in the investor rights agreement.

ITEM 6. Selected Financial Data.

The historical statement of operations data and balance sheet data in the table below is derived from our financial statements. This data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and with the financial statements, related notes, and other financial information included in this annual report. The historical results presented below are not necessarily indicative of the results to be expected for any future period.

	Year Ended December 31,				
	2004	2003	2002	2001	2000
	(in thousands, except per share data)				
Statement of Operations Data:					
Revenues	\$ 15,910	\$ 9,737	\$ 10,777	\$ 8,851	\$ 15,236
Expenses:					
Selling and marketing	6,866	4,735	2,912	7,052	24,201
Operations	6,531	3,034	7,032	5,366	6,974
General and administrative	3,148	2,656	2,513	3,343	4,355
Depreciation and amortization	1,279	1,053	1,405	798	548
Total expenses	17,824	11,478	13,862	16,559	36,078
Operating loss	(1,914)	(1,741)	(3,085)	(7,708)	(20,842)
Interest income, net	138	368	359	1,075	2,220
Realized gain (loss) on sale of securities	(45)	92			
Net loss	\$ (1,821)	\$ (1,281)	\$ (2,726)	\$ (6,633)	\$ (18,622)
Basic and diluted net loss per share	\$ (0.31)	\$ (0.26)	\$ (0.55)	\$ (1.22)	\$ (2.93)
Weighted average common shares and equivalents outstanding, basic and diluted	5,851	4,917	4,964	5,441	6,366

	December 31,				
	2004	2003	2002	2001	2000
	(in thousands)				
Balance Sheet Data:					
Cash and equivalents	\$ 1,356	\$ 677	\$ 1,640	\$ 4,033	\$ 4,269
Working capital	5,140	5,607	10,485	18,514	27,443
Total assets	28,843	17,526	19,559	23,000	32,643
Long-term liabilities			35	84	128
Total liabilities	1,228	760	1,464	1,085	2,976
Total stockholders' equity	27,615	16,766	18,095	21,915	29,667

	Year Ended December 31,				
	2004	2003	2002	2001	2000
Selected Operating Statistics:					
Completed quotes					
Term life	1,376,000	866,000	1,266,000	1,452,000	2,105,000
Health and other	546,000	960,000	1,305,000	876,000	1,993,000
Total completed quotes	1,922,000	1,826,000	2,571,000	2,328,000	4,098,000
Policies sold					
Term life	17,485	11,011	16,498	16,915	33,491
Health and other	3,236	4,845	4,753	3,367	4,029
Total policies sold	20,721	15,856	21,251	20,282	37,520

Selected Quarterly Operating Results

The following tables set forth unaudited quarterly statements of operations data for 2004 and 2003. The information for each of these quarters has been prepared on substantially the same basis as the audited financial statements included elsewhere in this annual report, and, in our opinion, include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results of operations for these periods. Historical results are not necessarily indicative of the results to be expected in the future, and results of interim periods are not necessarily indicative of results for the entire year.

2004	Quarter Ended			
	Mar. 31,	June 30,	Sept. 30,	Dec. 31,
	(in thousands, except per share data)			
Revenues	\$ 2,452	\$ 4,296	\$ 4,714	\$ 4,449
Expenses:				