

QUOTESMITH COM INC  
Form PRER14A  
June 29, 2004

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

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No. 3)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**Quotesmith.com, Inc.**

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.
- (1) Title of each class of securities to which transaction applies:  
Common Stock, par value \$0.003 per share, of Quotesmith.com, Inc.
- 
- (2) Aggregate number of securities to which transaction applies:  
2,363,636
- 
- (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):  
\$5.30, which is the average of the bid and asked prices of Quotesmith.com, Inc. common stock on March 2, 2004, as reported on the Nasdaq SmallCap Market
- 
- (4) Proposed maximum aggregate value of transaction:  
\$13,000,000

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(5) Total fee paid:  
\$1,647

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ý Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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Quotesmith.com, Inc.  
8205 South Cass Avenue, Suite 102  
Darien, Illinois 60561

Dear Stockholders of Quotesmith.com, Inc.:

On May 7, 2004, we acquired substantially all of the assets of Life Quotes, Inc., or Life Quotes, a domestic insurance agency that solicited business from prospective customers in all 50 states, together with certain real estate owned by an affiliate of the sole stockholder of Life Quotes, for aggregate consideration of approximately \$18.4 million, after adjustments and prorations. We funded this acquisition by borrowing \$6,500,000 from Zions Bancorporation, or Zions, and by using cash on hand. We did not acquire the entity Life Quotes, Inc. We intend to issue 2,363,636 shares of our common stock to Zions resulting in \$13,000,000 in gross proceeds. The proceeds of this stock issuance will be used to repay the loan from Zions and for general corporate purposes. The assets of Life Quotes and the related real estate are owned by a wholly-owned subsidiary of Quotesmith.com.

We entered into a stock purchase agreement with Zions on March 1, 2004 which was subsequently amended on May 7, 2004. Under the terms of the stock purchase agreement, we have agreed to issue 2,363,636 shares of our common stock to Zions for \$13,000,000 in gross proceeds. The common stock to be issued to Zions will not be registered, and will be restricted following the stock issuance. In connection with the issuance of stock to Zions, we have entered into an investor rights agreement with Zions, Messrs. Bland and Thoms, their spouses, and the partnership through which Mr. and Mrs. Bland hold their common stock whereby we have agreed, among other things, to increase the size of our Board of Directors by one member and to nominate an individual designated by Zions to serve on the Board of Directors. Messrs. Bland and Thoms, their spouses and the partnership through which Mr. and Mrs. Bland hold their common stock have agreed to vote all of their shares of common stock in favor of such individual. In accordance with the investor rights agreement, Zions has designated as its nominee, and we have nominated for election as director, John B. Hopkins. In addition, Messrs. Bland and Thoms, together with their spouses and the partnership through which Mr. and Mrs. Bland hold their common stock, entered into voting agreements with Zions on May 7, 2004 whereby these persons have agreed, among other things, to vote their shares of our common stock (which represents over 60% of our outstanding common stock) in favor of the stock issuance to Zions. This number is sufficient to approve the stock issuance to Zions.

In connection with the Life Quotes acquisition, we have agreed to establish the Quotesmith.com, Inc. 2004 Non-Qualified Stock Option Plan, or the Life Quotes employee stock option plan, pursuant to which options to purchase up to 300,000 shares of our common stock may be granted to certain former employees of Life Quotes who continue to work for us.

The enclosed proxy statement also contains annual meeting proposals for the election of two directors and the ratification of Ernst & Young LLP as our independent auditors for 2004.

Our common stock is listed on the Nasdaq SmallCap Market under the ticker symbol "QUOT." In compliance with Nasdaq rules, we will seek stockholder approval of (i) the issuance of our common stock to Zions and (ii) the establishment of the Life Quotes employee stock option plan at our annual meeting of stockholders on [            ], 2004 to be held at our offices at 8205 South Cass Avenue, Suite 102, Darien, Illinois 60561, at 9:00 a.m., Chicago time. At our annual meeting of stockholders we will also conduct an election for two directors to serve until the 2007 annual meeting and seek ratification of the appointment of Ernst & Young LLP as our independent auditors for 2004.

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Our Board of Directors has unanimously approved (i) the issuance of shares of our common stock to Zions and recommends that you vote in favor of the issuance of shares of our common stock to Zions and (ii) the establishment of the Life Quotes employee stock option plan and recommends that you vote in favor of establishing the Life Quotes employee stock option plan. In addition, our Board of Directors recommends that you vote in favor of the nominees for election to the Board of Directors and in favor of ratifying Ernst & Young LLP as our independent auditors for 2004.

You are not entitled to dissenter's or appraisal rights in connection with the issuance of our common stock to Zions. The holders of more than 60% of our common stock outstanding prior to the stock issuance have agreed to vote in favor of the proposals. This number is sufficient to approve of the stock issuance to Zions. Following the stock issuance, Zions will own approximately 32.3% of our outstanding common stock, and approximately 29% of our common stock on a fully-diluted basis.

We urge you to consider carefully all of the information provided in this proxy statement and its attachments, including a copy of Mystic Capital fairness opinion attached as **Annex A-1**, the executive summary of the real estate appraisal attached as **Annex A-2**, the asset purchase agreement attached as **Annex A-3**, the stock purchase agreement attached as **Annex A-4**, the real property purchase agreement attached as **Annex A-5**, the investor rights agreement attached as **Annex A-6**, the Voting Agreements attached as **Annexes A-7** and **A-8**, the Non-Competition Agreement attached as **Annex A-9**, the Agency Agreement attached as **Annex A-10**, the amendment to the Stock Purchase Agreement attached as **Annex A-11**, and the Life Quotes employee stock option plan attached as **Annex A-12**. In particular, you should consider carefully the "Risk Factors" beginning on page 25 of this proxy statement.

Your vote is important, regardless of the number of shares you own. If you are a stockholder of record, you may vote by mailing the enclosed proxy card in the envelope provided or by attending the annual meeting in person. To approve the proposals submitted to you, vote "FOR" the proposals by following the instructions in the proxy statement and on the enclosed proxy card. If your shares are held in "street name" (that is, held for your account by a broker or other nominee), you will receive instructions from the holder of record that you must follow for your shares to be voted.

Sincerely,

Robert S. Bland  
Chairman of the Board, President and  
Chief Executive Officer

Neither the Securities and Exchange Commission nor any state securities regulator has approved or disapproved of this transaction or the securities to be issued or passed upon the adequacy or accuracy of this proxy statement. Any representation to the contrary is a criminal offense.

This proxy statement is dated [            ], 2004 and is first being mailed to Quotesmith.com stockholders on or about [            ], 2004.

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**Quotesmith.com, Inc.**  
**8205 South Cass Avenue, Suite 102**  
**Darien, Illinois 60561**

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**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**  
**TO BE HELD ON [        ], 2004**

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The 2004 Annual Meeting of Stockholders of Quotesmith.com, Inc., a Delaware corporation will be held at our offices at 8205 South Cass Avenue, Suite 102, Darien, Illinois 60561, on [        ], 2004 at 9:00 a.m., Chicago time, for the following purposes:

1. To approve the issuance of 2,363,636 shares of our common stock to Zions Bancorporation, or Zions, for \$13,000,000 in gross proceeds pursuant to the stock purchase agreement entered into on March 1, 2004 (as subsequently amended on May 7, 2004), by and between Quotesmith.com and Zions and the related investor rights agreement dated March 1, 2004, by and among Quotesmith.com, Zions, Messrs. Bland and Thoms, their spouses and the partnership through which Mr. and Mrs. Bland hold their common stock. The proceeds of the stock issuance will be used to repay the \$6,500,000 loan we received from Zions on May 7, 2004 to fund a portion of our acquisition of substantially all of the assets Life Quotes, Inc., or Life Quotes, and certain real estate owned by an affiliate of the sole stockholder of Life Quotes, and for general corporate purposes. The assets of Life Quotes and the related real estate are owned and operated by Life Quotes Acquisition, Inc., our wholly-owned subsidiary;
2. To approve the establishment of the Quotesmith.com, Inc. 2004 Non-Qualified Stock Option Plan, or Life Quotes employee stock option plan, pursuant to which options to purchase up to 300,000 shares of our common stock may be granted to certain former employees of Life Quotes who continue to work for us;
3. To elect two persons to our Board of Directors to serve until the 2007 Annual Meeting of Stockholders;
4. To ratify the appointment of Ernst & Young LLP as our independent auditors for the year ending December 31, 2004; and
5. To transact such other business as may properly come before the annual meeting or any adjournment thereof.

The accompanying proxy statement describes the acquisition and the stock issuance in more detail. We encourage you to read the entire document and each of its attachments carefully.

Our Board of Directors has unanimously approved (i) the issuance of shares of our common stock to Zions and recommends that you vote in favor of the issuance of shares of our common stock to Zions and (ii) the establishment of the Life Quotes employee stock option plan and recommends that you vote in favor of establishing the Life Quotes employee stock option plan. In addition, our Board of Directors recommends that you vote in favor of the nominees for election to the Board of Directors and in favor of ratifying Ernst & Young LLP as our independent auditors for 2004.

The affirmative vote of a majority of the shares that are present, in person or by proxy, at the annual meeting and entitled to vote will be sufficient to approve the stock issuance and the establishment of the Life Quotes employee stock option plan. The affirmative vote of a plurality of such shares will be sufficient to elect each director. The affirmative vote of a majority of such shares will be sufficient to ratify the appointment of Ernst & Young LLP.

Stockholders of record as of the close of business on May 31, 2004, the record date, will be entitled to notice of and to vote at the annual meeting or any adjournment thereof. A list of stockholders entitled to vote at the annual meeting will be available for inspection by stockholders for

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any purpose germane to the annual meeting at our offices for the ten days immediately preceding the annual meeting date. Our Annual Report for the year ended December 31, 2003 is being mailed to all stockholders of record on the record date and accompanies the enclosed proxy statement.

Whether or not you plan to attend the annual meeting, please complete, sign and date the enclosed proxy card and return it promptly in the enclosed envelope. Your proxy may be revoked in the manner described in the proxy statement at any time before it has been voted at the annual meeting.

By Order of the Board of Directors,

Robert S. Bland  
Chairman of the Board, President and  
Chief Executive Officer

Darien, Illinois  
[ ], 2004

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**YOUR VOTE IS IMPORTANT. PLEASE COMPLETE, SIGN, DATE AND RETURN YOUR  
PROXY PROMPTLY WHETHER OR NOT YOU PLAN TO ATTEND.**

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**FORWARD LOOKING STATEMENTS**

Because we want to provide you with more meaningful and useful information, this proxy statement 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 2004 and beyond which 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:

the benefits expected to result from the acquisition of substantially all of the assets of Life Quotes and the related real estate;

the benefits expected to result from the issuance of shares of Quotesmith.com common stock to Zions in connection with the acquisition;

the performance and financial condition of Quotesmith.com, Life Quotes or the combined company following the acquisition;

our ability to achieve or sustain profitability;

demand for life insurance;

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 our technology;

our ability to hire and retain senior management and other qualified personnel;

intense competition in the insurance 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 the proxy statement entitled "Risk Factors" beginning on page 25 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 proxy statement. 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.



**SUMMARY TERM SHEET**

This term sheet is a summary of the material terms of our recently completed acquisition of the business formerly conducted by Life Quotes, Inc., or Life Quotes, and our proposed issuance of shares of our common stock to Zions Bancorporation, or Zions. This term sheet does not contain all of the information regarding the acquisition or the stock issuance that you may consider important.

We acquired substantially all of the assets and related real estate of Life Quotes on May 7, 2004, for aggregate consideration of approximately \$18.4 million, after adjustments and prorations (see "The Asset Purchase Agreement" on page 58).

The assets and related real estate, which we believe will be sufficient to enable us to operate the business in which Life Quotes was engaged in the same manner as it was operated prior to the acquisition, are owned and operated by a wholly-owned subsidiary of ours.

We funded this acquisition by borrowing \$6,500,000 from Zions and by using cash on hand (see "The Asset Purchase Agreement Source of Funds" on page 60).

We intend to issue 2,363,636 shares of our common stock to Zions, resulting in \$13,000,000 in gross proceeds, which will be used to repay the loan from Zions and for general corporate purposes (see "The Stock Purchase Agreement" on page 62).

The holders of over 60% of our outstanding common stock as of the date hereof have entered into voting agreements with Zions whereby they have agreed, among other things, to vote all of their shares in favor of the stock issuance to Zions (see "Other Agreements Voting Agreements" on page 70).

Certain of our stockholders have agreed to vote in favor of a Zions nominee to our board (see "Other Agreements Investor Rights Agreement" on page 67.)

**QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING**

Q: Who is making this proxy solicitation?

A: We are making the solicitation at the direction of our Board of Directors.

Q: Do any directors or executive officers of Quotesmith.com have any direct or indirect interest in the stock issuance or the acquisition?

A: Messrs. Bland and Thoms are party to the investor rights agreement and have been granted a right of first refusal with respect to Zions' shares under certain circumstances. See "Proposal 1. Approval of Stock Issuance to Zions Bancorporation Other Agreements Interests of Affiliates in the Stock Issuance."

Q: Who has the right to vote at the annual meeting?

A: Only holders of our common stock of record as of May 31, 2004 may vote at the annual meeting.

Q: What should I do now?

A: Just indicate on your proxy card how you want to vote, and sign, date and mail it in the enclosed envelope as soon as possible, so that your shares will be represented at the meeting.

Q: When and where will the annual meeting take place?

The meeting will take place at 9:00 a.m. on [        ], 2004 at our offices at 8205 South Cass Avenue, Suite 102, Darien, Illinois 60561. You may attend the meeting and vote your shares in person, rather than voting by proxy.

Q: Are you entitled to dissenter's or appraisal rights?

A: No. You are not entitled to dissenter's or appraisal rights in connection with the acquisition or the stock issuance.

Q: If my shares are held in "street name" by my broker, will my broker vote my shares for me?

A: No. Your broker will vote your shares of common stock only if you provide instructions on how to vote. You should instruct your broker how to vote your shares following the directions your broker provides you. If you do not provide instructions to your broker, your shares will not be voted.

Q: Can you change your vote after you have mailed in your proxy?

A: Yes. You may revoke a proxy at any time before the meeting is convened by filing with the secretary of Quotesmith.com an instrument of revocation or a duly executed proxy bearing a later date. You may also revoke a proxy by attending the annual meeting and voting in person, although attendance at the annual meeting will not, in and of itself, constitute a revocation of proxy.

Q: When is the stock issuance expected to be completed?

A: We anticipate completing the stock issuance shortly after the annual meeting, subject to satisfaction of the closing conditions under the stock purchase agreement.

Q: Who can help answer my questions?

A: If you want additional copies of this document, or if you want to ask any questions about the stock issuance or any other matter set forth in this proxy statement, you should contact: Phillip Perillo, Chief Financial Officer, Quotesmith.com, Inc., (630) 515-0170.



**SUMMARY**

This summary highlights all of the material information contained in the proxy statement, but may not contain all of the information that is important to you. Although all material information regarding the transactions is contained in this proxy statement, you should read carefully this entire document, including the appendices and the other documents to which we refer you, for a more complete understanding of the transactions that are the subject of this proxy statement.

**The Companies (Pages 72 90)**

Quotesmith.com, Inc.  
8205 South Cass Avenue, Suite 102  
Darien, Illinois 60561  
(630) 515-0170  
*www.insure.com*

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 paid by insurance carriers, which are tied directly to the volume of insurance sales that we produce. We also generate revenue from the sale of online traffic to third parties that provide lines of insurance that we do not provide as a broker, such as auto and homeowners insurance. In these cases, the revenue we receive is tied directly to the volume of online traffic we provide. We conduct our insurance agency and brokerage operations primarily using salaried, non-commissioned personnel and we generate prospective customer interest using traditional direct response advertising methods conducted primarily offline.

For the seven-year period ended December 31, 2003, we have spent a total of \$57.3 million in direct-to-consumer advertising and have sold approximately 133,000 new policies. During that same period, we have generated revenues of \$62.8 million and incurred net losses of \$43.7 million.

We previously acquired selected assets of Insurance News Network, LLC, including its content-rich consumer information website, *www.insure.com*, on December 7, 2001. Insure.com provided insurance-related information and decision-making tools, along with library of thousands of insurance articles that are well organized and served up in an easy-to-navigate format. This information has been integrated with our insurance quoting services.

Shares of Quotesmith.com trade on the Nasdaq SmallCap Market under the symbol "QUOT." Information on Quotesmith.com's website does not constitute a part of this proxy statement. All common stock and per share information in this proxy statement has been retroactively adjusted to reflect a one-for-three reverse stock split that became effective on March 7, 2001.

Life Quotes, Inc.  
32045 Castle Court  
Evergreen, Colorado 80439  
800-670-5433

Life Quotes was founded in 1979 as a traditional life insurance agency. Instead of meeting with customers face-to-face, Life Quotes sells insurance by phone, fax, email and/or mail. People who need life insurance find Life Quotes through radio, television and internet advertising. Prior to the acquisition, Life Quotes employed over 80 people.

**The Transactions (Pages 39 43)**

On May 7, 2004, we acquired substantially all of the assets of Life Quotes, a domestic insurance agency that solicited business from prospective customers in all 50 states, together with certain real estate owned by an affiliate of the sole stockholder of Life Quotes, for aggregate consideration of approximately \$18.4 million, after adjustments and proratons. We expect that the assets we acquired, together with the real estate, will be sufficient to enable us to operate the business in which Life Quotes was engaged in the same manner as it was operated prior to the acquisition. We funded this acquisition by using cash on hand and by borrowing \$6,500,000 from Zions. We intend to repay the loan from Zions with a portion of the proceeds from the issuance of 2,363,636 shares of our common stock to Zions. The remainder of the \$13,000,000 in gross proceeds of this stock issuance will be used for general corporate purposes. The assets of Life Quotes and the related real estate are owned by a wholly-owned subsidiary of Quotesmith.com.

In connection with the acquisition of the assets of Life Quotes, we have agreed to establish the Life Quotes employee stock option plan, pursuant to which options to purchase up to 300,000 shares of our common stock may be granted to certain former employees of Life Quotes who continue to work for us.

**The Stock Issuance (Page 62)**

Pursuant to the stock purchase agreement we entered into with Zions on March 1, 2004 (as subsequently amended on May 7, 2004), we have agreed to issue and sell to Zions, and Zions has agreed to purchase, 2,363,636 shares of our common stock, which includes an equal number of shares of our preferred share purchase rights, at an aggregate purchase price of \$13,000,000, or approximately \$5.50 per share, representing a 3.6% premium to the last sale price of our common stock on March 2, 2004, the last day prior to the public announcement of the stock purchase agreement and the asset purchase agreement, which was \$5.30, the average of the bid and asked prices of our common stock, as reported on the Nasdaq SmallCap Market on March 2, 2004. The last sale price of our common stock on May 27, 2004, the last practicable date for which results were available for inclusion in this proxy statement, was \$5.50, which is the average of the bid and asked prices of our common stock, as reported on the Nasdaq SmallCap Market, representing no discount to the price Zions is paying. Subject to the satisfaction of the conditions set forth in the stock purchase agreement, the closing of the issuance and sale of such common stock will occur shortly after the annual meeting. The common stock to be issued to Zions will not be registered, and will be restricted following the stock issuance. In connection with the issuance of stock to Zions, we have entered into an investor rights agreement with Zions, Messrs. Bland and Thoms, their spouses, and the partnership through which Mr. and Mrs. Bland hold their common stock whereby we have agreed, among other things, to increase the size of our Board of Directors by one member and to nominate an individual designated by Zions to serve on the Board of Directors. These persons have agreed to vote all of their shares of common stock in favor of such individual. In accordance with the investor rights agreement, Zions has designated as its nominee, and we have nominated for election as director, John B. Hopkins. In addition, Messrs. Bland and Thoms, together with their spouses and the partnership through which Mr. and Mrs. Bland hold their

common stock, have entered into voting agreements with Zions whereby these persons have agreed, among other things, to vote all of their shares in favor of the stock issuance to Zions.

**Material Conditions to the Stock Issuance (Page 64)**

Zions' obligation to consummate the stock issuance is subject to the satisfaction or waiver of certain conditions, including the following:

There must be no event or circumstance that had or would reasonably be expected to have a material adverse effect on us;

We must have filed all notices and obtained all consents required to be filed or obtained by us;

The issuance of the stock by us must be legal, and there must be no order or action pending or threatened preventing or seeking to prevent the proposed issuance of such stock or the other transactions contemplated by the stock purchase agreement and the investor rights agreement;

Our Board must have taken the requisite steps to increase the size of our Board of Directors by one member and appoint to our Board of Directors a director designated by Zions in accordance with the investor rights agreement;

All of our officers and employees must be bound by employment, confidentiality, non-compete, non-solicitation and work product agreements satisfactory to Zions;

Zions must have completed its due diligence investigation of us;

We must have amended our rights plan to exempt the issuance of the stock to Zions;

We must have obtained shareholder approval of the issuance of the stock to Zions; and

Amendments and waivers of "change of control" provisions of the employment agreements of Robert S. Bland and William V. Thoms must have been obtained.

**Termination of the Stock Purchase Agreement (Page 65)**

The stock purchase agreement may be terminated at any time prior to the closing:

by mutual consent of us and Zions;

by either us or Zions if there has been a material breach of any representation, warranty, covenant or agreement on the part of the other set forth in the stock purchase agreement, which breach has not been cured within five business days after the breaching party receives notice of such breach, or if any order preventing the consummation of the transactions contemplated by the stock purchase agreement or the investor rights agreement has become final and non-appealable; or

by either us or Zions, so long as such party has not materially breached its obligations under the stock purchase agreement, if the closing has not occurred on or before November 7, 2004.

**The Investor Rights Agreement (Pages 67 69)**

In connection with the stock purchase agreement, we entered into an investor rights agreement with Zions, Messrs. Bland and Thoms, their spouses, and the partnership through which Mr. and Mrs. Bland hold their common stock. After giving effect to the stock issuance, the number of shares and percentage ownership of each of Messrs. Bland and Thoms and Zions, based on shares held and outstanding on June 22, 2004, would be as follows:

Name	Shares Owned	Percentage Ownership
Mr. Bland, spouse and partnership	2,356,445	32.2%
Mr. Thoms and spouse	690,500	9.4%
Zions	2,363,636	32.3%
	6	

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The investor rights agreement provides certain demand registration rights to the holders of the stock we are issuing to Zions, as well as piggyback registration rights. In addition, the investor rights agreement provides Zions with certain rights for so long as Zions holds 40% of the shares of stock it purchases under the stock purchase agreement, including that:

Zions will have preemptive rights to subscribe for future issuances of our capital stock or securities convertible into or exercisable for shares of our capital stock, other than issuances under certain authorized or issued options, under our employee stock purchase plan or in a registered offering;

We will comply with certain covenants regarding the operation of our business (including a change in our line of business) and the provision of financial and other information;

The number of directors on our Board of Directors will be fixed at seven. Zions will be entitled to designate an individual to serve on the Board of Directors. Pursuant to the terms of the investor rights agreement, we have agreed to nominate, and Messrs. Bland and Thoms, together with their spouses and the partnership through which Mr. and Mrs. Bland hold their common stock, have agreed to vote all of their shares of common stock in favor of, such individual for election to the Board of Directors;

The consent of the majority of our Board of Directors will be required for us to take certain actions, and the consent of 75% of the members of our Board of Directors will be required for us to take certain other actions

We also agreed to maintain certain directors' and officers' liability insurance for Zions' nominee, and to indemnify and hold harmless such director to the same extent as all of our other directors.

Zions has agreed that, without the consent of a majority of our Board of Directors, it and its affiliates will not, prior to the first anniversary of the date of the investor rights agreement:

Acquire any additional shares of our common stock;

Initiate a special meeting of our stockholders to elect directors;

Make any agreement with respect to voting of our common stock or deposit our common stock in a voting trust;

Other than the Zions nominee, seek the election of any member of our Board of Directors except as nominated by our nominating committee, or seek the removal of any director;

Request us to amend or waive these restrictions;

Participate in any solicitation of proxies to vote, or seek to advise or influence any person with respect to the voting of, our voting securities;

publicly announce or submit a proposal for any extraordinary transaction involving us or our securities or assets; or

form or join in a "group" (as defined in the rules promulgated by the SEC) in connection with the foregoing.

In addition, Messrs. Bland and Thoms, their spouses, and the partnership through which Mr. and Mrs. Bland hold their common stock each agreed that, for so long as Zions holds 40% of the shares of stock it purchases under the stock purchase agreement, they will vote for the Zions nominee to our Board of Directors. In addition, these persons have granted tag-along rights to Zions for so long as Zions holds 40% of the shares of stock it purchases under the stock purchase agreement. This means that if any of these persons proposes to sell any of our common stock, subject to certain exceptions, they will afford Zions the right to participate proportionately in such sale based on the total number of shares

owned by Zions divided by the total number of shares owned by Zions and the seller or sellers

(in each case, on a fully-diluted basis determined as of the close of business on the day immediately prior to the tag-along notice date).

These persons also granted to Zions, and Zions granted to these persons and to us, a right of first refusal with respect to certain transfers of their shares of common stock.

#### **The Life Quotes Acquisition (Pages 58 61)**

We acquired substantially all of the assets of Life Quotes and assumed certain specified liabilities on May 7, 2004. We also acquired the real property previously used by Life Quotes. We expect that the assets we acquired, together with the real estate, will be sufficient to enable us to operate the business in which Life Quotes was engaged in the same manner as it was operated prior to the acquisition. We used the proceeds of a \$6,500,000 loan from Zions, together with cash on hand, to consummate the acquisition.

#### **Purchase Price (Page 59)**

We acquired the assets in exchange for the assumption of certain Life Quotes liabilities and payment of \$13,364,308 in cash, after adjustments. Of such cash, at closing, \$13,011,308 was paid to Life Quotes and \$353,000 was deposited with an escrow agent in accordance with an escrow agreement. Under the escrow agreement, within thirty days after May 7, 2005, we will deliver to Life Quotes a statement setting forth the amount of accounts receivable arising out of the conduct of Life Quotes' business that we collected in such one year period. If the amount of accounts receivable exceeds \$2,450,000, then the entire \$353,000 placed in escrow (less \$3,000 in escrow fees) will be paid to Life Quotes. However, if the amount of accounts receivable is less than \$2,450,000, then the difference will be paid to us from the escrowed cash, and the remainder will be paid to Life Quotes. If the shortfall exceeds \$350,000, we will be paid the entire escrowed amount but will not be able to recover any additional sums from Life Quotes or Kenneth L. Manley. The amount of accounts receivable as of May 31, 2004 were \$1,564,000.

We also acquired certain property in Evergreen, Colorado that was used by Life Quotes in its business for an additional \$4,991,947, after customary prorations. We have also agreed to establish the Life Quotes employee stock option plan, pursuant to which options to purchase up to 300,000 shares of our common stock may be granted to certain former employees of Life Quotes who continue to work for us.

#### **Information about the Annual Meeting (Pages 35 37)**

The annual meeting of Quotesmith.com will be held on [ ], 2004, at our offices at 8205 South Cass Avenue, Suite 102, Darien, Illinois 60561, at 9:00 a.m., Chicago time. The meeting will be held for the following purposes:

to approve the stock issuance;

to approve the establishment of the Life Quotes employee stock option plan;

to elect two directors to serve until the 2007 Annual Meeting of Stockholders;

to ratify the appointment of Ernst & Young LLP as our independent auditors for the year ending December 31, 2004; and

to transact such other business as may properly come before the annual meeting or any adjournment thereof.

## SELECTED FINANCIAL AND OTHER DATA OF QUOTESMITH.COM

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 "Quotesmith.com Management's Discussion and Analysis of Financial Condition and Results of Operations" and with the financial statements, related notes, and other financial information included elsewhere in this proxy statement. The historical results presented below are not necessarily indicative of the results to be expected for any future period.

	Year Ended December 31,					Quarter Ended March 31,	
	2003	2002	2001	2000	1999	2004	2003
(in thousands, except per share data)							
<b>Statement of Operations Data:</b>							
Revenues	\$ 9,737	\$ 10,777	\$ 8,851	\$ 15,236	\$ 8,408	\$ 2,452	\$ 2,572
Expenses:							
Selling and marketing	4,735	2,912	7,052	24,201	14,397	1,360	1,303
Operations	3,394	7,756	6,004	7,445	5,481	897	972
General and administrative	3,349	3,194	3,503	4,432	3,570	901	801
Total expenses	11,478	13,862	16,559	36,078	23,448	3,158	3,076
Operating loss	(1,741)	(3,085)	(7,708)	(20,842)	(15,040)	(706)	(504)
Interest income, net	368	359	1,075	2,220	1,220	86	92
Realized gain on sale of securities	92					0	
Net loss	\$ (1,281)	\$ (2,726)	\$ (6,633)	\$ (18,622)	\$ (13,820)	\$ (620)	\$ (413)
Basic and diluted net loss per share	\$ (0.26)	\$ (0.55)	\$ (1.22)	\$ (2.93)	\$ (2.64)	\$ (0.12)	\$ (0.08)
Weighted average common shares and equivalents outstanding, basic and diluted	4,917	4,964	5,441	6,366	5,237	4,958	4,909
	December 31,					March 31,	
	2003	2002	2001	2000	1999	2004	
(in thousands, except per share data)							
<b>Balance Sheet Data:</b>							
Cash and equivalents	\$ 677	\$ 1,640	\$ 4,033	\$ 4,269	\$ 8,990	\$ 1,165	
Working capital	5,607	10,485	18,514	27,443	48,308	7,702	
Total assets	17,526	19,559	23,000	32,643	55,178	17,166	
Long-term liabilities		35	84	128			
Total liabilities	760	1,464	1,085	2,976	5,982	926	
Total stockholders' equity	16,766	18,095	21,915	29,667	49,196	16,239	
	Year Ended December 31,					Quarter Ended March 31,	
	2003	2002	2001	2000	1999	2004	2003
<b>Selected Operating Statistics:</b>							
Completed quotes							
Term life	866,000	1,266,000	1,425,000	2,105,000	1,496,000	308,000	244,000
Health and other	960,000	1,305,000	876,000	1,993,000	963,000	293,000	351,000



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	Year Ended December 31,					Quarter Ended March 31,	
Total completed quotes	1,826,000	2,571,000	2,328,000	4,098,000	2,459,000	601,000	595,000
Policies sold							
Term life	11,011	16,498	16,915	33,491	17,093	2,521	2,816
Health and other	4,845	4,753	3,367	4,029	747	1,117	1,217
Total policies sold	15,856	21,251	20,282	37,520	17,786	3,658	4,033

## Selected Quarterly Operating Results

The following tables set forth unaudited quarterly statements of operations data for 2003 and 2002. 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, includes 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.

2003	Quarter Ended			
	Mar. 31,	June 30,	Sept. 30,	Dec. 31,
	(in thousands, except per share data)			
Revenues	\$ 2,572	\$ 2,510	\$ 2,430	\$ 2,225
Expenses:				
Selling and marketing	1,303	1,356	1,076	1,001
Operations	972	837	835	749
General and administrative	801	816	929	803
Total expenses	3,076	3,009	2,840	2,553
Operating loss	(504)	(499)	(410)	(328)
Interest income, net	91	98	91	88
Realized gains (losses) on sale of securities		93		(1)
Net loss	\$ (413)	\$ (308)	\$ (319)	\$ (241)
Net loss per share basic and diluted	\$ (0.08)	\$ (0.06)	\$ (0.06)	\$ (0.05)
	Quarter Ended			
2002	Mar. 31,	June 30,	Sept. 30,	Dec. 31,
	(in thousands, except per share data)			
Revenues	\$ 2,572	\$ 3,194	\$ 2,667	\$ 2,344
Expenses:				
Selling and marketing	588	667	622	1,035
Operations	1,933	2,014	2,280	1,529
General and administrative	853	811	781	749
Total expenses	3,374	3,492	3,683	3,313
Operating loss	(802)	(298)	(1,016)	(969)
Interest income, net	102	76	84	97
Net loss	\$ (700)	\$ (222)	\$ (932)	\$ (872)
Net loss per share basic and diluted	\$ (0.14)	\$ (0.04)	\$ (0.19)	\$ (0.18)

## SELECTED FINANCIAL DATA OF LIFE QUOTES

The historical statement of operations data and balance sheet data in the table below is derived from the audited financial statements of Life Quotes as of and for the years ended December 31, 2003 and 2002 and from the unaudited books and records of Life Quotes for all other periods. The historical results presented below are not necessarily indicative of the results to be expected for any future period.

	Year ended December 31,					Quarter ended March 31,	
	2003	2002	2001	2000	1999	2004	2003
	(unaudited)					(unaudited)	
	(in thousands)					(in thousands)	
<b>Summary of Operations Data:</b>							
Revenues	\$ 10,407	\$ 8,941	\$ 5,760	\$ 8,003	\$ 4,472	\$ 3,045	\$ 2,644
Expenses:							
Salaries, wages and benefits	4,433	4,448	2,570	3,047	2,054	862	1,037
Selling and marketing	3,557	2,166	1,230	1,872	1,432	1,107	975
Other	1,297	1,543	1,614	1,274	408	294	462
Total expenses	9,287	8,157	5,414	6,193	3,894	2,263	2,474
Net income	1,120	784	346	1,810	578	782	170

	December 31,					March 31,	
	2003	2002	2001	2000	1999	2004	2003
	(unaudited)					(unaudited)	
	(in thousands)					(in thousands)	

<b>Balance Sheet Data:</b>							
Cash and equivalents (overdraft)	\$ (61)	\$ 37	\$ (45)	\$	\$	\$ 149	\$ (61)
Working capital	398	379	121	323	150	518	398
Total assets	710	675	637	582	232	854	710
Total liabilities	89	51	74	0	34	120	89
Total stockholder's equity	621	624	563	582	198	734	621

**UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS**

The preliminary unaudited pro forma condensed combined balance sheet at March 31, 2004 and December 31, 2003 combines the historical consolidated balance sheets of Quotesmith.com and Life Quotes, giving effect to the acquisition as if it had been consummated on March 31, 2004 and December 31, 2003, respectively. The preliminary unaudited pro forma condensed combined income statement for the quarter ended March 31, 2004 and the year ended December 31, 2003 combines the historical consolidated income statements of Quotesmith.com and Life Quotes giving effect to the acquisition as if it had occurred on January 1, 2004 and January 1, 2003, respectively. We have adjusted the historical financial statements to give effect to pro forma events that are (1) directly attributable to the acquisition, (2) factually supportable, and (3) with respect to the statements of income, expected to have a continuing impact on the combined results. You should read this information in conjunction with the:

accompanying notes to the preliminary unaudited pro forma condensed combined financial statements;

our historical financial statements as of and for the quarter ended March 31, 2004 included elsewhere in this proxy statement;

our historical financial statements as of and for the year ended December 31, 2003 included elsewhere in this proxy statement;

Life Quotes' separate historical unaudited financial statements as of and for the quarter ended March 31, 2004 included elsewhere in this proxy statement; and

Life Quotes' separate historical audited financial statements as of and for the year ended December 31, 2003 included elsewhere in this proxy statement.

The preliminary unaudited pro forma condensed combined financial statements have been prepared for informational purposes only. The preliminary unaudited pro forma condensed combined financial statements are not necessarily indicative of what the financial position or results of operations actually would have been had the acquisition been completed at the dates indicated. In addition, the preliminary unaudited pro forma condensed combined financial statements do not purport to project the future financial position or operating results of the combined company. The preliminary unaudited pro forma condensed combined financial statements do not give consideration to the impact of possible revenue enhancements, expense efficiencies, synergies or asset dispositions.

The preliminary unaudited pro forma condensed combined financial statements have been prepared using the purchase method of accounting with Quotesmith.com treated as the acquirer. Accordingly, our cost to acquire Life Quotes has been allocated to the acquired assets and liabilities based upon their estimated fair values at the date indicated. The allocation of the purchase price is preliminary and is dependent upon certain valuations and other studies that have not progressed to a stage where there is sufficient information to make a definitive allocation. Accordingly, the final purchase accounting adjustments may be materially different from the preliminary unaudited pro forma adjustments presented herein.

## UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET

At March 31, 2004

	Historical Quotesmith.com	Historical Life Quotes	Pro Forma Acquisition Adjustments	Pro Forma Combined	Pro Forma Stock Sale Adjustments	Pro Forma
(in thousands)						
<b>Assets</b>						
Cash equivalents	\$ 1,165	\$ 149	\$ (149) (a)	\$ 1,165	\$	\$ 1,165
Fixed maturity investments	5,633		(5,633) (b)		6,500 (l)	6,500
Commission receivable	1,177	490	1,478 (c)	3,145		3,145
Other current assets	655		(200) (d)	455		455
<b>Total current assets</b>	<b>8,630</b>	<b>639</b>	<b>(4,504)</b>	<b>4,765</b>	<b>6,500</b>	<b>11,265</b>
Fixed maturity investments	7,946		(6,233) (e)	1,723		1,723
Land			830 (f)	830		830
Building			4,670 (f)	4,670		4,670
Furniture, equipment and computer software	272	215		487		487
Intangible assets	318		3,700 (g)	4,018		4,018
Goodwill			7,173 h	7,173		7,173
<b>Total Assets</b>	<b>\$ 17,166</b>	<b>\$ 854</b>	<b>\$ 5,646</b>	<b>\$ 23,666</b>	<b>\$ 6,500</b>	<b>\$ 30,166</b>
<b>Liabilities and stockholders' equity</b>						
Accounts payable and accrued liabilities	\$ 928	\$ 120	\$ (120) (i)	\$ 928	\$	\$ 928
Note payable			6,500 (j)	6,500	(6,500) (m)	
<b>Total liabilities</b>	<b>928</b>	<b>120</b>	<b>6,380</b>	<b>7,428</b>	<b>(6,500)</b>	<b>928</b>
<b>Stockholders equity:</b>						
Common stock	22			22	7 (n)	29
Additional paid-in capital	64,076			64,076	12,993 (n)	77,069
Retained earnings (deficit)	(44,089)	734	(734) (k)	(44,089)		(44,089)
Treasury stock	(3,794)			(3,794)		(3,794)
Accumulated other comprehensive income	23			23		23
<b>Total stockholders' equity</b>	<b>16,238</b>	<b>734</b>	<b>(734)</b>	<b>16,238</b>	<b>13,000</b>	<b>29,238</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 17,166</b>	<b>\$ 854</b>	<b>\$ 5,646</b>	<b>\$ 23,666</b>	<b>\$ 6,500</b>	<b>30,166</b>

See accompanying notes.



## UNAUDITED PRO FORMA CONDENSED COMBINED INCOME STATEMENT

Three Months Ended March 31, 2004

	Historical Quotesmith.com	Historical Life Quotes	Pro Forma Acquisition Adjustments	Pro Forma Combined	Pro Forma Stock Sale Adjustments	Pro Forma
(in thousands, except per share data)						
<b>Revenues:</b>						
Commissions and fees	\$ 2,450	\$ 3,045	\$ (75) (o)	\$ 5,420		\$ 5,420
Other	2			2		2
Revenue	2,452	3,045	(75)	5,422		5,422
<b>Expenses:</b>						
Selling and marketing	1,360	1,107		2,467		2,467
Operations	897	1,156	107 (p)	2,160		2,160
General and administrative	901			901		901
Total expenses	3,158	2,263	107	5,528		5,528
Operating income (loss)	(706)	782	(182)	(106)		(106)
Interest income (expense), net	86		(133) (q)	(47)	103(r)	56
Realized gains on sale of securities						
Income (loss) before income taxes	(620)	782	(315)	(153)	103	(50)
Income tax credit						
Net income (loss)	\$ (620)	\$ 782	\$ (315)	\$ (153)	\$ 103	\$ (50)
Net loss per common share, basic and diluted	\$ (0.12)			\$ (0.03)		\$ (0.01)
Weighted average common shares and equivalents outstanding, basic and diluted	4,958,232			4,958,232	2,363,636(s)	7,321,868

See accompanying notes.

**NOTES TO THE UNAUDITED PRO FORMA CONDENSED COMBINED  
FINANCIAL STATEMENTS**

**Note 1 Basis of Pro Forma Presentation**

On March 1, 2004 we entered into an asset purchase agreement with Life Quotes and a real estate purchase agreement with an affiliate of the sole stockholder of Life Quotes. Under the terms of the asset purchase agreement, we agreed to acquire substantially all of the assets of Life Quotes, and assume certain specified liabilities, for a payment of \$13,356,000, after adjustments, plus acquisition expenses of \$200,000. Under the terms of the real estate purchase agreement, we agreed to acquire the real property previously used by Life Quotes for a payment of \$5,000,000, subject to customary prorations at closing. The acquisition of the assets and the real estate was completed on May 7, 2004 using internal funds and borrowing \$6,500,000 from Zions under a loan agreement.

We also entered into a stock purchase agreement with Zions on March 1, 2004. Under the terms of the stock purchase agreement, we have agreed to issue 2,363,636 shares of our common stock to Zions for \$13,000,000 in gross proceeds. We will use the proceeds of the stock issuance to Zions to repay the loan and to replace a portion of the internal funds used for the acquisition.

The preliminary unaudited pro forma condensed combined balance sheet as of March 31, 2004 reflects the acquisition and the sale of common stock as if they occurred on March 31, 2004. The preliminary unaudited pro forma condensed combined income statement for the three months ended March 31, 2004 reflects the acquisition, including acquisition expenses, and the sale of common stock as if they occurred on January 1, 2004.

The purchase price, including acquisition expenses, has been allocated as follows based upon purchase accounting adjustments as of March 31, 2004 (in thousands):

Land and building(1)	\$ 5,500
Accounts receivable(2)	1,968
Other tangible assets	215
Intangible assets(3)	3,700
Goodwill	7,173
	<hr/>
Allocated purchase price	\$ 18,556
	<hr/>

(1) Represents adjustments for fair value.

(2) Represents adjustments to conform Life Quotes' accounting policy to ours (see Note 2).

(3) Represents identified finite life intangible assets, primarily customer-related insurance intangibles and a non-compete contract (see Note 3).

The above allocation of the purchase price is slightly different than the allocation shown in the notes to the preliminary unaudited pro forma condensed combined financial statements as of December 31, 2003, as the valuation of accounts receivable would have changed due to additional revenue and collections between December 31, 2003 and March 31, 2004, and the valuation of tangible assets changed due to a reduction in their fair value between December 31, 2003 and March 31, 2004.

The preliminary unaudited pro forma condensed combined financial statements presented herein are not necessarily indicative of the results of operations or the combined financial position that would have resulted had the acquisition been completed at the dates indicated, nor is it necessarily indicative of the results of operations in future periods or the future financial position of the combined company.

The preliminary unaudited pro forma condensed combined financial statements have been prepared assuming that the acquisition is accounted for under the purchase method of accounting





(purchase accounting) with Quotesmith.com as the acquiring entity. Accordingly, under purchase accounting, the assets and liabilities of Life Quotes are adjusted to their fair value. For purposes of these preliminary unaudited pro forma condensed combined financial statements, consideration has also been given to the impact of conforming Life Quotes' accounting policies to ours. Additionally, certain amounts in the historical consolidated financial statements of Life Quotes have been reclassified to conform to our financial statement presentation. The preliminary unaudited pro forma condensed combined financial statements do not give consideration to the impact of possible revenue enhancements, expense efficiencies, synergies or asset dispositions.

The preliminary unaudited pro forma adjustments represent management's estimates based on information available at this time. Actual adjustments to the combined balance sheet and income statements will differ, perhaps materially, from those reflected in these preliminary unaudited pro forma condensed combined financial statements because the assets and liabilities of Life Quotes will be recorded at their respective fair values on the date the acquisition is consummated, and the preliminary assumptions used to estimate these fair values may change between now and the completion of the accounting for the acquisition. Estimated fair value adjustments to certain balance sheet amounts are preliminary and may change as a result of additional analysis. The final purchase accounting adjustments may be materially different from the preliminary unaudited pro forma adjustments presented herein.

The preliminary unaudited pro forma adjustments included herein are subject to other updates as additional information becomes available and as additional analyses are performed. The final allocation of the purchase price will be determined after the acquisition is consummated and after completion of a thorough analysis to determine the fair values of Life Quotes' tangible and identifiable intangible assets and liabilities. Accordingly, the final purchase accounting adjustments, including conforming of Life Quotes' accounting policies to ours, could be materially different from the preliminary unaudited pro forma adjustments presented herein. Any increase or decrease in the fair value of Life Quotes' assets, liabilities, commitments, contracts and other items as compared to the information shown herein will change the purchase price allocable to goodwill and may impact the combined income statements.

## **Note 2 Pro Forma Adjustments**

The pro forma adjustments related to the preliminary unaudited pro forma condensed combined balance sheet as of March 31, 2004 assume the acquisition and the sale of common stock took place on March 31, 2004. The pro forma adjustments to the preliminary unaudited pro forma condensed combined income statement for the three months ended March 31, 2004 assumes the acquisition and the sale of common stock took place on January 1, 2004.

The following pro forma adjustments result from the allocation of the purchase price for the acquisition based on the fair value of the assets, liabilities and commitments acquired from Life Quotes

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and to conform Life Quotes' accounting policies to ours. The amounts and descriptions related to the preliminary adjustments are as follows:

	<b>Increase (Decrease)</b>	
	<b>As of March 31, 2004</b>	
	<b>(in thousands)</b>	
<b>Unaudited pro forma condensed combined balance sheet</b>		
a) Elimination of Life Quotes asset not acquired	\$	(149)
b) Invested assets used to complete the acquisition		(5,633)
c) Adjustment to conform the accounting policy for receivable and revenue recognition (see below)		1,478
d) Transfer acquisition costs to assets acquired		(200)
e) Invested assets used to complete the acquisition		(6,233)
f) Acquisition of land and building at fair value		5,500
g) Record the identifiable intangible assets related to the acquisition See Note 3		3,700
h) Record the goodwill associated with the acquisition		7,173
i) Eliminate Life Quotes liabilities not assumed		(120)
j) Borrowing from Zions to complete the acquisition		6,500
k) Eliminate Life Quotes retained earnings not acquired		(734)
l) Invest proceeds of stock sale in excess of debt repayment		6,500
m) Repay note payable with proceeds of stock sale		(6,500)
n) Record issuance of common stock to Zions		13,000

	<b>Increase (Decrease)</b>	
	<b>Three months Ended</b>	
	<b>March 31, 2004</b>	
	<b>(in thousands)</b>	
<b>Unaudited pro forma condensed combined income statement</b>		
o) Adjustment to conform the accounting policy for receivable and revenue recognition	\$	(75)
p) Adjustments to record depreciation and amortization of acquired assets, and to eliminate rent expense		107
q) Adjustment to recognized reduction in investment income for invested assets used to complete the acquisition (\$68) and interest expense on the note payable (\$65)		(133)
r) Adjustment to reflect additional interest income earned on the investment of proceeds from the stock sale in excess of the debt repayment (\$38) and reduction of interest expense on the note payable (\$65)		103
s) Record the sale of additional shares to Zions		2,363,636 shares

Regarding adjustment (c), above, our revenue recognition policy is to recognize annual first year commissions for term life business as revenues when the policy has been approved by the underwriter and an initial premium payment (which may be annual, semi-annual, quarterly or monthly) has been made by the customer and reported to us by the insurance carrier. An allowance, based on historical factors, is provided for estimated commissions that will not be received due to the nonpayment of installment premiums and premium refunds. Life Quotes' policy is to recognize annual first year commissions for term life business as revenues when notified by the insurance company that the commissions have been earned, meaning that the policyholder has paid the premium. Any subsequent premium refunds that resulted in commissions being returned to the insurance carriers would be recognized in the period in which the refund occurred. The difference in these two policies accounts

for the adjustment of \$1,478,000 noted above, which amounts to commissions due on first year term life policies that are in force but have remaining unpaid installments.

We intend to replace the quoting and order entry software now used by Life Quotes with the Quotesmith.com online order and case management software. The costs of this replacement have not yet been quantified, but are not expected to have a significant effect on the financial statements for 2004 since our software is proprietary, meaning that we can increase the number of users without an increase in any license fees, and Life Quotes already has most of the hardware necessary to run these systems. Therefore, no effect has been provided for these costs in the pro forma financial statements.

**Note 3 Identified Intangible Assets**

A summary of the significant identifiable intangible assets and their respective estimated useful lives is as follows:

	<b>Intangible Asset Balance</b>	<b>Estimated Useful Life</b>	<b>Amortization Method</b>
	(in thousands)		
Insurance contract renewals	\$ 3,500	10 years	Accelerated(a)
Non-compete agreement	200	6 years	Straight line
<b>Total</b>	<b>\$ 3,700</b>		

(a) The fair value of insurance contract renewals was estimated based on the actual policies in force as of March 31, 2004, and the renewal commission rates paid by each insurance carrier. These commissions were estimated to have a maximum useful life of ten years, based on the terms of the contracts with the insurance carriers, and an annual lapse rate was applied to the expected renewals for each carrier based on historical trends. Finally, the estimated annual commission payment streams calculated by applying the lapse rates to the expected commissions were discounted at a rate of 4%, which was felt to be an appropriate rate to allow for both interest expense and risk, to determine a present value of \$3.5 million. Amortization will be on an accelerated basis, as renewal commissions will decline each year due to lapses. The ultimate realization of the value of the contract renewals is dependant on a number of factors, including actual lapse ratios, which can be affected by factors not under our control, such as death rates and the pricing level of insurance policies that could be purchased to replace the policies in the renewal stream. As a result, the actual amount realized from the contract renewals acquired may differ significantly from the amount recorded in the pro forma financial statements, causing impairment.

**Note 4 Earnings Per Share**

The pro forma earnings per common share data has been computed based on the combined historical income of Life Quotes and Quotesmith.com and the impact of pro forma adjustments. Weighted average shares were calculated using our historical weighted average common shares outstanding and the number of shares to be issued to Zions.

## UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET

At December 31, 2003

	Historical Quotesmith.com	Historical Life Quotes	Pro Forma Acquisition Adjustments	Pro Forma Combined	Pro Forma Stock Sale Adjustments	Pro Forma
(in thousands)						
<b>Assets</b>						
Cash equivalents	\$ 677	\$ (61)	\$ 61 (a)	\$ 677	\$	\$ 677
Fixed maturity investments	4,204		(4,204) (b)		6,500 (l)	6,500
Commission receivable	1,062	462	1,581 (c)	3,105		3,105
Other current assets	424	86	(86) (d)	424		424
<b>Total current assets</b>	<b>6,367</b>	<b>487</b>	<b>(2,648)</b>	<b>4,206</b>	<b>6,500</b>	<b>10,706</b>
Fixed maturity investments	10,346		(7,852) (e)	2,494		2,494
Land			830 (f)	830		830
Building			4,670 (f)	4,670		4,670
Furniture, equipment and computer software	375	223		598		598
Intangible assets	438		3,700 (g)	4,138		4,138
Goodwill			7,090 (h)	7,090		7,090
<b>Total Assets</b>	<b>\$ 17,526</b>	<b>\$ 710</b>	<b>\$ 5,790</b>	<b>\$ 24,026</b>	<b>\$ 6,500</b>	<b>\$ 30,526</b>
<b>Liabilities and stockholders' equity</b>						
Accounts payable and accrued liabilities	\$ 760	\$ 89	\$ (89) (i)	\$ 760	\$	\$ 760
Note payable			6,500 (j)	6,500	(6,500) (m)	
<b>Total liabilities</b>	<b>760</b>	<b>89</b>	<b>6,411</b>	<b>7,260</b>	<b>(6,500)</b>	<b>760</b>
<b>Stockholders equity:</b>						
Common stock	22			22	7 (n)	29
Additional paid-in capital	64,076			64,076	12,993 (n)	77,069
Retained earnings (deficit)	(43,469)	621	(621) (k)	(43,469)		(43,469)
Treasury stock	(3,794)			(3,794)		(3,794)
Accumulated other comprehensive income	(69)			(69)		(69)
<b>Total stockholders' equity</b>	<b>16,766</b>	<b>621</b>	<b>(621)</b>	<b>16,766</b>	<b>13,000</b>	<b>29,766</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 17,526</b>	<b>\$ 710</b>	<b>\$ 5,790</b>	<b>\$ 24,026</b>	<b>\$ 6,500</b>	<b>\$ 30,526</b>

See accompanying notes.



## UNAUDITED PRO FORMA CONDENSED COMBINED INCOME STATEMENT

Year Ended December 31, 2003

	Historical Quotesmith.com	Historical Life Quotes	Pro Forma Acquisition Adjustments	Pro Forma Combined	Pro Forma Stock Sale Adjustments	Pro Forma
(in thousands, except per share data)						
<b>Revenues:</b>						
Commissions and fees	\$ 9,718	\$ 10,369	\$ 177 (o)	\$ 20,264	\$	\$ 20,264
Other	19	38		57		57
Revenue	9,737	10,407	177	20,321		20,321
<b>Expenses:</b>						
Selling and marketing	4,735	3,557		8,292		8,292
Operations	3,395	4,087		7,482		7,482
General and administrative	3,349	1,643	188 (p)	5,180		5,180
Total expenses	11,479	9,287	188	20,954		20,954
Operating income (loss)	(1,742)	1,120	(11)	(633)		(633)
Interest income (expense), net	368		(569) (q)	(201)	426(r)	225
Realized gains on sale of securities	93			93		93
Income (loss) before income taxes	(1,281)	1,120	(580)	(741)	426	(315)
Income tax credit						
Net income (loss)	\$ (1,281)	\$ 1,120	\$ (580)	\$ (741)	\$ 426	\$ (315)
Net loss per common share, basic and diluted	\$ (0.26)			\$ (0.15)		\$ (0.04)
Weighted average common shares and equivalents outstanding, basic and diluted	4,917,314			4,917,314	2,363,636(s)	7,280,950

See accompanying notes.

**NOTES TO THE UNAUDITED PRO FORMA CONDENSED  
COMBINED FINANCIAL STATEMENTS**

**Note 1 Basis of Pro Forma Presentation**

On March 1, 2004 we entered into an asset purchase agreement with Life Quotes and a real property purchase agreement with an affiliate of the sole stockholder of Life Quotes (each dated as of January 31, 2004). Under the terms of the asset purchase agreement, we agreed to acquire substantially all of the assets of Life Quotes, and assume certain specified liabilities, for a payment of \$13,356,000, after adjustments, plus acquisition expenses of \$200,000. Under the terms of the real property purchase agreement, we agreed to acquire the real property previously used by Life Quotes for a payment of \$5,000,000, subject to customary prorations at closing. The acquisition of the assets and the building was completed on May 7, 2004 by using internal funds and by borrowing \$6,500,000 from Zions under a loan agreement.

We also entered into a stock purchase agreement with Zions on March 1, 2004. Under the terms of the stock purchase agreement, we have agreed to issue 2,363,636 shares of our common stock to Zions for \$13,000,000 in gross proceeds. We will use the proceeds of the stock issuance to Zions to repay the loan and to replace a portion of the internal funds used for the acquisition.

The preliminary unaudited pro forma condensed combined balance sheet as of December 31, 2003 reflects the acquisition and the sale of common stock as if they occurred on December 31, 2003. The preliminary unaudited pro forma condensed combined income statement for the year ended December 31, 2003 reflects the acquisition, including acquisition expenses, and the sale of common stock as if they occurred on January 1, 2003.

The purchase price, including acquisition expenses, has been allocated as follows based upon purchase accounting adjustments as of December 31, 2003 (in thousands):

Land and building(1)	\$	5,500
Accounts receivable(2)		2,042
Other tangible assets		224
Intangible assets(3)		3,700
Goodwill		7,090
		<hr/>
Allocated purchase price	\$	18,556
		<hr/>

- (1) Represents adjustments for fair value.
- (2) Represents adjustments to conform Life Quotes' accounting policy to ours (see Note 2).
- (3) Represents identified finite life intangible assets, primarily customer-related insurance intangibles and a non-compete contract (see Note 3).

The above allocation of the purchase price is slightly different than the allocation shown in the notes to the preliminary unaudited pro forma condensed combined financial statements as of March 31, 2004, as the valuation of accounts receivable would have changed due to additional revenue and collections between December 31, 2003 and March 31, 2004, and the valuation of tangible assets changed due to a reduction in their fair value between December 31, 2003 and March 31, 2004.

The preliminary unaudited pro forma condensed combined financial statements presented herein are not necessarily indicative of the results of operations or the combined financial position that would have resulted had the acquisition been completed at the dates indicated, nor is it necessarily indicative of the results of operations in future periods or the future financial position of the combined company.



The preliminary unaudited pro forma condensed combined financial statements have been prepared assuming that the acquisition is accounted for under the purchase method of accounting (purchase accounting) with Quotesmith.com as the acquiring entity. Accordingly, under purchase accounting, the assets and liabilities of Life Quotes are adjusted to their fair value. For purposes of these preliminary unaudited pro forma condensed combined financial statements, consideration has also been given to the impact of conforming Life Quotes' accounting policies to ours. Additionally, certain amounts in the historical consolidated financial statements of Life Quotes have been reclassified to conform to our financial statement presentation. The preliminary unaudited pro forma condensed combined financial statements do not give consideration to the impact of possible revenue enhancements, expense efficiencies, synergies or asset dispositions.

The preliminary unaudited pro forma adjustments represent management's estimates based on information available at this time. Actual adjustments to the combined balance sheet and income statements will differ, perhaps materially, from those reflected in these preliminary unaudited pro forma condensed combined financial statements because the assets and liabilities of Life Quotes will be recorded at their respective fair values on the date the acquisition is consummated, and the preliminary assumptions used to estimate these fair values may change between now and the completion of the accounting for the acquisition. Estimated fair value adjustments to certain balance sheet amounts are preliminary and may change as a result of additional analysis. The final purchase accounting adjustments may be materially different from the preliminary unaudited pro forma adjustments presented herein.

The preliminary unaudited pro forma adjustments included herein are subject to other updates as additional information becomes available and as additional analyses are performed. The final allocation of the purchase price will be determined after the acquisition is consummated and after completion of a thorough analysis to determine the fair values of Life Quotes' tangible and identifiable intangible assets and liabilities. Accordingly, the final purchase accounting adjustments, including conforming of Life Quotes' accounting policies to ours, could be materially different from the preliminary unaudited pro forma adjustments presented herein. Any increase or decrease in the fair value of Life Quotes' assets, liabilities, commitments, contracts and other items as compared to the information shown herein will change the purchase price allocable to goodwill and may impact the combined income statements.

## **Note 2 Pro Forma Adjustments**

The pro forma adjustments related to the preliminary unaudited pro forma condensed combined balance sheet as of December 31, 2003 assume the acquisition and the sale of common stock took place on December 31, 2003. The pro forma adjustments to the preliminary unaudited pro forma condensed combined income statement for the year ended December 31, 2003 assumes the acquisition and the sale of common stock took place on January 1, 2003.

The following pro forma adjustments result from the allocation of the purchase price for the acquisition based on the fair value of the assets, liabilities and commitments acquired from Life Quotes

and to conform Life Quotes' accounting policies to ours. The amounts and descriptions related to the preliminary adjustments are as follows:

		Increase (Decrease) As of December 31, 2003
		(in thousands)
<b>Unaudited pro forma condensed combined balance sheet</b>		
a)	Elimination of Life Quotes asset not acquired	\$ 61
b)	Invested assets used to complete the acquisition	(4,204)
c)	Adjustment to conform the accounting policy for receivable and revenue recognition	1,581
d)	Elimination of Life Quotes asset not acquired	(86)
e)	Invested assets to be used to complete the acquisition	(7,852)
f)	Acquisition of land and building at fair value	5,500
g)	Record the identifiable intangible assets related to this acquisition See Note 3	3,700
h)	Record the goodwill associated with the acquisition	7,090
i)	Eliminate Life Quotes liabilities not assumed	(89)
j)	Borrowing from Zions to complete the acquisition	6,500
k)	Eliminate Life Quotes retained earnings	(621)
l)	Invest proceeds of stock sale in excess of debt repayment	6,500
m)	Repay note payable with proceeds of stock sale	(6,500)
n)	Sale of common stock to Zions	13,000

		Increase (Decrease) Year Ended December 31, 2003
		(in thousands)
<b>Unaudited pro forma condensed combined income statement</b>		
o)	Adjustment to conform the accounting policy for receivable and revenue recognition	\$ 177
p)	Adjustments to record depreciation and amortization of acquired assets, and to eliminate rent expense	188
q)	Adjustment to recognized reduction in investment income for invested assets used to complete the acquisition (\$309) and interest expense on note payable (\$260)	569
r)	Adjustment to reflect additional interest income earned on the investment of proceeds from the stock sale in excess of debt repayment (\$166) and reduction of interest expense on the note payable (\$260)	426
s)	Record the sale of additional shares to Zions	2,363,636 shares

Regarding adjustment (c) above, our revenue recognition policy is to recognize annual first year commissions for term life business as revenues when the policy has been approved by the underwriter and an initial premium payment (which may be annual, semi-annual, quarterly or monthly) has been made by the customer and reported to us by the insurance carrier. An allowance, based on historical factors, is provided for estimated commissions that will not be received due to the nonpayment of installment premiums and premium refunds. Life Quotes' policy is to recognize annual first year commissions for term life business as revenues when notified by the insurance company that the commissions have been earned, meaning that the policyholder has paid the premium. Any subsequent premium refunds that resulted in commissions being returned to the insurance carriers would be recognized in the period in which the refund occurred. The difference in these two policies accounts

for the adjustment of \$1,581,000 noted above, which is equal to the commissions due on first year term life policies that are in force but have remaining unpaid installments.

We intend to replace the quoting and order entry software now used by Life Quotes with the Quotesmith.com online order and case management software. The costs of this replacement have not yet been quantified, but are not expected to have a significant effect on the financial statements for 2004 since our software is proprietary, meaning that we can increase the number of users without an increase in any license fees, and Life Quotes already has most of the hardware necessary to run these systems. Therefore, no effect has been provided for these costs in the pro forma financial statements.

**Note 3 Identified Intangible Assets**

A summary of the significant identifiable intangible assets and their respective estimated useful lives is as follows:

	<b>Intangible Asset Balance</b>	<b>Estimated Useful Life</b>	<b>Amortization Method</b>
(in thousands)			
Insurance contract renewals	\$ 3,500	10 years	Accelerated(a)
Non-compete agreement	200	6 years	Straight line
<b>Total</b>	<b>\$ 3,700</b>		

(a) The fair value of insurance contract renewals was estimated based on the actual policies in force as of January 31, 2004 and the renewal commission rates paid by each insurance carrier. These commissions were estimated to have a maximum useful life of ten years, based on the terms of the contracts with the insurance carriers, and an annual lapse rate was applied to the expected renewals for each carrier based on historical trends. Finally, the estimated annual commission payment streams calculated by applying the lapse rates to the expected commissions were discounted at a rate of 4%, which management felt to be an appropriate rate to allow for both interest expense and risk, to arrive at a present value of \$3.5 million. Amortization will be on an accelerated basis, as renewal commissions will decline each year due to lapses. The ultimate realization of the value of the contract renewals is dependant on a number of factors, including actual lapse ratios, which can be affected by factors not under our control, such as death rates and the pricing level of insurance policies that could be purchased to replace the policies in the renewal stream. As a result, the actual amount realized from the contract renewals acquired may differ significantly from the amount recorded in the pro forma financial statements, causing impairment.

**Note 4 Earnings Per Share**

The pro forma earnings per common share data has been computed based on the combined historical income of Life Quotes and Quotesmith.com and the impact of pro forma adjustments. Weighted average shares were calculated using our historical weighted average common shares outstanding and the shares to be issued to Zions.

## RISK FACTORS

### Risks Relating to the Proposed Stock Issuance

**If the issuance of 2,363,636 shares of Quotesmith.com stock to Zions is approved and consummated, Zions, together with two of our officers and directors, will own a significant portion of our stock and control Quotemsith.com and their interests may not be the same as our public stockholders**

As of May 1, 2004, Robert S. Bland, our Chairman, President and Chief Executive Officer directly or indirectly controlled approximately 46.3% of our outstanding common stock, and William V. Thoms, our Executive Vice President and Chief Operating Officer, directly controlled approximately 14.0% of our outstanding common stock. Following the consummation of the issuance of 2,363,636 shares of our common stock to Zions, Messrs. Bland and Thoms would directly or indirectly control approximately 31.6% and 9.6%, respectively, of our common stock, and Zions will directly control approximately 31.7% of our common stock. As a result, if Zions, Messrs. Bland and Thoms act together, or if Zions and Mr. Bland act together, they will be able to take any of the following actions without the approval of additional public stockholders:

elect our directors;

amend provisions of our certificate of incorporation,

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

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

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

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

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

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

authorize, issue or sell any equity security (including options), other than certain specified options or pursuant to our employee stock purchase plan (of which there are presently 161,083 options available for grant under our stock option plan and 63,929 shares available for purchase under our employee stock purchase plan);

increase the authorized number of shares of our stock;

enter into any registration rights agreement;

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

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(i) merge, combine or consolidate with, or agree to merge, combine or consolidate with any entity, (ii) purchase, or agree to purchase all or substantially all of the securities of, any entity or (iii) purchase, or agree to purchase, all or substantially all of the assets and properties of, or otherwise acquire, or agree to acquire, all or any portion of, any entity, in each case, for

consideration in an amount, which when combined with all other such transactions in any fiscal year, exceeds \$5,000,000;

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

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

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

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

amend or propose to amend our charter or bylaws;

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

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

declare any dividends or distributions.

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

**If the stock issuance to Zions is approved and consummated and the holders of that stock choose to exercise their registration rights and sell their stock, the market price of our common stock could decrease and our ability to raise capital in the public markets may be adversely affected**

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

**Risks Relating to the Acquisition of  
Substantially all of the Assets of  
Life Quotes and the Related Real Estate**

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

We have acquired substantially all of the assets of Life Quotes and the related real estate. The assets of Life Quotes and the related real estate are owned and operated by Life Quotes Acquisition, Inc., our wholly-owned subsidiary. Life Quotes, based in Evergreen, Colorado, sold insurance over the phone to customers who call for a quote in response to direct response advertising. In anticipation of this acquisition, we entered into an agreement with Life Quotes to direct calls from customers in response to a phone number placed in certain of our advertising to Life Quotes. We have continued to direct these calls to the Life Quotes operation after the acquisition. While the Life Quotes business has operated profitably in the past, there can be no assurance that it will continue to

do so or that our company as a whole will be profitable. As described further in the pro forma financial statements included elsewhere in this proxy statement, our company as a whole would not have been profitable on a pro forma basis in 2003 or the first quarter of 2004. There can also be no assurance that the Life Quotes telephone sales model will form a successful complement to our present online sales and fulfillment model and that we will be able to generate the anticipated additional sales revenue from our present advertising.

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

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

**Kenneth L. Manley has a limited ability to compete with us**

Kenneth L. Manley, the previous owner of Life Quotes, has informed us that he intends to, and the agreements we have with him permit him to, set up and sell life insurance. Any life insurance Mr. Manley sells must be sold by him as a general agent to us. He is also limited in the amount of life insurance he may sell to not more than \$2.0 million a year commissionable premiums (which limit increases each year during the term of the agreements). As a result, he has the limited ability to directly compete with us, which may harm us.

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

Life Quotes has its own proprietary software that is used for quoting, preparation of applications and customer data base management. We intend to replace this software with our online order and case management software. The costs of this replacement have not yet been quantified, but are not expected to have a significant effect on the financial statements for 2004 since our software is proprietary, meaning that we can increase the number of users without an increase in any license fees, and the Life Quotes operation already has most of the hardware necessary to run these systems. However, if we are unable to replace the existing software with our own and properly train the Life Quotes staff to use it effectively, our business will be harmed.

**Our preliminary allocation of the purchase price to acquire Life Quotes may differ from the final allocation, and the related purchase accounting adjustments may be materially different from the preliminary unaudited pro forma adjustments presented in this proxy statement**

The preliminary unaudited pro forma condensed combined financial statements presented elsewhere in this proxy statement have been prepared using the purchase method of accounting with Quotesmith.com treated as the acquirer. Accordingly, our cost to acquire the Life Quotes assets and real estate has been allocated to the acquired assets and liabilities based upon their estimated fair values at December 31, 2003 and March 31, 2004, as applicable. The allocation of the purchase price is preliminary and is dependent upon certain valuations and other studies that have not progressed to a stage where there is sufficient information to make a definitive allocation. Accordingly, the final

purchase accounting adjustments may be materially different from the preliminary unaudited pro forma adjustments presented in this proxy statement. To the extent that the final adjustments are materially different, our financial statements could be materially adversely affected, which could have a material adverse effect on the price of our common stock.

### **Risks Related to Our Business**

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

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

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

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

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

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

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

While we obtain the information contained in our database directly from over 200 insurance companies being quoted and listed on our Web site, we currently only hold agency contracts with 180 of these insurance companies. In the past, a number of insurance companies quoted on our Web site have refused to appoint us as an agent or refused to permit us to publish their quotes for various reasons, including:

we do not meet with our customers on a face to face basis;

some insurance companies may have exclusive relationships with other agents;

we publicly market our service on a price oriented basis which is not compatible with the insurance company's branding efforts; and

a formal business relationship with us might be perceived negatively by the insurance company's existing distribution channels.



## Edgar Filing: QUOTESMITH COM INC - Form PRER14A

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.

In addition, the insurance companies with which Life Quotes previously did business may refuse to continue to do business with Life Quotes now that we have acquired their business. Many of these insurance companies have the ability to terminate their agency relationship upon thirty days notice.

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

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

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

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

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

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

## **Risks Related to the Insurance Industry**

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

Our bonus commission revenues relate to the amount of premiums paid for new insurance policies to a single insurance company. In other words, if consumers purchase policies from a fewer number of insurance companies our bonus commissions may be higher than if the same policies were purchased from a larger number of insurance companies. The decision to purchase a policy from a particular insurance company typically relates to, among other factors, price of the policy and rating of the insurance company, both of which are factors over which we have no control. Insurance companies often change their prices in the middle of the year for competitive reasons. This may reduce the number of policies placed with that insurance company which may then reduce our potential bonus

commissions. In addition, we have no control over the bonus commission rates that are set by each individual insurance company. As a result of these factors, we are unable to control the amount and timing of bonus commission revenues we receive in any particular quarter or year and these amounts may fluctuate significantly.

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

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

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

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

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

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

**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. In addition, Life Quotes has at times been subject to regulatory action for failing to comply with these laws. While we are not aware of any past instances of noncompliance with these laws by either Life Quotes or us that had or could have a material impact on our company or an investment in our stock, failure to comply with these numerous laws in the future could result in fines, additional licensing requirements

or the revocation of our license in the particular jurisdiction. These penalties could significantly increase our general operating expenses and harm our business. In addition, even if the allegations in any regulatory action against us turn out to be false, negative publicity relating to any allegations could result in a loss of consumer confidence and significant damage to our brand. We believe that because many consumers and insurance companies are not yet comfortable with the concept of purchasing insurance online, the publicity relating to any such regulatory or legal issues could harm our business.

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

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

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

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

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

**Risks Related to the Internet and Electronic Commerce**

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

We use both internally developed and third party systems to operate our service. If the number of users of our service increases substantially, we will need to significantly expand and upgrade our technology, transaction processing systems and network infrastructure. We do not know whether we will be able to accurately project the rate or timing of any of these increases, or expand and upgrade our systems and infrastructure to accommodate these increases in a timely manner. Our ability to facilitate transactions successfully and provide high quality customer service also depends on the efficient and uninterrupted operation of our computer and communications hardware systems. Our service has experienced periodic system interruptions, and it is likely that these interruptions will continue to occur

from time to time. Additionally, our systems and operations are vulnerable to damage or interruption from human error, natural disasters, power loss, telecommunication failures, break ins, sabotage, computer viruses, acts of vandalism and similar events. We may not carry sufficient business interruption insurance to compensate for losses that could occur. Any system failure that causes an interruption in service or decreases the responsiveness of our service would impair our revenue generating capabilities, and could damage our reputation and our brand name.

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

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

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

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

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

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

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

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

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

**Our business assumes the continued dependability of the Internet infrastructure**

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

**Risks Related to the Ownership of Our Common Stock**

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

We believe that the current per share price level of our common stock has reduced the effective marketability of our shares of common stock because of the reluctance of many leading 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 our 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 our common stock at its current low share price.

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

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

The market price of our common stock has been highly volatile and subject to wide fluctuations. For example, during 2003 the last sale price of our common stock ranged from a low of \$3.46 on March 31, 2003 to a high of \$6.00 on July 7, 2003 (these prices being the average of the bid and asked prices of our common stock as reported on the Nasdaq SmallCap Market on the relevant dates). The Nasdaq stock market has experienced significant price and volume fluctuations and the market prices of securities of technology companies, particularly Internet related companies, have been highly volatile. Market fluctuations, as well as general political and economic conditions, such as a recession or interest rate fluctuations, could adversely affect the market price of our common stock. In addition, the market prices for stocks of Internet related and technology companies, particularly following an initial public offering, frequently reach levels that bear no relationship to the operating performance of such companies. These market prices generally are not sustainable and are subject to wide variations. If our common stock trades to unsustainably high levels, it likely will thereafter experience a material decline.

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

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

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

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

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

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

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

Furthermore, as of May 1, 2004, Messrs. Bland and Thoms directly or indirectly controlled approximately 60.3% of our outstanding common stock. Following the consummation of the stock issuance, these individuals, together with Zions, will control approximately 72.9% of our common stock. This high concentration of stock ownership, together with the anti-takeover measures described above, could prevent or frustrate attempts to remove or replace incumbent management, including Messrs. Bland and Thoms. These persons may act to further their interests as management rather than the interests of our public stockholders.

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

**THE ANNUAL MEETING AND PROXY SOLICITATION**

**When and Where the Annual Meeting will be Held**

This proxy statement is being furnished to our stockholders in connection with the solicitation of proxies by our management, at the direction of our Board of Directors, for use at the annual meeting of Quotesmith.com stockholders to be held on [ ], 2004 at 9:00 a.m., Chicago time, at our offices, located at 8205 South Cass Avenue, Suite 102, Darien, Illinois 60561, and any adjournments thereof. This proxy statement and the enclosed Notice of Annual Meeting and form of proxy are first being sent to stockholders on or about [ ], 2004.

**What will be Voted on**

At the annual meeting, you will be asked to consider and vote on:

a proposal to approve the issuance of 2,363,636 shares of our common stock to Zions for \$13,000,000 in gross proceeds. The proceeds of the stock issuance will be used to repay the \$6,500,000 loan we received from Zions to fund a portion of our acquisition of substantially all of the assets of Life Quotes and certain related real estate and for general corporate purposes;

a proposal to approve the establishment of the Quotesmith.com, Inc. 2004 Non-Qualified Stock Option Plan, or Life Quotes employee stock option plan, pursuant to which options to purchase up to 300,000 shares of our common stock may be granted to certain former employees of Life Quotes who continue to work for us;

a proposal to elect two persons to our Board of Directors to serve until the 2007 Annual Meeting of Stockholders;

a proposal to ratify the appointment of Ernst & Young LLP as our independent auditors for the year ending December 31, 2004; and

any other business as may properly come before the annual meeting or any adjournment thereof.

For the reasons set forth in more detail elsewhere in this proxy statement, our Board of Directors recommends a vote "FOR" the approval of each of the proposals set forth above.

**Who may Vote at the Annual Meeting**

The Board of Directors has fixed the close of business on May 31, 2004 as the record date for the annual meeting. Stockholders of record as of the record date are entitled to notice of and to vote at the annual meeting. If you own shares of Quotesmith.com common stock that are registered in someone else's name (for example, a nominee), you need to direct that person to vote those shares or obtain an authorization from them and vote the shares yourself at the meeting. A list of stockholders entitled to vote at the annual meeting will be available for inspection by stockholders for any purpose germane to the annual meeting at our offices for the ten days immediately preceding the annual meeting date. At the close of business on the record date, 4,958,232 shares of common stock were outstanding held by approximately 1,800 stockholders of record. Each stockholder is entitled to one vote for each share of Quotesmith.com common stock held as of the record date on all matters to be considered at the annual meeting.

**How to Vote**

You may vote in person or by proxy. The proxy card accompanying this proxy statement is solicited on behalf of our Board of Directors for use at the annual meeting. You are urged to complete, sign and date the accompanying form of proxy and return it as soon as possible in the envelope provided for that purpose. Returning a proxy card does not prevent you from attending the annual meeting or

from changing your vote. If the enclosed proxy is properly executed and returned in time for voting with a choice specified thereon, and not properly revoked, the shares represented thereby will be voted as indicated on such proxy. Executed but unmarked proxies will be voted by the person(s) named thereon (i) for the approval of the issuance of 2,363,636 shares of Quotesmith.com common stock to Zions, (ii) for the approval of the establishment of the Life Quotes employee stock option plan, (iii) for the election of the nominees named herein as directors (or a substitute therefor if the nominee is unable or refuses to serve), (iv) for the ratification of Ernst & Young LLP as our independent auditors for 2004 and (v) in the discretion of such person(s) upon such matters not presently known or determined that properly may come before the annual meeting. If you wish to designate a person or persons to act as your proxy at the annual meeting, other than the proxies designated by the Board of Directors, you may strike out the names appearing on the enclosed form of proxy, insert the name of any other such person or persons, sign the proxy and transmit it directly to such other designated person or persons for use at the annual meeting.

Our Board of Directors knows of no other matters that may be brought before the annual meeting. However, if any other matters are properly presented for action, it is the intention of the named proxies to vote on them according to their best judgment.

#### **How to Change your Vote**

You may revoke a proxy at any time before the meeting is convened by filing with the secretary of Quotesmith.com an instrument of revocation or a duly executed proxy bearing a later date. You may also revoke a proxy by attending the annual meeting and voting in person, although attendance at the annual meeting will not, in and of itself, constitute a revocation of a proxy.

#### **Quorum and Vote Required**

Under our certificate of incorporation and by-laws and under Delaware law, a vote of stockholders is not required to approve the issuance of our common stock to Zions. However, because the number of shares we will be issuing to Zions exceeds 20% of our common stock outstanding prior to the issuance, stockholder approval is required under the rules of the Nasdaq SmallCap Market. Similarly, although a vote of stockholders is not required to approve the establishment of the Life Quotes employee stock option plan under our certificate of incorporation or by-laws or under Delaware Law, stockholder approval is required under the rules of the Nasdaq SmallCap Market.

Stockholders do not have the right to cumulate their votes in the election of directors. A majority of the shares entitled to vote at and present, in person or by proxy, at the annual meeting will constitute a quorum. If a quorum is present, the affirmative vote of a majority of the shares that are present, in person or by proxy, at the annual meeting and entitled to vote will be sufficient to approve the stock issuance to Zions and the establishment of the Life Quotes employee stock option plan. The affirmative vote of a plurality of such shares will be sufficient to elect each director. The affirmative vote of a majority of such shares will be sufficient to ratify the appointment of Ernst & Young LLP.

The holders of over 60% of our common stock outstanding have entered into an agreement requiring them to vote in favor of (i) the proposal to issue 2,363,636 shares of our common stock to Zions, (ii) the proposal to establish the Life Quotes employee stock option plan, (iii) the proposal to elect the nominees named herein as directors and (iv) the ratification of Ernst & Young LLP as our independent auditors for 2004.

#### **Abstentions and Broker Non-Votes**

Abstentions and broker non-votes will be treated as present at the annual meeting for purposes of reaching a quorum. Abstentions shall have no effect on the election of directors but shall be treated as a vote against the approval of the stock issuance to Zions, the establishment of the Life Quotes



employee stock option plan and the ratification of the independent auditors. Broker non-votes will have no effect on the outcome of the vote on any of the proposals.

**Solicitation of Proxies and Expenses of Solicitation**

The cost of soliciting proxies will be borne by Quotesmith.com. In addition to solicitation by mail, our directors, officers and employees may solicit proxies in person or by telephone. Brokers, nominees, fiduciaries and other custodians will be requested to forward soliciting materials to the beneficial owners of shares of Quotesmith.com common stock and will be reimbursed by us for their reasonable expenses in forwarding such materials.

**Appraisal Rights**

Stockholders who do not vote in favor of the proposals described in this proxy statement will not be entitled to dissenter's or appraisal rights. Accordingly, we will not make special provisions for stockholders to enforce such rights.

### MARKET PRICE INFORMATION

All common stock and per share information in this proxy statement 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. The last sale price of our common stock on March 2, 2004, the last day prior to the public announcement of the stock purchase agreement and the asset purchase agreement, was \$5.30, which is the average of the bid and asked prices of Quotesmith.com, Inc. common stock, as reported on the Nasdaq SmallCap Market on March 2, 2004. The last sale price of our common stock on May 27, 2004, the last practicable date for which results were available for inclusion in this proxy statement, was \$5.50, which is the average of the bid and asked prices of Quotesmith.com, Inc. common stock, as reported on the Nasdaq SmallCap Market on May 27, 2004. As of May 15, 2004 the approximate number of record holders of our common stock was 1,800. The following table sets forth, for the period indicated, the high and low last sale price (as adjusted for a one-for-three reverse stock split effective March 7, 2001) of our common stock as reported on the Nasdaq National Market and the Nasdaq SmallCap Market, as applicable.

	<u>High</u>	<u>Low</u>
2004:		
First quarter	\$ 6.00	\$ 4.92
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
2002:		
First quarter	\$ 3.20	\$ 2.00
Second quarter	3.08	2.60
Third quarter	2.85	2.38
Fourth quarter	4.23	2.41

**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 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.

**PROPOSAL 1. APPROVAL OF STOCK ISSUANCE TO ZIONS BANCORPORATION**

We financed the purchase price for the acquisition of substantially all of the assets of Life Quotes and the related real estate by borrowing \$6,500,000 from Zions and by using cash on hand. We plan to issue 2,363,636 shares of our common stock, in a private placement to Zions for an aggregate price of \$13,000,000, or approximately \$5.50 per share. We plan to use a portion of the proceeds of the stock issuance to repay the loan from Zions and the remainder for general corporate purposes. There will be no material tax consequences to us as a result of the stock issuance.

The acquisition of the Life Quotes business will be accounted for under the purchase method of accounting with Quotesmith.com as the acquiring entity. Accordingly, under purchase accounting, the assets and liabilities of Life Quotes will be adjusted to their fair value as of the date of the acquisition. Any excess of the purchase price over the fair value of the assets acquired will be recorded as goodwill. For tax purposes, we assume that we will be able to deduct the value of any intangible assets and goodwill as provided in the Internal Revenue Code of 1986, as amended.

*Regulatory Approvals.* We believe that there are no material federal or state regulatory requirements or approvals necessary to consummate the stock issuance, and none were required to consummate the acquisition of substantially all of the assets of Life Quotes and the related real estate. We believe we have the appropriate licenses to offer and sell insurance in all fifty states.

*Interests of Affiliates in the Transactions.* Except as described below, none of our affiliates, including our officers and directors, had any interest in the acquisition, or has any interest in the stock issuance, apart from their respective interests as our stockholders. Pursuant to the investor rights agreement described below, Messrs. Bland and Thoms, their spouses, and the partnership through which Mr. and Mrs. Bland hold their common stock each agreed that, for so long as Zions holds 40% of the shares of stock it purchases under the stock purchase agreement, they will vote for the Zions nominee to our Board of Directors. In addition, these persons have granted tag-along rights to Zions for so long as Zions holds 40% of the shares of stock it purchases under the stock purchase agreement. This means that if any of these persons proposes to sell any of their Quotesmith.com common stock, subject to certain exceptions, they will afford Zions the right to participate proportionately in such sale based on the total number of shares owned by Zions divided by the total number of shares owned by Zions and the seller or sellers (in each case, on a fully diluted basis determined as of the close of business on the day immediately prior to the tag-along notice date). These persons also granted to Zions, and Zions granted to these persons and to us, a right of first refusal with respect to certain transfers of their shares of common stock.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE APPROVAL  
OF THE STOCK ISSUANCE TO ZIONS.**

**Background of the Transactions**

During 2002 and 2003, Kenneth L. Manley, the Chief Executive Officer and sole stockholder of Life Quotes, and Robert L. Bland, our Chairman of the Board, President and Chief Executive Officer, had general, exploratory conversations regarding the possibility of Quotesmith.com acquiring the business of Life Quotes. In July 2003, Mr. Bland and Mr. Manley had a series of specific conversations about Quotesmith.com acquiring the business of Life Quotes. During July 2003, Phillip Perillo, our Chief Financial Officer, conducted a preliminary financial due diligence investigation of Life Quotes. In July 2003, we sent a draft asset purchase agreement to Mr. Manley, pursuant to which we would pay the purchase price in a combination of cash and stock. In August 2003, we sent to Life Quotes and their counsel, John Meck of Welborn, Sullivan, Meck & Tooley, P.C., a revised draft of a purchase agreement, this version reflecting the possibility of acquiring the stock of Life Quotes. During August 2003, we had discussions with a number of banks regarding their possible acquisition of our common stock in exchange for a cash infusion. On October 23, 2003, at a regularly scheduled meeting

of our Board of Directors, the status of negotiations with Mr. Manley and possible funding sources was discussed. On October 27, 2003, Mr. Bland and Mr. Manley met and agreed to the terms of a proposed transaction whereby we would acquire substantially all of the assets and related real estate of Life Quotes. In November 2003, we entered into a marketing agreement with Life Quotes under which we would provide them with term life insurance leads in exchange for a share of the profits of any sales made. In early November 2003, we reached tentative agreement with Zions to sell \$13,000,000 of our common stock to them, subject to documentation, and therefore changed our offer to Life Quotes to be an all cash offer for substantially all of the assets and real estate of Life Quotes. On November 20, 2003, we delivered a revised asset purchase agreement to Life Quotes which incorporated those terms.

In December 2003, we hired Mystic Capital Advisors Group, LLC, or Mystic Capital, to assist us in evaluating the fairness of the acquisition of Life Quotes and in our due diligence efforts. Mystic Capital did not participate in any negotiations regarding the transactions. On December 22, 2003, we received the first draft of an investor rights agreement and stock purchase agreement from Zions' counsel. Late in December 2003, Life Quotes and its counsel proposed signing a letter of intent. We rejected this suggestion and instead suggested that we concentrate our efforts on negotiating the draft asset purchase agreement. We received Mr. Meck's first comments on the asset purchase agreement on December 29, 2003. Messrs. Perillo, Bland, Meck and Manley, together with David Kaufman (a partner at Duane Morris LLP), met at Mr. Meck's offices in Denver, Colorado on January 9, 2004, to further negotiate the asset purchase agreement and related documents. With our legal advisors, we continued negotiating with Mr. Meck on the asset purchase agreement, real property purchase agreement and related documents. We, with our legal advisors, negotiated the terms of the stock purchase and investor rights agreement with Zions and their counsel. We and our advisors continued our legal, financial and business due diligence of Life Quotes during the months of January and February 2004.

On January 29, 2004, we held a regularly scheduled meeting of our Board of Directors where the status of negotiations with Life Quotes and Zions was reviewed. At the meeting, Mystic Capital reviewed the fairness of the Life Quotes transaction from a financial point of view. They provided their oral opinion, which was subsequently confirmed in writing as of February 27, 2004, that based on and subject to the assumptions, qualifications and limitations contained in the opinion, the transactions contemplated by the asset purchase agreement and real property purchase agreement were fair to our stockholders from a financial point of view. Our Board of Directors also reviewed the potential stock sale to Zions. Mr. Kaufman reviewed the terms and conditions of the stock issuance to Zions, the acquisition of substantially all of the assets of Life Quotes and the related real estate and the related documentation. Our Board of Directors then reviewed and discussed the terms of the proposed transactions. Our Board of Directors unanimously adopted a resolution approving and adopting the stock issuance, the acquisition and the related transactions contemplated thereby and voted to recommend approval of the stock issuance to our stockholders, subject to final documentation. During the month of February, the parties continued to negotiate the terms of the asset purchase agreement, real property purchase agreement, stock purchase agreement, investor rights agreement and other related documentation. We continued to perform due diligence investigations of Life Quotes with Mystic Capital and Duane Morris LLP. Life Quotes also prepared financial statements.

After the close of business on March 1, 2004, the parties executed and delivered the asset purchase agreement, the real property purchase agreement, the stock purchase agreement and the investor rights agreement. Prior to the opening of business on March 3, 2004, the transactions were publicly announced.

Throughout March and April of 2004, we continued to progress toward closing the acquisition and the stock issuance. During this time, it became apparent that we would not be able to consummate the stock issuance in a timely fashion. Our management discussed with Zions the possibility of obtaining a loan from Zions for a portion of the purchase price of Life Quotes, which would enable us to

consummate the acquisition in a timely fashion. With our legal advisors, we negotiated the terms of a possible loan transaction with Zions and their counsel.

On April 22, 2004, we held a regularly scheduled meeting of our Board of Directors where the status of our progress toward closing was reviewed. Our Board of Directors also reviewed and discussed the terms of the potential loan transaction with Zions to fund a portion of the purchase price of the Life Quotes business prior to consummation of the stock issuance to Zions. Our Board of Directors unanimously adopted a resolution approving and adopting the loan transaction.

On May 7, 2004, borrowed \$6,500,000 from Zions to fund a portion of the purchase price of the Life Quotes business. We consummated the acquisition of Life Quotes on that date. In addition, we executed an amendment to the stock purchase agreement with Zions to reflect the revised financing structure and extend the termination date, and Messrs. Bland and Thoms, together with their spouses and the partnership through which Mr. and Mrs. Bland hold their common stock, entered into voting agreements with Zions pursuant to which these persons have agreed, among other things, to vote their shares of our common stock in favor of the stock issuance to Zions.

#### **Reasons for the Transactions**

We entered into a stock purchase agreement with Zions on March 1, 2004. Under the terms of the stock purchase agreement, we have agreed to issue 2,363,636 shares of our common stock to Zions for \$13,000,000 in gross proceeds. The common stock to be issued to Zions will not be registered, and will be restricted following the stock issuance. In connection with the issuance of stock to Zions, we have entered into an investor rights agreement with Zions, Messrs. Bland and Thoms, their spouses, and the partnership through which Mr. and Mrs. Bland hold their common stock whereby we have agreed, among other things, to increase the size of our Board of Directors by one member and to nominate an individual designated by Zions to serve on the Board of Directors. Messrs. Bland and Thoms, their spouses, and the partnership through which Mr. and Mrs. Bland hold their common stock have agreed to vote all of their shares of common stock in favor of such individual. In accordance with the investor rights agreement, Zions has designated as its nominee, and we have nominated for election as director, John B. Hopkins.

On May 7, 2004, we acquired substantially all of the assets of Life Quotes, a domestic insurance agency that solicited business from prospective customers in all 50 states, and assumed certain specified liabilities for a payment of \$13,364,308, after adjustments. We also acquired certain real estate owned by an affiliate of the sole stockholder of Life Quotes and previously used by Life Quotes for a payment of \$4,991,947, after customary prorations. We expect that the assets we acquired, together with the real estate, will be sufficient to enable us to operate the business in which Life Quotes was engaged in the same manner as it was operated prior to the acquisition. We funded this acquisition by using cash on hand and by borrowing \$6,500,000 from Zions. We intend to repay the loan from Zions with a portion of the proceeds from the issuance of 2,363,636 shares of our common stock to Zions. The remainder of the \$13,000,000 in gross proceeds of this stock issuance will be used for general corporate purposes. The assets of Life Quotes and the related real estate are owned by a wholly-owned subsidiary of Quotesmith.com.

Also on May 7, 2004, Messrs. Bland and Thoms, together with their spouses and the partnership through which Mr. and Mrs. Bland hold their common stock, entered into voting agreements with Zions pursuant to which these persons have agreed, among other things, to vote their shares of our common stock in favor of the stock issuance to Zions. We also issued a promissory note to Zions in the amount of \$6,500,000 and amended the stock purchase agreement to reflect the revised financing structure. The proceeds of this note were used to fund a portion of the purchase price for the acquisition of the Life Quotes business.

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In connection with the acquisition of the assets of Life Quotes, we agreed to establish the Quotesmith.com, Inc. 2004 Non-Qualified Stock Option Plan, or the Life Quotes employee stock option plan, pursuant to which options to purchase up to 300,000 shares of our common stock may be granted to certain employees of Life Quotes who agree to work for us.

At its January 29, 2004 meeting, the Board of Directors determined that the stock issuance and the acquisition are each in our best interest and the best interest of our stockholders and unanimously resolved to recommend to our stockholders to vote in favor of the stock issuance.

At its April 22, 2004 meeting, the Board of Directors determined that the loan transaction with Zions is in our best interest and the best interest of our stockholders, and reaffirmed its resolution to recommend to our stockholders to vote in favor of the stock issuance.

In making its determination with respect to stock issuance, the Board considered a number of potential benefits, including those listed below:

The stock issuance will allow us to repay the loan from Zions and replenish our cash on hand that was used to fund a portion of the purchase price of the Life Quotes business.

Selling 2,363,636 shares of common stock at \$5.50 a share was at a price above the market price of the shares of common stock when the business terms were reached.

The issuance of shares to Zions not only provides funds to repay the loan from Zions and replenish our cash on hand, it brings us an investor with experience in electronic commerce.

In making the determination with respect to the acquisition, the Board considered a number of potential benefits, including those listed below:

The cash consideration we paid for the assets of Life Quotes represented an attractive price, in the opinion of the Board. The price of the building was less than its current appraised value of \$5,500,000. Accounts receivable, which should be collected within one year of the closing, accounted for \$2,450,000 of the purchase price. The discounted present value of the renewal commission stream was estimated to account for another \$3,500,000 of the purchase price. This value was calculated by taking the annual renewal commission income generated presently by the Life Quotes book of business, reducing it for the annual estimated lapse ratio by carrier, and then discounting those expected cash flows at a rate of 4%, which was determined to be an appropriate rate for this calculation based on current market interest rates. This calculation resulted in the valuation of \$3,500,000 for the renewal commission stream. Our Board of Directors felt that the remaining approximately \$7,000,000 of the purchase price was an attractive price to pay for a business that filled our need for a life-insurance telephone-based sales center with an operation that has been consistently profitable, generated revenue growth of 16% in 2003 compared to 2002, and recorded a profit in 2003 of approximately \$1,100,000 million on revenues of approximately \$10,400,000. Our Board also felt that the price was attractive considering that a significant portion will be recaptured through the collection of receivables and renewals, the building would be acquired for less than its appraised value and the operation has been growing and profitable.

Mystic Capital Advisors Group LLC presented its opinion to the Board of Directors that based upon and subject to the assumptions, qualifications and limitations contained in the opinion, the consideration to be paid for the assets and related real estate is fair, from a financial point of view, to our stockholders. In conjunction with delivering its opinion, Mystic Capital made a presentation to the Board of Directors as to various financial and other matters underlying such opinion. See "Opinion of Quotesmith.com's Financial Advisor" for a description of the presentation to the Board of Directors.

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The acquisition of Life Quotes was a strategic move on our part to better penetrate the market of life insurance buyers. Our existing web site provides such buyers with an efficient way of searching our data base of life insurance products, selecting an appropriate policy and applying for that policy while online. However, we feel that there are many other customers who need to speak with a licensed sales agent before buying. The acquisition of Life Quotes provides us with an experienced team of telephone-based licensed sales representatives who can fill that need for us.

The Board of Directors also identified and considered several potentially negative factors relating to the stock issuance and the acquisition, including the following:

The closing of the stock issuance is subject to a number of conditions, some of which are beyond our control.

We have agreed to certain operating restrictions in our business in the investor rights agreement.

We have agreed to nominate a Zions designee to our Board.

We have granted Zions certain preemptive and registration rights.

The Board of Directors concluded that the potentially negative factors were outweighed by the potential benefits to be gained by the stock issuance and the acquisition. The members of the Board of Directors evaluated all of the factors described above in view of their knowledge of the business and operation of Life Quotes and their business judgment. In light of the wide variety of factors considered in connection with its evaluation of the stock issuance and the acquisition, the Board of Directors did not find it practicable to, and did not, quantify or otherwise assign relative weights to the specific factors considered in reaching its determination. In addition, individual members of the Board of Directors may have given different weights to different factors.

### **Opinion of Quotesmith.com's Financial Advisor**

We engaged Mystic Capital to act as our financial advisor in connection with our Board of Directors' evaluation of the acquisition of substantially all of the assets of Life Quotes and the related real estate. Mystic Capital agreed to assist us in analyzing our acquisition of the Life Quotes business. Mystic Capital was also engaged to render a written opinion to our Board of Directors as to the fairness, from a financial point of view, of the consideration to be paid by us in connection with the acquisition. In requesting Mystic Capital's advice and opinion, no restrictions or limitations were imposed by us upon Mystic Capital with respect to the investigations made or the procedures followed by Mystic Capital in rendering its opinion.

On January 29, 2004, Mystic Capital reviewed the financial aspects of the proposed acquisition and delivered its opinion, or the Mystic Capital Opinion, to our Board of Directors to the effect that, as of that date, and based upon and subject to the assumptions, limitations and qualifications set forth in the opinion, the consideration to be paid by us pursuant to the asset purchase agreement and the real property purchase agreement was fair to our stockholders from a financial point of view.

The full text of the Mystic Capital Opinion, which describes, among other things, the assumptions made, matters considered, and the limitations on the review undertaken, is attached to this proxy statement as **Annex A-1** and is incorporated in this proxy statement by reference. The description of the Mystic Capital Opinion set forth below is qualified in its entirety by reference to the full text of the Mystic Capital Opinion in **Annex A-1**. You should read the Mystic Capital Opinion carefully and in its entirety.

The Mystic Capital Opinion is directed only to the fairness, from a financial point of view, of the consideration to be paid pursuant to the asset purchase agreement and the real property purchase agreement by us. Further, the Mystic Capital Opinion is not a recommendation to any stockholder as

to how he or she should vote at our annual meeting. Mystic Capital was not retained as an advisor or agent to our stockholders or any other person, and it is acting only as an advisor to our Board of Directors.

Mystic Capital is a national investment banking firm. As part of its investment banking business, Mystic Capital is regularly engaged in the valuation of businesses and securities in connection with mergers, acquisitions, sales and distributions of securities, private placements and valuations for estate, corporate and other purposes. Mystic Capital was selected by us to act as our financial advisor because of Mystic Capital's expertise in valuing and advising firms in the financial and insurance industry in merger and acquisition transactions.

#### **Description of the Transaction**

The following section speaks as if the Life Quotes acquisition had not yet occurred because that is when Mystic performed its analysis. As part of the acquisition, Life Quotes will sell, transfer, convey and deliver to us certain assets of Life Quotes as well as a building and land owned by the Kenneth L. Manley Revocable Trust dated as of June 10, 1987, an affiliate of the sole stockholder of Life Quotes. Total consideration to be paid the sellers is \$18,395,000 and is equal to the sum of the following:

\$13,395,000 will be paid for the acquired assets and certain assumed liabilities of Life Quotes, of which \$350,000 will be deposited in an escrow account for a period of twelve months, and

\$5,000,000, will be paid under the terms set forth in the real property purchase agreement for the building and land on which Life Quotes operates.

The total consideration to be paid to the sellers in connection with the acquisition was determined by us, and Mystic Capital evaluated the amount of consideration as determined by us.

#### **Professional Undertaking**

In arriving at its opinion, Mystic Capital, among other things:

Reviewed documents including, but not limited to, the following:

Responses to a standard questionnaire which provided information related to the history and overview of Life Quotes, its ownership and personnel and its book of business and markets;

Financial statements for Life Quotes for the fiscal years ending December 31, 1999 through December 31, 2003;

The Asset Purchase Agreement, dated as of January 31, 2004 (signed March 1, 2004), by and among us, Life Quotes Acquisition, Inc., Kenneth L. Manley and Life Quotes, Inc.;

Reviewed Life Quotes' history, current business status, and future prospects;

Investigated Life Quotes' business, its competition, and its industry;

Reviewed financial data and other information supplied to it by Life Quotes and obtained from other sources;

Interviewed management personnel of Life Quotes to become generally familiar with the management team, management systems and procedures and business status, and undertook other activities to permit it to assess the risks associated with an acquisition of Life Quotes;



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Held discussions with members of Life Quotes' management regarding past and current business operations, financial condition, results of regulatory examinations and the business and future prospects of Life Quotes;

Compared the results of operations, market value, valuation multiples and reported financial condition of Life Quotes with similar information for certain other publicly traded companies which it deemed to be relevant;

Compared the proposed financial terms of the acquisition with the financial terms of certain other mergers and acquisitions of insurance agencies which it deemed to be relevant;

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Took into account its assessment of general economic, market and financial conditions and its experience in other transactions, as well as its experience in securities valuation and knowledge of the insurance industry generally;

Spoke with us and our counsel to discuss the progress of the transaction, the progress of its analyses and issues related to the transaction;

Conducted other studies, analyses and investigations, and considered other information, that it deemed appropriate; and

Evaluated the consideration to be paid to the sellers, including all conditions imposed as a condition to receipt of such consideration, under the asset purchase agreement and the real property purchase agreement.

### Comparable Public Company Analysis

Mystic Capital tracks six publicly traded insurance brokers: Arthur J. Gallagher & Co. (NYSE: AJG), Brown & Brown (NYSE: BRO), Hilb, Rogal & Hobbs (NYSE: HRH), Hub International, Inc. (NYSE: HBG), USI Holdings Corporation (NASDAQ: USIH), and Willis Group Holdings, Ltd. (NYSE: WSH).

The table below displays the market capitalization and adjusted market value metrics for these six insurance brokers. The adjusted market value is equal to the diluted market capitalization minus (plus) the tangible net worth (deficit) shown on the broker's balance sheet as of December 31, 2003. Adjusted market value is not enterprise value; however, it has some similarities. Enterprise value is the market capitalization of a firm plus the marketable debt of a firm. Enterprise value does not give any consideration to excess value or excess liability of a firm's balance sheet. While adjusted market value contemplates these factors it first takes the diluted market capitalization, which is derived by multiplying the diluted shares outstanding by the market price on the measurement date. From this figure the tangible net worth (total equity less intangibles) is subtracted, or tangible net deficit added, to calculate a more comparable market capitalization value which can be compared to the transaction being discussed. Mystic Capital believes that this adjusted market value provides a more comparable metric for assessing the acquisition of the Life Quotes business than market capitalization.

**Valuation Metrics of Public Insurance Brokers(1)**  
**December 31, 2003**

<b>Metric</b>	<b>Low</b>	<b>Mean</b>	<b>Median</b>	<b>High</b>
Diluted Market Capitalization/ Revenues	1.74	2.71	2.43	4.64
Diluted Market Capitalization/EBITA	8.40	10.17	9.98	13.04
Adjusted Market Value/Revenues	1.90	2.74	2.73	4.59
Adjusted Market Value/EBITA	8.49	10.31	10.32	12.90

The table below compares the mean of the indicated metrics for the publicly traded insurance brokers to the proposed Life Quotes transaction. The multiples presented consider only the \$13,395,000

paid for the business assets acquired and liabilities assumed, and do not include the \$5,000,000 paid for the building and land.

Metric	Industry Mean	Life Quotes Pro Forma
Deal Value/Revenues	2.71	1.30
Deal Value/EBITA	10.17	8.33
Adjusted Market Value/Revenues	2.73	1.00
Adjusted Market Value/EBITA	10.31	6.36

(1) Fourth Quarter, 2003 Insurance Broker Report. Mystic Capital Advisors Group, LLC. February 23, 2004.

The table below lists the public company brokers and their market capitalization.

Company	Ticker	Exchange	Price Earnings	Market Capitalization in \$ Billions
Marsh & McLennan Cos. Inc.	MMC	NYSE	16.7	24.990
Aon Corp	AOC	NYSE	12.1	7.746
Willis Group Holdings	WSH	NYSE	17.3	5.569
Arthur J. Gallagher & Co.	AJG	NYSE	18.0	2.858
Brown & Brown	BRO	NYSE	21.9	2.403
Hilb Rogal & Hamilton Co	HRH	NYSE	15.1	1.168
USI Holdings Corp	USIH	NASDAQ	23.4	0.656
Hub International	HBG	NYSE	13.6	0.531
Public Broker Average			17.3	5.740

Date 2/2/04

Source: Bloomberg.com

### Comparable Transaction Analysis

Due to the micro-cap nature of most of the insurance brokerage sector, very few comparable transactions are announced on an annual basis. Of those that are announced, very few buyers announce the details of the transaction and the financial condition of the seller at the time of closing. Of the comparable transactions that are announced, the typical transaction information released is price and revenues. Since income statement information is generally not released it is difficult to gauge true financial performance multiples. The table below displays the price/revenue value of the five insurance broker transactions announced during 2003 that involved operations with \$5 to \$15 million in annual revenue. The source of this information is SNL Financial. Mystic Capital did not perform specific

procedures to verify the data received from SNL Financial, other than reviewing information available through public sources such as press releases and regulatory filings.

Buyer	Seller	Date	Price/Revenue
American Independence Corp.	Vorhees Risk Management	1/1/03	2.45
USI Holdings	Hastings, Tapley Insurance Agency	5/15/03	1.26
F.N.B. Corp.	Lupfer Frakes	12/31/03	1.56
Old National	Insurance & Risk Management	7/8/03	1.94
BancorpSouth	Ramsey, Krug, Farrell & Lensing	12/31/03	2.16
		Low	1.26
		Mean	1.87
		Median	1.94
		High	2.45
		Life Quotes Transaction	1.30

**Opinion of Mystic Capital Advisors**

In rendering its opinion, Mystic Capital assumed and relied upon the accuracy, completeness and fairness of all of the financial and other information that was available to it from public sources, that was provided to it by us and Life Quotes or their representatives, or that was otherwise reviewed by it. Mystic Capital did not attempt or assume any responsibility to independently verify any of the information reviewed by it. Mystic Capital did not review any individual policyholder files.

Mystic Capital was not requested to make, and has not made, an independent evaluation or appraisal of the real property nor of the sellers' assets or liabilities (contingent or otherwise) or other data related to the physical condition of the real property. A third party real estate appraiser was retained by Quotesmith.com to perform an appraisal on the subject property during February 2004. While Mystic Capital has retained a copy of the executive summary provided in conjunction with the appraisal report, Mystic Capital makes no representation as to the qualifications of the appraiser and does not provide an opinion as to the accuracy of the report.

The Mystic Capital Opinion was just one of the many factors taken into consideration by our Board of Directors in determining to approve the acquisition of the Life Quotes business. See "Reasons for the Transactions." The Mystic Capital Opinion does not address the relative merits of the acquisition as compared to any alternative business strategies that might exist for us, nor does it address the effect of any other business combination in which we might engage. The Mystic Capital Opinion was not an expression of an opinion as to the prices at which our shares of common stock would trade following the announcement of the acquisition.

In connection with rendering its opinion, Mystic Capital performed a variety of financial analyses. The following is a summary of the material analyses presented to our Board of Directors at its January 29, 2004 meeting. The summary set forth below does not purport to be a complete description of the analyses performed by Mystic Capital, but describes, in summary form, the principal elements of the presentation made by Mystic Capital to our Board of Directors on January 29, 2004. The preparation of a fairness opinion involves various determinations as to the most appropriate and relevant methods of financial analysis and the application of these methods to the particular circumstances. Therefore, such an opinion is not readily susceptible to summary description. Each of the analyses conducted by Mystic Capital was carried out in order to provide a different perspective on the transaction and add to the total mix of information available. Mystic Capital did not form a conclusion as to whether any individual analysis, considered in isolation, supported or failed to support

an opinion as to fairness from a financial point of view. Rather, in reaching its conclusion, Mystic Capital considered the results of the analyses in light of each other and ultimately reached its opinion based on the results of all analyses taken as a whole. Mystic Capital did not place particular reliance or weight on any individual analysis, but instead concluded that its analyses, taken as a whole, supported its determination. Accordingly, notwithstanding the separate factors summarized below, Mystic Capital believes that its analyses must be considered as a whole and that selecting portions of its analyses and the factors considered by it, without considering all analyses and factors, could create an incomplete or misleading view of the evaluation process underlying its opinion.

In performing its analyses, Mystic Capital made numerous assumptions with respect to industry performance, general business, economic and market conditions and other matters, many of which are beyond our control. The projections and other information used in the analyses performed by Mystic Capital are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than suggested by the projections and other information used in the analyses, and the results of such analyses.

Mystic Capital valued Life Quotes, excluding the assets purchased under the real property purchase agreement, using three different valuation methodologies. The first two methods are commonly used to value business enterprises and include the price/earnings method and the capitalization of earnings method. A third method, which was developed specifically for valuing insurance agencies, was also used and is referred to as the combination method.

In addition, a fourth valuation methodology, a Net Present Value Analysis, or NPV, was performed to confirm the results obtained pursuant to the three methodologies described above. The NPV was not used to determine the midpoint value, but rather as a comparative valuation method.

The price/earnings method of valuation attempts to determine the value of an agency's book of business, as of the date of valuation, by multiplying sustainable, pre-tax profits by an average price/earnings ratio of comparable publicly held insurance brokers. The theory is that public brokers could calculate what a potential acquisition may be worth to them based on this kind of analysis. This average P/E ratio is then usually discounted (rarely given a premium), as public brokers will normally not tolerate any potential dilution in their firm's stock values. This discount represents the degree of relative risk that a particular firm adds to the equation over and above the broker's own day-to-day risk of doing business.

The four components of this method of valuation method are described, as they relate to Life Quotes, in the table below:

<b>Component</b>	<b>Description</b>
<i>Sustainable Pre-Tax Profits</i>	\$1,609,000 or 15.7% of pro forma revenues
<i>Average Public Brokers' Price/Earnings Ratio</i>	As of the valuation date, the publicly-traded brokers had an average after-tax P/E ratio of 17.3, or approximately 10.4 on an estimated pre-tax basis
<i>Discount</i>	Given Life Quotes' current market size and growth factors, the P/E multiple of the public brokers was discounted 35%, bringing the multiple to approximately 6.75x pre-tax profits
<i>Working Capital Requirement</i>	\$722,090, or 30 days of pro forma expenses

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The summary calculation in tabular format is follows:

<b>Sustainable Earnings Capacity</b>	\$ 1,609,000
<b>Adjusted P/E Multiple (rounded)</b>	x 6.75
	_____
<b>Gross Price/Earnings Value</b>	10,855,920
<b>Less: 30 Days Working Capital</b>	(722,090)
	_____
<b>Asset Valuation from P/E Method</b>	\$ 10,133,830

The straight capitalization of earnings before taxes method of valuation divides pro forma, pre-tax income by a rate of return requirement composed of an investor's "risk free" rate (that one could reasonably expect from such safe investments as U.S. government bonds) and an additional risk-adjusted rate of return for investing in the retail insurance industry, and specifically in Life Quotes, as compared to alternatives.

The capitalization rate of 16.75% was calculated using the Capital Asset Pricing Model (CAPM). The 10-year Treasury Issues were yielding approximately 4.25% at the valuation date, and could be considered relatively "risk free." To compensate for the specific risk associated with Life Quotes, one could impose an additional 12.5% rate of return when this specific investment is compared to others. The calculation is summarized below.

### CAPITALIZATION RATE CALCULATION CAPITAL ASSET PRICING MODEL (CAPM)

$$\text{Cap Rate} = \text{Risk Free} + \text{Beta} (\text{Market Return} - \text{Risk Free})$$

#### Key Inputs

<b>risk free return based on the 10-year treasury</b>	4.25%
<b>SIC composite adjusted levered beta</b>	0.70(1)
<b>5 year return on S&amp;P 500</b>	13.06(1)
<b>risk adjustment due to size and liquidity</b>	6.25%
<b>Calculation</b>	

<b>risk free return</b>	4.25%
<b>plus: beta (market return - risk free rate) or 0.70* (13.06% - 4.25%)</b>	6.17%
<b>Total</b>	10.42%
<b>plus: risk adjustment due to size and liquidity</b>	6.25%
<b>capitalization rate</b>	16.67%
<b>capitalization rate (rounded to the nearest quarter)</b>	<b>16.75%</b>

- (1) Cost of Capital 2004 Yearbook, Insurance Agents, Brokers and Service SIC Code 64, IbbotsonAssociates, Data through March 2004.

The following summarizes the capitalization of earnings method.

<b>Pro Forma Pre-Tax Profit</b>	\$ 1,609,000
<b>Capitalization Rate</b>	/ .1675
	_____
<b>Gross Intangible Value</b>	9,605,970
<b>Less: 30 Days Working Capital</b>	(722,090)
	_____
<b>Capitalization Rate Asset Value</b>	\$ 8,883,880

The combination method of valuation rests on the premise of professional valuations for investors in agencies of this size, be they internal or external, where the option to buy a firm needs to be



justified on an investment return within an assumed 5.0 to 7.0 years based upon comparable sized acquisitions in the same geographic territory. This method uses inherent risk in order to determine where, within this range, a particular agency is valued based upon a multiple of pro forma earnings.

Risk is the main determinant as to where a particular agency fits within the investment return period. While it is feasible for exceptional and riskier brokerages and books of business to exceed and trail, respectively, the investment return period, the average national insurance brokerage has risk factors giving its books of business a value of from 5.0 to 7.0x pro forma earnings. Life Quotes was given a total score of 170 (see below) on the Inherent Risk Factor Matrix, which includes 20 risk characteristics inherent to an agency. This score was then translated into an overall combination multiple of 6.78 which was then applied to the pro forma pre-tax profit as illustrated below to derive the combination method value.

<b><i>Pro Forma EBIT</i></b>	\$ 1,609,000
<b><i>Combination Multiple</i></b>	× 6.78
	<hr/>
<b><i>Gross Value</i></b>	10,905,440
<b><i>Less: 30 Days Working Capital</i></b>	(722,090)
	<hr/>
<b><i>Combination Method Valuation</i></b>	\$ 10,183,350
	<hr/>

In order to establish inherent risk, an appraiser evaluates a wide array of characteristics of an agency. These characteristics are both quantitative and qualitative in nature and may or may not be measurable. Although each risk characteristic contributes to the overall risk factor established for the agency, individual components of risk must be weighted separately based upon the appraiser's experience in the industry and the overall impact the specific risk bearing component is determined to have when developing agency value.

For purposes of introducing objectivity into the inherent risk analysis, twenty different risk bearing criteria have been selected. These characteristics are listed in the matrix below. The characteristics to which the appraiser applies a higher weighting are listed at the top of the table, and those which have a lesser role are listed on the lower half of the table. To each of these twenty characteristics, the appraiser assigns the agency a "grade," listed in the first column, which is based on a scale of 0-5. The center column represents the relative weight assigned to the category. Finally, the right hand column represents the product of the first and second columns and results in the agency's Total Risk Factor Score. A higher score indicates lower risk.



The Inherent Risk Factor Matrix and comments on Life Quotes' specific risk factors that were rated either above or below average by the appraiser are as follows.

**INHERENT RISK FACTOR MATRIX**

<b>Risk Component</b>	<b>Subjective Agency (1-5)</b>	<b>Relative Rating (1-3)</b>	<b>Total (1-15)</b>
1 Overall Profitability	3	3	9
2 Revenue Growth	5	3	15
3 Account Concentration	5	3	15
4 Insurance Carriers & Markets	4	3	12
5 Sales Compensation	5	3	15
6 Employment Agreements, Book Ownership	4	3	12
7 Employee Efficiency	4	3	12
8 Insurance Product Offering	1	3	3
9 Geographic Diversification of Customer Base	5	2	10
10 Business Specialties	4	2	8
11 Account Retention History	4	2	8
12 Agency Performance versus Industry	4	2	8
13 Organizational Structure	4	2	8
14 Business Succession Plan	3	2	6
15 Quality of Personnel	3	2	6
16 Liquidity Position	1	2	2
17 Training, Professional Development, & Other	4	2	8
18 Size & Stability	5	1	5
19 Receivables Position	5	1	5
20 Use of Automation	3	1	3
<b>Agency's Total Risk Factor Score</b>			<b>170</b>
<b>Possible Total Points</b>			225
<b>High Value</b>			180
<b>Average Value</b>			135
<b>Low Value</b>			90
<b>Agency % of Average</b>			126%

**Revenue Growth** was rated well above average due to the 22.9% growth in revenues over the last four year period.

**Account Concentration** is rated well above average as revenues are derived from writing large volumes of small accounts and the revenue stream is not vulnerable to the volatility from the loss of a few key accounts.

**Insurance Carriers and Markets** were rated above average based upon the number of highly rated national insurance carriers from which Life Quotes has appointments.

**Sales Compensation** was given a rating well above average as producers are compensated at a rate of 30% and receive incentive bonuses for production.

**Employment Agreements, Book Ownership** was given an above average rating as Life Quotes has a signed Producer Agreement or Staff Agreement from each employee at the time of hiring which includes appropriate non-compete, non-solicitation and non-piracy provisions.

**Employee Efficiency** was rated above average based upon Life Quotes' revenue per employee result of approximately \$130,000.

**Insurance Product Offering** was given a rating well below average as Life Quotes only provides term life insurance coverage and no other insurance product offerings.

**Geographic Diversification of Customer Base** was given a rating well above average as advertising, and resulting revenues generated, are derived from across the United States and are not dependent upon any particular region or customer base.

**Business Specialties** was given an above average rating as Life Quotes specializes in writing term life insurance and has developed a refined process for generating customers, quoting and closing life insurance policies of this nature.

**Account Retention History** was given an above average rating due to the retention of life insurance accounts and ongoing fee revenues generated by those accounts.

**Agency Performance versus Industry** was given an above average rating based upon the overall profitability results, return to its owner and growth experienced by Life Quotes.

**Organizational Structure** was given an above average rating as Life Quotes is organized into geographic regions and teams which provide sales and service to customers in those regions. The management team is very knowledgeable of the industry in which it operates, and Life Quotes provides adequate training for its employees.

**Liquidity Position** was given a rating well below average as there are minimum liquid assets and its current ratio, days' excess working capital, and cash as a percentage of total asset ratios are all well below the industry standard.

**Training, Professional Development and Other** was rated above average as Life Quotes encourages its employees to attend training seminars.

**Size and Stability** was given a rating well above average based upon the \$10.3 million revenues generated on a national basis.

**Receivables Position** is rated well above average as the insurance carriers direct bill all customer accounts; thus, the exposure to uncollectible accounts is nil.

Based upon weightings utilized among the three methods above, a summary of the overall valuation of business assets acquired, excluding the real property, is presented in the following table:

	<b>Low Range</b>	<b>High Range</b>	<b>Mid-Point</b>
Earnings Valuation	\$ 9,490,350	\$ 9,997,030	\$ 9,733,690
Entity Valuation	\$ 17,852,560	\$ 18,339,240	\$ 18,095,900
Earnings Valuation/PF Revenue	0.92	0.97	0.95
Earnings Valuation/PF Earnings	5.90	6.20	6.05

The entity valuation is a combination of the earnings valuation plus the tangible net worth of \$8,362,210.

The net present value of future after-tax cash flows method of valuation, which was used as a comparative valuation method, utilizes various assumptions to determine the value of the expected future cash flow stream. The total of such future cash flows are summarized and discounted to a present value by an appropriate discount rate. Based upon the following calculation, the net present value of Life Quotes as discounted at a rate of 21.75% is \$9,988,200.

## NET PRESENT VALUE SUMMARY

Year	EBITA (12.5% Growth)	Amortization	Tax	Cash Flow	After Tax Residual (calculated below)	Net After Tax Cash Flow
Year 0	\$ 1,609,000	\$	\$	\$	\$	\$
Year 1	1,810,130	660,000	460,050	1,350,080		1,350,080
Year 2	2,036,400	660,000	550,560	1,485,840		1,485,840
Year 3	2,290,950	660,000	652,380	1,638,570		1,638,570
Year 4	2,577,320	660,000	766,930	1,810,390		1,810,390
Year 5	2,899,490	660,000	895,800	2,003,690	14,435,120	16,438,810
					<i>NPV</i>	\$ 9,988,200
					<i>Valuation Midpoint</i>	9,733,690
					<i>Difference</i>	\$ 254,510

The tangible net worth, which remains unchanged, of \$8,362,210 is added to the earnings valuation in order to determine the entity valuation. The following table illustrates the result as of December 31, 2003:

## Net Present Value

Earnings Valuation	\$ 9,988,200
Entity Valuation	\$ 18,350,410

The above net present value result is slightly higher than the \$9,977,000 high end of the earnings valuation ranged derived by this analysis.

The Mystic Capital Opinion is based on business, economic, market, and other conditions as they existed on December 31, 2003, to the extent it was able to analyze such conditions. Based upon Mystic Capital's investigation and analysis, and subject to the foregoing qualifications, assumptions, and limitations, it is Mystic Capital's opinion as of January 29, 2004, that the acquisition and consideration to be paid by us is fair from a financial point of view to our stockholders. In rendering this opinion, Mystic Capital analyzed the amount to be paid to the sellers and the terms of such payments relative to a valuation of assets to be received by us.

## Fees

Pursuant to the terms of an engagement letter dated as of October 22, 2003 between us and Mystic Capital, we have paid Mystic Capital a cash fee of \$12,000. Additionally, Mystic Capital earned \$25,000 in conjunction with certain due diligence procedures that were performed in connection with the acquisition. We have also agreed to reimburse Mystic Capital for reasonable out-of-pocket expenses incurred in connection with its engagement and to indemnify Mystic Capital and certain related persons against certain liabilities in connection with its engagement, including liabilities under the federal securities laws. Mystic Capital was not entitled to any success or other fee contingent upon the success of the acquisition. The terms of the fee arrangement with Mystic Capital, which we and Mystic Capital believe are customary in transactions of this nature, were negotiated at arm's length between us and Mystic Capital, and our Board of Directors was aware of such arrangement.

## Real Estate Appraisal

We engaged Rocky Mountain Valuation Specialists, LLC, or RMVS, to develop an opinion of the market value of a fee simple estate in the real property we acquired pursuant to the real property purchase agreement. A copy of the executive summary of the real estate appraisal is attached as **Annex A-2** hereto. RMVS provides real estate valuation services in Colorado. We selected RMVS to

appraise the real property based on their reputation and their proximity to the real property. We paid RMVS \$4,450 for their services in connection with providing the appraisal. RMVS did not determine or recommend the amount of consideration to be paid for the real property.

RMVS uses three basic approaches to assess real estate value. These are identified as the income capitalization, direct sales comparison and cost approaches.

*The income capitalization approach* measures value by capitalization of the net income from the real estate. The potential gross income is first estimated based on data derived directly from the market. Deductions are then made for vacancy and collection loss, and normal operating expenses. The resulting net income figure is then converted to a value estimate by any one of several capitalization methods.

*The direct sales comparison approach* is based on comparison between the subject property and similar properties which sold within a reasonable period prior to the date of appraisal, and which are capable of providing insight into the valuation of the subject property. Units of comparison are examined and developed and after making the appropriate adjustment for differences such as locational and physical characteristics, are then applied to the subject to derive an indication of value. Critical in this valuation methodology is the availability of sufficient market comparables with which to make valid comparisons.

*The cost approach* to value is developed by two fundamental opinions: the value of the land and the value of the improvements to the land. Initially, the current fair market value of the land is estimated as if unimproved and capable of being put to its highest and best use. The reproduction or replacement cost new of the improvements, less any accrued depreciation, is then added, along with any contributory value of the site improvements. The validity of the resulting value estimate is impacted to varying degrees by the accuracy of the cost estimates and the depreciation estimate.

#### **Cost Approach**

The cost approach is widely used by many appraisers because its application is relatively uniform.

The inherent difficulty within the cost approach is the estimate of depreciation to be deducted from the replacement cost new. The key to proper application of the cost approach is to derive physical depreciation adjustments from the market and correctly derive external obsolescence in an overbuilt or depressed market.

The application of the cost approach begins with a determination of the site value, calculates a replacement cost for the improvements, calculates and deducts the impact of all forms of depreciation, resulting in a depreciated replacement cost. This depreciated figure is added to the site value, for a concluded cost value determination.

A summary of the results of the cost approach is set forth in the table below:

Building Replacement Cost		3,906,451
Site Improvements		315,000
Soft Costs	10%	422,145
		<hr/>
Base Replacement + Soft Costs		4,643,596
Entrepreneurial Incentive	15%	696,539
		<hr/>
Replacement Cost New		5,340,135
Less Accrued Depreciation	6%	320,408
		<hr/>
Physical & Functional		5,019,727
		<hr/>
Land Value		830,000
Concluded Value		5,849,727
		<hr/>
Rounded		5,850,000
		<hr/>

**Direct Sales Comparison Approach**

The direct sales comparison approach to value compares the subject to similar properties that have sold or are under contract in the same or similar market. This approach is based on the principle of substitution, which states that no commodity has a value greater than a similar commodity offering similar uses, similar utility, and similar function that can be purchased within a reasonable time frame. In other words, the market value of a property is set by the price of acquiring a substitute property which could provide the owner with similar utility. The principal of substitution helps reconcile all three approaches to value, as it provides linkage in the underlying determination of the subject's market value.

Using a common unit of comparison is an effective device to adjust for differences in physical characteristics while controlling for scale or some other factor. This control allows the appraiser to determine the impact of differences in attributes between the subject and comparable sale properties. The unit of comparison is different from elements of comparison, which are the factors that allow the appraiser to adjust the unit of comparison to reflect differences between the subject and comparable sale properties. Determining the appropriate unit of comparison depends on the type of property being appraised.

RMVS discussed recent market transactions with area brokers, as well as evaluating the physical attributes of the subject property's use type. In both instances, the predominant unit of comparison was sale price per building square foot.

RMVS concluded that the subject would most probably transact at a rate near the measures of central tendency and applied a rate of \$135.00 per square foot. A total value for the subject property via the direct sales comparison approach has been calculated as follows:

<u>Price/SF</u>	<u>x SF</u>	<u>= Indicated Value</u>
\$135.000	43,401sf	= \$5,859.135
	Rounded	= \$5,860,000

**Income Approach**

This approach to value is predicated on the premise that the property is designed to return a flow of income to the owner when properly developed. The theory of the income approach advocates that



the value of the property is the present worth of the net income it will produce during the remainder of its economic life. An investor or prospective purchaser should consider the income producing ability of the property and the expected return on his investment.

The income approach measures market value by determining the price that open market conditions would justify paying for a particular property's net income stream. This is specifically accomplished for an appraisal by discounting the property's projected net income into present value by use of a capitalization rate derived from sales of comparable properties. The property's net operating income is the key term.

Net operating income is generally arrived at through a process that determines prevailing open market rents, rates of vacancy and collection loss, and expenses necessary to operate the property and service the tenants. Prevailing market rates of vacancy and collection loss and operating expenses are deducted from prevailing market rent to product the property's projected net income.

It is important to note that: (i) vacancy and collection loss is a projection over the entire economic life of the property, not that which occurs at a given point in time, (ii) for appraisal purposes, income taxes, depreciation, debt service, capital improvements, franchising fees, and business expenses of the owner are excluded from operating expenses since they are expenses of the owner and not of the property and (iii) the proper rental for the property is that prevailing in the marketplace as of the appraisal date and not that which is carried over from old lease arrangements.

Economic net income is converted to a value indication under this approach by application of an overall capitalization rate, which is derived from market sales occurring during the applicable period, as well as comparison with prevailing market data, such as the America Council of Life Insurance. The overall rate includes provisions for a market rate of return on the investment as well as recapture of the investment.

A survey of economic data for similarly situated properties in the area was conducted by RMVS to determine appropriate economic parameters with which to derive a valid conclusion of value based on the stabilized income generating capabilities of the subject property.

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A pro-forma income analysis based on the information determined by RMVS follows:

<b>Restatement of Economic Variables</b>			
Net rentable area:			43,401
Rental Rate:	\$	19.00/sf	
Indicated Vacancy:			6.0%
Expenses:	\$	6.50	
Capitalization Rate:			9.5%
<b>Potential Gross Income</b>	\$	824,619	
<b>Less Vacancy/Collection Loss</b>			49,477
<b>Effective Gross Income</b>	\$	775,142	
<i>Fixed Expenses</i>		<b>\$/SF</b>	
Real Estate Taxes	\$2.66	\$	115,447
Insurance	\$0.25		10,850
<i>Variable Expenses</i>			
Utilities	\$1.25	\$	54,251
Interior Maintenance & Janitorial	Actual + 5%		40,320
Repair & Maintenance (Exterior)	Actual + 5%		4,515
Snow and Trash	Actual + 5%		5,324
Management Fee	5% EGI		38,757
Reserves & Replacements	\$0.25		10,850
<b>Less Operating Expenses</b>		\$	280,314
<b>Net Operating Income</b>		\$	494,828

Net Operating Income / Capitalization Rate = Indicated Value

$$\begin{array}{rcl} & \$494,828 / 9.5\% & = \$5,208,716 \\ \text{Rounded:} & & \$5,210,000 \end{array}$$

**Summary and Conclusion**

The final step in the appraisal process is the correlation of the three approaches in such a way as to detail the strengths and weaknesses of each approach. In evaluating these approaches, RMVS has taken into account the purposes of the appraisal, the quality and quantity of the appraisal data, and the type of property. These considerations have provided indications of the weight given to each approach.

All things considered, the income approach was provided greatest weight and both the direct sales comparison and cost approaches provide a supported basis for market value of the subject property. RMVS concluded that as of February 17, 2004, the as is value of a fee simple interest in the subject property was \$5,500,000.



**THE ASSET PURCHASE AGREEMENT**

The following is a discussion of the material terms of the asset purchase agreement. The full text of the asset purchase agreement is attached as **Annex A-3** hereto and is included as part of this proxy statement. You are encouraged to read the entire asset purchase agreement carefully.

**Assets To Be Acquired**

We purchased, free and clear of all liens, all right, title and interest in and to substantially all of the assets of Life Quotes, including the following assets:

Tangible and intangible personal property used in the conduct of the Life Quotes business, including all furniture, fixtures, equipment, machinery, office supplies, business forms and policy statements, brochures and other marketing materials and other tangible personal property used or held for use in the conduct of Life Quotes' business;

Certain leased personal property used in Life Quotes' business;

All intellectual property used or held for use in the operation of Life Quotes' business (including Life Quotes' goodwill therein) and all rights, privileges, claims, causes of actions and options relating or pertaining to the Life Quotes' business or assets, including the name "Life Quotes," any websites, domain names (including, "[www.lifequotes.com](http://www.lifequotes.com)"), and Life Quotes' books and records;

Certain assumed contracts;

Prepaid expenses related to Life Quotes' assets;

Licenses, permits, franchises, and similar consents granted by governmental or regulatory authorities;

All rights to receive payments arising out of the conduct of Life Quotes' business comprised of deferred and unpaid first year commissions on life insurance policies, and all other trade accounts receivable, notes and other indebtedness due or owed to Life Quotes and arising out of the conduct of Life Quotes' business;

Work-in-process, including pending life insurance policies and applications;

Rights to receive renewal payments, service fees and renewal policy fee bonuses from in-force life insurance policies; and

Goodwill of the Life Quotes business.

We did not acquire, and Life Quotes did not transfer to us, certain specified assets, including certain artwork and cash on hand.

Income and revenues from Life Quotes' business were allocated such that amounts earned prior to the effective date of the acquisition, January 31, 2004, were allocated to Life Quotes, and amounts earned after the effective date were allocated to us. For example, commissions paid on an insurance carrier's commission statements covering the period prior to the effective date belong to Life Quotes, even if payment is received after the effective date, and commissions paid on an insurance carrier's commission statements covering the period after the effective date belong to us regardless of when payment is actually received. Similarly, costs and expenses of Life Quotes' business were allocated such that costs and expenses incurred prior to the effective date were allocated to Life Quotes, and costs and expenses incurred after the effective date were allocated to us. For example, expenses for advertising that is aired or run prior to the effective date were borne by Life Quotes regardless of the date of the vendor's invoice or when payment is made, and expenses for advertising that is aired or run after the effective date were borne by us regardless of the date of the vendor's invoice or when



payment is made. In each case, amounts relating to periods that overlap the effective date were pro rated based on the number of days in such period before and after the effective date. On May 7, 2004, the closing date, we deducted an amount of \$154,553 from the purchase price otherwise due Life Quotes for a settlement of this allocation of income, revenue, costs, and expenses during the period between the effective date and the closing date.

#### **Assumed Liabilities**

As partial consideration for the assets purchased, we assumed as of the effective date the following liabilities of Life Quotes:

The obligations of Life Quotes under certain contracts and licenses arising and to be performed on or after the effective date, determined at closing to total approximately \$118,000;

The obligations of Life Quotes with respect to certain accounts payable, determined at closing to total less than \$1,000; and

Certain other specified liabilities of Life Quotes, consisting primarily of the non-cancelable portion of advertising contracts and determined at closing to total approximately \$1,450,000.

We did not assume any other liabilities of Life Quotes. In particular, we did not assume:

Any liabilities related to assets of Life Quotes we did not purchase, such as liabilities related to any trade creditors, payroll or payroll tax liabilities, payments due to any former employee of Life Quotes for amounts due under any benefit plan, bonus plan or incentive arrangement, income tax liabilities, severance liabilities to any former employees of Life Quotes, or liabilities with respect to any vacation pay or 401(a) contribution of such employees;

Any environmental or product liability claims arising out of or relating to the past, present or future operations of Life Quotes or with respect to contamination of the real property we purchased under the real property purchase agreement that occurred prior to May 7, 2004, the closing date;

Any contractual obligations or liabilities relating to Life Quotes' existing facilities;

Any liability of Life Quotes for taxes, costs and expenses incurred in connection with the asset purchase agreement;

Any liability of Life Quotes under any "bulk sales" or similar law or statute relating to the transfer of the assets under the asset purchase agreement; or

Any liability for taxes imposed on Life Quotes or Kenneth L. Manley at any time, or attributable to the operation of Life Quotes' business prior to January 31, 2004, the effective date.

#### **Purchase Price**

We acquired the assets in exchange for the assumption of certain Life Quotes liabilities and payment of \$13,364,308 in cash, after adjustments. Of such cash, at closing, \$13,011,308 was paid to Life Quotes and \$353,000 was deposited with an escrow agent in accordance with an escrow agreement. Under the escrow agreement, within thirty days after May 7, 2005, we will deliver to Life Quotes a statement stating the amount of accounts receivable arising out of the conduct of Life Quotes' business that we collected in such one year period. Accounts

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receivable consist of first year commissions due on policies in force by January 31, 2004, which have not yet been collected because the insured has elected to pay the premium on an installment basis. The insurance carriers remit these commissions after the installment premiums have been collected. Based on an analysis of Life Quotes' in force business as of January 31, 2004, these commission receivables were calculated to be \$2,450,000. If the amount of accounts receivable actually collected equals or exceeds \$2,450,000, then the entire \$353,000 (less

\$3,000 in escrow fees) placed in escrow will be paid to Life Quotes. However, if the amount of accounts receivable is less than \$2,450,000, then the difference will be paid to us from the escrowed cash, and the remainder will be paid to Life Quotes. If the shortfall exceeds \$350,000, we will be paid the entire escrowed amount but will not be able to recover any additional sums from Life Quotes or Kenneth L. Manley. The amount of accounts receivable as of May 31, 2004 were \$1,564,000.

### **Closing**

The acquisition closed on May 7, 2004. We extended the original closing date from April 1, 2004 to no later than August 1, 2004, and were required to pay Life Quotes interest on \$18,395,000 at the rate of 4.5% per annum for the period from April 1, 2004 to May 7, 2004, and were also required to pay Life Quotes \$5,000 per week for the services of Kenneth L. Manley for the period from April 1, 2004 to May 7, 2004. We paid a total of \$83,911 in interest at the closing, and we paid a total of \$25,000 to Mr. Manley for his services through the closing.

### **Source of Funds**

We funded the acquisition by using approximately \$12,000,000 from our cash and investments and by borrowing \$6,500,000 from Zions. On May 7, 2004, we executed a promissory note in favor of Zions in the principal amount of \$6,500,000. The note matures on the earlier of November 7, 2004 and the closing of the stock issuance. The note bears interest at a rate of 4% per annum (computed on the basis of a 360-day year consisting of twelve 30-day months). Interest is payable quarterly in arrears on August 7, 2004 and November 7, 2004 and thereafter on demand. However, beginning on July 7, 2004, the interest rate on the note will be increased automatically by 1% (100 basis points) on the 7th day of each month until the principal balance, and any accrued and unpaid interest, is paid in full in cash. We may prepay the note at any time in whole or in part without penalty.

The note contains several covenants, including that we will use our reasonable best efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things on our part necessary to convene the annual meeting by July 7, 2004. We also must obtain Zions' consent under the note before making certain restricted payments, incurring indebtedness in excess of \$25,000 and incurring encumbrances on our assets.

We will use the proceeds of the stock issuance to repay the outstanding principal and any accrued and unpaid interest on the note and for general corporate purposes.

### **Representations and Warranties, Covenants and Closing Conditions**

We and Life Quotes each provided customary representations, warranties and covenants with respect to a purchase of assets and assumption of liabilities under the asset purchase agreement, and we each had customary conditions to closing.

### **Employee Matters**

We were under no obligation to extend offers of employment to the employees of the Life Quotes business. However, we extended offers of employment to substantially all of Life Quotes' former employees. Employees who accepted our employment offer became our employees effective May 7, 2004. In addition, we have agreed to use our reasonable best efforts, from and after the closing date, to offer certain employees of Life Quotes who we hire options to purchase an aggregate of 300,000 shares of our common stock. Such stock options will vest over a three-year period on terms similar to those terms offered to our other employees.

### **Agreements Regarding Kenneth L. Manley**

Kenneth L. Manley has agreed to assist us with the day-to-day operation of the Life Quotes business for a period of one month after the closing. For an additional three months after such one month period, Mr. Manley will, if we request, consult with us regarding the Life Quotes business for such things as procuring licenses and making filings, and assisting with marketing and advertising. Mr. Manley will not be required to devote more than 20% of his time to such consulting, and Mr. Manley will not be entitled to any additional compensation for his assistance or consulting (however, we will reimburse him for his expenses).

### **Expenses**

The costs and expenses of Life Quotes' audited financial statements were borne equally by Life Quotes and us. We will bear the costs of preparing our own audited financial statements using the Life Quotes financial statements. We were responsible for any sales or use taxes arising in connection with the closing and our acquisition of the assets. Except for the foregoing, we and Life Quotes each paid our own expenses.

### **Indemnification**

Life Quotes and Kenneth L. Manley will indemnify and hold harmless us and our officers, shareholders, directors, employees, agents, representatives and affiliates from and against all losses that each incurs arising out of or resulting from:

Any misrepresentation, breach of warranty or nonfulfillment of or failure to perform any covenant or agreement on the part of Life Quotes contained in the asset purchase agreement (in each case disregarding materiality);

Actions taken by Life Quotes or Kenneth L. Manley during the period prior to the closing date with respect to the Life Quotes business or the assets we acquired that constitutes a breach of their obligations under the asset purchase agreement or the real property purchase agreement.

Life Quotes' benefit plans;

Liabilities of Life Quotes we did not assume;

Taxes imposed on us (other than sales and use taxes as described above);

Any claims by third parties that allege circumstances that, if true, would be a breach or violation of a representation or warranty made by Life Quotes or Kenneth L. Manley; and

Certain litigation of Life Quotes.

We are obligated to indemnify and hold harmless Life Quotes and its shareholders, directors, officers, employees, agents, and affiliates from and against all losses that each incurs arising out of or resulting from:

Any misrepresentation, breach of warranty or nonfulfillment of or failure to perform any covenant or agreement on the part of us contained in the asset purchase agreement (in each case disregarding materiality); and

Liabilities of Life Quotes we did assume.

The maximum obligation of Life Quotes and Kenneth L. Manley under these indemnification provisions is the aggregate purchase price we paid under the asset purchase agreement and the real property purchase agreement. Indemnity obligations will be reduced for any insurance received and claims for indemnification may not be made until the aggregate amount of all such claims exceeds \$5,000.



## THE STOCK PURCHASE AGREEMENT

The following is a discussion of the material terms of the stock purchase agreement. The full text of the stock purchase agreement is attached as **Annex A-4** hereto, and is included as part of this proxy statement. The full text of the amendment to the stock purchase agreement is attached as **Annex A-11** hereto, and is included as part of this proxy statement. You are encouraged to read the entire stock purchase agreement and the amendment carefully.

### Issuance

We have agreed to issue and sell to Zions, and Zions has agreed to purchase, 2,363,636 shares of our common stock, which includes an equal number of shares of our preferred share purchase rights, at an aggregate purchase price of \$13,000,000. The closing of the issuance and sale of such common stock will occur shortly after the annual meeting, or approximately \$5.50 per share, representing a 3.6% premium to the last sale price of our common stock on March 2, 2004, the last day prior to the public announcement of the stock purchase agreement and the asset purchase agreement, which was \$5.30, the average of the bid and asked prices of our common stock, as reported on the Nasdaq SmallCap Market on March 2, 2004. The last sale price of our common stock on May 27, 2004, the last practicable date for which results were available for inclusion in this proxy statement, was \$5.50, which is the average of the bid and asked prices of our common stock, as reported on the Nasdaq SmallCap market, representing no discount to the price Zions is paying.

### Representations and Warranties

We made customary representations and warranties to Zions in the stock purchase agreement, including as to the following:

Our and our subsidiaries' due organization, valid existence and good standing, our requisite power to carry on our business as it is now being conducted and as it is proposed to be conducted, and our due qualification to transact business and good standing in certain jurisdictions;

Our power and authority to enter into the stock purchase agreement and the investor rights agreement and to issue and sell the stock to be issued to Zions;

Our capitalization, including the options, warrants and other rights to purchase stock we have granted and the pro forma capitalization after the consummation of the transactions under the stock purchase agreement, and the identity and holdings of certain of our stockholders;

The authorization, execution, delivery, and performance by us, and the enforceability against us, of the stock purchase agreement and the investor rights agreement;

The valid issuance of the stock to be issued to Zions;

The absence of any consents from governmental entities or parties to any contracts with us necessary for the execution, delivery and performance of the stock purchase agreement and the investor rights agreement and the issuance of the stock to be issued to Zions, other than certain securities filings;

The exemption from the registration requirements of the securities laws for the issuance of the stock to be issued to Zions;

The absence of any legal proceedings pending or, to our knowledge, threatened against us that questions the validity of the stock purchase agreement or investor rights agreement, our right to issue the stock to be issued to Zions, or that might result in a material adverse effect on us or a change in our current equity ownership;



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The ownership of our intellectual property, infringements and similar matters regarding such intellectual property, and certain other matters relating to our intellectual property;

The absence of certain violations of, or of certain conflicts between the stock purchase agreement and the investor rights agreement and, our charter and bylaws, contracts to which we are bound or applicable laws;

Certain of our agreements and actions;

The absence of certain related-party transactions;

The permits necessary for our business;

Our compliance with environmental and safety laws;

Our disclosure to Zions of all information it has requested for deciding whether to purchase the stock from us, and the accuracy of such information;

The absence of other registration rights;

Our and our subsidiaries' charter and bylaws;

Title to our property and assets, including the absence of certain liens on such property and assets;

The financial statements we provided to Zions, including that such financial statements fairly present our financial condition and results of operations, and that there are no undisclosed liabilities, except for those incurred in the ordinary course of business and that are not material;

The reports we have made under the securities laws;

The absence, since September 30, 2003, of certain changes in us and our business, including the absence of changes in our assets, liabilities, financial condition and results of operations from that reflected in our financial statements, except for those incurred in the ordinary course of business and are not material;

Matters related to our benefits plans and compliance with ERISA;

Tax matters, including that we have filed all tax returns and paid all taxes required to be filed and paid, that the provision we have made for taxes is adequate, and that all amounts required to be withheld by us have been so withheld and paid to taxing authorities;

Insurance-related matters, including the sufficiency of our insurance;

Our minute books;

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Labor relations matters;

Employee matters;

The use of proceeds from our sale of stock to Zions;

The execution by our employees, consultants, and officers of agreements regarding confidentiality and proprietary information, and the absence of defaults under such agreements; and

The absence of brokers' fees.

Zions also made customary representations and warranties to us in the stock purchase agreement, including as to the following:

Zions' due organization, valid existence and good standing;

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Zions' power and authority to enter into the stock purchase agreement and investor rights agreement, the authorization, execution, delivery and performance by Zions, and the enforceability against Zions, of the stock purchase agreement and the investor rights agreement;

Customary investment representations; and

The absence of brokers' fees, other than fees and expenses payable to Appleby Group, Inc.

### Conditions To Closing

Zions' obligations to purchase the stock it proposes to purchase are subject to the satisfaction or waiver of certain conditions, including the following:

Our representations and warranties must be true and correct in all material respects as of the date of the stock purchase agreement and as of the closing date;

We must have performed and complied with the agreements to be performed or complied with by us on or before the closing date;

There must be no event or circumstance that had or would reasonably be expected to have a material adverse effect on us;

We must have filed all notices and obtained all consents required to be filed or obtained by us pursuant to the stock purchase agreement;

The issuance of the stock by us must be legal, and there must be no law, order or action in effect, pending or threatened preventing or seeking to prevent the proposed issuance of such stock or the other transactions contemplated by the stock purchase agreement and investor rights agreement;

Our Board must have taken the requisite steps to increase the size of our Board of Directors by one member and appoint to our Board of Directors a director designated by Zions in accordance with the investor rights agreement, as described below;

Zions shall have received legal opinions, dated as of the closing date, reasonably satisfactory to it and its counsel of our special counsel, Duane Morris LLP, and our general counsel, Richard C. Claahsen;

All of our officers and employees must be bound by employment, confidentiality, non-compete, non-solicitation and work product agreements satisfactory to Zions;

Zions must have completed and be satisfied, in its sole discretion, its due diligence investigation of us;

We must not have dissolved, liquidated, entered into bankruptcy or similar proceedings, or taken similar steps;

We must not have any liabilities other than those set forth on our financial statements or incurred in the ordinary course of business;

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We must have amended our rights plan to exempt the issuance of the stock to Zions;

We must have obtained shareholder approval of the issuance of the stock to Zions; and

Amendments and waivers of "change of control" provisions of the employment agreements of Robert S. Bland and William V. Thoms must have been obtained.

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Our obligations to close the issuance of stock to Zions are also subject to the satisfaction or waiver of certain conditions, including the following:

The issuance of the stock by us must be legal, and there must be no law, order in effect preventing the proposed issuance of shares or the other transactions contemplated by the stock purchase agreement and investor rights agreement; and

We must have obtained shareholder approval of the issuance of the stock to Zions.

### **Indemnification**

In the event that Zions suffers any loss or claim as a result our breach of (or a third person alleging facts that, if true, would mean we have breached) any of our representations, warranties and covenants contained the stock purchase agreement or our actions or failure to act (including statements, actions or omissions made or information provided by us, our agents, employees, advisors, representatives or the Board of Directors) in connection with or relating to the stock purchase agreement or the investor rights agreement, then we will indemnify Zions from and against the loss or claim Zions may suffer through and after the date of such claim for indemnification.

The maximum obligation of ours under the indemnification provisions is the purchase price for the stock we are issuing. Claims for indemnification may not be made until the aggregate amount of all such claims exceeds \$25,000.

### **Termination**

The stock purchase agreement may be terminated at any time prior to the Closing:

by mutual consent of us and Zions;

by either us or Zions if there has been a material breach of any representation, warranty, covenant or agreement on the part of the other set forth in the stock purchase agreement, which breach has not been cured within five business days after the breaching party receives notice of such breach, or if any order preventing the consummation of the transactions contemplated by the stock purchase agreement or the investor rights agreement has become final and non-appealable; or

by either us or Zions, so long as such party has not materially breached its obligations under the stock purchase agreement, if the closing has not occurred on or before June 1, 2004 (November 7, 2004 as a result of the amendment to the stock purchase agreement).

### **Covenants**

We have agreed that, between the date of the stock purchase agreement and the closing, we:

will not take, or permit or cause our subsidiaries to take, directly or indirectly, any action or enter into any transaction outside the ordinary course of our business without Zions' prior written consent;

will take, and cause our subsidiaries to take, all necessary corporate action to satisfy the conditions to closing; and

will take such actions as may be needed to assist and cooperate with Zions to complete the sale of the stock to Zions.

**Amendment**

The stock purchase agreement may be amended and the observance of any term of the stock purchase agreement may be waived only with the written consent of us and Zions.

The stock purchase agreement was amended on May 7, 2004 to, among other things:

reduce the \$13,000,000 purchase price for the 2,363,636 shares to be issued pursuant to the stock purchase agreement by any and all amounts (including, without limitation, principal and interest) payable to Zions pursuant to the \$6,500,000 promissory note we issued to Zions on May 7, 2004, as of the date of the closing of the stock issuance;

provide that the closing of the stock issuance shall occur on the third business day after the satisfaction or waiver of the conditions to closing set forth in the stock purchase agreement;

provide that the proceeds from the stock issuance will be used by us to repay any amounts payable to Zions under the promissory note and for general corporate purposes;

reflect the fact that the applicable standard for stockholder approval of the stock issuance is approval by the affirmative vote of a majority of the total votes cast on such proposal in person or by proxy at the annual meeting and not approval by the affirmative vote of a majority of the outstanding shares of our common stock;

delete certain conditions to our obligation to consummate the stock issuance; and

change the date by which if the closing of the stock issuance has not occurred either Zions or Quotesmith.com may terminate the stock purchase agreement (so long as they have not materially breached their obligations thereunder) from June 1, 2004 to November 7, 2004.

## OTHER AGREEMENTS

### Real Property Purchase Agreement

The following is a discussion of the material terms of the real property purchase agreement. The full text of the real property purchase agreement is attached as **Annex A-5** hereto, and is included as part of this proxy statement. You are encouraged to read the entire real property purchase agreement carefully.

On May 7, 2004, we purchased from The Kenneth L. Manley Revocable Trust dated as of June 10, 1987, an affiliate of the sole stockholder of Life Quotes, certain property located at 32045 Castle Court in Evergreen, Colorado that was used by Life Quotes in its business. The address of The Kenneth L. Manley Revocable Trust dated as of June 10, 1987 is c/o Kenneth L. Manley, 758 Soda Creek Drive, Evergreen, Colorado 80439. The real property consists of an approximately 43,400 square foot office building built in 2000 and located on approximately 3.2 acres. The purchase price for this property under the real property purchase agreement was \$5,000,000, subject to customary prorations. We paid \$4,991,946.89 for this property at closing. The closing of such purchase was simultaneous with the closing of the asset purchase agreement. We and Mr. Manley each provided customary representations, warranties, and covenants with respect to a purchase of real estate under the real property purchase agreement, and we each had customary conditions to closing.

### Investor Rights Agreement

The following is a discussion of the material terms of the investor rights agreement. The full text of the investor rights agreement is attached as **Annex A-6** hereto, and is included as part of this proxy statement. You are encouraged to read the entire investor rights agreement carefully.

The holders of 50% or more of the stock we are issuing to Zions (including any shares issued as a dividend or distribution thereon), may make up to three requests for us to register such stock under the Securities Act of 1933, or the Securities Act. We refer to the stock we are issuing to Zions as the registrable securities. Upon the making of such a request, we will notify the other holders of registrable securities and will use our commercially reasonable efforts to effect as soon as practicable thereafter the registration of the shares initially requested to be so registered and such additional shares as such other holders may request within 30 days of our notice. Such registrations are subject to certain limitations on the number of shares to be included in an underwritten offering pursuant to such registrations and on the timing of such registrations. The holders of 50% or more of the registrable securities may also request that we effect up to three additional registrations on Form S-3. Upon such requests, we will also notify other holders of registrable securities, and we will effect as soon as practicable thereafter the registration of the shares initially requested to be so registered and such additional shares as such other holders may request within 30 days of our notice, again subject to certain limitations. In addition to such demand registrations, the holders of the stock we are issuing to Zions will be able to include their shares in certain registrations we may propose to make. We will pay the expenses (other than underwriting discounts and commissions) incurred in connection with all such registrations. These registration rights will expire when Zions and other holders of registrable securities are eligible to sell all of such registrable securities pursuant to Rule 144(k) under the Securities Act.

We also agreed that, for so long as Zions holds 40% of the shares of stock it purchases under the stock purchase agreement:

We will deliver certain financial statements and material correspondence with Nasdaq to Zions, permit Zions to visit and conduct a reasonable inspection of our properties and book and records, and permit Zions access to our officers, employees and accountants to discuss our affairs, finances and accounts;

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Zions will have preemptive rights to subscribe for future issuances of our capital stock or securities convertible into or exercisable for shares of our capital stock, other than issuances under certain authorized or issued options, under our employee stock purchase plan or in a registered offering;

We will comply with certain covenants regarding the operation of our business (including a change in our line of business) and the provision of financial and other information;

The number of directors on our Board of Directors will be fixed at seven, and Zions will be entitled to nominate or appoint one of such directors;

The consent of the majority of our Board of Directors will be required for us to:

make capital expenditures in excess of \$500,000 in any single transaction or 115% of the amount approved in our budget for such fiscal year;

make any loan or advance, other than travel advances to employees in the ordinary course of business;

adopt any new or amend any employee benefit plan;

engage in any transaction with any affiliate, officer, director, or stockholder (or members of their immediate families) other than in the ordinary course of business and at arms length;

enter into material contracts;

approve the annual operating and capital budget, or any amendments or deviations;

establish board committees;

waive any material rights or consent to settle any material litigation;

institute litigation or similar proceedings outside the ordinary course of business; and

make decisions to employ or terminate our senior executives and fix their compensation; and

The consent of 75% of the members of our Board of Directors will be required for us to:

authorize, issue or sell any equity security (including options), other than certain specified options or pursuant to our employee stock purchase plan;

increase the authorized number of shares of our capital stock;

enter into any registration rights agreement;



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

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

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

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

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

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

amend or propose to amend our charter or bylaws;

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

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

declare any dividends or distributions.

We agreed to maintain certain directors' and officers' liability insurance for the director nominated or appointed by Zions, and to indemnify and hold harmless such director to the same extent as all of our other directors.

Zions has agreed that, without the consent of a majority of our Board of Directors, it and its affiliates will not, prior to the first anniversary of the closing date:

Acquire any additional shares of our common stock;

Initiate a special meeting of our stockholders to elect directors;

Make any agreement with respect to voting of our common stock or deposit our common stock in a voting trust;

Seek the election of any member of our board of directors except as nominated by our nominating committee, or seek the removal of any director, other than the Zions nominee;

Request us to amend or waive these restrictions;

Participate in any solicitation of proxies to vote, or seek to advise or influence any person with respect to the voting of, our securities;

publicly announce or submit a proposal for any extraordinary transaction involving us or our securities or assets; or

form or join in a "group" (as defined in the rules promulgated by the SEC).

### Interests of Affiliates in the Stock Issuance

Pursuant to the investor rights agreement, Messrs. Bland and Thoms, their spouses and the partnership through which Mr. and Mrs. Bland hold their common stock each agreed that, for so long as Zions holds 40% of the shares of stock it purchases under the stock purchase agreement, they will vote for the Zions nominee to our Board of Directors. In addition, these persons have granted tag-along rights to Zions for so long as Zions holds 40% of the shares of stock it purchases under the stock purchase agreement. This means that if any of these persons proposes to sell any of their Quotesmith.com common stock, subject to certain exceptions, they will afford Zions the right to participate proportionately in such sale based on the total number of shares owned by Zions divided by the total number of shares owned by Zions and the seller or sellers (in each case, on a fully diluted basis determined as of the close of business on the day immediately prior to the tag-along notice date).

These persons also granted to Zions, and Zions granted to these persons and to us, a right of first refusal with respect to certain transfers of their shares of common stock.



**Non-Competition Agreement with Kenneth L. Manley**

The following is a discussion of the material terms of the non-competition agreement. The full text of the non-competition agreement is attached as **Annex A-9** hereto, and is included as part of this proxy statement. You are encouraged to read the entire non-competition agreement carefully.

Under the non-competition agreement between Kenneth L. Manley and us that was executed on May 7, 2004 (the closing of the acquisition of the Life Quotes assets), Mr. Manley agreed that, for three years, he will not:

compete with the Life Quotes business anywhere in the United States;

interfere with any relationship between us and any insurance company, insurance agent, insurance provider, landlord, dealer, distributor, agent, principal, customer, supplier or employee of ours;

solicit the employment by others of any of our or of Life Quotes' employees or former employees, or encourage any of our or Life Quotes' employees to terminate their employment or enter into employment with any other person, unless such employee or former employee has not been employed by us or the Life Quotes business for at least 12 months;

disparage us, the Life Quotes business, or our assets, business, personnel, prospects or operations, including on any internet "Message Board" or website or similar venue; or

disclose any confidential information regarding us or the Life Quotes business.

**Agency Agreement with Kenneth L. Manley**

The following is a discussion of the material terms of the agency agreement. The full text of the agency agreement is attached as **Annex A-10** hereto, and is included as part of this proxy statement. You are encouraged to read the entire agency agreement carefully.

Notwithstanding the non-competition agreement, under the asset purchase agreement and the agency agreement among us, our wholly-owned subsidiary and Kenneth L. Manley we executed on May 7, 2004 (the closing of the acquisition of the Life Quotes assets), Mr. Manley, his spouse and children, and the entity which owned the assets of Life Quotes will be permitted to sell life insurance products, provided that they place such products through us as our agent and such placements do not exceed \$2.0 million in annual first year commissionable premium (increased annually based on the rate of inflation). In addition, Mr. Manley, his spouse and children, and the entity which owned the assets of Life Quotes agreed in the agency agreement to non-competition provisions substantially similar to those described above during the term of the agency agreement and, unless the agency agreement is terminated by us other than for cause, the three-year period beginning on the later to occur of the end of the term of the non-competition agreement and termination of the agency agreement. The term of the agency agreement will initially be for three years and thereafter will automatically extend for additional one-year periods unless earlier terminated by us for cause, as defined in the agreement, or by any party after the initial three year term on thirty days' prior notice.

**Voting Agreements**

The following is a discussion of the material terms of the voting agreements. The full text of the voting agreement executed by the Bland parties is attached as **Annex A-7** hereto, and the full text of the voting agreement executed by the Thoms parties is attached as **Annex A-8** hereto, and these agreements are included as part of this proxy statement. You are encouraged to read the entire voting agreements carefully.

On May 7, 2004, Mr. and Mrs. Bland and the partnership through which they hold their common stock, who we refer to as the Bland parties, on the one hand, and Zions, on the other hand, entered into a voting agreement. In addition, on May 7, 2004, Mr. and Mrs. Thoms, who we refer to as the Thoms parties, on the one hand, and Zions, on the other hand, entered into a voting agreement. Except for the parties thereto and number of shares beneficially owned by such parties, the voting agreements are identical with respect to their provisions.

The voting agreements provide that each of the parties thereto will vote or caused to be voted all of their shares of our common stock:

in favor of the stock issuance to Zions pursuant to terms of the stock purchase agreement, as amended, and the consummation of the transactions contemplated by the stock purchase agreement and the investor rights agreement;

against any action or agreement that would result in a breach in any material respect of any covenant, representation or warranty or any other obligation or agreement of Quotesmith.com under the stock purchase agreement; and

against any other action which is intended, or could reasonably be expected to, impede, interfere with, delay, postpone, discourage or materially adversely affect the benefit to Zions of the transactions contemplated by the stock purchase agreement.

Each of the parties thereto also agrees not to enter into any agreement, arrangement or understanding with any person or entity prior to the termination date, which we define below, to vote or give instructions, whether before or after the termination date, in any manner inconsistent with the bullet points above.

The termination date is defined for purposes of the voting agreements as the earlier of (i) the consummation of the transactions contemplated by the stock purchase agreement and (ii) the termination of the stock purchase agreement in accordance with its terms.

## OUR BUSINESS

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](http://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 paid by insurance carriers, which are tied directly to the volume of insurance sales that we produce. We also generate revenue from the sale of online traffic to third parties that provide lines of insurance that we do not provide as a broker, such as auto and homeowners insurance. In these cases, the revenue we receive is tied directly to the volume of online traffic we provide. We conduct our insurance agency and brokerage operations primarily using salaried, non-commissioned personnel and we generate prospective customer interest using traditional direct response advertising methods conducted primarily offline.

For the seven-year period ended December 31, 2003, we have spent a total of \$57.3 million in direct-to-consumer advertising and have sold approximately 133,000 new policies. During that same period, we have generated revenues of \$62.8 million and incurred net losses of \$43.7 million.

On December 7, 2001, we acquired selected assets of Insurance News Network, LLC, including its content-rich consumer information Web site, [www.insure.com](http://www.insure.com). Insure.com provides insurance-related information and decision-making tools, along with library of thousands of insurance articles that are well organized and served up in an easy-to-navigate format. This information has been integrated with our insurance quoting services.

### 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, with life insurance premiums accounting for over \$500 billion of that total. Sales of term life insurance account for almost 50% of the policies sold. 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, including over 1,000 life 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.

#### *Emergence of the Internet and Electronic Commerce*

The Internet has emerged as a global medium for communication, information and commerce. The Internet possesses a number of unique characteristics that differentiate it from traditional media and other methods of commerce, including:

companies can reach and serve a large and global group of consumers electronically from a central location;

companies can provide personalized, low-cost and real time consumer interaction;

users communicate or access information without geographic or temporal limitations;

users enjoy greater convenience and privacy and face less sales pressure; and

users have an enormous diversity of easily accessible content and commerce offerings.

As a result of these unique characteristics and the Internet's growing adoption rate, businesses have an enormous opportunity to conduct commerce over the Internet. The Internet gives companies the opportunity to develop one-to-one relationships with consumers worldwide without having to make the significant investments to build and manage a local market presence or develop the printing and mailing capabilities associated with traditional direct marketing activities.

#### *Emergence of the Electronic Service Category*

A new category of Internet-based electronic service providers has emerged that offers a focused range of services with special emphasis on providing relevant content, information and transaction capabilities. Recent examples include companies operating as online providers of mortgages, online securities brokers and automobile referral services. These consumer-focused, one-stop, information-based destinations provide enhanced, high margin services by acting as independent intermediaries that facilitate interaction and transaction flow between buyers and sellers. Consumers benefit because they are able to obtain value-added information services and transaction capabilities on their own time





schedule. Sellers benefit because they are able to deliver targeted offerings more effectively to consumers.

*Online Insurance Opportunity*

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.

We believe there exists a significant market opportunity for a large-scale, comprehensive and unbiased Internet-based insurance service. Self-directed consumers are attracted to the broadest selection of insurance companies and a compelling value proposition based upon price, time and transaction fulfillment.

**The Insure.com Solution**

The Insure.com web site enables consumers and business owners 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 and health insurance quotes from our licensed insurance professionals and can complete an insurance application over the phone. Our web site provides consumers and business owners 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.



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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. 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 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 salespeople. 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 Insure.com 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. 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. Prior to the consummation of the Life Quotes acquisition on May 7, 2004, we employed 19 customer service representatives. The employees we hired from Life Quotes include an additional 55 licensed insurance agents to assist with customer service.

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 centers 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](http://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 browsers. Callers to either the Insure.com or the Life Quotes call centers 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:

*Pursue Cost-Effective Marketing.* We intend to pursue a cost-effective marketing strategy designed to promote our Insure.com brand and consumer awareness of the benefits of researching and buying insurance through us by using advertising methods that will produce the most revenue for the advertising dollars spent. We are basing our ad spending decisions on media that has worked in the past, but monitoring results to make any necessary adjustments. As an example, we have severely reduced our spending on radio advertising, but increased it on direct mail, as we can better track the results of direct mail advertising. Also, we are focusing more of our spending on advertising where we pay for actual leads generated. For example, we have an agreement with Comparison Market to purchase leads for life and health insurance that are generated from their Insurance.com web site. We do not plan to curtail our advertising expenditures as we believe that this will lead to lower revenues without achieving profitability. We have reduced our operating costs in recent years and feel that we are now operating much more efficiently than we have in the past and can handle higher volumes of insurance business. We feel that combining lower operating expenses with higher revenues is the way to achieve profitability.

*Broaden our service 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 sales. 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. During the fourth quarter of 2003, we opened a small quote-by phone facility along with the ability to

fill out an application over the phone with a licensed insurance professional in our Darien, Illinois operations center. We also acquired Life Quotes, a telephone based life insurance brokerage, to provide these services to customers responding to an 800 number in new advertising. We intend for our acquisition of Life Quotes and the related real estate to provide a telephone based complement to our online sales model for term life insurance.

*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 almost instant quotes from our database of over 200 insurance companies, and our online application technology provides an efficient order entry platform. As of December 31, 2003, 2002 and 2001 there were 133,000, 117,500 and 96,300 customer profiles in our database. 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 in 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 and have expanded into other product lines. 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 facilitate 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 wherever possible and whenever asked.

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 have been offering instant medical insurance quotes since 1998. Our offerings include traditional plans, PPOs and HMOs from Blue Cross and Blue Shield plans and other carriers.

*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 currently 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 began offering instant quotes from, and tracking traditional plans of, PPOs, HMOs and Blue Cross and Blue Shield plans in the second quarter of 1999.

*"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. 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. In the past, Life Quotes has also advertised using traditional direct response marketing methods, primarily radio and print media advertisements. We plan to take advantage of the combined firms' advertising spending to reach the maximum number of potential customers for the lowest possible cost. We anticipate that certain synergies will occur from this combining of advertising budgets, such as the sale of health, auto and homeowners products to customers of Life Quotes, and better term life customer penetration from the Insure.com advertising by offering a quote by phone option.

We intend to aggressively pursue a marketing strategy designed to promote our Insure.com brand and consumer awareness of the benefits of buying insurance through us. We intend to target households and small businesses.

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

leveraging the Insure.com content to increase customer traffic via our new customer gateway;

using direct response print advertisements placed primarily in financially oriented magazines and special interest magazines;

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 18% of total revenue for the year ended December 31, 2003. Partners that provided material amounts of revenue in 2003, defined as 10% or more of total revenue from strategic partners, and the terms of the partnership agreements are as follows:

*Comparison Market* Certain of our automobile insurance traffic is sent to Comparison Market, and we are paid on a per-quote basis for quotes given to these customers. For the year ended December 31, 2003, fees from Comparison Market accounted for 56% of our revenue from strategic partners.

*Amica Insurance* Homeowners insurance traffic is sent to Amica, and we are paid a fee based on the policies sold to these customers. For the year ended December 31, 2003, fees from Amica accounted for 10% of our revenue from strategic partners.

## Competition

The insurance market in the United States represents over \$1 trillion in annual paid premiums, with life insurance premiums accounting for over \$500 billion of that total. Sales of term life insurance account for almost 50% of the policies sold. 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, including over 1,000 life 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. We compete with these traditional providers of insurance products as well as online providers. 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 us 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. While we believe that we are in material compliance with these regulations and that we have the appropriate licenses to offer and sell insurance in all fifty states, 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, or that we do not need to obtain any additional licenses.

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.

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 will 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 of these regulations. However, if additional state or federal regulations are adopted, they may have an adverse impact on us.

**Employees**

As of December 31, 2003, we had 51 employees in the following categories:

Customer Service	18
Policy Processing and Support	9
Carrier Database	5
Information Technology	10
Administration	9

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. Effective as of the consummation of the acquisition of Life Quotes, we added an additional 85 employees.

**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. We operate the business we acquired from Life Quotes in an approximately 43,000 square foot office building in Evergreen, Colorado which which we acquired from an affiliate of the sole stockholder of Life Quotes at closing. There are no other tenants in the building, which has sufficient space to cover any anticipated expansion plans for the foreseeable future.

**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.

**QUOTESMITH.COM FINANCIAL INFORMATION**

Included in this proxy statement are our audited financial statements as of December 31, 2003 and 2002 and for each of the three years in the period ended December 31, 2003, and our unaudited financial statements as of March 31, 2004 and for the quarter ended March 31, 2004.

**QUOTESMITH.COM MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Overview and Critical Accounting Policies**

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

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 part is not under our control, will create fluctuations in our operating results and could affect 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 sites. The historical lag between the time an application is submitted to the insurance companies and when we recognize revenues significantly impacts our operating results as most of our variable expenses are incurred prior to application submission.

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

We have established the 1997 Stock Option Plan, or the plan, to provide additional incentives to our employees, officers, and directors. Under the plan, an aggregate of 500,000 shares of Quotesmith.com common stock may be granted to participants in the plan. We account for stock option grants in accordance with Accounting Principles Board Opinion 25, "Accounting for Stock Issued to

Employees" and related interpretations, and, accordingly, recognize no compensation expense for stock options granted to employees where the exercise price is equal to or greater than the market price at the date of the grant. Stock compensation accounting is discussed more fully in Notes 2 and 7 to the audited financial statements included elsewhere in this proxy statement.

We previously acquired selected assets of Insurance News Network, LLC, including its Web site, *www.insure.com*. The Insure.com web site at that time comprised an insurance news organization consisting of consumer insurance news, information, and decision-making tools. The cost of the acquisition included \$1.4 million in cash, the grant of 50,000 stock options with an estimated fair value of \$82,000, and expenses of \$79,000. The acquisition was recorded using the purchase method of accounting. Accordingly, the purchase price has been allocated to the assets acquired, intangible assets of \$1,433,000 and furniture, equipment, and software of \$128,000, based on the estimated fair values at the date of acquisition. Intangible assets 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 Years Ended December 31, 2003 and 2002**

#### ***Revenues***

Revenues decreased 10% to \$9.7 million in 2003 from \$10.8 million in 2002. This decrease is attributable to a 25% decrease in the number of policies sold, from 21,251 in 2002 to 15,856 in 2003. During the fourth quarter of 2002 and the first quarter of 2003, we implemented our online application technology for term life insurance business. While this technology streamlined the application process and eliminated the need to employ third party administrative firms to process applications on our behalf, leading to a significant reduction in operations expenses, we believe that many potential customers were unwilling to use this technology, possibly due in part to a reluctance to enter sensitive personal information online. We feel that this accounts for at least a significant portion of the decline in the number of policies sold in 2003, and has led us to provide quote and application facilities by phone. During the third quarter of 2003, we began calling some of our potential customers who started, but did not complete an on-line application. The result of these sample calls convinced us of the need for a call center that could call all customers with incomplete applications, as it became apparent that a significant number of them would buy a policy upon being called. It is our intention to have all of these potential customers called in the future. The decrease in policies sold was partially offset by a 21% increase in revenue per policy sold. In 2002, revenue per policy sold was \$507. This figure increased to \$614 in 2003, as we were able to obtain more favorable commission and bonus arrangements with some of our carriers. The additional life insurance revenue provided as a result of the Life Quotes acquisition may help us achieve higher production bonuses than some of our insurance carriers in the future, although the timing and amount of bonuses we receive are controlled by the amount of business we place with certain insurance carriers. There can be no assurance given that the Life Quotes acquisition will result in higher bonus revenues.

#### ***Expenses***

*Selling and Marketing.* Selling and marketing expenses increased \$1.8 million, or 63%, to \$4.7 million in 2003 from \$2.9 million in 2002. During 2003, we chose to increase marketing expenditures in order to support our new Insure.com brand name. As part of that increase, we placed advertisements on national radio in 2003, a strategy we had not employed in 2002. We were able to increase selling and marketing expenses because of the decrease in our operations expenses, described below. We also increased advertising spending during the year in an attempt to generate more leads and sales.

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*Operations.* Operations expense decreased 56% to \$3.4 million in 2003 from \$7.8 million in 2002, and decreased as a percentage of revenue from 72% in 2002 to 35% in 2003. As mentioned above, the development and launch of our online application and order fulfillment technology in late 2002 and early 2003 allowed us to discontinue the use of third party administrators to process and complete life insurance applications, resulting in a reduction in 2003 expenses of \$1.4 million as compared with 2002. Also, effective October 31, 2002, the separate Insure.com editorial office was closed and the positions were transferred to our headquarters location, resulting in cost savings of \$1.0 million. We were also able to staff our operations center in our Darien, Illinois headquarters facility with fewer people in 2003 than in 2002, saving an additional \$583,000 in expense compared to 2002. In addition, as discussed in Note 9 to the audited financial statements included elsewhere in this proxy statement, expense in 2002 included \$337,000 for the write off of computer software.

*General and Administrative.* General and administrative expenses increased 5% from \$3.2 million in 2002 to \$3.3 million in 2003, and increased from 30% of revenues in 2002 to 34% of revenues in 2003.

### *Interest Income, Net*

Interest income, net was \$368,000 in 2003 compared to \$359,000 in 2002. The components of interest income are as follows:

	Years ended December 31,	
	2003	2002
Interest income	\$ 376,243	\$ 372,677
Interest expense	(8,290)	(14,002)
Interest income, net	\$ 367,953	\$ 358,675

There were also net realized gains on the sale of securities of \$93,000 in 2003. There were no securities sales in 2002.

### *Income Taxes (Credit)*

We had no income tax credit for 2003 and 2002 due to valuation allowances provided against net deferred tax assets.

### **Comparison of Years Ended December 31, 2002 and 2001**

#### *Revenues*

Revenues increased 22% to \$10.8 million in 2002 from \$8.9 million in 2001. This increase is attributable in part to a 5% increase in the number of policies sold, from 20,282 in 2001 to 21,251 in 2002. This increase can be attributed to a number of factors, including the cumulative effect of our marketing spending, which has promoted the benefits of buying insurance from our web site, as well as an increase in application requests for life insurance in the fourth quarter of 2001 which resulted in increased revenue when these applications were converted into paid policies in 2002, and seems to have resulted from increased demand for life insurance after the September 11, 2001 terrorist attacks. Revenue in 2002 was also positively impacted by a 16% increase in revenue per policy sold. In 2001, revenue per policy sold was \$436. This figure increased to \$507 in 2002. This increase results from higher face amounts of life insurance coverage sold, resulting in more premium and therefore in more commission revenue. We attribute this increase to the improving acceptance of the internet as a medium for purchasing larger amounts of term life insurance coverage.



**Expenses**

*Selling and Marketing.* Selling and marketing expenses decreased \$4.1 million, or 59%, to \$2.9 million in 2002 from \$7.1 million in 2001. During 2002, we chose to continue the reduction in marketing expenditures that began in 2001, as we have been able to generate more revenue with less marketing expense. In 2002, we were able to reduce our marketing expense per policy sold (total selling and marketing costs divided by the number of new policy sales) by 61%, to \$137 per policy sold in 2002 from \$348 per policy sold in 2001.

*Operations.* Operations expense increased 29% to \$7.8 million in 2002 from \$6.0 million in 2001, and increased as a percentage of revenue to 72% in 2002 from 68% in 2001. This increase resulted from the increased use of third party administrators to process and complete life insurance applications, which resulted in an increase in expenses of \$966,000. There were also additional costs related to the maintenance and content development of the Insure.com website as a stand-alone operation for ten months in 2002 versus one month in 2001, which resulted in a \$1.1 million increase in expenses. Effective October 31, 2002, the Insure.com office was closed and the positions were transferred to our headquarters location. In addition, as discussed in Note 9 to the audited financial statements included elsewhere in this proxy statement, expense in 2002 included \$337,000 for the write off of computer software.

*General and Administrative.* General and administrative expenses decreased 9% to \$3.2 million in 2002 from \$3.5 million in 2001, and decreased to 30% of revenues in 2002 from 40% of revenues in 2001. We reduced wages and payroll taxes by \$858,000, but amortization of intangible assets increased \$442,000 as a result of the acquisition of certain assets of Insurance News Network, LLC, on December 7, 2001.

**Interest Income, Net**

Interest income, net was \$359,000 in 2002 compared to \$1.1 million in 2001. The components of interest income are as follows:

	<b>Years ended December 31,</b>	
	<b>2002</b>	<b>2001</b>
Interest income	\$ 372,677	\$ 1,094,747
Interest expense	(14,002)	(19,052)
<b>Interest income, net</b>	<b>\$ 358,675</b>	<b>\$ 1,075,695</b>

The decrease in net interest income is due primarily to a decrease in average invested assets in 2002, along with lower yields on fixed maturity investments.

**Income Taxes (Credit)**

We had no income tax credit for 2002 and 2001 due to valuation allowances provided against net deferred tax assets.

**Comparison of the Quarters Ended March 31, 2004 and March 31, 2003****Revenues**

Revenues decreased \$120,000 to \$2.5 million in the first quarter of 2004, compared to \$2.6 million in the same period of 2003. The components of revenue are as follows:

	Quarter ended March 31,	
	2004	2003
Commissions life insurance	\$ 1,828,237	\$ 1,805,689
Commissions health and other	277,964	257,439
Fees from strategic partners	344,022	493,934
Other revenue	1,991	14,499
<b>Total revenue</b>	<b>\$ 2,452,214</b>	<b>\$ 2,571,561</b>

Commission income increased \$43,000, or 2% in the first quarter of 2004 compared to the same period in the prior year. Although policies sold decreased 10% to 3,638 in the first quarter of 2004 from 4,033 in the first quarter of 2003, the average commission revenue per policy sold increased to \$579 in the first quarter of 2004 from \$512 in the first quarter of 2003, an increase of 13%. The increase in average revenue per policy results from higher bonus arrangements with some of our major carriers. Fees from strategic partners decreased \$150,000, or 30%, in the first quarter of 2004 compared to the same period in 2003, as a result of lower traffic being sent to partners.

**Expenses**

*Selling and Marketing.* Selling and marketing expenses increased \$57,000 (4.4%) in the first quarter of 2004 when compared with the same period in 2003. Included in the 2004 expense of \$1,360,000 was a total of \$390,000 in fees for click traffic from one provider of an insurance website. This arrangement began in 2004, so there was no similar expense in 2003. Other selling and marketing expenses consist primarily of the costs of magazine advertisements and direct mail. In 2003, selling and marketing expenses also included the costs of radio advertising, which has been limited this year.

We are basing our ad spending decisions on media that has worked in the past, but monitoring results to make any necessary adjustments. As an example, we have severely reduced our spending on radio advertising, but increased it on direct mail, as we can better track the results of direct mail advertising. Also, we are focusing more of our spending on advertising where we pay for actual leads generated. For example, we have an agreement with Comparison Market to purchase leads for life and health insurance that are generated from their Insurance.com web site. We do not plan to curtail our advertising expenditures as we believe that this will lead to lower revenues without achieving profitability. We have reduced our operating costs in recent years and feel that we are now operating much more efficiently than we have in the past and can handle higher volumes of insurance business. We feel that combining lower operating expenses with higher revenues is the way to achieve profitability.

*Operations.* Operations expenses decreased 8% to \$897,000 for the quarter ended March 31, 2004, compared to \$972,000 for the same period in 2003. This decrease in operations expenses is the result of our previously announced cost reduction measures, including the use of our new online order fulfillment technology, which has significantly reduced our handling costs per policy. The first quarter of 2003 still had some of the costs associated with the business model being used prior to the implementation of this new technology, primarily fees paid to third party administrative firms to complete and process insurance applications, which accounted for \$124,000 of expense in the first quarter of 2003 that was not incurred in the same period of 2004.

*General and Administrative.* General and administrative expenses increased approximately \$100,000 or 13%, from \$801,000 for the quarter ended March 31, 2003, to \$901,000 for the quarter ended March 31, 2004. Higher expenses for corporate insurance and employee compensation resulted in the increase in this category.

***Interest Income***

Interest income was \$86,000 in the first quarter of 2004 compared to \$92,000 in the first quarter of 2003. The decrease in interest income reflects a slightly smaller investment portfolio as well as lower interest rates.

***Income Taxes (Credit)***

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

**Liquidity and Capital Resources**

The acquisition of substantially all of the assets of Life Quotes and the related real estate on May 7, 2004 was paid for with \$6,500,000 obtained through a short-term loan from Zions and approximately \$12,000,000 from our cash and investments. The proceeds from the proposed sale of 2,363,636 shares of our common shares to Zions for \$13,000,000 will be used to pay off the loan and any accrued interest thereon, with the remainder of the proceeds being added to our cash and fixed maturity investment portfolio. We currently expect that the cash and fixed maturity investments we presently hold after the Life Quotes acquisition will be sufficient to meet our anticipated cash requirements for at least the next 12 months, including the operations of the Life Quotes business subsequent to the closing date of the acquisition.

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

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

Cash used by operating activities was approximately \$496,000 for the first quarter of 2004, compared with cash used by operating activities of \$173,000 for the same period in 2003. Cash was used by operating activities in the first quarter of 2004 primarily to fund the net loss for the period, as well as to pay for an increase in other assets consisting primarily of costs connected with the acquisition of Life Quotes, such as attorney fees. These costs have been capitalized as part of the cost of the acquisition. In the first quarter of 2003, cash was used to fund the net loss as well as to pay for an increase in other assets and a reduction in accounts payable and accrued liabilities. Our cash used for

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operations has varied significantly from our net operating losses, primarily because of non-cash expenses for depreciation and amortization, as follows:

	Quarter Ended March 31,	
	2004	2003
Depreciation	\$ 103,283	\$ 165,440
Amortization	184,362	171,539

During both periods, amortization consisted primarily of charges related to intangible assets acquired in December 2001 from Insurance News Network. Cash flow from operations is also impacted by increases in the total accounts receivable, which indicate revenues recorded in the statement of operations that have not yet been collected.

Cash provided by investing activities was \$998,000 in the first quarter of 2004, consisting of the sale of investments. During 2003, the purchase of investments exceeded maturities, resulting in a use of cash by investing activities.

Cash used by financing activities was \$13,000 in the first quarter of 2004, compared with approximately \$11,000 used by financing activities for the same period in 2003. The cash used by financing activities in both periods was used to make payments under a capital lease obligation.

### Cash Flow Obligations

In the normal course of business, we enter into financing transactions, lease agreements, or other commitments. These commitments may obligate us to certain cash flows during future periods. The following table summarizes such obligations as of March 31, 2004.

Contractual Obligations	Payments due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt obligations					
Capital lease obligations	\$ 21,709	\$ 21,709			
Operating lease obligations	\$ 767,089	\$ 273,960	\$ 493,129		
Purchase obligations					

### QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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 totalled \$23,501 at March 31, 2004 and \$(69,184) at December 31, 2003.

We did not hold any derivative financial instruments as of March 31, 2004, and have never held such instruments in the past. Additionally, all our transactions have been denoted in U.S. currency and do not have any risk associated with foreign currency transactions.

Due to the short term nature of our investments, a 1% increase in interest rates would not decrease the fair market value of our investments by a material amount.

### INFORMATION ABOUT LIFE QUOTES

Life Quotes, Inc. was founded in 1979 as a traditional life insurance agency. Instead of meeting with customers face-to-face, prior to the acquisition Life Quotes, Inc. sold insurance by phone, fax,



email and/or mail. People who need life insurance find Life Quotes, Inc. through radio, television and internet advertising. Prior to the acquisition, Life Quotes, Inc. employed over 80 people. An affiliate of the sole stockholder of Life Quotes, Inc. owned an approximately 43,000 square foot office building that we purchased in Evergreen, Colorado where the Life Quotes, Inc. operation was conducted. Life Quotes, Inc. is a private company. All of the outstanding equity securities of Life Quotes, Inc. are owned by Kenneth L. Manley. Life Quotes, Inc. is an S-corporation under the Internal Revenue Code of 1986, as amended. Accordingly, for tax purposes, all of Life Quotes, Inc.'s net income flows through Life Quotes, Inc. directly to its sole stockholder. Mr. Manley, as the sole stockholder of Life Quotes, Inc., has regularly caused Life Quotes, Inc. to distribute its excess cash directly to him. Life Quotes has no equity compensation plans.

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 sales. 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. For this reason, we decided to acquire the assets of Life Quotes, a telephone based life insurance brokerage, to provide these services to customers as a telephone based complement to our online sales model for term life insurance.

### **LIFE QUOTES FINANCIAL INFORMATION**

Included in this proxy statement are Life Quotes' audited financial statements as of December 31, 2003 and 2002 and for each of the two years in the period ended December 31, 2003 and Life Quotes' unaudited financial statements as of March 31, 2004 and for the quarter ended March 31, 2004.

### **LIFE QUOTES MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

#### **Overview and Critical Accounting Policies**

Life Quotes operates as an insurance agency marketing primarily individual term life insurance. Life Quotes generates revenue from the receipt of commissions and fees paid by numerous life insurance companies based on new first year premium and renewal premium in force. During the years ended December 31, 2003 and 2002 and the quarter ended March 31, 2004, over 95% of these premiums were with four insurance companies. Life Quotes conducts its insurance agency business using a combination of commissioned marketing agents, and salaried or hourly support staff. After a short initiation period, marketing agents are paid entirely by commission. Life Quotes generates prospective customer interest through a combination of advertising methods, primarily radio, print, and through their web site.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Life Quotes recognizes revenue, including first year commissions, renewal commissions and volume-based bonuses, when notified by the insurance company that the commissions have been earned. Receivables are recognized for revenues earned prior to the end of an accounting period, but not received until after the end of the period.

Life Quotes recognizes advertising costs as incurred. Production costs are expensed in the first period that the advertising takes place. The costs of communicating the advertising are expensed in the period in which the advertising is communicated.

Life Quotes maintains its available cash in demand checking accounts in federally insured banks.

Furniture, equipment, and computer software are recorded at cost. Depreciation is computed using the straight-line method over estimated useful lives ranging from three to five years. Repair and maintenance costs are charged to expense as incurred.

No provision for income taxes has been included in the accompanying financial statements as Life Quotes has elected to be treated as an S corporation for tax purposes. Consequently all items of income and expense are reflected in the income tax returns of the shareholder.

## **Results of Operations**

### **Comparison of Years Ended December 31, 2003 and December 31, 2002**

#### ***Revenues***

Revenues increased 16% to \$10.4 million in 2003 from \$8.9 million in 2002. This can be attributed to a 6% increase in policies sold, from 11,688 in 2002 to 12,391 in 2003, along with a 10% increase in revenue per policy sold, from \$765 in 2002 to \$840 in 2003. The increase in policies sold can be attributed to increased advertising expenditures, which resulted in more leads to Life Quotes' in house agents. The increase in revenue per policy can be attributed to increases in the face amounts of policies sold as well as higher commission rates.

#### ***Expenses***

Advertising and promotion expenses increased \$1.4 million to \$3.6 million in 2003 from \$2.2 million in 2002, as additional funds were committed to advertising to increase lead flow to Life Quotes' in house agents, as mentioned above. Personnel costs remained fairly constant at approximately \$4.4 million, as increased commission payments to in house agents, which resulted from the increased revenue, were offset by staff reductions resulting from the consolidation of support functions. All other expenses, totaling \$1.3 million in 2003, declined \$0.2 million from \$1.5 million in 2002, due primarily to a reduction in rent expense. In total, expenses increased by \$1.1 million to \$9.3 million in 2003, from \$8.2 million in 2002, primarily from the increase in advertising and promotional expenditures mentioned above.

#### ***Income Taxes***

Life Quotes has elected to be taxed as an S corporation. Consequently, all items of income and expense are reflected on the income tax returns of the shareholder. Accordingly, no provision for income taxes is made in the financial statements.

### **Comparison of Quarters Ended March 31, 2004 and March 31, 2003**

#### ***Revenues***

Revenues increased 15% to \$3.0 million in 2004 from \$2.6 million in 2003. There was a 14% decrease in policies sold, from 2,932 in 2003 to 2,535 in 2004, which was offset by a 33% increase in revenue per policy sold, from \$901 in 2003 to \$1,201 in 2004. Life Quotes attributes the decrease in policies sold to a decrease in the number of in house sales agents. Voluntary terminations resulted in 10 fewer agents (approximately 15%) in the first quarter of 2004, when compared to the same period of 2003. The increase in revenue per policy can be attributed primarily to an increase in bonus commission, which increased from \$409,000 during the first three months of 2003 to \$936,000 during the same period in 2004. Bonus commissions can vary significantly from period to period, as they are based on volumes of business placed with specific carriers. Carriers offer differing bonus arrangements, so the carriers selected by the in house sales agents can significantly affect bonus commissions.

**Expenses**

Selling and marketing expenses increased \$132,000 to \$1.1 million in 2004 from \$975,000 in 2002, as additional funds were committed to advertising in response to the decline in policies sold. Personnel costs declined \$175,000 to \$861,000 from \$1.04 million. The lower number of policies sold decreased the portion of compensation paid to employees that is based on the number of sold policies. Commissions paid to in house sales agents also declined, as this commission is based on the premium paid by policyholders on policies sold, which declined 12% in the first quarter of 2004 when compared to the first quarter of 2003. All other expenses, totaling \$294,000 in 2004, declined \$168,000 from \$462,000 million in 2003, due primarily to a reduction in rent expense. In total, expenses decreased by \$210,000 to \$2.3 million in 2004, from \$2.5 million in 2003, primarily from the increase in selling and marketing expenditures mentioned above.

**Income Taxes**

Life Quotes has elected to be taxed as an S Corporation. Consequently, all items of income and expense are reflected on the income tax returns of its sole shareholder. Accordingly, no provision for income taxes is made in the financial statements.

**Liquidity and Capital Resources**

As mentioned above, Life Quotes has elected to be taxed as an S Corporation. As a result, it has paid significant distributions to its shareholder, \$1.1 million in 2003 and \$.6 million in 2002. These distributions have limited the amount of capital retained in Life Quotes. Life Quotes had approximately \$149,000 of cash on hand at March 31, 2004, and has relied on its positive cash flow from operations to fund its activities.

Sources of funds consist primarily of commissions generated from the sale of life insurance. The principal uses of funds are advertising and promotion expenses, salaries and wages, including commissions to in house agents, other operating expenses, acquisitions of furniture and equipment and distributions to its sole shareholder.

Cash provided by operations amounted to \$906,000 during the first quarter of 2004, up from \$461,000 in 2003. The increase is primarily attributable to the increase in net income of \$611,000 million.

Life Quotes leases its office space from its sole stockholder under an informal month-to-month lease. Lease payments made to the stockholder for the quarter ended March 31, 2004 and the years ended December 31, 2003 and 2002, were \$40,000, \$400,000 and \$600,000, respectively.

Life Quotes maintains a contributory retirement plan under Internal Revenue Code Section 401(k) for all of its full time employees. Under the terms of the plan, employees may contribute a portion of their salary, with an annual limit as established by law. Life Quotes is obligated to contribute an amount equal to 15% of the employee's contribution. Employees vest in company contributions after three years of employment. Retirement expense for the quarter ended March 31, 2004 and the years ended December 31, 2003 and 2002 was \$6,000, \$20,000 and \$50,000, respectively.

Life Quotes provides health insurance benefits to its full time employees under the terms of several plans. The employee may choose coverage levels and deductible amounts based on their personal and family situation. Life Quotes pays for the employee and withholds premium from the employee's wage for dependents. Life Quotes does not have any agreements to provide post retirement benefits.

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



**PROPOSAL 2. ESTABLISHMENT OF LIFE QUOTES EMPLOYEE STOCK OPTION PLAN**

In connection with the acquisition of substantially all of the assets of Life Quotes and the related real estate, we have agreed to establish an option plan for the benefit of former Life Quotes employees who continue to be employees of Life Quotes Acquisition, Inc., or the Life Quotes subsidiary, our wholly-owned subsidiary. The Board of Directors has approved the adoption of the Quotesmith.com, Inc. 2004 Non-Qualified Stock Option Plan, or the plan. Adoption of the plan is subject to the approval of the majority of the shares of our common stock which are present in person or by proxy and entitled to vote at the annual meeting. The following paragraphs provide a summary of the material features of the plan and its operation. A copy of the plan in its entirety is attached as **Annex A-12** to this proxy statement.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE APPROVAL OF THE ESTABLISHMENT OF THE LIFE QUOTES EMPLOYEE STOCK OPTION PLAN.**

**Purpose of the Plan**

The plan is intended to provide for the award of stock options to certain former employees of Life Quotes who continue to be employees of the Life Quotes subsidiary.

**General**

The plan provides for the granting of non-qualified stock options to eligible participants. The maximum number of shares of our common stock available for stock options under the plan is 300,000. Until approved by our stockholders, no stock options may be exercised under the plan. The plan expires 10 years after April 1, 2004, the effective date of the plan.

**Administration of the Plan**

The plan will be administered by a committee of our Board of Directors consisting solely of two or more Board members, each of whom shall qualify as a "Non-employee Director" within the meaning of Rule 16b-3 of the Exchange Act and also qualify as an "outside director" within the meaning of Section 162 of the Internal Revenue Code of 1986, as amended, or the Code. Subject to the terms of the plan, the committee has the discretion to determine the employees who shall be granted stock options, the size of such stock options, and the terms and conditions of such stock options.

**Eligibility to Receive Awards**

Employees of the Life Quotes subsidiary are eligible to receive one or more stock options. The actual number of employees who will receive stock options under the plan cannot be determined because the grant of stock options is discretionary.

**Options**

The committee may grant nonqualified stock options. The number of shares covered by each option will be determined by the committee.

The price of the shares of our common stock subject to each stock option is set by the committee, subject to the following restrictions. The exercise price of an option shall be 100% of the fair market value (on the date of grant) of the shares covered by the option.

The exercise price of each option must be paid in full at the time of exercise in cash, check, by the tender of shares of our common stock that are already owned by the participant, pursuant to a cashless exercise program, or by any combination of the foregoing. Any taxes required to be withheld must be paid by the participant at the time of exercise.

Options vest and become exercisable over a three year period from the date of grant to a participant. One-third of the option shares shall vest on the first anniversary of the grant date, an additional one-third of the option shares shall vest on the second anniversary of the grant date, and the remaining one-third on the third anniversary of the grant date. Options expire at the times established by the committee, but not later than 10 years after the date of grant.

Section 162(m) of the Code places limits on the deductibility for federal income tax purposes of compensation paid to certain of our executive officers. In order to preserve our ability to deduct the compensation income associated with options granted to such persons, the plan provides that no employees may be granted, in any fiscal year, options to purchase more than 200,000 shares of our common stock.

#### **Adjustments Upon Changes in Capitalization**

In the event of any change in the outstanding shares of our common stock by reason of a stock dividend, stock split, reverse stock split or distribution, recapitalization, merger, reorganization, reclassification, consolidation, split-up, spin-off, combination of shares, exchange of shares or other change in corporate structure affecting our common stock and not involving the receipt of consideration by us, the committee shall make appropriate adjustments in the aggregate number of shares of our common stock subject to the plan and the exercise price applicable to outstanding stock option awards or grants.

#### **Sale Events**

In the event of a sale of substantially all of our the assets, a sale of our stock to a third party, or a consolidation or merger of Quotesmith.com in which we are not the survivor, each of which we refer to as a sale event, we may, at our option, give each participant in the plan at least ten business days written notice prior to the anticipated date of the consummation of a sale event. Upon receipt of such notice, and for a period of five business days thereafter, each participant in the plan will be permitted to exercise, in whole or in part, the unexercised portion of each stock option held by such participant in accordance with the terms and conditions of the plan and the award agreement relating such stock option. Upon the consummation of the sale event, all stock options will be canceled and forfeited to the extent they have not been exercised.

In lieu of delivering notice of a sale event, we may, at our option, cause the successor or acquiring corporation in connection with any sale event or, if applicable, the corporate parent of any such corporation, which we refer to as the successor corporation, to assume in writing our obligations under the plan and the outstanding stock options awarded pursuant to the plan. In such event, the number and kind of shares acquirable upon the exercise of the stock options and the exercise price applicable thereto will be adjusted appropriately and the stock options as so adjusted will be deemed solely to represent rights to acquire shares of the successor corporation in the manner provided in the agreements between the successor corporation and Quotesmith.com.

#### **Amendment and Termination of the Plan**

Our Board of Directors may amend or terminate the plan, or any part thereof, at any time. No such action by our Board of Directors may impair in any material way any award previously granted under the plan without the written consent of the participant.

#### **Stock Options to be Granted to Participants**

As described above, the committee has discretion to determine the number of stock options (if any) to be granted to any participant under the plan. Accordingly, the actual number of stock options to be granted to any participant is not determinable.

**Transferability of Stock Options**

Unless determined otherwise by the committee, stock options may not be transferred or assigned other than by will or by the applicable laws of descent and distribution.

**U.S. Tax Aspects**

A U.S. recipient of a stock option will not have taxable income upon the grant of the option. When exercising non-qualified stock options which are vested on the date of exercise, the participant will recognize ordinary income upon exercise in an amount equal to the excess of the fair market value of the shares over the exercise price on the date of exercise. Any gain or loss recognized upon any later disposition of the shares generally will be capital gain or loss.

We will be entitled to a tax deduction in connection with a stock option under the plan only in an amount equal to the ordinary income realized by the participant and at the time the participant recognizes such income.

The table set forth below sets forth the benefits that will be available to (i) our chief executive officer, (ii) our named executive officers, (iii) our executive officers as a group, (iv) our directors who are not executive officers as a group, (v) nominees for director, (vi) associates of directors, executive officers or director nominees and (vii) all employees, including all current officers who are not executive officers, as a group. Benefits will only be available to employees of the Life Quotes subsidiary.

**Life Quotes Employee Stock Option Plan Benefits**

Name and Position	Dollar Value (\$)	Number of Options
Robert S. Bland President, Chief Executive Officer	0	0
William V. Thoms Executive Vice President, Chief Operating Officer	0	0
Phillip A. Perillo Senior Vice President, Chief Financial Officer	0	0
Executive Group	0	0
Non-Executive Director Group	0	0
Director Nominees	0	0
Associates of Directors, Executive Officers or Director Nominees	0	0
Non-Executive Officer Employee Group	*	300,000

\*  
The dollar value of benefits under the Life Quotes employee stock option plan available to the non-executive officer employee group cannot be determined since the value of any benefits will depend on the value of our common stock on the date of exercise relative to the value of our common stock on the date of grant.

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The following table sets forth the following information as of December 31, 2003: (i) the number of shares of our common stock to be issued upon the exercise of outstanding options, warrants and rights, (ii) the weighted-average exercise price of such options, warrants and rights and (iii) the number of shares of our common stock remaining available for future issuance under our equity compensation plans, other than the outstanding options, warrants and rights described above.

**Equity Compensation Plan Information**

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	218,332	\$ 7.34	208,489
Equity compensation plans not approved by security holders			
Total	218,332	\$ 7.34	208,489

Please see note 7 to the audited financial statements of Quotesmith.com included elsewhere in this proxy statement for a description of the material features of the Quotesmith.com, Inc. 1997 Stock Option Plan.

**PROPOSAL 3. ELECTION OF DIRECTORS**

Our Board of Directors is currently comprised of six directors divided into three classes serving staggered three-year terms. Each year, the directors of one class will stand for election as their terms of office expire. Messrs. Gretsch and Rueben are designated as Class I directors, with their terms of office expiring in 2006, Admiral Jeremiah A. Denton, Jr. is designated as a Class II director with his term of office expiring in 2004, and Messrs. Bland, Shannon and Thoms are designated as Class III directors with their terms of office expiring in 2005. Pursuant to the investor rights agreement we entered into with Zions, Messrs. Bland and Thoms, their spouses and the partnership through which Mr. and Mrs. Bland hold their common stock, and we have agreed to, among other things, increase the size of our Board of Directors by one member and to nominate an individual designated by Zions to serve on the Board of Directors. Messrs. Bland and Thoms, their spouses and the partnership through which Mr. and Mrs. Bland hold their common stock, have agreed to vote all of their shares of common stock in favor of such individual. In accordance with the investor rights agreement, Zions has designated as its nominee, and we have nominated for election as director, John B. Hopkins.

The Board has nominated Admiral Denton for re-election to the Board at the annual meeting. Each nominee has indicated his willingness to serve if elected, except that Mr. Hopkins has indicated that he will not be willing to serve if the stock issuance is not consummated. In the event that Mr. Hopkins is unwilling to serve, we would not increase the size of the Board of Directors. In the event that a nominee should become unwilling or unable to serve as a director, all duly executed proxies shall be voted for the election of such other person as may be designated by the Board of Directors. Unless authority to vote for a nominee is withheld, all votes represented by a properly executed proxy will be cast in favor of the nominees.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE NOMINEES FOR DIRECTOR.**

## MANAGEMENT

The following table sets forth information regarding our Board of Directors, including the nominees to the Board, our executive officers and certain other key employees as of May 1, 2004:

NAME	AGE	POSITION
Robert S. Bland	50	Chairman of the Board, President, Chief Executive Officer
William V. Thoms	51	Executive Vice President, Chief Operating Officer, Director
Phillip A. Perillo	54	Senior Vice President, Chief Financial Officer
Richard C. Claahsen	39	Vice President, Corporate Secretary
Bruce J. Rueben	51	Director
Timothy F. Shannon	50	Director
Jeremiah A. Denton, Jr.*	78	Director
Richard F. Gretsches	51	Director
John B. Hopkins*	39	Director

\*

Nominee for election.

**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 2002. From 2000 to 2001, he served as Chief Financial Officer of David Gomez and Associates, an executive recruiting and consulting services firm. From 1988 to 1999, Mr. Perillo served as Senior Vice President and Chief Financial Officer of BCS Financial Corporation, an insurance group of companies. 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.

**Bruce J. Rueben** became a director of Quotesmith.com in January 1998. He has been president of the Minnesota Hospital and Health Care Partnership, Minnesota's hospital association, since November 1998. From January 1994 to November 1998, Mr. Rueben was president of the Maine Hospital Association. From 1989 to 1994, Mr. Rueben was senior vice president and assistant treasurer of the Virginia Hospital Association. Mr. Rueben holds a B.S. from the Virginia Commonwealth University School of Business and a M.B.A. from the University of South Carolina.

**Timothy F. Shannon** became a director of Quotesmith.com in January 1998. Since 1991, he has been President of Bradner Smith & Company, a printing paper products company and a subsidiary of Bradner Central Company. In 1995, he was appointed to the Bradner Central Company Board of

Directors. Bradner Central Company, headquartered in Elk Grove Village, Illinois, is a wholesale paper distribution company. Mr. Shannon holds a B.S. in Business Administration from the University of Illinois.

**Admiral Jeremiah A. Denton, Jr.** became a director of Quotesmith.com in August 1999. He currently serves as president of the National Forum Foundation. Admiral Denton was elected as a United States Senator from Alabama in 1980, and served from 1981 to 1987. From 1987 to 1989, Admiral Denton, after being appointed by President Reagan, served as chairman of the presidential Commission on Merchant Marine and Defense. Admiral Denton holds a B.S. from the United States Naval Academy and an M.A. in international affairs from George Washington University.

**Richard F. Grets** became a director of Quotesmith.com in August 1999. He currently serves as global offering manager for AT&T Global Network Services and has held this position since AT&T purchased the IBM global network. Mr. Grets had been global offering manager for IBM Internet Connection Service since 1995. Mr. Grets holds a B.S. in finance and accounting from the University of Arizona and a M.B.A. from the University of Notre Dame.

**John B. Hopkins** currently serves as Vice President, Finance of Zions Bancorporation, a position he has held since 2003. From 2001 to 2003, he was the Chief Financial Officer of the e-Commerce unit of Zions Bancorporation. From 1998 to 2000, he was Director, Financial Planning of Citrix Systems in Fort Lauderdale, Florida. Mr. Hopkins holds a B.S. in finance from the University of Utah and an M.B.A. from the University of Chicago. We believe that Mr. Hopkins will be independent within the meaning of the NASD marketplace rules.

#### **Board Committees and Meetings**

Our Board of Directors met four times during 2003, pursuant to scheduled quarterly Board meetings. In accordance with the NASD marketplace rules, we have determined that Messrs. Grets, Shannon and Rueben and Admiral Denton are independent within the meaning of the NASD marketplace rules. In accordance with the NASD marketplace rules, the independent directors meet separately, without the non-independent directors present, following each regularly scheduled quarterly Board meeting. We do not have a policy regarding board members' attendance at the annual meeting. Four board members were in attendance at the annual meeting held on April 9, 2003.

Our Board of Directors has an executive committee, an audit committee and a compensation committee. Our Board of Directors does not currently have a nominating committee. Rather, each member of our Board of Directors participates in the process of identifying and considering individuals for Board membership. Our Board of Directors believes its current process is effective since two members of the Board of Directors collectively hold over 60% of our currently outstanding common stock and the current members of the Board of Directors are seasoned executives from a variety of backgrounds. Each member of our Board of Directors satisfies the independence requirements established by the NASD marketplace rules, other than Messrs. Bland and Thoms. The Board of Directors will consider for recommendation to the Board nominations made by stockholders that comply with the procedures described below under the caption "2004 Stockholder Proposals."

Once our Board of Directors has identified a possible nominee (whether through a recommendation from a shareholder or otherwise), the independent members of the Board of Directors make an initial determination as to whether to conduct a full evaluation of the candidate. This initial determination is based on the information provided to the Board of Directors when the candidate is recommended, the Board's own knowledge of the prospective candidate and information, if any, obtained by the Board's inquiries. The preliminary determination is based primarily on the need for additional Board members to fill vacancies, expand the size of the Board of Directors or obtain representation in market areas without Board representation and the likelihood that the candidate can satisfy the evaluation factors described below. If the independent members of the Board of Directors

determines that additional consideration is warranted, it may gather additional information about the candidate's background and experience. The independent members of the Board of Directors then evaluate the prospective nominee against the following standards and qualifications:

Achievement, experience and independence;

Wisdom, integrity and judgment;

Understanding of the business environment; and

Willingness to devote adequate time to Board duties.

The independent members of the Board of Directors also consider such other relevant factors as they deem appropriate, including the current composition of the Board, the need for audit committee or other expertise and the evaluations of other candidates. In connection with this evaluation, the independent members of the Board of Directors determine whether to interview the candidate. If the independent members of the Board of Directors decide that an interview is warranted, one or more of those members, and others as appropriate, interviews the candidate in person or by telephone. After completing this evaluation and interview, the independent members of the Board of Directors make a recommendation to the full Board of Directors as to the persons who should be nominated by the Board, and the Board determines the nominees after considering the recommendation and report of the independent members of the Board of Directors.

Our Board of Directors has adopted a resolution addressing the nominations process described above.

Our executive committee consists of Messrs. Bland, Thoms and Rueben. The executive committee is authorized to exercise, between meetings of our Board of Directors, all of the powers and authority of our Board of Directors in the direction and management of Quotesmith.com, except to the extent prohibited by applicable law or our certificate of incorporation, or another committee shall have been accorded authority over the matter.

Our audit committee consists of Messrs. Gretsche, Shannon and Rueben. The audit committee is composed of three independent directors. Information regarding the functions performed by the committee, its membership, and the number of meetings held during the year is set forth in this proxy statement under the caption "Report of the Audit Committee." The audit committee is governed by a written charter approved by the Board of Directors. The audit committee has reviewed and reassessed the adequacy of the formal written charter on an annual basis since its adoption. A copy of the audit committee's charter is attached as **Annex A-13** to this proxy statement. The audit committee met four times during 2003. Each member of the audit committee satisfies the independence requirements established by the NASD marketplace rules.

Our compensation committee consists of Messrs. Gretsche, Shannon and Rueben, each of whom is independent within the meaning of the NASD marketplace rules. The compensation committee makes recommendations to the Board of Directors concerning salaries and incentive compensation for our executive officers and administers our employee benefit plans. The compensation committee met one time during 2003.

During 2003, all members of the Board of Directors attended at least 75% of the Board of Directors' meetings and their respective committee meetings.

#### **Audit Committee Financial Expert**

The audit committee does not presently have a financial expert as a member. The Board of Directors is expected to look for and obtain a member of the Board of Directors who will qualify as the audit committee's financial expert. We have attempted to find a member to our Board who will



qualify as a financial expert. We anticipate electing Mr. Hopkins to the Board of Directors and appointing him to the audit committee. We believe he will qualify as our financial expert.

#### **Director Compensation**

Directors who are also employees of Quotesmith.com receive no compensation for serving on our Board of Directors. Non-employee directors receive an annual stipend of \$16,000 and \$500 per committee meeting attended. In addition, we reimburse non-employee directors for all reasonable travel and other expenses incurred in connection with attending Board and committee meetings. Non-employee directors are also eligible to receive stock option grants under the Quotesmith.com, Inc. 1997 Stock Option Plan. No stock options were granted to non-employee directors in 2003.

#### **Stockholder Communications**

Historically, Quotesmith.com has not adopted a formal process for stockholder communications with the Board of Directors. Nevertheless, every effort has been made to ensure that the views of stockholders are heard by the Board of Directors or individual directors, as applicable, and that appropriate responses are provided to stockholders in a timely manner. Stockholders are free to contact any director or executive officer directly by writing in care of Quotesmith.com or by sending an email to *board@insure.com*. Stockholders can contact the audit committee directly by sending an email to *audit@insure.com*. In the past, stockholders have contacted the executive officers if they have concerns. Two of our largest shareholders are members of the Board of Directors.

Quotesmith.com believes its responsiveness to stockholder communications to the Board of Directors has been excellent. Nevertheless, during the upcoming year the Board of Directors will give full consideration to the adoption of a formal process for stockholder communications with the Board of Directors and, if adopted, publish it promptly and post it to our website.

#### **Compensation Committee Interlocks and Insider Participation**

None of our compensation committee members is an officer or employee of Quotesmith.com. None of our executive officers serves as a member of the Board of Directors or compensation committee of any entity that has one or more of its executive officers serving on our compensation committee.

## PRINCIPAL STOCKHOLDERS

The following table sets forth information with respect to beneficial ownership of our common stock as of May 1, 2004, both before and after giving effect to the sale of 2,363,636 shares of our common stock to Zions, by: (i) each stockholder that is known to us to beneficially own more than 5% of our common stock; (ii) each of our directors, including nominees; (iii) our chief executive officer and each of our named executive officers; and (iv) all of our executive officers and directors as a group.

The mailing address for each of the below named individuals, other than Zions, is c/o Quotesmith.com, Inc., 8205 South Cass Avenue, Suite 102, Darien, Illinois 60561. The mailing address for Zions is One South Main Street, Suite 1134, Salt Lake City, Utah 84111. No natural person will have sole or shared voting or investment power over the shares to be issued to Zions.

Applicable percentage ownership in the table below is based upon 4,958,232 shares of common stock outstanding as of May 1, 2004. Beneficial ownership is determined in accordance with the rules of the SEC. Shares of common stock subject to options presently exercisable or exercisable within 60 days of May 1, 2004, are deemed to be outstanding for the purpose of computing the percentage ownership of the person or entity holding such options, but are not treated as outstanding for the purpose of computing the percentage ownership for any other person or entity.

	Prior to the Stock Issuance		After the Stock Issuance	
	Shares Beneficially Owned	Percent	Shares Beneficially Owned	Percent
<b>Our CEO, Named Executive Officers and Directors</b>				
Robert S. Bland(1)	2,359,778	46.3%	2,359,778	31.8%
William V. Thoms(2)	713,833	14.0%	713,833	9.6%
Phillip A. Perillo(3)	80,000	1.6%	80,000	1.1%
Timothy F. Shannon(4)	17,777	*	17,777	*
Bruce J. Rueben(4)	12,333	*	12,333	*
Admiral Jeremiah A. Denton, Jr.(4)	13,333	*	13,333	*
Richard F. Gretsches(4)	11,666	*	11,666	*
Richard C. Claahsen(5)	2,594	*	2,594	*
John B. Hopkins(6)	0	*	0	*
<b>All Executive Officers and Directors as a Group (9 Persons)(7)</b>	<b>3,211,314</b>	<b>63.0%</b>	<b>3,211,314</b>	<b>43.1%</b>
<b>Other 5% Stockholders</b>				
Zions Bancorporation(8)			2,363,636	31.7%

\*

Less than 1%.

(1)

Includes 1,137,390 shares owned by Mr. Bland as a tenant in common with his wife, Maureen A. Bland, and 1,219,055 shares owned by Southcote Partners, L.P., a limited partnership whose sole general partners are Mr. and Mrs. Bland. Also includes options to purchase 3,333 shares of common stock that are exercisable within 60 days of May 1, 2004.

(2)

Includes options to purchase 3,333 shares of common stock that are exercisable within 60 days of May 1, 2004.

(3)

Includes options to purchase 80,000 shares of common stock that are exercisable within 60 days of May 1, 2004.

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- (4) Includes options to purchase 11,666 shares of common stock that are exercisable within 60 days of May 1, 2004.
- (5) Includes options to purchase 2,594 shares of common stock that are exercisable within 60 days of May 1, 2004.
- (6) Mr. Hopkins is a Vice President of Zions.
- (7) Includes options to purchase 135,924 shares of common stock that are exercisable within 60 days of May 1, 2004.
- (8) Zions Bancorporation will exercise sole voting and investment power over the shares to be issued and sold to it through its authorized officers acting under the supervision of its Board of Directors.

**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Exchange Act requires directors, executive officers and beneficial owners of more than ten percent of our common stock to file initial reports of ownership and reports of changes in ownership with the Securities and Exchange Commission and to provide us with copies of such reports. Based solely on a review of the copies provided to us and written representations from such reporting persons, we believe that all applicable Section 16(a) filing requirements have been met for such reporting persons.

## EXECUTIVE COMPENSATION

## Summary Compensation Table

The following table sets forth all compensation paid for services rendered to Quotesmith.com during our last three years in all capacities by (i) our Chief Executive Officer, and (ii) our other highest paid executive officers during 2003 with cash compensation in excess of \$100,000, who we refer to as the named executive officers.

Name and Principal Position	Year	Annual Compensation		Long-Term Compensation Awards	All Other Compensation
		Salary	Bonus	Securities Underlying Options	
Robert S. Bland President, Chief Executive Officer	2003	\$ 300,000	\$		\$ 31,854(1)
	2002	300,000			
	2001	300,000			
William V. Thoms Executive Vice President, Chief Operating Officer	2003	250,000			
	2002	250,000	11,932		
	2001	247,115			
Phillip A. Perillo(2) Senior Vice President and Chief Financial Officer	2003	173,654	25,000		
	2002	72,116		105,000	
Hao Chang(3) Senior Vice President, Chief Information Officer	2003	116,827			
	2002	136,558		50,000	
	2001	114,231			

- (1) Other compensation paid to Mr. Bland in 2003 consisted of a transportation allowance of \$22,536 and reimbursement of certain club dues of \$9,318.
- (2) Mr. Perillo was hired as Senior Vice President and Chief Financial Officer in May 2002.
- (3) Mr. Chang terminated employment with Quotesmith.com on October 17, 2003.

## Option Grants in 2003

There were no grants of stock options to the named executive officers in 2003.

**2003 Year End Option Values**

The following table sets forth certain information regarding the number and value of unexercised options held by the Named Executive Officers as of December 31, 2003. No stock options were exercised during 2003 by the named executive officers.

Name	Number of Securities Underlying Unexercised Options at December 31, 2003		Value of Unexercised In-the-Money Options at December 31, 2003	
	Exercisable	Unexercisable	Exercisable	Unexercisable
Robert S. Bland	3,333		\$	\$
William V. Thoms	3,333			
Phillip A. Perillo	40,000	65,000	120,400	171,400
Hao Chang(1)				

(1)

Mr. Chang terminated employment with Quotesmith.com on October 17, 2003.

**Employment Agreements and Change of Control Arrangements**

Mr. Chang left Quotesmith.com voluntarily on October 17, 2003 and was paid no severance.

We entered into employment agreements with Messrs. Bland and Thoms in 1999 in contemplation of our initial public offering. Each of their original terms of employment continued through December 31, 2001, and the terms are automatically renewed each January 1 for successive one-year terms unless we or the applicable executive provides written notice to the contrary at least sixty days prior to the expiration of the then-current term. Messrs. Bland and Thoms are each entitled to a base salary of \$300,000. These base salaries are reviewed annually by our compensation committee and may be increased by the compensation committee. Once increased, their then-current base salary may not be decreased. Messrs. Bland and Thoms are also eligible to receive bonus payments in accordance with any arrangements or bonus plans we establish, as determined by the compensation committee. Messrs. Bland and Thoms are entitled to participate in our stock option plan to the same extent as our other senior executives. Messrs. Bland and Thoms are also eligible to receive such benefits and perquisites as are generally provided by us to our senior executive officers. These employment agreements also contain standard non-competition, confidentiality and assignment of invention provisions.

We entered into an employment agreement with Mr. Perillo on December 19, 2002. Mr. Perillo's original term of employment was from January 1, 2003 to December 31, 2003, and the term is automatically renewed each January 1 for successive one-year terms unless we or Mr. Perillo provide written notice to the contrary at least sixty days prior to the expiration of the then-current term. Mr. Perillo is entitled to a base salary of \$200,000, which may be increased at our option but not decreased. Mr. Perillo is also eligible to receive periodic performance-based bonuses based upon the factors reasonably chosen by our Board of Directors. Mr. Perillo was granted options to purchase 25,000 shares of common stock, which options will vest and become exercisable on May 22, 2005 and were priced consistent with the terms of our stock option plan. Mr. Perillo is also eligible to receive such benefits and perquisites as are generally provided by us to our executive employees. Mr. Perillo's employment agreement also contains non-competition, non-solicitation, confidentiality and assignment of invention provisions.

In addition, the agreements for Messrs. Bland and Thoms provide for separation benefits if one of these executives is terminated without cause or if the executive terminates his employment for good reason, including a change of control of Quotesmith.com. In the event of a termination without cause or for good reason, each of Messrs. Bland and Thoms is entitled to receive a lump sum payment equal

to two times his base annual salary. In the event of a separation payment, Messrs. Bland and Thoms are entitled to gross up payments for any excise taxation incurred. Messrs. Bland and Thoms have waived these change of control provisions for the sale of common shares to Zions. In the event of a termination without cause or for good reason during the three months prior to or twelve months after a change of control, Mr. Perillo is entitled to receive two years of base pay and bonus at the targeted amount.

**Stock Performance Graph**

The graph below compares the annual percentage changes in Quotesmith.com's cumulative total stockholder return from August 3, 1999 (the date of our initial public offering) through December 31, 2003, with the cumulative total return of the CRSP Total Return Index for the Nasdaq Stock Market and the CRSP Total Return Index for Nasdaq Insurance Stocks for the same period. The Insurance Stock Index includes insurance companies, brokers, agents, and related services. The graph assumes the investment of \$100 and the reinvestment of all dividends. The stock price performance shown on the graph below is not necessarily indicative of future stock price performance.

	<u>8/13/99</u>	<u>12/31/99</u>	<u>12/31/00</u>	<u>12/31/01</u>	<u>12/31/02</u>	<u>12/31/03</u>
Quotesmith.com, Inc.	\$ 100.00	\$ 103.409	\$ 6.536	\$ 6.455	\$ 12.818	\$ 14.909
Nasdaq Stock Market (U.S. Companies)	100.00	157.238	95.461	75.364	51.604	\$ 77.410
Nasdaq (Insurance Index)	100.00	84.426	97.653	104.584	102.663	\$ 124.668

## COMPENSATION COMMITTEE REPORT

The compensation committee of the Board of Directors determined the compensation of our Chief Executive Officer and our other executives in 2004. To ensure that our executive compensation program is administered in an objective manner, the compensation committee is composed entirely of directors who are neither executive officers nor employees of Quotesmith.com, and each member of the compensation committee is independent within the meaning of Rule 4200(a)(15) of the NASD marketplace rules. In addition to determining the salary and bonus compensation for all of our executive officers, the compensation committee determines the nature, timing and amount of awards and grants under Quotesmith.com's stock option plans and makes recommendations as to the administration of other compensation plans and programs as they relate to executive officers.

This report is intended to describe the philosophy that underlies the cash and equity-based components of our intended executive pay program in 2004. It also describes the details of each element of the program, as well as the rationale for compensation paid to our Chief Executive Officer and executive officers in general in 2003.

### Compensation of Executive Officers Generally

The compensation philosophy of Quotesmith.com is to (i) provide a competitive total compensation package that enables us to attract and retain key executive and employee talent needed to accomplish our goals and (ii) directly link compensation to improvements in our financial and operational performance.

Our compensation program for all executive officers emphasizes variable compensation, primarily through performance-based grants of equity-based incentives in the form of stock options. Salaries of all executive officers are generally targeted at median market levels.

The compensation committee will continue to monitor our compensation program in order to maintain the proper balance between cash compensation and equity-based incentives and may consider further revisions in the future.

### Components of Compensation

*Salary.* The compensation committee will review each executive officer's salary annually. Objective and subjective performance goals are set each year for each executive officer, which will vary depending upon the specific position or role of the executive within Quotesmith.com. The compensation committee's review will take into consideration both our performance with respect to revenue growth and operating margins, together with the duties and performance of each executive. The compensation committee also considers provisions relating to salary set forth in employment agreements with certain of our executive officers.

*Bonus.* Certain of our employees who perform significant management and decision-making functions are eligible to receive a performance bonus. Messrs. Bland and Thoms did not receive a bonus in 2003. Awards to executives may be made by the compensation committee after considering the recommendation of our Chief Executive Officer (except for awards granted to the Chief Executive Officer) and the financial performance of Quotesmith.com as measured by revenue growth and operating margins, or any other factors that the compensation committee deems relevant. Bonuses for fiscal 2003 were awarded based on Quotesmith.com's financial performance, as measured by the factors listed above. The bonus component of the executive compensation package is designed to be less than industry averages.

*Stock Options.* The compensation committee believes that the granting of stock options is an important method of rewarding and motivating management by aligning management's interests with those of our stockholders on a long-term basis. In addition, the compensation committee recognizes

that we conduct our business in an increasingly competitive industry and that, in order for Quotesmith.com to remain highly competitive and at the same time pursue a high-growth strategy, it must employ the best and most talented executives and managers who possess demonstrated skills and experience. We believe that stock options can play an important role in attracting and retaining such employees. For these reasons, we previously adopted the Quotesmith.com, Inc. 1997 Stock Option Plan, or the stock option plan, as a stock-based incentive program for our employees, executive officers and directors. The compensation committee believes the stock option plan is an important feature of our executive compensation package. Under the stock option plan, the compensation committee may grant options to executive officers who are expected to contribute materially to Quotesmith.com's future success. In determining the size of stock option grants, the compensation committee will focus primarily on our performance and the perceived role of each executive in accomplishing such performance objectives, as well as the satisfaction of individual performance objectives. The value of the stock options is directly tied to the value of a share of our common stock.

*Compensation of the Chief Executive Officer.* Mr. Robert Bland currently serves as Chief Executive Officer and President. Mr. Bland was compensated during the 2003 fiscal year using the same general philosophy and criteria used for other executive officers as described above. Specifically, Mr. Bland receives a base salary that is set by the compensation committee. The committee members evaluate the appropriateness of his base based on several factors, including Quotesmith.com's progress toward profitability and achievement of strategic goals. The compensation committee noted that the net loss of Quotesmith.com has continued to decline as expenses have been reduced through operating efficiencies implemented during the past two years. Mr. Bland received no bonus during the past three years, as the compensation committee considers the fact that Mr. Bland owns almost 2.4 million shares of Quotesmith.com common stock to be adequate incentive compensation.

*Tax Considerations.* The compensation committee has determined that it is unlikely that Quotesmith.com would pay any amounts for 2003 that would result in a loss of the federal income tax deduction under Section 162(m) of the Internal Revenue Code of 1986, as amended, and, accordingly, has not recommended that any special actions be taken or that any plans or programs be revised at this time.

The foregoing report has been approved by all of the members of the compensation committee.

The Compensation Committee

Richard F. Gretsch  
Bruce J. Rueben  
Timothy F. Shannon

#### COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Since the date of our initial public offering in August 1999, Richard F. Gretsch, Bruce J. Rueben and Timothy F. Shannon have served on the compensation committee of the Board of Directors. None of these individuals have been employees of Quotesmith.com.



**REPORT OF THE AUDIT COMMITTEE**

THE FOLLOWING REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS SHALL NOT BE DEEMED TO BE SOLICITING MATERIAL OR TO BE INCORPORATED BY REFERENCE BY ANY GENERAL STATEMENT INCORPORATING BY REFERENCE THIS PROXY STATEMENT OR ANY PORTION HEREOF INTO ANY FILING UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, EXCEPT TO THE EXTENT WE SPECIFICALLY INCORPORATE THIS REPORT THEREIN, AND SHALL NOT OTHERWISE BE DEEMED FILED UNDER SUCH ACTS.

The audit committee oversees our financial reporting process on behalf of the Board of Directors. In 2000, the Board of Directors adopted a written charter of the audit committee. A copy of the Audit Committee Charter is attached as **Annex A-13** to this proxy statement. Management has the primary responsibility for the financial statements and the reporting process including the systems of internal controls.

In fulfilling its oversight responsibilities, the audit committee reviewed the audited financial statements included in our Annual Report on Form 10-K with management, including by having a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments, and the clarity of disclosures in the financial statements.

The audit committee reviewed with the independent auditors, who are responsible for expressing an opinion on the conformity of those audited financial statements with accounting principles generally accepted in the United States, their judgments as to the quality, not just the acceptability, of our accounting principles and such other matters as are required to be discussed by SAS 61 (Codification of Statements on Auditing Standards, AU §380), as may be modified or supplemented.

The audit committee has received the written disclosures and the letter from the independent accountants required by Independence Standards Board Standard No. 1 (Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees), as may be modified or supplemented. In addition, the audit committee has discussed with the independent auditors the auditors' independence from management and Quotesmith.com including the matters in the written disclosures required by the Independence Standards Board and considered the compatibility of nonaudit services with the auditors' independence.

The audit committee discussed with the independent auditors the overall scope and plans for their audit. The audit committee meets with the auditors, with and without management present, to discuss the results of their examination, their evaluation of Quotesmith.com's internal controls, and the overall quality of Quotesmith.com's financial reporting. The audit committee held four meetings during 2003.

In reliance on the reviews and discussions referred to above, the audit committee recommended to the Board of Directors (and the Board of Directors has approved) that the audited financial statements be included in our Annual Report on Form 10-K for the year ended December 31, 2003 for filing with the Securities and Exchange Commission. The audit committee and the Board of Directors have also recommended, subject to stockholder approval, the selection of Quotesmith.com's independent auditors for 2004.

The Audit Committee

Richard F. Gretsch  
Bruce J. Rueben  
Timothy F. Shannon

**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

There are no related party transactions required to be included in this proxy statement.

**PROPOSAL 4. RATIFICATION OF INDEPENDENT AUDITORS**

Subject to ratification by the stockholders, the Audit Committee and the Board of Directors have selected Ernst & Young LLP to continue as independent auditors to audit our financial statements for the year ended December 31, 2004. Representatives of the firm of Ernst & Young LLP will be present at the annual meeting and will have an opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

**Audit Fees**

The aggregate fees for each of the last two fiscal years for professional services rendered by Ernst & Young LLP for the audit of our annual financial statements and review of financial statements included in our Forms 10-Q were \$200,901 in 2003 and \$172,800 in 2002.

**Audit-Related Fees**

The aggregate fees billed in each of the last two fiscal years for assurance and related services by Ernst & Young LLP that are reasonably related to the performance of the audit or review of our financial statements and are not reported above under the caption "Audit Fees" were \$7,100 in 2003 and \$10,800 in 2002. The audit-related fees for 2003 involved consulting regarding acquisition accounting issues, and the audit-related fees for 2002 involved accounting disclosure regarding the Insurance News Network acquisition and assistance for our temporary chief accountant.

**Tax Fees**

For the last two fiscal years, there were no fees billed for professional services rendered by Ernst & Young LLP for tax compliance, tax advice and tax planning.

**All Other Fees**

The aggregate fees billed in each of the last two fiscal years for products and services provided by Ernst & Young LLP, other than the services reported above, were \$1,601 in 2003 and \$1,500 in 2002. The fees were for use of Ernst & Young Online Service.

**Pre-Approval Policies and Procedures**

The Audit Committee has adopted a policy that requires advance approval of all audit, audit-related, tax services, and other services performed by the independent auditor. The policy provides for pre-approval by the Audit Committee of specifically defined audit and non-audit services. Unless the specific service has been pre-approved with respect to that year, the Audit Committee must approve the permitted service before the independent auditor is engaged to perform it. The Audit Committee has delegated to the chair of the Audit Committee the authority to approve permitted services provided that the chair reports any decisions to the Audit Committee at its next scheduled meeting.

The affirmative vote of the holders of a majority of the shares present in person or represented by proxy and entitled to vote at the annual meeting will be required to ratify the selection of Ernst & Young LLP. In the event stockholders fail to ratify the appointment of Ernst & Young LLP, the Board of Directors will reconsider its selection. Even if the selection is ratified, the Board of Directors, in its discretion, may direct the appointment of a different independent auditor at any time if the Board of Directors determines that such a change would be in our best interests.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE RATIFICATION OF ERNST & YOUNG LLP AS OUR INDEPENDENT AUDITORS.**

**OTHER MATTERS**

The Board of Directors is not aware of any matters to be presented at the annual meeting other than those listed in the notice of the meeting. If any other matters do come before the annual meeting, it is intended that the holders of proxies solicited by the Board of Directors will vote on such other matters in their discretion in accordance with their best judgment.

**ADDITIONAL INFORMATION**

A copy of our Annual Report on Form 10-K, filed with the Securities and Exchange Commission, is available without charge upon written request addressed to the Secretary of Quotesmith.com, 8205 South Cass Avenue, Suite 102, Darien, Illinois 60561.

**2005 STOCKHOLDER PROPOSALS**

You may submit proposals to be voted upon at the 2005 annual meeting of stockholders or nominate persons for election to the Board of Directors. Pursuant to Rule 14a-8 under the Securities Exchange Act of 1934, as amended, some stockholder proposals may be eligible for inclusion in our 2005 proxy statement. Any such stockholder proposals must be submitted in writing to the Secretary of Quotesmith.com no later than [ ], 2004. If you are interested in submitting such a proposal we advise you to review the detailed requirements of applicable securities laws. The submission of a stockholder proposal does not ensure that it will be included in our proxy statement.

Alternatively, under our By-laws, a proposal or nomination that you do not seek to include in our 2005 proxy statement pursuant to Rule 14a-8 may be submitted in writing to the Secretary of Quotesmith.com for the 2005 Annual Meeting of Stockholders not less than 120 days prior to the date on which we first mail our proxy materials for the 2004 annual meeting of stockholders, unless the date of the 2005 annual meeting of stockholders is advanced by more than 30 days or delayed by 30 days from the anniversary of the 2004 annual meeting. For our 2005 annual meeting of stockholders, any such proposal or nomination must be submitted no later than [ ], 2004. If the date of the 2005 annual meeting of stockholders is advanced by more than 30 days or delayed by more than 30 days from the anniversary of the 2004 annual meeting, the deadline for you to submit any such proposal or nomination is a reasonable time before we begin to print and mail our proxy materials for the 2005 annual meeting of stockholders. Your submission must include certain specified information concerning the proposal or nominee, as the case may be, and information as to your ownership of our common stock. Proposals or nominations not meeting these requirements will not be entertained at the 2005 annual meeting of stockholders. If you do not also comply with the requirements of Rule 14a-4 under the Securities Exchange Act of 1934, as amended, we may exercise discretionary voting authority under proxies we solicits to vote in accordance with our best judgment on any such proposal or nomination you submit. You should contact the Secretary of Quotesmith.com in writing at 8205 South Cass Avenue, Suite 102, Darien, Illinois 60561 to make any submission or to obtain additional information as to the proper form and content of submissions.

By Order of the Board of Directors

Robert S. Bland

Chairman of the Board, President and Chief Executive Officer

Darien, Illinois  
[ ], 2004

QUOTESMITH.COM, INC.

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**REPORT OF INDEPENDENT AUDITORS**

Board of Directors  
Quotesmith.com, Inc.

We have audited the accompanying balance sheets of Quotesmith.com, Inc. as of December 31, 2003 and 2002, and the related statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Quotesmith.com, Inc. at December 31, 2003 and 2002, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States.

/s/ ERNST & YOUNG LLP

Chicago, Illinois

January 16, 2004  
Except Note 10, as to which the date is March 10, 2004

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## QUOTESMITH.COM, INC.

## BALANCE SHEETS

	December 31,	
	2003	2002
<b>ASSETS</b>		
Cash and equivalents	\$ 676,728	\$ 1,639,909
Fixed maturity investments available for sale at fair value <sup>(Note 3)</sup>	4,204,150	8,823,890
Commissions receivable, less allowances (2003 \$176,000; 2002 \$197,000)	1,062,534	1,125,544
Other assets	423,715	324,686
	<u>6,367,127</u>	<u>11,914,029</u>
Total current assets	6,367,127	11,914,029
Fixed maturity investments available for sale at fair value <sup>(Note 3)</sup>	10,345,555	5,843,988
Furniture, equipment, and computer software at cost, less accumulated depreciation (2003 \$2,859,000; 2002 \$2,284,000)	375,177	885,469
Intangible assets at cost, less accumulated amortization (2003 \$995,000; 2002 \$517,000) (Note 2)	437,761	915,317
	<u>17,525,620</u>	<u>19,558,803</u>
Total assets	\$ 17,525,620	\$ 19,558,803
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Accounts payable and accrued liabilities	\$ 760,005	\$ 1,428,601
	<u>760,005</u>	<u>1,428,601</u>
Total current liabilities	760,005	1,428,601
Long-term capital lease obligations (Note 5)		35,018
	<u>760,005</u>	<u>1,463,619</u>
Total liabilities	760,005	1,463,619
Commitments and contingencies (Note 8)		
Stockholders' equity (Notes 6 and 7):		
Common stock, \$.003 par value; shares authorized:		
60,000,000; shares issued:		
2003 7,317,573; 2002 7,268,072	21,953	21,804
Additional paid-in capital	64,075,686	63,972,732
Retained-earnings deficit	(43,468,855)	(42,187,861)
Treasury stock at cost: 2,359,341 shares	(3,793,985)	(3,793,985)
Accumulated other comprehensive income (loss)	(69,184)	82,494
	<u>16,765,615</u>	<u>18,095,184</u>
Total stockholders' equity	16,765,615	18,095,184
	<u>\$ 17,525,620</u>	<u>\$ 19,558,803</u>
Total liabilities and stockholders' equity	\$ 17,525,620	\$ 19,558,803

See accompanying notes.

## QUOTESMITH.COM, INC.

## STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	2003	2002	2001
<b>Revenues:</b>			
Commissions and fees <i>(Note 1)</i>	\$ 9,717,810	\$ 10,631,467	\$ 8,743,286
Other	19,034	145,327	107,249
<b>Total revenues</b>	<b>9,736,844</b>	<b>10,776,794</b>	<b>8,850,535</b>
<b>Expenses:</b>			
Selling and marketing <i>(Note 2)</i>	4,735,438	2,912,547	7,051,893
Operations <i>(Notes 7 and 9)</i>	3,393,936	7,755,693	6,004,239
General and administrative <i>(Note 7)</i>	3,348,968	3,193,797	3,503,173
<b>Total expenses</b>	<b>11,478,342</b>	<b>13,862,037</b>	<b>16,559,305</b>
Operating loss	(1,741,498)	(3,085,243)	(7,708,770)
Interest income, net <i>(Note 2)</i>	367,953	358,675	1,075,695
Realized gain on sale of securities	92,551		
<b>Loss before income taxes</b>	<b>(1,280,994)</b>	<b>(2,726,568)</b>	<b>(6,633,075)</b>
Income tax credit <i>(Note 4)</i>			
<b>Net loss</b>	<b>\$ (1,280,994)</b>	<b>\$ (2,726,568)</b>	<b>\$ (6,633,075)</b>
Net loss per common share, basic and diluted	\$ (0.26)	\$ (0.55)	\$ (1.22)
Weighted average common shares and equivalents outstanding, basic and diluted	4,917,314	4,964,500	5,441,039

See accompanying notes.

## QUOTESMITH.COM, INC.

## STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-In Capital	Retained- Earnings Deficit	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Number of Shares Issued	Par Value					
2001:							
Balance at January 1	7,253,570	21,761	63,836,873	(32,828,218)	(1,360,313)	(2,798)	29,667,305
Net loss				(6,633,075)			(6,633,075)
Other comprehensive gain unrealized gain on investments						22,894	22,894
Total comprehensive loss							(6,610,181)
Stock options issued in connection with acquisition (See Note 1)			82,250				82,250
Purchase of 581,624 treasury shares					(1,235,030)		(1,235,030)
Employee stock compensation			10,938				10,938
Balance at December 31	7,253,570	21,761	63,930,061	(39,461,293)	(2,595,343)	20,096	21,915,282
2002:							
Net loss				(2,726,568)			(2,726,568)
Other comprehensive gain unrealized gain on investments						62,398	62,398
Total comprehensive loss							(2,664,170)
Purchase of 446,050 treasury shares					(1,198,642)		(1,198,642)
Proceeds from sale of common stock:							
exercise of stock options	14,502	43	26,711				26,754
Employee stock compensation			15,960				15,960
Balance at December 31	7,268,072	\$ 21,804	\$ 63,972,732	\$ (42,187,861)	\$ (3,793,985)	82,494	\$ 18,095,184
2003:							
Net loss				(1,280,994)			(1,280,994)
Other comprehensive loss unrealized loss on investments						(151,678)	(151,678)
Total comprehensive loss							(1,432,672)
Proceeds from sale of common stock:							
exercise of stock options	49,501	149	102,954				103,103
Balance at December 31	7,317,573	\$ 21,953	\$ 64,075,686	\$ (43,468,855)	\$ (3,793,985)	(69,184)	\$ 16,765,615

See accompanying notes.





## QUOTESMITH.COM, INC.

## STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2003	2002	2001
<b>Cash flows from operating activities:</b>			
Net loss	\$ (1,280,994)	\$ (2,726,568)	\$ (6,633,075)
Adjustments to reconcile to net cash used by operating activities:			
Depreciation expense	575,171	924,700	760,136
Amortization	626,468	339,253	(157,759)
Impairment of computer software		336,582	
Accounts payable and accrued liabilities	(654,292)	422,654	(1,852,324)
Commissions receivable	63,010	225,958	189,013
Stock compensation		15,960	10,938
Other assets	(99,029)	(58,267)	232,745
Net cash used by operating activities	(769,666)	(519,728)	(7,450,326)
<b>Cash flows from investing activities:</b>			
Purchase of investments	(14,199,621)	(23,455,781)	(21,263,056)
Proceeds from investment maturities	7,800,000	22,900,000	29,100,000
Proceeds from sales of investments	6,217,204		2,500,000
Purchase of intangible assets			(1,350,421)
Purchase of furniture, equipment and software	(64,879)	(102,276)	(498,557)
Net cash provided (used) by investing activities	(247,296)	(658,057)	8,487,966
<b>Cash flows from financing activities:</b>			
Proceeds from issuance of common stock	103,103	26,754	
Purchase of treasury stock		(1,198,642)	(1,235,030)
Payment of capital lease obligation	(49,322)	(43,610)	(38,559)
Net cash provided (used) by financing activities	53,781	(1,215,498)	(1,273,589)
<b>Net decrease in cash and equivalents</b>	(963,181)	(2,393,283)	(235,949)
<b>Cash and equivalents at beginning of year</b>	1,639,909	4,033,192	4,269,141
<b>Cash and equivalents at end of year</b>	\$ 676,728	\$ 1,639,909	\$ 4,033,192

See accompanying notes.

## QUOTESMITH.COM, INC.

## NOTES TO FINANCIAL STATEMENTS

**1. Description of Business**

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

On December 7, 2001, the Company acquired selected assets of Insurance News Network, LLC, including its Web site, *www.insure.com*. The insure.com Web site at that time comprised an insurance news organization consisting of consumer insurance news, information, and decision-making tools. The cost of the acquisition included \$1.4 million in cash, 50,000 stock options with an estimated fair value of \$82,000, and expenses of \$79,000. The acquisition was recorded using the purchase method of accounting. Accordingly, the purchase price has been allocated to the assets acquired, intangible assets of \$1,433,000 and furniture, equipment, and software of \$128,000, based on the estimated fair values at the date of acquisition.

The accompanying 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.

	<u>2001</u>
Year Ended December 31, 2001 (in thousands, except per share data)	
Total revenues	\$ 10,179
Net loss	(7,341)
Net loss per common share, basic and diluted	\$ (1.35)

The unaudited pro forma results have been prepared for comparative purposes only and do not purport to be indicative of the results of operations which actually would have resulted had the acquisition occurred at the beginning of the respective years, nor is it necessarily indicative of future operating results.

In the period covered in the accompanying financial statements, the Company's primary revenue source has been commissions derived from the sale of individual term life insurance. Applications are underwritten and commissions are received from numerous life insurance companies. Revenues from some of these companies have exceeded ten percent of the Company's total revenues. In 2001, these included two companies with revenues of \$1.1 million and \$975,000. In 2002 and 2003, there were no

companies that provided more than ten percent of the Company's total revenues. The Company's business represents one business segment.

## **2. Summary of Significant Accounting Policies**

### **Use of Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change, as more information becomes known, which could impact the amounts reported and disclosed herein.

### **Revenue Recognition**

The Company recognizes annual first year commissions for term-life business as revenues when the policy has been approved by the underwriter and an initial premium payment (which may be annual, semi-annual, quarterly, or monthly) has been made by the customer. An allowance is provided for estimated commissions that will not be received due to the nonpayment of installment first year premiums.

Revenues on all other lines of business, as well as for renewal and bonus commissions and other revenues, are recognized when the Company receives notification that such revenues have been earned.

### **Advertising Costs**

Selling and marketing expenses in the accompanying financial statements are comprised of advertising costs. The costs of producing advertising are expensed in the first period that the advertising takes place. The costs of communicating the advertising are expensed in the period the advertising is communicated.

### **Investments**

The Company classifies its fixed maturity investments as available-for-sale and, accordingly, such investments are carried at fair value. The cost of fixed maturity investments is adjusted for amortization of premiums and discounts and for declines in value that are other than temporary. Temporary changes in the fair values of investments are reflected directly in stockholders' equity as accumulated other comprehensive income or loss net of income taxes with no effect on net income or loss. Realized gains or losses are calculated using the specific identification method.

### **Cash and Equivalents**

Money market and certificate of deposit investments are included as part of cash and equivalents.

### **Stock Compensation**

The Company uses the intrinsic value method to measure compensation expense, if any, relating to stock options. Any compensation expense is determined at the date of grant, or the date of subsequent modification to option terms, based on any excess of the fair value of the related shares over the exercise price, and amortized over the options' vesting periods.

**Furniture, Equipment, and Computer Software**

Furniture, equipment, and capitalized application development costs of internal-use computer software are depreciated over useful lives of three to five years using principally the straight-line method of depreciation. Repair and maintenance costs are charged to expense as incurred.

**Intangible Assets**

Intangible assets represent the value assigned to the acquired insure.com Web site and are being amortized on a straight-line basis over three years. Amortization expense was \$480,000 in 2002, \$480,000 in 2003 and is expected to be \$435,000 in 2004.

**Assets Held under Capital Lease**

Assets held under capital leases are recorded at the net present value of the minimum lease payments at the inception of the lease. Amortization expense is computed using the straight-line method over the shorter of the estimated useful lives of the assets or the period of the related lease.

**Treasury Stock**

The cost of reacquiring the Company's common stock is reported as a separate component of stockholders' equity.

**Income Taxes**

Deferred income taxes are determined based on the temporary differences between financial reporting and tax bases of assets and liabilities and the effect of net operating loss carryforwards, and are measured using enacted tax rates.

**Non-operating Income and Expense**

Interest income, net in the accompanying statements of operations includes the following:

	Years ended December 31,		
	2003	2002	2001
Interest income	\$ 376,243	\$ 372,677	\$ 1,094,747
Interest expense	(8,290)	(14,002)	(19,052)
Interest income, net	\$ 376,953	\$ 358,675	\$ 1,075,695

In 2003, the Company realized gains of \$93,000 on the sale of fixed maturity investments.

**Net Loss Per Share**

Basic and diluted net loss per share reflects net loss divided by the weighted average number of common shares outstanding. Diluted net loss per share does not include the effect of common share equivalents because the effect would be antidilutive.

**Comprehensive Income or Loss**

Comprehensive loss includes net loss and unrealized gain or loss on investments, as follows:

	Years ended December 31,		
	2003	2002	2001
Unrealized gain (loss) on investments	\$ (59,127)	\$ 62,398	\$ 22,894
Less: Reclassification adjustment for realized gains Included in income	(92,551)		
Other comprehensive gain (loss)	\$ (151,678)	\$ 62,398	\$ 22,894

**Stock Options**

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

	Years Ended December 31,		
	2003	2002	2001
	(in thousands, except per share data)		
Net loss as reported	\$ (1,281)	\$ (2,727)	\$ (6,633)
Add back stock compensation, as reported		16	11
Less pro forma stock compensation using fair value method	(147)	(235)	(374)
Pro forma net loss	\$ (1,428)	\$ (2,946)	\$ (6,996)
Pro forma net loss per common share, basic and diluted	\$ (0.29)	\$ (0.59)	\$ (1.29)

### 3. Investments

Investments are classified as available-for-sale securities and are reported at fair value, as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>December 31, 2003:</b>				
U.S. Government agency bonds	\$ 1,689,944	\$ 8,095	\$	\$ 1,698,039
Corporate bonds and commercial paper	12,928,945	51,218	128,497	12,851,666
	<u>\$ 14,618,889</u>	<u>\$ 59,313</u>	<u>\$ 128,497</u>	<u>\$ 14,549,705</u>
<b>December 31, 2002:</b>				
U.S. Government agency bonds	\$ 7,526,079	\$ 21,821	\$ 729	\$ 7,547,171
Corporate commercial paper	7,059,305	66,571	5,169	7,120,707
	<u>\$ 14,585,384</u>	<u>\$ 88,392</u>	<u>\$ 5,898</u>	<u>\$ 14,667,878</u>

As of December 31, 2003, investments maturities are as follows:

	Amortized Cost	Fair Value
Due in one year or less	\$ 4,179,444	\$ 4,204,150
Due in 1-2 years	5,306,106	5,330,641
Due in 2-4 years	5,133,339	5,014,914
	<u>\$ 14,618,889</u>	<u>\$ 14,549,705</u>

### 4. Income Taxes

A reconciliation of income taxes (credit) based on the federal tax rate to amounts reported in the statements of operations is as follows:

	Years Ended December 31,		
	2003	2002	2001
Pre-tax loss times federal rate	\$ (436,000)	\$ (927,000)	\$ (2,255,200)
State income tax credit	(61,000)	(130,900)	(318,400)
Increase in valuation allowance	554,000	966,000	2,540,000
Stock compensation	0	6,200	4,200
Other	(57,000)	85,700	29,400
	<u>\$</u>	<u>\$</u>	<u>\$</u>
Income tax credit	\$	\$	\$

Deferred income taxes reflect the net tax effect of temporary differences between the amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and the effect of net operating loss carryforwards.

Significant components of the Company's deferred tax assets and liabilities are as follows:

	December 31,	
	2003	2002
Deferred tax liabilities other assets	\$ 0	\$ 32,000
Deferred tax assets:		
Net operating loss carryforwards	16,097,000	15,759,000
Unamortized cash to accrual adjustment	0	243,000
Depreciation and amortization	600,000	199,000
Other	138,000	112,000
Total gross deferred tax assets	16,835,000	16,313,000
Valuation allowance	(16,835,000)	(16,281,000)
Net deferred tax assets	0	32,000
Net deferred tax amounts	\$	\$

As of December 31, 2003, the Company had net operating loss carryforwards of approximately \$41,488,000 available to offset future taxable income, which expire in 2006 to 2023. There were no income taxes paid or recovered in 2001, 2002 or 2003.

#### 5. Obligations under Capital Lease

Furniture, equipment and computer software at December 31, 2003 and 2002 includes gross assets acquired under capital lease of \$196,000. Related amortization included in accumulated depreciation was \$142,000 and \$103,000 at December 31, 2003 and 2002, respectively. Amortization of assets under capital lease is included in depreciation expense.

The future minimum lease payments required under the capital lease and the present value of the net minimum lease payments as of December 31, 2003 are as follows:

Year Ending December 31,	Amount
2004	\$ 37,040
Imputed interest	(2,023)
Present value of net minimum lease payments	35,017
Current lease obligation	(35,017)
Long-term lease obligations	\$

#### 6. Stockholders' Equity

##### 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 from \$.001 to \$.003, effective on March 7, 2001. In the accompanying financial statements and related notes, all share and per share amounts were retroactively adjusted to reflect the stock split. The components of stockholders' equity were not affected by these changes.



### **Treasury Stock**

As of December 31, 2003, the Company is authorized to repurchase 652,000 additional shares of its common stock.

### **Private Placement and Related Party Transactions**

In 1999, the Company sold 333,333 shares of its common stock to a company (the Investor) for proceeds of \$3,000,000 in a private placement and sold 90,909 shares of its common stock to the Investor for proceeds totaling \$3,000,000 in the initial public offering. In 2001, the Company repurchased its shares from the Investor.

### **Employee Stock Purchase Plan**

The Company has a plan under which employees could purchase shares of the Company's common stock through payroll deductions of up to 10% of each employee's compensation. Shares may be purchased at 85% of the lower of the fair value of the common stock on the first or the last day of each six-month offering period. The Company reserved 83,333 shares for purchase under the plan, of which 63,929 were available at December 31, 2003.

### **Preferred Stock**

The Company has 5,000,000 authorized shares of \$0.001 par value preferred stock. No shares have been issued.

### **Stockholder Rights Plan**

One preferred stock purchase right is outstanding for each outstanding share of the Company's common stock, and the Company intends to issue those rights along with future issuances of common shares. The rights become exercisable only if a person or group acquires or announces the intent to acquire 15% or more of the Company's common stock. Prior to the rights becoming exercisable, the Company may redeem the rights for \$0.03 per right. If the rights become exercisable, the Company may exchange each right for one share of common stock providing that 50% of the Company has not been acquired. The rights expire in 2009.

If the rights become exercisable and they have not been exchanged, holders of each right, other than the acquiring person or group, would be entitled to acquire three hundredths of a share of the Company's preferred stock at an exercise price equal to five times the initial offering price of the Company's common stock. If issued, each preferred share would entitle the holder to cumulative quarterly dividends of the greater of \$1.00 per share or 33.3 times the common share dividends. The preferred shareholders would receive 33 votes per share and have a liquidation preference of \$0.333 per share over the common shares.

In lieu of purchasing preferred shares, holders of each right, other than the acquiring person or group, on payment of the exercise price, would be entitled to acquire the number of shares of the Company's common stock or other assets with a value of two times the exercise price. In addition, if 50% of the Company is acquired, the holders of each right would be entitled to acquire the number of shares of the acquiring company's common stock having a value of two times the exercise price.

## 7. Stock Options

The Company has established a stock option plan (the Plan) to provide additional incentives to its employees, officers, and directors. Under the Plan, an aggregate of 500,000 shares of common stock may be granted to participants in the Plan.

For purposes of the pro forma disclosures presented in Note 2, the estimated fair values of the option grants are amortized to expense over the options' vesting period. The fair value of options at the date of grant was estimated using the Black-Scholes option pricing model for grants made subsequent to the Company's initial public offering in August 1999, and the minimum value method in all prior periods, with the following weighted-average assumptions:

	Years Ended December 31,		
	2003	2002	2001
Dividend yield	None Issued	0.0%	0.0%
Risk-free interest rate		2.5%	4.5%
Volatility		93.5%	105.3%
Expected life (years)		5.0	5.0 to 7.0

In 2002 and 2001, the Company recorded compensation expense of \$15,960 and \$10,938, respectively relating to stock options granted below the estimated fair value of the Company's common stock, with a corresponding credit to additional paid-in capital. There were no stock options granted below the estimated fair value of the Company's common stock in 2003.

Transactions related to all stock options are as follows:

	Years Ended December 31,					
	2003		2002		2001	
	Shares Under Option	Weighted Average Exercise Price	Shares Under Option	Weighted Average Exercise Price	Shares Under Option	Weighted Average Exercise Price
Beginning Balance	360,047	\$ 6.28	712,131	\$ 7.03	377,996	\$ 19.86
Granted with exercise price equal to stock value			156,500	3.04	522,000	2.00
Exercised	(49,501)	2.08	(14,502)	1.84		
Forfeited	(42,214)	4.51	(494,082)	6.41	(187,865)	19.03
Outstanding	268,332	\$ 7.34	360,047	\$ 6.28	712,131	\$ 7.03
Exercisable at end of year	165,999		129,538		164,056	

Of the options granted in 2001, 50,000 options, with an exercise price of \$2.00 per share, were issued as part of the cost of the acquisition discussed in Note 1. Of the options outstanding at December 31, 2003, 25,000, with an exercise price of \$2.00 per share, vest in 2007. All of the remaining unexercisable options vest in 2003 and 2004.

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Information regarding options outstanding and exercisable at December 31, 2003 is summarized as follows:

Exercise Price	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercisable Price
\$ 1.25	6,500	7.25	\$ 1.25	2,000	\$ 1.25
\$ 2.00 - \$ 2.78	62,833	7.92	2.13	30,000	2.13
\$ 2.99 - \$ 6.38	152,999	7.64	3.84	87,999	4.20
\$ 9.00 - \$10.32	11,667	5.34	9.11	11,667	9.11
\$33.00	34,333	5.59	33.00	34,333	33.00
	<b>268,332</b>	<b>7.34</b>	<b>\$ 7.34</b>	<b>165,999</b>	<b>\$ 10.09</b>

The options have terms of ten years. Under the Company's Plan, 208,489 shares were available for grant as awards or options at December 31, 2003.

The weighted average fair value per share of options granted were as follows:

2003	2002	2001
None Issued	\$ 2.20	\$ 1.64

#### 8. Commitments and Contingencies

As of December 31, 2003, the Company leases office space in Darien, IL under an operating lease agreement in which the Company is committed to rent expense of approximately \$272,000 in 2004, \$278,000 in 2005 and \$284,000 in 2006. In addition, the Company must pay its proportionate share of taxes and operating costs for the Darien lease site.

Rent expense was \$320,000 in 2001, \$428,000 in 2002 and \$286,000 in 2003.

The Company has employment agreements with two of its executives under which the Company would be required to pay severance of one to two years of annual salary to terminate those agreements. The Company has an employment agreement with one additional executive under which the Company would be required to pay severance of one year of annual salary in the event of a change in control.

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.

#### 9. Computer Software

In connection with its auto insurance brokerage business, the Company had developed an auto rating engine and order fulfillment technology that was launched in January 2002. However, the Company was unable to secure an adequate number of agency appointments and the handling costs of this business were higher than anticipated. Therefore, in the third quarter of 2002, the Company discontinued the use of this software in favor of using an outsourced technology solution. This decision resulted in an impairment of \$337,000 representing the entire remaining amount of these computer software costs, included in operations expenses in 2002.

**10. Subsequent Events**

On March 1, 2004, the Company signed an agreement to acquire selected assets of Life Quotes, Inc. for \$18,400,000, subject to closing conditions, which include approval of the transaction by the Company's shareholders. Life Quotes is an Evergreen, Colorado-based life insurance brokerage that markets term life insurance utilizing direct response marketing methods combined with a call center staffed with licensed agents. The Company believes that this acquisition provides an important capability that had been missing from its business model, that is, the ability to service customers by telephone in addition to its internet-based service. Allocation of the purchase price to the assets acquired has not yet been completed, pending an independent valuation of those assets. For the year ended December 31, 2003, Life Quotes had revenues of approximately \$10 million and net income of approximately \$1 million.

On the same date, the Company signed an agreement to sell 2.36 million shares of its common stock to Zions Bancorporation for \$5.50 net per share, thus raising \$13 million in new capital to be used by the Company to fund part of the Life Quotes acquisition cost. This agreement is also subject to shareholder approval. Quotesmith.com intends to fund the remainder of the purchase price by using cash on hand and/or mortgage debt.

**QUOTESMITH.COM, INC.**  
**BALANCE SHEETS**

	<b>March 31, 2004</b>	<b>December 31, 2003</b>
	<b>(Unaudited)</b>	
<b>ASSETS</b>		
Cash and equivalents	\$ 1,165,429	\$ 676,728
Fixed maturity investments available for sale at fair value	5,633,198	4,204,150
Commissions receivable, less allowances (2004 \$174,000; 2003 \$176,000)	1,176,809	1,062,534
Other assets	654,747	423,715
	<hr/>	<hr/>
Total current assets	8,630,183	6,367,127
Fixed maturity investments available for sale at fair value	7,945,794	10,345,555
Furniture, equipment, and computer software at cost, less accumulated depreciation (2004 \$2,962,000; 2003 \$2,859,000)	271,894	375,177
Intangible assets at cost, less accumulated amortization (2004 \$1,114,000; 2003 \$995,000)	318,371	437,761
	<hr/>	<hr/>
Total assets	\$ 17,166,242	\$ 17,525,620
	<hr/>	<hr/>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Accounts payable and accrued liabilities	\$ 927,517	\$ 760,005
	<hr/>	<hr/>
Total current liabilities	927,517	760,005
Total liabilities	927,517	760,005
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$.003 par value; shares authorized: 60,000,000; shares issued: 7,317,573;	21,953	21,953
Additional paid-in capital	64,075,686	64,075,686
Retained-earnings deficit	(44,088,430)	(43,468,855)
Treasury stock at cost: 2,359,341 shares	(3,793,985)	(3,793,985)
Accumulated other comprehensive income (loss)	23,501	(69,184)
	<hr/>	<hr/>
Total stockholders' equity	16,238,725	16,765,615
	<hr/>	<hr/>
Total liabilities and stockholders' equity	\$ 17,166,242	\$ 17,525,620
	<hr/>	<hr/>

See accompanying notes.

**QUOTESMITH.COM, INC.**  
**STATEMENTS OF OPERATIONS**

	Quarter ended March 31,	
	2004	2003
	(unaudited)	
<b>Revenues:</b>		
Commissions and fees	\$ 2,450,223	\$ 2,557,062
Other	1,991	14,499
	2,452,214	2,571,561
<b>Expenses:</b>		
Selling and marketing	1,359,910	1,302,573
Operations	896,791	972,412
General and administrative	901,483	800,965
	3,158,184	3,075,950
Operating loss	(705,970)	(504,389)
Interest income	86,219	91,597
Realized gain on sale of investments	176	
	(619,575)	(412,792)
Net loss	\$ (619,575)	\$ (412,792)
	(0.12)	(0.08)
Net loss per common share, basic and diluted	\$	\$
Weighted average common shares and equivalents outstanding, basic and diluted	4,958,232	4,909,331

See accompanying notes.

**QUOTESMITH.COM, INC.**  
**STATEMENTS OF STOCKHOLDERS' EQUITY**

	<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Retained- Earnings Deficit</u>	<u>Treasury Stock</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Stockholders' Equity</u>
	<u>Number of Shares Issued</u>	<u>Par Value</u>					
<b>2003:</b>							
Balance at January 1	7,268,072	\$ 21,804	\$ 63,972,732	\$ (42,187,861)	\$ (3,793,985)	\$ 82,494	\$ 18,095,184
Net loss				(1,280,994)			(1,280,994)
Other comprehensive loss - unrealized loss on investments						(151,678)	(151,678)
<b>Total comprehensive loss</b>							<b>(1,432,672)</b>
Proceeds from sale of common stock:							
exercise of stock options	49,501	149	102,954				103,103
<b>Balance at December 31</b>	<b>7,317,573</b>	<b>21,953</b>	<b>64,075,686</b>	<b>(43,468,855)</b>	<b>(3,793,985)</b>	<b>(69,184)</b>	<b>16,765,615</b>
<b>Three months ended March 31, 2004 (unaudited)</b>							
Net loss				(619,575)			(619,575)
Other comprehensive income - unrealized gain on investments						92,685	92,685
<b>Total comprehensive loss</b>							<b>(526,890)</b>
<b>Balance at March 31, 2003 (unaudited)</b>	<b>7,317,573</b>	<b>\$ 21,953</b>	<b>\$ 64,075,686</b>	<b>\$ (44,088,430)</b>	<b>\$ (3,793,985)</b>	<b>\$ 23,501</b>	<b>\$ 16,238,725</b>

See accompanying notes.

**QUOTESMITH.COM, INC.**  
**STATEMENTS OF CASH FLOWS**

	Quarter Ended March 31,	
	2004	2003
	(unaudited)	
<b>Cash flows from operating activities:</b>		
Net loss	\$ (619,575)	\$ (412,792)
Adjustments to reconcile to net cash used by operating activities:		
Depreciation expense	103,283	165,440
Amortization	184,362	171,539
Accounts payable and accrued liabilities	180,821	(34,220)
Commissions receivable	(114,275)	36,412
Other assets	(231,032)	(99,093)
	(496,416)	(172,714)
<b>Cash flows from investing activities:</b>		
Purchases of investments		(4,132,158)
Proceeds from investment maturities		3,900,000
Proceeds of sales of investments	998,426	
	998,246	(232,158)
Net cash provided (used) by investing activities	998,246	(232,158)
<b>Cash flows from financing activities:</b>		
Issuance of common stock		1,250
Payment of capital lease obligation	(13,309)	(11,767)
	(13,309)	(10,517)
Net cash used by financing activities	(13,309)	(10,517)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>488,701</b>	<b>(415,389)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>676,728</b>	<b>1,639,909</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 1,165,429</b>	<b>\$ 1,224,520</b>

See accompanying notes.



**QUOTESMITH.COM, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**(Unaudited)**

**1. Description of Business**

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

**2. Summary of Significant Accounting Policies**

**Basis of Presentation**

The accompanying unaudited financial statements have been prepared in accordance with 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 three-month period ended March 31, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004.

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

**Stock Options**

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

date of grant consistent with the methodology prescribed under SFAS 123, approximate net loss and net loss per share would have been as follows:

	Quarter Ended March 31,	
	2004	2003
Net loss as reported	\$ (619,575)	\$ (412,792)
Less pro forma stock compensation using fair value method	(37,051)	(146,095)
Pro forma net loss	\$ (656,626)	\$ (558,887)
Pro forma net loss per common share, basic and diluted	\$ (.13)	\$ (.11)

### 3. Commitments and Contingencies

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

### 4. Acquisition and Related Funding

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

On the same date, the Company signed an agreement to sell 2.36 million shares of its common stock to Zions Bancorporation for \$5.50 net per share, thus raising \$13 million in new capital to be used by the Company to fund part of the Life Quotes acquisition cost. The investor rights agreement we will enter with Zions, upon consummation of the stock issuance will prohibit us from paying cash dividends on our common stock unless certain conditions are met. This agreement is also subject to shareholder approval. Quotesmith.com intends to fund the remainder of the purchase price by using cash on hand and/or mortgage debt.

On May 7, 2004, the Company borrowed \$6.5 million from Zions Bancorporation and used these funds, along with funds on hand, to close the acquisition of Life Quotes, Inc. Under the terms of the borrowing agreement, the proceeds of the sale of common shares to Zions Bancorporation must be used first to repay the loan and any accrued interest thereon. The loan agreement also calls for repayment within six months if the sale of common shares has not occurred.

None of the above-described transactions were recorded in the accompanying March 31, 2004 financial statements, as the respective closings had not taken place as of that date.

**LIFE QUOTES, INC.**

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**Report of Independent Auditors**

Stockholder  
Life Quotes, Inc.

We have audited the accompanying balance sheets of Life Quotes, Inc. (the Company) as of December 31, 2003 and 2002, and the related statements of income and retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company at December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

/s/ ERNST & YOUNG LLP

Chicago, Illinois  
January 31, 2004

Except Note 7, as to which the date is  
March 3, 2004

## Life Quotes, Inc.

## Balance Sheets

	December 31,	
	2003	2002
<b>Assets</b>		
Current assets:		
Cash (overdraft)	\$ (61,358)	\$ 36,825
Accounts receivable (Note 3)	462,319	332,629
Prepaid expenses	86,010	59,900
Total current assets	486,971	429,354
Property, plant and equipment at cost (Note 2):		
Furniture, fixtures and equipment	346,468	301,380
Data processing equipment	214,713	174,960
Software	93,633	69,977
	654,814	546,317
Less accumulated depreciation	431,201	300,765
	223,613	245,552
	\$ 710,584	\$ 674,906
<b>Liabilities and stockholder's equity</b>		
Current liabilities:		
Accounts payable	\$ 49,793	\$ 48,826
Accrued payroll taxes	36,442	
Other current liabilities	2,962	1,627
Total current liabilities	89,197	50,453
Stockholder's equity:		
Common stock, \$1 par value, 100 shares authorized, issued and outstanding	100	100
Retained earnings	621,287	624,353
	621,387	624,453
Contingencies (Note 6)		
	\$ 710,584	\$ 674,906

See accompanying notes to financial statements

## Life Quotes, Inc.

## Statements of Income and Retained Earnings

	Year ended December 31,	
	2003	2002
<b>Revenues</b>		
Commissions	\$ 8,220,630	\$ 6,546,762
Bonuses	2,147,809	2,355,135
Other income	38,469	39,416
	<u>10,406,908</u>	<u>8,941,313</u>
<b>Expenses</b>		
Salaries and wages	3,904,971	3,977,923
Payroll taxes	298,338	290,818
Employee benefits	229,391	179,409
Education and training	36,538	22,401
Incentives expense	52,092	79,257
Licensing expense	104,926	93,160
Office rent	400,000	598,893
Building expenses	45,941	47,080
Insurance	33,688	31,264
Advertising and promotion	3,556,851	2,165,988
Telephone and utilities	158,938	153,005
Postage and delivery	120,801	157,934
Office supplies and expense	126,683	150,343
Travel and entertainment	36,002	33,519
Depreciation	130,435	129,568
Other miscellaneous	51,548	46,370
	<u>9,287,143</u>	<u>8,156,932</u>
Net income	1,119,765	784,381
Retained earnings beginning of year	624,353	420,484
Stockholder distributions	(1,122,831)	(580,512)
	<u>621,287</u>	<u>624,353</u>
Retained earnings end of year	\$ 621,287	\$ 624,353

See accompanying notes to financial statements

## Life Quotes, Inc.

## Statements of Cash Flows

	Year ended December 31,	
	2003	2002
<b>Operating activities</b>		
Net income	\$ 1,119,765	\$ 784,381
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	130,435	129,568
Changes in assets and liabilities:		
Increase in accounts receivable	(129,690)	(71,153)
Increase in prepaid expenses	(26,110)	(38,687)
Increase (decrease) in accounts payable	967	(58,859)
Increase in accrued payroll taxes	36,442	
Increase (decrease) in other current liabilities	1,336	(36,575)
Net cash provided by operating activities	1,133,145	708,675
<b>Investing activities</b>		
Capital expenditures	(108,497)	(46,460)
Net cash used in investing activities	(108,497)	(46,460)
<b>Financing activities</b>		
Stockholder's distributions	(1,122,831)	(580,512)
Net cash used in financing activities	(1,122,831)	(580,512)
Net increase (decrease) in cash and cash equivalents	(98,183)	81,703
Cash (overdraft) at beginning of year	36,825	(44,878)
Cash (overdraft) at end of year	\$ (61,358)	\$ 36,825

See accompanying notes to financial statements.

**Life Quotes, Inc.**

**Notes to Financial Statements**

**December 31, 2003 and 2002**

**1. Nature of Operations**

Life Quotes, Inc. operates as an insurance agency marketing primarily individual term life insurance. The Company generates revenue from commissions and bonuses paid by numerous life insurance companies based on new first year premium and renewal premium in force. For the years ended December 31, 2003 and 2002, the Company had approximately \$35,410,000 and \$29,062,000 of premium in force, respectively. During the years ended December 31, 2003 and 2002, approximately 97% of these premiums were underwritten by four insurance companies. The Company conducts its insurance agency business using a combination of commissioned marketing agents, and salaried or hourly support staff. After a short initiation period, marketing agents are paid entirely by commission. The Company generates prospective customer interest through a combination of advertising methods, primarily radio, print, and through their web site.

**2. Summary of Significant Accounting Policies**

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Revenue Recognition**

The Company recognizes revenue, including first year commissions, renewal commissions, and volume-based bonuses, when notified by the insurance company that the commissions and bonuses have been earned. Receivables are recognized for revenue earned prior to the end of an accounting period, but not received until after the end of the period.

**Advertising Costs**

The Company recognizes advertising costs as incurred. Production costs are expensed in the first period that the advertising takes place. The costs of communicating the advertising are expensed in the period in which the advertising is communicated.

**Cash**

The Company maintains its available cash in demand checking accounts in federally insured banks.

**Furniture, Equipment, and Computer Software**

Furniture, equipment, and computer software are recorded at cost. Depreciation is computed using the straight-line method over estimated useful lives ranging from three to five years. Repair and maintenance costs are charged to expense as incurred.



## **Income Taxes**

No provision for income taxes has been included in the accompanying financial statements as the Company has elected to be treated as an S corporation for tax purposes. Consequently all items of income and expense are reflected in the income tax returns of the stockholder.

### **3. Accounts Receivable**

Accounts receivable at December 31, 2003 and 2002 represent commissions earned prior to year end, but not received and deposited until the following period. No allowance for doubtful accounts has been included in the accompanying financial statements as all receivables were collected subsequent to their respective year end.

### **4. Lease Obligations**

The Company leases its office space from the Company's sole stockholder under an informal month-to-month lease. Lease payments made to the stockholder for the years ended December 31, 2003 and 2002, was \$400,000 and \$599,000, respectively.

### **5. Retirement Plan and Employee Benefits**

The Company maintains a contributory retirement plan under Internal Revenue Code Section 401(k) for all of its full time employees. Under the terms of the plan, employees may contribute a portion of their salary, with an annual limit as established by law, \$12,000 and \$11,000 for the years ended December 31, 2003 and 2002. The Company is obligated to contribute an amount equal to 15% of the employee's contribution. Employees vest in company contributions after three years of employment. Retirement expense for the years ended December 31, 2003 and 2002 was \$23,000 and \$48,000, respectively.

The Company provides health insurance benefits to its full time employees under the terms of several plans. The employee may choose coverage levels and deductible amounts based on their personal and family situation. The Company pays for the employee and withholds premium from the employee's wage for dependents. The Company does not have any agreements to provide post retirement benefits.

### **6. 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.

### **7. Subsequent Event**

On March 1, 2004 the Company entered into an agreement to sell the majority of the Company's assets and liabilities to Quotesmith.com, Inc., an insurance agency and brokerage. This agreement is subject to shareholder and regulatory approval. The sale is expected to close in the first half of 2004. The accompanying financial statements do not reflect any adjustments that may be made in conjunction with the sale.

## Life Quotes, Inc.

## Balance Sheets

	March 31, 2004	December 31, 2003
	(Unaudited)	
<b>Assets</b>		
Current assets:		
Cash	\$ 148,796	\$ (61,358)
Accounts receivable	490,121	462,319
Prepaid expenses		86,010
Total current assets	638,917	486,971
Property, plant, and equipment At cost:		
Furniture, fixtures and equipment	347,847	346,468
Data processing equipment	238,710	214,713
Software	95,090	93,633
	681,647	654,814
Less: Accumulated depreciation	466,046	431,201
	215,601	223,613
	\$ 854,518	\$ 710,584
<b>Liabilities and stockholder's equity</b>		
Current liabilities:		
Accounts payable	\$ 9,938	\$ 49,793
Accrued payroll taxes	4,902	36,442
Other current liabilities	105,600	2,962
Total current liabilities	120,440	89,197
Stockholder's equity:		
Common stock, \$1 par value, 100 shares authorized, issued, and outstanding	100	100
Retained earnings	733,978	621,287
	734,078	621,387
Contingencies (Note 3)		
	\$ 854,518	\$ 710,584

See accompanying notes to financial statements.

## Life Quotes, Inc.

## Statements of Income and Retained Earnings

	Three Months Ended March 31	
	2004	2003
	(Unaudited)	
<b>Revenues</b>		
Commissions	\$ 2,108,856	\$ 2,234,587
Bonuses	935,739	409,269
Other income	60	50
	<u>3,044,655</u>	<u>2,643,906</u>
<b>Expenses</b>		
Salaries, wages and benefits	861,467	1,036,845
Selling and marketing	1,107,087	975,000
Other	294,416	461,571
	<u>2,262,970</u>	<u>2,473,416</u>
Net income	781,685	170,490
Retained earnings Beginning of year	621,287	624,353
Stockholder distributions	(668,994)	(189,378)
	<u>733,978</u>	<u>605,465</u>
Retained earnings End of year	\$ 733,978	\$ 605,465

*See accompanying notes to financial statements*

## Life Quotes, Inc.

## Statements of Cash Flows

	Three months ended March 31	
	2004	2003
(Unaudited)		
<b>Operating activities</b>		
Net income	\$ 781,685	\$ 170,490
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	34,845	32,609
Changes in assets and liabilities:		
Increase in accounts receivable	(27,802)	(33,966)
Decrease in prepaid expenses	86,010	59,900
Decrease in accounts payable	(39,855)	(39,273)
Increase (decrease) in accrued payroll taxes	(31,540)	1,502
Increase in other current liabilities	102,638	269,609
Net cash provided by operating activities	905,981	460,871
<b>Investing activities</b>		
Capital expenditures	(26,833)	(38,158)
Net cash used in investing activities	(26,833)	(38,158)
<b>Financing activities</b>		
Stockholder's distributions	(668,994)	(189,378)
Net cash used in financing activities	(668,994)	(189,378)
Net increase in cash and cash equivalents	210,154	233,335
Cash (overdraft) at beginning of period	(61,358)	36,825
Cash at end of period	\$ 148,796	\$ 270,160

See accompanying notes to financial statements.

**Life Quotes, Inc.**

**Notes to Financial Statements**

**(Unaudited)**

**1. Description of Business**

Life Quotes, Inc. operates as an insurance agency marketing primarily individual term life insurance. The Company generates revenue from commissions and bonuses paid by numerous life insurance companies based on new first year premium and renewal premium in force. During the years ended December 31, 2003 and 2002, approximately 97% of these premiums were underwritten by four insurance companies. The Company conducts its insurance agency business using a combination of commissioned marketing agents, and salaried or hourly support staff. After a short initiation period, marketing agents are paid entirely by commission. The Company generates prospective customer interest through a combination of advertising methods, primarily; radio, print, and through their web site.

**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 three-month period ended March 31, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004.

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

**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. Subsequent Event**

On May 7, 2004, the Company closed a sale of the majority of the Company's assets and liabilities to Quotesmith.com, Inc., an insurance agency and brokerage. The accompanying financial statements do not reflect any adjustments that may be made in conjunction with the sale.

February 27, 2004

Member of the  
Board of Directors  
Quotesmith.com, Inc.  
8205 South Cass Avenue  
Darien, IL 60561

Members of the Board:

You have asked us to advise you with respect to the fairness to Quotesmith.com, Inc. (the "Company") from a financial point of view of the Company's acquisition of certain of the assets of Life Quotes, Inc. (the "Seller") pursuant to that certain Asset Purchase Agreement among the Company, Life Quotes Acquisition, Inc. ("Acquisition Co."), Seller and Kenneth L. Manley (the "Asset Agreement") and the purchase of certain real property pursuant to that certain real estate purchase agreement among the Company, Acquisition Co., Seller and The Kenneth L. Manley Revocable Trust dated as of June 10, 1987 (the "Real Estate Agreement") (collectively, the "Transaction").

Mystic Capital Advisors Group, LLC as part of its investment banking services, is regularly engaged in consulting on structuring, financing and the valuation of businesses and their securities in connection with mergers and acquisitions, private placements and valuations for estate, corporate and other purposes. We have acted as financial advisor to the Board in connection with the Transaction and will receive a fee and indemnification for our services, none of which is contingent upon the consummation of the Transaction.

In arriving at the opinion set forth below, we have reviewed certain private and publicly available business and financial information relating to the Company and Seller and drafts of the Asset Agreement and the Real Estate Agreement. We have also reviewed certain other information, including historical financial information, provided to us by the Seller, and have met with the management of the Company and the Seller to discuss the business and prospects of the Seller. We have also considered certain financial and market data of the Seller, and we have compared that data with other publicly available data for similar sales. The data was collected by contacting several third party sources and analyses were performed by us to compare the terms and structure of the Transaction to the terms for similar transactions. We also considered such other information, public filings, financial studies, analyses, and investigations and financial, economic and market criteria which we deemed relevant.

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In connection with our review, we have not assumed any responsibility for independent verification of any of the foregoing information, have relied on its being complete and accurate in all material respects, and have further relied on assurances of the Company that they are not aware of any material facts or circumstances that would make such information misleading. We have also assumed that the Asset Agreement and the Real Estate Agreement will conform to the drafts reviewed by us in all respects material to our analysis. We have not been requested to make, and have not made, an independent evaluation or appraisal of the real property nor of the Seller's assets or liabilities (contingent or otherwise) or other data related to the physical condition of the real property. A third party real estate appraiser was retained by the Company to perform an appraisal on the subject property during February 2004. While we have retained a copy of the executive summary provided in conjunction with the appraisal report, we make no representation as to the qualifications of the appraiser and do not provide an opinion as to the accuracy of the report.

Our opinion is necessarily based upon market, economic and other conditions as they exist and can be evaluated as of the date of this opinion and the information made available to us as of the date of this opinion. It should be understood that subsequent developments may affect this opinion and that we do not have any obligation to update, revise or reaffirm this opinion. We are not rendering any opinion regarding the future performance of the Seller.

This letter is provided solely for the information of the directors and stockholders of the Company and may not be used for any other purpose, or reproduced, disseminated, quoted, referred to or disclosed or otherwise made available to, or relied upon by any other person or entity, nor may reference be made hereto or to our firm or our engagement without our prior written consent except that this letter may be included in any Securities and Exchange Commission filing of the Company.

Based upon and subject to the foregoing, it is our opinion that, as of the date hereof, the Transaction is fair to the Company and its stockholders from a financial point of view.

Very truly yours,

Mystic Capital Advisors Group, LLC  
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**EXECUTIVE SUMMARY****CONCLUDED SUBJECT VALUE****\$5,500,000****"As Is" Fee Simple Market Value**

<b>Cost Approach:</b>	<b>\$</b>	<b>5,850,000</b>
<b>Direct Sales Comparison Approach:</b>	<b>\$</b>	<b>5,860,000</b>
<b>Income Approach:</b>	<b>\$</b>	<b>5,210,000</b>

Location:	32045 Castle Court
Property Type:	Office building
Assessor's Parcel Number:	71-042-03-10017
Interest Appraised:	Fee Simple
Effective Date:	February 17, 2004
Date of Report:	February 25, 2004
Intended use or user:	Quotesmith.com, Inc.
Ownership:	Kenneth L. Manley Revocable Trust
Exposure Time:	Less than 12 Months

**Highest and Best Use**

If Vacant:	Office Use
As Improved:	Office Use

**Site & Improvements**

Zoning:	PUD, Jefferson County
Flood Zone:	Zone X, FEMA Map 180087 0240 C (07/04/789)
Land Area:	138,041 Square Feet, 3.169 Acres
Type:	Single-tenant
Gross Building Area:	43,401 Square Feet (Jefferson County Assessor records)
Rentable Area:	43,401 Square Feet (See appraisers' comments)
Number of Stories:	Three
Quality & Condition:	Class B Above Average Building
Parking:	106 Spaces In Common
Year built:	2000

**Operating Data & Projections**

Current Vacancy:	0%
Net Operating Income (NOI):	\$494,828
Capitalization Rate:	9.5%
Expenses:	\$6.42 per square foot (Pro-forma)

**APPRAISERS' COMMENTS**

The subject property is an owner occupied office building that serves as the corporate headquarters for Life Quotes, Inc. The improvements are contained within a three-story, 43,401 gross square foot office building that was constructed in 2000, according to Jefferson County Assessor records. A physical inspection of the subject property on February 17, 2004 confirms that the subject has approximately 43,401 gross square feet.



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In addition to county assessment records and a physical inspection of the subject, the appraisers' were provided with an update of an appraisal report of the subject dated July 25, 2003. This report

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states in numerous places throughout the report that the subject is 42,000 square feet and on page 1 of the report it is stated that the subject has 25,286 square feet of net rentable area. The 25,286 square feet is not mentioned again within that report including the income approach to value where the appraiser applied the 42,000 square feet as the net rentable area.

The appraisers note that the subject has a large two story open foyer, a three story elevator, common area bathrooms and minimal common area hallways that would normally be considered common areas, however this space is not anywhere near the 16,714 square feet of common area that the previous appraisal indicates. The appraisers also note that the subject serves as a corporate headquarters and that most office buildings that serve as corporate headquarters are not leased and therefore have no defined common areas. These types of buildings are typically valued based on their total gross square footage due to the fact that the market does not recognize common areas within this type of property.

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**ASSET PURCHASE AGREEMENT**

**dated as of January 31, 2004**

**by and among**

**Quotesmith.com Inc.**

**Life Quotes Acquisition, Inc.**

**Kenneth L. Manley**

**and**

**Life Quotes, Inc.**

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