

INSURE.COM, INC
Form 10-K
March 15, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the fiscal year ended December 31, 2006.

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from _____ to _____.

Commission File No. 000-26781

INSURE.COM, INC.

(Exact name of Registrant as specified in its charter)

Delaware
State or other jurisdiction
of incorporation or organization)

36-3299423
(IRS Employer
Identification Number)

8205 South Cass Avenue, Suite 102

Darien, Illinois 60561

(630) 515-0170

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

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

Title of Each Class
Common Stock, \$.003 par value
Preferred Stock Purchase Rights

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by checkmark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

Indicate by a check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check One):

Large Accelerated Filer

Accelerated Filer

Non Accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

Aggregate market value of the Registrant's voting stock held by non-affiliates on March 8, 2007, based on the closing price of said stock on the Nasdaq Capital Market on such date, was \$9,702,337.

As of March 8, 2007, 7,301,469 shares of the Registrant's Common Stock, \$.003 par value of the Registrant were outstanding.

Documents Incorporated by Reference

Portions of the Registrant's definitive proxy statement for the annual meeting of stockholders to be held on May 17, 2007, to be filed pursuant to Regulation 14(A) are incorporated by reference into Part III of this Form 10-K.

PART I

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Because we want to provide you with more meaningful and useful information, this Annual Report on Form 10-K includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These forward-looking statements reflect our current expectations and projections about our future results, performance, prospects and opportunities. We have attempted to identify these forward-looking statements by using words such as may, will, expects, anticipates, believes, intends, estimates, could, or similar expressions. These forward-looking statements are based on information currently available to us and are subject to a number of risks in 2007 and beyond. Actual events may differ materially from those expressed in, or implied by, these forward-looking statements. These risks, uncertainties, and other factors include, without limitation, the following:

- our ability to achieve or sustain profitability;
- demand for life insurance;
- significant fluctuations in our quarterly results;
- our ability to develop our brand recognition;
- our number of agency contracts;
- our ability to generate revenue from the sale of Internet leads for lines of insurance other than life;
- the closing of the sale of our building in Colorado, scheduled for April 30, 2007;
- our ability to manage our growth;
- providing accurate insurance quotes;
- our ability to manage our expenses, quickly respond to changes in our marketplace and meet consumer expectations;
- the complexity of our technology and our use of new technology;
- our ability to hire and retain senior management and other qualified personnel;
- intense competition in the insurance industry;
- our ability to keep pace with technological changes and future regulations affecting our business;
- constraints of the systems we employ; and
- our ability to raise additional capital if necessary.

See the section of this Annual Report on Form 10-K entitled "Risk Factors" for a description of these and other risks, uncertainties, and factors.

You should not place undue reliance on any forward-looking statements. Except as required by the federal securities laws, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances, or any other reason after the date of this annual report. Unless otherwise expressly stated, all references to we, us, our, Insure.com, and the Company refer to Insure.com, Inc. and its subsidiaries. The information contained on our Web sites, or Web sites that are linked to our Web sites, is specifically not incorporated herein by reference.

ITEM 1. BUSINESS

Overview

We are an insurance agency and brokerage headquartered in Darien, Illinois. We own and operate a comprehensive online consumer insurance information service, accessible at www.INSURE.COM, which caters to the needs of self-directed insurance shoppers. Since our inception in 1984, we have been continuously developing a proprietary and comprehensive insurance price comparison and order-entry system that provides instant quotes from over 30 life insurance companies. We use this database to provide customers with a large array of comparative life 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, health and travel insurance through various third parties. We generate revenues from the receipt of commissions and fees paid by various sources that are tied directly to the volume of insurance sales or traffic that we produce. We conduct our insurance agency and brokerage operations using licensed agents who are compensated, in part, based on the volume of business sold and we generate prospective customer interest using traditional direct response advertising methods conducted primarily offline.

For the ten-year period ended December 31, 2006, we have spent a total of \$79.5 million in direct-to-consumer advertising and have sold approximately 183,000 new policies.

Industry Background

The Traditional Insurance Market in the United States

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

Challenges to Purchasing and Delivering Insurance

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

These challenges include:

- *Fragmented delivery.* Insurance products are available from captive agents, independent agents and direct distribution channels as well as new entrants, including banks and other financial institutions. Because of this fragmentation, there has been no single source of policy coverage and pricing information from which a consumer can obtain unbiased and complete information.
- *Quantity and variation of products.* Insurance policies vary by type of insurance product, underwriting guidelines, insurance company, jurisdiction and the particular characteristics and preferences of the consumer. This creates a complex pricing structure that is not readily understandable or comparable without the use of technology.
- *Information-intensive underwriting process.* The underwriting process requires consumers to submit, and insurance companies to collect, large amounts of individualized and personal

information. This process is difficult, time consuming and, if not accurately completed, will delay the approval of a policy.

- *Negative consumer perception.* Consumers often believe that they paid too much for their insurance and were not properly informed by insurance agents. Face-to-face contact with an insurance agent may convey the sense of a high-pressure sales environment with a lack of unbiased information.
- *Misalignment of interests between insurance agents and consumers.* Commission-based insurance agents represent only a limited number of insurance companies. Accordingly, they are compensated to promote and sell a limited range of products, which is in direct conflict with the consumer's need to obtain insurance at the lowest price.
- *Inconvenient and time-consuming purchase.* Researching policy coverage, contacting competing insurance companies, collecting information and obtaining insurance quotes require large blocks of time usually during regular working hours. Consumers are often unable to shop for insurance on their own time and from the convenience of their own home.

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

Online Insurance

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

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

- insurance is an information-based product that needs no physical shipment or warehousing of merchandise;
- through a single medium, consumers can access information and compare a wide variety of insurance companies products;
- effective two-way communication flow via the Internet allows insurance companies to interact with consumers and rapidly collect underwriting information;
- enhanced convenience, privacy and control over the process of researching and purchasing insurance without the pressure of a commissioned agent; and
- ability of insurance companies to target and serve segments of the market which previously were unprofitable through traditional distribution channels by reducing the need for large sales staff and costly local offices.

Many companies are trying to address the online insurance opportunity. Some companies have created lead referral Web sites for the purpose of capturing consumer name and address information to

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

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

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

The Insure.com Solution

We believe that Insure.com provides the most comprehensive Internet-based insurance service available. Our website enables consumers to obtain instant quotes from over 30 life insurance companies and provides access to quotes for several different insurance products, including health, auto and home insurance, through third parties. Customers who prefer an offline experience can receive comparative life insurance quotes from our licensed insurance professionals and can complete an insurance application over the phone. Our web site provides consumers with insurance-related information and decision-making tools. Combining the reach and efficiency of the Internet with our proprietary database and industry expertise developed over the past 20 years, we provide a complete quote-to-policy-delivery insurance solution.

We believe 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. Our 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.

Our 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 30 life insurance companies, and access to quotes from third parties for several other types of insurance including private passenger automobile, dental, individual and family medical, long-term care, disability and small group medical. We believe we offer consumers access to the largest, most complete repository of comparative information on insurance products, insurance pricing and insurance providers. We empower consumers with relevant current pricing knowledge, coverage information and independent rating information so consumers can make informed buying decisions.

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

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

Convenience. Consumers who use our services no longer need to contact different insurance companies or salespeople, one by one, in order to gather information to make educated decisions. Unlike traditional agents who only recommend and promote a limited number of insurance companies' policies, we provide real time access to a large database of over 30 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 can purchase insurance directly through us. Unlike insurance lead referral services, at Insure.com we do not abandon the consumer once the insurance company has been selected, but continue to provide value-added support and service throughout the insurance purchase process. We facilitate this process by:

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

Focus on Customer Service. Customer service is both our foundation and a strategic priority. We provide a high level of customer service throughout the application process and aim to eliminate consumer dissatisfaction and frustration. Our customer service staff has an average of approximately 10 years of experience in the insurance industry.

We implement our customer service objectives by:

- requiring all new employees to attend Insure.com University, a training course that teaches all of the service tasks we perform for our customers;

- monitoring call center employees to ensure prompt and consistent responses to phone, mail and e-mail inquiries;
- providing regular application status reports and Web access to our customers on a consistent basis through policy delivery; and
- offering a 30-day cancellation option on term life policies.

Licensed National Insurance Agency. Unlike traditional insurance agents who are often only licensed in one or a limited number of states, our Company and/or certain of its employees are licensed to distribute insurance throughout the United States. This allows us to process and offer insurance policies to consumers nationwide.

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

Our Strategy

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

Continue to Build the Insure.com Brand. We will continue 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.

Continue to provide the customer with the ability to receive life insurance quotes and buy either online or through a telephone based sales staff. Our website features our proprietary online application technology for most of our term life insurance offerings. While providing a very efficient and cost effective method of fulfillment, it is our belief many potential buyers are still uncomfortable buying insurance online. For that reason, we also provide a telephone-based complement to our online sales model for term life insurance.

Continue to generate revenue from the sale of non-life insurance Internet leads. Our Website attracts visitors who are interested in information about lines of insurance other than life insurance. We provide this information through our library of articles and with various insurance tools. We also provide these visitors with access to quotes for insurance other than life by directing them to the Websites of various third parties, for which we receive fee revenue.

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

Our model 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, we can provide instant quotes from our database of over 30 life insurance companies, and our online application technology provides an efficient order entry platform. We provide a complete quote-to-policy-delivery insurance solution. Our model:

- allows consumers to *specify the desired coverage* and *indicate their personal medical conditions* to generate appropriate individualized quotes;
- allows consumers to *indicate a range of substitutability* among insurance companies and policy features for example, consumers may want to purchase insurance from a company rated A or better by A.M. Best;
- allows consumers to *choose the premium* range they are prepared to pay for the policy they want;
- allows consumers to *purchase insurance* with or without the involvement of a 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 30 life insurance companies. To help consumers understand the underwriting process, our web site provides information and helpful tips on how the underwriting process works.

Search, Retrieval and Comparison. Online consumers can quickly obtain a customized cost comparison report in a single search by completing a brief and anonymous questionnaire at the start of the online session. Customers who call or request a quote by mail will receive the same information. Each anonymous consumer inquiry triggers a proprietary cost search and comparison algorithm that sorts through a database of thousands of insurance options that is updated daily. The search result, delivered in seconds, is a comprehensive comparison of insurance policies ranked by the lowest price that matches the consumer's criteria. Consumers can then click to view (or callers can discuss with a licensed insurance professional):

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

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

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

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

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

Insurance Products

Insure.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 an 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 currently includes fixed discount plans, although we have, in the past, offered traditional indemnity plans. We provide this service using third-party technology.
- *Individual and family medical.* This is also known as comprehensive major medical insurance. We provide this service using third-party technology.
- *International travel medical.* This provides medical insurance for U.S. citizens traveling abroad and for foreign citizens traveling in the United States, as well as other risks associated with international travel. We provide a multi-company international medical and travel insurance price comparison service using third-party technology.
- *Small group medical.* Small group medical insurance are those comprehensive medical plans offered to firms that employ from 2 to 100 people. We provide this service using third-party technology.

- *No-exam life.* This provides insurance for persons who want life insurance coverage without a paramedical examination. We offer instant quotes using our own, as well as 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 Database. We maintain a proprietary database of premium rates and policy coverage information from over 30 life 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 and purchase requests, application progress tracking, customer notification and revenue recognition are highly automated and integrated. Agents and customer service representatives equipped with online computer terminals can access a customer's account information from our database on demand. Our core technology systems use a combination of our own proprietary technologies and commercially available, licensed technologies. We have internally developed and enhanced our proprietary programs over a period of 20 years using scalable tools and platforms to allow us to rapidly expand our network and computing capacity.

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

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

Marketing

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

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

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

- using direct response print advertisements placed primarily in financially oriented magazines and newspapers;
- advertising via radio, television 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 32% of total revenue for the year ended December 31, 2006, primarily from the sale of leads for insurance other than term life.

Competition

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

We believe that we are the most comprehensive Internet-based insurance service because we provide consumers complete quote-to-policy-delivery insurance services, instant quotes from over 30 life insurance companies 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 customer bases, greater brand recognition and significantly greater financial, marketing, technical and other resources than us. Several of these competitors may be able to secure products and services on more favorable terms than we can obtain. In addition, many of these competitors may be able to devote significantly greater resources than we can for developing Web sites and systems, marketing and promotional campaigns, attracting traffic to their Web sites and attracting and retaining key employees.

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

Regulation

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

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

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

Moreover, existing state insurance regulations require that a firm, or individual within that firm, must be licensed in order to quote an insurance premium. State insurance regulatory authorities regularly make inquiries, hold investigations and administer market conduct examinations with respect to compliance with applicable insurance laws and regulations by insurance companies and their agents. In recent years, a number of insurance agents and the life insurance companies they represent have been the subject of regulatory proceedings and litigation relating to alleged improper life insurance pricing and sales practices. Some of these agents and insurance companies have incurred or paid substantial amounts in connection with the resolution of these matters. We do not currently sell the types of life insurance primarily cash value life insurance policies such as universal life that are the subject of these actions.

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

or more of these activities constitute the solicitation of insurance and that personnel must be licensed. Such a determination could harm our business.

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

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

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

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

Employees

As of December 31, 2006, we had 108 employees. We have never had a work stoppage. Our employees are not represented by a collective bargaining unit. We consider our relations with our employees to be good. Our future success will depend, in part, on our ability to continue to attract, integrate, retain and motivate highly qualified technical and managerial personnel, for whom competition is intense.

Item 1A. Risk Factors

Risks Related to Our Business

Our insurance brokerage business has not been profitable and may not become profitable in the future

Our first complete year of focusing on our Internet based insurance service was 1997. We incurred operating losses each year subsequent to 1997, through the year ended December 31, 2006. 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 2006 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 approximately 66% of our 2006 revenues were derived from the sale of term life insurance

For the year ended December 31, 2006, approximately 66% of our revenue was derived from the sale of individual term life insurance. Because of this high concentration of revenue from one line of insurance, our current financial condition is largely dependent on the economic health of the term life insurance industry. If sales of term life insurance decline, for any reason, our business would be substantially harmed.

In addition, in recent years, term life insurance premiums have been declining. 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 expect to continue to experience significant fluctuations in our quarterly results, which makes it difficult for investors to make reliable period-to-period comparisons and may contribute to volatility in our stock price

Our quarterly revenues and operating results have fluctuated widely in the past and may continue to fluctuate widely in the future. Causes of these fluctuations could or have included, among other factors:

- changes in selling and marketing expenses, as well as other operating expenses;
- the length of time it takes for an insurance company to verify that an applicant meets the specified underwriting criteria this process can be lengthy, unpredictable and subject to delays over which we have little or no control, including underwriting backlogs of the insurance company and the accuracy of information provided by the applicant; we tend to place a significant number of policies with the most price-competitive insurance companies, who, due to volume, have longer and more unpredictable underwriting time frames;
- volatility in bonus commissions paid to us by insurance companies which typically are highest in the fourth quarter;
- volatility in renewal commission income;
- the conversion and fulfillment rates of consumers applications;
- new Web sites, services and products by our competitors;
- price competition by insurance companies in the sale of insurance policies; and
- the level of Internet usage for insurance products and services.

In addition, we have a very long revenue cycle for term life insurance. The time from the date the application is requested by the customer until revenue is recorded averages over three months. As a result, substantial portions of our expenses, including selling and marketing expenses, are incurred and recorded in the financial statements well in advance of potential matching revenue generation. If revenues do not meet our expectations as a result of these selling and marketing expenses, our results of operations will be negatively affected.

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

We must further develop our brand recognition in order to remain competitive

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

The sale of Internet leads for lines of insurance other than life insurance may not generate a material amount of revenues for us

As part of our marketing strategy, we sell Internet traffic that comes to our Web site and indicates an interest in an insurance product other than life insurance to third party Web sites and others in order to increase the realized revenue from visitors to our Web site. We generated fee revenues totaling \$5.5 and \$2.0 million from these sources in 2006 and 2005, respectively. Most of the agreements with these third parties 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 sales of non-life insurance traffic do not meet our expectations regarding revenues and earnings, our business could be harmed.

If we are unable to close the sale of our building in Colorado, our business could be harmed

We have signed an agreement to sell the building that had housed our Colorado call center, with a closing date of April 30, 2007. Located in Evergreen, Colorado, that building was acquired as part of the 2004 acquisition of certain assets of the former Life Quotes, Inc. During 2006, we recorded impairment charges of \$1.8 million to reduce the carrying value of the land and building to the contract price, net of estimated closing costs, of \$3.4 million as of December 31, 2006. If we are unable to close the sale of that property at a price at or above the current book value within a reasonable period of time, we may have to record additional impairment charges.

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 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. In addition, we also offer a \$500 cash reward guarantee that we will provide the lowest price quote available with respect to term life insurance policies. For the year ended December 31, 2004, we paid \$3,500, for the year ended December 31, 2005, we paid \$1,000 and for the year ended December 31, 2006 we paid \$1,500 in such cash rewards. If our quotes or those of services whose technology we utilize 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.

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

Kenneth Manley, the former owner of Life Quotes, has a non-competition agreement with us that prevents him from competing with us for up to six years. However, the agreement allows Manley to form a life insurance agency with members of his family provided that he acts only as a general agent, placing business through Insure.com as managing general agent. He is limited to being able to produce a maximum of \$2 million per year in commissionable premium, subject to annual inflationary adjustments. This arrangement could result in Manley obtaining business that we might otherwise have obtained directly.

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. Bonus commission revenues were \$1.7 million for the year ended December 31, 2006, \$2.3 million for the year ended December 31, 2005, and \$2.9 million for the year ended December 31, 2004.

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 we offer 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, we have at times been subject to regulatory action for failing to comply with these laws. 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.

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.