Life Quotes
Form 10-Q
May 07, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED March 31, 2010

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER: 000-26781

LIFE QUOTES, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	**36-3299423**
(State of Incorporation)	**(I.R.S. Employer Identification No.)**

8205 South Cass Avenue, Suite 102

Darien, Illinois 60561

(Address of principal executive offices) (Zip Code)

(630) 515-0170

(Registrant s telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	x

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

6,767,691 shares of the registrant s common stock, net of treasury shares, were outstanding as of April 30, 2010.

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PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

LIFE QUOTES, INC.

BALANCE SHEETS

	March 31, 2010 (unaudited)	December 31, 2009
ASSETS		
Cash and equivalents	$ 16,745,184	$ 16,021,870
Certificates of deposit	1,265,000	1,656,000
Fixed maturity investments-available for sale at fair value	2,567,290	3,561,145
Commissions receivable, less allowances (2010-$777,000; 2009-$765,000)	2,660,657	3,014,368
Note receivable, net of discount of $26,000 and $38,000	974,206	962,302
Other assets	379,228	393,290
Total current assets	24,591,565	25,608,975
Certificates of deposit	1,941,000	1,241,000
Fixed maturity investments-available for sale at fair value	509,705	1,037,015
Furniture, equipment and computer software at cost, less accumulated depreciation (2010-$4,537,000; 2009-$4,437,000)	902,355	967,718
Intangible assets at cost, less accumulated amortization (2010-$3,099,000; 2009-$2,994,000)	1,027,631	1,132,347
Goodwill	3,117,470	3,117,470
Total assets	$ 32,089,726	$ 33,104,525
LIABILITIES AND STOCKHOLDERS EQUITY		
Accounts payable and accrued liabilities-current	$ 2,251,129	$ 2,473,547
Total liabilities	2,251,129	2,473,547
Stockholders equity		
Preferred stock, $.001 par value; shares authorized: 5,000,000; shares issued and outstanding: 0		
Common stock, $.003 par value; shares authorized: 60,000,000; shares issued: 2010- 9,694,276; 2009-9,691,276; shares outstanding: 2010-6,767,691; 2009-6,674,358	29,084	29,074
Additional paid in capital	77,165,209	77,155,756
Retained earnings deficit	(41,593,990)	(40,804,735)
Treasury stock at cost: 2,926,918 shares	(5,813,608)	(5,813,608)
Accumulated other comprehensive income	51,902	64,491
Total stockholders equity	29,838,597	30,630,978
Total liabilities and stockholders equity	$ 32,089,726	$ 33,104,525

See accompanying notes.

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LIFE QUOTES, INC.

STATEMENTS OF OPERATIONS

	Quarter ended March 31, 2010	Quarter ended March 31, 2009
	(unaudited)	
Revenues:		
Commissions and fees	$ 2,444,564	$ 4,023,094
Total revenues	2,444,564	4,023,094
Expenses:		
Selling and marketing	251,540	593,186
Operations	1,964,629	2,296,337
General and administrative	882,445	819,648
Depreciation and amortization	204,866	189,309
Total expenses	3,303,480	3,898,480
Operating income (loss)	(858,916)	124,614
Investment income	69,661	67,820
Net income (loss)	$ (789,255)	$ 192,434
Net income (loss) per common share, basic and diluted	$ (0.12)	$ 0.03
Weighted average common shares and equivalents outstanding, basic	6,764,876	6,770,317
diluted	6,764,876	6,780,317

See accompanying notes.

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LIFE QUOTES, INC.

STATEMENTS OF STOCKHOLDERS EQUITY

	Common Stock						
	Number of Shares Issued	**Par Value**	**Additional Paid-in Capital**	**Retained-Earnings Deficit**	**Treasury Stock**	**Accumulated Other Comprehensive Income (Loss)**	**Total Stockholders Equity**
2009							
Balance at January 1	9,691,276	$ 29,074	$ 77,154,879	$ (54,977,694)	$ (5,792,972)	$ (51,234)	$ 16,362,053
Net income				14,172,959			14,172,959
Other comprehensive income-net unrealized gain on investments						115,725	115,725
Total comprehensive income							14,288,684
Stock option compensation			877				877
Purchase of 8,700 shares of treasury stock					(20,636)		(20,636)
Balance at December 31	9,691,276	29,074	77,155,756	(40,804,735)	(5,813,608)	64,491	30,630,978
2010							
Three months ended March 31, 2010							
Net loss				(789,255)			(789,255)
Other comprehensive loss-net unrealized loss on investments						(12,589)	(12,589)
Total comprehensive loss							(801,844)
Exercise of stock options	3,333	10	9,453				9,463
Balance at March 31 (unaudited)	9,694,609	29,084	77,165,209	(41,593,990)	(5,813,608)	51,902	29,838,597

See accompanying notes.

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LIFE QUOTES, INC.

STATEMENTS OF CASH FLOWS

	Three Months Ended March 31, 2010	2009
	(unaudited)	
Cash flows from operating activities:		
Net income (loss)	$ (789,255)	$ 192,434
Adjustments to reconcile to net cash provided (used) by operating activities:		
Amortization of discount on note receivable	(11,904)	
Depreciation expense	100,150	75,683
Amortization of premiums and discounts on investments	8,576	5,079
Amortization of intangible assets	104,716	113,626
Stock option expense		501
Commissions receivable	353,711	(332,113)
Accounts payable and accrued liabilities	(222,418)	341,063
Other	14,062	(29,028)
Net cash provided (used) by operating activities	(442,362)	367,245
Cash flows from investing activities:		
Purchase of investments		(1,058,610)
Purchase of certificates of deposit	(700,000)	(489,000)
Proceeds of investment maturities	1,500,000	828,000
Proceeds of certificate of deposit maturities	391,000	950,000
Purchase of furniture, equipment and computer software	(34,787)	(49,312)
Net cash provided by investing activities	1,156,213	181,078
Cash flows from financing activities:		
Exercise of stock options	9,463	
Purchase of treasury stock		(20,636)
Net cash provided (used) by financing activities	9,463	(20,636)
Net increase in cash and cash equivalents	723,314	527,687
Cash and equivalents at beginning of period	16,021,870	927,308
Cash and equivalents at end of period	$ 16,745,184	$ 1,454,995

See accompanying notes.

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LIFE QUOTES, INC.

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

1. Description of Business

Life Quotes, Inc., formerly known as Insure.com, Inc. and Quotesmith.com, Inc., (the Company) is an insurance agency and brokerage. 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 for numerous life insurance products. The Company uses this database to provide customers with a large array of comparative life 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, health, 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 is produced, including industry-standard volume based bonus commissions paid by participating life insurance companies. The Company conducts its insurance agency and brokerage operations using salaried personnel and 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 U.S. generally accepted accounting principles (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 months ended March 31, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. The Company has evaluated subsequent events through May 7, 2010, the date the financial statements were issued.

The balance sheet at December 31, 2009 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. Investments

The Company s assets and liabilities recorded at fair value are categorized based upon a fair value hierarchy in accordance with ASC 820, *Fair Value Measurements and Disclosures* (ASC 820). The fair value hierarchy ranks the quality and reliability of the information used to determine fair value.

The levels of the fair value hierarchy are described below:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability (*e.g*, interest rates); and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Inputs that are both significant to the fair value measurement and unobservable.

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Assets and liabilities measured at fair value are based on one or more of the valuation techniques noted in ASC 820. The valuation techniques are described below.

Market approach: The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

Cost approach: The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (current replacement cost).

Income approach: The income approach uses valuation techniques to convert future amounts to a single present amount.

The fair value of certain of the Company s financial instruments, including Cash and cash equivalents, Certificates of deposit, Accounts receivable, and Accounts payable, approximates the carrying value due to the relatively short maturity of such instruments. The following table presents information about the Company s assets measured at fair value on a recurring basis as of March 31, 2010 and December 31, 2009, and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value.

Assets at Fair Value as of March 31, 2010

	Level 1	**Level 2**	**Level 3**	**Total**
Corporate bonds and commercial paper	$ 3,076,995	$	$	$ 3,076,995
Total	$ 3,076,995	$	$	$ 3,076,995

Assets at Fair Value as of December 31, 2009

	Level 1	**Level 2**	**Level 3**	**Total**
Corporate bonds and commercial paper	4,598,160			4,598,160
Total	$ 4,598,160	$	$	$ 4,598,160

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4. Income (Loss) Per Share

Income (loss) per share is calculated as follows:

	Quarter Ended March 31, 2010	2009
Net income (loss)	$ (789,255)	$ 192,434
Basic shares outstanding	6,764,876	6,770,317
Diluted shares outstanding	6,764,876	6,780,317
Earnings (loss) per share, basic and diluted	$ (0.12)	$ 0.03

Basic and diluted net loss per share reflects net income (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 where the effect would be antidilutive. At March 31, 2010, there were a total of 330,766 common share equivalents outstanding.

5. 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.

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

Because we want to provide you with more meaningful and useful information, this Quarterly Report on Form 10-Q includes forward-looking statements that reflect our current expectations and projections about our future results, performance, prospects, and opportunities. We have attempted to identify these forward-looking statements by using words such as may, will, expects, anticipates, believes, intends, estimat or similar expressions. These forward-looking statements are based on information currently available to us and are subject to a number of risks in 2010 and beyond. Actual results may differ materially from those expressed in, or implied by, these forward-looking statements. These risks, uncertainties, and other factors include, without limitation: our ability to achieve and sustain profitability; realization of sufficient revenue from contract renewals previously acquired to prevent impairment of the acquired asset; 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 non-life insurance leads; 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 quarterly report entitled Risk Factors for a description of these and other risks, uncertainties, and factors that may cause actual results to differ materially from those expressed in, or implied by, these forward-looking statements.

You should not place undue reliance on any forward-looking statements. Except as required by the federal securities laws, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances, or any other reason after the date of this quarterly report. All references to we, us, our, and the Company refer to Life Quotes, Inc. and its subsidiaries.

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 and any premium refunds made by the insurance carriers. 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 revenue in the period in which it is earned. Bonus revenues are typically higher in the fourth quarter of our fiscal year due to the bonus system used by many life insurance companies, which pay greater amounts upon the achievement of certain levels of annual production. 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 consistently to all periods presented in this report.

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 over three months. Any changes in the amount of time between submitted application and revenue recognition, a significant portion of which is not under our control, will create fluctuations in our operating results and could harm our business, operating results and financial condition.

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Operations expenses are comprised of both variable and semi-variable expenses, including wages, benefits, and expenses associated with processing insurance applications and maintaining our database and web site. The historical lag between the time an application is submitted to the insurance companies and when we recognize revenues significantly impacts our operating results as most of our variable expenses are incurred prior to application submission.

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

Intangible assets consist of the following:

	Intangible Asset Cost	Accumulated Amortization	Estimated Useful Life	Amortization Method
Insurance contract renewals	$ 3,538,000	$ 2,518,000	10 years	Accelerated
Non-compete agreement	589,000	581,000	6 years	Straight line
Total	$ 4,127,000	$ 3,099,000		

The fair value of insurance contract renewals was estimated based on the actual policies in force as of the acquisition date, 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. Amortization is 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 financial statements, causing impairment.

Our assets and liabilities recorded at fair value are categorized based upon a fair value hierarchy in accordance with ASC 820, *Fair Value Measurements and Disclosures* (ASC 820). The fair value hierarchy ranks the quality and reliability of the information used to determine fair value. The fair value of certain of our financial instruments, including Cash and cash equivalents, Certificates of deposit, Accounts receivable, and Accounts payable, approximates the carrying value due to the relatively short maturity of such instruments. We classify our 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

While goodwill is not amortized, it is subject to periodic reviews for impairment (at least annually, or more frequently if impairment indicators arise). We review goodwill for impairment periodically and whenever events or changes in business circumstances indicate that the carrying value of the assets may not be recoverable. Such impairment reviews are performed at the entity level with respect to goodwill, as we have one reporting unit. Under those circumstances, if the fair value were less than the carrying amount of the entity, further analysis would be required to determine whether or not a loss would need to be charged against current period earnings. No indicators of impairment were noticed in our December 31, 2009 impairment review. The fair value of the Company is determined using a combination of a market valuation based on a comparison with similar public companies (guideline company method), a discounted cash flow analysis, which includes making various judgmental assumptions, including assumptions about future cash flows, growth rates and discount rates, and a transaction method, which considers recent acquisitions of similar companies. The use of different estimates or assumptions could produce different results.

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

Results of Operations

Comparison of the Quarter Ended March 31, 2010 and March 31, 2009

Revenues

Revenues decreased $1,579,000, or 39%, in the quarter ended March 31, 2010 when compared to revenue in the same quarter of 2009. The components of revenue are as follows:

	Quarter ended March 31, 2010	Quarter ended March 31, 2009
Revenues:		
Life insurance commissions	$ 2,368,244	$ 3,461,515
Click revenue	32,197	478,627
Other	44,123	82,952
Total revenue	2,444,564	4,023,094

Life insurance commission revenue decreased $1,093,000, or 32%, for the first quarter of 2010, when compared with the same period in 2009. Total policies sold in the first quarter decreased 16% from 4,720 to 3,973, and the average revenue per policy decreased by 22%, from $872 to $804, accounting for $920,000 of the decrease in commission revenue. We also experienced an increase in first year lapsed policies, where we earned less than the full annual commission, which caused $90,000 of the decrease. Finally, increased revenue share obligations to affiliates that provided us with life leads caused $133,000 of the decrease. These declines were partially offset by an increase in renewal commissions. The decrease in paid policies can be directly attributed to a smaller staff of agents in our call center. Fees from the sale of insurance leads, also referred to as click revenue decreased $446,000, or 93%, during the first quarter, when compared with the revenue generated in the comparable periods in 2009. This is a direct result of our 2009 sale of our Insure.com website, which has resulted is significantly fewer leads for lines of insurance other than life.

Expenses

Expenses decreased $595,000, or 15%, in the quarter ended March 31, 2010 when compared to expenses in the same quarter of 2009. The components of expenses are as follows:

	Quarter ended March 31, 2010	Quarter ended March 31, 2009
Expenses:		
Selling and marketing	$ 251,540	$ 593,186
Operations	1,964,629	2,296,337
General and administrative	882,445	819,648
Depreciation and amortization	204,866	189,309
Total expenses	3,303,480	3,898,480

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Selling and Marketing. Selling and marketing expenses decreased $342,000, or 57%, for the first quarter of 2010, when compared to the same period in 2009. We intentionally decreased ad spending, as we were generating more leads for life insurance than our call center could effectively handle. We also discontinued certain advertising programs that were not providing leads as cost-efficiently as desired.

Operations. Operations expenses decreased $332,000, or 14%, in the first quarter of 2010 compared to the same quarter last year. Lower wage costs associated primarily with a smaller staff of agents and other reductions in staff was the main reason for the decrease.

General and Administrative. General and administrative costs increased $63,000, or 8%, in the first quarter of 2010. Higher franchise taxes caused most of this increase.

Depreciation and Amortization. Depreciation and amortization charges increased $16,000, or 8%, in the first quarter of 2010 when compared to the results in the comparable period in 2009. Depreciation expense increased $24,000 in the first quarter, as our new customer management system went live in the second quarter of 2009, and we began to depreciate the costs associated with it. This was partially offset by a decrease in amortization expense related to the insurance contract renewals acquired in 2004, which declines each year, as described above.

Investment Income

Investment income increased $2,000 in the first quarter of 2010, as a larger investment portfolio offset the effect of lower interest rates.

Income Taxes (Credit)

We had no income tax credit in 2010 due to valuation allowances provided against net deferred tax assets.

Liquidity and Capital Resources

We currently expect that the cash and fixed maturity investments we now hold will be sufficient to meet our anticipated cash requirements for at least the next 12 months.

The timing and amounts of our working capital expenditures are difficult to predict, and should we decide to purchase more shares of our common stock, engage in acquisitions of companies or their assets, or begin new projects requiring additional resources, we may require additional financing. If we require additional equity financing for operations, 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 and leads, 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 and purchases of furniture, equipment and software.

Cash used by operating activities was approximately $442,000 for the first three months of 2010, compared with cash provided by operating activities of $367,000 for the same period in 2009. During the first quarter of 2010, the net loss and a decrease in current liabilities exceeded non-cash expenses for depreciation and amortization, plus the net decrease in receivables. As discussed above, the net result for the first three months of 2010 showed a decline of $982,000 from the net profit shown in the first three months of 2009, as revenue decreased by $1,600,000 while expenses decreased by $595,000. Accounts payable and accrued liabilities decreased $222,000 in the first quarter primarily due to the timing of payments being made. In 2009, non-cash expenses for depreciation, amortization and stock option compensation, along with an increase in accounts payable, when added to the net profit provided positive cash flow from operations.

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Cash was provided by investing activities during the first three months of 2010 in the amount of $1,156,000, as investment maturities exceeded the reinvestment of funds and the purchase of fixed assets. Cash provided by investing activities was $181,000 in the first three months of 2009, as funds reinvested and used to purchase fixed assets were exceeded by the proceeds from maturities.

Cash of $9,000 from the exercise of stock options provided cash from financing activities in the first quarter of 2010. Cash of $21,000 was used to repurchase our common stock during the first three months of 2009, accounting for the cash used by financing activities.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

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

Substantially all of our investments are subject to interest rate risk. We consider all investments as available-for-sale, and accumulated unrealized gains on those investments totaled $52,000 at March 31, 2010. There was an unrealized gain of $64,000 at December 31, 2009.

We did not hold any derivative financial instruments as of March 31, 2010, and have never held such instruments in the past. Additionally, all our transactions have been denoted in U.S. currency, and we do not have any risk associated with foreign currency transactions.

Due to the short-term nature of our investments, a 1% increase in interest rates would decrease the fair value of our investments by an immaterial amount.

ITEM 4. Controls and Procedures

We completed an evaluation as of the end of the period covered by this quarterly report under the supervision and with the participation of management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 of the Securities Exchange Act of 1934. Based upon that evaluation, the principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of March 31, 2010 in ensuring that all material information required to be filed in this quarterly report has been made known to them in a timely fashion. There have been no changes in our internal control over financial reporting during the quarter ended March 31, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are subject to legal proceedings and claims in the ordinary course of business. We are not aware of any legal proceedings or claims that are expected to have a material effect on our financial position.

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Item 1A. Risk Factors
Risks Related to Our Business

Our insurance brokerage business has been profitable periodically and may not be 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 2008. The operating profit earned in 2009 was primarily due to a non-recurring gain from the sale of certain assets. 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 2009 in order to achieve profitability.

If the term life insurance industry declines, our business will suffer because approximately 89% of our 2009 revenues were derived from the sale of term life insurance

For the year ended December 31, 2009, approximately 89% 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.

The current economic situation may lead to reduced demand for life insurance

Our country is currently going through an economic downturn, which has resulted in rising levels of unemployment. If these economic conditions result in a decreased demand for life insurance, as consumers use their economic resources for other needs, our business could be 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;
- the conversion and fulfillment rates of consumers applications;
- new Web sites, services and products by our competitors;
- impairment charges against goodwill;

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

the level of Internet usage for insurance products and services.

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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 approximately 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 develop our brand recognition in order to remain competitive

In October 2009, we sold our Insure.com brand name, including certain trademarks, urls, websites, website content and our insurance articles library, and we are now operating with a new website, www.lifequotes.com. There are many other insurance brokers, insurance carriers and Web sites that offer services that are competitive with our services. Therefore, we believe that recognition and a favorable consumer perception of the Lifequotes.com brand is essential to our future success. Accordingly, we intend to pursue a brand development strategy consisting of advertising, online marketing, and promotional efforts. If these activities do not result in increased recognition of the new brand, our business, results of operations and financial condition could 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, and at times have sold excess life insurance leads. We generated fee revenues totaling approximately $1.4 million from these sources during the years ended December 31, 2009. 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 or not be renegotiated. If our sales of non-life insurance traffic do not meet our expectations regarding revenues and earnings, our business could be harmed.

Also, in October 2009, we sold our Insure.com brand name, including certain trademarks, urls, websites, website content and our insurance articles library, and we are now operating with a new website, www.lifequotes.com. As a result of this transaction, we expect revenue from the sale of leads to decrease significantly in the short term. If we are unable to generate significant traffic to our website, we may not be able to generate significant amounts of revenue from the sale of leads and our business, results of operations and financial condition would 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.

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Risks Related to the Insurance Industry

The economic crisis could lead to reduced capacity in the life insurance industry

Concerns have been raised regarding the economic viability of the parent holding companies of some large US life insurance companies. The most notable example is AIG, the parent company of American General Life Insurance Company and Unites States Life Insurance Company. AIG received billions of dollars of federal bail-out assistance, including direct U.S. Government investment and provision of a multi-billion dollar credit facility. While assurances have been given regarding the viability of the life insurance subsidiaries of these affected holding companies, continued deterioration of the credit markets could lead to a reduction in the capacity of life insurers to accept new business. Life insurance capacity could also be constrained by a deterioration in the financial viability of foreign and domestic life reinsurance companies. Life insurance premiums have begun to increase and underwriting guidelines could be tightened, which could result in our business being harmed.

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 during 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 $509,000 and $710,000 for the quarters ended March 31, 2010 and 2009, respectively.

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 IntelliQuote 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.

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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.

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

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

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 new Web sites and harm our ability to generate revenue

We use both internally developed and third-party systems to operate our service. If the number of users of our service increases substantially, we will need to significantly expand and upgrade our technology, transaction processing systems and network infrastructure. We do not know whether we will be able to accurately project the rate or timing of any of these increases, or expand and upgrade our systems and infrastructure to accommodate these increases in a timely manner. Our ability to facilitate transactions successfully and provide high quality customer service also depends on the efficient and uninterrupted operation of our computer and communications hardware systems. Our service has experienced periodic system interruptions, and it is likely that these interruptions will continue to occur from time to time. Additionally, our systems and operations are vulnerable to damage or interruption from human error, natural disasters, power loss, telecommunication failures, break-ins, sabotage, computer viruses, acts of vandalism and similar events. We may not carry sufficient business interruption insurance to compensate for losses that could occur. Any system failure that causes an interruption in service or decreases the responsiveness of our service would impair our revenue-generating capabilities, and could damage our reputation and our new 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.

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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.

Risks Related to the Ownership of Our Common Stock

Zions Bancorporation, together with two of our officers and directors, own a significant portion of our stock and control Life Quotes and their interests may not be the same as our public stockholders

As of April 30, 2010, Robert Bland, our chairman, President and Chief Executive Officer, directly or indirectly controlled approximately 31% of our outstanding common stock, William Thoms, our Executive Vice President and Chief Operating Officer, directly controlled approximately 7% of our outstanding common stock, and Zions Bancorporation controlled approximately 35% of our common stock. As a result, if Zions and 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 certain provisions of our certificate of incorporation,
- approve a merger, sale of assets or other major corporate transaction;

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- 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 2.4 million shares issued to them, or approximately 35% of the shares outstanding as of March 31, 2010, the investor rights agreement we signed with Zions gives Zions the right to nominate or appoint one member of our Board of Directors. We must also receive a vote of 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 430,488 options available for grant under our stock option plans 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;
- (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 a 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.

The 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 the 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 stock could be harmed.

If Zions chooses to sell its stock, the market price of our common stock could decrease and our ability to raise capital in the public markets may be adversely affected

Zions currently owns 2,363,636 shares of our common stock. Sales of significant amounts of these shares, 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.

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If our remaining goodwill becomes impaired, we will be required to write off some or all of it against earnings, which may negatively impact the price of our common stock

Our balance sheet contains goodwill in the amount of $3.1 million as a result of our 2004 purchase of certain of the assets of Life Quotes, Inc. While goodwill is not amortized, it is subject to periodic reviews for impairment (at least annually, or more frequently if impairment indicators arise). We review goodwill for impairment periodically and whenever events or changes in business circumstances indicate that the carrying value of the assets may not be recoverable. Such impairment reviews are performed at the entity level, as we have one reporting unit. Under those circumstances, if the fair value were less than the carrying amount of the entity, an impairment might exist and further analysis would be required to determine whether or not a loss would need to be charged against current period earnings. No impairment was recorded as a result of our December 31, 2009 impairment review. The fair value of the Company is determined using a combination of a market valuation based on a comparison with similar public companies (guideline company method), a discounted cash flow analysis, which includes making various judgmental assumptions, including assumptions about future cash flows, growth rates and discount rates, and a transaction method, which considers recent acquisitions of similar companies. The use of different estimates or assumptions could produce different results.

During 2010, and for as long as we have goodwill on our balance sheet, we will continue to review for indicators of goodwill impairment. If it were determined that the fair value of the entity were less than the carrying amount of the entity, an additional impairment charge could be recorded. Recording such a charge would decrease earnings and could lead to a decline in the price of our common stock.

As a relatively small company with a history of operating losses, the future trading market for our stock may not be active on a consistent basis, which may make it difficult for you to sell your shares

The trading volume of our stock depends in part on our ability to increase our revenue and reduce or eliminate our operating losses, which may increase the attractiveness of our stock as an investment, thereby leading to a more liquid market for our stock on a consistent basis. If we are unable to achieve these goals, or an active market does not develop, the trading market for our stock may be negatively affected, which may make it difficult for you to sell your shares. If an active and liquid trading market does not exist for our common stock, you may have difficulty selling your shares.

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 the common stock can result in individual stockholders paying transaction costs (commissions, markups or markdowns) that represent a higher percentage of their total share value than would be the case if the share price were substantially higher. This factor also may limit the willingness of institutions to purchase the common stock at its current low share price.

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.

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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.

Furthermore, as of April 30, 2010, Messrs. Bland and Thoms, together with Zions, directly or indirectly controlled approximately 73% of our outstanding 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 the public stockholders.

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

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

Description

Exhibit Number	
31.1	Statement of Chief Executive Officer Pursuant to Section 302
31.2	Statement of Chief Financial Officer Pursuant to Section 302
32.1	Statement of Chief Executive Officer Pursuant to Section 1350
32.2	Statement of Chief Financial Officer Pursuant to Section 1350

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Signature

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

	LIFE QUOTES, INC.
Date: May 7, 2010	By: /s/ Phillip A. Perillo
	Phillip A. Perillo
	Senior Vice President and Chief Financial Officer
	(Principal Financial and Accounting Officer)