MEMBERWORKS INC
Form 10-K
September 13, 2004

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

FORM 10-K

X Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended June 30, 2004 or

____ Transition report pursuant to Section 13 or15(d) of the Securities Exchange Act of 1934 for the transition period from ________ to _________.

Commission File No. 0-21527

MEMBERWORKS INCORPORATED
(Exact name of registrant as specified in its charter)

DELAWARE	06-1276882
(State of Incorporation)	(I.R.S. Employer Identification No.)
680 Washington Boulevard STAMFORD, CONNECTICUT	06901
(Address of principal executive offices)	(Zip Code)

(203) 324-7635
(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:
None

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:
Common Stock, $0.01 Par Value

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 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 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 check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).
[X] Yes [ ] No

The aggregate market value of the voting stock held by non-affiliates of the Registrant at December 31, 2003 was $128,298,966. The aggregate market value of the voting stock held by non-affiliates of the Registrant at June 30, 2004 was $190,018,728. The aggregate market value was computed by reference to the closing price of the Registrant's Common Stock as of that date. For purposes of calculating this amount only, all directors, executive officers and shareholders reporting beneficial ownership of more than 10% of the Registrant's Common Stock are considered to be affiliates.

The number of shares of Common Stock outstanding as of August 13, 2004 was 10,263,269.

DOCUMENTS INCORPORATED BY REFERENCE:
Portions of the Proxy Statement for the 2004 Annual Meeting of Stockholders of MemberWorks Incorporated are incorporated by reference in Parts II and III of this report.

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PART I

ITEM 1. BUSINESS

OVERVIEW

MemberWorks Incorporated (the "Company"), a Delaware Corporation, began doing business as Cardmember Publishing Corporation in 1986, was organized as MemberWorks Incorporated in 1996 and has been doing business as MemberWorks Incorporated since then.

The Company is a marketing services leader, bringing value to consumers by designing innovative membership programs that offer members easy access to a variety of discounted products and services provided by the Company's participating vendors. In April 2004, the Company broadened the scope of its business by acquiring Lavalife Inc. ("Lavalife"), a personals service. As a result of this acquisition, the Company is now a leading global provider of web-based and interactive voice response ("IVR") based personals services. The acquisition of Lavalife benefits the Company by providing access to one of the largest and fastest growing consumer categories on the internet while expanding its target market. In addition, it is the Company's intention to cross-market the products and services of the Company and Lavalife.

In the past, the Company operated in one business segment, membership. With the acquisition of Lavalife, the Company analyzes its business in the following two business segments: Membership and Personals. See Note 20 of the consolidated financial statements contained in this 2004 Annual Report filed on Form 10-K for additional financial information about the Company's business segments.

MEMBERSHIP

MEMBERSHIP PROGRAMS

The Company designs its membership programs to address the particular needs and preferences of its members by combining various features and benefits to customize its membership programs. The Company's membership programs provide substantial benefits to the Company's members, clients and vendors. The Company's members benefit by receiving an array of programs and services in the categories of health, shopping and personal security.

When consumers agree to enroll in a program, they generally receive a trial membership. During this time, the member may use the program's services without obligation, as outlined in the marketing solicitation. Membership materials, which include a membership brochure and a membership card with a membership identification number, are either mailed or emailed to the consumer during the trial period. The brochure outlines in detail the benefits offered and contains a toll-free number and a website address, which may be used to access membership benefits and information. In the event that a consumer elects not to participate in the membership program, he or she can call a toll-free number during the trial period to cancel the service without incurring any additional charges. Trial memberships are generally for a period of 7 to 30 days and there are no conditions with respect to the ability of the consumer to terminate a trial membership.

If the membership is not canceled during the trial period, the consumer is charged the annual or monthly membership fee, depending upon the applicable payment plan offered. For annual members, in the event that the members do not cancel the membership after the initial one year membership term, they receive a renewal notice in advance of each membership year and are charged for the succeeding year's membership fee. During the course of an initial annual membership term or renewal term, a member may cancel his or her membership in the program generally for a pro rata refund of the membership fee based on the remaining portion of the membership period at the time of the cancellation. Monthly members are billed each month after the trial period ends and continue to be billed each month until the member cancels. The Company's membership programs had approximately 5.6 million retail members as of June 30, 2004.

The Company has traditionally marketed its membership programs which have an up-front annual membership fee. However, beginning in 2003 and continuing into 2004, the Company expanded its marketing of membership programs in which the membership fee is payable monthly. During 2004, approximately 64% of the Company's new member enrollments were in a monthly payment program and it is the Company's intention to further increase the mix of monthly payment programs in 2005. Membership fees vary depending upon the particular services offered in the membership program.

The Company's programs are designed to offer members a combination of everyday savings, event-oriented discounts and peace of mind benefits, and are offered in English, French and Spanish. The Company partners with leading, brand name merchants and service companies to offer consumers valuable packages of members-only benefits. Membership programs are packaged around popular spending categories and typically offer potential savings well in excess of the program fee. In addition, membership programs are increasingly customized for specific clients. The Company's programs fall into the three categories described below.

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HEALTHCARE

Health, wellness, and self-improvement programs offer significant savings on a comprehensive array of healthcare products, including prescription drugs, vitamins and supplements, eye glasses and contact lenses, hearing aides, durable medical equipment, and select consumer products. The programs also offer discounts on professional services, including medical, dental, chiropractic, alternative medicine, elder care and other personal health services.

SECURITY

Security and insurance programs offer discounts on products and services that enhance and improve the consumer's sense of security and well being. These programs offer access to services that help manage privacy and protection including identity theft insurance, card registration and credit reporting, scoring, and monitoring. Insurance programs offer competitively priced insurance products including life, supplemental health, accidental death, short-term and long-term disability, warranty and identity theft insurance coverage. Other program benefits include 24-hour protection services, roadside assistance and financial, tax, and retirement planning.

DISCOUNTS

Discount programs offer exclusive access to members-only savings with leading brand name merchants covering a wide range of consumer spending categories including travel, transportation, entertainment, dining, shopping, home and small business. Savings are available through discounted gift cards, coupons, promotion codes and rebates.

VENDORS

In most cases, the products and services accessed through the Company's membership programs are offered and provided directly to members by independent benefit providers or vendors. The Company evaluates and engages only those vendors who can cost-effectively deliver high quality products and services. The Company's participating vendors generally benefit by obtaining access to a large number of demographically attractive consumers with minimal incremental marketing costs. Specifically, vendors gain access and marketing exposure to the Company's membership base and, in almost all cases, pursuant to contractual arrangements with the Company, provide a members-only discount on products or services. The Company generally does not receive payments from these vendors for rendering services to the Company's members and, in certain cases, the Company pays its vendors a fee based on the number of members in the Company's program or based on other agreed upon factors.

The Company's contracts with its vendors are generally for one year or more, with subsequent one-year renewal terms at the Company's option. In most cases, vendors may cancel contracts with the Company only for cause and subject to notice provisions to provide the Company time to locate a substitute vendor. Most vendor contracts are non-exclusive but require vendors to maintain the confidentiality of the terms of the contract.

CLIENTS

The Company's programs are primarily marketed to customers through arrangements with the Company's clients, which include banks and other financial institutions, e-commerce companies, direct response television companies, catalog companies, retailers and other organizations with large numbers of individual customers. Clients receive royalty payments in exchange for the clients providing new members or access to potential members. In some cases, these businesses lack the core competency to successfully design, market and manage membership programs. As a result, these businesses seek to outsource the implementation of membership programs to providers, such at the Company, that are able to apply advanced database systems to capture, process and store consumer and market information, are able to use their experience to provide effective membership programs and are able to realize economies of scale. In addition, businesses outsourcing their membership programs demand that the program provider have the expertise to continue to introduce innovative new programs and have resources, such as extensive vendor networks and an experienced management team, to launch membership programs quickly and successfully.

Membership programs sponsored by the Company's two largest clients, West Corporation and Citibank, N.A. (and its affiliates), accounted for 18% and 12% of revenues, respectively, for the year ended June 30, 2004. A loss of either of these clients could have a material effect on the Company's results of operations.

MARKETING AND DISTRIBUTION

The Company solicits members for its programs primarily by direct marketing methods, including inbound call marketing, referred to as MemberLink, online marketing, outbound telemarketing, which it outsources to third party contractors, and direct mail, which is mailed either at the Company's own expense or at its client's expense. The Company has been able to effectively diversify its distribution channels since its initial public offering in 1996, at which time the Company's primary method of solicitation was outbound telemarketing. For the year ended June 30, 2004, outbound telemarketing was the source for approximately 10% of the Company's new member enrollments.

MemberLink inbound call marketing occurs when clients' inbound callers who meet certain criteria are offered the Company's membership service programs by the client's service representative or by a membership service representative of the Company through a call transfer. The Company pays the client either a royalty for initial and renewal membership fees or a fee per marketing offer or per sale. MemberLink arrangements generally have been a more efficient and cost effective way to acquire members than the Company's traditional outbound telemarketing marketing model.

Online marketing is conducted through arrangements with Internet service providers ("ISP's"), online retailers and online marketers. The marketing methods include banner ads and pop-up boxes. The Company buys advertising or pays the client either a royalty for membership fees or a fee per impression or per sale.

Substantially all of the information necessary for the Company's marketing efforts is supplied by its clients in accordance with strict consumer privacy safeguards. As a result, the Company's ability to market a new program to an existing customer base or an existing program to a new customer base may be dependent upon first obtaining client approval.

The Company's contracts with its clients typically grant the Company the right to continue to provide membership services directly to such clients' individual account holders even if the client terminates its contract with the Company. Many client relationships are pursuant to contracts that may be terminated by the client upon 30 to 90 days notice without cause and without penalty. Upon such termination, the Company generally has the right to continue its relationship indefinitely with the client's customers that have become program members.

The Company also delivers its membership service programs through loyalty arrangements with client partners. The Company works with its clients to incorporate elements from one or more of the Company's standard service programs and designs a custom program for the client. The client then either provides the customized membership program to its customers as a value-added feature or resells the customized membership program. In some cases, the client provides loyalty memberships to its customers free of charge and pays the periodic membership fee to the Company for each customer's membership. In other cases, the client charges a reduced fee to its customer. The client pays the Company the membership fees for the customers who receive the customized membership program. Under the Company's loyalty programs, the Company does not pay for the marketing costs to solicit memberships. Instead, the client offering the memberships is responsible for marketing, usually with the assistance of the Company.

MEMBERSHIP SERVICE

The Company believes that providing high quality service to its members is extremely important in order to retain members and to strengthen the affinity of the clients' customers that were offered the membership program. Currently, the Company maintains four membership call centers located in Montreal, Canada, Houston, Texas, Omaha, Nebraska and Chicago, Illinois, with a total of over 700 membership service representatives. All new membership service representatives are required to attend on-the-job training. Through its training programs, systems and software, the Company seeks to provide members with friendly, rapid and effective answers to questions. Members can access their benefits 24 hours a day via the program's web site or automated telephone response technology. The Company also works closely with its clients' customer service staff to ensure that their representatives are knowledgeable in matters relating to membership service programs offered by the Company.

COMPETITION

The Company believes that the principal competitive factors in the membership services industry include the ability to identify, develop and offer innovative membership programs, the quality and breadth of membership programs offered, competitive prices and in-house marketing expertise. The Company's competitors offer membership programs which provide services similar to, or which directly compete with, those provided by the Company. Some of these competitors have substantially larger customer bases and greater financial and other resources than those of the Company. To date, the Company has effectively competed with such competitors. However, there can be no assurance that the Company's competitors will not increase their emphasis on programs similar to those offered by the Company to more directly compete with the Company; provide programs comparable or superior to those provided by the Company at lower membership prices; adapt more quickly than the Company to evolving industry trends or changing market requirements; or that new competitors will not enter the market or that other businesses will not themselves introduce competing programs. Such increased competition may result in price reductions, reduced marketing margins or loss of market share, any of which could materially adversely affect the Company's business, financial condition and results of operations. Additionally, because contracts between clients and program providers are often exclusive with respect to a particular service, potential clients may be prohibited from contracting with the Company to promote a program if the services provided by the Company's program are similar to, or merely overlap with, the services provided by an existing program of a competitor.

PERSONALS

On April 1, 2004, the Company completed the acquisition of all of the assets and outstanding capital stock of Lavalife, a leading provider of online and IVR-based interactive personals services. Lavalife now operates as a wholly-owned subsidiary of the Company. The purchase price, excluding fees and expenses, was Cdn$152.5 million, or $116.5 million, and is subject to certain purchase price adjustments. The acquisition was funded with cash on hand and borrowings under the Company's senior secured credit facility.

Lavalife's open-minded approach to dating allows members to choose how they want to "click with other singles" by offering different levels of dating. Lavalife offers both web-based, IVR-based, and most recently, cellular phone-based personals services to its customers. These services allow customers to interact with each other from anywhere in real time by phone, email, text chat or video. To acquire new users and retain existing customers, Lavalife relies on its innovative products, marketing relationships with major media groups, advertising campaigns in large markets, a widely recognized brand name and an advanced technology infrastructure. These interactive services allow customers who want to enhance their social lives to search for a date, meet new people and communicate with other customers in a real time, "Anywhere", "Anytime" and "Anyhow" environment. As of June 30, 2004, Lavalife had approximately 600,000 active customers.

Lavalife employs a transactional business model, in which customers buy non-refundable credits up front and spend those credits only when they want to interact with other customers. Lavalife's competitors generally employ a subscription business model, in which customers pay a fixed periodic fee. The Company believes a transactional model is more attractive to new customers, who will join due to a lower initial cost and the ability to easily control their spending. The customer determines when to use the credits to communicate with other customers. Furthermore, once a customer has an account balance, the customer has a strong financial incentive to return to use their remaining credits. To further encourage return visits, Lavalife continues to expand its existing service offerings and introduce innovative interactive products including video and real time online social networking.

Lavalife maintains a call center located in Toronto, Canada with a total of almost 200 call center representatives.

The personals business is very competitive and highly fragmented. Primary competitors of the various brands that comprise personals include numerous online and offline dating and matchmaking services (both free and paid), some of which operate nationwide and some of which operate locally, and the personals sections of newspapers and magazines. In addition to broad-based personals services, there are numerous niche websites and offline personals services that cater to specific demographic groups.

TECHNOLOGY

The Company has invested substantially in new technology, including a sophisticated customer service platform ("CRM"), data warehousing and mining capabilities, and various Internet applications which work together to allow the Company to effectively and efficiently service its members. The Company receives new member information from its clients daily, and that information is maintained on core infrastructure systems that drive information constantly to CRM, fulfillment, billing and data warehousing systems. This allows for rapid fulfillment of member information kits as well as other benefits. All membership information is maintained on a state-of-the-art CRM system, which allows extremely responsive targeted call center interactions. The Company receives confirmation of billing data from the Company's merchant processors on a regular basis, permitting the Company to update the status of each member, including member profile information.

In providing quality service to its members, the Company's management information systems interact with the Company's advanced call routing system in order to display member profile information prior to answering the call, allowing the Company's membership service representatives to have the best possible information prior to serving the members. The Company's telecommunications systems also monitor the performance quality of its membership service representatives and other aspects of its business through sophisticated reporting capabilities. In addition, the Company's marketing experts use proprietary systems in combination with advanced systems from outside vendors to review, analyze and model the demographics of lists of prospective members supplied by clients in order to determine which customers are most likely to enroll in a membership.

Lavalife recently upgraded its integrated network to support both its IVR and web operations. The Lavalife infrastructure for both the IVR and the web is built on state of the art, industry standard, high capacity technology designed to support the significant level of member interaction and a quality experience. The technology supports such high demand features as live chat, voice messaging, quick response searches for "who's online now" and instant messaging. The network operations centers, located in Toronto, Canada and Sydney, Australia, allow the personals business to scale both its web and IVR operations, as well as support text messaging operations, with full remote management capabilities of all services.

GOVERNMENT REGULATION

The Company markets its membership programs and personals services through various distribution channels including refundable royalty payments, telemarketing, direct mail, non-refundable royalty payments, and advertising costs. These channels are regulated at both the state and federal levels and the Company believes that these marketing methods may increasingly be subject to such regulation, particularly in the area of consumer privacy. Regulation may limit the Company's ability to solicit new members or to offer one or more products or services to existing members. The telemarketing industry has become subject to an increasing amount of federal and state regulation. For example, the Federal Telephone Consumer Protection Act of 1991 limits the hours during which telemarketers may call consumers and prohibits the use of automated telephone dialing equipment to call certain telephone numbers. Additionally, the Federal Telemarketing and Consumer Fraud and Abuse Prevention Act of 1994 and Federal Trade Commission ("FTC") regulations, including the Telemarketing Sales Rule, as amended, promulgated thereunder, prohibit deceptive, unfair or abusive practices in telemarketing sales. Both the FTC and state attorneys general have authority to prevent marketing activities deemed by them to be "unfair or deceptive acts or practices." Further, some states have enacted laws and others are considering enacting laws targeted directly at regulating telemarketing and/or Internet marketing practices, and there can be no assurance that any such laws, if enacted, will not adversely affect or limit the Company's current or future operations. Compliance with these regulations is generally the responsibility of the Company, and the Company could be subject to a variety of enforcement and/or private actions for any failure to comply with such regulations. The Company's provision of membership programs and personals services requires the Company to comply with certain state regulations, changes in which could materially increase the Company's operating costs associated with complying with such regulations. Noncompliance with any rules and regulations enforced by a federal or state consumer protection authority may subject the Company or its management to fines or various forms of civil or criminal prosecution, any of which could have a material adverse affect on the Company's business, financial condition and results of operations. Also, the media often publicizes perceived noncompliance with consumer protection regulations and violations of notions of fair dealing with consumers making the membership programs industry susceptible to peremptory charges of regulatory noncompliance and unfair dealing by the media.

The Company currently maintains rigorous security and quality controls that are intended to ensure that all of its marketing practices meet or exceed industry standards and all applicable state and federal laws and regulations. The Company only collects and maintains customer data that is necessary to administer its business activities, such as a customer's name, address and encrypted billing information and only public information is used for marketing and modeling purposes, such as demographic, neighborhood and lifestyle data. The Company neither resells any confidential consumer information that is obtained or derived in its marketing efforts nor purchases consumer information from financial or other institutions.

FINANCIAL INFORMATION ABOUT GEOGRAPHIC AREAS

See Note 20 of the consolidated financial statements contained in this 2004 Annual Report on Form 10-K for financial information about geographic areas.

EMPLOYEES

As of June 30, 2004, the Company employed 1,414 persons on a full-time basis and 202 on a part-time basis. None of the Company's employees are represented by a labor union. The Company believes that its employee relations are good.

AVAILABLE INFORMATION

The Company's Internet address is http://www.memberworks.com. Information on the Company's website is not a part of this Annual Report on Form 10-K.

The Company makes available, free of charge on or through its website, the Company's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, Section 16 filings and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission ("SEC"). You may read and copy any document filed with the SEC at its public reference facility at 450 Fifth Street, N.W., Washington, D.C. 20459. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference facility.

ITEM 2. PROPERTIES

A summary of key information with respect to the Company's leased facilities is as follows:

LOCATION	SQUARE FOOTAGE	YEAR OF LEASE EXPIRATION
MEMBERSHIP		
Omaha, NE	93,123	2009 through 2015
Stamford, CT	63,559	2006
Montreal, Canada	48,193	2011
Houston, TX	41,591	2006
Atlanta, GA	13,717	2005
Chicago, IL	11,676	2005
PERSONALS		
Toronto, Canada	73,926	2009

The Stamford, Connecticut office serves as the Company's corporate headquarters. All other locations serve as the operational offices for the Company. The Company believes that its properties are generally in good condition, are well maintained and are suitable and adequate to carry on its business.

ITEM 3. LEGAL PROCEEDINGS

Except as set forth below, in management's opinion, there are no significant legal proceedings to which the Company or any of its subsidiaries is a party or to which any of their properties are subject. The Company is involved in other lawsuits and claims generally incidental to its business including, but not limited to, various suits, including previously disclosed suits, brought against the Company by individual consumers seeking monetary and/or injunctive relief relating to the marketing of the Company's programs. In addition, from time to time, and in the regular course of its business, the Company receives inquiries from various federal and/or state regulatory authorities.

In March 2001, an action was instituted by plaintiff Teresa McClain against Coverdell & Company ("Coverdell"), a wholly-owned subsidiary of the Company, Monumental Life Insurance Company and other defendants in the United States District Court for the Eastern District of Michigan, Southern Division. The suit, which seeks unspecified monetary damages, alleges that Coverdell and the other defendants violated the Michigan Consumer Protection Act and other applicable Michigan laws in connection with the marketing of Monumental Life Insurance Company insurance products. The Court certified a class of Michigan residents. The Court has now signed an Order granting preliminary approval of a settlement agreement that has been signed by all parties. The Court will hold the Fairness/Approval hearing on November 22, 2004. The settlement agreement will have no financial or other material impact on Coverdell's business.

On January 24, 2003, the Company filed a motion with the Superior Court for the Judicial District of Hartford, Connecticut to vacate and oppose the confirmation of an arbitration award issued in December 2002. The arbitration, filed against the Company by MedValUSA Health Programs, Inc. ("MedVal") in September 2000, involved claims of breach of contract, breach of the duty of good faith and fair dealing, and violation of the Connecticut Unfair Trade Practices Act ("CUTPA"). Even though the arbitrators found that the Company was not liable to MedVal for any compensatory damages, they awarded $5.5 million in punitive damages and costs against the Company solely under CUTPA. The Company believes that this arbitration award is unjustified and not based on any existing legal precedent. Specifically, the Company is challenging the award on a number of grounds, including that it violates a well-defined public policy against excessive punitive damage awards, raises constitutional issues and disregards certain legal requirements for a valid award under CUTPA. The hearing on the Company's motion was held on February 10, 2003. On June 22, 2003, the Superior Court denied the Company's motion to vacate the award, and the Company filed an appeal of that decision. While the Company intends to take action to prevent the enforcement of the award by, among other things, vigorously pursuing an appeal, there can be no assurance that the Company will be successful in its efforts. The Company has made no provision in its financial statements for this contingency because it believes that a loss is not probable. If the Company were ultimately unsuccessful in this or other available appeals, and a final non-appealable court order confirming the arbitration award is rendered, the payment of the award could have a material adverse effect on the Company's results of operations in the period in which the final order is entered.

On October 21, 2003, the Florida Attorney General's Office filed a civil complaint against the Company based upon concerns that some of its past marketing practices may have violated various consumer laws. On June 28, 2004, the Company announced that it had reached a voluntary settlement with the Florida Attorney General's office to alleviate concerns that some of its past marketing practices may have confused some consumers. In connection with the settlement, the Company agreed to formalize its existing national Best Marketing Practices in the state of Florida and to pay the state of Florida costs of investigation of $950,000. The Company expects that the agreement will have little new effect on its business in Florida as the agreement serves to formalize the Company's already existing national marketing best practices in the state.

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

No matters were submitted to a vote of security holders during the quarter ended June 30, 2004.

EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers of the registrant of the Company and their respective ages as of July 31, 2004 are as follows:

NAME	AGE	POSITION
Gary A. Johnson	49	President and Chief Executive Officer, Director
Vincent DiBenedetto	47	Executive Vice President, Health and Insurance Services
James B. Duffy	50	Executive Vice President and Chief Financial Officer

GARY A. JOHNSON, a co-founder of the Company, has served as President, Chief Executive Officer and a director since its inception.

VINCENT DIBENEDETTO joined the Company in October 2000 and currently serves as Executive Vice President, Health and Insurance Services. Prior to joining the Company, Mr. DiBenedetto was President of Discount Development Services, L.L.C., a subsidiary of the Company which was acquired in October 2000.

JAMES B. DUFFY has served as Executive Vice President and Chief Financial Officer since he joined the Company in 1996.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

MARKET INFORMATION
The Company's Common Stock is listed on the NASDAQ National Market ("NASDAQ") under the symbol MBRS. The following table sets forth for the periods indicated the high and low closing sale prices per share as reported on the NASDAQ.

FISCAL YEAR ENDED JUNE 30, 2004:	HIGH	LOW
First Quarter	$38.22	$19.75
Second Quarter	34.00	24.16
Third Quarter	36.77	26.96
Fourth Quarter	35.02	26.89

FISCAL YEAR ENDED JUNE 30, 2003:	HIGH	LOW
First Quarter	$18.80	$12.48
Second Quarter	19.53	16.65
Third Quarter	20.71	14.00
Fourth Quarter	24.00	19.30

HOLDER AND DIVIDEND INFORMATION
As of August 13, 2004, there were 40,000,000 shares of the Company's Common Stock authorized of which 10,263,269 shares were outstanding, held by approximately 1,705 stockholders of record. The Company has not declared or paid any cash dividends to date and anticipates that all of its earnings in the foreseeable future will be retained for use in its business and to repurchase its common stock under the stock repurchase program. The Company's future dividend policy will depend on the Company's earnings, capital requirements, financial condition, requirements of the financing agreements to which the Company is a party and other factors considered relevant by the Board of Directors.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

PLAN CATEGORY	NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS	NU REM FU EQUI SEC
	(a)	(b)	
Equity compensation plans approved by security holders	1,772,000	$ 22.35	
Equity compensation plans not approved by security holders (1)	1,533,000	$ 17.50	
Total	3,305,000	$ 20.10	

(1) These shares represent an increase in the share reserve during 2002 under the 1996 Stock Option Plan. These options have an exercise price per share that is equal to or greater than the fair market value at the date of grant and they generally become exercisable over a four to five year period and expire at the earlier of termination of employment or ten years from the date of grant.

RECENT SALES OF UNREGISTERED SECURITIES

In April 2004, the Company completed the sale of $150.0 million aggregate principal amount of 9.25% Senior Notes due 2014 ("Senior Notes") to qualified institutional buyers pursuant to Rule 144A of the Securities Act of 1933, as amended. Net proceeds from this offering were $142.4 million. A portion of the proceeds was used to repay amounts borrowed under the senior secured credit facility to fund a portion of the Lavalife acquisition. The Company intends to use the remaining proceeds for general corporate purposes, including working capital, future acquisitions and purchases of the Company's common stock under the Company's stock buyback program to the extent permitted under the indenture governing the Senior Notes and under the senior secured credit facility.

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PURCHASES OF EQUITY SECURITIES BY THE ISSUER

The following table summarizes the shares of the Company's equity securities purchased by or on behalf of the Company:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total N of Share Purchased a of Publi Announced or Progra

April 1, 2004 to April 30, 2004	-	-	
May 1, 2004 to May 31, 2004	213,700	$28.63	213
June 1, 2004 to June 30, 2004	109,400	$28.77	109
Total	323,100	$28.68	323

(1) During 2004, the Board of Directors authorized the following share amounts to be purchased under the Company's stock buyback program originally authorized during fiscal 1997:

July 2003 - authorized an additional 1,000,000 shares, no expiration, which authorized shares have been repurchased by the Company.

September 2003 - authorized an additional 1,000,000 shares, no expiration, which authorized shares have been repurchased by the Company.

January 2004 - authorized an additional 1,000,000 shares, no expiration.

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ITEM 6. SELECTED FINANCIAL DATA

The selected consolidated statements of operations data for each of the years ended June 30, 2004 through 2000 and the selected consolidated balance sheet data as of June 30, 2004 through 2000 set forth below are derived from the audited consolidated financial statements of the Company. The selected consolidated financial information of the Company is qualified by reference to and should be read in conjunction with Item 8, "Financial Statements and Supplementary Data," and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," appearing elsewhere herein.

	YEAR ENDED JUN		
(IN THOUSANDS, EXCEPT PER SHARE DATA)	2004	2003	2002
CONSOLIDATED OPERATING DATA:			
Revenues	$ 488,739	$ 456,881	$ 427,60
Operating income (loss)	52,870	22,286	11,88
Net income (loss) before provision for income taxes	46,598	40,595	43,91
Provision for income taxes	18,638	16,239	
Net income (loss) before cumulative effect of accounting change	27,960	24,356	43,91
Net income (loss)	27,960	24,356	38,01
COMMON STOCK DATA:			
Diluted earnings (loss) before cumulative effect of accounting change per share	$ 2.29	$ 1.84	$ 2.9
Diluted earnings (loss) per share	$ 2.29	$ 1.84	$ 2.5
Diluted weighted average common shares outstanding	13,208	13,233	14,90

JUNE 30,

	2004	2003	2002
CONSOLIDATED FINANCIAL POSITION DATA AND LIQUIDITY:			
Cash and cash equivalents	$ 159,496	$ 72,260	$ 45,50
Total assets	453,162(1)	248,505	280,81
Long-term liabilities	246,943	8,273	3,62
Shareholders' (deficit) equity	(46,083)	(20,283)	(20,63
Cash flow provided by operating activities	47,948	48,533	17,01

(1) In 2004, the Company completed the acquisition of all of the assets and capital stock of Lavalife Inc.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

The Company is a leader in bringing value to consumers by designing innovative membership programs that offer members easy access to a variety of discounted products and services provided by the Company's participating vendors. In April 2004, the Company broadened the scope of its business by acquiring Lavalife, a personals service. As a result of this acquisition, the Company is a leading global provider of web-based and IVR based personals services. The acquisition of Lavalife benefits the Company by providing access to one of the largest and fastest growing consumer categories on the internet while expanding its target market.

In the past, the Company operated in one business segment, Membership. However, with the acquisition of Lavalife, management analyzes the Company's business based on the following two business segments: Membership and Personals. For additional financial information about of these business segments, see Note 20 to the consolidated financial statements.

Membership service programs offer consumers a variety of products and services from selected vendors for an annual or monthly fee. Revenues are derived principally from recurring fees which are billed to the member either on an annual or monthly basis. In the case of annually billed membership fees, the Company receives full payment at or near the beginning of the membership period, but recognizes the revenues as the member's refund privilege expires. Membership fees that are billed monthly are recognized when earned. Profitability and cash flow generated from renewal memberships exceed that of new memberships due to the absence of solicitation costs associated with new member procurement.

The personals service business segment employs a transactional business model, in which users buy non-refundable credits up front and spend those credits only when they want to interact with other users. Personals services revenues are generally recognized when the services are used.

CRITICAL ACCOUNTING POLICIES

Critical accounting policies are those policies that are important to the Company's financial condition and results of operations and involve subjective or complex judgments on the part of management, often as a result of the need to make estimates. The following areas require the use of judgments and estimates: membership cancellation rates, deferred marketing costs, valuation of goodwill and other intangible assets, estimation of remaining useful lives of intangible assets and valuation of deferred tax assets. Estimates in each of these areas are based on historical experience and various assumptions that the Company believes are appropriate. Actual results may differ from these estimates. The Company believes the following represent the critical accounting policies of the Company as contemplated by Financial Reporting Release No. 60, "Cautionary Advice Regarding Disclosure about Critical Accounting Policies." For a summary of all of the Company's significant accounting policies, see Note 2 to the consolidated financial statements located in this 2004 Annual Report on Form 10-K.

MEMBERSHIP REVENUE RECOGNITION
Revenues are billed primarily through credit and debit cards. Members who are enrolled in a monthly payment plan may cancel their membership at any time, at which time, the billings will be discontinued. Revenues from these membership programs are recognized when earned. Members who are enrolled in an annual payment plan may cancel their membership in the program at any time and will receive a pro rata refund of the fee paid based on the remaining portion of the membership period. In accordance with Staff Accounting Bulletin 104, "Revenue Recognition" ("SAB 104"), deferred revenues are recorded, net of estimated cancellations, and are amortized as revenues upon the expiration of membership refund privileges. An allowance for membership cancellations is established based on management's estimates and is updated regularly. In determining the estimate of allowance for membership cancellations, management analyzes historical cancellation experience, current economic trends and changes in customer demand for the Company's products and services. Actual membership refunds are charged against the allowance for membership cancellations on a current basis. If actual cancellations differ from the estimate, the results of operations would be impacted.

MEMBERSHIP SOLICITATION AND OTHER DEFERRED COSTS
The Company's marketing expenses are comprised of refundable royalty payments, non-refundable royalty payments, advertising costs, telemarketing and direct mail. Refundable royalty payments are deferred and charged to operations over the membership period in order to match the marketing costs with the associated revenues from membership fees. Advertising costs and non-refundable royalty payments, which include fee per offer, fee per sale and fee per impression marketing arrangements, are expensed when incurred. Telemarketing, which includes the cost of third party vendors to solicit members on the Company's behalf, and direct mail, which includes the cost of printing and mailing direct mail pieces, are direct response advertising costs which are accounted for in accordance with American Institute of Certified Public Accountants Statement of Position 93-7, "Reporting on Advertising Costs" ("SOP 93-7"). Under SOP 93-7, direct response advertising costs are deferred and charged to operations over the membership period, which is the period of expected future benefit, as revenues from membership fees are recognized.

Total membership solicitation costs incurred to enroll a new member are generally less than the estimated total net membership revenues. However, if total membership solicitation costs were to exceed total estimated net membership revenues, an adjustment would be made to the membership solicitation and other deferred costs balance to the extent of any impairment.

VALUATION OF GOODWILL AND OTHER INTANGIBLES
The Company reviews the carrying value of its goodwill and other intangible assets and assesses the remaining estimated useful lives of its intangible assets in accordance with Financial Accounting Standards Board ("FASB") Statement No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). The Company reviews the carrying value of its goodwill and other intangible assets for impairment by comparing such amounts to their fair values. The Company is required to perform this comparison at least annually or more frequently if circumstances indicate possible impairment. When determining fair value, the Company utilizes various assumptions, including projections of future cash flows. A change in these underlying assumptions would cause a change in the

results of the tests and, as such, could cause fair value to be less than the carrying amounts. In such an event, the Company would then be required to record a corresponding charge which would negatively impact earnings. Goodwill at July 1, 2003, 2002 and 2001, was tested for impairment during the quarters ended September 30, 2003, 2002 and 2001, respectively. The Company concluded that none of its goodwill was impaired as of July 1, 2003 or 2002. As of July 1, 2001, the Company determined that there was an impairment of goodwill of $5.9 million at one of its reporting units due to the change in methodology of calculating impairment under SFAS 142 concurrent with downward trends in the operations of the reporting unit. This amount was recorded as a cumulative effect of accounting change in the statement of operations in 2002.

INCOME TAXES

The Company accounts for income taxes under the provisions of FASB Statement No. 109, "Accounting for Income Taxes." Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The Company assesses the realization of deferred tax assets considering various assumptions, including estimates of future taxable income and ongoing tax strategies. A change in these underling assumptions could impact the results of operations.

RESULTS OF OPERATIONS

				PERCENT INCREASE	
REVENUES:	2004	2003	2002	'04 VS. `03	'03 VS.
Membership	$ 471,049	$ 456,881	$ 427,602	3%	7%
Personals	17,690	-	-	NM	NM
Total	$ 488,739	$ 456,881	$ 427,602	7%	7%

NM = Not Meaningful

MEMBERSHIP

Revenues increased 3% in 2004 primarily due to an increase in the weighted average program price point per retail member. The net active retail members decreased 11% in 2004 to 5.6 million primarily due to a decrease in marketing expenses in 2004. The decline in the net active retail members may impact future revenues and profitability. Revenues in 2003 benefited from the completion of the migration of members that participate in a full-money-back refund policy program to a pro rata refund policy program, which did not have an impact on 2003.

Revenues increased 7% in 2003 primarily due to the effect of the migration of members that participate in a full-money-back refund policy program to a pro rata refund policy program as well as an increase in the weighted average program price point per retail member. As a result of the Company's strategic initiative to move its members to a pro rata refund policy program, revenues which would have been recognized at the end of a membership year are now recognized ratably during the membership year as the refund privileges expire in accordance with SAB 104. In addition, 2002 revenues included $9.4 million of revenues from iPlace, Inc., which was sold in the first quarter of 2002. As of

June 30, 2003, the Company had 6.3 million net active retail members compared to 6.6 million as of June 30, 2002.

Beginning in 2003 and continuing through 2004, the Company increased the mix of programs marketed with a monthly payment plan and decreased the mix of programs marketed with an annual payment plan. This change was initiated due to improved consumer response rates to the Company's marketing efforts and improved profitability of monthly payment plan programs. The mix of members enrolled in a monthly payment plan program was 64% in 2004, 27% in 2003 and 17% in 2002. The Company expects to continue to increase the mix of programs marketed with a monthly payment plan in 2005.

Revenues from members enrolled in different payment programs are summarized below:

REVENUES:	2004	2003	2002	PERCENT INCREASE/(DECREASE) '04 VS. `03	'03 VS. `02
Monthly payment plans	$ 160,599	$ 76,859	$ 41,273	109%	86%
Annual payment plans:					
Initial year	113,231	163,604	180,672	(31)%	(9)%
Renewal year	197,219	216,418	205,657	(9)%	5%
Total	$ 471,049	$ 456,881	$ 427,602	3%	7%

PERSONALS

Revenues were $17.7 million in 2004 and represent the revenues of Lavalife, which was acquired by the Company on April 1, 2004. There were approximately 600,000 active customers as of June 30, 2004.

OPERATING INCOME:	2004	2003	2002	PERCENT INCREASE '04 VS. `03	'03 VS. `02
Membership	$ 52,533	$ 22,286	$ 11,889	136%	87%
Personals	337	-	-	NM	NM
Total	$ 52,870	$ 22,286	$ 11,889	137%	87%

NM = Not Meaningful

MEMBERSHIP

Operating income increased 136% in 2004 primarily due to a decrease in marketing expenses incurred of 11% while revenues increased 3%. Marketing expenses were $248.9 million in 2004 versus $280.7 million in 2003 and, as a percentage of revenues, marketing expenses were 53% in 2004 versus 61% in 2003. These decreases were primarily due to the decrease in the level and mix of members enrolled through the higher cost outbound telemarketing channel. The decrease in members enrolled through the outbound telemarketing channel was not completely offset by an increase in the level of members enrolled through the Company's more profitable Online and MemberLink channels. Operating income was reduced by an increase in operating expenses and general and administrative expenses. Operating expenses increased 12% in 2004 and, as a percent of revenues were 19% in 2004 and 17% in 2003, primarily due to increased member service call center related costs incurred to improve the value and quality of services offered to the retail membership base. General and administrative expenses increased 9% in 2004, and as a percent of revenues were 17% in 2004 and 16% in 2003, primarily due to increased employee related expenses.

Operating income increased 87% in 2003 primarily due to decreased general and administrative expenses in 2003 and a $6.9 million restructuring charge recorded in 2002 (see Note 5 of the consolidated financial statements contained in this Annual Report on Form 10-K). General and administrative expenses decreased 6% to $74.1 million in 2003 from $79.2 million in 2002 and, as a percent of revenues were 16% in 2003 and 19% in 2002. The decrease in general and administrative expenses is primarily due to the sale of iPlace, Inc. and the closing of the United Kingdom operations in 2002. The improvement in general and administrative expenses was partially offset by an increase in marketing expenses. Marketing expenses increased 13% in 2003, and as a percent of revenues were 61% in 2003 and 58% in 2002, primarily due to a higher level of non-refundable royalties and advertising costs incurred in 2003 due to the Company's shift away from telemarketing.

PERSONALS

Operating income was $0.3 million in 2004 and represented the results of Lavalife, which was acquired on April 1, 2004. Operating income reported for 2004 reflects $1.3 million of expense for the amortization of intangible assets.

CORPORATE:	2004	2003	2002	I '0
Interest (expense) income, net	$ (6,621)	$ 570	$ 333	
Other income (expense), net	349	(244)	(734)	
Settlement of investment related litigation	-	19,148	-	
(Loss) gain on sale of subsidiary	-	(959)	65,608	
Net loss on investment	-	(206)	(33,628)	
Minority interest	-	-	450	
Provision for income taxes	18,638	16,239	-	

NM = Not Meaningful

Interest (expense) income, net. The increase in interest expense, net in 2004 was due to nine months of interest expense related to the 5.5% Convertible Notes issued in September 2003 and three months of interest expense related to the 9.25% Senior Notes issued in April 2004.

Settlement of investment related litigation. In 2003, the Company, along with certain of the other former shareholders of iPlace, Inc., settled their lawsuit against Homestore.com, Inc. The total settlement amount in favor of the plaintiffs was $23.0 million of which the Company received $19.1 million.

(Loss) gain on sale of subsidiary. In 2002, the Company sold its investment in iPlace, Inc. for $50.1 million in cash and 1.6 million shares of Homestore.com, Inc. common stock and reported a gain of $65.6 million. In 2003, the Company settled with Homestore.com, Inc. all issues pending related to amounts held in escrow in connection with the sale and recorded a net loss of $1.0 million related to this settlement in 2003.

Net loss on investment. In 2002, the Company reported a loss of $33.6 million reflecting the write-down of the Company's investment in Homestore.com, Inc. common stock to its fair market value. In 2003, the Company sold all of its Homestore.com, Inc. common stock and recognized a loss of $0.2 million.

Provision for income taxes. In 2004 and 2003, the Company recorded a provision for income taxes of $18.6 million and $16.2 million, respectively, based on an effective tax rate of 40%. The effective tax rate was higher than the U.S. federal statutory rate due to state tax expense and other non-deductible items. In 2002, the Company was not required to record a provision for income taxes due to its ability to utilize net operating loss carryforwards against which the Company had previously carried a full valuation allowance. As of June 30, 2004 and 2003, the Company had accumulated federal net operating loss carryforwards of $6.5 million and $41.4 million, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Net cash flow provided by operating activities is an important measure used to understand the Company's liquidity. Management believes it is useful to report the components of net cash provided by operating activities as follows: Revenue before deferral, marketing costs before deferral, operating expenses, general and administrative expenses, and changes in assets and liabilities. For definitions and reconciliations of revenue before deferral and marketing costs before deferral see "Reconciliation of Non-GAAP Measures" located elsewhere in this Annual Report on Form 10-K. Net cash provided by operating activities was $47.9 million, $48.5 million and $17.0 million for the years ended June 30, 2004, 2003 and 2002, respectively.

Revenues before deferral increased 9% to $456.5 million in 2004 and increased 2% to $417.9 million in 2003. These increases were primarily due to an increase in the weighted average program price point per retail member. The new annual weighted average program price points per retail member were $107, $104 and $88 during 2004, 2003 and 2002, respectively. Monthly weighted average program price points per retail member were $11.37, $10.11 and $8.97 during 2004, 2003 and 2002, respectively. Revenues before deferral also included $17.1 million of revenues from Lavalife, which was acquired on April 1, 2004.

As described above, the Company increased the mix of programs marketed with a monthly payment plan beginning in 2003 and continuing through 2004. The table below summarizes the components of revenues before deferral for the years ended June 30:

	2004	2003	2002
Monthly payment plans	$ 166,365	$ 76,859	$ 41,273
Annual payment plans:			

Initial year	78,190	149,393	157,816
Renewal year	194,812	191,626	211,397
Personals	17,100	-	-
Total	$ 456,467	$ 417,878	$ 410,486

Marketing costs before deferral were $230.4 million, $229.3 million and $233.9 million in 2004, 2003 and 2002, respectively. In 2004, marketing costs before deferral increased 0.5% primarily due to marketing costs incurred by Lavalife offset by the decrease in the level and mix of members enrolled through the higher cost outbound telemarketing channel. The decrease in members enrolled through the outbound telemarketing channel was not completely offset by the increase in the level of members enrolled through the Company's more profitable online and Memberlink channels. As a percent of revenue before deferral, marketing costs before deferral were 50% in 2004 versus 55% in 2003 due to the effect of higher weighted average program price points, as described above, the effect of the maturing base of members enrolled in a monthly payment plan program and the reduced level and mix of higher cost outbound telemarketing costs. In 2003 marketing costs before deferral decreased 2% and, as a percent of revenue before deferral, decreased to 55% in 2003 versus 57% in 2002, primarily due to the effect of higher weighted average program price points per retail member, as described above.

Net cash provided by operating activities in 2004 was impacted by increased operating expenses, general and administrative expenses and net interest expense as described above. Net cash provided by operating activities in 2003 benefited from decreased general and administrative expenses in 2003. In addition, 2002 included a restructuring charge, which is described above. Net cash provided by operating activities was also impacted by changes in assets and liabilities, which used $4.1 million of cash in 2004, had no significant impact in 2003 and used $9.8 million of cash in 2002. The primary driver of the increase in cash used by changes in assets and liabilities in 2004 is the decrease in the allowance for membership cancellations and reflects the decrease in the level of marketing as well as the decrease in the programs marketed with an annual payment program. The Company expects an increase in cash paid for taxes in 2005 as the remaining federal net operating loss carryforwards have been reduced to $6.5 million as of June 30, 2004.

Net cash used in investing activities was $129.6 million in 2004, and net cash provided by investing activities was $12.4 million in 2003 and $40.2 million in 2002. In 2004, the Company completed the acquisition of Lavalife for $114.9 million in cash. Also in 2004, the Company purchased $7.7 million of short-term investments. Net cash provided by investing activities in 2003 included the Company's $19.1 million settlement of a lawsuit against Homestore.com Inc. Net cash provided by investing activities in 2002 reflected the receipt of $46.0 million in net proceeds from the sale of iPlace, Inc. Capital expenditures were $7.1 million, $5.5 million and $5.8 million in 2004, 2003 and 2002, respectively.

Net cash provided by financing activities was $168.8 million in 2004 and net cash used in financing activities was $34.2 million in 2003 and $33.5 million in 2002. Net cash provided by financing activities in 2004 principally reflected the issuance of $229.8 million in debt, net of issuance costs, the proceeds from the exercise of employee stock options of $33.6 million and the proceeds from the issuance of restricted stock of $9.1 million (See Note 8 of the consolidated financial statements contained in this Annual Report on Form 10-K). These sources of cash were partially offset by the use of $94.2 million in cash to repurchase the Company's stock. Net cash used in financing activities in 2003 principally reflected the repurchase of the Company's stock for $37.2 million partially offset by proceeds from the exercise of employee stock options of $4.1 million. Net cash used in financing activities in 2002 principally reflected the purchase of Company stock for $34.3 million partially offset by proceeds from the exercise of employee stock options of $1.5 million.

DEBT ISSUANCES

During 2004 the Company issued $90.0 million aggregate principal amount 5.5% convertible senior subordinated notes ("Convertible Notes") due September 2010 and $150.0 million of Senior Notes. The Convertible Notes bear interest at the rate of 5.5% per year, which will be payable in cash semi-annually in arrears on April 1 and October 1 of each year, and the first payment was paid on April 1, 2004. The net proceeds were to be used for general corporate purposes, including mergers and acquisitions and additional repurchases of the Company's common stock under its stock buyback program. Upon the occurrence of a change in control, holders of the Convertible Notes may require the Company to repurchase all or part of the Convertible Notes for cash. The Senior Notes were sold at 98.418% of the principal amount which results in an effective yield of 9.5%. Interest is payable in cash semi-annually in arrears on April 1 and October 1 of each year, with the first payment due on October 1, 2004. A portion of the proceeds from the offering of the Senior Notes was used to repay amounts borrowed under the senior secured credit facility to fund a portion of the Lavalife acquisition. The Company intends to use the remaining proceeds for general corporate purposes, including working capital, future acquisitions and repurchases of the Company's common stock under the Company's stock buyback program to the extent permitted under the indenture governing the Senior Notes and the senior secured credit facility. The Senior Notes offering was made solely by means of a private placement to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended, and to certain persons in offshore transactions pursuant to Regulation S under the Securities Act. The Senior Notes have not been registered under the Securities Act and may not be offered or sold in the United States, or to a U.S. person, absent registration or an applicable exemption from registration requirements.

CREDIT FACILITY

The Company has an amended and restated senior secured credit facility that allows borrowings of up to $45.0 million. Borrowings under the senior secured credit facility accrue interest at either the Eurodollar rate, or the higher of the Prime rate or the Federal Funds rate, plus an applicable margin. As of June 30, 2004, the availability under the senior secured credit facility was reduced by an outstanding letter of credit of $5.5 million and one year's worth of interest on the Senior Notes. As of June 30, 2004, the availability under the senior secured credit facility is approximately $25.7 million. As of June 30, 2004, the effective interest rate for borrowings under the senior secured credit facility was 4.0%. The senior secured credit facility has certain financial covenants, including a maximum debt coverage ratio, potential restrictions on additional borrowings and potential restrictions on additional stock repurchases. As of June 30, 2004, the Company was in compliance with all such debt covenants.

STOCK REPURCHASE PROGRAM

The Company purchased 3.0 million shares for $94.2 million at an average price of $31.56 in 2004 compared to 2.0 million shares for $37.2 million at an average price of $18.67 in 2003 and 2.2 million shares for $34.3 million at an average price of $15.40 in 2002. The Company utilized cash from operations, stock issuances and the issuance of the Convertible Notes and Senior Notes to repurchase shares. During 2004, the Board of Directors authorized an additional 3.0 million shares to be repurchased under the buyback program. As of June 30, 2004, the Company had 1.0 million shares available for repurchase under its buyback program.

As of June 30, 2004, the Company had cash and cash equivalents of $159.5 million in addition to its senior secured credit facility. The Company believes that existing cash balances, together with funds available under its senior secured credit facility, will be sufficient to meet its funding requirements for the foreseeable future.

The Company did not have any material commitments for capital expenditures as of June 30, 2004. The Company intends to utilize cash on hand and cash generated from operations to fulfill any capital expenditure requirements during 2005.

RECONCILIATION OF NON-GAAP MEASURES

Management believes that revenues before deferral and marketing costs before deferral are important measures of liquidity and are significant factors in understanding the Company's operating cash flow trends. These non-GAAP measures are used by management and the Company's investors to understand the liquidity trends of the Company's marketing margins related to the current period operations which are reflected within the operating cash flow section of the cash flow statement. GAAP revenues and marketing expenses are important measures used to understand the marketing margins earned during the period in the income statement. However, in order to understand the Company's operating cash flow, it is important to understand the primary, current period drivers of that cash flow. Two of the primary indicators of operating liquidity for the period are revenues before deferral and marketing costs before deferral. Revenues before deferral are revenues before the application of SAB 104 and represent the revenues billed during the current reporting period less an allowance for membership cancellations. That is, revenues before deferral for a reporting period include membership fees received in the current reporting period that will be recorded as GAAP revenues in future reporting periods and exclude membership fees received in prior reporting periods that are recorded as GAAP revenues in the current reporting period. Marketing costs before deferral are marketing costs before the application of SAB 104 and SOP 93-7 and represent marketing costs paid for or accrued for during the current reporting period. That is, marketing costs before deferral for a reporting period include costs paid or accrued in the current reporting period that will be recorded as GAAP marketing expenses in future reporting periods and exclude marketing expenses paid or accrued in prior reporting periods that are recorded as GAAP marketing expenses in the current reporting period. Neither revenues before deferral nor marketing costs before deferral exclude charges or liabilities that will require cash settlement. Additionally, these measures are not a substitute for, or superior to, Revenues and Marketing Expense prepared in accordance with generally accepted accounting principles. In light of the difference between revenues before deferral, marketing expenses before deferral and their most directly comparable GAAP measures, the Company solely uses these measures as liquidity measures and not as performance measures.

Revenues before deferral for the years ended June 30, 2004, 2003 and 2002 are calculated as follows:

	2004	
Revenues	$ 488,739	$
Change in deferred revenues	(32,272)	

Revenues before deferral	$ 456,467	$

Marketing cost before deferral for the years ended June 30, 2004, 2003 and 2002 is calculated as follows:

	2004	
Marketing expenses	$ 255,818	$
Change in membership solicitation and other deferred costs	(25,455)	
Marketing costs before deferral	$ 230,363	$

COMMITMENTS

The Company is not aware of factors that are reasonably likely to adversely affect liquidity trends, other than the risk factors presented in the Forward Looking Statements in this 2004 Annual Report on Form 10-K. The Company does not have off-balance sheet arrangements, non-exchange traded contracts or material related party transactions.

Future minimum payments of contractual obligations as of June 30, 2004 are as follows (amounts in thousands):

	PAYMENTS DUE BY PERIOD			
	TOTAL	LESS THAN 1 YEAR	1-3 YEARS	3-5 YEARS
Operating leases	$ 29,293	$ 7,761	$ 10,931	$ 7,716
Capital leases	1,190	326	707	157
Long-term debt	240,000	-	-	-
Purchase obligations	13,403	13,371	32	-
Other obligations	12	12	-	-
Total payments due	$ 283,898	$ 21,470	$ 11,670	$ 7,873

The Company operates in leased facilities. Management expects that leases currently in effect will be renewed or replaced by other leases of a similar nature and term. See Notes 6 and 7 of the consolidated financial statements contained elsewhere in this 2004 Annual Report filed on Form 10-K.

NEW ACCOUNTING PRONOUNCEMENTS

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"), which was revised in December 2003. FIN 46 clarifies the application of Accounting Research Bulletin No. 51 and provides guidance on the identification of and reporting for variable interest entities. FIN 46 is effective immediately for variable interest entities formed after January 31, 2003 and is effective for periods ending after March 15, 2004 for any variable interest entity formed prior to February 1, 2003. The adoption of FIN 46 did not have a material impact on the Company's financial statements.

In May 2003, the FASB issued Statement No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS 150"). This statement requires that certain financial instruments that were accounted for as equity under previous guidance be classified as liabilities in statements of financial position. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS 150 did not have a material impact on the Company's financial statements.

FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements that are based on current expectations, estimates, forecasts and projections about the industry in which the Company operates and the Company's management's beliefs and assumptions. These forward-looking statements include statements that do not relate solely to historical or current facts and can be identified by the use of words such as "believe," "expect," "estimate," "project," "continue" or "anticipate." These forward-looking statements are made pursuant to safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

Forward-looking statements are not guarantees of future performance and are based on a number of assumptions and estimates that are inherently subject to significant risks and uncertainties, many of which are beyond our control, cannot be foreseen and reflect future business decisions that are subject to change. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. Among the many factors that could cause actual results to differ materially from the forward-looking statements are:

- higher than expected membership cancellations or lower than expected membership renewal rates;
- changes in the marketing techniques of credit card issuers;
- increases in the level of commission rates and other compensation required by marketing partners to actively market with the Company;
- potential reserve requirements by business partners such as the Company's credit card processors;
- unanticipated termination of marketing agreements;
- the extent to which the Company can continue to successfully develop and market new products and services and introduce them in a timely basis;
- the Company's ability to integrate acquired businesses into the Company's management and operations and operate successfully;

- unanticipated changes in or termination of the Company's ability to process revenues through third parties, including credit card processors and bank card associations;

- the Company's ability to develop and implement operational and financial systems to manage growing operations;

- the Company's ability to recover from a complete or partial system failure or impairment, other hardware or software related malfunctions or programming errors;

- the degree to which the Company is leveraged;

- the Company's ability to obtain financing on acceptable terms to finance the Company's growth strategy and to operate within the limitations imposed by financing arrangements;

- further changes in the already competitive environment for the Company's products or competitors' responses to the Company's strategies;

- changes in the growth rate of the overall U.S. economy, or the international economy where the Company does business, such that credit availability, interest rates, consumer spending and related consumer debt are impacted;

- additional government regulations and changes to existing government regulations of the Company's industry;

- the Company's ability to compete with other companies that have financial or other advantages;

- adverse movement of foreign exchange rates;

- the Company's ability to attract and retain active members and users; o adverse results of litigation or regulatory matters; and

- new accounting pronouncements.

Many of these factors are beyond the Company's control, and, therefore, its business, financial condition, results of operations and cash flows may be adversely affected by these factors.

The Company cautions that such factors are not exclusive. All of the forward-looking statements made in this Annual Report on Form 10-K are qualified by these cautionary statements and readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this Annual Report on Form 10-K. Except as required by law, the Company does not have any intention or obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

INTEREST RATE

The Company has a senior secured credit facility that allows borrowings of up to $45.0 million. Borrowings under the senior secured credit facility accrue interest at either the Eurodollar rate or the higher of the Prime rate or the Federal Funds rate plus an applicable margin. There were no borrowings outstanding under this senior secured credit facility as of June 30, 2004. As of

June 30, 2004, availability under the senior secured credit facility was reduced by an outstanding letter of credit of $5.5 million and one year's worth of interest on the Senior Notes. As of June 30, 2004, the availability under the senior secured credit facility is approximately $25.7 million. Management believes that an increase in the Eurodollar rate, the Prime rate or the Federal Funds rate would not be material to the Company's financial position or its results of operations. If the Company is not able to renew its existing credit facility agreement, which matures on March 25, 2005, it is possible that any replacement lending facility obtained by the Company may be more sensitive to interest rate changes. In addition, the Company has $90.0 million aggregate principal amount of 5.5% Convertible Notes due 2010 and $150.0 million aggregate principal amount of 9.25% Senior Notes due 2014. The Convertible Notes and the Senior Notes pay interest in cash semi-annually in arrears on April 1 and October 1 of each year. The fair value of the fixed interest instruments are affected by changes in interest rates, and with respect to the Convertible Notes, are also affected by changes in the Company's stock price and volatility. The Company does not currently hedge interest rates with respect to its outstanding debt. As of June 30, 2004, the carrying value of the Convertible Notes and the Senior Notes was $90.0 million and $147.7 million, respectively, and the fair value of the notes were $93.3 million and $143.3 million, respectively.

FOREIGN CURRENCY

The Company conducts business in certain foreign markets, primarily in Canada. The Company's primary exposure to foreign currency risk relates to investments in foreign subsidiaries that transact business in functional currency other than the U.S. Dollar, primarily the Canadian Dollar. As the Company increases its operations in international markets, it becomes increasingly exposed to potentially volatile movements in currency exchange rates. The economic impact of currency exchange rate movements on the Company are often linked to variability in real growth, inflation, interest rates, governmental actions and other factors. These changes, if material, could cause the Company to adjust its financing and operating strategies. As currency exchange rates change, translation of the income statements of the Company's international business into U.S. dollars affects year-over-year comparability of operating results. Historically, the Company has not hedged translation risks because cash flows from international operations were generally reinvested locally.

In connection with the acquisition of Lavalife, the Company employed policies and procedures to manage foreign currency risks associated with the purchase price, which was denominated in Canadian dollars. The Company's objective in managing its exposure to foreign currency exchange rate fluctuations was to reduce the impact of adverse fluctuations on cash flows associated with foreign currency exchange rate changes. Accordingly, the Company utilized foreign currency option contracts and forward contracts to manage its exposure related to the purchase price for the Lavalife acquisition. Gains and losses related to these derivative contracts were recognized in the statement of operations in fiscal 2004.

Foreign exchange gains and losses were not material to the Company's earnings in 2004, 2003 and 2002. However, given the currency fluctuations in 2004 and 2003 and anticipated increases in the Company's operations in international markets, the Company is reviewing its strategy for hedging transaction risks. The Company's objective in managing its foreign exchange risk is to reduce its potential exposure to the changes that exchange rates might have on its earnings, cash flows and financial position. The Company will assess the need to utilize financial instruments to hedge currency exposures on an ongoing basis.

However, there can be no assurance that the Company's foreign currency hedging activities will substantially offset the impact of fluctuations in currency exchange rates on its results of operations and financial position.

FAIR VALUE OF INVESTMENTS
The Company does not have material exposure to market risk with respect to investments, as the Company's investments are short-term in nature (original maturities of less than one year). The Company does not use derivative financial instruments for speculative or trading purposes. However, this does not preclude the Company's adoption of specific hedging strategies in the future.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and related notes and report of independent public registered accounting firm for the Company are included following Part IV, beginning on page F-1, and identified in the index appearing at Item 15(a).

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES.
The Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures (as defined under Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report and have concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level. The Company's disclosure controls and procedures are designed to ensure that material information relating to the Company and its consolidated subsidiaries that is required to be disclosed in its reports under the Exchange Act is accumulated and communicated to the Chief Executive Officer and Chief Financial Officer.

Notwithstanding the foregoing, although there can be no assurance that the Company's disclosure controls and procedures will detect or uncover all failures of persons within the Company and its consolidated subsidiaries to disclose material information otherwise required to be set forth in the Company's periodic reports, the Chief Executive Officer's and Chief Financial Officer's evaluation concluded that they are reasonably effective to do so.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING.
During 2004, there were no changes in the Company's internal control over financial reporting that could have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

During the quarter ended June 30, 2004, the Company completed the acquisition of Lavalife for $114.9 million in cash. As part of the integration activities associated with this acquisition, the Company is in the process of fully incorporating this business into its disclosure controls and procedures.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information contained in the Company's Proxy Statement under the sections titled "Election of Directors" is incorporated herein by reference in response to this item. Information regarding the Executive Officers of the Company is furnished in Part I of this Annual Report on form 10-K under the heading "Executive Officers of the Registrant."

ITEM 11. EXECUTIVE COMPENSATION

The information contained in the Company's Proxy Statement under the section titled "Executive Compensation" is incorporated herein by reference in response to this item.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information contained in the Company's Proxy Statement under the section titled "Security Ownership of Certain Beneficial Owners and Management" is incorporated herein by reference in response to this item.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information contained in the Company's Proxy Statement under the section titled "Certain Relationships and Related Transactions" is incorporated herein by reference in response to this item.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information contained in the Company's Proxy Statement under the section titled "Ratification of Selection of Independent Auditors" is incorporated herein by reference in response to this item.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Index to Financial Statements and Financial Statement Schedules

(1) Report of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of June 30, 2004 and 2003

Consolidated Statements of Operations for the years ended June 30, 2004, 2003 and 2002

Consolidated Statements of Shareholders' (Deficit) Equity for the years ended June 30, 2004, 2003 and 2002

Consolidated Statements of Cash Flows for the years ended June 30, 2004, 2003 and 2002

Notes to Consolidated Financial Statements

The following Financial Statement Schedule is included:

(2) Schedule II - Valuation and Qualifying Accounts - Years ended June 30, 2004, 2003 and 20

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions, or are inapplicable, and therefore have been omitted.

(b) Reports on Form 8-K

On April 5, 2004, the Company furnished on Form 8-K under Item 2 "Acquisition or Disposition of Assets" and Item 7 "Financial Statements, Pro Forma Financial Statements and Exhibits" a press release announcing the completion of the acquisition of Lavalife Inc.

On April 8, 2004, the Company filed on Form 8-K under Item 5 "Other Events" and Item 7 "Financial Statements, Pro Forma Financial Statements and Exhibits" a press release announcing the pricing of $150.0 million aggregate principal amount of 9.25% Senior Notes due 2014 sold at 98.418%.

On April 28, 2004, the Company filed on Form 8-K under Item 7 "Financial Statements, Pro Forma Financial Statements and Exhibits" and furnished Item 12 "Results of Operations and Financial Condition" a press release announcing fiscal year 2004 third quarter and nine month results.

(c) Exhibits:

Exhibits filed as a part of this Annual Report on Form 10-K are listed in the Index to Exhibits immediately preceding the exhibits located at the end of this Annual Report.

MEMBERWORKS INCORPORATED

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MEMBERWORKS INCORPORATED
(Registrant)

By: /s/ GARY A. JOHNSON
Gary A. Johnson, President, Chief Executive Officer and Director

Date: September 13, 2004

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

SIGNATURE	TITLE	DATE
By: /s/ GARY A. JOHNSON Gary A. Johnson	President, Chief Executive Officer and Director	September
By: /s/ JAMES B. DUFFY James B. Duffy	Executive Vice President, Chief Financial Officer	September
By: /s/ ALEC L. ELLISON Alec L. Ellison	Director	September
By: /s/ SCOTT N. FLANDERS Scott N. Flanders	Director	September
By: /s/ ROBERT KAMERSCHEN Robert Kamerschen	Director	September
By: /s/ MICHAEL T. MCCLOREY Michael T. McClorey	Director	September
By: /s/ EDWARD M. STERN Edward M. Stern	Director	September
By: /s/ MARC S. TESLER Marc S. Tesler	Director	September

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EXHIBITS

NO.	DESCRIPTION
*3.1	Restated Certificate of Incorporation of the Registrant. (filed as Exhibit 3.3 to the Company's Registration Statement on Form S-1, Registration No. 333-10541, filed on October 18, 1996)
*3.2	Restated By-laws of the Registrant. (filed as Exhibit 3.4 to the Company's Registration Statement on Form S-1, Registration No. 333-10541, filed on October 18, 1996)
*4.1	Amended and Restated Registration Rights Agreement, dated as of September 9, 1994 between the Registrant and Brown Brothers Harriman & Co. (filed as Exhibit 4.3 to the Company's Registration Statement on Form S-1, Registration No. 333-10541, filed on October 18, 1996)

*4.2 Registration Rights Agreement, dated September 20, 1995 among the Registrant and the Stockholders set forth on Schedule I thereto. (filed as Exhibit 4.4 to the Company's Registration Statement on Form S-1, Registration No. 333-10541, filed on October 18, 1996)

*4.3 Indenture dated as of September 30, 2003 between MemberWorks Incorporated and Deutsche Bank Trust Company Americas, or Trustee. (filed as exhibit 4.1 to the Company's Quarterly report on Form 10-Q, File No. 000-21527, filed on November 13, 2003)

*4.4 Registration Rights Agreement dated as of September 30, 2003 between MemberWorks Incorporated and Lehman Brothers Inc. and CIBC World Markets Corp. (filed as exhibit 4.2 to the Company's Quarterly report on Form 10-Q, File No. 000-21527, filed on November 13, 2003)

*4.5 Indenture dated as of April 13, 2004 between MemberWorks Incorporated and each of the Guarantors party thereto and LaSalle Bank National Association, as Trustee relating to the 9.25% Senior Notes due 2014, including the form of notes. (filed as exhibit 4.1 to the Company's Registration Statement on Form S-4, Registration No. 333-115500, filed on May 14, 2004)

*4.6 Registration Rights Agreement dated April 13, 2004 between MemberWorks Incorporated and each of the Guarantors party thereto and Lehman Brothers Inc., UBS Securities LLC and ABN AMRO Incorporated. (filed as exhibit 4.2 to the Company's Registration Statement on Form S-4, Registration No. 333-115500, filed on May 14, 2004)

*10.1 Amended Employee Incentive Stock Option Plan. (filed as Exhibit 10.1 to the Company's Registration Statement on Form S-1, Registration No. 333-10541, filed on October 18, 1996)

*10.3 1995 Non-Employee Directors' Stock Option Plan. (filed as Exhibit 10.3 to the Company's Registration Statement on Form S-1, Registration No. 333-10541, filed on October 18, 1996)

*10.4 1996 Stock Option Plan. (filed as Exhibit 10.4 to the Company's Registration Statement on Form S-1, Registration No. 333-10541, filed on October 18, 1996)

*10.5 1996 Employee Stock Purchase Plan. (filed as Exhibit 10.5 to the Company's Registration Statement on Form S-1, Registration No. 333-10541, filed on October 18, 1996)

*10.6 Amended and Restated 401(k) Profit Sharing Plan of the Registrant, dated July 1, 2000. (filed as Exhibit 10.6 to the Company's Annual Report on Form 10-K, File No. 000-21527, filed on September 6, 2001)

*10.8 Amended and Restated Credit Agreement dated March 25, 2004 among MemberWorks Incorporated, the Lenders Parties Hereto and LaSalle Bank National Association. (filed as exhibit 99.3 to the Company's Current report on Form 8-K, File No.000-21527, filed on April 5, 2004)

*10.9 Master Transaction Agreement dated March 3, 2004. (filed as exhibit 99.2 to the Company's Current report on Form 8-K, File No.000-21527, filed on April 5, 2004)

*10.18 Lease Agreement between Stamford Towers Limited Partnership and the Registrant, dated January 15, 1996. (filed as Exhibit 10.22 to the Company's Registration Statement on Form S-1, Registration No. 333-10541, filed on October 18, 1996)

*10.20	Arena Tower II Lease Agreement by and between Arena Tower II Corporation and the Registrant, dated February 12, 1996, as amended. (filed as Exhibit 10.24 to the Company's Registration Statement on Form S-1, Registration No. 333-10541, filed on October 18, 1996)
*10.23	Lease Agreement between Stamford Towers Limited Partnership and the Registrant, dated May 20, 1997. (filed as Exhibit 10.23 to the Company's Annual Report on Form 10-K, File No. 000-21527, filed on September 29, 1997)

*10.24	Second Amendment to Lease Agreement between Arena Tower II Corporation and Registrant dated January 24, 1997. (filed as Exhibit 10.24 to the Company's Annual Report on Form 10-K, File No. 000-21527, filed on September 29, 1997)
*10.25	Third Amendment to Lease Agreement between Arena Tower II Corporation and Registrant dated July 23, 1997. (filed as Exhibit 10.25 to the Company's Annual Report on Form 10-K, File No. 000-21527, filed on September 29, 1997)
*14.1	Code of Conduct. (filed as exhibit 14 to the Company's Quarterly report on Form 10-Q, File No. 000-21527, filed on May 14, 2004)
*18	Letter re: Change in Accounting Principle. (filed as Exhibit 18 to the Company's Annual Report on Form 10-K, File No. 000-21527, filed on October 8, 1998)
21	Subsidiaries of the Registrant.
23	Consent of PricewaterhouseCoopers LLP.
31.1	Rule 13a-14(a)/15d-14(a) CEO Certification.
31.2	Rule 13a-14(a)/15d-14(a) CFO Certification.
32.1	CEO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	CFO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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*Previously filed.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
of MemberWorks Incorporated

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of MemberWorks Incorporated and its subsidiaries at June 30, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2004 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 14 to the consolidated financial statements, the Company changed its method of accounting for goodwill and other intangible assets in fiscal 2002.

PricewaterhouseCoopers LLP
New York, New York
September 8, 2004

MEMBERWORKS INCORPORATED
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	2
ASSETS	
Current assets:	
Cash and cash equivalents	$ 15
Restricted cash	
Short-term investments	
Accounts receivable (net of allowance for doubtful accounts of $235 and $1,743 at June 30, 2004 and 2003, respectively)	1
Prepaid membership materials	
Prepaid expenses	
Membership solicitation and other deferred costs	5

Total current assets	24
Fixed assets, net	3
Goodwill	12
Intangible assets, net	3
Other assets	1
Total assets	$ 45

LIABILITIES AND SHAREHOLDERS' DEFICIT

Current liabilities:	
Current maturities of long-term obligations	$
Accounts payable	3
Accrued liabilities	6
Deferred revenues	13
Deferred income taxes	1
Total current liabilities	25
Deferred income taxes	
Other long-term liabilities	
Long-term debt	23
Total liabilities	49
Commitments and contingencies (Note 7)	
Shareholders' deficit:	
Preferred stock, $0.01 par value -- 1,000 shares authorized; no shares issued	
Common stock, $0.01 par value -- 40,000 shares authorized; 19,089 shares issued (17,847 shares at June 30, 2003)	
Capital in excess of par value	15
Accumulated earnings (deficit)	1
Accumulated other comprehensive loss	
Treasury stock, 8,852 shares at cost (6,126 shares at June 30, 2003)	(21
Total shareholders' deficit	(4
Total liabilities and shareholders' deficit	$ 45

The accompanying notes are an integral part of these consolidated financial statements.

MEMBERWORKS INCORPORATED
CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	FOR THE YEAR E	
	2004	200
Revenues	$ 488,739	$ 456
Expenses:		
Marketing	255,818	280
Operating	91,832	78
General and administrative	85,826	74
Restructuring charges (Note 5)	-	
Amortization of intangibles	2,393	1
Operating income	52,870	22
Settlement of investment related litigation (Note 10)	-	19
(Loss) gain on sale of subsidiary (Note 9)	-	
Net loss on investment (Note 9)	-	
Interest (expense) income, net	(6,621)	
Other income (expense), net	349	
Income before minority interest	46,598	40
Minority interest (Note 12)	-	
Income before income taxes	46,598	40
Provision for income taxes	18,638	16
Income before cumulative effect of accounting change	27,960	24
Cumulative effect of accounting change (Note 14)	-	
Net income	$ 27,960	$ 24
Basic earnings per share:		
Income before cumulative effect of accounting change	$ 2.60	$
Cumulative effect of accounting change	-	
Basic earnings per share	$ 2.60	$
Diluted earnings per share:		
Income before cumulative ef		