

SPARK NETWORKS PLC

Form S-1/A

December 14, 2005

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**As Filed With The United States Securities and Exchange Commission on December 14, 2005**

**Registration No. 333-123228**

**SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**Amendment No. 4 to  
Form S-1  
REGISTRATION STATEMENT  
Under  
THE SECURITIES ACT OF 1933**

**Spark Networks plc**  
*(Exact name of Registrant as specified in its charter)*

**England and Wales**  
*(State or other jurisdiction of  
incorporation or organization)*

**7389**  
*(Primary Standard Industrial  
Classification Code Number)*

**98-0200628**  
*(IRS Employer  
Identification Number)*

**8383 Wilshire Boulevard, Suite 800  
Beverly Hills, CA 90211  
(323) 836-3000**

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

**David E. Siminoff  
President and Chief Executive Officer  
Spark Networks plc  
8383 Wilshire Boulevard, Suite 800  
Beverly Hills, California 90211  
Telephone: (323) 836-3000  
Fax: (323) 836-3333**

*(Name, address, including zip code, and telephone number, including area code, of agent for service)*

***Copies to:***

**Thomas J. Poletti, Esq.  
Katherine J. Blair, Esq.  
Anh Q. Tran, Esq.  
Kirkpatrick & Lockhart Nicholson Graham LLP  
10100 Santa Monica Boulevard, 7th Floor  
Los Angeles, California 90067  
Telephone: (310) 552-5000  
Fax: (310) 552-5001**

**Approximate date of commencement of proposed sale to the public:** From time to time after this Registration Statement is declared effective.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, please check following box:

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act of 1933, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering:

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act of 1933, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering:

If this form is a post effective amendment filed pursuant to Rule 462(d) under the Securities Act of 1933, please check the following box and list the Securities Act registration statement number of the earliest effective registration statement for the same offering:

If delivery of the prospectus is expected to be made pursuant to Rule 434 under the Securities Act of 1933, check the following box:

### CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Maximum Offering Price Per Share(2)	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Ordinary Shares, par value 1p per share(3)	26,209,496	\$7.12	\$186,611,612	\$21,964
Ordinary Shares, par value 1p per share(3)(4)	7,025,000	\$7.12	\$50,018,000	\$5,887
Total Registration Fee				\$27,851(5)

(1) In accordance with Rule 416(a), the Registrant is also registering hereunder an indeterminate number of additional shares of common stock that shall be issuable pursuant to Rule 416 to prevent dilution resulting from stock splits, stock dividends or similar transactions.

(2) Estimated pursuant to Rule 457(c) of the Securities Act of 1933, as amended, solely for the purpose of computing the amount of the registration fee based on the average of the high and low sales prices of the ordinary shares traded in the form of Global Depositary Receipts, or GDRs, as reported by the Frankfurt Stock Exchange in Germany on September 15, 2005. For purposes of this calculation the sales price of the GDRs is converted into U.S. dollars at an exchange rate of 0.81413 per \$1.00, which is based on the average bid and ask currency exchange price as reported by OANDA on September 15, 2005.

(3) Consists of ordinary shares that are to be offered and sold in the form of American Depositary Shares, or ADSs, by the selling shareholders identified in this prospectus and any prospectus supplement. The ADSs, each representing one ordinary share, evidenced by American Depositary Receipts, or ADRs, upon deposit of the ordinary shares registered hereby, are being registered under a separate registration statement on Form F-6.

(4) Represents shares of the Registrant's ordinary shares being registered for resale that have been or may be acquired upon the exercise of warrants or options issued to the selling shareholders named in this prospectus and any prospectus supplement.

(5) Previously paid. Pursuant to Rule 457(p), the registration fee was partially offset by a previously paid filing fee of \$12,670 paid in connection with the filing on August 4, 2004 by MatchNet, Inc. of a registration statement on Form S-1 (file number 333-117940). In addition, \$15,210 was also previously paid.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this**

**Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

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The information in this prospectus is not complete and may be changed. The selling shareholders may not sell these securities until the Securities and Exchange Commission declares our registration statement effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

**Subject to completion, dated December 14, 2005**

**33,234,496 American Depositary Shares  
SPARK NETWORKS PLC  
Representing 33,234,496 Ordinary Shares**

The selling shareholders identified in this prospectus and any prospectus supplement are offering 33,234,496 ordinary shares in the form of American Depositary Shares, or ADSs. Each ADS represents the right to receive one ordinary share. We will not receive any proceeds from the sale of our shares by the selling shareholders, except for funds received from the exercise of warrants and options held by selling shareholders, if and when exercised.

No public market for our ordinary shares or ADSs currently exists in the United States of America.

Our ordinary shares in the form of Global Depositary Shares, or GDSs, currently trade on the Frankfurt Stock Exchange under the symbol MHJG. The last reported sales price of the GDSs on the Frankfurt Stock Exchange on December 12, 2005 was 5.60 per GDS, or \$6.62 per GDS.

Proposed trading symbol for the ADSs: American Stock Exchange LOV.

**This investment involves risk. See Risk Factors beginning on page 7.**

**Neither the U.S. Securities and Exchange Commission nor any state securities commission has approved or disapproved of anyone's investment in these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

**NOTICE TO RESIDENTS OF THE UNITED KINGDOM AND OTHER MEMBER STATES OF THE EUROPEAN UNION: The shares and ADSs referred to in this document may only be sold or offered to, and this prospectus and any other invitation or inducement to buy or participate in the offer or sale of shares or ADSs may only be communicated to persons outside the United Kingdom and other member states of the European Union ( Relevant Persons ). The shares and ADSs to which this prospectus relates are available only to Relevant Persons and this prospectus must not be acted on or relied on by persons that are not Relevant Persons. Any investment or investment activity to which this prospectus relates is available only to Relevant Persons and may be engaged in only with Relevant Persons. Any person communicating any information relating to this prospectus or the shares and ADSs in the UK or another member state of the European Union should comply with all applicable provisions of the Financial Services and Markets Act 2000 in the UK ( FSMA ) and/or other applicable legislation of the relevant member state of the European Union (including the applicable provisions of the Prospectus Directive (2003/71/EC)) and any regulations made thereunder in so doing. Persons in the UK or another member state of the European Union who are in any doubt as to the action they should take are recommended to seek their own personal financial advice from their stockbroker, bank manager, accountant or other financial adviser who is authorised under the FSMA or the relevant competent authority or national regulator of that member state.**

**The date of this prospectus is \_\_\_\_\_, 2005**

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You should rely only on information contained in this prospectus. We have not authorized any other person to provide you with different information. This prospectus is not an offer to sell, nor is it seeking an offer to buy, these securities in any state where the offer or sale is not permitted. The information in this prospectus is complete and accurate as of the date on the front cover, but the information may have changed since that date.

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**PROSPECTUS SUMMARY**

*This summary highlights information continued elsewhere in this prospectus and does not contain all the information you should consider in your investment decision. You should read this summary, which includes material information, with the more detailed information set out in this prospectus and the financial statements and related notes. You should carefully consider, among other things, the matters discussed in Risk Factors. We were incorporated in September 1998 under the laws of England and Wales as a public limited company. Throughout this prospectus, we refer to Spark Networks plc (known as MatchNet plc until January 10, 2005) and our subsidiaries as we, us, our, our company, Spark Networks and MatchNet unless otherwise indicated. Spark Networks, MatchNet, JDate, AmericanSingles and MingleMatch are our trademarks. Trade names, trademarks and service marks of other companies appearing in this prospectus are the property of the respective holders.*

**Our Business**

We are a leading provider of online personals services in the United States and internationally. Our Web sites enable adults to meet online and participate in a community, become friends, date, form a long-term relationship or marry. We provide this opportunity through the many features on our Web sites, such as detailed profiles, onsite email centers, real-time chat rooms, and instant messaging services. According to comScore Media Metrix, we averaged approximately 3.4 million total unique visitors per month to our Web sites in the United States during the first nine months of 2005, which ranked us as the third largest provider of online personals services in the United States in terms of total unique visitors. comScore Media Metrix defines total unique visitors as the estimated number of different individuals that visited any content of a Web site, a category, a channel, or an application during the reporting period. The number of total unique visitors to our Web sites as measured by comScore Media Metrix does not correspond to the number of members we have in any given period. Currently, our key Web sites are JDate.com and AmericanSingles.com. We operate several international Web sites and maintain operations in both the United States and Israel. Information regarding the geographical source of our revenues can be found in our Consolidated Financial Statements included in this prospectus. Membership on our sites is free and allows a registered user to post a personal profile and to access our searchable database of member profiles and our 24 hours a day, 7 days a week customer service. The ability to initiate most communication with other members requires the payment of a monthly subscription fee, which represents our primary source of revenue. Our subscription fees are charged on a monthly basis, with discounts for longer-term subscriptions ranging from three to twelve months, and subscriptions renew automatically for subsequent one-month periods until paying subscribers terminate them.

We believe that online personals fulfill significant needs for America's single adults who are looking to meet a companion or date. Traditional methods such as printed personals advertisements, offline dating services and public gathering places often do not meet the needs of time-constrained single people. Printed personals advertisements offer individuals limited personal information and interaction before meeting. Offline dating services are time-consuming, expensive and offer a smaller number of potential partners. Public gathering places such as restaurants, bars and social venues provide a limited ability to learn about others prior to an in-person meeting. In contrast, online personals services facilitate interaction between singles by allowing them to screen and communicate with a large number of potential companions. With features such as detailed personal profiles, email and instant messaging, this medium allows users to communicate with other singles at their convenience and affords them the ability to meet multiple people in a safe and secure online setting.

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For the nine month period ended September 30, 2005, we had approximately 218,700 average paying subscribers, representing a decrease of 2.9% from the same period in 2004. Our JDate and AmericanSingles segments had approximately 69,400 and 109,800 average paying subscribers for the nine months ended September 30, 2005, a decrease of 1.3% and 17.8%, respectively, compared to the same period in 2004.

We intend to grow our business in the following ways:

Increasing our base of members in the United States and internationally through consistent and targeted marketing efforts and geographic expansion. We define a member as an individual who has posted a personal profile during the immediately preceding 12 months or an individual who has previously posted a personal profile and has subsequently logged on to one of our Web sites at least once in the preceding 12 months. Members may or may not be paying subscribers which we define as individuals who have paid a monthly fee for access to communication and Web site features beyond those provided to our members. Accordingly, the number of members we have at any given time may not directly affect our revenue.

Increasing the number of our members who become paying subscribers by offering improved technology and communications features and by utilizing our strong customer service focus.

Extending into new vertical affinity markets that we believe will be receptive to paid online personals and are large enough to enable us to attain enough paying subscribers sufficient to support an online community. We view vertical affinity markets as identifiable groups of people who share common interests and the desire to meet companions or dates with similar interests, backgrounds or traits.

**Office Location**

Our principal executive offices are located at 8383 Wilshire Boulevard, Suite 800, Beverly Hills, California 90211. Our telephone number at that location is (323) 836-3000. Our registered office is located at 24/26 Arcadia Avenue, London, N3 2JU, England. Our corporate Web site address is [www.spark.net](http://www.spark.net). This is a textual reference only. We do not incorporate the information on our Web site into this prospectus, and you should not consider any information on, or that can be accessed through, our Web site as part of this prospectus.

**Our Securities**

Our ordinary shares currently trade on the Frankfurt Stock Exchange in the form of Global Depository Shares, or GDSs, each of which represents the right to receive one ordinary share. The selling shareholders identified in this prospectus and any prospectus supplement are offering 33,234,496 ordinary shares in the form of American Depository Shares, or ADSs, each of which represents the right to receive one ordinary share. ADSs may be issued to persons located in the United States and the selling shareholders may sell their ordinary shares in the form of ADSs after this registration statement is declared effective by the Securities and Exchange Commission except during any time with respect to which we inform those shareholders that this registration statement may not be relied upon. Selling shareholders that hold their ordinary shares in the form of GDSs may offer and sell their shares in the United States by surrendering those GDSs to our depository bank, The Bank of New York, and requesting the depository bank to deliver ADSs to the order of the purchaser. Once GDSs have been surrendered for ordinary shares, the shares may not be re-deposited for GDSs because the GDS facility has been closed to such re-deposits of shares, and if and when all GDSs have been surrendered, we



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intend to terminate our GDS deposit agreement such that our ordinary shares will only be publicly traded in the form of ADSs.

We are registering the ordinary shares in the form of ADSs, and not directly as ordinary shares. An acquisition or transfer of an ordinary share in the United States will generally trigger a charge to United Kingdom stamp duty, and such stamp duty is generally not triggered when the sale or transfer of the beneficial interest in the ordinary shares is effected by a transfer of ADSs. See **Taxation** on page 118 for additional information regarding taxation of our ordinary shares and ADSs.

**The Offering**

ADSs offered by selling  
shareholders 33,234,496 ADSs<sup>(1)</sup>

Total ordinary shares outstanding  
after the offering, including  
ordinary shares underlying ADSs  
and GDSs 26,209,496 Ordinary Shares<sup>(2)</sup>

Use of Proceeds We will not receive any of the net proceeds from the sale of shares by the selling  
shareholders. See **Use of Proceeds**.

Proposed American Stock  
Exchange symbol LOV

<sup>(1)</sup>Consists of 26,209,496 ordinary shares, 6,595,000 ordinary shares underlying options and 430,000 ordinary shares underlying warrants. The ordinary shares are to be offered and sold in the form of American Depositary Shares, or ADSs. The ADSs, each representing one ordinary share, evidenced by American Depositary Receipts, or ADRs, upon deposit of the ordinary shares registered hereby, are being registered under a separate registration statement on Form F-6.

<sup>(2)</sup>The total number of ordinary shares to be outstanding immediately after this offering is based on 26,209,496 ordinary shares outstanding as of October 19, 2005. This information excludes:

8,760,688 ordinary shares issuable upon the exercise of outstanding options as of October 19, 2005, with exercise prices ranging from \$0.88 to \$9.44 per share and a weighted average exercise price of \$3.96 per share;

430,000 ordinary shares issuable upon the exercise of warrants outstanding as of October 19, 2005, with an exercise price an exercise price of \$2.49 per share; and

14,372,562 ordinary shares available for issuance under our share option schemes.

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The following summary consolidated financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements, related notes, and other financial information included herein.

	Year ended December 31, <sup>(1)</sup>			Nine months ended September 30, <sup>(1)</sup>	
	2002	2003 <sup>(7)</sup>	2004 <sup>(7)</sup>	2004 <sup>(7)</sup>	2005 <sup>(7)</sup>
	(unaudited) (unaudited)				
	(in thousands, except per share and paying subscriber data)				
<b>Consolidated Statements of Operations Data:</b>					
Net revenues	\$ 16,352	\$ 36,941	\$ 65,052	\$ 48,000	\$ 48,925
Direct marketing expenses	5,396	18,395	31,240	24,612	18,352
Contribution margin	10,956	18,546	33,812	23,388	30,573
Operating expenses: <sup>(6)</sup>					
Indirect marketing	403	986	2,607	2,060	758
Customer service	1,207	2,536	3,379	2,601	1,787
Technical operations	1,587	4,481	7,184	5,201	4,848
Product development	603	959	2,013	1,376	2,949
General and administrative	7,996	18,537	29,253	21,559	20,013
Amortization of goodwill and intangible assets	524	555	860	670	848
Impairment of long-lived assets and goodwill		1,532	208		
Total operating expenses	12,320	29,586	45,504	33,467	31,203
Operating (loss)	(1,364)	(11,040)	(11,692)	(10,079)	(630)
Interest (income) and other expenses, net	(840)	(188)	(66)	(14)	285
(Loss) before income taxes	(524)	(10,852)	(11,626)	(10,065)	(915)
Provision for income taxes			1	1	120
Net (loss)	\$ (524)	\$ (10,852)	\$ (11,627)	\$ (10,066)	\$ (1,035)
Net (loss) per share – basic and diluted <sup>(3)</sup>	\$ (0.03)	\$ (0.57)	\$ (0.51)	\$ (0.45)	\$ (0.04)
Weighted average shares outstanding – basic and diluted <sup>(4)</sup>	18,460	18,970	22,667	22,139	25,621
<b>Other Financial Data:</b>					
Depreciation	\$ 874	\$ 1,441	\$ 3,065	\$ 2,721	\$ 3,558
<b>Additional Information:</b>					

Average paying subscribers <sup>(4)</sup>	58,700	125,800	226,100	225,200	218,700
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	December 31,			September 30,
	2002	2003	2004	2005
<b>Consolidated Balance Sheet Data:</b>				
Cash, cash equivalents and marketable securities	\$ 7,755	\$ 5,815	\$ 7,423	\$ 8,668
Total assets	17,461	16,969	27,359	39,473
Deferred revenue	1,535	3,232	3,933	4,099
Capital lease obligations and notes payable		487	1,873	10,517
Total liabilities	3,998	11,659	16,872	23,155
Shares subject to rescission <sup>(5)</sup>			3,819	3,819
Accumulated deficit	(21,156)	(32,008)	(43,635)	(44,670)
Total shareholders' equity	13,463	5,310	6,668	12,499

<sup>(1)</sup>Refer to Management's Discussion and Analysis of Financial Condition and Results of Operations for a discussion of certain asset and business acquisitions.

<sup>(2)</sup>In 2004, general and administrative expenses included an expense of approximately \$2.4 million related to an employee severance, \$2.1 million related to the United States initial public offering of MatchNet, Inc. that was planned for mid-2004, but which was withdrawn shortly after the related registration statement was filed in the third quarter of 2004, as well as one legal settlement resulting in the recognition of \$900,000 in expenses in the third quarter and two legal settlements resulting in the recognition of \$2.1 million in expenses in the fourth quarter of 2004. In 2003, general and administrative expenses included a charge of \$1.7 million primarily related to a settlement with Comdisco.

<sup>(3)</sup>For information regarding the computation of per share amounts, refer to note 1 of our consolidated financial statements.

<sup>(4)</sup>Average paying subscribers for each month are calculated as the sum of the paying subscribers at the beginning and the end of the month, divided by two. Average paying subscribers for periods longer than one month are calculated as the sum of the average paying subscribers for each month, divided by the number of months in such period. Additionally, refer to Management's Discussion and Analysis of Financial Condition and Results of Operations for a discussion of other business metrics we use to evaluate our business.

<sup>(5)</sup>Under our 2000 Executive Share Option Scheme ( 2000 Option Scheme ), we granted options to purchase ordinary shares to certain of our employees, directors and consultants. The issuances of securities upon exercise of options granted under our 2000 Option Scheme may not have been exempt from registration and qualification under federal and California state securities laws, and as a result, we may have potential liability to those employees, directors and consultants to whom we issued securities upon the exercise of these options. In order to address that issue, we may elect to make a rescission offer to those persons who exercised all, or a portion, of those options and continue to hold the shares issued upon exercise, to give them the opportunity to rescind the issuance of those shares. However, the staff of the Securities and Exchange Commission is of the opinion that a rescission offer will not bar or extinguish any liability under the Securities Act of 1933 with respect to these options and shares, nor will a rescission offer extinguish a holder's right to rescind the issuance of securities that were not registered or exempt from the registration requirements under the Securities Act of 1933. As of September 30, 2005, assuming every eligible person that continues to hold the securities issued upon exercise of options granted under the 2000 Option Scheme were to accept a rescission offer, we estimate the total cost to us to complete the rescission would be approximately \$3.8 million including statutory interest at 7% per annum, accrued since the date of exercise of the

options. The rescission acquisition price is calculated as equal to the original exercise price paid by the optionee to our company upon exercise of their option.

<sup>(6)</sup>Operating expenses include share-based compensation as follows:

	Year Ended December 31,		Nine Months Ended September 30,	
	2003	2004	2004	2005
	<b>(In thousands)</b>			
Indirect marketing	\$ 79	\$ 156	\$ 128	\$ 10
Customer service				22
Technical operations	140	22	22	168
Product development				124
General and administrative	1,652	1,526	1,012	1,000

<sup>(7)</sup>For the purposes of this and all future filings, prior period classification of share-based compensation was reclassified to conform to current period classification.

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**Presentation of Financial Information**

We report our financial statements in U.S. dollars and prepare our financial statements in accordance with generally accepted accounting principles in the United States. In this prospectus, except where otherwise indicated, references to \$ or U.S. dollars are to the lawful currency of the United States, references to or euro are to the single currency of the European Union, and references to £ or pound sterling are to the currency of the United Kingdom. Unless otherwise noted, the exercise prices of options and warrants as outstanding on September 30, 2005 noted in this prospectus are presented on an as converted basis into U.S. dollars at an exchange rate of 0.83001 per \$1.00, which is based on the average bid and ask exchange price as reported by OANDA for the day September 30, 2005. The exercise prices of options and warrants as outstanding on October 19, 2005 utilize the exchange rate as of October 19, 2005, which as 0.83612 per \$1.00.

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**RISK FACTORS**

*You should carefully consider the risks described below together with all of the other information included in this prospectus and the related registration statement before making an investment decision. The risks described below are the material risks that we are currently aware of that are facing our company. In addition, other sections of this prospectus may include additional factors that could adversely impact our business and operating results. If any of the following risks actually occurs, our business, financial condition or results of operations could be materially adversely affected. In that case, the trading price of our ordinary shares, in the form of ADSs, would decline and you may lose all or part of your investment.*

**Risks Related To Our Business**

**We have significant operating losses and we may incur additional losses in the future.**

We have historically generated significant operating losses. As of September 30, 2005, we had an accumulated deficit of approximately \$44.7 million. We had net loss of approximately \$1.0 million for the nine months ended September 30, 2005 and a loss of \$11.6 million for the fiscal year ended December 31, 2004. We also had negative operating cash flow in 2004. We expect that our operating expenses will continue to increase during the next several years as a result of the promotion of our services, the hiring of additional key personnel, the expansion of our operations, including the launch of new Web sites, and entering into acquisitions, strategic alliances and joint ventures. If our revenues do not grow at a substantially faster rate than these expected increases in our expenses or if our operating expenses are higher than we anticipate, we may not be profitable and we may incur additional losses, which could be significant.

**Our limited operating history and relatively new business model in an emerging and rapidly evolving market makes it difficult to evaluate our future prospects.**

We derive nearly all of our net revenues from online subscription fees for our services, which is an early-stage business model for us that has undergone, and continues to experience, rapid and dramatic changes. As a result, we have very little operating history for you to evaluate in assessing our future prospects. You must consider our business and prospects in light of the risks and difficulties we will encounter as an early-stage company in a new and rapidly evolving market. Our performance will depend on the continued acceptance and evolution of online personal services and other factors addressed herein. We may not be able to effectively assess or address the evolving risks and difficulties present in the market, which could threaten our capacity to continue operations successfully in the future.

**If our efforts to attract a large number of members, convert members into paying subscribers and retain our paying subscribers are not successful, our revenues and operating results would suffer.**

Our future growth depends on our ability to attract a large number of members, convert members into paying subscribers and retain our paying subscribers. This in turn depends on our ability to deliver a high-quality online personals experience to these members and paying subscribers. As a result, we must continue to invest significant resources in order to enhance our existing products and services and introduce new high-quality products and services that people will use. If we are unable to predict user preferences or industry changes, or if we are unable to modify our products and services on a timely basis, we may lose existing members and paying subscribers and may fail to attract new members and paying subscribers. Our revenue and expenses would also be adversely affected if our innovations are not responsive to the needs of our members and paying subscribers or are not brought to market in an effective or timely manner.

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**Our subscriber acquisition costs vary depending upon prevailing market conditions and may increase significantly in the future.**

Costs for us to acquire paying subscribers are dependent, in part, upon our ability to purchase advertising at a reasonable cost. Our advertising costs vary over time, depending upon a number of factors, many of which are beyond our control. Historically, we have used online advertising as the primary means of marketing our services.

In general, the costs of online advertising have recently increased substantially and we expect those costs to continue to increase as long as the demand for online advertising remains robust. If we are not able to reduce our other operating costs, increase our paying subscriber base or increase revenue per paying subscriber to offset these anticipated increases, our profitability will be adversely affected.

**Competition presents an ongoing threat to the performance of our business.**

We expect competition in the online personals business to continue to increase because there are no substantial barriers to entry. For example, an article in the USA Today stated that there are signs of fierce competition among online personals sites, and that an Internet tracking firm found that the number of online personals sites it monitors had reached 836 in February 2005, up from 611 in January 2004. We believe that our ability to compete depends upon many factors both within and beyond our control, including the following:

the size and diversity of our member and paying subscriber bases;

the timing and market acceptance of our products and services, including the developments and enhancements to those products and services relative to those offered by our competitors;

customer service and support efforts;

selling and marketing efforts; and

our brand strength in the marketplace relative to our competitors.

We compete with traditional personals services, as well as newspapers, magazines and other traditional media companies that provide personals services. We compete with a number of large and small companies, including Internet portals and specialty-focused media companies that provide online and offline products and services to the markets we serve. Our principal online personals services competitors include Yahoo! Personals, Match.com, a wholly-owned subsidiary of InterActiveCorp., and eHarmony, all of which operate primarily in North America. In addition, we face competition from social networking Web sites such as MySpace and Friendster. Many of our current and potential competitors have longer operating histories, significantly greater financial, technical, marketing and other resources and larger customer bases than we do. These factors may allow our competitors to respond more quickly than we can to new or emerging technologies and changes in customer requirements. These competitors may engage in more extensive research and development efforts, undertake more far-reaching marketing campaigns and adopt more aggressive pricing policies which may allow them to build larger member and paying subscriber bases than we have. Our competitors may develop products or services that are equal or superior to our products and services or that achieve greater market acceptance than our products and services. These activities could attract members and paying subscribers away from our Web sites and reduce our market share.

In addition, current and potential competitors are making, and are expected to continue to make, strategic acquisitions or establishing cooperative and, in some cases, exclusive relationships with significant companies or competitors to expand their businesses or to offer more comprehensive products and services. To the extent these competitors or potential competitors establish exclusive relationships with major portals, search engines and Internet service providers, or ISPs, our ability to reach potential members through online advertising may be restricted. Any of these competitors could



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cause us difficulty in attracting and retaining members and converting members into paying subscribers and could jeopardize our existing affiliate program and relationships with portals, search engines, ISPs and other Web properties.

**Our efforts to capitalize upon opportunities to expand into new vertical affinity markets may fail and could result in a loss of capital and other valuable resources.**

One of our strategies is to expand into new vertical affinity markets to increase our revenue base. We view vertical affinity markets as identifiable groups of people who share common interests and the desire to meet companions or dates with similar interests, backgrounds or traits. Our planned expansion into such vertical affinity markets will occupy our management's time and attention and will require us to invest significant capital resources. The results of our expansion efforts into new vertical affinity markets are unpredictable, and there is no guarantee that our efforts will have a positive effect on our revenue base. We face many risks associated with our planned expansion into new vertical affinity markets, including but not limited to the following:

competition from pre-existing competitors with significantly stronger brand recognition in the markets we enter;

our improper evaluations of the potential of such markets;

diversion of capital and other valuable resources away from our core business and other opportunities that are potentially more profitable; and

weakening our current brands by over expansion into too many new markets.

**If we fail to keep pace with rapid technological change, our competitive position will suffer.**

We operate in a market characterized by rapidly changing technologies, evolving industry standards, frequent new product and service announcements, enhancements and changing customer demands. Accordingly, our performance will depend on our ability to adapt to rapidly changing technologies and industry standards, and our ability to continually improve the speed, performance, features, ease of use and reliability of our services in response to both evolving demands of the marketplace and competitive service and product offerings. There have been occasions when we have not been as responsive as many of our competitors in adapting our services to changing industry standards and the needs of our members and paying subscribers. Our industry has been subject to constant innovation and competition. Historically, new features may be introduced by one competitor, and if they are perceived as attractive to users, they are often copied later by others. Over the last few years, such new feature introductions in the industry have included instant messaging, message boards, ecards, personality profiles, and mobile content delivery. We are currently unable to deliver mobile features until completion of our new system architecture. Introducing new technologies into our systems involves numerous technical challenges, substantial amounts of capital and personnel resources and often takes many months to complete. We intend to continue to devote efforts and funds toward the development of additional technologies and services. For example, in 2003 and 2004 we introduced a number of new Web sites and features, and we anticipate the introduction of additional Web sites and features in 2005 and 2006. We may not be able to effectively integrate new technologies into our Web sites on a timely basis or at all, which may degrade the responsiveness and speed of our Web sites. Such technologies, even if integrated, may not function as expected.

**Our business depends on establishing and maintaining strong brands and if we are not able to maintain and enhance our brands, we may be unable to expand or maintain our member and paying subscriber bases.**

We believe that establishing and maintaining our brands is critical to our efforts to attract and expand our member and paying subscriber bases. We believe that the importance of brand recognition will

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continue to increase, given the growing number of Internet sites and the low barriers to entry for companies offering online personals services. For example, an article in the USA Today stated that there are signs of fierce competition among online personals sites, and that an Internet tracking firm found that the number of online personals sites it monitors had reached 836 in February 2005, up from 611 in January 2004. To attract and retain members and paying subscribers, and to promote and maintain our brands in response to competitive pressures, we intend to substantially increase our financial commitment to creating and maintaining distinct brand loyalty among these groups. If visitors, members and paying subscribers to our Web sites and our affiliate and distribution associates do not perceive our existing services to be of high quality, or if we introduce new services or enter into new business ventures that are not favorably received by such parties, the value of our brands could be diluted, thereby decreasing the attractiveness of our Web sites to such parties. In addition, we changed our corporate name in January 2005 from MatchNet plc to Spark Networks plc, however, we did not change the names of our Web sites or brand names. Our adoption of a new corporate name may prevent us from taking advantage of goodwill that potential and existing customers may have associated with our old corporate name. As a result, our results of operations may be adversely affected by decreased brand recognition.

**We may have potential liability under California state and federal securities laws with respect to the grant of share options to certain of our employees, directors and consultants and the exercise of these options.**

Under our 2000 Executive Share Option Scheme ( 2000 Option Scheme ), we granted options to purchase ordinary shares to certain of our employees, directors and consultants. California state securities laws generally require qualification for the offer and sale of securities subject to California law. Under California law, the grant of an option constitutes a sale of the underlying shares at the time of the option grant and not at the exercise of the option. Our option grants were not qualified and may not have been exempt from qualification under California state securities laws. As a result, we may have potential liability to those employees, directors and consultants to whom we granted options under the 2000 Option Scheme. In order to address that issue, we may elect to make a rescission offer to the holders of outstanding options under the 2000 Option Scheme to give them the opportunity to rescind the grant of their options.

As of September 30, 2005, assuming every eligible optionee were to accept a rescission offer, we estimate the total cost to us to complete the rescission would be approximately \$4.0 million including statutory interest at 7% per annum. These amounts reflect the costs of offering to rescind the issuance of the outstanding options by paying an amount equal to 20% of the aggregate exercise price for the entire option.

In addition, issuances of securities upon exercise of options granted under our 2000 Option Scheme may not have been exempt from registration and qualification under California state securities laws as a result of the option grants themselves and also may not have been exempt from registration under federal securities laws. Federal securities laws prohibit the offer or sale of securities unless the sales are registered or exempt from registration. The issuances of ordinary shares upon the exercise of our options were not registered and may not have been exempt from registration under California state and federal securities laws. As a result, we may have potential liability to those employees, directors and consultants to whom we issued securities upon the exercise of these options. In order to address that issue, we may elect to make a rescission offer to those persons who exercised all, or a portion, of those options and continue to hold the shares issued upon exercise, to give them the opportunity to rescind the issuance of those shares ( Option Shares ).

As of September 30, 2005, assuming every eligible person that continues to hold the securities issued upon exercise of options granted under the 2000 Option Scheme were to accept a rescission offer, we estimate the total cost to us to complete the rescission would be approximately \$3.8 million including

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statutory interest at 7% per annum, accrued since the date of exercise of the options. These amounts are calculated by reference to the acquisition price of the Option Shares.

A holder could argue that this process does not represent an adequate remedy for issuance of an option and securities issued upon exercise of an option in violation of California state or federal securities laws and, if a court were to impose a greater remedy, our financial exposure could be greater. In addition, it is the Securities and Exchange Commission's position that a rescission offer will not bar or extinguish any liability under the Securities Act of 1933 with respect to these options and shares, nor will a rescission offer extinguish a holder's right to rescind the issuance of securities that were not registered or exempt from the registration requirements under the Securities Act of 1933. If any or all of the holders reject or fail to respond to our rescission offer, the holders will keep their options and securities and we may continue to be liable under federal and California state securities laws for up to an amount equal to the value of the options and securities granted or issued plus any statutory interest we may be required to pay. Further, claims or actions based on fraud may not be waived or barred pursuant to a rescission offer and there can be no assurance that we will be able to enforce any waivers that we may receive in connection with the rescission offer in order to bar such claims or other causes of action until the applicable statute of limitations has run. In addition, despite a rescission offer, whether accepted or not, if it is determined that we offered securities without properly registering them under federal or state law, or securing an exemption from registration, regulators could impose monetary fines or other sanctions as provided under these laws.

For the purposes of English company law, a rescission offer in respect of our Option Shares would take the form of a purchase by our company of the relevant Option Shares. The Companies Act 1985 (the Companies Act) provides that we may only purchase our own shares using our distributable profits (as defined by the Companies Act) or the proceeds from the issuance of new shares for that purpose. In accordance with a procedure set out in the Companies Act requiring the approval of shareholders and of the High Court of Justice in England and Wales (the Court), we have with effect from December 8, 2005 (the Effective Date) reduced our share premium account by US\$44,000,000 in order to eliminate the deficit on our profit and loss account, which had arisen as a result of previous accumulated losses and to enable profits arising after December 31, 2005 to give rise to distributable reserves. We have given an undertaking to the Court for the protection of our creditors, which requires us to transfer to a non-distributable reserve (the Special Reserve) the amount (if any) by which the deficit on our profit and loss account at December 31, 2005 falls short of the amount of the reduction (being US\$44,000,000), and any profits made by us or any of our subsidiaries prior to December 31, 2005, until our non-consenting creditors at the Effective Date have been paid off. The undertaking also prevents us from making any distribution to shareholders, or redeeming or purchasing our own shares, until we have obtained approval at a shareholders' general meeting of our audited UK GAAP balance sheet for the period ended December 31, 2005. It is likely that our UK GAAP balance sheet for the period ended December 31, 2005 will be ready for approval by shareholders on or about May 31, 2006. Furthermore, we do not intend to make a rescission offer until we have the distributable reserves required to make a rescission offer.

Any purchase of the Option Shares pursuant to a rescission offer would not only need to be made out of distributable reserves, but would also require shareholder approval given in accordance with the requirements of the Companies Act.

Such approval must be given by resolution passed with a majority of at least 75% of the votes cast on the resolution (excluding votes carried by the Option Shares proposed to be purchased), having made a copy of the contract for the purchase of the Option Shares available for inspection both at our registered office for at least 15 days prior to the date of the meeting to approve the purchase and at the meeting itself. Once a purchase has been completed, we would be subject to further disclosure obligations in relation to information about the purchase.

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We do not intend to seek shareholder approval for a purchase of Option Shares until we have made a rescission offer which has been accepted by any one or more shareholders and it has become necessary to seek such approval. We have terminated and no longer grant options under our 2000 Option Scheme, but options previously granted under the 2000 Option Scheme remain in full force and effect. We filed a registration statement on Form S-8 covering the issuance of future shares upon exercise of presently unexercised options under the 2000 Option Scheme. However, none of the shares (including shares underlying unexercised options) registered on the Form S-8 will be eligible for resale if they are tendered as part of the rescission offer.

**If we are unable to attract, retain and motivate key personnel or hire qualified personnel, or such personnel do not work well together, our growth prospects and profitability will be harmed.**

Our performance is largely dependent on the talents and efforts of highly skilled individuals. We have recently recruited many of our directors, executive officers and other key management talent, some of which have limited or no experience in the online personals industry. For example, David E. Siminoff, our President and Chief Executive Officer, joined us in August 2004 and each of our Chief Financial Officer, Chief Operating Officer and General Counsel, and Chief Technology Officer joined us in October 2004. Because members of our executive management have only worked together as a team for a limited time, there are inherent risks in the management of our company with respect to decision-making, business direction, product development and strategic relationships. In the event that the members of our executive management team are unable to work well together or agree on operating principles, business direction or business transactions or are unable to provide cohesive leadership, our business could be harmed and one or more of those individuals may discontinue their service to our company, and we would be forced to find a suitable replacement. The loss of any of our management or key personnel could seriously harm our business.

Furthermore, we have recently experienced significant turnover on our board of directors. We currently have seven members serving on our board of directors. Since October 2004, we have had two directors resign from our board of directors and five directors join our board of directors. Alon Carmel, one of our company's co-founders and co-chairmen, resigned from his position in February 2005 to pursue other entrepreneurial and philanthropic interests. In August 2004, we initiated a cost reduction program and terminated the employment of 40 full-time and temporary employees, and, as a result, our future recruiting efforts may become more difficult. We may also encounter difficulties in recruiting personnel as we become a more mature company in a competitive industry. Competition in our industry for personnel is intense, and we are aware that our competitors have directly targeted our employees. We do not have non-competition agreements with most employees and, even in cases where we do, these agreements are of limited enforceability in California. We also do not maintain any key-person life insurance policies on our executives. The incentives to attract, retain and motivate employees provided by our option grants or by future arrangements, such as cash bonuses, may not be as effective as they have been in the past. If we do not succeed in attracting necessary personnel or retaining and motivating existing personnel, we may be unable to grow effectively.

**Our inability to effectively manage our growth could have a materially adverse effect on our profitability.**

We have experienced rapid growth since inception. The growth and expansion of our business and service offerings places a continuous significant strain on our management, operational and financial resources. We are required to manage multiple relations with various strategic associates, technology licensors, members, paying subscribers and other third parties. In the event of further growth of our operations or in the number of our third-party relationships, our computer systems or procedures may not be adequate to support our operations and our management may not be able to manage such

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growth effectively. To effectively manage our growth, we must continue to implement and improve our operational, financial and management information systems and to expand, train and manage our employee base. If we fail to do so, our management, operational and financial resources could be overstrained and adversely impacted.

**We expect our growth rates to decline and our operating margins could deteriorate.**

We believe our revenue growth rate will decline as our net revenues increase to higher levels and as the growth of the online personals industry begins to slow. We have seen a decline in our growth rates during the latter stages of 2004 and first half of 2005. A February 2005 report by Jupiter Research forecasts the online personals industry will experience single digit growth in 2005 as compared to 77% growth in 2003. It is possible that our operating margins will deteriorate if revenue growth does not exceed planned increases in expenditures for all aspects of our business in an increasingly competitive environment, including sales and marketing, general and administrative and technical operations expenses.

**Our business depends on our server and network hardware and software and our ability to obtain network capacity; our current safeguard systems may be inadequate to prevent an interruption in the availability of our services.**

The performance of our server and networking hardware and software infrastructure is critical to our business and reputation, to our ability to attract visitors and members to our Web sites, to convert them into paying subscribers and to retain paying subscribers. An unexpected and/or substantial increase in the use of our Web sites could strain the capacity of our systems, which could lead to a slower response time or system failures. Although we have not yet experienced many significant delays, any future slowdowns or system failures could adversely affect the speed and responsiveness of our Web sites and would diminish the experience for our visitors, members and paying subscribers. We face risks related to our ability to scale up to our expected customer levels while maintaining superior performance. If the usage of our Web sites substantially increases, we may need to purchase additional servers and networking equipment and services to maintain adequate data transmission speeds, the availability of which may be limited or the cost of which may be significant. Any system failure that causes an interruption in service or a decrease in the responsiveness of our Web sites could reduce traffic on our Web sites and, if sustained or repeated, could impair our reputation and the attractiveness of our brands as well as reduce revenue and negatively impact our operating results.

Furthermore, we rely on many different hardware systems and software applications, some of which have been developed internally. If these hardware systems or software applications fail, it would adversely affect our ability to provide our services. If we are unable to protect our data from loss or electronic or magnetic corruption, or if we receive a significant unexpected increase in usage and are not able to rapidly expand our transaction-processing systems and network infrastructure without any systems interruptions, it could seriously harm our business and reputation. We have experienced occasional systems interruptions in the past as a result of unexpected increases in usage, and we cannot assure you that we will not incur similar or more serious interruptions in the future. From time to time, our company and our Web sites have been subject to delays and interruptions due to software viruses, or variants thereof, such as internet worms. To date, we have not experienced delays or systems interruptions that have had a material impact on our business.

In addition, we do not currently have adequate disaster recovery systems in place, which means in the event of any catastrophic failure involving our Web sites, we may be unable to serve our Web traffic for a significant period of time. Our servers primarily operate from only a single site in Southern California and the absence of a backup site could exacerbate this disruption. Any system failure, including network, software or hardware failure, that causes an interruption in the delivery of our Web sites and services or a decrease in responsiveness of our services would result in reduced visitor traffic, reduced revenue and would adversely affect our reputation and brands.

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**The failure to establish and maintain affiliate agreements and relationships could limit the growth of our business.**

We have entered into, and expect to continue to enter into, arrangements with affiliates to increase our member and paying subscribers bases, bring traffic to our Web sites and enhance our brands. Pursuant to our arrangements, an affiliate generally advertises or promotes our Web site on its Web site, and earns a fee whenever visitors to its Web site click through the advertisement to one of our Web sites and registers or subscribes on our Web site. Affiliate arrangements constitute over half of our marketing program. These affiliate arrangements are easily cancelable, often with one day notice. We do not typically have any exclusivity arrangements with our affiliates, and some of our affiliates may also be affiliates for our competitors. None of these affiliates, individually, represents a material portion of our revenue. If any of our current affiliate agreements is terminated, we may not be able to replace the terminated agreement with an equally beneficial arrangement. We cannot assure you that we will be able to renew any of our current agreements when they terminate or, if we are able to do so, that such renewals will be available on acceptable terms. We also do not know whether we will be able to enter into additional agreements or that any relationships, if entered into, will be on terms favorable to us.

**We rely on a number of third-party providers and their failure or unwillingness to continue to perform could harm us.**

We rely on third parties to provide important services and technologies to us, including a third party that manages and monitors our offsite data center located in Southern California, ISPs, search engine marketing providers and credit card processors. In addition, we license technologies from third parties to facilitate our ability to provide our services. Any failure on our part to comply with the terms of these licenses could result in the loss of our rights to continue using the licensed technology, and we could experience difficulties obtaining licenses for alternative technologies. Furthermore, any failure of these third parties to provide these and other services, or errors, failures, interruptions or delays associated with licensed technologies, could significantly harm our business. Any financial or other difficulties our providers face may have negative effects on our business, the nature and extent of which we cannot predict. Except to the extent of the terms of our contracts with such third party providers, we exercise little or no control over them, which increases our vulnerability to problems with the services and technologies they provide and license to us. In addition, if any fees charged by third-party providers were to substantially increase, such as if ISPs began charging us for email sent by our paying subscribers to other members or paying subscribers, we could incur significant additional losses.

**If we fail to develop or maintain an effective system of internal controls over financial reporting, we may not be able to accurately report our financial results or prevent fraud. As a result, current and potential shareholders could lose confidence in our financial reporting, which would harm the value of our shares.**

Effective internal controls over financial reporting are necessary for us to provide reliable financial reports, effectively prevent fraud and operate as a public company. If we cannot provide reliable financial reports or prevent fraud, our reputation and operating results would be harmed. We have, in the past, discovered and may, in the future, discover areas of our internal controls over financial reporting that need improvement. For example, during our audit of 2003 results, our external auditors brought to our attention a need to restate 2001 and 2002 results and also noted, in a letter to management, certain conditions involving internal controls and operations, none of which were a material weakness. Furthermore, in 1994, a civil action was filed in Israeli district court (the Action ) involving Videomatrix Industries, LTD ( Videomatrix ), a company unrelated to Spark Networks except of which our former Co-chairman and current Chairman were officers. In that Action, our former Co-chairman was a respondent, the Israeli equivalent of a defendant, and our current Chairman was a formal respondent, but not a defendant. The Action was initiated by a venture capital lender to, and investor in, Videomatrix. The Israeli court appointed an investigator to make factual findings. The investigator noted that there were inaccurate records and/or entries in corporate books,

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incomplete disclosures and/or inaccurate representations in a prospectus, questionable documents, and undisclosed related party transactions, involving Videomatrix. Thereafter, the court issued an order providing for a four month moratorium on litigation to permit Videomatrix, its audit committee, and its auditors to conduct an examination and form conclusions. Our Chairman and former Co-chairman purchased the entire ownership interest of the venture capital lender in Videomatrix during the moratorium provided for in the court order and no further action was taken by the venture capital lender in connection with this matter.

If we become a U.S. public company, we will be subject to the reporting requirements of the Sarbanes-Oxley Act of 2002. Beginning December 31, 2006, we will be required to annually assess and report on our internal controls over financial reporting. If we are unable to adequately establish or improve our internal controls over financial reporting, we may report that our internal controls are ineffective and our external auditors will not be able to issue an unqualified opinion on the effectiveness of our internal controls. Ineffective internal controls over financial reporting could also cause investors to lose confidence in our reported financial information, which would likely have a negative effect on the trading price of our securities or could affect our ability to access the capital markets and which could result in regulatory proceedings against us by, among others, the U.S. Securities Exchange Commission.

**We face risks related to our recent accounting restatements, which could result in costly litigation or regulatory proceedings against us.**

Our ordinary shares in the form of GDSs trade on the Frankfurt Stock Exchange in Germany. Pursuant to the laws governing this exchange, we publicly report our quarterly and annual operating results. On April 28, 2004, we publicly announced that we had discovered accounting inaccuracies in previously reported financial statements. As a result, following consultation with our new auditors, we restated our financial statements for the nine months ended September 30, 2003 and for each of the years ended December 31, 2001 and 2002 to correct inappropriate accounting entries.

The restatements primarily related to the timing of recognition of deferred revenue and the capitalization of bounty costs, which are the amounts paid to online marketers to acquire members. The restatements are in accordance with United States generally accepted accounting principles and pertain primarily to timing matters and had no impact on cash flow from operations or our ongoing operations. The impact on net loss for 2001 and 2002 was an increase of \$1.5 million and \$1.0 million, respectively.

The restatement of the financial statements may lead to litigation claims and/or regulatory proceedings against us. The defense of any such claims or proceedings may cause the diversion of management's attention and resources, and we may be required to pay damages if any such claims or proceedings are not resolved in our favor. Any litigation or regulatory proceeding, even if resolved in our favor, could cause us to incur significant legal and other expenses. Moreover, we may be the subject of negative publicity focusing on the financial statement inaccuracies and resulting restatement. The occurrence of any of the foregoing could divert our resources, harm our reputation and cause the price of our securities to decline.

**Acquisitions could result in operating difficulties, dilution and other harmful consequences.**

In May 2005, we acquired MingleMatch, Inc., and we plan, during the next few years, to further extend and develop our presence, both within the United States and internationally, partially through acquisitions of entities offering online personals services and related businesses. We have limited experience acquiring companies and the companies we have acquired have been small. We have evaluated, and continue to evaluate, a wide array of potential strategic transactions. From time to time, we may engage in discussions regarding potential acquisitions, some of which may divert significant resources away from our daily operations. In addition, the process of integrating an acquired company, business or technology is risky and may create unforeseen operating difficulties and expenditures. For example, we have been engaged in significant litigation in the past, but which has

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since settled, with respect to our acquisition of SocialNet, Inc. in 2001. Some areas where we may face risks include:

the need to implement or remediate controls, procedures and policies of acquired companies that lacked appropriate controls, procedures and policies prior to the acquisition;

diversion of management time and focus from operating our business to acquisition integration challenges;

cultural challenges associated with integrating employees from an acquired company into our organization;

retaining employees from the businesses we acquire; and

the need to integrate each company's accounting, management information, human resource and other administrative systems to permit effective management.

The anticipated benefit of many of our acquisitions may not materialize. Future acquisitions could result in potentially dilutive issuances of our equity securities, the incurrence of debt, contingent liabilities or amortization expenses, or write-offs, any of which could harm our financial condition. Future acquisitions may require us to obtain additional equity or debt financing, which may not be available on favorable terms or at all.

**We may not be effective in protecting our Internet domain names or proprietary rights upon which our business relies or in avoiding claims that we infringe upon the proprietary rights of others.**

We regard substantial elements of our Web sites and the underlying technology as proprietary, and attempt to protect them by relying on trademark, service mark, copyright, patent and trade secret laws, and restrictions on disclosure and transferring title and other methods. We also generally enter into confidentiality agreements with our employees and consultants, and generally seek to control access to and distribution of our technology, documentation and other proprietary information. Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use our proprietary information without authorization or to develop similar or superior technology independently. Effective trademark, service mark, copyright, patent and trade secret protection may not be available in every country in which our services are distributed or made available through the Internet, and policing unauthorized use of our proprietary information is difficult. Any such misappropriation or development of similar or superior technology by third parties could adversely impact our profitability and our future financial results.

We believe that our Web sites, services, trademarks, patent and other proprietary technologies do not infringe upon the rights of third parties. However, there can be no assurance that our business activities do not and will not infringe upon the proprietary rights of others, or that other parties will not assert infringement claims against us. We are aware that other parties utilize the Spark name, or other marks that incorporate it, and those parties may have rights to such marks that are superior to ours. From time to time, we have been, and expect to continue to be, subject to claims in the ordinary course of business including claims of alleged infringement of the trademarks, service marks and other intellectual property rights of third parties by us. Although such claims have not resulted in any significant litigation or had a material adverse effect on our business to date, any such claims and resultant litigation might subject us to temporary injunctive restrictions on the use of our products, services or brand names and could result in significant liability for damages for intellectual property infringement, require us to enter into royalty agreements, or restrict us from using infringing software, services, trademarks, patents or technologies in the future. Even if not meritorious, such litigation could be time-consuming and expensive and could result in the diversion of management's time and attention away from our day-to-day business.



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We currently hold various Web domain names relating to our brands and in the future may acquire new Web domain names. The regulation of domain names in the United States and in foreign countries is subject to change. Governing bodies may establish additional top level domains, appoint additional domain name registrars or modify the requirements for holding domain names. As a result, we may be unable to acquire or maintain relevant domain names in all countries in which we conduct business. Furthermore, the relationship between regulations governing domain names and laws protecting trademarks and similar proprietary rights is unclear. We may be unable to prevent third parties from acquiring domain names that are similar to, infringe upon or otherwise decrease the value of our existing trademarks and other proprietary rights or those we may seek to acquire. Any such inability to protect ourselves could cause us to lose a significant portion of our members and paying subscribers to our competitors.

**We may face potential liability, loss of users and damage to our reputation for violation of our privacy policy or privacy laws and regulations.**

Our privacy policy prohibits the sale or disclosure to any third party of any member's personal identifying information, except to the extent expressly set forth in the policy. Growing public concern about privacy and the collection, distribution and use of information about individuals may subject us to increased regulatory scrutiny and/or litigation. In the past, the Federal Trade Commission has investigated companies that have used personally identifiable information without permission or in violation of a stated privacy policy. If we are accused of violating the stated terms of our privacy policy, we may be forced to expend significant amounts of financial and managerial resources to defend against these accusations and we may face potential liability. Our membership database holds confidential information concerning our members, and we could be sued if any of that information is misappropriated or if a court determines that we have failed to protect that information.

In addition, our affiliates handle personally identifiable information pertaining to our members and paying subscribers. Both we and our affiliates are subject to laws and regulations related to Internet communications (including the CAN-SPAM Act of 2003), consumer protection, advertising, privacy, security, and data protection. If we or our affiliates are found to be in violation of these laws and regulations, we may become subject to administrative fines or litigation, which could materially increase our expenses and cause the value of our securities to decline.

**We may be liable as a result of information retrieved from or transmitted over the Internet.**

We may be sued for defamation, civil rights infringement, negligence, copyright or trademark infringement, invasion of privacy, personal injury, product liability or under other legal theories relating to information that is published or made available on our Web sites and the other sites linked to it. These types of claims have been brought, sometimes successfully, against online services in the past. We also offer email services, which may subject us to potential risks, such as liabilities or claims resulting from unsolicited email or spamming, lost or misdirected messages, security breaches, illegal or fraudulent use of email or personal information or interruptions or delays in email service. Our insurance does not specifically provide for coverage of these types of claims and, therefore, may be inadequate to protect us against them. In addition, we could incur significant costs in investigating and defending such claims, even if we ultimately are not held liable. If any of these events occurs, our revenues could be materially adversely affected or we could incur significant additional expense, and the market price of our securities may decline.

**Our quarterly results may fluctuate because of many factors and, as a result, investors should not rely on quarterly operating results as indicative of future results.**

Fluctuations in operating results or the failure of operating results to meet the expectations of public market analysts and investors may negatively impact the value of our ordinary shares and depositary shares. Quarterly operating results may fluctuate in the future due to a variety of factors that could

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affect revenues or expenses in any particular quarter. Fluctuations in quarterly operating results could cause the value of our securities to decline. Investors should not rely on quarter-to-quarter comparisons of results of operations as an indication of future performance. Factors that may affect our quarterly results include:

the demand for, and acceptance of, our online personals services and enhancements to these services;

the timing and amount of our subscription revenues;

the introduction, development, timing, competitive pricing and market acceptance of our Web sites and services and those of our competitors;

the magnitude and timing of marketing initiatives and capital expenditures relating to expansion of our operations;

the cost and timing of online and offline advertising and other marketing efforts;

the maintenance and development of relationships with portals, search engines, ISPs and other Web properties and other entities capable of attracting potential members and paying subscribers to our Web sites;

technical difficulties, system failures, system security breaches, or downtime of the Internet, in general, or of our products and services, in particular;

costs related to any acquisitions or dispositions of technologies or businesses; and

general economic conditions, as well as those specific to the Internet, online personals and related industries.

As a result of the factors listed above and because the online personals business is still immature, making it difficult to predict consumer demand, it is possible that in future periods results of operations may be below the expectations of public market analysts and investors. This could cause the market price of our securities to decline.

**We may need additional capital to finance our growth or to compete, which may cause dilution to existing shareholders or limit our flexibility in conducting our business activities.**

We currently anticipate that existing cash, cash equivalents and marketable securities and cash flow from operations will be sufficient to meet our anticipated needs for working capital, operating expenses and capital expenditures for at least the next 12 months. We may need to raise additional capital in the future to fund expansion, whether in new vertical affinity or geographic markets, develop newer or enhanced services, respond to competitive pressures or acquire complementary businesses, technologies or services. Such additional financing may not be available on terms acceptable to us or at all. To the extent that we raise additional capital by issuing equity securities, our shareholders may experience substantial dilution, and to the extent we engage in debt financing, if available, we may become subject to restrictive covenants that could limit our flexibility in conducting future business activities. If additional financing is not available or not available on acceptable terms, we may not be able to fund our expansion, promote our brands, take advantage of acquisition opportunities, develop or enhance services or respond to competitive pressures.

**Our limited experience outside the United States increases the risk that our international expansion efforts and operations will not be effective.**

One of our strategies is to expand our presence in international markets. Although we currently have offices in Germany, Israel and the United Kingdom and Web sites that serve the Australian, Canadian, German, Israeli and United Kingdom markets, we have only limited experience with operations outside the United States. Our primary international operations are in Israel, which carries additional risk for



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our business as a result of continuing hostilities there. Expansion into international markets requires management time and capital resources. In addition, we face the following additional risks associated with our expansion outside the United States:

challenges caused by distance, language and cultural differences;

local competitors with substantially greater brand recognition, more users and more traffic than we have;

our need to create and increase our brand recognition and improve our marketing efforts internationally and build strong relationships with local affiliates;

longer payment cycles in some countries;

credit risk and higher levels of payment fraud in some countries;

different legal and regulatory restrictions among jurisdictions;

political, social and economic instability;

potentially adverse tax consequences; and

higher costs associated with doing business internationally.

**Our international operations subject us to risks associated with currency fluctuations.**

Our foreign operations may subject us to currency fluctuations and such fluctuations may adversely affect our financial position and results. However, sales and expenses to date have occurred primarily in the United States. For this reason, we have not engaged in foreign exchange hedging. In connection with our planned international expansion, currency risk positions could change correspondingly and the use of foreign exchange hedging instruments could become necessary. Effects of exchange rate fluctuations on our financial condition, operations, and profitability may depend on our ability to manage our foreign currency risks. There can be no assurance that steps taken by management to address foreign currency fluctuations will eliminate all adverse effects and, accordingly, we may suffer losses due to adverse foreign currency fluctuation.

**Our business could be significantly impacted by the occurrence of natural disasters and other catastrophic events.**

Our operations depend upon our ability to maintain and protect our network infrastructure, hardware systems and software applications, which are housed primarily at a data center located in Southern California that is managed by a third party. Our business is therefore susceptible to earthquakes, tsunamis and other catastrophic events, including acts of terrorism. We currently lack adequate redundant network infrastructure, hardware and software systems supporting our services at an alternate site. As a result, outages and downtime caused by natural disasters and other events out of our control, which affect our systems or primary data center, could adversely affect our reputation, brands and business.

**We hold a fixed amount of insurance coverage, and if we were found liable for an uninsured claim, or claim in excess of our insurance limits, we may be forced to expend a significant capital to resolve the uninsured claim.**

We contract for a fixed amount of insurance to cover potential risks and liabilities, including, but not limited to, property and casualty insurance, general liability insurance, and errors and omissions liability insurance. Although we have not recently experienced any significantly increased premiums as a result of changing policies of our providers, we have experienced increasing insurance premiums due to the increasing size of our business, and thus the increased potential risk to underwriters for insuring our business. If we decide to obtain additional insurance coverage in the future, it is possible that we



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may not be able to get enough insurance to meet our needs, we may have to pay very high prices for the coverage we do get, or we may not be able to acquire any insurance for certain types of business risk or may have gaps in coverage for certain risks. This could leave us exposed to potential uninsured claims for which we could have to expend significant amounts of capital resources. Consequently, if we were found liable for a significant uninsured claim in the future, we may be forced to expend a significant amount of our operating capital to resolve the uninsured claim.

**Our services are not well-suited to many alternate Web access devices, and as a result the growth of our business could be negatively affected.**

The number of people who access the Internet through devices other than desktop and laptop computers, including mobile telephones and other handheld computing devices, has increased dramatically in the past few years, and we expect this growth to continue. The lower resolution, functionality and memory currently associated with such mobile devices may make the use of our services through such mobile devices more difficult and generally impairs the member experience relative to access via desktop and laptop computers. If we are unable to attract and retain a substantial number of such mobile device users to our online personals services or if we are unable to develop services that are more compatible with such mobile communications devices, our growth could be adversely affected.

**Risks Related to Our Industry**

**The percentage of canceling paying subscribers in comparison to other subscription businesses requires that we continuously seek new paying subscribers to maintain or increase our current level of revenue.**

Internet users in general, and users of online personals services specifically, freely navigate and switch among a large number of Web sites. Monthly subscriber churn represents the ratio expressed as a percentage of (a) the number of paying subscriber cancellations during the period divided by the average number of paying subscribers during the period and (b) the number of months in the period. The number of average paying subscribers is calculated as the sum of the paying subscribers at the beginning and end of the month, divided by two. Average paying subscribers for periods longer than one month are calculated as the sum of the average paying subscribers for each month, divided by the number of months. For the quarters ended September 30, 2005 and 2004, the monthly subscriber churn for (1) the JDate segment was 25.2% and 26.0%, respectively, (2) the AmericanSingles segment was 34.8% and 36.7%, respectively, and (3) the Web sites in our Other Businesses segment was 31.2% and 28.6%, respectively. We cannot assure you that our monthly average subscriber churn will remain at such levels, and it may increase in the future. This makes it difficult for us to have a stable paying subscriber base and requires that we constantly attract new paying subscribers at a faster rate than subscription terminations to maintain or increase our current level of revenue. If we are unable to attract new paying subscribers on a cost-effective basis, our business will not grow and our profitability will be adversely affected.

**Our network is vulnerable to security breaches and inappropriate use by Internet users, which could disrupt or deter future use of our services.**

Concerns over the security of transactions conducted on the Internet and the privacy of users may inhibit the growth of the Internet and other online services generally, and online commerce services, like ours, in particular. To date, we have not experienced any material breach of our security systems; however, our failure to effectively prevent security breaches could significantly harm our business, reputation and results of operations and could expose us to lawsuits by state and federal consumer protection agencies, by governmental authorities in the jurisdictions in which we operate, and by consumers. Anyone who is able to circumvent our security measures could misappropriate proprietary information, including customer credit card and personal data, cause interruptions in our operations or damage our brand and reputation. Such breach of our security measures could involve the disclosure

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of personally identifiable information and could expose us to a material risk of litigation, liability or governmental enforcement proceeding. We cannot assure you that our financial systems and other technology resources are completely secure from security breaches or sabotage, and we have occasionally experienced security breaches and attempts at hacking. We may be required to incur significant additional costs to protect against security breaches or to alleviate problems caused by such breaches. Any well-publicized compromise of our security or the security of any other Internet provider could deter people from using our services or the Internet to conduct transactions that involve transmitting confidential information or downloading sensitive materials, which could have a detrimental impact on our potential customer base.

Computer viruses may cause delays or other service interruptions and could damage our reputation, affect our ability to provide our services and adversely affect our revenues. The inadvertent transmission of computer viruses could also expose us to a material risk of loss or litigation and possible liability. Moreover, if a computer virus affecting our system were highly publicized, our reputation could be significantly damaged, resulting in the loss of current and future members and paying subscribers.

**We face certain risks related to the physical and emotional safety of our members and paying subscribers.**

The nature of online personals services is such that we cannot control the actions of our members and paying subscribers in their communication or physical actions. There is a possibility that one or more of our members or paying subscribers could be physically or emotionally harmed following interaction with another of our members or paying subscribers. We warn our members and paying subscribers that we do not and cannot screen other members and paying subscribers and, given our lack of physical presence, we do not take any action to ensure personal safety on a meeting between members or paying subscribers arranged following contact initiated via our Web sites. If an unfortunate incident of this nature occurred in a meeting of two people following contact initiated on one of our Web sites or a Web site of one of our competitors, any resulting negative publicity could materially and adversely affect us or the online personals industry in general. Any such incident involving one of our Web sites could damage our reputation and our brands. This, in turn, could adversely affect our revenues and could cause the value of our ordinary shares and depository shares to decline. In addition, the affected members or paying subscribers could initiate legal action against us, which could cause us to incur significant expense, whether we were successful or not, and damage our reputation.

**We face risks of litigation and regulatory actions if we are deemed a dating service as opposed to an online personals service.**

We supply online personals services. In many jurisdictions, companies deemed dating service providers are subject to additional regulation, while companies that provide personals services are not generally subject to similar regulation. Because personals services and dating services can seem similar, we are exposed to potential litigation, including class action lawsuits, associated with providing our personals services. In the past, a small percentage of our members have alleged that we are a dating service provider, and, as a result, they claim that we are required to comply with regulations that include, but are not limited to, providing language in our contracts that may allow members to (1) rescind their contracts within a certain period of time, (2) demand reimbursement of a portion of the contract price if the member dies during the term of the contract and/or (3) cancel their contracts in the event of disability or relocation. If a court holds that we have provided and are providing dating services of the type the dating services regulations are intended to regulate, we may be required to comply with regulations associated with the dating services industry and be liable for any damages as a result our past and present non-compliance.

Three separate yet similar class action complaints have been filed against us. On June 21, 2002, Tatyana Fertelmeyster filed an Illinois class action complaint against us in the Circuit Court of Cook

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County, Illinois, based on an alleged violation of the Illinois Dating Referral Services Act. On September 12, 2002, Lili Grossman filed a New York class action complaint against us in the Supreme Court in the State of New York based on alleged violations of the New York Dating Services Act and the Consumer Fraud Act. On November 14, 2003, Jason Adelman filed a nationwide class action complaint against us in the Los Angeles County Superior Court based on an alleged violation of California Civil Code section 1694 et seq., which regulates businesses that provide dating services. In each of these cases, the complaint included allegations that we are a dating service as defined by the applicable statutes and, as an alleged dating service, we are required to provide language in our contracts that allows (i) members to rescind their contracts within three days, (ii) reimbursement of a portion of the contract price if the member dies during the term of the contract and/or (iii) members to cancel their contracts in the event of disability or relocation. Causes of action include breach of applicable state and/or federal laws, fraudulent and deceptive business practices, breach of contract and unjust enrichment. The plaintiffs are seeking remedies including declaratory relief, restitution, actual damages although not quantified, treble damages and/or punitive damages, and attorney's fees and costs.

*Huebner v. InterActiveCorp., Superior Court of the State of California, County of Los Angeles, Case No. BC 305875* involves a similar action, involving the same plaintiff's counsel as *Adelman*, brought against InterActiveCorp's Match.com that has been ruled related to *Adelman*, but the two cases have not been consolidated. We have not been named a defendant in the *Huebner* case. *Adelman* and *Huebner* each seek to certify a nationwide class action based on their complaints. Because the cases are class actions, they have been assigned to the Los Angeles Superior Court Complex Litigation Program. The court has ordered a bifurcation of the liability issue. At an August 15, 2005 Status Conference, the court set the bifurcated trial on the issue of liability for March 27, 2006.

On March 25, 2005, the court in *Fertelmeyster* entered its Memorandum Opinion and Order ( Memorandum Opinion ) granting summary judgment in our favor on the grounds that Fertelmeyster lacks standing to seek injunctive relief or restitutionary relief under the Illinois Dating Services Act, Fertelmeyster did not suffer any actual damages, and we were not unjustly enriched as a result of our contract with Fertelmeyster. The Memorandum Opinion disposes of all matters in controversy in the litigation and also provides that we are subject to the Illinois Dating Services Act and, as such, our subscription agreements violate the act and are void and unenforceable. This ruling may subject us to potential liability for claims brought by the Illinois Attorney General or customers that have been injured by our violation of the statute. Fertelmeyster filed a Motion for Reconsideration of the Memorandum Opinion and, on August 26, 2005, the court issued its opinion denying Fertelmeyster's Motion for Reconsideration. In the opinion, the court, among other things: (i) decertified the class, eliminating the last remnant of the litigation; (ii) rejected each of the plaintiff's arguments based on the arguments and law that we provided in our opposition; (iii) stated that the court would not judicially amend the Illinois statute to provide for restitution when the legislature selected damages as the sole remedy; (iv) noted that the cases cited by plaintiff in connection with plaintiff's Motion for Reconsideration actually support the court's prior order granting summary judgment in our favor; and (v) denied plaintiff's Motion for Reconsideration in its entirety.

In December 2002, the Supreme Court of New York dismissed the case brought by Ms. Grossman. Although the plaintiff appealed the decision, in October 2004, the New York Supreme Court, Appellate Division upheld the lower court's dismissal. In addition, two Justices wrote concurring opinions stating their opinion that our services were not covered under the New York Dating Services Act.

We intend to defend vigorously against each of the pending lawsuits, however, no assurance can be given that these matters will be resolved in our favor and, depending on the outcome of these lawsuits, we may choose to alter our business practices.



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**We are exposed to risks associated with credit card fraud and credit payment, which, if not properly addressed, could increase our operating expenses.**

We depend on continuing availability of credit card usage to process subscriptions and this availability, in turn, depends on acceptable levels of chargebacks and fraud performance. We have suffered losses and may continue to suffer losses as a result of subscription orders placed with fraudulent credit card data, even though the associated financial institution approved payment. Under current credit card practices, a merchant is liable for fraudulent credit card transactions when, as is the case with the transactions we process, that merchant does not obtain a cardholder's signature. Our failure to adequately control fraudulent credit card transactions would result in significantly higher credit card-related costs and, therefore, increase our operating expenses and may preclude us from accepting credit cards as a means of payment.

**We face risks associated with our dependence on computer and telecommunications infrastructure.**

Our services are dependent upon the use of the Internet and telephone and broadband communications to provide high-capacity data transmission without system downtime. There have been instances where regional and national telecommunications outages have caused us, and other Internet businesses, to experience systems interruptions. Any additional interruptions, delays or capacity problems experienced with telephone or broadband connections could adversely affect our ability to provide services to our customers. The temporary or permanent loss of all, or a portion, of the telecommunications system could cause disruption to our business activities and result in a loss of revenue. Additionally, the telecommunications industry is subject to regulatory control. Amendments to current regulations, which could affect our telecommunications providers, could disrupt or adversely affect the profitability of our business.

In addition, if any of our current agreements with telecommunications providers were terminated, we may not be able to replace any terminated agreements with equally beneficial ones. There can be no assurance that we will be able to renew any of our current agreements when they expire or, if we are able to do so, that such renewals will be available on acceptable terms. We also do not know whether we will be able to enter into additional agreements or that any relationships, if entered into, will be on terms favorable to us.

**Our business depends, in part, on the growth and maintenance of the Internet, and our ability to provide services to our members and paying subscribers may be limited by outages, interruptions and diminished capacity in the Internet.**

Our performance will depend, in part, on the continued growth and maintenance of the Internet. This includes maintenance of a reliable network backbone with the necessary speed, data capacity and security for providing reliable Internet services. Internet infrastructure may be unable to support the demands placed on it if the number of Internet users continues to increase, or if existing or future Internet users access the Internet more often or increase their bandwidth requirements. In addition, viruses, worms and similar programs may harm the performance of the Internet. We have no control over the third-party telecommunications, cable or other providers of access services to the Internet that our members and paying subscribers rely upon. There have been instances where regional and national telecommunications outages have caused us to experience service interruptions during which our members and paying subscribers could not access our services. Any additional interruptions, delays or capacity problems experienced with any points of access between the Internet and our members could adversely affect our ability to provide services reliably to our members and paying subscribers. The temporary or permanent loss of all, or a portion, of our services on the Internet, the Internet infrastructure generally, or our members' and paying subscribers' ability to access the Internet could disrupt our business activities, harm our business reputation, and result in a loss of revenue. Additionally, the Internet, electronic communications and telecommunications industries are subject to federal, state and foreign governmental regulation. New laws and regulations governing such matters

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could be enacted or amendments may be made to existing regulations at any time that could adversely impact our services. Any such new laws, regulations or amendments to existing regulations could disrupt or adversely affect the profitability of our business.

### **We are subject to burdensome government regulations and legal uncertainties affecting the Internet that could adversely affect our business.**

Legal uncertainties surrounding domestic and foreign government regulations could increase our costs of doing business, require us to revise our services, prevent us from delivering our services over the Internet or slow the growth of the Internet, any of which could increase our expenses, reduce our revenues or cause our revenues to grow at a slower rate than expected and materially adversely affect our business, financial condition and results of operations. Laws and regulations related to Internet communications, security, privacy, intellectual property rights, commerce, taxation, entertainment, recruiting and advertising are becoming more prevalent, and new laws and regulations are under consideration by the United States Congress, state legislatures and foreign governments. For example, during 2004 and 2005, legislation related to the use of background checks for users of online personals services was proposed in Ohio, Texas, California, Michigan, Florida and Virginia. None of these states enacted these proposed laws, however, state legislatures are still considering the implementation of such legislation. The enactment of any of these proposed laws could require us to alter our service offerings and could negatively impact our performance by making it more difficult and costly to obtain new subscribers and may also subject us to additional liability for failure to properly screen our subscribers. Any legislation enacted or restrictions arising from current or future government investigations or policy could dampen the growth in use of the Internet, generally, and decrease the acceptance of the Internet as a communications, commercial, entertainment, recruiting and advertising medium. In addition to new laws and regulations being adopted, existing laws that are not currently being applied to the Internet may subsequently be applied to it and, in several jurisdictions, legislatures are considering laws and regulations that would apply to the online personals industry in particular. Many areas of law affecting the Internet and online personals remain unsettled, even in areas where there has been some legislative action. It may take years to determine whether and how existing laws such as those governing consumer protection, intellectual property, libel and taxation apply to the Internet or to our services.

In the normal course of our business, we handle personally identifiable information pertaining to our members and paying subscribers residing in the United States and other countries. In recent years, many of these countries have adopted privacy, security, and data protection laws and regulations intended to prevent improper uses and disclosures of personally identifiable information. In addition, some jurisdictions impose database registration requirements for which significant monetary and other penalties may be imposed for noncompliance. These laws may impose costly administrative requirements, limit our handling of information, and subject us to increased government oversight and financial liabilities. Privacy laws and regulations in the United States and foreign countries are subject to change and may be inconsistent, and additional requirements may be imposed at any time. These laws and regulations, the costs of complying with them, administrative fines for noncompliance and the possible need to adopt different compliance measures in different jurisdictions could materially increase our expenses and cause the value of our securities to decline.

### **Risks Related to Owning Our Securities**

#### **The price of our ADSs may be volatile, and if an active trading market for our ADSs does not develop, the price of our ADSs may suffer and decline.**

Prior to this offering, there has been no public market for our securities in the United States. Accordingly, we cannot assure you that an active trading market will develop or be sustained or that the market price of our ADSs will not decline. The price at which our ADSs will trade after this offering is likely to be highly volatile and may fluctuate substantially due to many factors, some of which are outside of our control.

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In addition, the stock market has experienced significant price and volume fluctuations that have affected the market price for the stock of many technology, communications and entertainment and media companies. Those market fluctuations were sometimes unrelated or disproportionate to the operating performance of these companies. Any significant stock market fluctuations in the future, whether due to our actual performance or prospects or not, could result in a significant decline in the market price of our securities.

**Our principal shareholders can exercise significant influence over us, and, as a result, may be able to delay, deter or prevent a change of control or other business combination.**

As of October 19, 2005, Joe Y. Shapira, Alon Carmel, and Tiger Technology Management, L.L.C. and their respective affiliates beneficially owned approximately, in the aggregate, 50.9% of our outstanding share capital. Mr. Shapira is a co-founder of our company and current Executive Chairman of our Board of Directors. Mr. Carmel is a co-founder, former President and former Executive Co-Chairman of our Board of Directors. Tiger Technology Management, L.L.C. is our largest shareholder, and one of our directors, Scott Shleifer, is a limited partner of Tiger Global, L.P., an affiliate of Tiger Technology Management. Although we do not expect that these shareholders will vote together as a group, these shareholders possess significant influence over our company. Such share ownership and control may have the effect of delaying or preventing a change in control of our company, impeding a merger, consolidation, takeover or other business combination involving our company or discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of our company. Furthermore, such share ownership may have the effect of control over substantially all matters requiring shareholder approval, including the election of directors.

**All of our ordinary shares and ordinary shares issuable upon the exercise of our warrants and options will be eligible for sale after this offering, which would result in dilution and cause the price of our ADSs to decrease.**

If our shareholders sell a substantial number of our shares, including those represented by ADSs and GDSs, in the public market following this offering, the market price of our ADSs could fall. Our ordinary shares in the form of GDSs trade on the Frankfurt Stock Exchange. We are registering under this registration statement for sale in the United States all of our issued and outstanding ordinary shares, ordinary shares underlying all of our outstanding warrants and ordinary shares underlying all of the options held by our officers, directors and shareholders who own more than 10% of our issued and outstanding securities. As of October 19, 2005, we had outstanding 26,209,496 ordinary shares, 430,000 warrants and 6,595,000 options held by officers directors and 10% shareholders. In addition, on November 18, 2005 we filed a registration statement under the Securities Act of 1933, as amended, on Form S-8, which has become effective, covering 8,719,688 ordinary shares underlying outstanding options and 14,358,562 ordinary shares reserved for issuance upon the exercise of options available for grant under our share option schemes. Immediately after this registration statement becomes effective, all of our ordinary shares will be available for sale in the open market. Sales of ordinary shares by existing shareholders in the public market, or the availability of such ordinary shares for sale, could materially and adversely affect the market price of our securities.

**You may not be able to exercise your right to vote the ordinary shares underlying your ADSs.**

Under the terms of the ADSs, you have a general right to direct the exercise of the votes on the ordinary shares underlying ADSs that you hold, subject to limitations on voting ordinary shares contained in our Memorandum of Association and Articles of Association, as amended. You may instruct the depositary bank, Bank of New York, to vote the ordinary shares underlying our ADSs, but only if we request Bank of New York to ask for your instructions. Otherwise, you will not be able to exercise your right to vote unless you withdraw the ordinary shares underlying the ADSs. However, you may not receive voting materials in time to ensure that you are able to instruct Bank of New York to vote your shares or receive sufficient notice of a shareholders' meeting to permit you to withdraw your ordinary shares to allow you to cast your vote with respect to any specific matter. In addition,

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Bank of New York and its agents may not be able to timely send out your voting instructions or carry out your voting instructions in the manner you have instructed. As a result, you may not be able to exercise your right to vote and you may lack recourse if your ordinary shares are not voted as you requested.

**Your right or ability to transfer your ADSs may be limited in a number of circumstances.**

Your ADSs are transferable on the books of the depository. However, the depository may close its transfer books at any time or from time to time when it deems expedient in connection with the performance of its duties. In addition, the depository may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depository are closed, or at any time if we or the depository deem it advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

**Our ordinary shares in the form of ADSs or GDSs will be traded on more than one market and this may result in price variations.**

Our ordinary shares are currently traded on the Frankfurt Stock Exchange in the form of GDSs and we expect our ordinary shares will be traded on the American Stock Exchange in the form of ADSs upon completion of this offering. Trading in our ordinary shares in the form of ADSs or GDSs on these markets will be made in different currencies (dollars on the American Stock Exchange and euros on the Frankfurt Stock Exchange), and at different times (resulting from different time zones, different trading days and different public holidays in the U.S. and Germany). The trading prices of our ordinary shares in the form of ADSs or GDSs on these two markets may differ due to these and other factors. Any decrease in the trading price of our ordinary shares in the form of ADSs or GDSs on one of these markets could cause a decrease in the trading price of our ordinary shares in the form of ADSs or GDSs on the other market. Any difference in prices of our ordinary shares in the form of ADSs or GDSs on these two markets could create an arbitrage opportunity whereby an investor could take advantage of the price difference by trading between the markets, thereby potentially increasing the volatility of trading prices of our ADSs and having an adverse affect on the price of our ADSs.

**If we offer any subscription rights to our shareholders, your right or ability to perform a sale, deposit, cancellation or transfer of any ADSs issued after exercise of rights might be restricted.**

If we offer holders of our ordinary shares any rights to subscribe for additional shares or any other rights, the depository may make these rights available to you after consultation with us. However, the depository may allow rights that are not distributed or sold to lapse. In that case, you will receive no value for them. In addition, U.S. securities laws may restrict the sale, deposit, cancellation and transfer of the ADSs issued after exercise of rights. However, we cannot make rights available to you in the United States unless we register the rights and the securities to which the rights relate under the Securities Act or an exemption from the registration requirements is available. In addition, under the deposit agreement, the depository will not distribute rights to holders of ADSs unless the distribution and sale of rights and the securities to which the rights relate are either exempt from registration under the Securities Act with respect to all holders of ADSs, or are registered under the provisions of the Securities Act. We can give no assurance that we can establish an exemption from registration under the Securities Act, and we are under no obligation to file a registration statement with respect to these rights or underlying securities or to endeavor to have a registration statement declared effective. Accordingly, you may be unable to participate in our rights offerings, if any, and may experience dilution of your holdings as a result.

**Investors may be subject to both United States and United Kingdom taxes.**

Investors are strongly urged to consult with their tax advisors concerning the consequences of investing in our company by purchasing ADSs. Our ADSs are being sold in the United States, but we are incorporated under the laws of England and Wales. A U.S. holder of our ADSs will generally be

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treated as the beneficial owner of the underlying ordinary shares, as represented by ADSs, for purposes of U.S. and U.K. tax laws. Therefore, U.S. federal, state and local tax laws and U.K. tax laws will generally apply to ownership and transfer of our ADSs and the underlying ordinary shares. Tax laws of other jurisdictions may also apply.

**If you hold shares in the form of ADSs, you may have less access to information about our company and less opportunity to exercise your rights as a shareholder than if you held ordinary shares.**

There are risks associated with holding our shares in the form of ADSs, since we are a public company incorporated under the laws of England and Wales. We are subject to the Companies Act 1985, as amended, our Memorandum and Articles of Association, and other aspects of English company law. The depositary, the Bank of New York and/or its various nominees, will appear in our records as the holder of all our shares represented by the ADSs and your rights as a holder of ADSs will be contained in the deposit agreement. Your rights as a holder of ADSs will differ in various ways from a shareholder's rights, and you may be affected in other ways, including:

you may not be able to participate in rights offers or dividend alternatives if, in the discretion of the depositary, after consultation with us, it is unlawful or not practicable to do so;

you may not receive certain copies of reports and information sent by us to the depositary and may have to go to the office of the depositary to inspect any reports issued;

the deposit agreement may be amended by us and the depositary, or may be terminated by us or the depositary, each with thirty (30) days notice to you and without your consent in a manner that could prejudice your rights, and the deposit agreement limits our obligations and liabilities and those of the depositary.

**Your rights as a shareholder will be governed by English law and will differ from and may be inferior to the rights of shareholders under U.S. law.**

We are a public limited company incorporated under the laws of England and Wales. Our corporate affairs are governed by our Memorandum and Articles of Association, by the Companies Act 1985, each as amended, and other common and statutory laws in England and Wales. The rights of shareholders to take action against the directors and actions by minority shareholders are to a large extent governed by the common law and statutory laws of England and Wales. These rights differ from the typical rights of shareholders in U.S. corporations. Facts that, under U.S. law, would entitle a shareholder in a U.S. corporation to claim damages may give rise to an alternative cause of action under English law entitling a shareholder in an English company to claim damages in an English court. However, this will not always be the case. For example, the rights of shareholders to bring proceedings against us or against our directors or officers in relation to public statements are different under English law than the civil liability provisions of the U.S. securities laws. In addition, shareholders of English companies may not have standing to initiate shareholder derivative actions in various courts, including before the federal courts of the United States. As a result, our public shareholders may face different considerations in protecting their interests in actions against our company, management, directors or our controlling shareholders, than would shareholders of a corporation incorporated in a jurisdiction in the United States, and our ability to protect our interests if we are harmed in a manner that would otherwise enable us to sue in a United States federal court, may be limited.

You may have difficulties enforcing, in actions brought in courts in jurisdictions located outside the United States, liabilities under the U.S. securities laws. In particular, if you sought to bring proceedings in England based on U.S. securities laws, the English court might consider:

that it did not have jurisdiction; and/or

that it was not the appropriate forum for such proceedings; and/or

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that, applying English conflict of laws rules, U.S. law (including U.S. securities laws) did not apply to the relationship between you and us or our directors and officers; and/or

that the U.S. securities laws were of a public or penal nature and should not be enforced by the English court.

Alternatively, if you were to bring an action in a U.S. Court, and we were to bring a competing action in an English Court, the English Court may grant an order seeking to prohibit you from pursuing the action before the U.S. court. You should also be aware that English law does not allow for any form of legal proceedings directly equivalent to the class action available in U.S. courts. In addition, awards of punitive damages (or their nearest English law equivalent), are rare in English courts.

In addition, we are required by the Companies Act 1985 to prepare for each financial year audited accounts which comply with the requirements of that Act. These UK audited accounts are distributed to holders of our ordinary shares in advance of our annual shareholder meeting at which the UK audited accounts are voted on by our shareholders and are then filed with the Registrar of Companies for England and Wales. The UK audited accounts will be audited by an accounting firm eligible under UK statutory requirements, currently the UK firm Ernst & Young LLP. The UK audited accounts are likely to be materially different to the US GAAP financial statements which will be prepared in a form similar to those included within this prospectus and which will be filed with the US Securities and Exchange Commission. Our shareholders will not have an opportunity to vote on our US GAAP financial statements. Our ability to pay future dividends will be determined by reference to the distributable reserves shown by our UK audited accounts and this may restrict our ability to pay such dividends.

**You may have difficulty in effecting service of process or enforcing judgments obtained in the United States against one of our directors named in this prospectus who is not a resident of the United States.**

Currently, one of our directors, Martial Chaillet, named in this prospectus is a resident of a country other than the United States. Furthermore, all or a substantial portion of his assets may be located outside the United States. As a result, it may not be possible for you to:

effect service of process within the United States upon such director; or

enforce in U.S. courts judgments obtained against such director in the U.S. courts in any action, including actions under the civil liability provisions of U.S. securities laws; or

enforce in U.S. courts judgments obtained against such director in courts of jurisdictions outside the United States in any action, including actions under the civil liability provisions of U.S. securities laws.

You may also have difficulties enforcing in courts outside the United States judgments obtained in the U.S. courts against any of our directors and some of the experts named in this prospectus or us (including actions under the civil liability provisions of the U.S. securities laws). In particular, there is doubt as to the enforceability in England of U.S. civil judgments predicated purely on U.S. securities laws. In any event, there is no system of reciprocal enforcement in England and Wales of judgments obtained in the U.S. courts. Accordingly, a judgment against any of those persons or us may only be enforced in England and Wales by the commencement of an action before the English court, seeking the recognition of the judgment of the U.S. court at common law in England. Judgment against any of those persons or us, as the case may be, may be granted by the English court without requiring the issues on the merits in the U.S. litigation to be reopened on the basis that those matters have already been decided by the U.S. court. To recognize a U.S. court Judgment, the English court must be satisfied that:

that the judgment is final and conclusive;

that the U.S. court had jurisdiction (as a matter of English law);

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that the U.S. judgment is not impeachable for fraud and is not contrary to English rules of natural justice;

that the enforcement of the judgment will not be contrary to public policy or statute in England;

that the judgment is for a liquidated sum;

that the English proceedings were commenced within the relevant limitation period;

that the judgment is not directly or indirectly for the payment of taxes or other charges of a like nature or a fine or penalty;

that the judgment remains valid and enforceable in the court in which it was obtained unless and until it is stayed or set aside; and

that, before the date on which the U.S. court gave judgment, the issues in question had not been the subject of a final judgment of an English court or of a court of another jurisdiction whose judgment is enforceable in England.

**We have never paid any dividend and we do not intend to pay dividends in the foreseeable future.**

To date, we have not declared or paid any cash dividends on our ordinary shares and currently intend to retain any future earnings for funding growth. We do not anticipate paying any dividends in the foreseeable future. Moreover, companies incorporated under the laws of England and Wales cannot pay dividends unless they have distributable profits as defined in the Companies Act 1985 as amended. As a result, you should not rely on an investment in our shares if you require dividend income. Capital appreciation, if any, of our shares may be your sole source of gain for the foreseeable future.

**Currency fluctuations may adversely affect the price of the ADSs relative to the price of our GDSs.**

The price of our GDSs is quoted in euros. Movements in the euro/ U.S. dollar exchange rate may adversely affect the U.S. dollar price of our ADSs and the U.S. dollar equivalent of the price of our GDSs. For example, if the euro weakens against the U.S. dollar, the U.S. dollar price of the ADSs could decline, even if the price of our GDSs in euros increases or remains unchanged.

**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This prospectus, including the sections entitled Prospectus Summary, Risk Factors, Management's Discussion and Analysis of Financial Condition and Results of Operations and Business, contains forward-looking statements that involve substantial risks and uncertainties. All statements other than statements of historical facts contained in this prospectus, including statements regarding our future financial position, business strategy and plans and objectives of management for future operations, are forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as believes, expects, anticipates, intends, estimates, may, will, continue, predict, potential or the negative of these terms or other similar expressions. We have based these forward-looking statements on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. Our actual results could differ materially from those anticipated in these forward-looking statements, which are subject to a number of risks, uncertainties and assumptions described in Risk Factors section and elsewhere in this prospectus, regarding, among other things:

our significant operating losses and uncertainties relating to our ability to generate positive cash flow and operating profits in the future;

difficulty in evaluating our future prospects based on our limited operating history and relatively new business model;





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our ability to attract members, convert members into paying subscribers and retain our paying subscribers, in addition to maintain paying subscribers;

the highly competitive nature of our business;

our ability to keep pace with rapid technological change;

the strength of our existing brands and our ability to maintain and enhance those brands;

our ability to effectively manage our growth;

our dependence upon the telecommunications infrastructure and our networking hardware and software infrastructure;

risks related to our recent accounting restatements;

uncertainties relating to potential acquisitions of companies;

the volatility of the price of our ADSs after this offering;

the strain on our resources and management team of being a public company in the United States;

the ability of our principal shareholders to exercise significant influence over our company; and

other factors referenced in this prospectus and other reports.

You should not rely upon forward-looking statements as predictions of future events. We cannot assure you that the events and circumstances reflected in the forward-looking statements will be achieved or occur. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither we nor any other person assume responsibility for the accuracy and completeness of the forward-looking statements. Except as required by law, we undertake no obligation to update publicly any forward-looking statements for any reason after the date of this prospectus to conform these statements to actual results or to changes in our expectations.

You should read this prospectus, and the documents that we reference in this prospectus and have filed as exhibits to the related registration statement with the Securities and Exchange Commission, completely and with the understanding that our actual future results, levels of activity, performance and achievements may materially differ from what we expect. We qualify all of our forward-looking statements by these cautionary statements.

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**USE OF PROCEEDS**

We will not receive any proceeds from the sale of ordinary shares in the form of ADSs by the selling security holders listed in this prospectus and any prospectus supplement, except for funds received from the exercise of warrants and options held by selling security holders, if and when exercised. We plan to use the net proceeds received from the exercise of any warrants and options for working capital and general corporate purposes. The actual allocation of proceeds realized from the exercise of these securities will depend upon the amount and timing of such exercises, our operating revenues and cash position at such time and our working capital requirements. There can be no assurances that any of the outstanding warrants and options will be exercised. The total maximum proceeds possible from the exercise of options and warrants at September 30, 2005 was approximately \$34.9 million and \$1.1 million, respectively.

**RESCISSION OFFER**

Under our 2000 Option Scheme, we granted options to purchase ordinary shares to certain of our employees, directors and consultants. California state securities laws generally require qualification for the offer and sale of securities subject to California law. Under California law, the grant of an option constitutes a sale of the underlying shares at the time of the option grant and not at the exercise of the option. Our option grants were not qualified and may not have been exempt from qualification under California state securities laws. As a result, we may have potential liability to those employees, directors and consultants to whom we granted options under the 2000 Option Scheme. In order to address that issue, we may elect to make a rescission offer to the holders of outstanding options under the 2000 Option Scheme to give them the opportunity to rescind the grant of their options.

As of September 30, 2005, assuming every eligible optionee were to accept a rescission offer, we estimate the total cost to us to complete the rescission would be approximately \$4.0 million including statutory interest at 7% per annum. These amounts reflect the costs of offering to rescind the issuance of the outstanding options by paying an amount equal to 20% of the aggregate exercise price for the entire option, which we believe would comply with California state securities laws.

In addition, issuances of securities upon exercise of options granted under our 2000 Option Scheme may not have been exempt from registration and qualification under California state securities laws as a result of the option grants themselves, but also may not have been exempt from registration under federal securities laws. Federal securities laws prohibit the offer or sale of securities unless the sales are registered or exempt from registration. The issuances of ordinary shares upon the exercise of our options were not registered and may not have been exempt from registration under California state and federal securities laws. As a result, we may have potential liability to those employees, directors and consultants to whom we issued securities upon the exercise of these options. In order to address that issue, we may elect to make a rescission offer to those persons who exercised all, or a portion, of those options and continue to hold the shares issued upon exercise, to give them the opportunity to rescind the issuance of those shares ( Option Shares ).

As of September 30, 2005, assuming every eligible person that continues to hold the securities issued upon exercise of options granted under the 2000 Option Scheme were to accept a rescission offer, we estimate the total cost to us to complete the rescission would be approximately \$3.8 million including statutory interest at 7% per annum, accrued since the date of exercise of the options. These amounts are calculated by reference to the acquisition price of the Option Shares.

For the purposes of English company law, a rescission offer in respect of our Option Shares would take the form of a purchase by our company of the relevant Option Shares. The Companies Act 1985 ( Companies Act ) provides that we may only purchase our own shares using our distributable profits or the proceeds from the issuance of new shares for that purpose. In accordance with a procedure set out in the Companies Act requiring the approval of shareholders and of the High Court of Justice in England and Wales (the Court ), we have with effect from December 8, 2005 (the

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Effective Date ) reduced our share premium account by US\$44,000,000 in order to eliminate the deficit on our profit and loss account, which had arisen as a result of previous accumulated losses and to enable profits arising after December 31, 2005 to give rise to distributable reserves. We have given an undertaking to the Court for the protection of our creditors, which requires us to transfer to a non-distributable reserve (the Special Reserve ) the amount (if any) by which the deficit on our profit and loss account at December 31, 2005 falls short of the amount of the reduction (being US\$44,000,000), and any profits made by us or any of our subsidiaries prior to December 31, 2005, until our non-consenting creditors at the Effective Date have been paid off. The undertaking also prevents us from making any distribution to shareholders, or redeeming or purchasing our own shares, until we have obtained approval at a shareholders' general meeting of our audited UK GAAP balance sheet for the period ended December 31, 2005. It is likely that our UK GAAP balance sheet for the period ended December 31, 2005 will be ready for approval by shareholders on or about May 31, 2006. Furthermore, we do not intend to make a rescission offer until we have the distributable reserves required to make a rescission offer.

Any purchase of the Option Shares pursuant to a rescission offer would not only need to be made out of distributable reserves, but would also require shareholder approval given in accordance with the requirements of the Companies Act.

Such approval must be given by resolution passed with a majority of at least 75% of the votes cast on the resolution (excluding votes carried by the Option Shares proposed to be purchased), having made a copy of the contract for the purchase of the Option Shares available for inspection both at our registered office for at least 15 days prior to the date of the meeting to approve the purchase and at the meeting itself. Once a purchase has been completed, we would be subject to further disclosure obligations in relation to information about the purchase.

We do not intend to seek shareholder approval for a purchase of Option Shares until we have made a rescission offer which has been accepted by any one or more shareholders and it has become necessary to seek such approval.

We have terminated and no longer grant options under our 2000 Option Scheme, but options previously granted under 2000 Option Scheme remain in full force and effect. We filed a registration statement on Form S-8 to cover the issuance of future shares upon exercise of presently unexercised options under the 2000 Option Scheme. However, none of the shares (including shares underlying unexercised options) registered on the Form S-8 will be eligible for resale if they are tendered as part of the rescission offer.

**Table of Contents****PRICE RANGE OF GLOBAL DEPOSITARY SHARES**

Our GDSs are currently traded on the Frankfurt Stock Exchange under the symbol MHJG .

The following table summarizes the high and low sales prices of our GDSs in euros as reported by the Frankfurt Stock Exchange for the periods noted below, and as translated into U.S. dollars at the currency exchange rate in effect on the date the price was reported on the Frankfurt Stock Exchange. The currency exchange rate is based on the average bid and ask exchange price as reported by OANDA for such date.

	<b>High</b>		<b>Low</b>	
<b>Year ended December 31, 2003</b>				
First Quarter	1.73	\$ 1.85	1.36	\$ 1.45
Second Quarter	1.79	\$ 2.10	1.55	\$ 1.69
Third Quarter	4.05	\$ 4.53	1.60	\$ 1.85
Fourth Quarter	5.05	\$ 6.31	2.85	\$ 3.37
<b>Year ended December 31, 2004</b>				
First Quarter	11.85	\$ 14.68	4.20	\$ 5.39
Second Quarter	9.85	\$ 11.79	6.30	\$ 7.63
Third Quarter	8.00	\$ 9.62	2.85	\$ 3.49
Fourth Quarter	7.33	\$ 9.68	4.75	\$ 6.06
<b>Year ended December 31, 2005</b>				
First Quarter	8.25	\$ 10.66	6.16	\$ 8.02
Second Quarter	8.00	\$ 10.37	5.26	\$ 6.47
Third Quarter	7.50	\$ 9.28	5.25	\$ 6.85
Fourth Quarter (through December 12, 2005)	6.29	\$ 7.50	4.45	\$ 5.22

The last reported sales price of our GDSs on the Frankfurt Stock Exchange on December 12, 2005 was 5.60 per GDS, or \$6.62 per GDS.

As of October 19, 2005, there were approximately 119 holders of record of our shares, including each account held by our depository and its record holder. These figures do not include beneficial owners who hold shares in nominee name.

**DIVIDEND POLICY**

We have never declared or paid cash dividends on our ordinary shares. We do not anticipate paying any cash dividends on our ordinary shares in the foreseeable future. We currently intend to retain all available funds and any future earnings to fund the development and growth of our business.

Under English law, any payment of dividends would be subject to the Companies Act 1985, as amended, which requires that all dividends be approved by our board of directors and, in some cases, our shareholders. Moreover, under English law, we may pay dividends on our shares only out of profits available for distribution determined in accordance with the Companies Act 1985, as amended, and accounting principles generally accepted in the United Kingdom, which differ in some respects from U.S. GAAP. We also may incur indebtedness in the future that may prohibit or effectively restrict the payment of dividends on our ordinary shares. Any future determination related to our dividend policy will be made at the discretion of our Board of Directors. In the event that dividends are paid in the future, holders of the ADSs will be entitled to receive payments in U.S. dollars in respect of dividends on the underlying shares in accordance with the deposit agreement. See Description of Share Capital Description of Ordinary Shares Dividends and Description of Share Capital Description of American Depositary Shares Dividends and Distributions.

**Table of Contents****CAPITALIZATION**

The following table summarizes our cash, cash equivalents and marketable securities and capitalization as of September 30, 2005.

You should read this table in conjunction with Selected Consolidated Financial Data, Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes included elsewhere in this prospectus.

	<b>September 30, 2005</b>
	<b>(in thousands except per share data)</b>
Notes payable, including current portion	\$ 11,417
Other liabilities	240
Shares subject to rescission	3,819
Shareholders' equity:	
Ordinary shares, £0.01 par value, 80,000,000 shares authorized; 26,209,496 shares issued and outstanding	432
Additional paid-in-capital	57,119
Deferred share-based compensation	
Accumulated other comprehensive loss	(299)
Notes receivable from employees	(83)
Accumulated deficit	(44,670)
<b>Total shareholders' equity</b>	<b>12,499</b>
<b>Total capitalization</b>	<b>\$ 39,473</b>

The number of our ordinary shares shown above is based on 26,209,496 shares outstanding as of September 30, 2005. This information excludes:

8,755,438 ordinary shares issuable upon the exercise of outstanding options as of September 30, 2005, with exercise prices ranging from \$0.88 to \$9.51 per share and a weighted average exercise price of \$3.99 per share;

430,000 ordinary shares issuable upon the exercise of warrants outstanding as of September 30, 2005, with an exercise price of \$2.51 per share; and

14,381,062 ordinary shares available for issuance under our share option schemes.

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**DILUTION**

Since this offering is being made solely by the selling shareholders and none of the proceeds will be paid to us, except for funds received from the exercise of warrants and options held by selling shareholders, if and when exercised, our net tangible book value per share will not be affected by this offering.

**Table of Contents****SELECTED CONSOLIDATED FINANCIAL DATA**

The following table sets forth our selected consolidated financial data. The data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements, related notes, and other financial information included herein. The following selected consolidated statement of operations data and balance sheet data for the nine months ended September 30, 2005 and September 30, 2004 are derived from our unaudited consolidated financial statements presented elsewhere in this registration statement. The following selected consolidated statement of operations data for each of the three years in the period ended December 31, 2004, and the selected consolidated balance sheet data as of December 31, 2003 and 2004, are derived from the audited consolidated financial statements of our company included elsewhere in this prospectus. The consolidated statement of operations data for the year ended December 31, 2001 and the selected consolidated balance sheet data as of December 31, 2001 and 2002 are derived from the audited consolidated financial statements of our company not included in this prospectus. The consolidated statement of operations data for the year ended December 31, 2000 and the selected consolidated balance sheet data as of December 31, 2000 are derived from unaudited consolidated financial statements not included in this prospectus. Our ordinary shares in the form of GDSs currently trade on the Frankfurt Stock Exchange, in Germany. Pursuant to the laws governing this exchange, we publicly reported our quarterly and annual operating results. On April 28, 2004, we publicly announced that we had discovered accounting inaccuracies in previously reported financial statements. As a result, following consultation with our new auditors, we restated our financial statements for the first three quarters of 2003 and for each of the years ended December 31, 2002 and 2001 to correct inappropriate accounting entries. Based in part on the fact that our 2001 and 2002 annual and 2003 interim financial statements were restated, it is likely that our 2000 unaudited financial statements would have been subject to adjustments, which could have been material, had they been subjected to an audit and do not reflect accounting treatment or presentation consistent with audited financial statements for the years ended and as of December 31, 2002, 2003 and 2004. You should therefore not rely on data derived from such financial statements. The historical results are not necessarily indicative of results to be expected in any future period.

	Year ended December 31, <sup>(1)</sup>					Nine months ended September 30, <sup>(1)</sup>	
	2000 (unaudited)	2001	2002	2003 <sup>(7)</sup>	2004 <sup>(7)</sup>	2004 <sup>(7)</sup> (unaudited)	2005 <sup>(7)</sup> (unaudited)
<b>(in thousands, except per share data and paying subscriber data)</b>							
<b>Consolidated Statements of Operations Data:</b>							
Net revenues	\$ 6,670	\$ 10,434	\$ 16,352	\$ 36,941	\$ 65,052	\$ 48,000	\$ 48,925
Direct marketing expenses	5,257	2,044	5,396	18,395	31,240	24,612	18,352
Contribution margin	1,413	8,390	10,956	18,546	33,812	23,388	30,573
<b>Operating expenses:<sup>(6)</sup></b>							
Indirect marketing	953	540	403	986	2,607	2,060	758
Customer service	402	641	1,207	2,536	3,379	2,601	1,787
Technical operations	628	1,772	1,587	4,481	7,184	5,201	4,848
Product development	138	359	603	959	2,013	1,376	2,949
General and administrative	6,215	5,496	7,996	18,537	29,253	21,559	20,013
				1,871	1,704	1,162	(85)

Share-based compensation							
Amortization of intangible assets other than goodwill	1,127	2,137	524	555	860	670	848
Impairment of long-lived assets		3,997		1,532	208		
Total operating expenses	9,463	14,942	12,320	29,586	45,504	33,467	31,203
Operating (loss)	(8,050)	(6,552)	(1,364)	(11,040)	(11,692)	(10,079)	(630)



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	Year ended December 31, <sup>(1)</sup>					Nine months ended September 30, <sup>(1)</sup>	
	2000	2001	2002	2003 <sup>(7)</sup>	2004 <sup>(7)</sup>	2004 <sup>(7)</sup>	2005 <sup>(7)</sup>
	(unaudited)					(unaudited)	
	(in thousands, except per share data and paying subscriber data)						
Interest (income) and other expenses, net	1,113	1,627	(840)	(188)	(66)	(14)	285
(Loss) before income taxes	(9,163)	(8,179)	(524)	(10,852)	(11,626)	(10,065)	(915)
Provision for income taxes					1	1	120
Net (loss)	\$ (9,163)	\$ (8,179)	\$ (524)	\$ (10,852)	\$ (11,627)	\$ (10,066)	\$ (1,035)
Net (loss) per share basic and diluted <sup>(3)</sup>	\$ (0.69)	\$ (0.47)	\$ (0.03)	\$ (0.57)	\$ (0.51)	\$ (0.45)	(0.04)
Weighted average shares outstanding basic and diluted <sup>(3)</sup>	13,213	17,460	18,460	18,970	22,667	22,139	25,621
<b>Other Financial Data:</b>							
Depreciation	\$ 160	\$ 544	\$ 874	\$ 1,441	\$ 3,065	\$ 2,721	\$ 3,558
<b>Additional Information:</b>							
Average paying subscribers <sup>(4)</sup>			58,700	125,800	226,100	225,200	218,700

	December 31,					September 30,	
	2000	2001	2002	2003	2004	2005	
	(unaudited)					(unaudited)	
<b>Consolidated Balance Sheet Data:</b>							
Cash, cash equivalents and marketable securities	\$ 11,410	\$ 7,569	\$ 7,755	\$ 5,815	\$ 7,423	\$ 8,668	
Total assets	23,409	16,352	17,461	16,969	27,359	39,473	
Deferred revenue	362	993	1,535	3,232	3,933	4,099	
Capital lease obligations and notes payable				487	1,873	10,517	
Total liabilities	6,156	3,238	3,998	11,659	16,872	23,155	

Shares subject to rescission <sup>(5)</sup>					3,819	3,819
Accumulated deficit	(12,453)	(20,632)	(21,156)	(32,008)	(43,635)	(44,670)
Total shareholders equity	17,253	13,114	13,463	5,310	6,668	12,499

<sup>(1)</sup>Refer to Management's Discussion and Analysis of Financial Condition and Results of Operations for a discussion of certain asset and business acquisitions.

<sup>(2)</sup>In 2004, general and administrative expenses included an expense of approximately \$2.4 million related to an employee severance, \$2.1 million related to the United States initial public offering of MatchNet, Inc. that was planned for mid-2004, but which was withdrawn shortly after the related registration statement was filed in the third quarter of 2004, as well as one legal settlement resulting in the recognition of \$900,000 in expenses in the third quarter and two legal settlements resulting in the recognition of \$2.1 million in expenses in the fourth quarter of 2004. In 2003, general and administrative expenses included a charge of \$1.7 million primarily related to a settlement with Comdisco.

<sup>(3)</sup>For information regarding the computation of per share amounts, refer to note 1 of our consolidated financial statements.

<sup>(4)</sup>Average paying subscribers for each month are calculated as the sum of the paying subscribers at the beginning and the end of the month, divided by two. Average paying subscribers for periods longer than one month are calculated as the sum of the average paying subscribers for each month, divided by the number of months in such period. Additionally, refer to Management's Discussion and Analysis of Financial Condition and Results of Operations for a discussion of business metrics we use to evaluate our business. We did not track data for the years ended December 31, 2000 and 2001 sufficient to accurately set forth the number of average paying subscribers for the respective periods.

<sup>(5)</sup>Under our 2000 Executive Share Option Scheme ( 2000 Option Scheme ), we granted options to purchase ordinary shares to certain of our employees, directors and consultants. The issuances of securities upon exercise of options granted under our

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2000 Option Scheme may not have been exempt from registration and qualification under federal and California state securities laws, and as a result, we may have potential liability to those employees, directors and consultants to whom we issued securities upon the exercise of these options. In order to address that issue, we may elect to make a rescission offer to those persons who exercised all, or a portion, of those options and continue to hold the shares issued upon exercise, to give them the opportunity to rescind the issuance of those shares. However, it is the Securities and Exchange Commission's position that a rescission offer will not bar or extinguish any liability under the Securities Act of 1933 with respect to these options and shares, nor will a rescission offer extinguish a holder's right to rescind the issuance of securities that were not registered or exempt from the registration requirements under the Securities Act of 1933. As of September 30, 2005, assuming every eligible person that continues to hold the securities issued upon exercise of options granted under the 2000 Option Scheme were to accept a rescission offer, we estimate the total cost to us to complete the rescission would be approximately \$3.8 million including statutory interest at 7% per annum, accrued since the date of exercise of the options. The rescission acquisition price is calculated as equal to the original exercise price paid by the optionee to our company upon exercise of their option.

<sup>(6)</sup>Operating expenses include share-based compensation as follows:

	Year Ended December 31,		Nine Months Ended September 30,	
	2003	2004	2004	2005
	(In thousands)			
Indirect marketing	\$ 79	\$ 156	\$ 128	\$ 10
Customer service				22
Technical operations	140	22	22	168
Product development				124
General and administrative	1,652	1,526	1,012	1,000

<sup>(7)</sup>For the purposes of this and all future filings, prior period classification of share-based compensation was reclassified to conform to current period classification.

**Table of Contents****PRO FORMA COMBINED FINANCIAL DATA**

The following unaudited pro forma combined financial information gives effect to the acquisition on May 19, 2005, by Spark Networks plc (formerly MatchNet plc) of MingleMatch, Inc., a corporation based in Provo, Utah. The purchase price for the acquisition was \$12 million in cash, which will be paid over 12 months (as discussed further in note 9, notes payable), as well as 150,000 shares of the Company's ordinary shares which, on the date of the acquisition, carried a value of approximately \$1.2 million. For the fiscal year ended December 31, 2004, MingleMatch reported net revenues of approximately \$2.5 million and a loss of \$443,000.

The unaudited pro forma combined financial information is for illustrative purposes only and reflects certain estimates and assumptions. These unaudited pro forma combined financial statements should be read in conjunction with the accompanying notes, our historical consolidated financial statements and MingleMatch's historical financial statements, including the notes thereto, and Management's Discussion and Analysis of Financial Condition and Results of Operations, all of which are included elsewhere in this prospectus.

The unaudited pro forma combined statements of operation for the year ended December 31, 2004 and the nine months ended September 30, 2005 give effect to the acquisition of MingleMatch, Inc. as if it had been completed on January 1, 2004. Our combined financial statements include the results of operations of MingleMatch, Inc. from its acquisition date May 19, 2005 to September 30, 2005. The MingleMatch column for the nine months ended September 30, 2005 includes MingleMatch activity for the period prior to its acquisition date from January 1, 2005 to May 18, 2005.

The unaudited pro forma combined financial statements are not necessarily indicative of operating results which would have been achieved had the foregoing transaction actually been completed at the beginning of the subject periods and should not be construed as representative of future operating results.

	Year ended December 31, 2004 <sup>(4)</sup>				Nine Months ended September 30, 2005			
	Spark Networks	Mingle Match	Pro Forma Adjustments	Pro Forma Combined	Spark Networks	Mingle Match	Pro Forma Adjustments	Pro Forma Combined
	(in thousands except per share amounts)				(in thousands except per share amounts)			
<b>Net revenues</b>	\$ 65,052	\$ 2,504	\$	\$ 67,556	\$ 48,925	\$ 1,453	\$	\$ 50,378
Direct marketing expenses	31,240	1,432		32,672	18,352	741		19,093
Contribution margin	33,812	1,072		34,884	30,573	712		31,285
Operating expenses: <sup>(3)</sup>								
Indirect marketing	2,607	54		2,661	758	79		837
Customer service	3,379	100		3,479	1,787	147		1,934
Technical operations	7,184	353		7,537	4,848	350		5,198
Product development	2,013	77		2,090	2,949	113		3,062
General and administrative	29,253	947		30,200	20,013	986		20,999
Amortization of intangible assets other than goodwill	860	4	1,197 <sup>(1)</sup>	2,061	848	2	313 <sup>(2)</sup>	1,163

Impairment of long lived assets	208			208				
<b>Total operating expenses</b>	45,504	1,535	1,197	48,236	31,203	1,677	313	33,193

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	Year ended December 31, 2004 <sup>(4)</sup>				Nine Months ended September 30, 2005			
	Spark Networks	Mingle Match	Pro Forma Adjustments	Pro Forma Combined	Spark Networks	Mingle Match	Pro Forma Adjustments	Pro Forma Combined
	(in thousands except per share amounts)				(in thousands except per share amounts)			
<b>Operating (loss)</b>	(11,692)	(463)	(1,197)	(13,352)	(630)	(965)	(313)	(1,908)
Interest (income) and other expenses, net	(66)	(20)		(86)	285	(209)		76
<b>Pre-tax (loss)</b>	(11,626)	(443)	(1,197)	(13,266)	(915)	(756)	(313)	(1,984)
Income taxes	1			1	120			120
<b>Net (loss)</b>	\$ (11,627)	\$ (443)	\$ (1,197)	\$ (13,267)	\$ (1,035)	\$ (756)	\$ (313)	\$ (2,104)
Net (loss) income per ordinary share basic and diluted	\$ (0.51)			\$ (0.58)	\$ (0.04)			\$ (0.08)
Weighted average ordinary shares outstanding basic and diluted	22,667		150	22,817	25,621			25,621

(1) Represents the amortization of intangible assets that would have occurred if the purchase had happened on January 1, 2004. Calculated as follows:

	Year Ended December 31, 2004	Stub Period Ending May 18, 2005
Domain Names	\$ 786	\$ 297
Subscriber Databases	370	
Developed Software	41	16
Total Amortization	\$ 1,197	\$ 313

(2) Amortization of intangible assets that would have occurred if the purchase had happened on January 1, 2004. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

As of May 19, 2005

	<b>(in thousands)</b>	
Current assets (including cash acquired of \$221)	\$	295
Property and equipment, net		162
Goodwill		7,919
Domain names and databases		4,655
<b>Total assets acquired</b>		<b>13,031</b>
Current liabilities		41
<b>Net assets acquired</b>	<b>\$</b>	<b>12,990</b>

Of the \$4,655,000 of acquired intangible assets, \$2,360,000 was assigned to member databases and will be amortized over three years, \$370,000 was assigned to subscriber databases which will be amortized over three months, \$205,000 was assigned to developed software which will be amortized over five years, and \$1,720,000 was assigned to domain names which are not subject to amortization.

Of the \$7,919,000 of acquired goodwill, \$400,000 was assigned to assembled workforce.

(3) Operating expenses include share-based compensation as follows:

	<b>Year Ended</b>	<b>Nine months</b>
	<b>December 31,</b>	<b>ended</b>
	<b>2004</b>	<b>September 30,</b>
		<b>2005</b>
	<b>(in thousands)</b>	
Indirect marketing	\$ 156	\$ 10
Customer service		22
Technical operations	22	168
Product development		124
General & administrative	1,526	1,000

(4) For the purposes of this and all future filings, prior period classification of share-based compensation was reclassified to conform to current period classification.

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

*The following discussion of our financial condition and results of operations should be read in conjunction with our unaudited and audited consolidated financial statements and the related notes thereto included elsewhere in this prospectus.*

*This prospectus, including the sections entitled Prospectus Summary, Risk Factors, Management's Discussion and Analysis of Financial Condition and Results of Operations and Business, contains forward-looking statements that involve substantial risks and uncertainties. All statements other than statements of historical facts contained in this prospectus, including statements regarding our future financial position, business strategy and plans and objectives of management for future operations, are forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as believes, expects, anticipates, intends, estimates, may, will, continue, predict, potential or the negative of these terms or other similar expressions. We have based these forward-looking statements on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. Our actual results could differ materially from those anticipated in these forward-looking statements, which are subject to a number of risks, uncertainties and assumptions described in Risk Factors section and elsewhere in this prospectus.*

**General**

We are a public limited company incorporated under the laws of England and Wales and our ordinary shares in the form of GDSs currently trade on the Frankfurt Stock Exchange. We are a leading provider of online personals services in the United States and internationally. Our Web sites enable adults to meet online and participate in a community, become friends, date, form a long-term relationship or marry.

Our revenues have grown from \$659,000 in 1999 to \$65.1 million in 2004. For the nine month period ended September 30, 2005, we had approximately 218,700 average paying subscribers, representing a decrease of 2.9% from the same period in 2004. We define a member as an individual who has posted a personal profile during the immediately preceding 12 months or an individual who has previously posted a personal profile and has subsequently logged on to one of our Web sites at least once in the preceding 12 months. Paying subscribers are defined as individuals who have paid a monthly fee for access to communication and Web site features beyond those provided to our members, and average paying subscribers for each month are calculated as the sum of the paying subscribers at the beginning and the end of the month, divided by two. Our key Web sites are JDate.com, which targets the Jewish singles community in the United States, at a current subscription fee of \$34.95 for a one month subscription, and AmericanSingles.com, which targets the U.S. mainstream online singles community, at a current subscription fee of \$29.85 for a one month subscription. Our subscription fees are charged on a monthly basis, with discounts for longer-term subscriptions ranging from three to twelve months. Longer-term subscriptions are charged up-front and we recognize revenue over the terms of such subscriptions.

We have grown both internally and through acquisitions of entities, and selected assets of entities, offering online personals services and related businesses. As a result of each of these acquisitions, we have been able to expand and cross-promote into vertical affinity markets, combine the target entity's existing database of online personals customers into one of our Web sites' databases, with the goal of attracting new members to our Web sites, retaining as many of them as possible and converting them into paying subscribers. Through our business acquisitions, we have expanded into new markets,



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leveraged and enhanced our existing brands to improve our position within new markets, and gained valuable intellectual property. During the last three years, we made the following acquisitions:

In May 2005, we acquired MingleMatch, Inc., a company that operates religious, ethnic, special interest and geographically targeted online singles communities. The acquisition of MingleMatch fits with our strategy of creating affinity-focused online personals that provide quality experiences for our members. We expect that our purchase of MingleMatch will allow for numerous cost savings and revenue synergies. Expected cost savings include savings from cost reductions in customer service and marketing, where we plan to be able to market to existing members of our other Web sites, particularly AmericanSingles. Expected revenue synergies include cross-promotion and bundled subscription opportunities with members of our other Web sites, particularly AmericanSingles.

In September 2004, we purchased a 20% equity interest, with an option to acquire the remaining interest, in Duplo AB, an online provider of social networking products and services in Sweden, with the intent of expanding into new markets and strengthening our existing brands.

In January 2004, we purchased Point Match Ltd., a competitor of JDate.co.il in Israel.

Our future performance will depend on many factors, including:

continued acceptance of online personals services;

our ability to attract a large number of new members and paying subscribers, and retain those members and paying subscribers;

our ability to increase brand awareness, both domestically and internationally;

our ability to sustain and, when possible, increase subscription fees for our services; and

our ability to introduce new targeted Web sites, affiliate programs, fee-based services and advertising as additional sources of revenues.

Our ability to compete effectively will depend on the timely introduction and performance of our future Web sites, services and features, the ability to address the needs of our members and paying subscribers and the ability to respond to Web sites, services and features introduced by competitors. To address this challenge, we have invested and will continue to invest existing personnel resources, namely internet engineers and programmers, in order to enhance our existing services and introduce new services, which may include new Web sites as well as new features and functions designed to increase the probability of communication among our members and paying subscribers and to enhance their online personals experiences. Our software development team consisted of 34 employees as of September 30, 2005, who are focused on expanding and improving the features and functionality of our Web sites. The Company believes that it has sufficient cash resources on hand to accomplish the enhancements that are currently contemplated.

**Critical Accounting Policies, Estimates and Assumptions**

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make certain estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to revenue recognition, prepaid advertising, Web site and software development costs, goodwill, intangible and other long-lived assets, accounting for business combinations, contingencies and income taxes. We base our estimates on historical experience

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and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Management has discussed the development and selection of our critical accounting policies, estimates and assumptions with our Board of Directors and the Board has reviewed these disclosures.

We believe the following critical accounting policies reflect the more significant judgments and estimates we used in the preparation of our consolidated financial statements:

***Revenue Recognition and Deferred Revenue***

Substantially all of our revenues are derived from subscription fees. Revenues are presented net of credits and credit card chargebacks. We recognize revenue in accordance with accounting principles generally accepted in the United States and with Securities and Exchange Commission Staff Accounting Bulletin No. 104, Revenue Recognition. Recognition occurs ratably over the subscription period, beginning when there is persuasive evidence of an arrangement, delivery has occurred (access has been granted), the fees are fixed and determinable, and collection is reasonably assured. Paying subscribers primarily pay in advance using a credit card and all purchases are final and nonrefundable. Subscription fees collected in advance are deferred and recognized as revenue, using the straight-line method, over the term of the subscription. We reserve for potential credit card chargebacks based on our historical chargeback experience.

***Direct Marketing Expenses***

We incur substantial expenses related to our advertising in order to generate traffic to our Web sites. These advertising costs are primarily online advertising, including affiliate and co-brand arrangements, and are directly attributable to the revenues we receive from our subscribers. We have entered into numerous affiliate arrangements, under which our affiliate advertises or promotes our Web site on its Web site, and earns a fee whenever visitors to its Web site click through the advertisement to one of our Web sites and registers or subscribes on our Web site. Affiliate deals may fall in the categories of either CPS, CPA, CPC, or CPM, as discussed below. We do not typically have any exclusivity arrangements with our affiliates, and some of our affiliates may also be affiliates for our competitors. Under our co-branded arrangements, our co-brand partners may operate their own separate Web sites where visitors can register and subscribe to our Web sites. Our co-brand arrangements are usually CPS type arrangements.

Our advertising expenses are recognized based on the terms of each individual contract. The majority of our advertising expenses are based on four pricing models:

Cost per subscription (CPS) where we pay an online advertising provider a fee based upon the number of new paying subscribers that it generates;

Cost per acquisition (CPA) where we pay an online advertising provider a fee based on the number of new member registrations it generates;

Cost per click (CPC) where we pay an online advertising provider a fee based on the number of clicks to our Web sites it generates; and

Cost per thousand for banner advertising (CPM) where we pay an online advertising provider a fee based on the number of times it displays our advertisements.

We estimate in certain circumstances the total clicks or impressions delivered by our vendors in order to determine amounts due under these contracts.

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***Prepaid Advertising Expenses***

In certain circumstances, we pay in advance for Internet-based advertising on other Web sites, and expense the prepaid amounts as direct marketing expenses over the contract periods as the contracted Web site delivers on its commitment. We evaluate the realization of prepaid amounts at each reporting period and expense prepaid amounts if the contracted Web site is unable to deliver on its commitment.

***Web Site and Software Development Costs***

We capitalize costs related to developing or obtaining internal-use software. Capitalization of costs begins after the conceptual formulation stage has been completed. Product development costs are expensed as incurred or capitalized into property and equipment in accordance with Statement of Position ( SOP ) 98-1 Accounting for the Costs of Computer Software Developed or Obtained for Internal Use . SOP 98-1 requires that costs incurred in the preliminary project and post-implementation stages of an internal-use software project be expensed as incurred and that certain costs incurred in the application development stage of a project be capitalized. We exercise judgment in determining which stage of development a software project is in at any point in time.

In accordance with Emerging Issues Task Force ( EITF ) 00-2 Accounting for Web Site Development Costs, we expense costs related to the planning and post-implementation phases of our Web site development efforts. Direct costs incurred in the development phase are capitalized. Costs associated with minor enhancements and maintenance for the Web site are included in expenses in the accompanying consolidated statements of operations.

Capitalized Web site and software development costs are included in internal-use software in property and equipment and amortized over the estimated useful life of the products, which is usually three years. In accordance with the above accounting literature, we estimate the amount of time spent by our engineers in developing our software and enhancements to our Web sites.

On a regular basis, management reviews the capitalized costs of Web sites and software developed to ensure that these costs relate to projects that will be completed and placed in service. Any projects determined not to be viable will be reviewed for impairment in accordance with SFAS No. 144.

***Valuation of Goodwill, Identified Intangibles and Other Long-lived Assets***

We test goodwill and intangible assets for impairment in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 142, Goodwill and Other Intangible Assets and test property, plant and equipment for impairment in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. We assess goodwill, and other indefinite-lived intangible assets at least annually, or more frequently when circumstances indicate that the carrying value may not be recoverable. Factors we consider important and which could trigger an impairment review include the following:

- a significant decline in actual projected revenue;
- a significant decline in the market value of our depositary shares;
- a significant decline in performance of certain acquired companies relative to our original projections;
- an excess of our net book value over our market value;
- a significant decline in our operating results relative to our operating forecasts;
- a significant change in the manner of our use of acquired assets or the strategy for our overall business;
- a significant decrease in the market value of an asset;

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a shift in technology demands and development; and

a significant turnover in key management or other personnel.

When we determine that the carrying value of goodwill, other intangible assets and other long-lived assets may not be recoverable based upon the existence of one or more of the above indicators of impairment, we measure any impairment based on a projected discounted cash flow method using a discount rate determined by our management to be commensurate with the risk inherent in our current business model. In the case of the other intangible assets and other long-lived assets, this measurement is only performed if the projected undiscounted cash flows for the asset are less than its carrying value. No indicators of impairment in goodwill were present in 2003. We had impairment charges related to long-lived assets of \$1.5 million in 2003 in accordance with SFAS No. 144.

***Accounting for Business Combinations***

We have acquired the stock or specific assets of a number of companies from 1999 through 2004 some of which were considered to be business acquisitions. Under the purchase method of accounting, the cost, including transaction costs, are allocated to the underlying net assets, based on their respective estimated fair values. The excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill.

The judgments made in determining the estimated fair value and expected useful life assigned to each class of assets and liabilities acquired can significantly impact net income. Different classes of assets will have useful lives that differ. For example, the useful life of member database, which is three years, is not the same as the useful life of a paying subscriber list, which is three months, or a domain name, which is indefinite. Consequently, to the extent a longer-lived asset is ascribed greater value under the purchase method than a shorter-lived asset, there may be less amortization recorded in a given period or no amortization for indefinite lived intangibles.

Determining the fair value of certain assets and liabilities acquired is subjective in nature and often involves the use of significant estimates and assumptions.

The value of our intangible and other long-lived assets, including goodwill, is exposed to future adverse changes if we experience declines in operating results or experience significant negative industry or economic trends or if future performance is below historical trends. We review intangible assets and goodwill for impairment at least annually or more frequently when circumstances indicate that the carrying value may not be recoverable using the guidance of applicable accounting literature. We continually review the events and circumstances related to our financial performance and economic environment for factors that would provide evidence of the impairment of goodwill, identifiable intangibles and other long-lived assets.

We use the equity method of accounting for our investments in affiliates over which we exert significant influence. Significant influence is generally having a 20% to 50% ownership interest. At September 30, 2005, we owned a 20% interest in Duplo AB which we account for using the equity method.

***Legal Contingencies***

We are currently involved in certain legal proceedings, as discussed in the notes to the financial statements and under Business Legal Proceedings. To the extent that a loss related to a contingency is reasonably estimable and probable, we accrue an estimate of that loss. Because of the uncertainties related to both the amount and range of loss on certain pending litigation, we may be unable to make a reasonable estimate of the liability that could result from an unfavorable outcome of such litigation. As additional information becomes available, we will assess the potential liability related to our pending litigation and make or, if necessary, revise our estimates. Such revisions in our estimates of the potential liability could materially impact our results of operations and financial position.

**Table of Contents*****Accounting for Income Taxes***

We account for income taxes using the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and tax bases of the assets and liabilities. In accordance with the provisions of SFAS No. 109, *Accounting for Income Taxes*, we record a valuation allowance to reduce deferred tax assets to the amount expected to more likely than not be realized in our future tax returns. As of December 31, 2004 and 2003, we had a valuation allowance that completely offset our deferred tax asset. Should we determine in the future that we will likely realize all or part of our net deferred tax assets, we will adjust the valuation allowance so that we will have a deferred tax asset available that will be realized in our future tax returns.

At December 31, 2004, we had net operating loss carry-forwards of approximately \$42.0 million and \$38.0 million available to reduce future federal and state taxable income, respectively. Under Section 382 of the Internal Revenue Code, the utilization of the net operating loss carry-forwards can be limited based on changes in the percentage ownership of our company. Of the net operating losses available, approximately \$1.5 million and \$800,000 for federal and state purposes, respectively, are attributable to losses incurred by an acquired subsidiary. Such losses are subject to other restrictions on usage including the requirement that they are only available to offset future income of the subsidiary. In addition, the available net operating losses do not include any amounts generated by the acquired subsidiary prior to the acquisition date due to substantial uncertainty regarding our ability to realize the benefit in the future.

**Adoption of SFAS 123(R)**

In December 2004, the Financial Accounting Standards Board ( FASB ) issued Statement No. 123 (revised 2004), *Share-Based Payment ( Statement 123(R) )*, a revision of SFAS No. 123, *Accounting for Stock-Based Compensation*. Statement 123(R) requires a company to recognize compensation expense based on the fair value at the date of grant for stock options and other stock-based compensation, eliminating the use of the intrinsic value method. We adopted Statement 123(R) on July 1, 2005, and as a result, our loss before income taxes for the three and nine month periods ended September 30, 2005, is \$1.4 million lower than if we had continued to account for share-based compensation under APB Opinion No. 25. Basic earnings or (loss) per share for the three and nine month periods ended September 30, 2005 would have been \$(0.03) and \$0.01, respectively, if we had not adopted Statement 123(R), compared to reported basic and diluted (loss) per share of \$(0.08) and \$(0.04), respectively. Diluted earnings per share for the nine months ended September 30, 2005 would have been \$0.01.

At September 30, 2005, we had two share-based employee compensation plans, which are described more fully in Note 10 of the consolidated financial statements included herein. Prior to July 1, 2005, we accounted for those plans under the recognition and measurement provisions of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations, as permitted by FASB Statement No. 123. Only share-based employee compensation related to variable accounting (as discussed in Note 10, *Shareholders Equity*) was recognized in our Statements of Operations for the years ended December 31, 2004 or 2003, and the six month period ended June 30, 2005, as all options granted under those plans had an exercise price equal to the market value of the underlying ordinary share on the date of grant. Effective July 1, 2005, we adopted the fair value recognition provisions of Statement 123(R), using the modified-prospective-transition method. Under that transition method, compensation cost recognized in the second half of 2005 includes: (i) compensation cost for all share-based payments granted prior to, but not yet vested as of July 1, 2005, based on the grant date fair value estimated in accordance with the original provisions of Statement 123, and (ii) compensation cost for all share-based payments granted subsequent to July 1, 2005, based on the grant-date fair value estimated in accordance with the provisions of Statement 123(R). Results for prior periods have not been restated.

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Prior to our adoption of Statement 123(R), we did not record tax benefits of deductions resulting from the exercise of share options because of the uncertainty surrounding the timing of realizing the benefits of our deferred tax assets in future tax returns. Statement 123(R) requires the cash flows resulting from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows. Had we recognized a tax benefit from deductions resulting from the exercise of stock options, we would have classified the benefit as a financing cash inflow on the cash flow statement.

The following table illustrates the effect on net income and earnings per share if we had applied the fair value recognition provisions of Statement 123(R) to options granted under our share option plans in all periods presented. For purposes of this pro forma disclosure, the value of the options is estimated using a Black-Scholes option-pricing model and amortized to expense over the options' vesting periods.

	Year ended December 31,			Nine months ended September 30,	
	2002	2003	2004	2004	2005
<b>Net loss as reported</b>	\$ (524)	\$ (10,852)	\$ (11,627)	\$ (10,066)	\$ (1,035)
Add: SFAS 123(R) share based employee compensation expense included in reported net income, net of related tax effects					1,409
Add: share based employee compensation expense recorded in the accompanying consolidated statements of operations Pre-SFAS 123(R)		75	367	233	48
Deduct: Total share based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(3,438)	(3,645)	(3,452)	(2,256)	(4,067)
<b>Pro forma net loss</b>	\$ (3,962)	\$ (14,422)	\$ (14,712)	\$ (12,089)	\$ (3,645)
<b>Loss Per Share</b>					
As reported basic & diluted	\$ (0.03)	\$ (0.57)	\$ (0.51)	\$ (0.45)	\$ (0.04)
Pro forma basic & diluted	\$ (0.21)	\$ (0.76)	\$ (0.65)	\$ (0.55)	\$ (0.14)

Note that the above pro forma disclosures are provided for 2004, 2003 and 2002 because employee share options were not accounted for using the fair-value method during those periods. Disclosures for 2005 are presented because employee share options were not accounted for using the fair-value method during the first six months of 2005. When we present our financial statements for 2006, it will present pro forma disclosures only for 2005 and 2004 because share-based payments will have been accounted for under Statement 123(R)'s fair-value method for all of 2006. In accordance with Statement 123(R), the fair value of each option grant was estimated as of the grant date using the Black-Scholes option pricing model with the following assumptions used for grants:

**Three and nine  
months ended  
September 30,**

**2004                      2005**

Expected life in years	4	4
Dividend per share		
Volatility	70.0%	76.2%
Risk-free interest rate	3.5%	3.5%

In accordance with Statement 123(R), we used historical and empirical data to assess different forfeiture rates for three different groups of employees. We must reassess forfeiture rates when deemed

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necessary and we must calibrate actual forfeiture behavior to what has already been recorded. For the three month period ending September 30, 2005, we had three groups of employees whose behavior was significantly different than those of other groups, therefore we estimated different forfeiture rates for each group.

Prospective compensation expense was calculated using a bi-nomial or lattice model with a volatility rate of 75%, a risk free rate of 3.5% and a term of 4 years for options granted subsequent to June 30, 2005. The volatility rate was derived by examining historical share price behavior and assessing management's expectations of share price behavior during the term of the option.

The concepts that underpin lattice models and the Black-Scholes-Merton formula are the same, but the key difference between a lattice model and a closed-form model such as the Black-Scholes-Merton formula is the flexibility of the former. A lattice model can explicitly use dynamic assumptions regarding the term structure of volatility, dividend yields, and interest rates. Further, a lattice model can incorporate assumptions about how the likelihood of early exercise of an employee stock option may increase as the intrinsic value of that option increases or how employees may have a high propensity to exercise options with significant intrinsic value shortly after vesting. Because of the versatility of lattice models, we believe that we can provide a more accurate estimate of an employee share option's fair value than an estimate based on a closed-form Black-Scholes-Merton formula.

We account for shares issued to non-employees in accordance with the provisions of SFAS No. 123(R) and EITF 96-18, Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods and Services .



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The following table describes our pro forma statement of consolidated operations and EBITDA (unaudited):

**Nine Months Ended September 30,**

	<b>2005 Spark Networks Consolidated<sup>(1)</sup></b>	<b>2005 Share-Based Compensation<sup>(2)</sup></b>	<b>2005 Consolidated Before Share-Based Compensation<sup>(3)</sup></b>	<b>2004 Spark Networks Consolidated<sup>(1)</sup></b>	<b>2004 Share-Based Compensation<sup>(2)</sup></b>	<b>2004 Consolidated Before Share-Based Compensation<sup>(4)</sup></b>
<b>Net revenues</b>	\$ 48,925	\$	\$ 48,925	\$ 48,000	\$	\$ 48,000
Direct marketing expenses	18,352		18,352	24,612		24,612
Contribution margin	30,573		30,573	23,388		23,388
Operating expenses:						
Indirect marketing	758	10	748	2,060	128	1,932
Customer service	1,787	22	1,765	2,601		2,601
Technical operations	4,848	168	4,680	5,157	22	5,135
Product development	2,949	124	2,825	1,376		1,376
General and administrative	20,013	1,000	19,013	21,603	1,012	20,591
Amortization of intangible assets other than goodwill	848		848	670		670
<b>Total operating expenses</b>	<b>31,203</b>	<b>1,324</b>	<b>29,879</b>	<b>33,467</b>	<b>1,162</b>	<b>32,305</b>
<b>Operating (loss) income</b>	<b>(630)</b>	<b>(1,324)</b>	<b>694</b>	<b>(10,079)</b>	<b>(1,162)</b>	<b>(8,917)</b>
Interest (income) and other expenses, net	285		285	(14)		(14)
<b>Pre-tax (loss) income</b>	<b>(915)</b>	<b>(1,324)</b>	<b>409</b>	<b>(10,065)</b>	<b>(1,162)</b>	<b>(8,903)</b>
Income taxes	120		120	1		1
<b>Net (loss) income</b>	<b>\$ (1,035)</b>	<b>\$ (1,324)</b>	<b>\$ 289</b>	<b>\$ (10,066)</b>	<b>\$ (1,162)</b>	<b>\$ (8,904)</b>

Interest expense	112	112	(14)	(14)
Income taxes	120	120	1	1
Depreciation	2,710	2,710	2,208	2,208
Amortization of intangible assets	848	848	670	670
<b>EBITDA<sup>(3)</sup></b>	<b>\$ 2,755</b>	<b>\$ (1,324)</b>	<b>\$ 4,079</b>	<b>\$ (7,201)</b>
				<b>\$ (1,162)</b>
				<b>\$ (6,039)</b>

- (1) Reported in accordance with generally accepted accounting principles ( GAAP ).
- (2) We believe it is useful in measuring our operations to exclude share-based compensation expense, which is a non-cash charge recorded in our income statements for the first time in the quarter ended September 30, 2005 as a result of the implementation of SFAS 123(R). Using the non-GAAP measure limits the users ability to judge true expenses of our company in the current period. However, traditionally investors and analysts using financial information discount GAAP operating results to provide a better picture of the cash generating potential of an company. To avoid the limitation, management provides the GAAP measure in all of its financial information other than the information listed in the chart above. We believe that the non-GAAP measure provides useful information to management and investors regarding how the expenses associated with the application of SFAS 123(R) are reflected on the statements of operations and facilitates comparisons to our historical operating results. Our management uses this information internally for reviewing the financial results, forecasting and budgeting.
- (3) EBITDA is defined as earnings before interest, taxes, depreciation and amortization. EBITDA should not be construed as a substitute for net income (loss) or net cash provided by (used in) operating activities (all as determined in accordance with GAAP) for the purpose of analyzing our operating performance, financial position and cash flows, as EBITDA is not defined by GAAP. We utilize EBITDA as a financial measure because management believes that investors find it to be a useful tool to perform more meaningful comparisons of past, present and future operating results and as a means to evaluate the results of core on-going operations. We believe it is a complement to net income and other GAAP financial performance measures.
- (4) For the purposes of this and all future filings, prior period classification of share-based compensation was reclassified to conform to current period classification.

**Table of Contents****Segment Reporting**

We divide our business into three operating segments: (1) the JDate segment, which consists of our JDate.com Web site and its co-branded Web sites, (2) the AmericanSingles segment, which consists of our AmericanSingles.com Web site and its co-branded Web sites, and (3) the Other Businesses segment, which consists of all of our other Web sites and businesses.

	Year ended December 31,			Nine months ended September 30,	
	2002	2003	2004	2004	2005
(in thousands)					
<b>Net Revenues:</b>					
JDate	\$ 8,372	\$ 16,091	\$ 23,820	\$ 17,623	\$ 19,161
AmericanSingles	6,644	19,253	35,224	26,584	22,526
Other Businesses	1,336	1,597	6,008	3,793	7,238
<b>Total</b>	<b>\$ 16,352</b>	<b>\$ 36,941</b>	<b>\$ 65,052</b>	<b>\$ 48,000</b>	<b>\$ 48,925</b>
<b>Direct Marketing Expenses:</b>					
JDate	\$ 224	\$ 739	\$ 1,740	\$ 1,152	\$ 2,110
AmericanSingles	3,970	15,887	24,954	20,288	11,570
Other Businesses	1,202	1,769	4,546	3,172	4,672
<b>Total</b>	<b>\$ 5,396</b>	<b>\$ 18,395</b>	<b>\$ 31,240</b>	<b>\$ 24,612</b>	<b>\$ 18,352</b>
<b>Contribution:</b>					
JDate	\$ 8,148	\$ 15,352	\$ 22,080	\$ 16,471	\$ 17,051
AmericanSingles	2,674	3,366	10,270	6,296	10,956
Other Businesses	134	(172)	1,462	621	2,566
<b>Total</b>	<b>\$ 10,956</b>	<b>\$ 18,546</b>	<b>\$ 33,812</b>	<b>\$ 23,388</b>	<b>\$ 30,573</b>

**Key Business Metrics**

We regularly review certain operating metrics in order to evaluate the effectiveness of our operating strategies and monitor the financial performance of our business. The key business metrics that we utilize include the following:

**Average Paying Subscribers:** Paying subscribers are defined as individuals who have paid a monthly fee for access to communication and Web site features beyond those provided to our members. Average paying subscribers for each month are calculated as the sum of the paying subscribers at the beginning and the end of the month, divided by two. Average paying subscribers for periods longer than one month are calculated as the sum of the average paying subscribers for each month, divided by the number of months in such period.

**Average Monthly Net Revenue per Paying Subscriber:** Average monthly net revenue per paying subscriber represents the total net subscriber revenue for the period divided by the number of average paying subscribers for the period, divided by the number of months in the period.

**Direct Subscriber Acquisition Cost:** Direct subscriber acquisition cost is defined as total direct marketing costs divided by the number of new paying subscribers during the period. This represents the average cost of acquiring a new paying subscriber during the period.

**Monthly Subscriber Churn:** Monthly subscriber churn represents the ratio expressed as a percentage of (i) the number of paying subscriber cancellations during the period divided by the number of average paying subscribers during the period and (ii) the number of months in the period.

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Unaudited selected statistical information regarding our key operating metrics for the years ended December 31, 2002, 2003, and 2004 and the nine month periods ended September 30, 2005 and 2004 is shown in the table below. The references to Other Businesses in this table indicate metrics data for our Other Businesses segment, excluding travel and events. Our Other Businesses segment includes all MingleMatch Web sites, along with JDate.co.il (Israel), Cupid (Israel), Date.ca (Canada), Matchnet.co.uk (United Kingdom), Matchnet.de (Germany), Matchnet.com.au (Australia), Glimpse.com (United States) and CollegeLuv.com (United States). At the time of acquisition in May 2005, MingleMatch had approximately 23,000 average paying subscribers.

	Year ended December 31,			Nine Months ended September 30,	
	2002	2003	2004	2004	2005
<b>Average Paying Subscribers (in thousands):</b>					
JDate	27.7	50.7	69.8	70.3	69.4
AmericanSingles	29.5	71.5	132.5	133.5	109.8
Other Businesses	1.5	3.6	23.8	21.4	39.5
<b>Total</b>	<b>58.7</b>	<b>125.8</b>	<b>226.1</b>	<b>225.2</b>	<b>218.7</b>
<b>Average Monthly Net Revenue per Paying Subscriber:</b>					
JDate	\$ 25.20	\$ 26.44	\$ 28.42	27.88	30.69
AmericanSingles	18.77	22.43	22.16	22.43	22.87
Other Businesses	33.17	23.72	16.75	16.44	17.74
All Segments	22.17	24.09	23.53	23.53	24.36
<b>Direct Subscriber Acquisition Cost:</b>					
JDate	\$ 2.90	\$ 4.39	\$ 8.09	7.27	12.89
AmericanSingles	38.68	45.70	43.29	45.39	35.42
Other Businesses	78.43	80.32	34.74	34.73	35.17
All Segments	25.56	33.84	33.85	35.25	28.67
<b>Monthly Subscriber Churn:</b>					
JDate	18.2%	22.4%	25.8%	25.7	26.2
AmericanSingles	24.3	32.1	35.6	35.4	36.7
Other Businesses	32.6	33.4	26.8	25.4	24.3
All Segments	21.6	28.2	31.7	31.4	31.2

For the three years ended December 31, 2004, the larger increase in average paying subscribers for AmericanSingles as compared to the increase for JDate was primarily due to JDate possessing a larger portion of its market, while AmericanSingles possessed a smaller portion of its market and its average paying subscribers has, as a result, grown more quickly. For the nine month period ending September 30, 2005, the larger decrease in average paying subscribers for AmericanSingles as compared to the decrease for JDate was primarily due to a corporate initiative to reduce marketing spending related to AmericanSingles and increase spending related to JDate.

We have embarked on increases in marketing spending for JDate, primarily in the area of off-line marketing. Such marketing initiatives are targeted at brand building and name recognition. The marketing programs most prominently include print and billboard advertising. We include the costs of these marketing programs in the direct marketing expense for the JDate segment. As these are new marketing initiatives and spending that we have not previously undertaken, it has resulted in an increase in our customer acquisition cost for JDate. Even after these increased

spending programs, the

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cost of customer acquisition for JDate is significantly lower than for our other segments due to the strong brand perception and word of mouth reputation of JDate. Our recent marketing initiatives are targeted specifically at maintaining that strong word of mouth name reputation and brand recognition.

We expect the cost of customer acquisition for JDate to remain below the acquisition cost for our other segments. AmericanSingles and our other Web sites operate in much more competitive environments, and therefore we generally must spend more on marketing to attract new subscribers.

Monthly subscriber churn rate is somewhat independent from an increasing number of subscribers opting for multi-month contracts. During a period where the number of total new subscribers and subscribers canceling are both increasing, but more new subscribers are choosing longer term contracts, then churn rate can increase while average revenue per subscriber falls. We are constantly striving to improve our Web sites to retain our existing subscribers. However, we do not forecast churn rates, and lack the ability to accurately do so.

**Results of Operations**

The following is a more detailed discussion of our financial condition and results of operations for the periods presented.

The following table presents our historical operating results as a percentage of net revenues for the periods indicated:

	Year ended December 31,			Nine Months ended September 30,	
	2002	2003	2004	2004	2005
<b>Consolidated Statements of Operations</b>					
<b>Data:</b>					
Net revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Direct marketing expenses	33.0	49.8	48.0	51.3	37.5
Contribution margin	67.0	50.2	52.0	48.7	62.5
Operating expenses:					
Indirect marketing	2.5	2.7	4.0	4.3	1.5
Customer service	7.4	6.9	5.2	5.4	3.7
Technical operations	9.7	12.1	11.0	10.8	9.9
Product development	3.7	2.6	3.1	2.9	6.0
General and administrative	48.8	50.2	45.1	44.9	41.0
Amortization of intangible assets other than goodwill	3.2	1.5	1.3	1.4	1.7
Impairment of long-lived assets and goodwill		4.1	0.3		
Total operating expenses	75.3	80.1	70.0	69.7	63.8
Operating loss	(8.3)	(29.9)	(18.0)	(21.0)	(1.3)
Interest (income) and other expenses, net	(5.1)	(0.5)	(0.1)		0.6
(Loss) income before income taxes	(3.2)	(29.4)	(17.9)	(21.0)	1.9
Provision for income taxes					0.2
Net (loss) income	(3.2)%	(29.4)%	(17.9)%	(21.0)%	(2.1)%

For the purposes of this and all future filings, prior period classification of share-based compensation was reclassified to conform to current period classification.



**Table of Contents****Nine Months Ended September 30, 2005 Compared to Nine Months Ended September 30, 2004.*****Business Metrics***

For the nine months ended September 30, 2005, average paying subscribers for the JDate segment decreased 1.3% to 69,400 compared to 70,300 for the same period last year. For the nine months ended September 30, 2005, average paying subscribers for the AmericanSingles segment decreased 17.8% to 109,800 compared to 133,500 for the same period last year. For the nine months ended September 30, 2005, average paying subscribers for Web sites in our Other Businesses segment increased 84.6% to 39,500 compared to 21,400 for the same period last year. The decrease in average paying subscribers for the nine months ended September 30, 2005 for JDate is due to a maturing of the service after several years of growth, as well as consolidation of the subscriber base to a size consistent with demand for the service based on a price increase introduced in 2004. The number of average paying subscribers for JDate in the third quarter of 2005 was higher than in the second quarter of 2005 and thus we expect that this size consolidation is largely complete and further declines from the number of average paying subscribers for the nine months ended September 30, 2005 are not expected. The decrease in average paying subscribers for AmericanSingles is due to a decline in the total marketing expenditures in 2005 compared to 2004. In the second quarter and third quarter of 2005, we have stabilized our marketing spending rate for AmericanSingles, and accordingly we expect that the number of average paying subscribers for American Singles will begin to stabilize as well. The increase in average paying subscribers for our Other Businesses segment is due primarily to the acquisitions of MingleMatch in May 2005 and the launch of our Cupid website in Israel, as well as increases in our international Web sites which began operations in early 2004.

For the nine months ended September 30, 2005, average monthly net revenue per paying subscriber for the JDate segment increased 10.0% to \$30.69 compared to \$27.88 for the nine months ended September 30, 2004. The increase was due to an increase in net revenue associated with new subscriptions at a higher price point. We believe JDate, which experienced more average daily visitors and more page views than any other religious online personals service for the first nine months of 2005 according to a report by comScore Media Metrix, is the market leader for online personals in the Jewish singles market and a market leader in raising our price for this service in 2004. We believe JDate will continue to be the market leader for online personals in the Jewish singles market, and thus we expect that we will continue to be a pricing leader in that market. For the nine months ended September 30, 2005, average monthly net revenue per paying subscriber for the AmericanSingles segment increased 2.0% to \$22.87 from \$22.43 for the nine months ended September 30, 2004. The increase was due to a price increase for AmericanSingles implemented in June 2005. We believe AmericanSingles, which was ranked as the third largest provider of online personals services in the United States in terms of total unique visitors for the first nine months of 2005 according to comScore Media Metrix, is a leading service in the general online personals market but does not have a dominant position. Our price increase in June 2005 followed price increases at competing Web sites. We expect we will continue to have to consider competitive pressures in setting pricing for AmericanSingles. For the nine months ended September 30, 2005, average monthly net revenue per paying subscriber for Web sites in our Other Businesses segment increased 7.9% to \$17.74, compared to \$16.44 for the nine months ended September 30, 2004. The increase was primarily due to the addition of MingleMatch during the second quarter of 2005.

For the nine months ended September 30, 2005, direct subscriber acquisition cost for JDate increased 77.2% to \$12.89, compared to \$7.27 for the same period in 2004. The increase in direct subscriber acquisition costs for JDate is due to new marketing initiatives for the JDate site in order to attract new subscribers. For the nine months ended September 30, 2005, direct subscriber acquisition costs for AmericanSingles decreased 22.0% to \$35.42, compared to \$45.39 for the same period ended September 30, 2004 due to a decrease in marketing expenditures associated with the AmericanSingles Web site as well as increased efficiency of marketing spending. For the nine months ended September 30, 2005, direct subscriber acquisition cost for the Web sites in our Other Businesses

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segment increased 1.2% to \$35.17, compared to \$34.73 for the same period of 2004. The increase in direct subscriber acquisition costs for our Other Businesses segment in the first nine months of 2005 is due to an increased marketing effort to attract new subscribers to the Web sites that were launched in early 2004.

For the nine months ended September 30, 2005, monthly subscriber churn for JDate increased slightly to 26.2%, compared to 25.7% for the same period in 2004. For the nine months ended September 30, 2005, monthly subscriber churn for AmericanSingles increased to 36.7%, compared to 35.4% for the same period in 2004. For the nine months ended September 30, 2005, monthly subscriber churn for the Web sites in our Other Businesses segment decreased to 24.3%, compared with 25.4% for the same period in 2004. The decrease in the churn rate in the third quarter of 2005 is due to the addition of MingleMatch.

***Net Revenues***

Net revenues for JDate increased 8.7% to \$19.2 million for the nine months ended September 30, 2005 compared to \$17.6 million in 2004. The increase in net revenues for JDate is due to an increase in pricing in mid-2004 which contributed to increased revenues despite the decline in average paying subscribers discussed above. Net revenues for AmericanSingles decreased 15.3% to \$22.5 million for the nine months ended September 30, 2005, compared to \$26.6 million for the same period in 2004. The decrease in AmericanSingles net revenue is due to the decrease in average paying subscribers as discussed above. Net revenues for our Other Businesses segment increased 90.8% to \$7.2 million for the nine months ended September 30, 2005 compared to \$3.8 million in 2004. The increase in net revenues for our Other Businesses is attributed to the acquisition of MingleMatch and the growth of our international Web sites of 55% which were launched in early 2004.

***Direct Marketing Expenses***

Direct marketing expenses for JDate increased 83.2% to \$2.1 million for the nine months ended September 30, 2005 compared to \$1.2 million in 2004. The increase in marketing expenses was due to new marketing initiatives for JDate. Direct marketing expenses for AmericanSingles decreased 43.0% to \$11.6 million for the nine months ended September 30, 2005 compared to \$20.3 million in the same period last year. The decrease in AmericanSingles marketing was due to a corporate initiative to reduce marketing spending related to the site. Direct marketing expenses for our Web sites in our Other Businesses segment increased 47.3% to \$4.7 million for the nine months ended September 30, 2005 compared to \$3.2 million in the first nine months of 2004. The increase in spending related to our Web sites in our Other Businesses segment is attributed to the acquisition of MingleMatch and additional advertising in order to generate traffic to our newer international Web sites which commenced operations early in 2004.

***Operating Expenses***

Operating expenses consist primarily of indirect marketing, customer service, technical operations, product development and general and administrative expenses. Operating expenses decreased 6.8% to \$31.2 million in the first nine months of 2005 compared to \$33.5 million in the same period in 2004. Stated as a percentage of net revenues, operating expenses decreased to 63.8% in the first nine months of 2005 compared to 69.7% in the same period last year. The decrease is due primarily to a decrease in indirect marketing expenses as discussed below.

*Indirect Marketing.* Indirect marketing expenses consist primarily of salaries for our sales and marketing personnel and other associated costs such as public relations. Indirect marketing expenses decreased 63.2% to \$758,000 in the first nine months of 2005 compared to \$2.1 million in the first nine months of 2004. Stated as a percentage of net revenues, indirect marketing expenses decreased to 1.5% in the first nine months of 2005 compared to 4.3% in the same period in 2004. The decrease is

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due to a decrease in headcount in our marketing department, and the termination of the Chief Marketing Officer in the fourth quarter of 2004 who has not been replaced offset by share-based compensation as a result of adoption of SFAS 123(R) of \$10,000 in the third quarter of 2005.

*Customer Service.* Customer service expenses consist primarily of costs associated with our member services center. Customer services expenses decreased 31.3% to \$1.8 million in the first nine months of 2005 compared to \$2.6 million in the first nine months of 2004. Stated as a percentage of net revenues, customer service expenses decreased to 3.7% in the first nine months ended September 30, 2005 compared to 5.4% in the same period in the prior year. The decrease is due to a decrease in headcount from 2004 to 2005 offset by share based compensation as a result of adoption of SFAS 123(R) of \$22,000 in the third quarter of 2005. During the first nine months of 2004, we had higher staffing in our member services center in order to better serve our customers due to the launch of new Web sites and new platforms. During the remainder of 2004, we worked to increase our efficiency in handling our call volume, and therefore reduced our headcount accordingly by the first nine months of 2005.

*Technical Operations.* Technical operations expenses consist primarily of the people and systems necessary to support our network, Internet connectivity and other data and communication support. Technical operations expenses decreased 6.8% to \$4.8 million in the first nine months of 2005 compared to \$5.2 million in 2004. The decrease is primarily due to a reduction in headcount as well as a restructuring of workforce which resulted in a decrease of salaries expense. This reduction was partially offset by an increase in depreciation expense associated with the increase in hardware to support our network and an increase in capitalized software amortization associated with redesigning our operating platform as well as an increase in share based compensation as a result of adoption of SFAS 123(R) of \$168,000 in the third quarter of 2005. As a percentage of net revenues, technical operations decreased to 9.9% in the nine months ended September 30, 2005 compared to 10.8% in the same period last year.

*Product Development.* Product development expenses consist primarily of costs incurred in the development, creation and enhancement of our Web sites and services. Product development expenses increased 114.3% to \$2.9 million in the first nine months of 2005 compared to \$1.4 million in 2004. As a percentage of net revenues, product development expenses increased to 6.0% for the nine months ended September 30, 2005 compared to 2.9% in 2004. The increase is due primarily to an increase in headcount associated with pursuing new business opportunities as well as improving the infrastructure of our existing businesses, as well as share based compensation, as a result of adoption of SFAS 123(R) of \$124,000 in the third quarter of 2005.

*General and Administrative.* General and administrative expenses consist primarily of corporate personnel-related costs, professional fees, credit card processing fees, and occupancy and other overhead costs. General and administrative expenses decreased 7.2% to \$20.0 million in the first nine months of 2005 compared to \$21.6 million in the same period in 2004. The decrease in general and administrative expenses is due primarily to accrued legal expenses and capitalized IPO costs which were expensed in the third quarter of 2004. The decrease was offset by an increase in consulting services as well as an increase in credit card processing fees, including charges and fines, and an increase in share based compensation expensed in the third quarter 2005 of \$1.1 million as a result of adoption of SFAS 123(R). Stated as a percentage of net revenues, general and administrative expenses for the nine months ended September 30, 2005 and 2004 was 41.0% and 44.9%, respectively.

*Share-Based Compensation.* Share-based compensation resulted from the issuance of warrants and options that were treated as variable under accounting principles which, on a quarterly basis, required us to recognize an increase or decrease in compensation expense based on the then fair-value of the subject securities. This expense item existed prior to the adoption of SFAS 123(R) and should not be confused with the same. Share-based compensation decreased 107.3% to \$(85,000) in the first nine months of 2005 compared to \$1.2 million in the first nine months of 2004. The difference in expense

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is due to the fact that the price per share in 2005 is lower than in 2004 and the majority of options and warrants which were considered variable in 2004 were fully valued and accounted for in 2004 and as a result did not impact the results of the first nine months of 2005. For the purposes of this and all future filings, prior period classification of share-based compensation was reclassified to conform to current period classification.

*Amortization of Intangible Assets Other Than Goodwill.* Amortization expenses consist primarily of amortization of intangible assets related to the MingleMatch acquisition as well as previous acquisitions, primarily SocialNet and PointMatch. Amortization expense increased 26.6% to \$848,000 in the first nine months of 2005 compared to \$670,000 in the first nine months of 2004. The increase is due to the amortization of intangible assets resulting from the MingleMatch acquisition in the second quarter of 2005 partially offset by intangibles related to older acquisitions being fully amortized in the first quarter of 2005.

*Interest Income/Loss and Other Expenses, Net.* Interest income/ loss and other expenses consist primarily of interest expense associated with notes payable, interest income from temporary investments in interest bearing accounts and marketable securities and income on our investments in non-controlled affiliates. Expenses increased to \$285,000 for the nine months ended September 30, 2005 from income of \$14,000 for the same period in 2004. The increase was due primarily to recognition of imputed interest expense on the notes due to MingleMatch, losses upon liquidation of marketable securities and loss from Duplo recognized under the equity method of accounting.

*Net Loss.* For the nine months ended September 30, 2005, net loss consists primarily of compensation expense related to the adoption of SFAS 123(R) of \$1.4 million, increased amortization expense related to the purchase of MingleMatch of \$675,000, partially offset by a decrease in indirect marketing costs of \$1.1 million.

**Year Ended December 31, 2004 Compared to Year Ended December 31, 2003*****Business Metrics***

Average paying subscribers for JDate increased 37.7%, to approximately 69,800 for the year ended December 31, 2004 from approximately 50,700 for the year ended December 31, 2003. Average paying subscribers for AmericanSingles increased 85.3%, to approximately 132,500 for the year ended December 31, 2004 from approximately 71,500 for the year ended December 31, 2003. Average paying subscribers for Web sites in our Other Businesses segment increased to approximately 23,800 for the year ended December 31, 2004 from approximately 3,600 for the year ended December 31, 2003. The increase in paying subscribers for all of our segments corresponds to the increased marketing expenditures for all of our segments, along with improved marketing efficiency, such that greater marketing expenditures were made without significant increases in our average subscriber acquisition costs. The larger increase in average paying subscribers for AmericanSingles as compared to the increase for JDate was primarily due to JDate possessing a larger portion of its market. The increase in paying subscribers in our Other Businesses segment was due to growth in our international Web sites, including PointMatch, which was acquired at the beginning of 2004, and our Web sites in the United Kingdom and Canada.

Average monthly net revenue per paying JDate subscriber increased 7.5%, to \$28.42 for the year ended December 31, 2004 from \$26.44 for the year ended December 31, 2003. Average monthly net revenue per paying AmericanSingles subscriber decreased 1.2% to \$22.16 for the year ended December 31, 2004 from \$22.43 for the year ended December 31, 2003. Average monthly net revenue per paying subscriber for Web sites in our Other Businesses segment decreased 29.4%, to \$16.75 for the year ended December 31, 2004 from \$23.72 for the year ended December 31, 2003. The increase for JDate was primarily due to a price increase which was put into effect in January 2004. The decrease for AmericanSingles was due to an increase in the proportion of subscribers paying for multi-month subscriptions, for which they receive a discount on the monthly rate compared to the single-

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month subscription price. The decrease for Web sites in our Other Businesses segment was primarily due to the growth of new Web sites with lower subscription prices than those Web sites that represented our Other Businesses segment in 2003.

Direct subscriber acquisition cost for JDate increased 84.3%, to \$8.09 in 2004 from \$4.39 in 2003. Direct subscriber acquisition cost for AmericanSingles decreased 5.3%, to \$43.29 in 2004 from \$45.70 in 2003. Direct subscriber acquisition cost for the Web sites in our Other Businesses segment decreased 56.7%, to \$34.74 in 2004 from \$80.32 in 2003. The increase in direct subscriber acquisition cost for JDate was due primarily to the cost of new marketing initiatives, including offline billboard campaigns designed to solidify and expand JDate's brand awareness. Despite this increase, the cost of customer acquisition for JDate is significantly lower than for our other segments due to the strong brand perception and name recognition for and word of mouth reputation for JDate. AmericanSingles and our other Web sites operate in much more competitive environments, and must spend more on marketing to attract new subscribers. The decrease in direct subscriber acquisition cost for AmericanSingles and the Web sites in our Other Businesses segment was due improved marketing efficiency, such that greater marketing expenditures were made without significant increases in our average subscriber acquisition costs. For AmericanSingles, we began to put a greater emphasis on pay for performance advertising models, such as cost per subscription (CPS) and cost per acquisition (CPA) arrangements, where we are better able to monitor and manage our cost of subscriber acquisition. Monthly subscriber churn for JDate increased to 25.8% for the year ended December 31, 2004 from 22.4% for the year ended December 31, 2003. Monthly subscriber churn for AmericanSingles increased to 35.6% for the year ended December 31, 2004 from 32.1% for the year ended December 31, 2003. Monthly subscriber churn for Web sites in our Other Businesses segment decreased to 26.8% for the year ended December 31, 2004 from 33.4% for the year ended December 31, 2003. The increase in monthly subscriber churn for JDate and AmericanSingles was due primarily to implementation in late 2003 of the pay-to-respond feature which required members to upgrade to paying subscriber status before they could respond to emails from other paying subscribers. Members who subscribe specifically to utilize the pay-to-respond feature are less likely to renew their subscriptions than those who subscribe to initiate communications. The decrease in monthly subscriber churn for the Web sites in our Other Business segment was due to growth and maturity of those businesses. Some of the Web sites in our Other Businesses segment were launched in late 2003, including our sites in Canada and the UK. During the early startup period for a Web site which requires a critical mass of members in order to attract new members, churn rates are higher. As subscribers see the same other members of the community repeatedly, they are more prone to quit the service. As the Web site community grows, churn rates typically decline as subscribers take longer to feel they have exhausted their possibilities within the community.

***Net Revenues***

Substantially all of our net revenues are derived from subscription fees. The remainder of our net revenues, accounting for less than 2% of net revenues for the years ended December 31, 2004 and 2003, are attributable to certain promotional events. Revenues are presented net of credits and credit card chargebacks. We expect net revenues from promotional events to comprise an even smaller percentage of net revenues in the future. We also expect to generate revenues from advertising on our Web sites in the future. Our subscriptions are offered in durations of one, three, six and twelve months. Plans with durations of longer than one month are available at discounted rates. Most subscription programs renew automatically for subsequent periods until subscribers terminate them.

Net revenues for JDate increased 48.0%, to \$23.8 million for the year ended December 31, 2004 from \$16.1 million for the year ended December 31, 2003. Net revenues for AmericanSingles increased 83.0%, to \$35.2 million for the year ended December 31, 2004, compared to \$19.3 million for the year ended December 31, 2003. Net revenues for our Other Businesses segment increased 276.2%, to

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\$6.0 million for the year ended December 31, 2004 compared to \$1.6 million for the year ended December 31, 2003. The increase in JDate's net revenues is primarily attributable to an increase in JDate's monthly subscription price during the first quarter of 2004. The increase in net revenues for AmericanSingles is primarily due to an increase in subscriptions, as discussed above. The increase in net revenues for our Other Businesses segment is due primarily to the growth of our businesses in Israel, whose growth was aided by our acquisition of Point Match Ltd. in the first quarter of 2004, as well as growth in our UK and Canada Web sites.

**Direct Marketing Expenses**

Direct marketing expenses primarily consist of advertising costs and direct costs to obtain new paying subscribers. Direct marketing expenses for JDate increased 135.5%, to \$1.7 million for the year ended December 31, 2004 from approximately \$739,000 for the year ended December 31, 2003. Direct marketing expenses for AmericanSingles increased 57.1%, to \$25.0 million for the year ended December 31, 2004 compared to \$15.9 million for the year ended December 31, 2003. Direct marketing expenses for Web sites in our Other Businesses segment increased 157.0%, to \$4.5 million for the year ended December 31, 2004 from \$1.8 million for the year ended December 31, 2003. The increases for JDate and AmericanSingles are due to an overall increase in the cost of online advertising, which is our primary source for advertising, as well as new marketing initiatives for JDate. In addition, for our American Singles Web site, we initiated an aggressive marketing program in the second quarter of 2004. We reduced our marketing for AmericanSingles in subsequent quarters in 2004 in order to reduce our subscriber acquisition cost. The cost of customer acquisition for JDate is significantly lower than for our other segments due to the strong brand perception and name recognition for and word of mouth reputation for JDate. AmericanSingles and our other Web sites operate in much more competitive environments, and must spend more on marketing to attract new subscribers. For Web sites in our Other Businesses segment, in addition to the increase in the cost of online advertising, our direct marketing expenses also increased because of the additional expenses associated with the Web site assets acquired in the Point Match Ltd. acquisition.

As a percentage of revenues, total direct marketing expenses for JDate increased to 7.3% in 2004 from 4.6% in 2003. The increase was due to new marketing initiatives for JDate. As a percentage of revenues, total direct marketing expenses for AmericanSingles decreased to 70.8% in 2004 from 82.5% in 2003. The decrease was due to improved marketing efficiency, including greater emphasis on pay for performance advertising models, such that greater marketing expenditures were made without significant increases in our average subscriber acquisition costs. As a percentage of revenues, total direct marketing expenses for our Other Businesses segment decreased to 75.7% in 2004 from 110.8% in 2003. The decrease was due to improved marketing efficiency, including greater emphasis on pay for performance advertising models, as well as emphasis on making the contribution of Web sites in this segment a positive number. Overall, for all of our segments, total direct marketing expenses decreased to 48.0% from 49.8% for the years ended December 31, 2004 and 2003 respectively.

**Operating Expenses**

Operating expenses primarily consist of indirect marketing, customer service, technical operations, product development and general and administrative expenses. Operating expenses increased 53.8% to approximately \$45.5 million in 2004 from approximately \$29.6 million in 2003. Stated as a percentage of net revenues, operating expenses decreased to 70.0% for 2004 from 80.1% in 2003. The increase in total dollars was primarily the result of a higher level of general and administrative expenses, as well as an increase in indirect marketing and technical operations as discussed below. The decrease as a percentage of revenues was primarily the result of economies of scale in customer service and technical operations costs required to support an increasing revenue base.

**Indirect Marketing.** Indirect marketing expenses primarily consist of salaries for our sales and marketing personnel and other associated costs such as public relations. Indirect marketing expenses

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increased 164.4%, to approximately \$2.6 million in 2004 compared to \$986,000 in 2003. Stated as a percentage of net revenues, indirect marketing expenses increased to 4.0% for 2004 from 2.7% in 2003. The increase in total dollars and as a percentage of net revenues was largely as a result of an increase in headcount in our marketing department. We expect these costs to increase in total dollars as we expand our marketing initiatives but to decrease as a percentage of net revenues as we add additional paying subscribers.

*Customer Service.* Customer service expenses primarily consist of costs associated with our member service center. Customer service expenses increased 33.2%, to \$3.4 million in 2004 compared to \$2.5 million in 2003. Stated as a percentage of net revenues, customer service expenses decreased to 5.2% for 2004 from 6.9% in 2003. The increase in total dollars was largely as a result of an increase in headcount, which increase was driven by the larger number of members and paying subscribers. The decrease as a percentage of revenues was primarily the result of increased efficiency of usage of our customer service personnel in supporting a larger member and subscriber base. We expect these costs to continue to increase in total dollars as we support our increasing base of members and subscribers but to decrease as a percentage of net revenues as we add additional paying subscribers.

*Technical Operations.* Technical operations expenses primarily consist of the people and systems necessary to support our network, Internet connectivity and other data and communication support. Technical operations expenses increased 60.3% to \$7.2 million in 2004 from \$4.5 million in 2003. Stated as a percentage of net revenues, technical operations expenses decreased to 11.0% in 2004 from 12.1% in 2003. The increase in total dollars was due to an increase in headcount necessary to support the growth in the number of members, paying subscribers and traffic to our Web sites. The decrease as a percentage of revenues was primarily the result of economies of scale in headcount required to support a larger member and subscriber base. We expect technical operations costs to increase in total dollars with any increase in traffic, members or paying subscribers but to decrease as a percentage of net revenues as we add additional paying subscribers.

*Product Development.* Product development expenses primarily consist of costs incurred in the development, creation and enhancement of our Web sites and services. Product development expenses increased 109.9%, to \$2.0 million in 2004 compared to \$959,000 in 2003. Stated as a percentage of net revenues, product development expenses increased to 3.1% in 2004 from 2.6% in 2003. The increase in total dollars and as a percentage of net revenues was largely as a result of costs associated with technical enhancements to our Web sites as well as an increase in headcount necessary to support these enhancements. We expense these costs as incurred unless they are required to be capitalized under generally accepted accounting principles in the United States. In addition to the expenses set forth above, our capitalized product development costs were approximately \$658,000 and \$825,000 in 2004 and 2003, respectively. The amortization of those costs is included in this line item. We expect our product development costs to increase in total dollars as we launch new Web sites and develop additional features and functionality on our Web sites to enhance our members' experience and satisfaction and increase the number, and percentage, of members that become paying subscribers but to remain constant as a percentage of net revenues as we add additional paying subscribers.

*General and Administrative Expenses.* General and administrative expenses primarily consist of corporate personnel-related costs, professional fees, credit card processing fees, and occupancy and other overhead costs. General and administrative expenses increased 57.8%, to \$29.3 million in 2004 from \$18.5 million in 2003. Stated as a percentage of net revenues, general and administrative expenses decreased to 45.1% in 2004 from 50.2% in 2003. The increase in total dollars was largely as a result of an increase in hiring people to support our growth, an employee severance charge of approximately \$2.4 million, as well as expenses of \$2.1 million related to the United States initial public offering of MatchNet, Inc. that was planned for mid-2004, but which was withdrawn shortly after the related registration statement was filed in the third quarter of 2004, as well as one legal settlement resulting in the recognition of \$900,000 in expenses in the third quarter and two legal settlements resulting in the recognition of \$2.1 million in expenses in the fourth quarter of 2004. The

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decrease as a percentage of revenues was primarily the result of economies of scale in supporting a larger member and subscriber base. We expect these general and administrative expenses, excluding the above-referenced severance and expenses related to the withdrawn offering, to increase in total dollars as we continue to hire additional personnel, and as sales and the inherent credit card processing fees increase. We also expect general and administrative expenses to increase in total dollars due to the anticipated increase in professional fees resulting from the filing of this registration statement and related documents and our subsequent obligations as a public reporting company in the United States. However, we expect general and administrative expenses, excluding credit card processing fees, to decrease as a percentage of net revenues as we add additional paying subscribers.

*Share-based Compensation.* Share-based compensation resulted from the issuance of warrants and options that were treated as variable under accounting principles which, on a quarterly basis, required us to recognize an increase or decrease in compensation expense based upon the then-fair value of the subject securities. Share-based compensation was approximately \$1.7 million in 2004, which is net of \$1.1 million related to the cancellation of certain warrants and options, compared to \$1.9 million in 2003. Stated as a percentage of net revenues, share-based compensation decreased to 2.6% in 2004 from 5.1% in 2003. As a result of recent changes in accounting rules, we expect share-based compensation expenses to increase, beginning in the third quarter of 2005, when we will be required to recognize compensation expense for share options and other share-based compensation, which expenses we had not been required to recognize prior to the change in accounting rules. For the purposes of this and all future filings, prior period classification of share-based compensation was reclassified to conform to current period classification.

*Amortization of Intangible Assets Other Than Goodwill.* Amortization expenses consist primarily of amortization of intangible assets related to previous acquisitions, primarily SocialNet and Point Match. Amortization expenses increased 55.0% to \$860,000 in 2004, compared to \$555,000 in 2003. The increase was primarily due to amortization related to the Point Match acquisition, which was completed in January 2004.

*Impairment of Long-lived Assets.* In December 2004, based on changes in management and reevaluation of existing projects we determined that certain internally developed software projects would not be completed. As such, we recorded an impairment charge of \$208,000.

*Interest Income and Other Expenses, Net.* Interest income and other expenses, net primarily consist of gain (loss) associated with temporary investments in interest bearing accounts and marketable securities. Interest income and other expenses, net decreased 64.9%, to approximately \$66,000 in 2004 from \$188,000 in 2003, principally due to foreign exchange effects.

**Year Ended December 31, 2003 Compared to Year Ended December 31, 2002*****Business Metrics***

Average paying subscribers for JDate increased 83.0% to approximately 50,700 for the year ended December 31, 2003, compared to approximately 27,700 for the year ended December 31, 2002. Average paying subscribers for AmericanSingles increased 142.4%, to approximately 71,500 for the year ended December 31, 2003 from approximately 29,500 for the year ended December 31, 2002. Average paying subscribers for Web sites in our Other Businesses segment increased 140.0%, to approximately 3,600 for the year ended December 31, 2003 from approximately 1,500 for the year ended December 31, 2002. The increase in paying subscribers across all of our segments is primarily due to increases in the number of members on our sites. The larger increase in average paying subscribers for AmericanSingles as compared to the increase for JDate was primarily due to JDate possessing a larger portion of its market, while AmericanSingles possessed a smaller portion of its market and its average paying subscribers has, as a result, grown more quickly.



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Average monthly net revenue per paying JDate subscriber increased 4.9%, to \$26.44 in 2003 compared to \$25.20 in 2002. Average monthly net revenue per paying AmericanSingles subscriber increased 19.5%, to \$22.43 in 2003 from \$18.77 in 2002. Average monthly net revenue per paying subscriber for Web sites in our Other Businesses segment decreased 28.5%, to \$23.72 in 2003 from \$33.17 in 2002. The increase for JDate was due to an increase in the proportion of subscribers paying a one month subscription, as opposed to multi-month subscribers, who receive a lower price per month in exchange for their longer commitments. The increase in AmericanSingles was primarily due to a price increase in 2003. The decrease for Web sites in our Other Businesses segment was primarily due to the growth of new Web sites with lower subscription prices than those Web sites that represented our Other Businesses segment in 2002.

Direct subscriber acquisition cost for JDate increased 51.4%, to \$4.39 for 2003 from \$2.90 in 2002. Direct subscriber acquisition cost for AmericanSingles increased 18.1%, to \$45.70 in 2003 compared to \$38.68 in 2002. Direct subscriber acquisition cost for the Web sites in our Other Businesses segment increased 2.4%, to \$80.32 in 2003 from \$78.43 in 2002. The increase in direct subscriber acquisition cost for all of our segments was due primarily to an increase in online marketing efforts designed to drive additional members to our Web sites.

Monthly subscriber churn for JDate increased to 22.4% in 2003 from 18.2% in 2002. Monthly subscriber churn for AmericanSingles increased to 32.1% in 2003 from 24.3% in 2002. Monthly subscriber churn for the Web sites in our Other Businesses segment increased to 33.4% in 2003 from 32.6% in 2002. The increase in monthly subscriber churn for all of our segments was primarily due to the introduction, in late 2003, of our pay-to-respond feature, which required members to upgrade to paying subscriber status before they could respond to emails from other paying subscribers. Members who subscribe specifically to utilize the pay-to-respond feature are less likely to renew their subscriptions than those who subscribe to initiate communications.

***Net Revenues***

Net revenues for JDate increased 92.2%, to \$16.1 million in 2003 from \$8.4 million in 2002. Net revenues for AmericanSingles increased 189.8% to \$19.3 million in 2003 from \$6.6 million in 2002. Net revenues for Web sites in our Other Businesses segment increased 19.5%, to \$1.6 million in 2003 from \$1.3 million in 2002. The increase in net revenues was due to an increase in the overall use of our services and the increase in the number of paying subscribers. In addition, a portion of the increase in revenues for AmericanSingles is attributable to an increase in AmericanSingles monthly subscription price during 2003.

***Direct Marketing Expenses***

Direct marketing expenses for JDate increased 229.9%, to \$739,000 in 2003 from \$224,000 in 2002. Direct marketing expenses for AmericanSingles increased 300.2%, to \$15.9 million in 2003 from \$4.0 million in 2002. Direct marketing expenses for Other Businesses increased 47.2%, to \$1.8 million in 2003 from \$1.2 million in 2002. This increase was primarily the result of expanded online advertising campaigns.

As a percentage of revenues, total direct marketing expenses for JDate increased to 4.6% in 2003 from 2.7% in 2002. As a percentage of revenues, total direct marketing expenses for AmericanSingles increased to 82.5% in 2003 from 59.8% in 2002. As a percentage of revenues, total direct marketing expenses for our Other Businesses segment increased to 110.8% in 2003 from 90.0% in 2002. The increases in all segments were due to increase marketing spending designed to grow revenues. Total direct marketing expenses for all of our segments increased to 49.8% from 33.0% in 2003 and 2002, respectively.

**Table of Contents*****Operating Expenses***

Operating expenses increased 140.1%, to \$29.6 million in 2003 from \$12.3 million in 2002. Stated as a percentage of net revenues, operating expenses increased to 80.1% in 2003 compared to 75.3% in 2002. The increase in total dollars and as a percentage of net revenues was primarily the result of continued investment in customer service and technical infrastructure, as well as an increase in general and administrative expenses as discussed below.

*Indirect Marketing.* Indirect marketing expenses increased 144.7%, to approximately \$986,000 in 2003 from approximately \$403,000 in 2002. Stated as a percentage of net revenues, indirect marketing expenses increased to 2.7% in 2003 from 2.5% in 2002. The increase in total dollars was largely as a result of an increase in staffing for the marketing department.

*Customer Service.* Customer service expenses increased 110.1%, to \$2.5 million in 2003 from \$1.2 million in 2002. Stated as a percentage of net revenues, customer service expenses decreased to 6.9% in 2003 from 7.4% in 2002. The increase in total dollars was largely as a result of an increase in headcount due required to support our larger numbers of members and paying subscribers. The decrease as a percentage of net revenues was primarily the result of increased efficiency of usage of our customer service personnel in supporting a larger member and subscriber base.

*Technical Operations.* Technical operations expenses increased 182.4%, to \$4.5 million in 2003 from \$1.6 million in 2002. Stated as a percentage of net revenues, technical operations expenses increased to 12.1% in 2003 from 9.7% in 2002. The increase in total dollars and as a percentage of net revenues was largely as a result of the growth in the number of members and traffic to our Web sites.

*Product Development.* Product development expenses increased 59.0%, to \$959,000 in 2003 from \$603,000 in 2002. Stated as a percentage of net revenues, product development expenses decreased to 2.6% in 2003 from 3.7% in 2002. The increase in total dollars was largely as a result of costs associated with technical enhancements to our Web sites. The decrease as a percentage of net revenues was primarily the result of economies of scale as additional product enhancements costs are spread over a larger subscriber/member base. We expense these costs as incurred, unless they are required to be capitalized. Capitalized costs in 2003 and 2002 were approximately \$825,000 and \$572,000, respectively. The amortization of these costs are included in this line item.

*General and Administrative Expenses.* General and administrative expenses increased 131.8%, to \$18.5 million in 2003 from \$8.0 million in 2002. Stated as a percentage of net revenues, general and administrative expenses increased to 50.2% in 2003 from 48.8% in 2002. The increase in total dollars was largely as a result of an increase in hiring people to support our growth and the addition of new Web sites, as well as an increase in credit card processing fees as sales grew. The increase as a percentage of net revenue was primarily due to share-based charges of \$1.7 million incurred in 2003. General and administrative expenses for 2003 also included \$1.7 million in charges primarily related to a settlement with Comdisco. Pursuant to the settlement, we issued a promissory note in September 2004 in the amount of \$1.7 million. The note bears simple interest at the rate of 2.75% per year and is payable in installments, excluding accrued interest, on (i) September 15, 2005 in the amount of \$400,000; (ii) September 15, 2006 in the amount of \$400,000; and (iii) September 15, 2007 in the amount of \$900,000.

*Share-based Compensation.* Share-based compensation was \$1.9 million in 2003 compared to zero in 2002. The 2003 charge reflected non-cash expenses associated with the issuance of share options and warrants to advisors. We treated these options and warrants as variable in accordance with SFAS No. 123 and, as a result, were required to recognize an increase or decrease in operating expense based on the fair value of such options and warrants on a quarterly basis. For the purposes of this and all future filings, prior period classification of share-based compensation was reclassified to conform to current period classification.

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*Amortization of Intangible Assets Other Than Goodwill.* Amortization expenses consist primarily of amortization of purchased intangible assets related to previous acquisitions. Amortization expenses increased 5.9% to \$555,000 in 2003, compared to \$524,000 in 2002. The increase was primarily due to purchases of various databases.

*Impairment of Long-lived Assets.* In October 2003, based on business developments that took place in 2003 and on management's opinion that rapid changes in technology reduced the fair value of some of our property and equipment, mostly computer equipment and capitalized software costs, we recorded an impairment charge of approximately \$1.5 million.

*Interest Income and Other Expenses, Net.* Interest income and other expenses, net decreased 77.6%, to income of approximately \$188,000 in 2003 from income of approximately \$840,000 in 2002. Interest income and other expenses, net in 2002 was positively affected by a gain of approximately \$400,000 recognized on the sale of domain names.

**Quarterly Results of Operations**

You should read the following tables presenting our quarterly results of operations in conjunction with the consolidated financial statements and related notes contained elsewhere in this prospectus. We have prepared the unaudited information on substantially the same basis as our audited consolidated financial statements which, in the opinion of management, includes all adjustments, consisting only of normal recurring adjustments, except as otherwise indicated, necessary for the presentation of the results of operations for such periods. You should also keep in mind, as you read the following tables, that our operating results for any quarter are not necessarily indicative of results for any future quarters or for a full year.

**Three months ended<sup>(1)</sup>**

**Mar 31, 2003<sup>(2)</sup>   Jun 30, 2003<sup>(2)</sup>   Sep 30, 2003<sup>(2)</sup>   Dec 31, 2003   Mar 31, 2004   Jun 30, 2004   Sep 30, 2004   Dec 31, 2004   Mar 31, 2005   Jun 30, 2005   Sep 30, 2005**

**(unaudited) (unaudited) (unaudited)****Consolidated  
Statements  
of  
Operations  
Data:**

Net revenues	\$ 7,036	\$ 8,423	\$ 9,792	\$ 11,690	\$ 15,050	\$ 15,812	\$ 17,138	\$ 17,052	\$ 16,526	\$ 15,464	\$ 16,935
Direct marketing expenses	3,576	4,680	3,955	6,184	6,539	9,325	8,748	6,628	5,228	6,051	7,073
Contribution margin	3,460	3,743	5,837	5,506	8,511	6,487	8,390	10,424	11,298	9,413	9,862
Operating expenses: <sup>(8)</sup>											
Indirect marketing	(61)	131	488	428	580	568	912	547	265	238	255
Customer service	563	458	736	779	975	903	723	778	577	560	650
Technical operations	819	994	1,024	1,644	1,634	2,085	1,482	1,983	1,402	1,548	1,898
Product development	168	229	82	480	340	531	505	637	830	1,060	1,059

General and administrative	2,483	2,628	6,025	7,401	7,754	6,227	7,578	7,694	6,079	6,405	7,529
Amortization of intangible assets other than goodwill	131	58	200	166	244	238	188	190	110	301	437
Impairment of long-lived assets				1,532				208			
Total operating expenses	4,103	4,498	8,555	12,430	11,527	10,552	11,388	12,037	9,263	10,112	11,828

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	Three months ended <sup>(1)</sup>										
	Mar 31, 2003 <sup>(2)</sup>	Jun 30, 2003 <sup>(2)</sup>	Sep 30, 2003 <sup>(2)</sup>	Dec 31, 2003	Mar 31, 2004	Jun 30, 2004	Sep 30, 2004	Dec 31, 2004	Mar 31, 2005	Jun 30, 2005	Sep 30, 2005
									(unaudited)	(unaudited)	(unaudited)
Loss	(643)	(755)	(2,718)	(6,924)	(3,016)	(4,065)	(2,998)	(1,613)	2,035	(699)	(1,000)
and											
Net	(53)	(57)	(22)	(56)	4	28	(46)	(52)	24	168	168
Loss	(590)	(698)	(2,696)	(6,868)	(3,020)	(4,093)	(2,952)	(1,561)	2,059	(867)	(867)
Income	1	39		(40)	1				72	(8)	(8)
Loss	\$ (591)	\$ (737)	\$ (2,696)	\$ (6,828)	\$ (3,021)	\$ (4,093)	\$ (2,952)	\$ (1,561)	\$ 1,987	\$ (859)	\$ (859)
Loss	\$ (0.03)	\$ (0.04)	\$ (0.14)	\$ (0.35)	\$ (0.14)	\$ (0.18)	\$ (0.13)	\$ (0.06)	\$ 0.08	\$ (0.03)	\$ (0.03)
Loss									\$ 0.07		
Shares											
Outstanding	18,707	18,736	18,960	19,449	21,286	22,264	23,356	24,234	25,117	25,661	25,661
Shares									29,236		
Outstanding	\$ 287	\$ 333	\$ 405	\$ 416	\$ 579	\$ 790	\$ 839	\$ 857	\$ 848	\$ 919	\$ 919
Loss											
Loss	\$ 94,700	\$ 118,000	\$ 130,700	\$ 160,000	\$ 207,400	\$ 228,400	\$ 239,600	\$ 229,000	\$ 222,600	\$ 215,600	\$ 215,600
Loss	\$ 24.50	\$ 23.55	\$ 24.20	\$ 24.14	\$ 23.83	\$ 22.74	\$ 23.50	\$ 24.06	\$ 24.32	\$ 23.12	\$ 23.12

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27.9% 28.9% 29.6% 26.8% 32.1% 30.6% 31.6% 32.4% 31.7% 30.8%

\$ 33.49 \$ 38.38 \$ 31.32 \$ 32.69 \$ 27.82 \$ 40.53 \$ 37.41 \$ 29.37 \$ 23.84 \$ 31.11 \$

- (1) Certain financial information for prior periods has been reclassified to conform to the 2004 periods presentation.
- (2) These amounts in consolidated statements of operations data are restated amounts from amounts contained in previously filed quarterly reports with the Frankfurt Stock Exchange. See Risk Factors We Face Risks Related to Our Recent Accounting Restatements.
- (3) For information regarding the computation of per share amounts, refer to note 1 of our consolidated financial statements.
- (4) Represents average paying subscribers calculated as the sum of the average paying subscribers for each month, divided by the number of months. Average paying subscribers for each month are calculated as the sum of the paying subscribers at the beginning and end of the month, divided by two.
- (5) Represents the total net subscriber revenue for the period divided by the number of average paying subscribers for the period, divided by the number of months in the period.
- (6) Represents the ratio expressed as a percentage of (i) the number of paying subscriber cancellations during the period divided by the number of average paying subscribers during the period and (ii) the number of months in the period. On a monthly basis, the average number of paying subscribers is calculated as the sum of the paying subscribers at the beginning and end of the period divided by two.
- (7) Represents direct marketing expense divided by the gross number of subscribers added during the period. The historic direct subscriber acquisition cost we reported included indirect marketing costs.

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(8) Operating expenses include share-based compensation as follows:

**Three months ended**

	<b>Dec 31, 2003</b>	<b>Mar 31, 2004</b>	<b>June 30, 2004</b>	<b>Sep 30, 2004</b>	<b>Dec 31, 2004</b>	<b>Mar 31, 2005</b>	<b>June 30, 2005</b>	<b>Sep 30, 2005</b>
	<b>(in Thousands)</b>							
Indirect marketing	\$ 79	\$ 51	\$ 46	\$ 31	\$ 28	\$	\$	\$ 10
Customer service								22
Technical operations	140	290	111	(379)				168
Product development								124
General & administrative	1,652	1,371	532	(891)	514	87	(115)	1,028

For the purpose of this and all future filings, prior period classification of share-based compensation was reclassified to conform to current period classification.

**Restatement of Previous Consolidated Financial Statements for the Nine Months Ended September 30, 2003**

In previous periods, we incorrectly recognized a full month of revenue in the month in which members paid in advance for their membership subscription fees, regardless of the effective date of the subscription, and deferred the balance of the fees for multi-month subscriptions. In July 2003, we began to defer and recognize revenue on a daily basis, based on the effective date of the subscription, and restated prior periods financial statements to reflect that policy.

In previous periods we had capitalized bounty costs, which represented amounts paid to third parties for members acquired on an individual basis through third party Web sites or email campaigns. These costs were being amortized over a three year period, on an accelerated basis. In July 2003, we determined that these costs should be expensed as incurred, and that we should restate the prior years financial statements to conform to U.S. generally accepted accounting principles. The reason for the change was that bounty costs were meant to drive free memberships or registrations and any resulting member was not required to become a paying subscriber. Therefore, those expenses should be recognized immediately, since a conversion from non-paying member to a paying subscriber is not guaranteed. Accordingly, we have restated the consolidated financial statements to expense these costs as incurred. From 1998 through 2002, we acquired several businesses and assets. At the time of those acquisitions, the fair values of the intangible assets acquired were not properly determined. In 2004, we hired a valuation expert to measure the fair value of such assets at the date of each acquisition. As a result of this process, we determined that certain allocations previously reported were inappropriate.

In addition, we did not properly and timely accrue for some services provided and we identified certain errors in prior years consolidation process.

**Liquidity and Capital Resources**

As of September 30, 2005, we had cash, cash equivalents and marketable securities of \$8.7 million. We have historically financed our operations with internally generated funds and offerings of equity securities. We have no revolving or term credit facilities.

Net cash provided by operations was \$1.8 million for the nine months ended September 30, 2005 compared to net cash used of \$2.6 million for the same period in 2004. The increase is primarily due to a significantly lower loss. In 2004, we had negative operating cash flow due mainly to increased marketing spending, primarily for AmericanSingles, which was designed to boost revenues for that segment. During the second half of 2004, and in the first quarter of 2005, marketing spending on AmericanSingles was reduced in order to reduce the subscriber acquisition cost, and improve the contribution margin (net revenues minus direct marketing costs), and this also resulted in improvement in cash flow from operations. Marketing spending for AmericanSingles was again increased somewhat in the second quarter of 2005, while maintaining a positive contribution margin, but this caused a decline in cash flow from operations compared to the first quarter of 2005. In addition to the earnings impact,





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operating cash flow was affected by higher non-cash charges for depreciation and amortization as a result of the MingleMatch purchase, offset by a decrease in accounts payable and accrued liabilities.

The effect of exchange rates on cash and cash equivalents during the first nine months ended September 30, 2005, was due to a strengthening of the U.S. dollar against the Israeli shekel.

Net cash used by investing activities was \$129,000 for the first nine months of 2005 compared to net cash used of \$9.8 million for the same period in 2004. The decrease in cash used was as a result of liquidating marketable securities as well as a reduction in capital expenditures during the first nine months of 2005, partially offset by the purchase of MingleMatch in 2005 and Pointmatch in 2004. During the first nine months of 2004, net cash used by investing activities included acquisition of businesses, primarily PointMatch of \$4.2 million, as well as capital expenditures for property and equipment of \$4.6 million, mainly for increased server and internet hosting equipment for our growing Web sites.

During the first nine months of 2005, net cash used by investing activities included \$1.8 million for the acquisition of MingleMatch (net of cash acquired), as well as capital expenditures of \$1.3 million, primarily for hardware and software for our Web sites. We anticipate that future capital expenditures for equipment and software for our Web site re-architecture will continue to be less than our pace of spending in 2004 as the re-architecture project is primarily focused on software architecture, and which is intended to make use of our existing hardware capacity.

Net cash provided by financing activities was \$2.7 million for the first nine months of 2005 compared to \$14.1 million for the first nine months of 2004. In the first nine months of 2004, we completed a private placement of 600,000 ordinary shares which resulted in net proceeds to our company of \$3.7 million, as well as the exercise of stock options and warrants which resulted in net proceeds of \$11.1 million. Cash provided by financing activities in 2005 was due almost entirely to the exercise of options and warrants.

As discussed in our financial statements, we issued certain securities that may in the future be subject to a rescission offer commenced by us. We do not believe such a rescission offer would affect our ability to obtain financing in the future, due to our belief that a rescission offer would not be accepted by our shareholders or option holders in an amount that would represent a material expenditure by us. This belief is based on the fact that a rescission offer, if made, would result in our offering to repurchase shares at a weighted average price of \$2.09 and to repurchase options with a weighted average exercise price of \$3.04, while the trading price of our securities closed at \$5.57 per share on December 6, 2005. As of December 6, 2005, the total number of shares subject to a rescission is 1,829,832 shares, which includes 1,629,832 shares with purchase prices ranging from \$0.86 per share to \$5.42 per share, including statutory interest, and 200,000 shares with a purchase price of \$9.04 per share, including statutory interest, which are held by our former Co-Chairman. As of December 6, 2005, the cost to rescind shares issued pursuant to options where the rescission value exceeds the difference between the exercise price of the underlying option and the market price for our securities as of the close of trading on the Frankfurt Stock Exchange would be \$1,888,073 including statutory interest, of which \$1,608,808 relates to the 200,000 shares held by our former Co-Chairman. As of December 6, 2005, assuming every eligible option holder were to accept a rescission offer, we estimate the total cost to us to complete the rescission for the unexercised options would be approximately \$1.9 million, including statutory interest. As of December 6, 2005, the total number of options subject to a rescission was 2,405,750 with a weighted average rescission offer repurchase price of \$0.80 per share, including statutory interest. As of December 6, 2005, the cost to rescind unexercised options where the rescission value exceeds the difference between the options exercise price and the market price for our securities as of the close of trading on the Frankfurt Stock Exchange would be \$547,863 including statutory interest. We anticipate conducting a rescission within a reasonable time after the effective date of this registration statement.

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We believe that our current cash and cash equivalents, marketable securities and cash flow from operations will be sufficient to meet our anticipated cash needs for working capital, capital expenditures and contractual obligations, including promissory note payments to MingleMatch in respect of that acquisition, for at least the next 12 months. We have had positive operating cash flow for the year to date and anticipate continued positive cash flow from operating activities. This belief is based on our belief stated above that we do not anticipate that a rescission offer will be accepted by our shareholders. Thus, we do not anticipate requiring additional capital; however, if required or desirable, we may raise additional funds through bank financing or through the capital markets by the issuance of debt or equity.

As discussed in Note 3 to our financials statements contained in this prospectus, since December 31, 2004, our company entered into a contractual obligation to pay notes payable in the amount of \$10 million as part of the purchase of MingleMatch on May 18, 2005.

The following table describes our contractual commitments and obligations as of December 31, 2004:

	Less than 1 year	1-3 years	4-5 years	More than 5 years	Total
(in thousands)					
Capital leases	\$ 173	\$ 674	\$	\$	\$ 173
Operating leases	711	674			1,385
Other commitments and obligations	1,217	1,708			2,925
Total contractual obligations	\$ 2,101	\$ 2,382	\$		\$ 4,483

Other commitments and obligations is comprised of contracts with software licensing, communications, computer hosting, and marketing service providers. These amounts totaled \$817,000 for less than one year and \$408,000 between one and three years. Contracts with other service providers are for 30 day terms or less. Also included in Other commitments and obligations are payments owed to Comdisco. In September 2004, the Company issued a promissory note to Comdisco in the amount of \$1.7 million as a final settlement for a lawsuit. The note bears simple interest at the rate of 2.75% per year and is payable in installments, excluding accrued interest, on (i) September 15, 2005 in the amount of \$400,000; (ii) September 15, 2006 in the amount of \$400,000; and (iii) September 15, 2007 in the amount of \$900,000.

**Off-Balance Sheet Arrangements**

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually, narrow or limited purposes. We do not have any outstanding derivative financial instruments, off-balance sheet guarantees, interest rate swap transactions or foreign currency forward contracts.

**Quantitative and Qualitative Disclosures about Market Risk**

We are exposed to market risk attributed to changes in interest rates and foreign currency exchange rates.

**Interest Rate Risk**

Our exposure to market rate risk for changes in interest rates relates primarily to our investment portfolio. We historically have not used derivative financial instruments to mitigate such risk. We invest our excess cash in debt instruments of the U.S. Government and its agencies.

Investments in both fixed-rate and floating-rate interest-earning instruments carry a degree of interest rate risk. Fixed-rate securities may have their fair market values adversely impacted due to a rise in interest rates, while floating-rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectations due to



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changes in interest rates or we may suffer losses in principal if forced to sell securities which have declined in market value due to changes in interest rates. As of December 31, 2004 and 2003 we had investments in short-term mutual funds and long-term government issued debt. We do not believe that a 10% change in interest rates would have a material impact on the fair market value of our investment portfolio due to our ability to liquidate this portfolio on short notice as market circumstances dictate.

**Foreign Currency Risk**

Our exposure to foreign currency risk is due primarily to our international operations. Revenues and certain expenses related to our international Web sites are denominated in the functional currencies of the local countries they serve. Primary currencies include Israeli shekels, Canadian dollars, British pound sterling and Euros. Our foreign subsidiary in Israel conducts business in their local currency. We translate into U.S. dollars the assets and liabilities using period-end rates of exchange, and revenues and expenses using average rates of exchange for the year. Any weakening of the U.S. dollar against these foreign currencies will result in increased revenue, expenses and translation gains and losses in our consolidated financial statements. Similarly, any strengthening of the U.S. dollar against these currencies will result in decreased revenues, expenses and translation gains and losses. Foreign exchange gains and losses were not material to our earnings for the years ended December 31 2002, 2003 and 2004.

**Change in Accountants**

On March 23, 2004, upon the authorization of our Board of Directors, we dismissed Stonefield Josephson, Inc. as our U.S. auditors and engaged Ernst & Young LLP as our independent auditors. Chantrey Vellacott DFK resigned as our UK auditors on the same date.

During the years ended December 31, 2003 and 2002, and the subsequent period from January 1, 2004 to March 23, 2004, Stonefield Josephson, Inc. did not have any disagreement with us on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Stonefield Josephson, Inc., would have caused them to make reference to the subject matter of the disagreement in connection with their reports on our financial statements for such years. The reports of Stonefield Josephson, Inc. on financial statements for the years ended December 31, 2002 and 2001 did not contain an adverse opinion or disclaimer of opinion, and were not qualified or modified as to uncertainty, audit scope or accounting principles. We did not consult with Ernst & Young LLP on any financial or accounting reporting matters before its appointment.

Notwithstanding the foregoing, during the course of the preparation of our financial statements for the year ended December 31, 2003, we discovered accounting inaccuracies in previously reported financial statements, including those for the years ended December 31, 2002 and 2001 that were covered by reports issued by Stonefield Josephson, Inc. Difficulties arose from differing views between Ernst & Young LLP and Stonefield Josephson, Inc. regarding the necessity and scope of a restatement of 2002 and 2001 financial statements. Up to that point, we had expected to include Stonefield Josephson, Inc.'s reports on those years in a registration statement that MatchNet, Inc. filed on August 4, 2004. However, we were unable to timely obtain concurrence from Stonefield Josephson, Inc. that restatements were required and the extent of such restatements. As a result, we directed Ernst & Young LLP to reaudit the years ended December 31, 2002 and 2001 and restated our financial statements for these years and for the first three quarters of 2003 to correct inappropriate accounting entries.

The restatements primarily related to the timing of recognition of deferred revenue and the capitalization of bounty costs, which are the amounts paid to online marketers to acquire members. The restatements, which are in accordance with United States generally accepted accounting principles,

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pertained primarily to timing matters and had no impact on cash flow from operations or our ongoing operations. The impact on net loss for 2002 and 2001 was an increase of \$1.0 million and \$1.5 million, respectively.

**Sarbanes-Oxley Compliance and Corporate Governance**

As a public company, we will be subject to the reporting requirement of the Sarbanes-Oxley Act of 2002. Beginning December 31, 2006, we will be required to establish and regularly evaluate the effectiveness of internal controls over financial reporting. In order to maintain and improve the effectiveness of disclosure controls and procedures and internal control over financial reporting, significant resources and management oversight will be required. We also must comply with all corporate governance requirements of the American Stock Exchange, including independence of our audit committee and independence of the majority of our Board of Directors.

We plan to timely satisfy all requirements of the Sarbanes-Oxley Act and the American Stock Exchange applicable to us. We have taken, and will continue to take, actions designed to enhance our disclosure controls and procedures. We expect to adopt a Code of Business Conduct and Ethics that will be applicable to all of our directors, officers and employees. We will establish a confidential and anonymous reporting process for the receipt of concerns regarding questionable accounting, auditing, or other business matters from our employees. We intend for our General Counsel to assist us in the continued enhancement of our disclosure controls and procedures. In addition, we intend to put additional personnel and systems in place which we expect will provide us the necessary resources to be able to timely file the required periodic reports with the Commission as a publicly traded company. We intend for our Chief Financial Officer, Controller and other financial personnel to lead our existing staff in the performance of the required accounting and reporting functions. In addition, we plan to install a new accounting system and implement additional controls and procedures designed to improve our financial reporting capabilities and improve reporting efficiencies. On an ongoing basis we intend to conduct a controls evaluation to identify control deficiencies and to confirm that appropriate corrective action, including process improvements, are being undertaken. We expect to conduct this type of evaluation on a quarterly basis so that the conclusions concerning the effectiveness of our controls can be reported in our periodic reports. The overall goals of these various evaluation activities will be to monitor our internal controls for financial reporting and our disclosure controls and procedures and to make modifications as necessary. Our intent in this regard is that our internal controls for financial reporting and our disclosure controls and procedures will be maintained as dynamic systems that change, including with improvements and corrections, as conditions warrant. Our ability to enhance our disclosure controls and procedures, to conduct controls evaluations and to modify controls and procedures on an ongoing basis may be limited by the current state of our staffing, accounting system and internal controls since any enhancements and modifications may require additional staffing and improved systems and controls. You should refer to the discussion under **Risk Factors** If we fail to develop or maintain an effective system of internal controls over financial reporting, we may not be able to accurately report our financial results or prevent fraud. As a result, current and potential shareholders could lose confidence in our financial reporting, which would harm our business and the value of our depositary shares.

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**Recent Accounting Developments**

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections*, a replacement of Accounting Principles Board Opinion No. 20, *Accounting Changes*, and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements* (SFAS 154). SFAS 154 changes the requirements for the accounting for, and reporting of, a change in accounting principle. Previously, voluntary changes in accounting principles were generally required to be recognized by way of a cumulative effect adjustment within net income during the period of the change. SFAS 154 requires retrospective application to prior periods' financial statements, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 is effective for accounting changes made in fiscal years beginning after December 15, 2005; however, the statement does not change the transition provisions of any existing accounting pronouncements. We do not believe adoption of SFAS 154 will have a material effect on our financial position, cash flows or results of operations.

**Table of Contents****BUSINESS**

*Throughout this prospectus, we refer to Spark Networks plc (known as MatchNet plc until January 10, 2005), an English company, and our subsidiaries as we, us, our, our company, Spark Networks and MatchNet unless otherwise indicated. Spark Networks, MatchNet, JDate, AmericanSingles and MingleMatch are our trademarks. Trade names, trademarks and service marks of other companies appearing in this prospectus are the property of the respective holders.*

**Our Business**

We are a leading provider of online personals services in the United States and internationally. Our Web sites enable adults to meet online and participate in a community, become friends, date, form a long-term relationship or marry. We provide this opportunity through the many features on our Web sites, such as detailed profiles, onsite email centers, real-time chat rooms and instant messaging services. According to comScore Media Metrix, we averaged approximately 3.4 million total unique visitors per month to our Web sites in the United States during the first nine months of 2005, which ranked us as the third largest provider of online personals services in the United States in terms of total unique visitors. comScore Media Metrix defines total unique visitors as the estimated number of different individuals (in thousands) that visited any content of a Web site, a category, a channel, or an application during the reporting period. The number of total unique visitors to our Web sites as measured by comScore Media Metrix does not correspond to the number of members we have in any given period. Currently, our key Web sites are JDate.com and AmericanSingles.com. We operate several international Web sites and maintain operations in both the United States and Israel. Information regarding the geographical source of our revenues can be found in Note 12 to our Consolidated Financial Statements included in this prospectus. Membership on our sites is free and allows a registered user to post a personal profile and to access our searchable database of member profiles and our 24 hours a day, 7 days a week customer service. The ability to initiate most communication with other members requires the payment of a monthly subscription fee, which represents our primary source of revenue. We also offer discounted subscription rates for members who subscribe for three-, six- and twelve-month periods. Our subscription programs renew automatically for subsequent one-month periods until paying subscribers terminate them.

For the nine month period ended September 30, 2005, we had approximately 218,700 average paying subscribers, representing a decrease of 2.9% from the same period in 2004. Our JDate and AmericanSingles segments had approximately 69,400 and 109,800 average paying subscribers for the nine months ended September 30, 2005, a decrease of 1.3% and 17.8%, respectively, compared to the same period in 2004.

**Our Industry****Overview**

We believe that online personals fulfill significant needs for America's single adults who are looking to meet a companion or date. Traditional methods such as printed personals advertisements, offline dating services and public gathering places often do not meet the needs of time-constrained single people. Printed personals advertisements offer individuals limited personal information and interaction before meeting. Offline dating services are time-consuming, expensive and offer a smaller number of potential partners. Public gathering places such as restaurants, bars and social venues provide a limited ability to learn about others prior to an in-person meeting. In contrast, online personals services facilitate interaction between singles by allowing them to screen and communicate with a large number of potential companions. With features such as detailed personal profiles, email and instant messaging, this medium allows users to communicate with other singles at their convenience and affords them the ability to meet multiple people in a safe and secure online setting.

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**Our Competitive Strengths**

***Strength of JDate Brand.*** We believe that JDate and its strong brand recognition in the Jewish community is a valuable asset. A report by comScore Media Metrix for the first nine months of 2005 indicated that JDate.com experienced more average daily visitors and more page views than any other religious online personals service. We believe the strength of the JDate brand will continue to allow us to market to the Jewish community profitably while maintaining a high penetration rate. Because of the strength of the JDate brand, we are not required to spend as much on marketing JDate as we are our other Web sites, and other personals Web sites in the industry.

***Web Site Functionality.*** We continually evaluate the functionality of our Web sites to improve our members' online personals experience. Many of the features that we offer, such as onsite emails, real-time chat rooms and instant messaging, increase the probability of communication between our members, which we believe increases the number and percentage of members who become paying subscribers. We believe this functionality drives return visits to our Web sites and helps retain paying subscribers who might otherwise consider switching to our competitors' Web sites.

***Customer Service Focus.*** We believe that our customer service offers a competitive advantage and differentiates us from our major competitors. Our multi-lingual call center is staffed 24 hours a day, 7 days a week with customer service consultants. These consultants help members with such matters as completing personal profiles and choosing photos for their profiles, as well as answering questions about billing and technical issues. We believe that the quality of our customer service increases member satisfaction, which improves the number and percentage of members that become and remain paying subscribers.

**Our Online Personals Services**

Our online personals services offer single adults a convenient and secure setting for meeting other singles. Visitors to our Web sites are encouraged to become registered members by posting profiles. Posting a profile is a process where visitors are asked various questions about themselves, including information such as their tastes in food, hobbies and desired attributes of potential partners. Members are also urged to post photos, since this is likely to improve their chances of making successful contact with other members. Members can perform detailed searches of other profiles and save their preferences, and their profiles can be viewed by other members. In most cases, in order for a member to initiate email and instant message communication with others, that member must purchase a subscription. A subscription affords access to the paying subscribers' on-site email and instant messaging systems, enabling such subscribers to communicate with other members and paying subscribers. Our subscription fees are charged on a monthly basis, with discounts for longer-term subscriptions ranging from three to twelve months.

***Our Web Sites.*** We believe we are a unique company in the online personals industry because, in addition to servicing mass markets, we operate Web sites targeted at selected vertical affinity markets. We currently offer Web sites in English, German and Hebrew. Our key Web sites are as follows:

***JDate.com.*** JDate was our first Web site and is dedicated to the Jewish community and culture, and those who are seeking to be part of it. A report by comScore Media Metrix for the first nine months of 2005 indicated that JDate.com experienced more average daily visitors and more page views than any other religious online personals service. JDate members are primarily concentrated in the New York, Los Angeles, Miami and Chicago metropolitan areas. The current fee for a one-month subscription on JDate is \$34.95.



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*AmericanSingles.com.* AmericanSingles is our mainstream U.S. online personals community, targeted at an audience of singles between the ages of 25 and 49. The Web site caters to singles of all races, ethnicities and interests. AmericanSingles members are primarily concentrated in major metropolitan areas across the United States. The current fee for a one-month subscription on AmericanSingles is \$29.85.

*Other Web sites.*

**Web site****Target markets**

AdventistSinglesConnection.com*	Adventist singles
AsianSinglesConnection.com*	Asian singles
BBWPersonalsPlus.com*	Big beautiful women and admirers
BlackSinglesConnection.com*	African American singles
CanadianPersonals.net*	Canadian singles
CatholicMingle.com*	Catholic singles
ChristianMingle.com*	Christian singles
CollegeLuv.com	College singles
Cupid.co.il	Jewish singles (Israel only)
Date.ca	Canadian singles
DeafSinglesConnection.com*	Deaf singles
FaceLink.com	Individuals wishing to share photographs
Glimpse.com	Gay, lesbian and transgender singles
GreekSinglesConnection.com*	Greek singles
IndianMatrimonialNetwork.com*	Indian singles
InterracialSingles.net*	Interracial singles
ItalianSinglesConnection.com*	Italian singles
JDate.co.il	Jewish singles (Israel only)
JewishMingle.com*	Jewish singles
LatinSinglesConnection.com*	Latin singles
LDSMingle.com*	Mormon singles
MatchNet.co.uk	UK singles
MatchNet.com.au	Australian singles
MatchNet.de	German singles
MilitarySinglesConnection.com*	Military singles
PrimeSingles.net*	Mature singles
SilverSingles.com	Aging baby boomers
SingleParentsMingle.com*	Single parents
UKSinglesConnection.com*	UK singles

\* Acquired through our acquisition of MingleMatch, Inc.

**Web Site Features.** We strive to offer traditional as well as new and different ways for our members to communicate. Examples of ways our members and paying subscribers can communicate include:

*On-site Email.* We provide all paying subscribers with private message centers, dedicated exclusively to communications with other paying subscribers. These personal on-site email boxes offer features such as customizable folders for storing correspondence, the ability to know when sent messages were read, as well as block and ignore functions, which afford a paying subscriber the ability to control future messages from specific paying subscribers.



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*Hot Lists and Favorites.* Among the most popular features on our Web sites, Hot Lists enable paying subscribers to see who's interested in them and to save those favorite members that they are interested in. Lists include (1) who has viewed your profile, (2) your favorites and (3) who has emailed you. Paying subscribers can group their favorites into customized folders and add their own notes, including details included in a member's profile.

*Real-time Chat Rooms.* Paying subscribers can utilize our exclusive chat rooms to mix and mingle in real-time, building a sense of community through group discussions.

Additional features enable users to add customized graphics such as emoticons to their conversations.

*Ice Breakers.* Members can send pre-packaged opening remarks, referred to on the Web sites as flirts and teases, to other members or paying subscribers.

*Click!.* Our patented *Click!* feature connects members who think they would be compatible with each other. A member simply clicks yes, no or maybe in another member's profile. When two members click yes in each other's profiles, our patented feature sends an email to both of them alerting them of a possible match.

*Travel and Events.* As a complement to our online services, we offer travel and other promotional events which allow individuals to meet in a more personal environment. Our travel and events are typically cruises, dinners or other mixer events designed to facilitate social interaction. Less than 4% of our revenues for the nine months ended September 30, 2005 were generated from travel and events.

**Business Strategy**

We intend to grow our subscription-based revenue by driving additional traffic to our Web sites, through integrated and targeted marketing geographic expansion and cross-promotion into vertical affinity markets such as those acquired in the MingleMatch, Inc. acquisition. In addition, by providing strong customer service and improved features and functionality on our Web sites, we intend to provide more reasons for visitors to our Web sites to become subscribers.

*Drive Traffic.* We believe there are significant opportunities to drive additional traffic to our Web sites and identify new markets, where we can leverage our existing infrastructure to increase subscriptions.

*Integrated and targeted marketing.* We believe that targeting potential members with consistent and compelling marketing messages, delivered through a broad mix of marketing channels, will be effective in driving more traffic and a higher percentage of relationship-oriented singles to our Web sites. We intend to use a variety of channels to build our brand and increase our base of subscribers including online and offline advertising customer relationship management tools, public relations, promotional alliances and special events.

*Geographic expansion.* We plan to expand into new geographic markets where we can introduce one or more of our existing products in multiple languages. We believe that our recently introduced multi-currency payment system will aid the growth in our international subscriber base.

*Cross-Promote Into Vertical Affinity Markets.* Our large base of members provides us with a significant amount of consumer data to evaluate cross-promotion opportunities for growth into vertical affinity markets such as those acquired in the MingleMatch acquisition. We are able to analyze different groups of members by key metrics such as total potential subscribers and average revenue per paying subscriber and identify those targeted groups that may prefer a service dedicated to their particular affinity groups. We

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intend to target and cross-promote into vertical affinity markets that we believe are receptive to paid online personals and are large enough to attain a critical mass of members and paying subscribers.

***Increase Subscription Rates.*** We had approximately 218,700 average paying subscribers for the nine months ended September 30, 2005. We believe that a significant growth opportunity lies in our ability to increase the number of visitors to our Web sites who become paying subscribers.

*Improved technology.* We believe that the more successful members are in finding matches in our database, the more likely they are to want to communicate with those members. To initiate email and instant message communication, members must become paying subscribers. We intend to continue to enhance our technology and the quality and relevance of our search results to provide fast, relevant suggestions.

*Leveraging strong customer service.* Each time a member or potential member contacts our customer service center by email or phone, he or she represents a potential new paying subscriber to our services. By training our customer service representatives on upselling opportunities, we believe they will continue to be successful in selling and building loyalty to our subscription-based services.

*Improved member communications.* We believe that enhanced member communications is a key component to growing our business. We continue to focus on improving and enhancing our Web site functionality and features to encourage communications between members. Most of these communications require that members become paying subscribers. We will also continue to inform members of new features and functions with the goal of increasing the number of visitors to our Web sites who become paying subscribers.

**Customer Service**

Our customer support and service function operates 24 hours a day, 7 days a week. As of September 30, 2005, we employed 43 customer service representatives at our Beverly Hills, California facility, 15 representatives in Provo, Utah and 14 customer service representatives at our Israeli facility who serve our Hebrew-speaking members. Our team of customer service representatives helps members with matters such as completing personal essays and choosing photos for their profiles, as well as answering questions about billing and technical issues. Customer service representatives receive ongoing training in an effort to better personalize the experience for members and paying subscribers that call in and to capitalize on upselling opportunities. On average, our customer service center receives approximately 1,500 phone calls and 5,000 emails per day, and our average wait time for phone calls and response time for emails are approximately three minutes and four hours, respectively.

**Marketing**

We engage in a variety of marketing activities intended to drive consumer traffic to our Web sites and to allow us the opportunity to introduce our products and services to prospective members. Our marketing efforts are principally focused online, where we employ a combination of banner and other display advertising on Web portals and other specialized sites. We also rely on commercial search listings and direct email campaigns to attract potential members and paying subscribers, and utilize a network of online affiliates, through which we acquire traffic. None of these affiliates individually represent a material portion of our revenue. These affiliate arrangements are easily cancelable, often with only one day notice. Typically, we do not have any exclusivity arrangement with our affiliates, and some of our affiliates may also be affiliates for our competitors.

In addition to our current online marketing efforts, we supplement our online marketing by employing a variety of offline marketing activities. These include print and outdoor advertising, public relations, event sponsorship and promotional alliances. We believe that a more targeted marketing message,

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delivered through an array of available marketing channels, will improve consumer awareness of our brands, drive more traffic to our Web sites and, therefore, increase the numbers of our members and paying subscribers. We have embarked in increases in marketing spending for JDate, primarily in the area of offline marketing. Such marketing initiatives are targeted at brand building and name recognition. The JDate marketing programs most prominently include print and billboard advertising.

### **Technology**

Our software development team consisted of 32 employees as of September 30, 2005, who are focused on expanding and improving the features and functionality of our Web sites. Since feature and functionality development is an important element of our strategy, we plan to expand that team. In addition to our development team, an additional 30 technology employees maintain our software and hardware infrastructure.

Our network infrastructure and operations are designed to deliver high levels of availability, performance, security and scalability in a cost-effective manner. The majority of our software architecture is based on standard modular Microsoft technology, and is designed for maximum flexibility and scalability, which we believe facilitates the addition of new Web sites and features.

We are in the process of completing a re-architecture of our primary system based on distributed Service Oriented Architecture principles and built using the Microsoft.Net platform. This re-architecture includes changes to our server and network configurations, database schemas and deployment, web presentation methodologies and introduces a variety of new application services. We believe that this new architecture will enable us to more rapidly develop new capabilities and enhance our ability to scale our Web sites.

Our primary email system runs on dedicated appliances with each server capable of sending approximately 2 million messages per hour. In addition to our email servers, we operate other Web and database servers, which are co-located at a data center facility in El Segundo, California that is operated by a third party. We plan to increase redundant hardware and software systems supporting our services within the next nine months.

### **Intellectual Property**

We rely on a combination of patent, trademark, copyright and trade secret laws in the United States and other jurisdictions as well as confidentiality procedures and contractual provisions to protect our proprietary technology and our brands. We also enter into confidentiality and invention assignment agreements with our employees and consultants and confidentiality agreements with other third parties.

Spark Networks, JDate, AmericanSingles and MatchNet are some of our trademarks, whether registered or not, in the United States and several other countries. AmericanSingles, MatchNet, and JDate are registered trademarks in the United States. MatchNet and JDate are also registered trademarks in the EU and Australia and JDate is also a registered trademark in Israel and Canada. We have filed trademark applications for Spark Networks in the United States and EU. Our rights to these registered trademarks are perpetual as long as we use them and renew them periodically. We also have a number of other registered and unregistered trademarks. In addition, we hold a United States patent to *Click!*, which lasts until January 24, 2017, that pertains to an automated process for confidentially determining whether people feel mutual attraction or have mutual interests. *Click!* is important to our business in that it is a method and apparatus for detection of reciprocal interests or feelings and subsequent notification of such results. The patent describes the method and apparatus for the identification of a person's level of attraction and the subsequent notification when the feeling or attraction is mutual.

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**Competition**

We operate in a highly competitive environment with minimal barriers to entry. We believe that the primary competitive factors in creating a community on the Internet are functionality, brand recognition, critical mass of members, member affinity and loyalty, ease-of-use, quality of service and reliability. We compete with a number of large and small companies, including vertically integrated Internet portals and specialty-focused media companies that provide online and offline products and services to the markets we serve. Our principal online personals services competitors include Yahoo! Personals, Match.com, a wholly-owned subsidiary of InterActiveCorp., and eHarmony, all of which operate primarily in North America. In addition, we face competition from social networking Web sites such as MySpace and Friendster. There are also numerous other companies offering online personals services that compete with us, but are smaller than we are in terms of paying subscribers and annual revenue generation.

**Employees**

As of September 30, 2005, we had 188 full-time employees. We are not subject to any collective bargaining agreements and we believe that our relationship with our employees is good.

**Facilities**

We do not own any real property. Our headquarters are located in Beverly Hills, California, where we occupy approximately 26,500 square feet of office space that houses our technology department, customer service operations, and most of our corporate and administrative personnel. This lease expires on July 31, 2006. Our monthly base rent for this facility is \$53,850 per month. We also lease office space in Provo, Utah; Cupertino, California; Israel; England and Germany. We believe that our facilities are adequate for our current needs and suitable additional or substitute space will be available in the future to replace our existing facilities, if necessary, or accommodate expansion of our operations.

**Legal Proceedings**

Three separate yet similar class action complaints have been filed against us. On June 21, 2002, Tatyana Fertelmeyster filed an Illinois class action complaint against us in the Circuit Court of Cook County, Illinois, based on an alleged violation of the Illinois Dating Referral Services Act. On September 12, 2002, Lili Grossman filed a New York class action complaint against us in the Supreme Court in the State of New York based on alleged violations of the New York Dating Services Act and the Consumer Fraud Act. On November 14, 2003, Jason Adelman filed a nationwide class action complaint against us in the Los Angeles County Superior Court based on an alleged violation of California Civil Code section 1694 et seq., which regulates businesses that provide dating services. In each of these cases, the complaint included allegations that we are a dating service as defined by the applicable statutes and, as an alleged dating service, we are required to provide language in our contracts that allows (i) members to rescind their contracts within three days, (ii) reimbursement of a portion of the contract price if the member dies during the term of the contract and/or (iii) members to cancel their contracts in the event of disability or relocation. Causes of action include breach of applicable state and/or federal laws, fraudulent and deceptive business practices, breach of contract and unjust enrichment. The plaintiffs are seeking remedies including declaratory relief, restitution, actual damages although not quantified, treble damages and/or punitive damages, and attorney's fees and costs.

*Huebner v. InterActiveCorp.*, Superior Court of the State of California, County of Los Angeles, Case No. BC 305875 involves a similar action, involving the same plaintiff's counsel as *Adelman*, brought against InterActiveCorp's Match.com that has been ruled related to *Adelman*, but the two cases have not been consolidated. We have not been named a defendant in the *Huebner* case. *Adelman* and

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*Huebner* each seek to certify a nationwide class action based on their complaints. Because the cases are class actions, they have been assigned to the Los Angeles Superior Court Complex Litigation Program. The court has ordered a bifurcation of the liability issue. At an August 15, 2005 Status Conference, the court set the bifurcated trial on the issue of liability for March 27, 2006.

On March 25, 2005, the court in *Fertelmeyster* entered its Memorandum Opinion and Order ( *Memorandum Opinion* ) granting summary judgment in our favor on the grounds that Fertelmeyster lacks standing to seek injunctive relief or restitutionary relief under the Illinois Dating Services Act, Fertelmeyster did not suffer any actual damages, and we were not unjustly enriched as a result of our contract with Fertelmeyster. The *Memorandum Opinion* disposes of all matters in controversy in the litigation and also provides that we are subject to the Illinois Dating Services Act and, as such, our subscription agreements violate the act and are void and unenforceable. This ruling may subject us to potential liability for claims brought by the Illinois Attorney General or customers that have been injured by our violation of the statute. Fertelmeyster filed a Motion for Reconsideration of the *Memorandum Opinion* and, on August 26, 2005, the court issued its opinion denying Fertelmeyster's Motion for Reconsideration. In the opinion, the court, among other things: (i) decertified the class, eliminating the last remnant of the litigation; (ii) rejected each of the plaintiff's arguments based on the arguments and law that we provided in our opposition; (iii) stated that the court would not judicially amend the Illinois statute to provide for restitution when the legislature selected damages as the sole remedy; (iv) noted that the cases cited by plaintiff in connection with plaintiff's Motion for Reconsideration actually support the court's prior order granting summary judgment in our favor; and (v) denied plaintiff's Motion for Reconsideration in its entirety.

In December 2002, the Supreme Court of New York dismissed the case brought by Ms. Grossman. Although the plaintiff appealed the decision, in October 2004, the New York Supreme Court, Appellate Division upheld the lower court's dismissal. In addition, two Justices wrote concurring opinions stating their opinion that our services were not covered under the New York Dating Services Act.

A lawsuit has been filed against us in the United States District Court for the Central District of California by Datingcity, Ltd, Case No. CV05-4463 SJO (SSx). The Complaint alleges causes of action for (1) Breach of Contract, (2) Unjust Enrichment, (3) Promissory Estoppel, and (4) Accounting. Datingcity alleges that it entered into a contract with us for the sale of a database owned by Datingcity. Datingcity further alleges that we did not pay Datingcity the agreed upon price for the purchase of the database. We contend that the contract at issue was signed in error, Datingcity misrepresented the quality of its database, and the information contained in the database was virtually useless and without value. Accordingly, on July 15, 2005, we filed an Answer and Counterclaim against Datingcity alleging claims for (1) Rescission based on Unilateral Mistake, (2) Rescission based on Mutual Mistake, (3) Rescission based on Failure of Consideration, (4) Rescission based on Fraud in the Inducement, (5) Fraud, (6) Negligent Misrepresentation, and (7) Declaratory Relief. At a status conference that was held on August 22, 2005, the court scheduled this matter for a jury trial on April 25, 2006, however, in September 2005 we settled this litigation for \$75,000.

On July 21, 2005, Leonard Kristal ( *Kristal* ) and MatchPower Ltd. ( *MatchPower* ) filed an action in the Los Angeles County Superior Court, Civil Action No. SC086367, entitled LEONDARD KRISTAL, and MATCHPOWER, LTD., Plaintiffs, v. MATCHNET, PLC; SPARK NETWORKS, PLC, and DOES 1 through 25, inclusive, Defendants (the *Kristal/MatchPower Action* ). In their complaint, Kristal and MatchPower assert claims for a breach of contract, wrongful termination in violation of public policy, and solicitation of employee by misrepresentation. MatchPower alleges that it entered into an agreement with us to pay MatchPower the sum of \$15,000 per month from March 30, 2004 through April 2005 and that we now owe MatchPower the sum of \$90,000 under the agreement. We have filed a Motion to Dismiss and/or for Forum Non Conveniens under the MatchPower agreement, which provides that the exclusive jurisdiction for disputes is the English courts, in order to require that MatchPower litigate its claims, if any, in England. The Court has granted that Motion and

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MatchPower is no longer a party to the case. Kristal alleges that (i) we entered into an employment agreement pursuant to which Kristal was employed on a part-time basis at the rate of \$10,000 per month through April 2005, (ii) the employment agreement was amended in July 2004 to increase Kristal's monthly salary to \$15,000 per month, (iii) Kristal was required to move and establish residency in Los Angeles and (iv) the employment agreement was terminated on December 22, 2004. Kristal alleges that we owe him \$85,000 under the agreement, plus a waiting time penalty of \$15,000. Kristal also alleges that, in August 2004, we orally promised Kristal the right to purchase at least 110,000 shares of our stock at a purchase price of \$2.50 and that he was terminated because he made a written complaint that he had not been paid according to his contract and as a result, his termination was a retaliatory termination in violation of public policy. Kristal claims that he is entitled to recover damages for pain and suffering and emotional distress and punitive damages based on his retaliatory termination. In addition, Kristal claims that he was induced to move to Los Angeles for the purpose of accepting employment from us in Los Angeles and that we promised Kristal employment at least through April 2005, together with wages for employment at the rate of \$15,000 per month. According to Kristal, we misrepresented to Kristal the length of his employment and the compensation therefore, and as a result, he claims he is entitled to double damages caused by misrepresentations allegedly made by us to Kristal pursuant to California Labor Code § 972.

We intend to defend vigorously against each of the lawsuits, however, no assurance can be given that these matters will be resolved in our favor and, depending on the outcome of these lawsuits, we may choose to alter our business practices.

We have additional existing legal claims and may encounter future legal claims in the normal course of business. We believe that the resolution of the existing legal claims are not expected to have a material impact on our financial position or results of operations. We believe the Company has accrued appropriate amounts where necessary in connection with the above litigation.



**Table of Contents****MANAGEMENT****Executive Officers and Directors**

As of December 7, 2005, our executive officers and directors are set forth below.

<b>Name</b>	<b>Age</b>	<b>Position</b>
David E. Siminoff	41	President, Chief Executive Officer and Director
Gregory R. Liberman	33	Chief Operating Officer, General Counsel and Company Secretary
Philip Nelson	41	Chief Technology Officer
Mark Thompson	44	Chief Financial Officer
Joe Y. Shapira	52	Chairman of the Board
Michael Brown	39	Director
Martial Chaillet	58	Director
Benjamin Derhy	51	Director
Laura Lauder	44	Director
Scott Shleifer	27	Director

**David E. Siminoff** has served as our President and Chief Executive Officer since August 2004 and as a member of our Board of Directors since March 2004. From October 2003 to February 2004, Mr. Siminoff was Chief Financial Officer of PayByTouch, a company that produces biometric payment services and during interim periods of employment, Mr. Siminoff was a private investor of several start-up companies. From August 1994 to January 2003, Mr. Siminoff served as a Research Analyst and Portfolio Manager for Capital Research and Management Company, where he dealt primarily with Media and Internet technologies. In 1998 he was named Best of the Buyside by Institutional Investor Magazine. Prior to his work with Capital Research, Mr. Siminoff founded EastNet, a global syndicate barter company. Mr. Siminoff received both BA and MBA degrees from Stanford University and a Masters degree in Fine Arts from the University of Southern California film school.

**Gregory R. Liberman** was appointed Chief Operating Officer in September 2005 and has served as our General Counsel since October 2004 and Company Secretary since January 2005. From January 2004 to May 2004 Mr. Liberman served as General Counsel and Corporate Secretary of CytRx Corporation, a publicly-traded biotechnology company based in Los Angeles. During his tenure there, Mr. Liberman oversaw legal affairs, policy and strategy for the company. From January 2002 to December 2003, Mr. Liberman served as an independent strategic consultant. Immediately prior to that consulting work, from September 2001 to November 2001, he attended and completed the Program for Management Development at Harvard Business School. From March 1999 to August 2001, Mr. Liberman served in a variety of senior legal and corporate development roles at telecommunications firm Global Crossing and Internet infrastructure providers GlobalCenter (then, a subsidiary of Global Crossing) and Exodus Communications. Mr. Liberman joined Exodus, where he ultimately served as Vice President, Legal & Corporate Affairs, after Global Crossing's sale of GlobalCenter to Exodus. Immediately prior to Exodus' acquisition of GlobalCenter, Mr. Liberman served as GlobalCenter's Vice President, Corporate Development and Associate General Counsel. While at Global Crossing, Mr. Liberman served as Director, Business Development Counsel. Mr. Liberman earned a JD, with Honors, from The Law School at the University of Chicago and an AB, with University Distinction and Honors in Economics, from Stanford University.

**Philip Nelson** has served as our Chief Technology Officer since October 2004. Previously, Mr. Nelson was Entrepreneur in Residence at Accel Partners, a Silicon Valley venture capital firm from June 2003 to October 2004. In May 2001, Mr. Nelson founded and became the CEO of Anteros, which offers innovative integration technology to connect personal productivity tools to enterprise applications.

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From January 1998 to May 2001 he was technical co-founder of Impresse Corp, a provider of hosted marketing collaboration and spend management solutions. At Impresse, he served in a technical and customer facing role. Earlier in his career, Mr. Nelson held a role similar to the one at Impresse with Verity, corp. He was also a software engineer with Advanced Decision Systems, and won awards for his work at Harvard Medical School improving the design of artificial hip and knee implants. Mr. Nelson holds an SB from MIT in computer science.

**Mark Thompson** has served as our Chief Financial Officer since October 2004. He brings 16 years of financial management and capital markets experience to his current role. From December 2002 to October 2003 and from February 2004 to September 2004 Mr. Thompson served as CFO of Pay By Touch, the leading provider of biometric payment authentication and payment processing services. From October 2003 to February 2004 Mr. Thompson was Vice President Finance of Pay By Touch. From August 2001 to October 2002 Mr. Thompson was CFO of Vectiv and from July 1999 to July 2001 he was CFO of MarketTools, a provider of online marketing research. Previously, he was Corporate Treasurer of PeopleSoft and Assistant Treasurer of Chiron. Mr. Thompson also held senior positions in finance and engineering at Chevron. He holds a BS degree in electrical engineering from Texas A&M University and an MBA from The Haas School of Business at The University of California at Berkeley.

**Joe Y. Shapira** has served as our Executive Chairman of the Board of Directors since February 2005 but has resigned from his executive operating role effective December 31, 2005. Mr. Shapira will remain Chairman of the Board. From February 2004 to February 2005, Mr. Shapira served as our Executive Co-Chairman of the Board of Directors. From our inception in September 1998 to February 2004, Mr. Shapira served as Chief Executive Officer and Chairman of the Board. He was a co-founder and director of NetCorp, the original developer and owner of JDate. In 1995, Mr. Shapira developed a concept for dating over the Internet and oversaw the software development, design and implementation of the business model of JDate.com. Previously, from 1991 until 1994, Mr. Shapira co-founded and served as a director and officer of Matrix Video Duplication Corporation, a publicly listed company on the Tel Aviv Stock Exchange. From 1987 until 1991, Mr. Shapira co-founded and served as a director and officer of Video Tape Industries, Inc. From 1983 to 1987, Mr. Shapira was a principal in Sha-Rub Investment Co., a Southern California real estate development company. Mr. Shapira graduated from the Ort Singlivosky Institution of Technology in Tel Aviv, Israel in 1972.

**Michael A. Brown** has served as a member of our Board of Directors since December 2004. Since September 2002, Mr. Brown has been a managing partner at government and public affairs consulting firm Alcalde & Fay, based in Washington, D.C. At Alcalde & Fay, Mr. Brown is focused on international trade, foreign relations, federal and state representation and public policy. In addition to serving on the Board of Directors of Spark Networks, Mr. Brown serves on the Board of Directors of Comcast of Washington, DC. From June 1996 to September 2002, he practiced law at Washington-based Patton Boggs LLP, where he concentrated on a range of municipal issues. Mr. Brown has twice been appointed as a member to the U.S. Presidential Delegations to Africa and serves as the president of the Ronald H. Brown Foundation, which seeks to carry on the work of Mr. Brown's father, who was U.S. Secretary of Commerce under former President Bill Clinton. Mr. Brown earned a BA degree from Clark University and a JD from Widener University School of Law.

**Martial Chaillet** has served as a member of our Board of Directors since February 2005. Mr. Chaillet founded MediaWin & Partners in January 2003. MediaWin is a private investment firm that focuses primarily on investments in media and media-related companies. Prior to founding MediaWin, Mr. Chaillet served in a variety of roles at The Capital Group for thirty years, most recently as Senior Vice President and Global Portfolio Manager of Capital Research and Management, the mutual fund arm of the financial institution. In addition to serving on our Board of Directors, Mr. Chaillet sits on the Boards of Directors of Infosearch, Wisekey, Snap TV and Media Partners. Mr. Chaillet earned a degree in Econometrics from the University of Geneva and graduated, with honors, from the Swiss Technical School.

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**Benjamin Derhy** has served as a member of our Board of Directors since October 2004. Over the last five years, Mr. Derhy has not held any employment positions but has been a private investor and entrepreneur, focusing on Internet, consumer products and real estate sectors as well as start-up companies in Europe and Israel. His experience also includes working with American companies and their expansion internationally. In 1984, Mr. Derhy co-founded Turbo Sportswear, a successful clothing manufacturer, and was employed there until 1997. Previously, he was controller at the Hebrew University in Jerusalem, responsible for annual budgets, financial planning and cost accounting. Mr. Derhy holds both BA and MBA degrees from the Hebrew University.

**Laura Lauder** has served as a member of our Board of Directors since January 2005. Mrs. Lauder has served as a General Partner at Lauder Partners, a Silicon Valley-based venture capital fund, for the past ten years. At Lauder Partners, Mrs. Lauder focuses primarily on Internet and cable-related investments. In addition to her work at Lauder Partners, Mrs. Lauder is involved in a variety of philanthropic initiatives, particularly in the Jewish community. In the past, she has served on the boards of numerous organizations, including the San Francisco Jewish Community Federation and its Endowment Committee, the Jewish Education Service of North America, the Jewish Funders Network, American Jewish World Service and the National Public Radio Foundation. In 2004, Mrs. Lauder was named one of "10 Women to Watch" by *Jewish Woman* magazine. Mrs. Lauder earned a BA in International Relations from the University of North Carolina - Chapel Hill and the Universidad de Sevilla, Spain.

**Scott L. Shleifer** has served as a member of our Board of Directors since December 2004. Mr. Shleifer joined Tiger Technology Management, L.L.C. in July 2002. Tiger Technology is an equity investment firm currently managing approximately \$1 billion. Mr. Shleifer is a Managing Director focusing primarily on investments in the Internet, for-profit education, and business services sectors. In addition to serving on the Board of Directors of Spark Networks, Mr. Shleifer sits on the Board of Directors of PRC.EDU, an online, for-profit education company in China. Prior to joining Tiger Technology, Mr. Shleifer was a private equity investor at The Blackstone Group from July 1999 to June 2002. He received a BS in Economics from the Wharton School at the University of Pennsylvania, where he graduated magna cum laude.

There are no family relationships among any of our executive officers or directors.

**Compensation of Directors**

We pay non-employee directors an annual compensation of \$30,000 for their services, except Scott Shleifer who does not receive compensation as a director. In addition, non-employee directors receive a fee of \$1,000 for each board and committee meeting attended in person and \$500 for each such meeting attended by phone. Non-employee directors are also reimbursed for reasonable costs and expenses that are approved and incurred in the performance of their duties. Officers of our company who are members of the Board of Directors are not paid any directors' fees. Directors are eligible to receive, from time to time, grants of options to purchase shares under our 2004 Share Option Scheme as determined by the Board of Directors. In 2004, we granted options to purchase 80,000 ordinary shares, which vest over a four-year period, to Michael Brown and Benjamin Derhy, and in February 2005 we made a similar grant of options to purchase 80,000 ordinary shares to Laura Lauder and Martial Chaillet.

**Election of Directors**

Our Articles of Association provide that all directors appointed by the Board since the last annual general meeting are subject to election by shareholders at the first annual general meeting following their appointment. Our Articles of Association also provide that the re-election of our Board of Directors shall be performed through a "retirement by rotation" system. At each annual general meeting one-third, or the number nearest to but not exceeding one-third, of our Board of Directors

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shall retire from office by rotation. Any retiring director shall be eligible for re-election. Our directors who retire by rotation include (1) any director who wishes to retire and not to offer himself for re-election and (2) any further directors who retire by rotation are those who have been longest in office since their last election or re-election. Where two or more persons became or were re-elected as directors on the same day, those to retire, unless they otherwise agree among themselves, are determined by lot.

**Board Committees**

***Audit Committee.*** The audit committee consists of Martial Chaillet, Michael Brown and Benjamin Derhy, each of whom are independent directors. Mr. Chaillet, Chairman of the audit committee, is an audit committee financial expert as defined under Item 401(h) of Regulation S-K. The purpose of the audit committee is to represent and assist our Board of Directors in its general oversight of our accounting and financial reporting processes, audits of the financial statements and internal control and audit functions. The audit committee's responsibilities include:

The appointment, replacement, compensation, and oversight of work of the independent auditor, including resolution of disagreements between management and the independent auditor regarding financial reporting, for the purpose of preparing or issuing an audit report or performing other audit, review or attest services.

Reviewing and discussing with management and the independent auditor various topics and events that may have significant financial impact on our company or that are the subject of discussions between management and the independent auditors.

***Compensation Committee.*** The compensation committee consists of Scott Shleifer, Benjamin Derhy and Laura Lauder, each of whom are independent directors. Mr. Shleifer is the Chairman of the compensation committee. The compensation committee is responsible for the design, review, recommendation and approval of compensation arrangements for our directors, executive officers and key employees, and for the administration of our share option schemes, including the approval of grants under such schemes to our employees, consultants and directors. The compensation committee also reviews and determines compensation of our executive officers, including our Chief Executive Officer.

***Nominating Committee.*** The nominating committee consists of Michael Brown, Martial Chaillet and Laura Lauder, each of whom are independent directors. Mr. Brown is the Chairman of the nominating committee. The nominating committee assists in the selection of director nominees, approves director nominations to be presented for shareholder approval at our annual general meeting and fills any vacancies on our Board of Directors, considers any nominations of director candidates validly made by shareholders, and reviews and considers developments in corporate governance practices.

**Compensation Committee Interlocks and Insider Participation**

To date, we have not had a compensation committee or other Board committee performing equivalent functions. All members of our Board of Directors, some of whom were executive officers, participated in deliberations concerning executive officer compensation. No interlocking relationship exists between our Board of Directors and the board of directors or compensation committee of any other company.

**Summary Executive Compensation Table**

The following table sets forth information concerning the annual and long-term compensation earned by our Chief Executive Officer and each of the other executive officers who served during the year

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ended December 31, 2004, and whose annual salary and bonus during the fiscal years ended December 31, 2002, 2003 and 2004 exceeded \$100,000 (the Named Executive Officers ).

<b>Annual Compensation</b>	<b>Long-Term Compensation</b>
<b>Other Annual</b>	<b>Securities Underlying</b>