

SPARK NETWORKS PLC
Form 10-Q
May 10, 2007
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2007

OR

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

For the transition period from _____ to _____

Commission file number: 000-51195

SPARK NETWORKS PLC

(Exact name of registrant as specified in its charter)

ENGLAND AND WALES
(State or other jurisdiction of

incorporation or organization)

98-0200628
(I.R.S. Employer

Identification No.)

8383 Wilshire Boulevard, Suite 800, Beverly

90211

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Hills, California
(Address of principal executive offices)

(Zip Code)

(323) 836-3000

(Registrant's telephone number, including area code)

N/A

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

The registrant had 30,742,808 outstanding ordinary shares, par value £0.01 per share, as of May 9, 2007.

Table of Contents

SPARK NETWORKS, PLC

Table of Contents to Quarterly Report on Form 10-Q

For the period ended March 31, 2007

PART I. FINANCIAL INFORMATION

Item 1.	<u>Financial Statements</u>	3
	<u>Consolidated Balance Sheets at March 31, 2007 (unaudited) and December 31, 2006</u>	3
	<u>Unaudited Consolidated Statements of Operations for the three months ended March 31, 2007 and 2006</u>	4
	<u>Unaudited Consolidated Statements of Cash Flows for the three months ended March 31, 2007 and 2006</u>	5
	<u>Unaudited Notes to Consolidated Financial Statements</u>	6
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	13
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	18
Item 4.	<u>Controls and Procedures</u>	19

PART II. OTHER INFORMATION

Item 1.	<u>Legal Proceedings</u>	19
Item 1A.	<u>Risk Factors</u>	19
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	19
Item 3.	<u>Defaults Upon Senior Securities</u>	20
Item 4.	<u>Submission of Matters to a Vote of Security Holders</u>	20
Item 5.	<u>Other Information</u>	20
Item 6.	<u>Exhibits</u>	20
	<u>Signatures</u>	21
	Exhibit 31.1	
	Exhibit 31.2	
	Exhibit 32.1	

Table of Contents**ITEM 1. FINANCIAL STATEMENTS****SPARK NETWORKS PLC****CONSOLIDATED BALANCE SHEETS**

(in thousands, except share data)

	March 31, 2007 (unaudited)	December 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	\$ 19,492	\$ 20,412
Marketable securities	197	196
Restricted cash	2,013	2,070
Accounts receivable, net of allowance of \$50 and \$0 for March 31, 2007 and December 31, 2006	1,029	1,200
Deferred tax asset – current portion	632	219
Prepaid expenses and other	1,444	1,509
Total current assets	24,807	25,606
Property and equipment, net	1,816	2,306
Goodwill, net	17,917	19,236
Intangible assets, net	5,826	4,406
Deposits and other assets	56	72
Total assets	\$ 50,422	\$ 51,626
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 1,692	\$ 1,487
Accrued liabilities	4,621	4,985
Deferred revenue	4,320	4,051
Notes payable – current portion	1,491	1,314
Current portion of obligations under capital leases		43
Total current liabilities	12,124	11,880
Deferred tax liabilities	1,826	1,782
Obligations under capital leases		59
Total liabilities	13,950	13,721
Shares subject to rescission (Note 6)	8,309	8,079
Commitments and contingencies (Note 8)		
Shareholders' equity:		
Authorized capital £800,000 divided into 80,000,000 ordinary shares of 1p each; issued and outstanding 30,761,855 shares as of March 31, 2007 and 30,941,465 shares as of December 31, 2006, at a stated value of:	442	517
Additional paid-in-capital	67,824	67,571
Accumulated other comprehensive income	375	248
Accumulated deficit	(40,478)	(38,510)
Total shareholders' equity	28,163	29,826
Total liabilities and shareholders' equity	\$ 50,422	\$ 51,626

See accompanying notes.

Table of Contents**SPARK NETWORKS PLC****CONSOLIDATED STATEMENTS OF OPERATIONS****(unaudited, in thousands, except per share data)**

	Three Months Ended March 31,	
	2007	2006
Net revenues	\$ 16,820	\$ 16,805
Direct marketing expenses	6,757	5,657
Contribution margin	10,063	11,148
Operating expenses:		
Indirect marketing (including share-based compensation of \$10 and \$13)	327	366
Customer service (including share-based compensation of \$19 and \$23)	929	908
Technical operations (including share-based compensation of \$179 and \$174)	1,424	2,230
Product development (including share-based compensation of \$88 and \$118)	806	845
General and administrative (including share-based compensation of \$1,763 and \$1,028)	6,585	5,632
Amortization of intangible assets other than goodwill	344	239
Impairment of goodwill	1,894	
Total operating expenses	12,309	10,220
Operating (loss) income	(2,246)	928
Interest (income), loss and other expenses, net	(205)	39
(Loss) income before income taxes	(2,041)	889
(Benefit) provision for income taxes	(73)	179
Net (loss) income	\$ (1,968)	\$ 710
Net (loss) income per share basic	\$ (0.06)	\$ 0.02
Net (loss) income per share diluted	\$ (0.06)	\$ 0.02
Weighted average shares outstanding basic	30,868	30,266
Weighted average shares outstanding diluted	30,868	31,258

See accompanying notes.

Table of Contents**SPARK NETWORKS PLC****CONSOLIDATED STATEMENTS OF CASH FLOWS****(unaudited, in thousands)**

	Three Months Ended March 31,	
	2007	2006
Cash flows from operating activities:		
Net income	\$ (1,968)	\$ 710
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	891	1,056
Impairment of goodwill	1,894	
Share-based compensation	2,059	1,371
Deferred tax liability	(329)	55
Imputed interest on notes payable		52
Impairment of employee loan		82
Changes in operating assets and liabilities:		
Accounts receivable	171	457
Restricted cash	57	(913)
Prepaid expenses and other assets	88	6
Accounts payable and accrued liabilities	(147)	752
Deferred revenue	269	685
Net cash provided by operating activities	2,985	4,313
Cash flows from investing activities:		
Purchases of property and equipment	(81)	(293)
Purchases of intangible assets	(3)	(300)
Cash paid in acquisition of business, net of cash acquired	(2,007)	
Sale of property and equipment	31	
Net cash used in investing activities	(2,060)	(593)
Cash flows from financing activities:		
Proceeds from issuance of ordinary shares	146	113
Purchase of shares for retirement	(1,800)	
Principal payments of capital lease obligations	(102)	(4)
Principal payments of notes payable for acquisition		(5,000)
Excess tax benefits from stock-based compensation	(4)	
Notes Payable	(85)	(285)
Net cash used in financing activities	(1,845)	(5,176)
Net (decrease) increase in cash	(920)	(1,456)
Cash and cash equivalents at beginning of period	20,412	17,096
Cash and cash equivalents at end of period	\$ 19,492	\$ 15,640
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	\$ 867	\$ 76
Assets acquired through a capital lease	\$	\$ 135

See accompanying notes.

Table of Contents

SPARK NETWORKS PLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. The Company and Summary of Significant Accounting Policies

The Company

Spark Networks plc (the Company) is a public limited company incorporated under the laws of England and Wales. The Company has American Depositary Receipts which are traded on the American Stock Exchange and Global Depositary Receipts which are traded on the Frankfurt Stock Exchange. The Company and its consolidated subsidiaries provide online personals services, in the United States and internationally, whereby adults are able to post information about themselves (profiles) on the Company s websites and search and contact other individuals who have posted profiles.

Membership in the Company s online services, which includes the posting of a personal profile and photos, and access to its database of profiles, is free. The Company charges a subscription fee for one-, three-, five-, six- and twelve-, month subscriptions to members allowing them to initiate communication with other members and subscribers via the Company s email communications platform. For most of the Company s services, two-way communications through the Company s email platform can only take place between paying subscribers.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the parent Company and all of its majority owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

The financial statements of the Company s foreign subsidiary are prepared using the local currency as the subsidiary s functional currency. The Company translates the assets and liabilities using period-end rates of exchange and revenues and expenses using average rates of exchange for the period. The resulting gain or loss is included in accumulated other comprehensive income (loss) and is excluded from net income (loss).

Interim Financial Information

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States. Certain information and note disclosures normally included in the consolidated annual financial statements prepared in accordance with generally accepted accounting principles in the United States have been omitted from this interim report. In the opinion of the Company s management, the unaudited interim consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and include all adjustments (consisting of normal recurring accruals) necessary for the fair presentation of the Company s financial position, results of operations and cash flows as of and for the periods presented. The results of operations for such periods are not necessarily indicative of the results expected for the full year or for any future period.

These interim financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2006.

Share-Based Compensation

The Company accounts for shares issued to employees and directors in accordance with the provisions of SFAS 123 (R) which it adopted on July 1, 2005.

At March 31, 2007, the Company had two share-based employee compensation plans, which are described more fully in Note 6. Effective July 1, 2005, the Company adopted the fair value recognition provisions of Statement 123(R), using the

Table of Contents

modified- prospective transition method. Under that transition method, compensation cost recognized 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.

Prior to its adoption of Statement 123(R), the Company 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 its 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. The Company recognized a tax provision from deductions resulting from the exercise of share options in the first quarter of 2007 and classified the provision as a financing cash outflow on the cash flow statement.

The Company accounts 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* .

Earnings Per Share

The Company calculates net income (loss) per share in accordance with SFAS No. 128 *Earnings per Share* , which requires the presentation of both basic and diluted net income (loss) per share. Basic net income (loss) per share is computed by dividing net income (loss) available to ordinary shareholders by the weighted average number of ordinary shares outstanding. Diluted net loss per share includes the effect of potential shares outstanding, including dilutive share options and warrants, using the treasury stock method. Had the Company's net income been positive for the quarter ended March 31, 2007, the weighted average shares outstanding for the diluted earnings per share calculation would have been 31,085,834, using the treasury stock method as adjusted under SFAS 123 (R).

Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. For the Company, comprehensive income (loss) consists of its reported net income (loss) and the net unrealized gains or losses on marketable securities and foreign currency translation adjustments. Comprehensive income (loss) for each of the periods presented is comprised as follows:

	Three Months Ended March 31,	
	2007	2006
Net (loss) income	\$ (1,968)	\$ 710
Changes in unrealized gains/losses in available for sale securities	1	10
Foreign currency translation adjustment	126	(94)
Total comprehensive (loss) income	\$ (1,841)	\$ 626

Use of Estimates

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

New Accounting Standard

The Company adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48. *Accounting for Uncertainty in Income Taxes* - an interpretation of FASB Statement No. 109 (FIN 48) on January 1, 2007. FIN 48 provides that the tax effects from an uncertain tax position can be recognized in our financial statements, only if the position is more-likely-than-not of being sustained on audit, based on the technical merits of the position. Tax positions that meet the recognition threshold are reported at the largest amount that is more-likely-than-not to be realized. No impact on our financial statements was recorded as a result of our adoption of FIN 48.

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The Company's US Federal tax returns have been audited by the IRS for tax year 2003.

Table of Contents

2. Net Income (Loss) Per Share

The Company calculates net income (loss) per share in accordance with SFAS No. 128 Earnings per Share, which requires the presentation of both basic and diluted net income (loss) per share. Basic net income (loss) per share is computed by dividing net income (loss) available to ordinary shareholders by the weighted average number of ordinary shares outstanding. Diluted net income (loss) per share includes the effect of potential shares outstanding, including dilutive share options and warrants, using the treasury stock method as prescribed by SFAS 123(R).

3. Acquisitions of Businesses and Intangibles

Domain Names

On March 24, 2006 the Company acquired certain domain names and trademarks for approximately \$300,000. The Company expects the purchase of the domain names to allow for synergistic uses of existing databases. The domain names are assigned an infinite life and are subject to impairment testing under SFAS No. 142 Goodwill and Other Intangible Assets.

HurryDate

On February 1, 2007, the Company entered into an agreement to purchase the assets of HurryDate, a leading online personals and singles events company, for total consideration of \$2.25 million, of which \$2.0 million was paid up front in cash, and, subject to certain conditions in the purchase agreement, payment of an earn-out based upon the operating income of the HurryDate business for the period of April 1, 2007 to March 31, 2008. The purchase of HurryDate will expand the Company's offline presence and is intended to solidify its position as the only leading online personals provider to effectively marry the online and offline dating worlds. Of the \$2.2 million of acquired intangible assets, \$490,000 was preliminarily assigned to member databases and will be amortized over three years, \$50,000 was preliminarily assigned to subscriber databases which will be amortized over five months, \$800,000 was preliminarily assigned to developed software which will be amortized over five years, \$360,000 was preliminarily assigned to domain names which are not subject to amortization, and \$480,000 was preliminarily assigned to goodwill.

LDSSingles

On May 5, 2006 we completed the purchase of certain assets of LDSSingles Inc., a company that operates a religious online singles community, for total consideration of \$2.3 million, of which \$2.0 million was paid up front in cash and \$300,000 will be paid in cash on the one year anniversary of the acquisition. The results of LDSSingles operations have been included in the consolidated financial statements since that date. The Company believes that its acquisition of LDSSingles will allow the Company to strengthen its market share related to the religious online singles niche. Of the \$2.2 million of acquired intangible assets, \$170,000 was assigned to member databases and will be amortized over five years, \$140,000 was assigned to subscriber databases which was amortized over six months, \$200,000 was assigned to developed software which will be amortized over two years, \$250,000 was assigned to domain names which are not subject to amortization, and \$1.4 million was assigned to goodwill.

Playahead AB (formerly Duplo AB)

On September 9, 2004, the Company acquired a 20% interest in Playahead (Duplo AB) for approximately \$1.2 million including professional fees related to the transaction. Playahead AB owns and operates Playahead.com, a community site primarily focused on the Swedish market, whose members range in age primarily from 16-35. On October 19, 2006, the Company sold its 20% interest in PlayAhead (Duplo AB) for \$1.4 million and recognized a gain of approximately \$300,000.

Impairment of Goodwill

The Company recorded \$1.9 million in impairment expense related to the impairment of the book carrying value of goodwill under SFAS 142 related to AmericanSingles.

Table of Contents

4. Obligations Under Capital Leases

In the first quarter of 2006, the Company entered into certain lease agreements for computer equipment and software under capital lease agreements effective through January 2009, providing for minimum lease payments in 2006. In March 2007, the Company paid \$102,000 to relieve future capital lease obligations.

5. Notes Payable

In September 2004, the Company issued a promissory note in the amount of \$1.7 million as a final settlement for a lawsuit. The note bears interest at the rate of 2.75% per year and is payable in installments 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.

In February 2007, the Company issued a promissory note in the amount of \$250,000 in connection with the HurryDate acquisition. The note bears no interest and is payable in May of 2007.

6. Shareholders Equity

Share Repurchase Program

In November, 2006, shareholders approved a share buyback program. The Company has been authorized to conduct the potential repurchase of up to an aggregate of approximately 2,000,000 of the Company's GDSs and ADSs, which represent the Company's ordinary shares, on the Frankfurt Stock Exchange or XETRA exchange in Germany and the American Stock Exchange in the United States. Share repurchases are being conducted in open market transactions. Repurchase of ADSs on the American Stock Exchange is being conducted in compliance with Rule 10b-18 under the Securities Exchange Act of 1934, which prescribes price, volume and procedural requirements for an issuer purchasing its shares. Although any repurchases on the Frankfurt Stock Exchange are not required to comply with Rule 10b-18, the Company intends, to the extent practicable, to conduct such repurchases as though the conditions of Rule 10b-18 were applicable.

In the first quarter of 2007, the Company repurchased 304,106 shares at a weighted average price of \$5.92. All shares repurchased are earmarked for cancellation.

Warrants

In December 2004, the Company issued a warrant certificate for 750,000 shares. As of March 31, 2007, 650,000 warrants were exercised and 100,000 warrants, with an expiration date of August 14, 2007, were vested and outstanding.

Employee Share Option Plans

The Company has two share Option Plans, the MatchNet plc 2000 Executive Share Option Plan (the 2000 Option Plan) and Spark Networks plc 2004 Share Option Plan (the 2004 Plan and, collectively, with the 2000 Option Plan, the Plans), that provide for the granting of share options by the Board of Directors of the Company to employees, consultants, and directors of the Company. In addition, options granted to employees or service providers of our Israeli subsidiary who are residents of Israel are also subject to the Sub-Plan for Israeli Employees and Service providers, which Sub-Plan incorporates the terms of the 2004 Plan by reference.

The exercise price of options granted under the Plans, is based on the fair market value of the ordinary shares on the date of grant. Options granted under the Plans vest and terminate over various periods as defined by each option grant and in accordance with the terms of the Plans. In September 2004, the Board of Directors resolved to cease granting options under the 2000 Option Plan. However, pursuant to the provisions of the 2000 Option Plan, all outstanding options previously granted under the 2000 Option Plan continue in full force and effect. The Company intends to use the 2004 Plan to grant options to employees, consultants, and directors

Table of Contents

in the future. The 2004 Plan terminates in September 2014, and restricts shares to be issued to a maximum of 17,000,000, with approximately 13,247,213 shares available for future grant as of March 31, 2007. Upon option exercise, the Company issues new shares.

In April 2004, a loan was made to an employee for the exercise 15,000 options. The loan was deemed a synthetic repricing under EITF 00-23 Issues Related to the Accounting for Share Compensation under APB Opinion No. 25 and FASB Interpretation No. 44 and resulted in variable accounting. In the first quarter of 2006, the Company extended the loan to December 2006 and recorded a reserve against the note. In the first quarter of 2007, the loan was repaid and a benefit was realized.

As of March 31, 2007, total unrecognized compensation cost related to non-vested stock options was \$6.4 million. This cost is expected to be recognized over a weighted-average period of 4 years. The following table describes option activity for the three months ended March 31, 2007:

	Number of Shares (in thousands)	Weighted Average Price Per Share
Outstanding at December 31, 2006	3,538	\$ 5.98
Granted	1,574	5.68
Exercised	(56)	2.62
Cancelled	(614)	4.97
Outstanding at March 31, 2007	4,442	\$ 6.19

Some options are priced in foreign currency, weighted average price per share calculations are impacted by foreign exchange fluctuations.

Shares Subject to Rescission

Under the 2000 Executive Share Option Plan (2000 Option Plan), the Company 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 Plan may not have been exempt from registration and qualification under federal and California state securities laws, and as a result, the Company may have potential liability to those employees, directors and consultants to whom it issued securities upon the exercise of these options. In order to address that issue, the Company 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.

As of March 31, 2007, assuming every eligible person that continues to hold the securities issued upon exercise of options granted under the 2000 Option Plan were to accept a rescission offer, the Company estimates the total cost to complete the rescission for such issued securities would be approximately \$7.3 million, excluding statutory interest, and \$8.3 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 the Company upon exercise of the option.

The Company accounts for shares which have been issued that may be subject to rescission claims as a put liability based on the price to be paid for equity to be repurchased. Since equity instruments subject to rescission are redeemable at the holder's option or upon the occurrence of an uncertain event not solely within the Company's control, such equity instruments are outside the scope of SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, and its related interpretations. Under the SEC's interpretation of generally accepted accounting principles, reporting such claims outside of shareholders' equity is required, regardless of how remote the redemption event may be. Thus, the Company has reported \$8.3 million as shares subject to rescission in the accompanying March 31, 2007 consolidated balance sheet.

Table of Contents

In addition to shares which have resulted from share option exercises, it is possible that option grants under the 2000 Option Plan, which have not yet been exercised, may not have been exempt from qualification under California state securities laws. As a result, the Company may have potential liability to those employees, directors and consultants to whom it granted options under the 2000 Option Plan but who have not yet exercised those options. In order to address that issue, the Company may elect to make a rescission offer to the holders of outstanding options under the 2000 Option Plan to give them the opportunity to rescind the grant of their options.

Prior to the implementation of SFAS 123(R) in July 2005, the Company accounted for share options under APB 25. Since all of the options under the 2000 Option Plan were granted at fair market value at the time of grant, no expense is recorded in the Company's financial statements related to options that were vested prior to June 30, 2005. Under SFAS 123 (R), the third quarter results of 2005 included expense related to options that were granted prior to June 30, 2005 but had not vested at that date. Accordingly, no provision is made in the Company's financial statements for options that were vested as of June 30, 2005, that were granted under the 2000 Option Plan which are not yet exercised, but may be subject to a rescission offer, if and when made. Should any optionees accept the rescission offer and put their options back to the Company, the Company will reflect such activity in its financial statements at that time.

As of March 31, 2007, assuming every eligible holder of unexercised options were to accept a rescission offer, we estimate the total cost to us to complete the rescission for the unexercised options would be approximately \$732,000 excluding statutory interest at 7% per annum. This amount reflects 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 option.

7. Segment Information

The Company operates several online personals websites that it has aggregated into three reportable segments, (1) JDate, which consists of the Company's JDate.com website and its co-branded websites, (2) AmericanSingles, which consists of the Company's AmericanSingles.com website and its co-branded websites, and (3) Other Businesses, which consists of all of the Company's other websites and businesses, in accordance with the provisions of SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information. The Company has aggregated several of its smaller websites into the Other Businesses segment. Information for its segments is as follows (in thousands):

Table of Contents

	Three Months Ended March 31,	
	2007	2006
<i>(in thousands)</i>		
Revenues		
JDate	\$ 7,210	\$ 6,996
AmericanSingles	4,288	6,343
Other Businesses	5,322	3,466
Total	\$ 16,820	\$ 16,805
Direct Marketing		
JDate	\$ 714	\$ 796
AmericanSingles	3,071	3,360
Other Businesses	2,972	1,501
Total	\$ 6,757	\$ 5,657
Contribution		
JDate	\$ 6,496	\$ 6,200
AmericanSingles	1,217	2,983
Other Businesses	2,350	1,965
Total	\$ 10,063	\$ 11,148
Unallocated operating expenses	12,309	10,220
Operating (loss) income	\$ (2,246)	\$ 928

Due to the Company's integrated business structure, operating expenses, other than direct marketing expenses, are not allocated to the individual reporting segments. As such, the Company does not measure operating profit or loss by segment for internal reporting purposes. Assets are not allocated to the different business segments for internal reporting purposes. Depreciation and amortization are included in total unallocated operating expenses.

8. Commitments and Contingencies

In January 2006, the Company was contacted by HM Revenue & Customs (HMRC), the tax authority in the United Kingdom, requesting payment in the amount of approximately \$1.0 million for wage related withholdings of a former employee. That employee was residing in both the United States and the United Kingdom at the time his employment was terminated with the Company. At that time, with the advice of outside tax experts, the Company forwarded the withholdings to the Internal Revenue Service in the United States. The situation was explained to HMRC which agreed to accept a good faith deposit in the amount of \$200,000 while the matter was being investigated. The Company remitted the good faith deposit in the first quarter of 2006. If the Company is not successful in obtaining the funds forwarded to the IRS or persuading HMRC that the Company is not obligated to pay such amounts, it may be required to remit the entire amount to HMRC.

Legal Proceedings

On February 27, 2007, Kenneth J. Dinolfo initiated an action, Dinolfo v. Spark Networks plc, action in New Jersey Superior Court in Essex County (Case No. L 1699-07). Mr. Dinolfo alleges claims for violations of his privacy and misappropriation of his likeness under common law and California and New Jersey statutes and seeks compensatory and statutory damages and attorneys' fees. The action was removed to the U.S. District Court for the District of New Jersey on April 18, 2007 and assigned a new case number (07 CV 1818 (SDW)(MCA)). The Company filed a Motion to Dismiss or Transfer Based upon Improper Venue on April 25, 2007. No trial date has been set. The Company strongly disputes the merits of the claims asserts and shall vigorously defend the claims and assert all appropriate counterclaims.

Table of Contents

The Company has additional existing legal claims and may encounter future legal claims in the normal course of business. In the Company's opinion, the resolutions of the existing legal claims are not expected to have a material impact on its financial position or results of operations. The Company believes it has accrued appropriate amounts where necessary in connection with the above litigation.

9. Related Party Transactions

In 2004, the Company entered into an agreement with Efficient Frontier, a provider of online marketing optimization services to procure and manage a portion of the Company's online paid search and keyword procurement efforts. The Chief Executive Officer of Efficient Frontier is Ms. Ellen Siminoff, who is the wife of David E. Siminoff, the Company's Chairman of the Board of Directors and former Chief Executive Officer. The Company paid approximately \$64,000 to Efficient Frontier in the first quarter of 2007. There were no payments made to Efficient Frontier in the first quarter of 2006.

In 2004, the Company invested \$250,000 in Yobon, Inc., a provider of Web toolbar technology. The investment was in the form of convertible debt, which would convert into equity upon Yobon's completion of equity financing, if such equity financing was completed within certain time frames. The Company's former Chief Technology officer, Phil Nelson, was the Chairman of Yobon. In December 2005, the Company determined that the value of the Yobon investment would not be realized in full and recorded an impairment charge in the amount of \$105,000. In April 2006, the Company collected \$145,000, the unimpaired portion of the Yobon investment. Yobon has now effectively ceased operations.

ITEM 2. 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 consolidated financial statements and the related notes that are included in this Quarterly Report and the audited consolidated financial statements and related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended December 31, 2006.

Some of the statements contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this Quarterly Report are forward-looking statements that involve substantial risks and uncertainties. All statements other than historical facts contained in this report, 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, should, plan, predict, potential and 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 including, but not limited to, our potential liability for issuing securities to certain employees, directors and consultants that may not have been exempt from registration; pending lawsuits against us; and other factors described in the Risk Factors section and elsewhere in this report and in the Risk Factors section of our 2005 Annual Report.

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 and in the form of ADSs on the American Stock Exchange. We are a leading provider of online personals services in the United States and internationally. Our websites enable adults to meet online and participate in communities, become friends, date, form long-term relationships or marry.

Table of Contents**Segment Reporting**

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

	<i>(in thousands)</i>	
	Three Months Ended March 31,	
	2007	2006
Revenues		
JDate	\$ 7,210	\$ 6,996
AmericanSingles	4,288	6,343
Other Businesses	5,322	3,466
Total	\$ 16,820	\$ 16,805
Direct Marketing		
JDate	\$ 714	\$ 796
AmericanSingles	3,071	3,360
Other Businesses	2,972	1,501
Total	\$ 6,757	\$ 5,657
Contribution		
JDate	\$ 6,496	\$ 6,200
AmericanSingles	1,217	2,983
Other Businesses	2,350	1,965
Total	\$ 10,063	\$ 11,148
Unallocated operating expenses	12,309	10,220
Operating (loss) income	\$ (2,246)	\$ 928

Key Business Metric

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 metric that we use to measure the performance of our operating segments is Average Paying Subscribers, which are defined as individuals who have paid a monthly fee for access to communication and Website features beyond those provided to our non-paying members. 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. 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.

Unaudited selected statistical information regarding Average Paying Subscribers is shown in the table below. The references to Other Businesses in this table indicate metrics data for the websites in our Other Businesses segment.

Table of Contents

	Three Months Ended March 31,	
	2007	2006
Average Paying Subscribers:		
JDate	75,211	75,316
AmericanSingles	61,620	90,323
Other Businesses	94,482	65,002
Total	231,313	230,641

Results of Operations

The following table presents our historical operating results as a percentage of net revenues:

	Three Months Ended March 31,	
	2007	2006
Net revenues	100.0%	100.0%
Direct marketing	40.2	33.7
Contribution margin	59.8	66.3
Operating expenses:		
Indirect marketing	1.9	2.2
Customer service	5.5	5.4
Technical operations	8.5	13.3
Product development	4.8	5.0
General and administrative	39.1	33.5
Amortization of intangible assets other than goodwill	2.0	1.4
Impairment of long-lived assets	11.3	
Total operating expenses	73.1	60.8
Operating (loss) income	(13.3)	5.5
Interest and other expense, (income), net	(1.2)	0.2
(Loss) income before income taxes	(12.1)	5.3
Provision for income taxes	(0.4)	1.1
Net (loss) income	(11.7)%	4.2%

Average Paying Subscribers

Average paying subscribers for the JDate segment were 75,211 in the quarter ended March 31, 2007 compared to 75,316 in the same period last year. Average paying subscribers for the AmericanSingles segment decreased 31.8% to 61,620 in the quarter ended March 31, 2007 compared to 90,323 in the quarter ended March 31, 2006. Average paying subscribers for websites in our Other Businesses segment increased 45.4% to 94,482 in the quarter ended March 31, 2007 compared to 65,002 in the quarter ended March 31, 2006.

Table of Contents

The decrease in revenues for AmericanSingles is largely attributable to a 26.6% decrease in the AmericanSingles marketing spend in the last half of 2006 compared to the last half of 2005. The increase in average paying subscribers for our other websites is due primarily to organic growth as well as the purchase of LDS Singles in May of 2006.

Net Revenues

Substantially all our net revenues are derived from subscription fees. The remainder of our net revenues, accounting for less than 2% of net revenues for the quarters ended March 31, 2007 and 2006, are attributable to certain promotional events. Revenues are presented net of credits and credit card chargebacks. Our subscriptions are offered in durations of one, three, five, six and twelve months. Plans with durations longer than one month are available at discounted rates. Most subscriptions renew automatically for subsequent periods until subscribers terminate them.

Net revenues for JDate increased 3.1% to \$7.2 million in the first quarter of 2007 compared to \$7.0 million in 2006. The increase in net revenues for JDate is due to a shift toward shorter term subscription plans which have a higher per month price point. Net revenues for AmericanSingles decreased 32.4% to \$4.3 million in the quarter ended March 31, 2007, compared to \$6.3 million in 2006. 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 53.5% to \$5.3 million in the first quarter of 2007 compared to \$3.5 million in 2006. The increase in net revenues for our Other Businesses is attributed primarily to incremental growth in subscribers as well as the purchase of LDS Singles in May of 2006.

Direct Marketing Expenses

Direct marketing expenses for JDate decreased 10.3% to \$714,000 in the first quarter of 2007 compared to \$796,000 in 2006. The decrease is due to a decrease in offline marketing spending and a concentration on online direct marketing spending which is more direct response, and easier to measure performance for, than offline marketing. Direct marketing expenses for AmericanSingles decreased 8.6% to \$3.1 million in the first quarter of 2007 compared to \$3.4 million in the same period in 2006. The decrease in AmericanSingles marketing was due to stabilization of our expenditure rate for AmericanSingles after the substantial decrease in marketing spending in early 2005. Direct marketing expenses for our websites in our Other Businesses segment increased 98.0% to \$3.0 million in the first quarter of 2007 compared to \$1.5 million in the first quarter of 2006. The increase is primarily due to increased advertising for the BlackSingles and Relationships.com websites as well as the acquisition of LDS Singles in May 2006.

Operating Expenses

Operating expenses consist primarily of indirect marketing, customer service, technical operations, product development and general and administrative expenses. Operating expenses increased 20.4% to \$12.3 million in the first quarter of 2007 compared to \$10.2 million in the same period in 2006. Stated as a percentage of net revenues, operating expenses increased to 73.1% in the first quarter of 2007 compared to 60.8% in the same period in 2006. The increase in operating expenses was primarily attributable to share-based compensation expense of approximately \$1.1 million as a result of the acceleration of vesting and extension of the exercisable period of options for our former CEO and current Chairman of the Board, in connection with his resignation as CEO of the Company as well as \$1.9 million in impairment expense related to the impairment of the book carrying value of goodwill under SFAS 142 related to AmericanSingles. These increases were partially offset by a decrease in technical operations expenses of \$0.8 million.

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 10.7% to \$327,000 in the first quarter of 2007 compared to \$366,000 in the first quarter of 2006. Stated as a percentage of net revenues, indirect marketing expenses decreased to 1.9% in the first quarter of 2007 compared to 2.2% in the same period in 2006. The decrease is due mainly to lower headcount in the department.

Customer Service. Customer service expenses consist primarily of costs associated with our member services center. Customer services expenses increased 2.3% to \$929,000 in the first quarter of 2007 compared to \$908,000 in the first quarter of 2006. Stated as a percentage of net revenues, customer service expenses increased to 5.5% in the quarter ended March 31, 2007 compared to 5.4% in the same period in 2006.

Table of Contents

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 36.1% to \$1.4 million in the first quarter of 2007 compared to \$2.2 million in 2006. Stated as a percentage of net revenues, technical operations expenses decreased to 8.5% in the quarter ended March 31, 2007 compared to 13.3% in the same period in 2006. The decrease is due primarily to lower hosting costs as well as lower headcount when comparing first quarter 2007 to first quarter 2006.

Product Development. Product development expenses consist primarily of costs incurred in the development, creation and enhancement of our websites and services. Product development expenses decreased 4.6% to \$806,000 in the first quarter of 2007 compared to \$845,000 in 2006. Stated as a percentage of net revenues, product development expenses decreased to 4.8% in the quarter ended March 31, 2007 compared to 5.0% in the same period in 2006.

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 increased 16.9% to \$6.6 million in the first quarter of 2007 compared to \$5.6 million in the same period in 2006. Stated as a percentage of net revenues, general and administrative expenses increased to 39.1% in the quarter ended March 31, 2007 compared to 33.5% for the same period in 2006. The increase in general and administrative expenses is primarily attributable to share-based compensation expense of approximately \$1.1 million as a result of the acceleration of vesting and extension of the exercisable period of options for our former CEO and current Chairman of the Board, in connection with his resignation as CEO of the Company as well as approximately \$500,000 in expenses related to the Scheme of Arrangement, which is the plan to reorganize the Company into a U.S. legal entity, and Sarbanes-Oxley related compliance.

Amortization of Intangible Assets Other Than Goodwill. Amortization expenses consist primarily of amortization of intangible assets related to previous acquisitions, primarily SocialNet, PointMatch, and MingleMatch. Amortization expense increased 43.9% to \$344,000 in the first quarter of 2007 compared to \$239,000 in the first quarter of 2006. The increase is due mainly to amortization of intangible assets related to the acquisition of LDS Singles in May 2006 and HurryDate in February 2007.

Impairment of Goodwill. Based on a FAS 142 goodwill impairment analysis performed by the Company, the value of the AmericanSingles business was deemed to likely be insufficient to justify the current carrying value of goodwill. Accordingly, the Company recorded \$1.9 million in impairment expense in the quarter.

Interest Income/Loss and Other Expenses, Net. Interest income/loss and other expenses consist primarily of interest income associated with temporary investments in interest bearing accounts and marketable securities and income on our investments in non-controlled affiliates. Net interest income increased to \$205,000 for the quarter ended March 31, 2007 from net interest expense of \$39,000 for the same period in 2006.

Critical Accounting Policies

Income Taxes

The Company operates in multiple taxing jurisdictions, both within the United States and outside the United States. The Company has filed tax returns with positions that may be challenged by the tax authorities. These positions relate to, among others, transfer pricing, the deductibility of certain expenses, intercompany transactions as well as other matters. Although the outcome of tax audits is uncertain, the Company regularly assesses its tax position for such matters and, in management's opinion, adequate provisions for income taxes have been made for potential liabilities resulting from such matters. To the extent reserves are recorded, they will be utilized or reversed once the statute of limitations has expired and/or at the conclusion of the tax examination. The Company believes that the ultimate outcome of these matters will not have a material impact on its financial position or liquidity. Effective January 1, 2007, the Company adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* - an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 provides that the tax effects from an uncertain tax position can be recognized in our financial statements, only if the position is more-likely-than-not of being sustained on audit, based on the technical merits of the position. Tax positions that meet the recognition threshold are reported at the largest amount that is more-likely-than-not to be realized. No impact on our financial statements was recorded as a result of our adoption of FIN 48.

Liquidity and Capital Resources

As of March 31, 2007, the Company has cash, cash equivalents and marketable securities of \$19.7 million. We have historically financed our operations with internally generated funds and offerings of equity securities. We have no revolving or term credit facilities.

Table of Contents

Net cash provided by operations was \$3.0 million for the three months ended March 31, 2007 compared to \$4.3 million for the same period in 2006. The decrease is primarily due to a reduction in net income from increased marketing spend in the first quarter as well as approximately \$500,000 for the Scheme of Arrangement and Sarbanes-Oxley related compliance.

Net cash used in investing activities in the first quarter of 2007 was \$2.1 million, of which \$2.0 million was for the acquisition of HurryDate compared to \$593,000 for the same period in 2006.

Net cash used by financing activities was \$1.8 million for the first quarter of 2007 compared to \$5.2 million for the first quarter of 2006. Cash used by financing activities in 2007 was due mainly to payments made under our share repurchase program to repurchase the Company's shares for retirement.

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, planned capital expenditures and contractual obligations for at least the next 12 months. We may be required or find it desirable prior to such time to raise additional funds through bank financing or through the issuance of debt or equity.

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.

ITEM 3. QUANTITATIVE & QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Our exposure to market rate risk for changes in interest rates relate primarily to our cash, cash equivalents and marketable securities. We 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 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 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. Due to the short-term nature of our investment portfolio, and our ability to liquidate this portfolio in short order, we do not believe that a 10% increase in interest rates would have a material effect on the fair market value of our investment portfolio.

Foreign Currency Risk

Our exposure to foreign currency risk is due primarily to our international operations. Revenues and certain expenses related to our international websites 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. We do not believe that a hypothetical 10% increase in foreign currency exchange rates would have a material effect on our financial statements.

Table of Contents**ITEM 4. CONTROLS AND PROCEDURES****(a) Evaluation of disclosure controls and procedures**

As of March 31, 2007, our management, with the participation of our Chief Executive Officer (CEO), and Chief Financial Officer (CFO), performed an evaluation of the effectiveness and the operation of our disclosure controls and procedures as defined in Rules 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act. Based on that evaluation, the CEO and CFO concluded that our disclosure controls and procedures were effective as of March 31, 2007.

(b) Changes in internal control over financial reporting

There have been no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) Rule 13a-15 or 15d-15 under the Exchange Act that occurred during the quarter ended March 31, 2007 that has materially affected, or is reasonably likely to affect, our internal control over financial reporting.

PART II. OTHER INFORMATION.**ITEM 1. LEGAL PROCEEDINGS**

The information required by this item is contained in the financial statements contained in this report under Note 8 Commitments and Contingencies Legal Proceedings and is incorporated by reference. Also, refer to our Annual Report on Form 10-K for the year ended December 31, 2006 for a further description of litigation and claims.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in the Risk Factors section of our Annual report on Form 10-K for the year ended December 31, 2006.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**Purchases of Equity Securities**

On November 21, 2006, we announced the approval of a share repurchase plan whereby the Company is authorized to repurchase up to two million shares of the Company's outstanding common stock. All shares reported in the table below were purchased through the Company's publicly announced share repurchase program. The authorization to repurchase shares is valid until May 21, 2008.

The table below sets forth information regarding the Company's purchases of its ordinary shares through March 31, 2007:

		Total	Average	Total Number of	Approximate Dollar
		Number of	Price Paid	Shares Purchased	Value of Shares that
		Shares		as Part of Publicly	May Yet be Purchased
		Purchased	Per Share	Announced	Under the Program
Period	Period			Program	
November 1	November 30	36,742	\$ 6.08	36,742	\$ 19,776,609
December 1	December 31	57,817	\$ 5.40	57,817	\$ 19,464,397
January 1	January 31	79,013	\$ 5.35	79,013	\$ 19,041,677

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February 1	February 28	54,178	\$ 5.80	54,178	\$ 18,727,445
March 1	March 31	170,915	\$ 6.16	170,915	\$ 17,674,608
Total		398,665		398,665	

Table of Contents

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

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

None.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

(a) Exhibits:

31.1 Certification of Chief Executive Officer pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1* Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* This exhibit shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in any filings.

Table of Contents

SIGNATURES

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

SPARK NETWORKS PLC

/s/ Mark G. Thompson
by: Mark G. Thompson
Chief Financial Officer

Date: May 10, 2007